

**2005**

**Milwaukee Public Schools**  
*Milwaukee, Wisconsin*

**C**omprehensive  
**A**nnual  
**F**inancial  
**R**eport

*For the Year Ended June 30, 2005*

**146<sup>th</sup> EDITION**

**146<sup>th</sup> 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, 2005**

**KENNETH JOHNSON, President**

**WILLIAM G. ANDREKOPOULOS, Superintendent**

**Prepared by:**

**The Department of Finance**

**Chief Financial and Operations Officer**

**Michelle J. Nate, CPA**

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**MILWAUKEE PUBLIC SCHOOLS**  
 Comprehensive Annual Financial Report  
 Year Ended June 30, 2005

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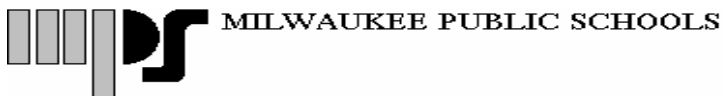
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**Office of the Superintendent**  
Central Services Building  
5225 West Vliet Street  
P.O. Box 2181  
Milwaukee, Wisconsin 53201-2181

December 16, 2005

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, 2005. The Comprehensive Annual Financial Report is management’s financial report to taxpayers, governing board, oversight bodies, voters, employees, and intergovernmental grantors. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the District (“District”). To the best of our knowledge and belief, the information presented is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of MPS. All disclosures necessary to enable the reader to gain an understanding of the District’s financial activities have been included.

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

The Comprehensive Annual Financial Report is presented in three sections:

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

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

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

## **REPORTING ENTITY**

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

The City is located 70 miles north of the city of Chicago on the western shores of Lake Michigan. The City has a population of approximately 594,000. The District operates more than 160 sites and services and has over 102,300 students with over 11,000 educators, administrators, and staff. The Superintendent, appointed by the Board, is the senior official representing Milwaukee Public Schools.

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

The reporting entity for the District is based upon criteria set forth by Governmental Accounting Standards Board (“GASB”) Statement No. 14, "The Financial Reporting Entity." Under this pronouncement, the financial reporting entity consists of (a) the primary government, which is controlled by a separately elected governing body that is legally separate and is fiscally independent, and (b) organizations for which the primary government is financially accountable. All of the accounts of the District comprise the primary government. The financial statements of the District are excluded from the City of Milwaukee financial statements because the District operates with a separate governing board that is not under the control of the City of Milwaukee.

### **LOCAL ECONOMIC ANALYSIS**

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

Based upon the Metropolitan Milwaukee Association of Commerce’s August 2005 Economic Trends, August’s seasonally unadjusted unemployment rate of 4.8% is one-half percentage point lower than the 5.3% rate posted one year ago. Currently, the metro Milwaukee area’s jobless rate ranks higher than the state’s 4.3%, but lower than the nation’s 4.9% rates.

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

### **MAJOR INITIATIVES**

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

#### ***Vision:***

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

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

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

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

#### ***Mission:***

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

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

### ***Goals:***

The goals of the Milwaukee Public Schools are to improve:

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

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

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

### ***Measuring Success***

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 its progress in many areas. Measurable success relative to supporting the mission, vision, and goals of MPS for 2004-05 is evident in many areas including standardized test data and survey results.

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 the achievement gaps evident within the district and between state averages and MPS averages. Standardized testing results for the district indicate that the strategies that are being applied are producing positive outcomes. Some of these strategies are continued curriculum alignment, professional development sessions for learning teams, principals, literacy coaches, mathematics lead teachers, the identification and implementation of research-based teaching practices in all classrooms, and a new model for evaluating Educational Plans and identifying/providing appropriate support.

Overall achievement data for 2004-05 reveals a reduction in the achievement gap for Hispanic students at grades four and ten in both reading and mathematics. For African American students, there was a four percentage point decline in the gap at grade ten. Milwaukee Public Schools also compares its performance to the state with the intent of reducing the gap between district and state averages. The gap in reading and mathematics at the high school levels is currently at its lowest level in three years. In grade eight, the gap has reduced by two percentage points in reading and mathematics since the 2002-03 school year.

Performance on the last year of the Wisconsin Reading Comprehension Test (WRCT) continued its upward march. The overall percentage of proficient or above third graders in MPS has increased from just one of every two students in 2001-02, to two-thirds in 2003-04, to 71% in 2004-05. Further, although the state average has continued to rise, MPS performance has been improving at a faster rate, thereby reducing the gap between the district and the state from 24 to 16 percentage points from 2001-02 to 2004-05.

Consistent with district policy, the School Climate Perception Survey was again administered to MPS students (grades 4-12), parents, and school staff. This instrument provides MPS with valuable information from stakeholders to significantly impact continuous improvement efforts at the school and district levels. Altogether, the number of respondents to the 2004-05 survey included 20,938 elementary/middle grades students, 8,648 high school students, 5,638 staff, and 6,938 parents – a 15% increase in response rate over the 2003-04 survey. The

survey asks people to indicate their level of agreement to statements covering four key areas, including environment, academic rigor, safety and discipline, and shared decision-making.

Parent respondents were overwhelmingly positive in their beliefs regarding the schools their children attend. For example, approximately 93% of parents who responded agreed or strongly agreed with the statement, “My child’s school has a friendly, welcoming atmosphere” and “The staff in my child’s school cares about the students.” Ninety-two percent of the parents believe that their child’s school has high academic expectations, while 83% indicated agreement with the statement, “My child’s school prepares students to do well on state, local, and classroom assessments.” Data revealed clear consensus on the clarity of school rules; 95% noted they “understand the school’s rules and expectations about student behavior.” Further, 93% noted that their child’s school promotes a drug-free environment. Regarding shared decision-making, 85% of parents agreed that they “feel comfortable expressing opinions at school meetings” and 78% believe that the school seeks their opinions regarding important issues affecting the school.

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***

Inherent to the development of the Milwaukee Public Schools Strategic Plan and the corresponding strategic initiatives is 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 broad initiative put forth by the MPA is consistent with the MPS Strategic Plan and the core beliefs, and forms the basis of the district’s reform efforts.

The following provides a 2004-05 progress report relative to those district initiatives that represent the major priorities and direction of the district.

1. ***Student Achievement*** - – During the 2004-05 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 2004-05 school year at a rapid pace. The Balanced Literacy Framework is in its third year of implementation and the Balanced Mathematics Framework is in its second 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 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 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. 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, the Whole School Improvement Model, and the characteristics of the high performing urban classroom.

The characteristics of the high performing urban classroom 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. When paired with the Central Services core academic functions, the characteristics will complete the district’s Whole School Improvement Model. The five

main Central Services core academic functions that support realization of the high performing classroom throughout the district were also developed during 2004-05:

- Facilitate leadership development
- Build capacity for data-driven decision-making
- Identify and disseminate research proven best practices and innovations
- Support academic enrichment
- Coordinate accountability

Graduation and post-graduation success was supported by such initiatives as the Milwaukee High School Redesign Initiative, the Student Healthcare Initiative, and maintaining support for Community Learning Centers (CLCs). Furthermore, school counselors are reviewing the National School Counselor Standards to align best practices with the current role of counselors in our schools. In conjunction with this review, discussions have begun on what needs to happen to impact promotion, academic success, graduation, and career options.

2. **Leadership Development** – Processes to assure quality leadership were implemented and refined in 2004-05. The *Performance Evaluation for Central Services Administrators* was completed and implemented. Leadership development for principals continues to be divided into two functions, one designed to support principals through professional coaching, and one designed to evaluate principals using a formal instrument. Both the Principal Coach model and the Principal Performance Evaluation were further refined during 2004-05.

Professional development and quality systems will continue to be identified and implemented to support the facilitation of leadership at all levels throughout Milwaukee Public Schools. In order to support the district's goal of developing, recruiting, and retaining high quality principals, the administration has provided targeted professional development, and continues to refine guidelines for hiring new principals.

3. **Special Education Programs** – During 2004-05, special education services were developed for greater effectiveness and efficiency in the delivery of educational programs and services to children with special needs. The alignment of special education leadership liaisons, special education supervisors, and diagnostic teachers into work groups supporting schools to ensure high quality support services was completed. The districtwide implementation of the Student Services Information Management System (SSIMS) began with a final pilot implementation during spring 2005. This system provides principals, district administrators, principal coaches, leadership specialists, and school learning teams with important data to further support students with special needs. As of September 1, 2005, SSIMS is fully operational for all schools.

The Continuous Improvement Focused Monitoring (CIFM) process successfully completed its second year. The data collection system was revised during fall 2004 and the results were made available to schools in May 2005 through a web-based application. In addition, the Parent Dispute Resolution System (PDRS) has been fully operational since fall 2004, with new reports developed to assist principals with follow through on parent concerns.

In order to align early childhood special education services to children and their families, the district is redefining early childhood curriculum to target the learning needs of preschoolers in their natural learning environments. Collaboration and planning is underway with the Center for Independence SEDA Charter School to develop a seamless transition model for students entering the district from early childhood programs. Additional collaborative initiatives have developed with non-MPS Head Start programs to create more seamless and successful transitional opportunities for preschoolers.

4. **Fiscal Responsibility** – Resources were aligned to the district's strategic intent through a number of successful approaches. Transportation zones were changed to align policy and procedure with the goals of the Neighborhood Schools Plan relative to transportation. The administration worked closely with the Milwaukee Board of School Directors to determine and align building use with student enrollment trends. As a result, a process for identifying the criteria for closing schools through the Community Engagement

Process was initiated. Milwaukee Public Schools continues to monitor grant resources to make sure 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. Finally, a prime vendor system that will save the district more than one million dollars a year was established.

- 5. *Milwaukee High School Redesign Initiative*** – Focusing on rigor, relationships, and relevance, the Milwaukee High School Redesign Initiative continues to evolve and gain strength. The 2004-05 school year successfully marked its second full year of implementation with six new, small high schools. The six schools that opened were added to four schools opened a year earlier. Another development was the planning and launch of eight unique, small high schools. In addition to the development of the new schools, new processes, procedures and support systems were developed to better support planning and implementation teams and to better articulate roles and responsibilities of the technical assistance provider and the district.

The efforts to expand the high school redesign initiative to include all large comprehensive high schools to significantly improve graduation rates began in 2004-05. Capacity building information sessions, a site visit to learn about small learning community implementation, the development of a request for funding to the Department of Education, and the development of a request for funding to support the expanded vision to the Bill & Melinda Gates Foundation were the foundation of these efforts.

- 6. *Student Healthcare Initiative*** – There has been continued growth in health services for students, resulting in improved health and safety at school. Over the past year, school nurse service was increased with the addition of two School Nurse Associate (LPN) positions and three School Nurse (RN) positions. These additions have allowed the district to provide MPS nursing service to 50 schools, an increase of 20% over last year. These nurses have been instrumental in reducing and eliminating barriers to learning through daily direct nursing service, health screening and referral activities and population based assessments that inform our health partnerships.

Continued partnership development has broadened the scope of services available to students. Project 20/20, a technology based vision screening program in conjunction with community partners has been nationally recognized for its ability to blend technology and volunteers to increase vision screening capacity in schools. It resulted in a 50% increase in the number of students that were vision screened last year. Project ADAM, a public access defibrillation program for schools is being implemented. We have eight schools with automatic external defibrillators (AED), with plans to have implementation throughout the district over the next two years. In addition, the strength of the district's academic and health system partnerships has allowed for an expansion of that service with plans to increase nursing service to five additional schools in the coming year.

Other partnerships, both internal and external have contributed to the overall health and safety of our students through: technology enhancements that allow potentially life threatening medical conditions to now have an alert and emergency action plan on the eSIS screen; voucher programs to ensure that every student needing eyeglasses receives them; and improved strategies for identifying and meeting the needs of students that do not meet immunization compliance. In addition, the Health Services Coordinator was selected as a Robert Wood Johnson Executive Nurse Fellow, which has focused national attention on MPS achievements in health services to students.

## 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, 2005, are recorded as reservations of fund balance.

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

### **AUDIT SERVICES**

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

## **CASH MANAGEMENT**

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

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

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

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

## **RISK MANAGEMENT**

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

The District provides health insurance benefits to employees and retirees through a fully insured health maintenance organization and through a self-insured comprehensive indemnity/PPO plan. The District does not purchase stop-loss insurance for its self-insured comprehensive indemnity/PPO plan. Life insurance benefits are provided for active and retired employees through an insured life insurance program. Life insurance costs that exceed certain rates are funded by the District.

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

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

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

#### **DEBT ADMINISTRATION**

The City of Milwaukee school bonds, notes, and capital lease obligations outstanding at June 30, 2005 totaled \$449,624,716. Of this total, \$95,943,638 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 \$353,681,078 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, 2005, 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, 2004. We believe that our current report conforms to the Certificate program requirements. Accordingly, we are submitting it to GFOA to determine its eligibility for certification.

#### **ACKNOWLEDGMENTS**

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

Respectfully submitted,

WILLIAM G. ANDREKOPOULOS  
SUPERINTENDENT OF SCHOOLS

MICHELLE J. NATE, CPA  
CHIEF FINANCIAL AND OPERATIONS OFFICER

## BOARD OF SCHOOL DIRECTORS

DISTRICT	NAME	ADDRESS	TERM EXPIRES
1	Barbara Horton	7833-H N. 60 <sup>th</sup> Street (53223)	April, 2007
2	Jeff Spence	3180 N. Colonial Drive (53222)	April, 2007
3	Kenneth L. Johnson	3250 N. Richards Street (53212)	April, 2007
4	Charlene Hardin	1538 W. Hadley Street (53206)	April, 2009
5	Jennifer Morales	1668 N. Marshall Street (53202)	April, 2009
6	Peter Blewett	2750 N. 45 <sup>th</sup> Street (53210)	April, 2009
7	Danny Goldberg	4902 W. Kinnickinnic River Pkwy (53220)	April, 2009
8	Joseph Dannecker	2824 S. Wentworth Avenue (53207)	April, 2007
At-Large	Thomas Balistreri	5000 S. 19 <sup>th</sup> Street (53221)	April, 2007

President – Kenneth L. Johnson  
Vice President – Joseph Dannecker  
Superintendent of Schools – William G. Andreopoulos  
Director, Office of Board Governance/Board Clerk – Lynne A. Sobczak

### STANDING COMMITTEES

#### INNOVATION/SCHOOL REFORM COMMITTEE

Directors Goldberg (Chair), Dannecker, Hardin, Horton, Spence

#### LEGISLATION, RULES AND POLICIES COMMITTEE

Directors Dannecker (Chair), Balistreri, Goldberg, Horton, Johnson

#### FINANCE/PERSONNEL COMMITTEE

Directors Horton (Chair), Goldberg, Johnson, Morales, Spence

#### STRATEGIC PLANNING AND BUDGET COMMITTEE

Directors Spence (Chair), Balistreri, Blewett, Dannecker, Goldberg, Hardin,  
Horton, Johnson, Morales

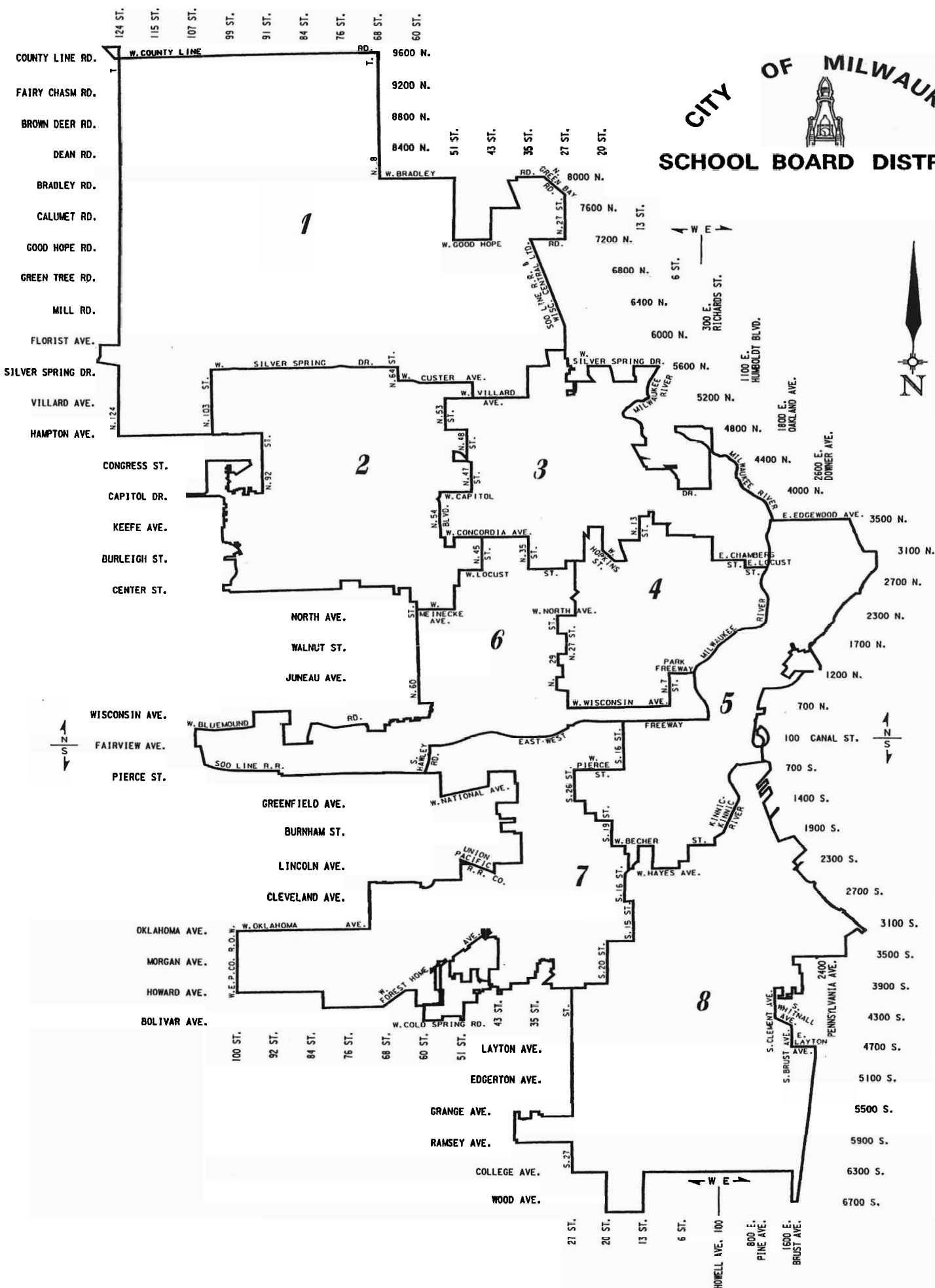
#### SPECIAL EDUCATION COMMITTEE

Directors Dannecker (Chair), Balistreri, Blewett, Johnson, Spence

# CITY OF MILWAUKEE



## SCHOOL BOARD DISTRICTS



**MILWAUKEE PUBLIC SCHOOLS  
ADMINISTRATIVE OFFICERS**

**SUPERINTENDENT OF SCHOOLS**

Mr. William G. Andrekopoulos

Chief Academic Officer

Dr. Aquine Jackson

Executive Director, Human Resources

Ms. Deborah Ford

Chief Financial and Operations Officer

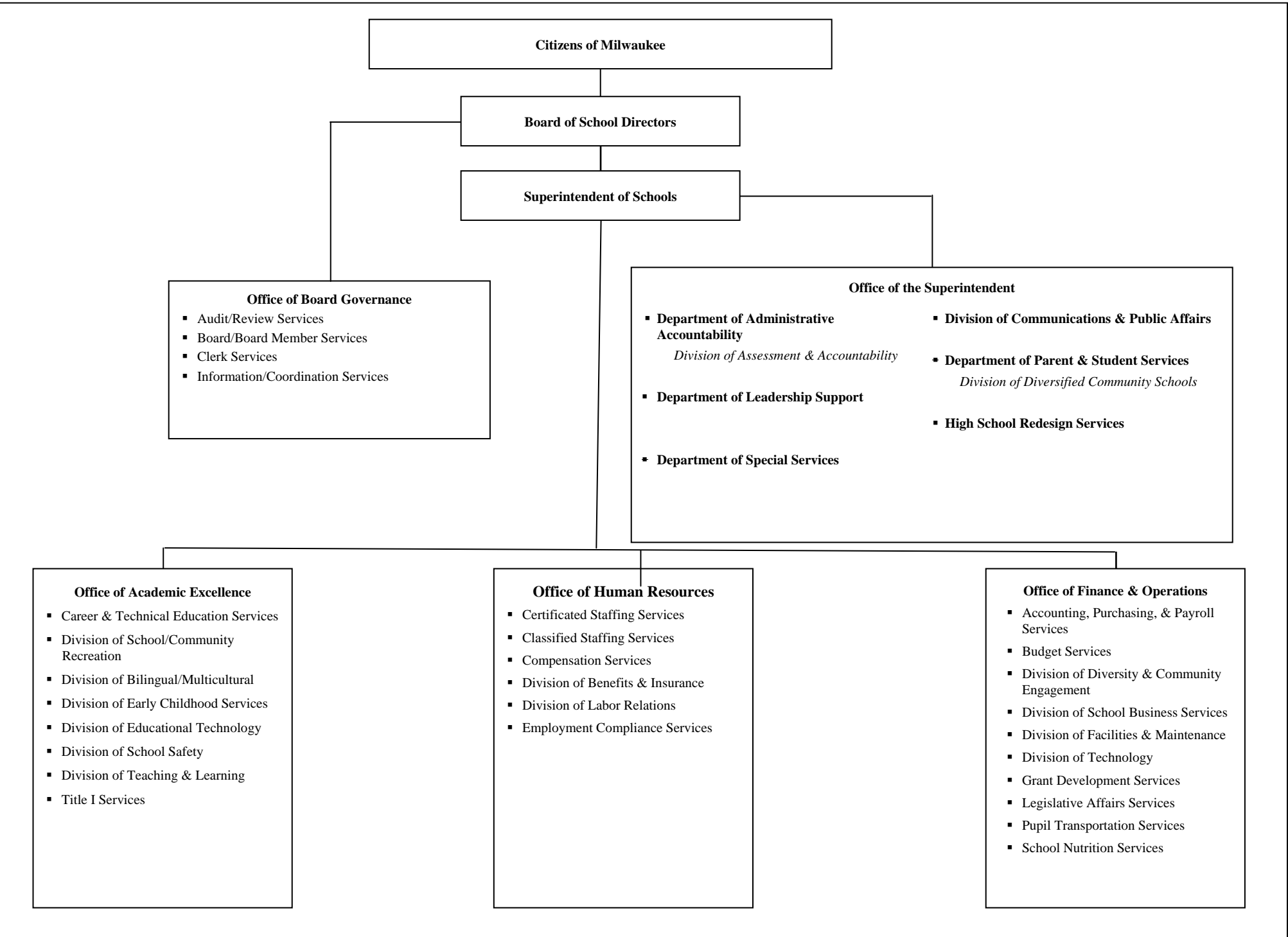
Ms. Michelle J. Nate

Director, Student Services

Mr. Hughes George

Director of Special Services

Ms. Patricia Yahle



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, 2004.

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, 2004

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

**FINANCIAL SECTION**



## 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, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the District's 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, 2005, 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 16, 2005, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 13 and pages 63 through 65, 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 Milwaukee Public School's basic financial statements. The combining and individual fund 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 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 Milwaukee Public Schools. 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.

*Vishouse, Krause + Company, LLP*

Milwaukee, Wisconsin  
December 16, 2005

# MILWAUKEE PUBLIC SCHOOLS

## Management's Discussion and Analysis

June 30, 2005

(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, 2005. 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 increased to \$366.8 million at June 30, 2005 from \$352.9 million at June 30, 2004, an increase of \$13.9 million, or 3.9%.
- Total revenues increased to \$1.12 billion for fiscal year 2005 from \$1.10 billion for fiscal year 2004, an increase of 2.0%.
- Total expenses increased to \$1.10 billion for the year ended June 30, 2005, from \$1.06 billion for the year ended June 30, 2004 an increase of 3.5%.

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

- Total fund balances of the District's governmental funds decreased \$19.9 million in the 2005 fiscal year. This decrease is primarily due to a timing difference for the Neighborhood School Initiative (NSI) projects. Bond proceeds for NSI projects were received in prior years while significant spending on these projects occurred during fiscal year 2005.
- Total fund balance for all governmental funds was \$140.3 million at June 30, 2005. Of this amount, \$81.7 million was reserved for encumbrances, \$1.5 million was reserved for inventories, \$22.0 million was reserved for self-insurance and prepaid expenditures, \$6.0 million was reserved for School Nutrition and \$29.1 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
- Fund Financial Statements
  - Governmental Funds
  - Fiduciary Funds

**MILWAUKEE PUBLIC SCHOOLS**

Management’s Discussion and Analysis

June 30, 2005

(Unaudited)

- 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, 2005. It includes an overview of the financial statements of the District and a report on the budgetary highlights.

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

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

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

	Government-Wide	Fund Statements	
	Statements	Governmental Funds	Fiduciary Funds
<b>Scope</b>	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
<b>Required financial statements</b>	- 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

**MILWAUKEE PUBLIC SCHOOLS**

Management’s Discussion and Analysis

June 30, 2005

(Unaudited)

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

	Government-Wide	Fund Statements	
	<u>Statements</u>	<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
<b>Accounting basis and measurement focus</b>	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resource focus	Accrual accounting and economic resource focus
<b>Type of asset/liability information</b>	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
<b>Type of inflow/outflow information</b>	All revenues and expenses occurring during the year, regardless when cash is received or paid	Revenues when cash is received by year-end, or soon after; expenditures when goods and services have been received and payment is due by year-end, or soon after	All revenues and expenses occurring during the year, regardless of when cash is received or paid

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

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

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

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

**MILWAUKEE PUBLIC SCHOOLS**

Management's Discussion and Analysis

June 30, 2005

(Unaudited)

**Statement of Net Assets**

MPS ended its fiscal year with net assets of \$366.8 million, of which \$475.7 million was invested in capital assets (net of related debt), \$13.5 million was restricted, and (\$122.4) million was an unrestricted deficit. The primary cause of the unrestricted deficit is the pension liability of approximately \$169 million, previously owed to the Wisconsin Retirement System. In November 2003, the MPS Board of School Directors took action to refinance this liability. The full funding allowed by the bond issue will ensure that future employee pension benefits already granted through collective bargaining will be provided.

**Table 2**

**MILWAUKEE PUBLIC SCHOOLS**

Condensed Statement of Net Assets

(in thousands)

	<b>Government-wide activities</b>		
	<b>2005</b>	<b>2004</b>	<b>Difference</b>
Capital assets, net	\$ 608,274	\$ 566,157	\$ 42,117
Noncapital assets	264,220	265,619	(1,399)
Total assets	<u>872,494</u>	<u>831,776</u>	<u>40,718</u>
Current liabilities	130,883	107,011	23,872
Noncurrent liabilities	374,775	371,898	2,877
Total liabilities	<u>505,658</u>	<u>478,909</u>	<u>26,749</u>
Net assets:			
Invested in capital assets, net of related debt	475,758	456,937	18,821
Restricted	13,502	9,519	3,983
Unrestricted (deficit)	(122,424)	(113,588)	(8,836)
Total net assets	<u>\$ 366,836</u>	<u>\$ 352,868</u>	<u>\$ 13,968</u>

Total net assets increased by \$14.0 million over the prior year. This change is the result of:

- Assets increasing \$40.7 million due to new building construction and other improvement projects.
- Liabilities increasing \$26.7 million primarily in the area of 'accrued wages' and 'contracts payable.' Accrued wages increased principally due to accrued retroactive pay associated with several bargaining units including that of MPS teachers. The increase in contracts payable is attributable to payments outstanding on Neighborhood School Initiative construction contracts.

**MILWAUKEE PUBLIC SCHOOLS**

Management's Discussion and Analysis

June 30, 2005

(Unaudited)

**Statement of Activities**

On a government-wide basis, the District ended fiscal year 2005 with an increase in net assets of \$14.0 million, compared to an increase of \$30.3 million in fiscal year 2004.

**Table 3**  
**MILWAUKEE PUBLIC SCHOOLS**  
Schedule of Revenues and Expenses  
(in thousands)

	<b>Government-wide activities</b>		
	<b>2005</b>	<b>2004</b>	<b>Difference</b>
Program revenues:			
Charges for services	\$ 10,091	\$ 10,719	\$ (628)
Operating grants and contributions	185,228	183,944	1,284
Capital grants and contributions	21,083	17,706	3,377
Total program revenues	216,402	212,369	4,033
General revenues:			
Property taxes	207,442	183,198	24,244
Federal and state aid	690,352	698,644	(8,292)
Gain on sale of property	10	—	10
Interest and investment earnings	1,773	762	1,011
Miscellaneous	1,201	89	1,112
Total general revenues	900,778	882,693	18,085
Total revenues	1,117,180	1,095,062	22,118
Expenses:			
Instruction	652,166	644,448	7,718
Community services	20,560	18,155	2,405
Pupil and staff services	110,035	105,549	4,486
General admission	108,743	116,816	(8,073)
Business services	162,748	140,825	21,923
School nutrition	32,165	31,249	916
Interest on long-term debt	16,245	6,250	9,995
Other	549	1,433	(884)
Total expenses	1,103,211	1,064,725	38,486
Increase (decrease) in net assets	\$ 13,969	\$ 30,337	\$ (16,368)

## MILWAUKEE PUBLIC SCHOOLS

### Management's Discussion and Analysis

June 30, 2005

(Unaudited)

- Total revenues increased \$22.1 million due primarily to a 13.2% increase in property taxes. The increase in property taxes was the result of an increase in the District's state-imposed revenue limit, comprised of property taxes and various state aids. Because state aids remained flat year-over-year, property taxes were raised to match the increase in the revenue limit.
- Total expenses increased \$38.5 million in fiscal 2005 primarily in the areas of 'business services' and 'interest on long-term debt.' Business services are higher year-over-year in part because fiscal 2004 included an unusually large amount of new capital assets, which were reported as expenses in the fund financial statements but subtracted in the government-wide financial statements. A large reduction in expenses in fiscal 2004 caused fiscal 2005 to appear high by comparison. Increased interest costs are the result of reporting a full year of interest payments on debt associated with the Neighborhood School Initiative and the pension obligation refinancing. Both debt issues were outstanding only half of fiscal 2004.

**MILWAUKEE PUBLIC SCHOOLS**

Management's Discussion and Analysis

June 30, 2005

(Unaudited)

**Capital Assets**

At June 30, 2005, MPS had \$953.9 million invested in capital assets including land, buildings, leasehold improvements, furniture and equipment, and software. This amount represents a net increase of \$60.9 million from the previous year. The increase came primarily in the area of buildings as new Neighborhood School Initiative projects came on-line. Detailed information can be reviewed in note 5 to the District's financial statements.

Change in Capital Assets

(in thousands)

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets:				
Land	\$ 29,420	\$ 2,056	\$ 15	\$ 31,461
Construction in progress	57,431	57,409	64,468	50,372
Buildings	746,715	64,623	—	811,338
Leasehold improvements	5,929	7	526	5,410
Furniture and equipment	29,442	1,082	430	30,094
Software	23,995	1,203	—	25,198
Total capital assets	<u>892,932</u>	<u>126,380</u>	<u>65,439</u>	<u>953,873</u>
Accumulated depreciation	<u>(326,775)</u>	<u>(19,281)</u>	<u>(457)</u>	<u>(345,599)</u>
Totals	<u>\$ 566,157</u>	<u>\$ 107,099</u>	<u>\$ 64,982</u>	<u>\$ 608,274</u>

**MILWAUKEE PUBLIC SCHOOLS**

Management's Discussion and Analysis

June 30, 2005

(Unaudited)

**Long-term Debt**

At June 30, 2005, long-term debt was \$353.7 million. This amount represents a net increase of \$2.0 million over the previous year. The increase is attributable to new Americans with Disabilities Act (ADA) and TEACH loans. These loans were offset by a number of retirements as shown in Table 5.

**Table 5**

**MILWAUKEE PUBLIC SCHOOLS**

Change in Long-term Debt and Capital Lease Obligations

(in thousands)

	<u>July 1, 2004</u>	<u>Issuances</u>	<u>Retirements</u>	<u>June 30, 2005</u>
Governmental activities:				
Refinancing for state trust fund loans	\$ 1,984	\$ —	\$ 1,284	\$ 700
Americans with Disabilities Act loans	8,380	4,583	1,679	11,284
TEACH loan	4,776	6,931	1,471	10,236
Neighborhood School Initiative bonds	113,297	—	100	113,197
Qualified Zone Academy bonds	13,406	—	2,050	11,356
Financial and Student Tracking note	6,393	—	1,336	5,057
Pension refinancing debt	168,912	—	(1,784)	170,696
MEC/Grand Ave capital lease	33,075	—	2,925	30,150
Other intergovernmental debt	1,477	—	472	1,005
Total debt	<u>\$ 351,700</u>	<u>\$ 11,514</u>	<u>\$ 9,533</u>	<u>\$ 353,681</u>

Trust fund and ADA loans are issued for the purpose of bringing Milwaukee Public Schools into compliance with ADA regulations. This type of borrowing has occurred annually over the last decade and is expected to continue for the foreseeable future.

The TEACH wiring loan program is sponsored by the state of Wisconsin and provides loans to schools and libraries for the purpose of installing the telecommunications wiring infrastructure necessary to provide local area networking and internet connections. This program offers a significant benefit to MPS in that one-half the amount borrowed is eventually forgiven by the state. MPS has entered into two TEACH loan agreements with the state. The first TEACH agreement authorized MPS to borrow up to \$15,000,000. The District borrowed \$9,212,237, leaving \$5,787,763 to lapse. A subsequent TEACH agreement authorized MPS to borrow up to \$14,360,800. At June 30, 2005 the District had used \$5,931,796, leaving \$8,429,004 to lapse. The latter loan agreement expired on July 1, 2005.

## **MILWAUKEE PUBLIC SCHOOLS**

### Management's Discussion and Analysis

June 30, 2005

(Unaudited)

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

The Qualified Zone Academy Bond (QZAB) debt is in the form of lease-purchase agreements collateralized by the furniture and equipment purchased with the proceeds. The QZAB program is sponsored by the Internal Revenue Service (IRS) and provides interest-free capital for the purpose of promoting academic programs in partnership with the business community. MPS used \$2.7 million of QZAB funding authority in August 2003 to support the purchase of equipment and make building improvements at four schools. Interest on the debt is paid by the IRS via tax credits to the lender.

The financial and student-tracking debt is being used to fund the purchase and implementation of two software applications acquired in 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 pension bonds on behalf of the District to refund pension-related debt for the Wisconsin Retirement System totaling \$165,505,293.

Detailed information can be reviewed in note 7 to the District's financial statements.

### **FUND FINANCIAL STATEMENTS**

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

- The general fund balance had an increase of \$18.3 million during the period ended June 30, 2005. This increase is in large part the result of actual costs coming in lower than budgeted in the areas of health care and purchased services.
- The construction fund balance decreased by \$36.0 million due primarily to a timing difference attributable to Neighborhood School Initiative projects. That is, NSI bond proceeds were received in fiscal years 2003 and 2004, while significant spending on NSI projects occurred in fiscal year 2005.

# MILWAUKEE PUBLIC SCHOOLS

## Management's Discussion and Analysis

June 30, 2005

(Unaudited)

### Notes to Basic Financial Statements

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

### BUDGETARY HIGHLIGHTS

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

In May 2004, the MPS Board of School Directors (the Board) adopted the District's fiscal 2005 budget (July 1, 2004 – June 30, 2005). The adopted budget by necessity used a *projection* of the fiscal 2005 student enrollment. In October 2004, the Board amended the budget to take into account the *actual* student enrollment as measured on the third Friday in September 2004, as required by Wisconsin State Statute. The October amendment process is important to MPS in that its two principal revenue sources, state equalization aid and property taxes, are predicated on actual MPS enrollment.

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

In October 2004, the Board approved a revised 2005 fiscal year balanced budget in the amount of \$1,119,097,069. Including prior year encumbrances and carryover authority, the expenditure budget increased to \$1,275,625,145.

Revenues and expenditures both came within 1% of the adopted budget.

### Next Year's Budget

In October 2005, the MPS Board approved a revised 2006 general fund budget of \$1,059,333,603. This represents an increase of \$23 million over the revised 2005 general fund budget. The 2006 budget includes an increase in local property tax revenue of \$6.4 million. Encumbrances and carryovers are not included in this amount.

### Current Economic Facts and Academic Achievements

The District's state-imposed revenue limit rose 3.0% in fiscal year 2005. However, wages and benefits rose at an even faster rate, requiring the District to implement cost saving measures and budget cuts. Budget cuts came primarily in central services staffing and programs.

The District's enrollment declined for the 2004/05 school year due in part to demographics, and due in part to competition from private and public schools. As a result of the decline, the Board of School Directors closed three MPS schools for the 2004/05 school year, and the Administration assigned a committee to establish an objective and equitable process for identifying future school closings.

# **MILWAUKEE PUBLIC SCHOOLS**

## Management's Discussion and Analysis

June 30, 2005

(Unaudited)

Student poverty continues to increase, with 3 of every 4 students eligible for free or reduced lunch. The Administration continues to identify viable solutions to address the many effects the increasing level of poverty has on MPS students' academic and health needs.

In an effort to better engage students and improve their achievement, the District has two major initiatives underway: 1) expand the number of K-8 schools and, 2) expand the number of small high schools. Both initiatives progressed rapidly during 2004/05, with many positive results such as increases in achievement and attendance.

Results on the Wisconsin Knowledge and Concepts Examinations showed approximately two-thirds of MPS schools with grades 8 and 10 had increases in Reading and Mathematics for 2004/05 compared to the preceding year. The District has narrowed the achievement gap with the state in four of the last five years in Reading and Mathematics.

The percentage of MPS third graders scoring proficient or advanced on the Wisconsin Reading Comprehension Test rose by 5 points to 71% in 2004/05, a rise of 21 percentage points in just 4 years. Nearly two-thirds of all MPS elementary schools posted gains in 2004/05 over the prior year.

### **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](http://www.milwaukee.k12.wi.us)**

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**BASIC FINANCIAL  
STATEMENTS**

**MILWAUKEE PUBLIC SCHOOLS**

Statement of Net Assets

June 30, 2005

	<b>Governmental activities</b>
<b>Assets</b>	
Current assets:	
Cash and investments (note 2)	\$ 124,341,860
Accounts receivable, net (note 3)	3,640,982
Due from other governments (note 3)	57,563,727
Inventory (note 1(f))	1,467,006
Prepaid expenses	18,971,817
Total current assets	<u>205,985,392</u>
Noncurrent assets:	
Restricted cash and investments (note 1)	52,199,163
Deposits for self-insurance (note 1(k))	3,079,902
Deferred charges—bond issuance costs (note 1(l))	2,956,105
Capital assets not being depreciated (note 5)	81,833,304
Capital assets being depreciated, net (note 5)	526,440,586
Total noncurrent assets	<u>666,509,060</u>
Total assets	<u>872,494,452</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable and other current liabilities	115,060,695
Accrued interest payable on long-term liabilities	1,942,091
Current portion of long-term obligations (note 7)	13,880,552
Total current liabilities	<u>130,883,338</u>
Noncurrent liabilities:	
Noncurrent portion of long-term obligations (note 7)	<u>374,775,319</u>
Total liabilities	<u>505,658,657</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	475,757,763
Restricted for debt service	13,502,379
Unrestricted	<u>(122,424,347)</u>
Total net assets	<u>\$ 366,835,795</u>

See accompanying notes to basic financial statements.

**MILWAUKEE PUBLIC SCHOOLS**

Statement of Activities

Year ended June 30, 2005

<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	\$ 652,166,070	3,130,444	105,071,902	20,355,818	(523,607,906)
Support services:					
Community services	20,560,706	1,930,856	7,318,142	—	(11,311,708)
Pupil and staff services	110,034,688	—	3,583,626	—	(106,451,062)
General, administration, and central services	108,742,800	—	—	726,957	(108,015,843)
Business services	162,748,023	281,329	44,078,275	—	(118,388,419)
School nutrition services	32,165,131	4,747,456	25,176,146	—	(2,241,529)
Interest on long-term debt	16,245,344	—	—	—	(16,245,344)
Other	548,565	—	—	—	(548,565)
Total support services	<u>451,045,257</u>	<u>6,959,641</u>	<u>80,156,189</u>	<u>726,957</u>	<u>(363,202,470)</u>
Total school district	<u>\$ 1,103,211,327</u>	<u>10,090,085</u>	<u>185,228,091</u>	<u>21,082,775</u>	<u>(886,810,376)</u>
General revenues:					
Taxes:					
					180,704,104
					12,266,054
					6,469,806
					8,002,455
Federal and state aid not restricted to a specific purpose					
					574,203,749
					116,147,856
					1,773,508
					10,200
					1,200,921
					<u>900,778,653</u>
					13,968,277
					<u>352,867,518</u>
					<u>\$ 366,835,795</u>

See accompanying notes to basic financial statements.

**MILWAUKEE PUBLIC SCHOOLS**

Balance Sheet

Governmental Funds

June 30, 2005

Assets	General	Construction	Nonmajor governmental funds	Total governmental funds
Deposits with the City of Milwaukee and other cash (note 2)	\$ 92,701,751	31,640,109	—	124,341,860
Receivables, net:				
Accounts (note 3)	3,640,982	—	—	3,640,982
Due from other governmental units (note 3)	45,991,142	—	11,572,585	57,563,727
Due from other funds (note 4)	34,553,721	38,357,603	9,640,496	82,551,820
Total receivables	84,185,845	38,357,603	21,213,081	143,756,529
Restricted cash and investments (note 1)	41,440,223	10,758,940	—	52,199,163
Inventories (note 1(g))	1,460,834	—	6,172	1,467,006
Prepaid expenditures (notes 1(g))	18,971,817	—	—	18,971,817
Deposits for self-insurance (note 1(l))	3,079,902	—	—	3,079,902
Total assets	\$ 241,840,372	80,756,652	21,219,253	343,816,277
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 9,657,971	159,272	609,980	10,427,223
Contracts payable	7,549,095	1,462,726	—	9,011,821
Accrued salaries and wages	54,864,572	—	—	54,864,572
Deferred Revenue (note 1(j))	5,893,236	—	—	5,893,236
Accrued claims for self-insurance (note 9)	32,981,515	—	—	32,981,515
Accrued pension payable (note 10)	7,060,619	—	—	7,060,619
Other accrued expenditures	714,945	—	—	714,945
Due to other funds (note 4)	23,018,111	37,002,638	22,531,071	82,551,820
Total liabilities	141,740,064	38,624,636	23,141,051	203,505,751
Fund balances:				
Reserved for:				
Encumbrances	24,690,959	56,968,723	—	81,659,682
Inventories	1,460,834	—	6,172	1,467,006
Self-insurance deposits and prepaid expenditures	22,051,719	—	—	22,051,719
School Nutrition	5,962,801	—	—	5,962,801
Unreserved:				
Designated by board for subsequent year's expenditures (note 8)	45,933,995	—	—	45,933,995
Undesignated, reported in:				
Capital projects fund	—	(14,836,707)	—	(14,836,707)
Special revenues funds	—	—	(1,927,970)	(1,927,970)
Total fund balances	100,100,308	42,132,016	(1,921,798)	140,310,526
Total liabilities and fund balances	\$ 241,840,372	80,756,652	21,219,253	343,816,277

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, 2005

Total fund balances—governmental funds		\$ 140,310,526
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		2,956,105
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	\$ 953,873,507	
Accumulated depreciation	<u>(345,599,617)</u>	
Net capital assets		608,273,890
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		5,893,234
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	(438,948,510)	
Bonds premium	(1,157,353)	
Discount on capital appreciation bonds	116,574,787	
Capital leases payable	(30,150,000)	
Accrued bond interest payable	(1,942,091)	
Compensated absences payable (vacation and sick leave)	(29,835,290)	
Workers' compensation claims payable	(1,886,822)	
Self-insurance claims payable	(740,307)	
Life insurance benefits and other long-term liabilities	<u>(2,512,374)</u>	
Total long-term debt liabilities		<u>(390,597,960)</u>
Total net assets—government activities		<u>\$ 366,835,795</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, 2005

	<u>General</u>	<u>Construction</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
<b>Revenues:</b>				
Property tax levy	\$ 188,706,559	12,266,054	6,469,806	207,442,419
Lunchroom sales	—	—	4,747,456	4,747,456
Other local sources	10,192,204	3,358,760	—	13,550,964
State aid:				
Equalization aid	574,203,739	—	—	574,203,739
Special classes	39,419,557	—	—	39,419,557
Integration	38,661,528	—	—	38,661,528
Other state aid	50,958,075	—	1,380,347	52,338,422
Federal aid:				
Education Consolidation Improvement Act	69,124,917	—	—	69,124,917
School nutrition services	—	—	24,531,108	24,531,108
Erate refunds	3,296,638	1,213,715	—	4,510,353
Intergovernmental aid from the City of Milwaukee	—	14,265,000	—	14,265,000
Other federal aid	54,584,105	—	23,741,682	78,325,787
Interest and investment earnings	784,655	1,013,650	—	1,798,305
Total revenues	<u>1,029,931,977</u>	<u>32,117,179</u>	<u>60,870,399</u>	<u>1,122,919,555</u>
<b>Expenditures:</b>				
Instructional services:				
Undifferentiated curriculum	418,322,709	—	—	418,322,709
Regular and other curriculum	99,908,858	—	—	99,908,858
Special curriculum	108,491,974	—	4,793,878	113,285,852
Total instructional services	<u>626,723,541</u>	<u>—</u>	<u>4,793,878</u>	<u>631,517,419</u>
Community services				
Pupil and staff services	20,591,303	—	—	20,591,303
General and school building administration	89,185,984	—	20,239,041	109,425,025
Business services	108,422,951	—	—	108,422,951
School nutrition services	153,790,477	66,940,733	—	220,731,210
Debt service:	—	—	32,006,084	32,006,084
Principal	3,657,500	—	7,226,855	10,884,355
Interest	8,106,051	4,897,374	952,385	13,955,810
Other	1,162,108	—	—	1,162,108
Total expenditures	<u>1,011,639,915</u>	<u>71,838,107</u>	<u>65,218,243</u>	<u>1,148,696,265</u>
Excess of revenues over (under) expenditures	<u>18,292,062</u>	<u>(39,720,928)</u>	<u>(4,347,844)</u>	<u>(25,776,710)</u>
<b>Other financing sources (uses) (note 7):</b>				
Long-Term Debt Issued	—	3,735,000	2,154,478	5,889,478
Refunding bond debt issued	—	847,676	—	847,676
Payment for refunded bonds debt	—	(847,676)	—	(847,676)
Proceeds from the Sale of Land	—	25,200	—	25,200
Total other financing sources (uses), net	<u>—</u>	<u>3,760,200</u>	<u>2,154,478</u>	<u>5,914,678</u>
Net change in fund balances	<u>18,292,062</u>	<u>(35,960,728)</u>	<u>(2,193,366)</u>	<u>(19,862,032)</u>
<b>Fund balances:</b>				
Beginning of year	81,808,246	78,092,744	271,568	160,172,558
End of year	<u>\$ 100,100,308</u>	<u>42,132,016</u>	<u>(1,921,798)</u>	<u>140,310,526</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, 2005

Net change in fund balances—total governmental funds		\$ (19,862,032)
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	\$ 61,340,119	
Depreciation expense reported in the statement of activities:	<u>(19,281,298)</u>	
Amount by which capital outlays are greater than depreciation in the current period		42,058,821
The net effect of miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and disposals) is to increase net assets		57,910
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		(5,750,154)
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	(11,513,466)	
Repayments:		
Bonds and notes	10,884,358	
Payment for refunded intergovernmental debt	<u>857,485</u>	
Net adjustment		228,377
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	(81,072)	
Accretion of interest on capital appreciation bonds	(2,308,346)	
Amortization of bond premium	99,884	
Amortization of bond issuance costs	(163,314)	
Net increase in compensated absences payable (vacation and sick pay)	(2,732,406)	
Net decrease in workers' compensation claims payable	1,779,910	
Net decrease in general insurance claims payable	589,271	
Net increase in life insurance benefits payable	<u>51,428</u>	
		<u>(2,764,645)</u>
Change in net assets of governmental activities		\$ <u><u>13,968,277</u></u>

See accompanying notes to basic financial statements.

**MILWAUKEE PUBLIC SCHOOLS**

Statement of Fiduciary Net Assets

June 30, 2005

<b>Assets</b>	<b>Pension trusts</b>	<b>Private purpose trust</b>	<b>Agency</b>
Deposits with City of Milwaukee and other cash (note 2)	\$ —	530,808	5,022,679
Investments (note 2)	113,958,315	1,322,352	—
Receivables	144,687	—	—
Total assets	<u>114,103,002</u>	<u>1,853,160</u>	<u>5,022,679</u>
<b>Liabilities</b>			
Accounts payable	1,241,314	—	—
Due to student organizations	—	—	5,022,679
Total liabilities	<u>1,241,314</u>	<u>—</u>	<u>5,022,679</u>
<b>Net Assets</b>			
Held in trust for:			
Supplemental pension benefits	112,861,688	—	—
Endowments	—	1,853,160	—
Total net assets	<u>\$ 112,861,688</u>	<u>1,853,160</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, 2005

	<b>Pension trusts</b>	<b>Private purpose trust</b>
Additions:		
Employer contributions	\$ 16,459,891	—
Participants contributions	1,001	—
Private donations	—	350,705
Interest income	—	22,683
Investment income, net of expenses	9,311,566	—
Total additions	25,772,458	373,388
Deductions:		
Benefits paid to participants or beneficiaries	14,706,291	—
Distribution of participant contribution accounts	1,163,632	—
Administrative expenses	169,133	—
Scholarships and awards	—	296,234
Total deductions	16,039,056	296,234
Changes in net assets	9,733,402	77,154
Net assets—beginning of year	103,128,284	1,776,006
Net assets—end of year	\$ 112,861,686	1,853,160

See accompanying notes to the basic financial statements.

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

### (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

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

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; (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.

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.

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

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.

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

School Nutrition Services

**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.

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

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

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

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

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

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

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

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

All governmental activities (i.e. government-wide financial statements) of the District follow Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, Accounting Principles Board opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB statements. The District has elected not to follow FASB pronouncements issued after November 30, 1989.

**(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 first for 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 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

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2005

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.

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:

	<b>Capitalization threshold</b>	<b>Estimated useful life</b>
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

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

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.

**(k) *Compensated Absences***

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

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

**(l) *Insurance Deposits***

The District has recorded deposits in the general fund for self-funded health insurance and current life insurance obligations and a reserve of fund balance aggregating \$3,079,902 at June 30, 2005 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.

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

**(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.

*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**

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

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

**(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.

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

**(q) *New Accounting Pronouncements***

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 44 which establishes guidance for the reporting of the statistical section of a government's comprehensive annual financial report (CAFR). Standards that previously addressed the contents of a government's statistical section were in place since 1980 without significant change or modification. The new standards are intended to improve consistency and comparability in reporting, reflect the significant changes that have taken place in government finance, including GASB Statement No. 34 and to provide clear guidance regarding the applicability of the standards for the statistical section among all types of governmental entities. The requirements of this statement would be effective for the statistical section prepared by the District for its 2006 CAFR.

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.

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2005

**(2) Deposits and Investments**

**District's Deposits and Investments, Exclusive of Pension Trusts**

	Carrying Value	Bank Balance
Cash at the City	\$ 119,728,280	\$ 119,728,280
Demand deposits	10,130,804	19,357,119
Money market funds	45,218,544	45,218,544
U.S. Treasury Notes	5,102,950	5,102,950
U.S. Treasury Strips	2,619,314	2,619,314
Mortgage-backed securities	596,970	596,970
Certificate of Deposit	20,000	20,000
Total Cash and Investments	\$ 183,416,862	\$ 192,643,177

Reconciliation to financial statements

Per statement of net assets

Unrestricted cash and investments	\$ 124,341,860
Restricted cash and investments	52,199,163

Per statement of net assets – Fiduciary Funds

Private purpose trust	1,853,160
Agency	5,022,679

Total Cash and Investments	\$ 183,416,862
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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
- Fully collateralized repurchase agreements

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2005

- 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 money market funds, U.S. Treasury notes, U.S. Treasury strips, mortgage-backed securities, and certificates of deposit. Of the \$45,218,544 invested in money market funds, \$42,588,591 is invested in U.S. Treasury securities with an implied triple-A credit rating, while the remaining \$2,629,953 is invested in an institutional money market fund also with a triple-A rating. The District’s \$5,102,950 investment in U.S. Treasury strips has an implied triple-A credit rating. The \$596,970 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, 2005 the District had the following investments, shown with their maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Money market funds	\$45,218,544	45,218,544			
U.S. Treasuries	5,102,950	1,929,495	3,173,455		
U.S. Treasury strips	2,619,314	223,364	680,260	1,715,690	
Mortgage-backed securities	<u>596,970</u>	91,238	505,732		
	<u>\$53,537,778</u>				

**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.

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2005

At year-end the District's demand deposit balance (exclusive of funds held and controlled by the treasurer of the City) was \$19,357,119. Of the bank balance, \$6,976,805 was covered by the Federal Depository Insurance Corporation (FDIC) and the state of Wisconsin Public Deposit Guarantee Fund and \$12,380,314 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, or collateralized through collateralization agreements in the name of the city. Securities underlying the collateralization agreements are held in the City's name by the trust departments of depository institutions.

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

The Trustees of the Administrators 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, equity funds 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 fund. The Administrators Plan has no equity investments other than in the SWIB Fixed and Variable funds. The asset class targets in the Policy target equities in the SWIB Variable Fund to equal 150% of the amount in Fixed Income, with the remainder of the portfolio allocated to the SWIB Fixed Fund. The Policy Target for Fixed Income is the sum of: (1) assets invested as part of the 1989 bond dedication program; (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 2005, the SWIB Fixed Fund asset-mix targets were 39% to U.S. Stocks, 29% to Fixed Income, 20% 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 Fixed 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 Administrators Plan's fund (the "Fund") has two investment managers: the State of Wisconsin Investment Board (SWIB) and M&I Investment Management Corp. 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 Administrators Plan portfolios in compliance 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.

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

### 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. The following schedule displays the weighted average maturity of the investments by type of investment as of June 30, 2005.

<u>Investment</u>	<u>Weighted Average Maturity</u>	<u>Fair Value</u>
SWIB Fixed and Variable Funds	39% of the combined SWIB funds are invested in the fixed income with a weighted average maturity of 5.51	\$ 33,481,459
Money market accounts	45 days	\$ 313,058
U.S. Treasury notes and Government Bonds	8.05 years	\$ 1,675,574
Mortgage-backed securities	3.69 years	\$ 3,602,593
Non-government obligations	4.50 years	\$ 2,624,797

Note: On June 30, 2005, SWIB's Fixed Fund and Variable Fund had \$62.5 Billion and \$5.9 Billion in assets, respectively. The Administrators Plan had a smaller percentage of its assets in the SWIB Fixed Fund and, consequently, its percentage of SWIB Funds in fixed income is lower than the percentage noted earlier. As of June 30, 2005, the Plan's assets were invested 46% in the SWIB Fixed Fund, 35% in the SWIB Variable Fund, and 19% 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 Fixed and Variable Funds and in the separate accounts managed by M&I Investment Management Corp. on June 30, 2005. 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 AAA rating below although they are considered to be without risk.

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

<u>Ratings*</u>	<u>SWIB</u>	<u>M&amp;I</u>
P-1	19%	4%
AAA	36%	68%
AA	11%	6%
A	19%	14%
BBB	3%	8%
BB	4%	0%
B	2%	0%
CCC	0%	0%
CC	0%	0%
C	0%	0%
D	0%	0%
Not-Rated	6%	0%

\*As defined by Moody's Bond Ratings

For SWIB's Fixed 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. Non-Investment Grade securities shall not exceed 10% of the portfolio's 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 retirement funds do not have a deposit or investment policy specifically related to custodial credit risk.

*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, 2005, SWIB had uninsured and uncollateralized deposits totaling \$112,126,300, that were held 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 \$55,750,433, all of which were uncollateralized and uninsured. In total, these deposits represented 0.2% of the combined assets of the SWIB Fixed 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 an investment or collateral securities that are in the possession of a third party. As of June 30, 2005, the fund did not have any investment securities exposed to custodial credit risk.

### 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

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2005

issuer concentrations to 5% or less in any one company and 40% or less in issues trading under Rule 144A. 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, 2005, \$6.8 billion of the SWIB Fixed and Variable Funds' currency exposure was denominated in foreign currency. For the other separately 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 Teachers 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, equity funds 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 fund. The Teachers Plan has no equity investments other than the SWIB Fixed and Variable Fund. The asset class targets in the Policy target equities in the SWIB Variable Fund to equal 150% of the amount in Fixed Income (outside of the SWIB Funds), with the remainder of the portfolio allocated to the SWIB Fixed Fund. The Policy target for Fixed Income is: (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 expenses. The portfolio is rebalanced toward the Policy targets quarterly. For 2005, the SWIB Fixed Fund asset-mix targets were 39% to U.S. Stocks, 29% to Fixed Income, 20% 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 Fixed 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 Teachers Plan Fund (the "Fund") has two investment managers: the State of Wisconsin Investment Board (SWIB) and M&I Investment Management Corp. 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 Teachers Plan portfolios in compliance with the

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

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. The following schedule displays the weighted average maturity of the investments by type of investment as of June 30, 2005.

<u>Investment</u>	<u>Weighted Average Maturity</u>	<u>Fair Value</u>
SWIB Fixed and Variable Funds	39% of the combined SWIB funds are invested in the fixed income with a weighted average maturity of 5.51	\$ 68,399,248
Money market accounts	45 days	\$ 1,008,560
U.S. Treasury notes	4.85 years	\$ 952,721
Government Bonds		\$ -
Mortgage-backed securities	1.96 years	\$ 758,006
Non-government obligations	4.12 years	\$ 1,142,299

Note: On June 30, 2005, SWIB's Fixed Fund and Variable Fund had \$62.5 Billion and \$5.9 Billion in assets, respectively. The Teaches Plan had a smaller percentage of its assets in the SWIB Fixed Fund and, consequently, its percentage of SWIB Funds in fixed income is lower than the percentage noted earlier. As of June 30, 2005, the Plan's assets were invested 80% in the SWIB Fixed Fund, 15% in the SWIB Variable Fund, and 5% 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 portfolio for the payment of benefits and expenses, the duration will be within a range of 50% to 150% of the duration of the benchmark index.

### B. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following schedule displays the credit quality percentage distributions of the fixed income investments in the SWIB Fixed and Variable Funds and in the separate accounts managed by M&I Investment Management Corp. on June 30, 2005. 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 AAA rating below although they are considered to be without risk.

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

<u>Ratings*</u>	<u>SWIB</u>	<u>M&amp;I</u>
P-1	19%	27%
AAA	36%	45%
AA	11%	13%
A	19%	12%
BBB	3%	3%
BB	4%	0%
B	2%	0%
CCC	0%	0%
CC	0%	0%
C	0%	0%
D	0%	0%
Not-Rated	6%	0%

\*As defined by Moody's Bond Ratings

For SWIB's Fixed 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. Non-Investment Grade securities shall not exceed 10% of the portfolio's 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 retirement funds do not have a deposit or investment policy specifically related to custodial credit risk.

*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, 2005, SWIB had uninsured and uncollateralized deposits totaling \$112,126,300, that were held 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 \$55,750,433, all of which were uncollateralized and uninsured. In total, these deposits represented 0.2% of the combined assets of the SWIB Fixed and Variable Funds.

*Investments* - Custodial credit risk for investments is the risk that, in the event of the failure of counterparty to a transaction, the fund will not be able to recover the value of an investment or collateral securities that are in the possession of a third party. As of June 30, 2005, the fund did not have any investment securities exposed to custodial credit risk.

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2005

**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 to 5% or less in any one company and 40% or less in issues trading under Rule 144A. 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, 2005, \$6.8 billion of the SWIB Fixed and Variable Funds' currency exposure was denominated in foreign currency. For the other separately 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.

**(3) Receivables**

Receivables as of June 30, 2005 for the District's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Nonmajor funds</u>	<u>Total</u>
Receivables:			
Accounts	\$ 3,828,045	—	3,828,045
Intergovernmental—federal	36,265,932	11,572,585	47,838,517
Intergovernmental—state	<u>9,725,210</u>	<u>—</u>	<u>9,725,210</u>
Gross receivables	49,819,187	11,572,585	61,391,772
Less allowance for uncollectibles	<u>(187,063)</u>	<u>—</u>	<u>(187,063)</u>
Total receivables, net	<u>\$ 49,632,124</u>	<u>11,572,585</u>	<u>61,204,709</u>

**(4) Interfund Transactions**

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

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2005

The following balances as of June 30, 2005 represent due to/from balances among all funds:

	<b>Due from other funds</b>			<b>Total</b>
	<b>General fund</b>	<b>Construction fund</b>	<b>Nonmajor fund</b>	
Due to other funds:				
General fund	\$ 21,663,146	1,354,965	—	23,018,111
Construction fund	—	37,002,638	—	37,002,638
Nonmajor funds	12,890,575	—	9,640,496	22,531,071
Total	\$ <u>34,553,721</u>	<u>38,357,603</u>	<u>9,640,496</u>	<u>82,551,820</u>

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

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2005

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2005 was as follows:

	<u>Balance July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2005</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 29,419,811	2,056,074	15,000	31,460,885
Construction in progress	<u>57,431,287</u>	<u>57,409,130</u>	<u>64,467,997</u>	<u>50,372,420</u>
Total capital assets, not being depreciated	<u>86,851,098</u>	<u>59,465,204</u>	<u>64,482,997</u>	<u>81,833,305</u>
Capital assets, being depreciated:				
Buildings	746,714,897	64,623,383	—	811,338,280
Leasehold improvements	5,929,283	6,872	526,336	5,409,819
Furniture and equipment	29,442,151	1,082,171	429,913	30,094,409
Software	<u>23,995,020</u>	<u>1,202,675</u>	<u>—</u>	<u>25,197,695</u>
Total capital assets, being depreciated	<u>806,081,351</u>	<u>66,915,101</u>	<u>956,249</u>	<u>872,040,203</u>
Less accumulated depreciation for:				
Buildings	(293,028,097)	(13,527,537)	—	(306,555,634)
Leasehold improvements	(83,228)	(382,267)	—	(465,495)
Furniture and equipment	(22,611,030)	(1,857,729)	(456,971)	(24,011,788)
Software	<u>(11,052,935)</u>	<u>(3,513,765)</u>	<u>—</u>	<u>(14,566,700)</u>
Total accumulated depreciation	<u>(326,775,290)</u>	<u>(19,281,298)</u>	<u>(456,971)</u>	<u>(345,599,617)</u>
Total capital assets, being depreciated	<u>479,306,061</u>	<u>47,633,803</u>	<u>499,278</u>	<u>526,440,586</u>
Capital assets, net	<u>\$ 566,157,159</u>	<u>107,099,007</u>	<u>64,982,275</u>	<u>608,273,891</u>

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2005

Depreciation expense for governmental activities for the year ended June 30, 2005 was charged to functions/programs as follows:

Governmental activities:		
Instruction	\$	16,522,523
Community services		101,666
Pupil and staff services		721,780
General, administration and central services		653,449
Business services		1,060,450
School nutrition		159,047
Other		62,383
		<hr/>
Total depreciation	\$	<u>19,281,298</u>

**(6) Short-term Borrowings**

The City issued short-term revenue anticipation notes on behalf of the District in the amount of \$172,000,000 in August 2004. These notes were issued with interest rates of 4% and 6%. The notes matured September 1, 2005. The debt was repaid during June 2005 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, 2005 totaled \$449,624,716. Of this total, \$95,943,638 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 \$353,681,078 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.

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2005

Long-term obligations of the District are as follows:

	<u>Original amount</u>	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2005</u>	<u>Amount due in one year</u>
Intergovernmental cooperation agreements with the City of Milwaukee:						
Refinancing for state trust loans, 4.5% to 5.75%, due in annual installments through March 2006	\$ 15,000,000	1,984,059	—	1,283,860	700,199	700,199
American with Disabilities Act loans:						
4.5% – 4.65%, due in annual install- ments to December 2007	2,000,000	900,000	—	210,000	690,000	220,000
3.5% – 4.25%, due in annual install- ments to December 2008	605,000	332,750	—	60,500	272,250	63,525
4.75% – 5.375%, due in annual install- ments to June 2009	300,000	200,000	—	20,000	180,000	20,000
4.74% – 5.625%, due in annual install- ments to September 2015	2,000,000	1,599,752	—	133,416	1,466,336	133,304
3.59%, due in annual installments to September 2016	3,095,000	2,682,016	—	619,000	2,063,016	206,492
3.74%, due in annual installments to March 2017	1,205,000	1,044,108	—	481,471	562,637	80,446
4.0 – 5.0%, due in annual installments to September 2017	660,000	615,958	—	87,994	527,964	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	670,000	—	67,000	603,000	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	4,776,312	6,930,790	1,470,618	10,236,484	1,544,148
Neighborhood Schools Initiative Bonds (NSI), 3.5% – 4.875%, due in annual installments to August 2023	112,040,000	112,040,000	—	—	112,040,000	—
Plus: Premium on issuance	1,357,121	1,257,237	—	99,884	1,157,353	—
QZAB—Qualified Zone Academy Bonds, 0%, due in annual installments to August 2019	16,219,000	13,406,456	—	2,049,676	11,356,780	2,129,354
Financial & Student Tracking Systems— 3.74% – 6.24% note, due in annual installments to September 2008	8,000,000	6,393,226	—	1,335,806	5,057,420	1,330,806
Pension debt refinancing:						
Capital appreciation note, due in annual installments beginning April 1, 2005 through April 1, 2023	46,715,000	46,420,000	—	525,000	45,895,000	25,000
Less: Discount	(25,232,986)	(24,605,382)	—	(1,267,145)	(23,338,237)	—
Capital appreciation bonds, due in annual installments beginning April 1, 2026 through April 1, 2041	110,525,000	110,525,000	—	—	110,525,000	—
Less: Discount	(94,805,878)	(94,277,751)	—	(1,041,201)	(93,236,550)	—
Pension bonds, variable interest rate “auction rate”, interest due in semi- annual installment, principal due at maturity on October 1, 2043	130,850,000	130,850,000	—	—	130,850,000	—
Other intergovernmental notes	4,437,000	1,477,250	—	472,500	1,004,750	482,475
Capital lease—MEC/Grand Avenue	34,475,000	33,075,000	—	2,925,000	30,150,000	3,000,000
Total intergovernmental cooperation agreement debt		<u>351,700,991</u>	<u>11,513,466</u>	<u>9,533,379</u>	<u>353,681,078</u>	<u>10,046,791</u>

**MILWAUKEE PUBLIC SCHOOLS**

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	<u>Balance at July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2005</u>	<u>Amount due in one year</u>
Intergovernmental cooperation agreements with the City of Milwaukee (from previous page)	\$ 351,700,991	11,513,466	9,533,379	353,681,078	10,046,791
Accrued compensated absences	27,102,884	11,275,173	8,542,767	29,835,290	2,604,642
Workers' compensation claims	3,666,732	2,067,570	3,847,480	1,886,822	874,245
General insurance claims	1,329,578	432,255	1,021,526	740,307	46,774
Life insurance benefits	2,278,751	—	51,428	2,227,323	308,100
Liability for other long-term benefits	<u>285,051</u>	<u>—</u>	<u>—</u>	<u>285,051</u>	<u>—</u>
Total long-term obligations	<u>\$ 386,363,987</u>	<u>25,288,464</u>	<u>22,996,580</u>	<u>388,655,871</u>	<u>13,880,552</u>

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

The District has recognized a liability of \$874,245 as of June 30, 2005 in the governmental funds for workers' compensation claims that were due as of year-end. These amounts are not included in general long-term liabilities above. Accordingly, the total liability for workers' compensation claims was \$2,761,067 as of June 30, 2005.

Aggregate cash flow requirements for the retirement of the intergovernmental cooperation agreement debt (excluding the capital lease obligations) as of June 30, 2005 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ended June 30:			
2006	\$ 7,306,400	13,668,416	20,974,816
2007	6,544,625	12,821,470	19,366,095
2008	8,414,107	13,509,598	21,923,705
2009	8,319,391	12,553,720	20,873,111
2010	7,849,715	12,629,003	20,478,718
2011 – 2015	42,293,077	64,411,099	106,704,176
2016 – 2020	60,174,866	62,857,165	123,032,031
2021 – 2025	69,246,329	50,629,330	119,875,659
2026 – 2030	45,740,001	40,765,415	86,505,416
2031 – 2035	66,990,000	50,707,269	117,697,269
2036 – 2040	90,145,001	64,344,067	154,489,068
2041 – 2045	<u>25,925,000</u>	<u>4,056,127</u>	<u>29,981,127</u>
Total	<u>\$ 438,948,512</u>	<u>402,952,679</u>	<u>841,901,191</u>

Interest on the \$130,850,000 variable rate pension debt (auction rate securities) included in the schedule of future payments included in the above schedule is based upon an auction to occur approximately every 35 days. The interest rate as of June 30, 2005 was 3.15%.

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2005

The District leases land and buildings with a historical cost and accumulated amortization of \$36,057,061 and \$1,786,528, respectively, under capital lease arrangements. Future minimum lease payments under these capital leases at June 30, 2005 are as follows:

Fiscal year ended June 30:		
2006	\$	3,908,473
2007		3,913,473
2008		3,906,573
2009		3,910,973
2010		3,908,762
2011 – 2014		<u>15,637,008</u>
Total minimum lease payments		35,185,262
Less amount representing interest		<u>(5,035,262)</u>
Present value of minimum lease payments	\$	<u><u>30,150,000</u></u>

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 2005 was \$26,236,832,000 and the 5% debt limit was \$1,311,841,600. No referendum-approved debt is outstanding at June 30, 2005.

***Current Refunding of Debt***

In June 2005, the City issued Series 2005 A5 General Obligation bonds which included refunding of three of the District's Americans with Disabilities Act (ADA) loans, specifically the maturities dated September, 2016 in the original amounts of \$3,095,000; the maturity dated March, 2017 in the original amount of \$1,205,000; and the maturity dated September, 2017 in the original amount of \$660,000. Savings that resulted from the refunding are as follows:

Cash flow requirements to service previous ADA debt	\$ 1,260,581
Less cash flow requirements for new debt	<u>1,241,098</u>
Net savings from refunding	<u>\$ 19,483</u>

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2005

***Interest Rate Swap Agreement***

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

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

	<u>Terms</u>	<u>Rates</u>
Interest rate swap (as of 6/30/2005):		
Fixed payment to counterparty	Fixed	5.56%
Variable payment from counterparty	LIBOR + 20 bps	<u>(3.34)%</u>
Net interest rate swap payments		2.22%
Variable-rate bond coupon payments	Auction Rate	<u>3.15%</u>
Synthetic interest rate on bonds		<u>5.37%</u>

*Fair value.* As of June 30, 2005, the swaps had an aggregate negative fair value of \$15,689,447 because interest rates have decreased since execution of the swaps. The swap's negative fair value may be countered by reductions in total interest payments required on the variable-rate bonds, creating a lower synthetic interest rate. Because the coupons on the variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

*Credit risk.* As of June 30, 2005, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swaps become positive, the District would be exposed to credit risk in the amount of the derivative's fair values. The swap counterparties were rated AA- and A+ by Standard & Poor's and Aa3 and A1 by

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Notes to Basic Financial Statements

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Moody’s Investors Service as of June 30, 2005. To mitigate the potential for credit risk, if the AA-/Aa3 counterparty’s credit quality falls below AA- by Standard & Poor’s, Aa3 by Moody’s Investors Service, 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 A+/A1 counterparty is collateralized above a \$2,500,000 fair value. Collateral is posted with the trustee of the bonds.

*Basis risk.* The swaps expose the District to basis risk should the relationship between LIBOR and the auction rate diverge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate (5.56%) and the synthetic rate as of June 30, 2005 (5.37%). If a change occurs that results in the rates’ moving farther apart, the expected cost savings may not be realized. Since inception, the difference between LIBOR and the auction rate has ranged from -.05% to +0.23%, and averaged +.05%. As of June 30, 2005, the auction rate was 3.15%, whereas the effective LIBOR under the swaps was 3.14%.

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

*Swap payments and associated debt.* Using rates as of June 30, 2005, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

	Variable-rate bonds		Interest rate	Total
	Principal	Interest	swaps, net	
Fiscal year ended June 30:				
2006	\$ —	4,007,150	2,743,343	6,750,493
2007	—	4,407,865	2,985,343	7,393,208
2008	—	4,007,150	2,702,925	6,710,075
2009	—	4,407,865	3,005,552	7,413,417
2010	—	4,007,150	2,723,134	6,730,284
2011 – 2015	—	20,837,182	14,160,296	34,997,478
2016 – 2020	—	20,837,182	14,160,296	34,997,478
2021 – 2025	12,575,000	20,843,645	14,155,225	47,573,870
2026 – 2030	31,250,000	16,370,081	11,127,058	58,747,139
2031 – 2035	31,250,000	11,410,596	7,756,235	50,416,831
2036 – 2040	31,050,000	6,464,084	4,389,408	41,903,492
2041 – 2045	24,725,000	1,531,131	1,044,819	27,300,950
Totals	\$ 130,850,000	119,131,081	80,953,634	330,934,715

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2005

(8) Fund Balance

Designated for Subsequent Year's Expenditures—The unreserved fund balance of the general fund is \$45,933,995 at June 30, 2005. This unreserved balance includes \$78,591,303 designated to partially fund school operating expenditures during the period July 1 through December 31, 2005.

Based on recent operating experience, management anticipates that approximately \$443,414,984 will be required to fully cover the anticipated school operations operating expenditures during the period July 1 through December 31, 2005. In addition to the fund balance designated for subsequent year's expenditures, approximately \$311,326,000 of state aids will be used to fund operating expenditures through December 31, 2005.

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

The formula established by this action, and the application thereof as of June 30, 2005, is as follows:

General fund unreserved fund balance	\$ 45,933,995
Amount required to fund six months of the subsequent year's property tax levy:	
Current year's school operations tax levy (\$191,168,065) multiplied by a ratio of subsequent year's tax days from July 1 to December 31 (74) to total calendar school year days (180)	78,591,303
General fund undesignated fund balance deficiency	<u>\$ (32,657,308)</u>

(9) Risk Management

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

The District provides health insurance benefits to employees and retirees through a self-insured health maintenance organization and a self-insured comprehensive indemnity/PPO plan. The District does not purchase stop-loss insurance for its self-insured comprehensive indemnity/PPO plan. Life insurance benefits are provided for active and retired employees through an insured life insurance program. Life insurance costs that exceed certain rates are funded by the District.

The District provides dental insurance benefits through a fully insured dental maintenance organization and through a self-insured indemnity plan. The District does not purchase stop-loss

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2005

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

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

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

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

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

	<b>Year ended June 30</b>	
	<b>2005</b>	<b>2004</b>
Beginning of year liability	\$ 41,601,617	36,992,000
Current year claims and changes in estimate	184,190,756	183,665,617
Claim payments	(187,718,129)	(179,056,000)
End of year liability	\$ 38,074,244	41,601,617

The District has recognized the liability for health and dental insurance, which totaled \$32,060,496 and \$32,676,915 as of June 30, 2005 and 2004, respectively, in the general fund. The District has also recognized a liability of \$874,245 and \$1,364,421 as of June 30, 2005 and 2004, 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.

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

### (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 5.6% of their salaries to the plan for calendar year 2004. The District pays all employer and principally all employee (with the exception of some substitute teachers) required contributions to the plan. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

The payroll for the District's employees covered by the WRS for the year ended December 31, 2004 was \$395,083,000; the District's total payroll was \$533,381,000. The total required contribution for the year ended December 31, 2004 was \$38,718,000, which consisted of \$16,593,000, or 4.2% of payroll, from the District and \$22,125,000, or 5.6% of payroll, from the District on behalf of the employees. The District issued bonds in the amount of \$168.051 million through the Redevelopment Authority of the City and the City to fund the pension-related debt to the WRS for the unfunded accrued liability for pension service, which reduced the WRS contribution rate effective January 1, 2004 by 2%. The amount contributed equaled the required contribution. Total contributions for the years ending December 31, 2003 and 2002 were \$44,561,000 and \$39,883,000, respectively, equal to the required contributions for each year.

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

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

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 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, 2004 was \$111,331,622; the District’s total payroll was \$533,381,000. The total required contribution including retroactive adjustments for the year ended December 31, 2004 was \$6,316,000, or 5.7% of covered payroll, from the District on behalf of the employees and equaled the required contribution. Total contributions for the years ending December 31, 2003 and 2002 were \$6,512,000 (includes retro payments of \$299,000) and \$5,814,000 (including retro payments of \$364,000), respectively, equal to the required contributions for each year.

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

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 employments. The COLA shall be 1.5% annually beginning after the 2<sup>nd</sup>, 3<sup>rd</sup>, and 4<sup>th</sup> anniversary after retirement and 2% after the 6<sup>th</sup> year of the employee's retirement or death. Upon completion of eight years of service, employees terminating covered employment may withdraw their funds and forfeit all rights to any subsequent benefit. The System also provides death and disability benefits for employees. Eligibility for and the amount of all benefits are determined under Chapter 36 of the City charter.

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

### *Supplemental Retirement Plans*

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

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

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

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2005

Participants are eligible for retirement benefits provided they have made three years of participant contributions and have eight or more years of vesting service. The plan provides for unreduced benefits at age 60 and for reduced benefits between ages 55 and 60. For participants who retire between ages 60 and 65 under the System or under the WRS, a special supplemental benefit, as defined, shall be paid until the retiree attains age 65. Benefits are paid in the form of monthly payments based on years of service and average monthly compensation for the three highest fiscal years of earnings preceding the date of retirement to a maximum benefit 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 \$1,875,500 gain was allocated in fiscal years 2005 and 2004. 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 \$2,813,250 as of June 30, 2005.

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 2005 and 2004 required District (employer) contributions of \$737,000.

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:

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2005

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.

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.

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 PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2005

#### **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 55<sup>th</sup> 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.

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 PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2005

**(b) Annual Pension Costs and Actuarial Assumptions Used**

The District's annual pension costs for the year ended June 30, 2005 and related actuarial assumptions used for the current year and related information for each plan is as follows:

	<b>Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan</b>	<b>Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers</b>	<b>Total</b>
Contribution rates as a percentage of payroll:			
District	6.881%	4.090%	
Plan participants	—	—	
Annual required contribution	\$ 2,715,306	12,794,314	15,509,620
Interest on net pension obligation	—	—	—
Adjustment to annual required contribution	—	—	—
Annual pension cost	2,715,306	12,794,314	15,509,620
Contributions made	2,859,780	13,579,583	16,439,363
Increase (decrease) in net pension obligation	(144,474)	(785,269)	(929,743)
Net pension obligation (prepayment), beginning of year	(2,023,526)	(9,421,731)	(11,445,257)
Net pension obligation (prepayment), end of year	\$ (2,168,000)	(10,207,000)	(12,375,000)

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2005

	<b>Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan</b>	<b>Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers</b>
Actuarial valuation date	July 1, 2004	July 1, 2004
Actuarial cost method	Projected unit credit	Entry age normal
Amortization method	For new balances, level payment amortization of principal and interest over expected future working lifetime. For charges and credits arising on or before July 1, 1987 and certain special balances, level payment amortization of principal and interest over 30 years.	Level payment amortization of principal and interest over 30 years
Remaining amortization period	Varies from 1 to 20 years.	Varies from 8 to 30 years.
Asset valuation method	Five-year smoothed market.	Five-year smoothed market.
Actuarial assumptions:		
Investment rate of return	8.0%	8.0%

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2005

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.

**(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:			
2004	\$ 2,715,306	100%	\$ —
2003	2,378,932	100%	—
2002	1,206,396	100%	—

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2005

**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:			
2004	\$ 12,794,314	100%	\$ —
2003	12,585,622	100%	—
2002	11,541,960	100%	—

**(11) Post-Retirement Life and Healthcare Insurance Benefits**

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

Health insurance is available on a self-paid basis to retired employees who retire at age 55 or older, with 15 years of service, by paying the premium for such coverage. In the event such employees have 70% of their maximum sick leave accumulation balance at the time of retirement, the District will pay an amount towards the health insurance premium equal to the premium for that employee at the time of retirement. Any increases in premium beyond the amount of the premium at the employee's retirement 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 health maintenance organization. These plans are supplemental to Medicare for those retirees eligible for Medicare insurance.

Expenditures for post-retirement life and healthcare insurance benefits are financed on a pay-as-you-go basis and aggregated approximately \$27,670,310 for the year ended June 30, 2005. Approximately 5,541 retired participants are currently eligible to receive post-retirement life insurance benefits and approximately 5,325 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.

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2005

### **(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, 2005, the District exceeds its revenue limitation by approximately \$346,767.

### **(13) School Nutrition Deficit**

The school nutrition services fund had a deficit of \$5,962,801. The deficit is anticipated to be funded through future operations or operating transfers from the general fund for which the reserve has been made.

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2005

**(14) Excess Expenditures Over Appropriations**

The following individual funds had an excess of actual expenditures over appropriations for the year ended June 30, 2005.

Fund	Excess Expenditures
General Fund:	
Instructional services	\$24,357,733
Community Services	8,938,713
General and School building administration	17,303,099
Debt Service	11,763,551
TEACH Grant Fund	2,026,546
School Nutrition Services Fund	2,153,212

The General Fund's actual 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 collectibility of any related receivable at June 30, 2005 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, 2005

**(b) Operating Leases**

The District leases certain computer equipment with a carrying value of approximately \$539,550. For fiscal year 2005, total operating lease expense of the District was \$548,336. The aggregate minimum legal commitments for the five fiscal years subsequent to June 30, 2005 and thereafter for the computers and property are as follows:

Fiscal years:		
2006	\$	324,461
2007		<u>215,089</u>
Total	\$	<u><u>539,550</u></u>

**(c) Construction Commitments**

The District has various active construction projects with commitments outstanding of \$56,969,000 as of June 30, 2005.

**(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 July 7, 2005 the \$130,850,000 of Auction Rate Securities issued in December, 2003 to finance a portion of the unfunded actuarial accrued liability for pensions were converted to Index Linked Securities.

On September 9, 2005 the City issued \$182,000,000 of School Revenue Anticipation Notes, Series 2005 M6, for the purpose of financing MPS's general operating purposes pending receipt of state school aid payments. The maturity of this issue is September 7, 2006. Interest is payable at maturity.

On November 17, 2005 the Redevelopment Authority of the City of Milwaukee (RACM) issued \$12,415,000 of Lease Revenue bonds to finance improvements at MPS's Congress, Craig and Fratney schools. The financing requires that MPS make lease payments to RACM over the life of the bonds in an amount equal to the debt service in exchange for the use of the improved facilities.

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**MILWAUKEE PUBLIC SCHOOLS**

Required Supplementary Information

Budgetary Comparison Schedule for the General Fund

Year ended June 30, 2005

	<b>Budgeted amounts</b>		<b>Actual (GAAP basis)</b>
	<b>Adopted</b>	<b>Revised</b>	
<b>Revenues:</b>			
Property tax levy	\$ 187,215,014	183,220,889	188,706,559
Other local sources	13,556,706	16,027,272	10,192,204
State aid:			
Equalization aid	570,851,088	574,542,223	574,203,739
Special classes	40,050,000	37,791,116	39,419,557
Integration	39,795,793	39,995,329	38,661,528
Other state aid	48,736,078	48,559,290	50,958,075
Federal aid:			
Education Consolidation Improvement Act	71,319,966	76,349,578	69,124,917
Other federal aid	49,127,150	65,142,510	54,584,105
Erate	1,320,000	1,320,000	3,296,638
Interest	—	—	784,655
<b>Total revenues</b>	<b>1,021,971,795</b>	<b>1,042,948,207</b>	<b>1,029,931,977</b>
<b>Expenditures:</b>			
Current operating:			
Instructional services:			
Undifferentiated curriculum	336,972,885	342,256,320	418,322,709
Regular and other curriculum	156,111,441	152,694,394	99,908,858
Special curriculum	108,863,453	107,415,054	108,491,974
<b>Total instructional services</b>	<b>601,947,779</b>	<b>602,365,768</b>	<b>626,723,541</b>
Community services	11,362,564	11,652,590	20,591,303
Pupil and staff services	110,729,998	110,502,954	89,185,984
General and school building administration	88,251,760	91,199,852	108,422,951
Business services	150,470,518	170,976,414	153,790,477
Debt service	—	—	11,763,551
Other	81,937,415	85,368,651	1,162,108
<b>Total expenditures</b>	<b>1,044,700,034</b>	<b>1,072,066,229</b>	<b>1,011,639,915</b>
Excess of revenues over (under) expenditures	\$ <u>(22,728,239)</u>	<u>(29,118,022)</u>	18,292,062
Fund balance—beginning of year			81,808,246
Fund balance—end of year			\$ <u>100,100,308</u>

**MILWAUKEE PUBLIC SCHOOLS**

Required Supplementary Information

Schedules of Funding Progress

Year ended June 30, 2005

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

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial accrued liability (AAL)</u>	<u>Total Underfunded AAL</u>	<u>Funded ratio</u>	<u>Annual covered payroll</u>	<u>Underfunded AAL as a percentage of covered payroll</u>
7/1/04	\$ 40,282,290	50,085,520	(9,803,230)	80.43 %	\$ 39,461,550	(24.84) %
7/1/03	39,808,674	49,453,070	(9,644,396)	80.50	42,014,246	(22.96)
7/1/02	40,229,422	41,356,358	(1,126,936)	97.28	37,694,546	(2.99)

**Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers**

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial accrued liability (AAL)</u>	<u>Total Underfunded AAL</u>	<u>Funded ratio</u>	<u>Annual covered payroll</u>	<u>Underfunded AAL as a percentage of covered payroll</u>
7/1/04	\$ 55,203,992	166,080,049	(110,876,057)	33.24 %	\$ 312,805,388	(35.45) %
7/1/03	49,570,891	157,875,834	(108,304,943)	31.40	315,368,449	(34.34)
7/1/02	44,638,240	142,261,158	(97,622,918)	31.38	303,351,587	(32.18)

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Required Supplementary Information

Year ended June 30, 2005

### (1) **Budgeting**

Annual appropriated budgets are adopted for the general, special revenue, and debt service funds by June 30<sup>th</sup> 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; schools are allowed to carry over appropriations into the following year up to a maximum of 1.5% of the total revised school budget each year up to a total accumulated carryover of 3%; deficits incurred automatically reduce the subsequent year's budget appropriations; and, with school board approval, appropriations for special projects or planned purchases can be carried into the subsequent year.

**COMBINING AND INDIVIDUAL  
FUND STATEMENTS  
AND SCHEDULES**

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## MILWAUKEE PUBLIC SCHOOLS

### Nonmajor Governmental Funds

#### **Special Revenue Funds**

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

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

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

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

#### **Debt Service Fund**

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

**MILWAUKEE PUBLIC SCHOOLS**  
Combining Balance Sheet—Nonmajor Governmental Funds  
June 30, 2005

Assets	<u>Special Revenue</u>				
	<u>TEACH Wisconsin Programs</u>	<u>Categorically Aided Programs</u>	<u>School Nutrition Services</u>	<u>Debt Service</u>	<u>Total</u>
Receivables due from other governmental units	\$ —	5,354,732	6,217,853	—	11,572,585
Due from other funds	5,015,128	1,548,425	3,076,943	—	9,640,496
Inventories	—	—	6,172	—	6,172
Total assets	<u>\$ 5,015,128</u>	<u>6,903,157</u>	<u>9,300,968</u>	<u>—</u>	<u>21,219,253</u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ —	12,719	597,261	—	609,980
Due to other funds	974,125	6,890,438	14,666,508	—	22,531,071
Total liabilities	<u>974,125</u>	<u>6,903,157</u>	<u>15,263,769</u>	<u>—</u>	<u>23,141,051</u>
Fund balances (deficit):					
Reserved for inventories	—	—	6,172	—	6,172
Unreserved and undesignated	4,041,003	—	(5,968,973)	—	(1,927,970)
Total fund balances	<u>4,041,003</u>	<u>—</u>	<u>(5,962,801)</u>	<u>—</u>	<u>(1,921,798)</u>
Total liabilities and fund balances	<u>\$ 5,015,128</u>	<u>6,903,157</u>	<u>9,300,968</u>	<u>—</u>	<u>21,219,253</u>

**MILWAUKEE PUBLIC SCHOOLS**

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

Year ended June 30, 2005

	<u>Special Revenue</u>				
	<u>TEACH Wisconsin Programs</u>	<u>Categorically Aided Programs</u>	<u>School Nutrition Services</u>	<u>Debt Service</u>	<u>Total</u>
Revenues:					
Property taxes	\$ —	—	—	6,469,806	6,469,806
Lunchroom sales	—	—	4,747,456	—	4,747,456
State aid—other	735,309	—	645,038	—	1,380,347
Federal aid:					
School nutrition services	—	—	24,531,108	—	24,531,108
Other federal aid	—	23,741,682	—	—	23,741,682
Total revenues	<u>735,309</u>	<u>23,741,682</u>	<u>29,923,602</u>	<u>6,469,806</u>	<u>60,870,399</u>
Expenditures:					
Instructional services—	—	—	—	—	—
special curriculum	—	4,793,878	—	—	4,793,878
Pupil and staff services	1,291,237	18,947,804	—	—	20,239,041
School nutrition services	—	—	32,006,084	—	32,006,084
Debt service:					
Principal	1,470,618	—	—	5,756,237	7,226,855
Interest	238,816	—	—	713,569	952,385
Total expenditures	<u>3,000,671</u>	<u>23,741,682</u>	<u>32,006,084</u>	<u>6,469,806</u>	<u>65,218,243</u>
Excess of revenues over (under) expenditures	(2,265,362)	—	(2,082,482)	—	(4,347,844)
Other financing sources (uses):					
Issuance of Teach Loan	2,154,478	—	—	—	2,154,478
Total other financing sources (uses), net	<u>2,154,478</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,154,478</u>
Net changes in fund balances	(110,884)	—	(2,082,482)	—	(2,193,366)
Fund balances (deficit):					
Beginning of year	4,151,887	—	(3,880,319)	—	271,568
End of year	\$ <u>4,041,003</u>	<u>—</u>	<u>(5,962,801)</u>	<u>—</u>	<u>(1,921,798)</u>

**MILWAUKEE PUBLIC SCHOOLS**

TEACH Wisconsin Programs Fund

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

Year ended June 30, 2005

	<u>Budgeted amounts</u>		<u>Actual</u>
	<u>Adopted</u>	<u>Revised</u>	<u>(GAAP basis)</u>
Revenues:			
State aid:			
Other state aid	\$ —	—	735,309
Total revenues	<u>—</u>	<u>—</u>	<u>735,309</u>
Expenditures:			
Current operating:			
Pupil and staff services		—	1,291,237
Debt service	974,125	974,125	1,709,434
Total expenditures	<u>974,125</u>	<u>974,125</u>	<u>3,000,671</u>
Excess of revenues over (under) expenditures	<u>(974,125)</u>	<u>(974,125)</u>	<u>(2,265,362)</u>
Other financing sources:			
Issuance of TEACH loan	—	1,512,935	2,154,478
Total other financing sources	<u>—</u>	<u>1,512,935</u>	<u>2,154,478</u>
Net change in fund balance	<u>\$ (974,125)</u>	<u>538,810</u>	<u>(110,884)</u>
Fund balance—beginning of year			<u>4,151,887</u>
Fund balance—end of year			<u>\$ 4,041,003</u>

**MILWAUKEE PUBLIC SCHOOLS**

Categorically Aided Programs Fund

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

Year ended June 30, 2005

	<b>Budgeted amounts</b>		<b>Actual (GAAP basis)</b>
	<b>Adopted</b>	<b>Revised</b>	
Revenues:			
Federal aid:			
Other federal aid	\$ 27,205,510	27,586,473	23,741,682
Total revenues	<u>27,205,510</u>	<u>27,586,473</u>	<u>23,741,682</u>
Expenditures:			
Current operating:			
Special curriculum	5,558,393	6,808,568	4,793,878
Pupil and staff services	<u>21,647,117</u>	<u>20,777,905</u>	<u>18,947,804</u>
Total expenditures	<u>27,205,510</u>	<u>27,586,473</u>	<u>23,741,682</u>
Net change in fund balance	\$ <u>          —</u>	<u>          —</u>	<u>          —</u>
Fund balance—beginning of year			<u>          —</u>
Fund balance—end of year			\$ <u><u>          —</u></u>

**MILWAUKEE PUBLIC SCHOOLS**

School Nutrition Services Fund

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

Year ended June 30, 2005

	<b>Budgeted amounts</b>		<b>Actual</b>
	<b>Adopted</b>	<b>Revised</b>	<b>(GAAP basis)</b>
Revenues:			
Lunchroom sales	\$ 4,789,413	4,789,413	4,747,456
State aid:			
School nutrition aid	678,115	678,115	645,038
Federal aid:			
School nutrition aid	24,385,344	24,385,344	24,531,108
Total revenues	<u>29,852,872</u>	<u>29,852,872</u>	<u>29,923,602</u>
Expenditures:			
Current operating:			
School nutrition services	<u>29,852,872</u>	<u>29,852,872</u>	<u>32,006,084</u>
Total expenditures	<u>29,852,872</u>	<u>29,852,872</u>	<u>32,006,084</u>
Net change in fund deficit	\$ <u>—</u>	<u>—</u>	(2,082,482)
Fund deficit—beginning of year			<u>(3,880,319)</u>
Fund deficit—end of year			\$ <u><u>(5,962,801)</u></u>

**MILWAUKEE PUBLIC SCHOOLS**

Debt Service Fund

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

Year ended June 30, 2005

	<b>Budgeted amounts</b>		<b>Actual</b>
	<b>Adopted</b>	<b>Revised</b>	<b>(GAAP basis)</b>
Revenues:			
Property taxes	\$ 6,469,806	6,469,806	6,469,806
Total revenues	<u>6,469,806</u>	<u>6,469,806</u>	<u>6,469,806</u>
Expenditures:			
Current operating:			
Debt service	6,469,806	6,469,806	6,469,806
Total expenditures	<u>6,469,806</u>	<u>6,469,806</u>	<u>6,469,806</u>
Excess of revenues over (under) expenditures	\$ <u>—</u>	<u>—</u>	<u>—</u>
Other financing sources:			
Refunding bonds issued			—
Payment to refunded bond			<u>—</u>
Total other financing sources			<u>—</u>
Net change in fund balance			—
Fund balance—beginning of year			<u>—</u>
Fund balance—end of year			\$ <u><u>—</u></u>

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## 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, 2005

	<b>Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan</b>	<b>Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers</b>	<b>Total</b>
<b>Assets</b>			
Investments	\$ 41,697,481	72,260,834	113,958,315
Receivables	108,137	36,550	144,687
Total assets	41,805,618	72,297,384	114,103,002
<b>Liabilities</b>			
Liabilities:			
Accounts payable and accrued expenses	344,973	896,341	1,241,314
Total liabilities	344,973	896,341	1,241,314
<b>Net Assets</b>			
Held in trust for supplemental pension benefits	\$ 41,460,645	71,401,043	112,861,688

**MILWAUKEE PUBLIC SCHOOLS**

Combining Statement of Changes in Net Assets—Pension Trust Funds

Year ended June 30, 2005

	<b>Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan</b>	<b>Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers</b>	<b>Total</b>
Additions:			
Employer contributions	\$ 2,862,581	13,597,310	16,459,891
Participants contributions	1,001	—	1,001
Investment income, net of expenses	3,283,567	6,027,999	9,311,566
Total additions	6,147,149	19,625,309	25,772,458
Deductions:			
Benefits paid to participants or beneficiaries	4,229,171	10,477,118	14,706,289
Distribution of participant contribution accounts	1,163,632	—	1,163,632
Administrative expenses	66,952	102,181	169,133
Total deductions	5,459,755	10,579,299	16,039,054
Changes in net assets	687,394	9,046,010	9,733,404
Net assets—Beginning of Year	40,773,251	62,355,033	103,128,284
Net assets—Ending of Year	\$ 41,460,645	71,401,043	112,861,688

**MILWAUKEE PUBLIC SCHOOLS**  
Agency Fund  
Schedule of Changes in Assets and Liabilities  
Year ended June 30, 2005

<b>Assets</b>	<b>Balance July 1, 2004</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2005</b>
Cash and cash equivalents	\$ 4,854,062	19,664,116	(19,495,499)	5,022,679
Total assets	\$ 4,854,062	19,664,116	(19,495,499)	5,022,679
<b>Liabilities</b>				
Liabilities:				
Due to student organizations	\$ 4,854,062	19,664,116	(19,495,499)	5,022,679
Total liabilities	\$ 4,854,062	19,664,116	(19,495,499)	5,022,679



**MILWAUKEE PUBLIC SCHOOLS**  
 Government-wide Expenses by Function  
 Last Four Fiscal Years  
 (amounts expressed in thousands)

<b>Fiscal year</b>	<b>Instruction</b>	<b>Community services</b>	<b>Pupil and staff services</b>	<b>General administrative and central services</b>	<b>Business services</b>	<b>School nutrition services</b>	<b>Interest on long-term debt</b>	<b>Insurance</b>	<b>Other</b>	<b>Total</b>
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

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 Four Fiscal Years

(amounts expressed in thousands)

<b>Fiscal year</b>	<b>Charges for services</b>	<b>Operating grants and contributions</b>	<b>Capital grants and contributions</b>	<b>Property taxes</b>	<b>Federal and state aid not restricted to a specific purpose</b>	<b>Interest and investment earnings</b>	<b>Miscellaneous</b>	<b>Total</b>
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

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 Four Fiscal Years

(amounts expressed in thousands)

<b>Fiscal year</b>	<b>Instruction</b>	<b>Community services</b>	<b>Pupil &amp; staff services</b>	<b>General and school building administration</b>	<b>Business services</b>	<b>School nutrition</b>	<b>Debt service</b>	<b>Other</b>	<b>Total</b>
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

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 Four 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

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

**MILWAUKEE PUBLIC SCHOOLS**

Comparative per Capita Cost Statistics

Last Ten Fiscal Years

	<b>Cost per pupil</b>
1995 – 1996 .....	\$ 7,556
1996 – 1997 .....	7,768
1997 – 1998 .....	8,022
1998 – 1999 .....	8,718
1999 – 2000 .....	9,036
2000 – 2001 .....	9,502
2001 – 2002 .....	10,228
2002 – 2003 .....	11,086
2003 – 2004 .....	11,358
2004 – 2005 .....	11,452

**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.

<b>Year</b>	<b>Assessed valuation</b>	<b>Assessed valuation increase (decrease) over prior years</b>	<b>Equalized valuation</b>
1975 .....	\$ 6,213,594	39,599	6,885,391
1976 .....	6,096,761	(116,834)	7,284,706
1977 .....	5,860,570	(236,191)	7,744,959
1978 .....	8,332,979	2,472,409	8,453,477
1979 .....	7,789,446	(543,533)	9,345,784
1980 .....	7,680,434	(109,012)	10,252,337
1981 .....	7,459,893	(220,540)	10,404,727
1982 .....	10,432,662	2,972,769	10,762,198
1983 .....	10,542,257	109,595	10,906,324
1984 .....	11,001,963	459,705	11,025,039
1985 .....	11,076,974	75,011	11,152,473
1986 .....	11,140,003	63,029	11,181,029
1987 .....	11,303,217	163,214	11,709,716
1988 .....	11,865,999	562,782	12,002,681
1989 .....	12,017,462	151,463	12,648,530
1990 .....	12,614,531	597,069	12,808,708
1991 .....	12,701,237	86,706	13,189,084
1992 .....	13,336,770	635,533	13,279,156
1993 .....	13,345,968	9,198	14,047,985
1994 .....	14,029,734	683,766	14,363,706
1995 .....	13,976,649	(53,085)	14,821,109
1996 .....	14,850,607	873,958	15,041,199
1997 .....	14,914,137	63,530	15,511,857
1998 .....	16,072,114	1,157,977	16,228,218
1999 .....	15,773,850	(298,264)	16,701,225
2000 .....	17,582,995	1,809,145	17,344,251
2001 .....	17,699,784	116,789	19,453,830
2002 .....	19,866,255	2,166,471	20,298,387
2003 .....	21,009,517	721,237	21,730,754
2004 .....	22,772,419	719,354	23,491,773

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

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

**MILWAUKEE PUBLIC SCHOOLS**  
Property Tax Rates and Levies—Direct and Overlapping Government  
Last Ten Years

Levy for year (C)	Milwaukee School Board (A)		City of Milwaukee (B)	Milwaukee Area District Board of Vocational, Technical, and Adult Education		County of Milwaukee		State of Wisconsin		Milwaukee Metropolitan Sewerage District		Total		
<b>TAX RATES PER \$1,000 OF ASSESSED VALUE AND PERCENT OF TOTAL</b>														
1995	\$15.46	42.2	10.47	28.5	2.04	5.6	5.41	14.7	0.21	0.6	3.07	8.4	36.66	100.0
1996	14.28	40.5	10.09	28.6	2.10	6.0	5.74	16.3	0.21	0.6	2.81	8.0	35.23	100.0
1997	9.97	33.9	9.81	33.3	2.01	6.8	5.72	19.4	0.20	0.7	1.72	5.9	29.43	100.0
1998	9.02	31.6	9.47	33.2	2.11	7.4	5.96	20.9	0.21	0.7	1.77	6.2	28.54	100.0
1999	9.44	33.4	9.20	32.5	2.01	7.1	5.72	20.2	0.20	0.7	1.72	6.1	28.29	100.0
2000	8.95	31.9	9.12	32.5	2.16	7.7	5.82	20.7	0.21	0.8	1.80	6.4	28.06	100.0
2001	8.81	31.5	9.86	35.2	2.00	7.1	5.46	19.5	0.20	0.7	1.68	6.0	28.01	100.0
2002	9.11	30.8	10.22	34.6	2.23	7.6	5.91	20.0	0.22	0.7	1.87	6.3	29.56	100.0
2003	8.55	31.4	9.51	34.9	2.05	7.5	5.20	19.1	0.20	0.7	1.74	6.4	27.25	100.0
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
<b>TAX LEVIES (IN THOUSANDS)</b>														
1995	\$238,537		144,049	28,081		74,326		2,873			42,191		530,057	
1996	221,958		138,750	28,967		78,897		2,964			38,654		510,190	
1997	181,336		143,061	29,388		83,308		3,008			25,110		465,211	
1998	167,446		139,417	31,020		87,779		3,102			26,039		454,803	
1999	181,736		145,555	31,847		90,387		3,246			27,152		479,923	
2000	169,562		141,279	33,455		90,017		3,340			27,876		465,529	
2001	180,874		169,678	34,437		93,946		3,469			28,876		511,280	
2002	186,228		176,579	38,499		102,173		3,891			32,287		539,657	
2003	193,636		184,682	39,808		100,841		4,060			33,722		556,749	
2004	193,756		188,680	41,793		101,070		4,346			33,596		563,241	

- (A) Includes allocation of debt service requirement on debt incurred for schools, initially included in the tax levy by the city of Milwaukee (\$0.51 in 2004).
- (B) Excludes allocation of debt service requirement on debt incurred for schools, initially included in the tax levy of the city of Milwaukee (\$0.51 in 2003).
- (C) Tax rates were constructed considering the provision of the tax incremental district law. The application of these rates to the applicable assessed values will provide a tax yield higher than the levy requirements.

Source: City of Milwaukee, Assessor's Office.

## MILWAUKEE PUBLIC SCHOOLS

### Tax Rates for School Purposes

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

<u>Year</u>	\$	<u>School Operations</u>	<u>Construction</u>	<u>Extension</u>	<u>Total</u>
1995		14.53	0.57	0.36	15.46
1996		13.44	0.51	0.33	14.28
1997		9.23	0.44	0.30	9.97
1998		8.32	0.40	0.30	9.02
1999		8.61	0.48	0.35	9.44
2000		8.14	0.49	0.32	8.95
2001		8.00	0.52	0.29	8.81
2002		8.19	0.52	0.40	9.11
2003		7.64	0.54	0.37	8.55
2004		7.72	0.51	0.33	8.55

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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>
1995		202,936,592	7,700,000	4,996,113	215,632,705
1996		161,804,737	7,700,000	5,333,642	174,838,379
1997		146,410,265	7,700,000	5,452,011	159,562,276
1998		160,074,588	7,700,000	5,718,371	173,492,959
1999		146,513,018	8,123,121	5,924,868	160,561,007
2000		154,374,123	9,273,404	6,073,405	169,720,932
2001		158,610,459	10,328,700	5,795,434	174,734,593
2002		162,696,867	10,346,829	8,002,455	181,046,151
2003		163,554,998	11,640,984	8,002,455	183,198,437
2004		187,173,910	12,266,054	8,002,455	207,442,419

**MILWAUKEE PUBLIC SCHOOLS**  
 Computation of Direct and Overlapping Debt—  
 City of Milwaukee  
 December 31, 2004  
 (in thousands)

<u>Name of governmental unit</u>	<u>Net debt outstanding</u>	<u>Percentage applicable to City of Milwaukee</u>	<u>City of Milwaukee's share of debt</u>
Direct debt:			
City of Milwaukee (A)	\$ 629,124	100.00 %	629,124
Overlapping debt:			
Milwaukee Area Technical College District Board	72,346	37.24	26,942
County of Milwaukee	469,734	45.77	214,997
Milwaukee Metropolitan Sewerage Area (B)	692,619	46.87	324,631
Total overlapping debt			<u>566,570</u>
Total district and overlapping debt			<u><u>1,195,694</u></u>

(A) Excludes \$78,710 of Industrial Revenue Bonds. Includes debt incurred to finance Milwaukee School Board construction.

(B) Includes \$390,424 low interest loans from the State of Wisconsin Clean Water Fund, supported by the full faith and credit of the Milwaukee Metropolitan Sewerage District.

## MILWAUKEE PUBLIC SCHOOLS

### School Accommodations

#### Last Thirty-six Years

	<b>Instructional staff (a)</b>	<b>Number of school buildings (b)</b>	<b>Average school year daily membership</b>	
1969 – 1970	5,316	156	123,699	(c)
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	168	96,874	

(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

<b>Classifications</b>	<b>1995 – 1996</b>	<b>1996 – 1997</b>	<b>1997 – 1998</b>	<b>1998 – 1999</b>	<b>1999 – 2000</b>	<b>2000 – 2001</b>	<b>2001 – 2002</b>	<b>2002 – 2003</b>	<b>2003 – 2004</b>	<b>2004 – 2005</b>
Senior high and middle schools:										
Principals	37	37	37	37	37	37	38	36	38	29
Assistant principals	117	118	120	119	111	116	113	111	108	100
Teachers	2,473	2,434	2,456	2,491	2,425	2,320	2,291	2,352	2,409	1,936
Total	2,627	2,589	2,613	2,647	2,573	2,473	2,442	2,499	2,555	2,065
Elementary schools:										
Principals	112	113	113	115	107	120	117	108	107	108
Assistant principals	73	77	81	85	79	86	84	70	71	68
Teachers	3,202	3,310	3,381	3,544	3,599	3,705	3,762	3,736	3,750	3,652
Total	3,387	3,500	3,575	3,744	3,785	3,911	3,963	3,914	3,928	3,828
Special schools and classes:										
Principals	5	3	3	3	1	1	1	1	2	2
Assistant principals	4	2	2	2	2	2	2	2	3	5
Teachers	659	691	812	791	753	741	746	721	778	612
Total	668	696	817	796	756	744	749	724	783	619
Summary:										
Principals	154	153	153	155	145	158	156	145	147	139
Assistant principals	194	197	203	206	192	204	199	183	182	173
Teachers	6,334	6,435	6,649	6,826	6,777	6,766	6,799	6,809	6,937	6,200
Total	6,682	6,785	7,005	7,187	7,114	7,128	7,154	7,137	7,266	6,512
Superintendent, deputy and assistant superintendent, department directors and assistants, guidance and psychological counselors, librarians, and supervisors	790	711	747	763	766	708	735	674	665	426
Grand total	7,472	7,496	7,752	7,950	7,880	7,836	7,889	7,811	7,931	6,938

**MILWAUKEE PUBLIC SCHOOLS**

Comparative Statement of Annual School Census

Children Between 4 and 19 Years of Age  
Residing in the City of Milwaukee

Fiscal year	Total number of children	Increase or (decrease) over prior year	Males	Increase or (decrease) over prior year	Females	Increase or (decrease) over prior year	Attending public schools	Attending private schools	Total attending schools	Percent attending schools
1969	199,899	(1,226)	102,043	(801)	97,856	(425)	130,622	42,711	173,333	86.7%
1970	197,815	(2,084)	100,734	(1,309)	97,081	(775)	130,617	39,851	170,468	86.2%
1971	193,827	(3,988)	98,569	(2,165)	95,258	(1,823)	130,147	36,978	167,125	86.2%
1972	188,169	(5,658)	95,729	(2,840)	92,440	(2,818)	128,757	33,567	162,324	86.3%
1973	179,821	(8,348)	91,643	(4,086)	88,178	(4,262)	124,370	30,840	155,210	86.3%
1974	172,258	(7,563)	87,713	(3,930)	84,545	(3,633)	118,890	27,974	146,864	85.3%
1975	167,370	(4,888)	85,316	(2,397)	82,054	(2,491)	115,758	27,437	143,195	85.6%
1976	161,099	(6,271)	81,963	(3,353)	79,136	(2,918)	113,336	26,475	139,811	86.8%
1977	152,435	(8,664)	77,734	(4,229)	74,701	(4,435)	104,619	25,078	129,697	85.1%
1978	148,378	(4,057)	75,519	(2,215)	72,859	(1,842)	100,859	26,275	127,134	85.7%
1979	133,507	(14,871)	68,491	(7,028)	65,016	(7,843)	93,296	26,011	119,307	89.4%
1980	133,639	132	68,245	(246)	65,394	378	91,069	25,436	116,505	87.2%
1981	130,215	(3,424)	66,550	(1,695)	63,665	(1,729)	82,520	31,238	113,758	87.4%
1982	131,748	1,533	67,085	535	64,663	998	80,683	29,623	110,306	83.7%
1983	134,734	2,986	68,642	1,557	66,092	1,429	83,148	31,149	114,297	84.8%
1984	140,729	5,995	71,689	3,047	69,040	2,948	87,243	31,601	118,844	84.4%
1985	147,347	6,618	75,066	3,377	72,281	3,241	93,406	31,464	124,870	84.7%
1986	148,768	1,421	75,391	325	73,377	1,096	96,520	30,961	127,481	85.7%
1987	145,593	(3,175)	73,844	(1,547)	71,749	(1,628)	94,744	30,997	125,741	86.4%
1988	148,416	2,823	75,196	1,352	73,220	1,471	98,438	31,140	129,578	87.3%
1989	150,714	2,298	76,520	1,324	74,194	974	99,988	29,988	129,976	86.2%
1990	150,723	9	76,382	(138)	74,341	147	99,079	29,346	128,425	85.2%
1991	* 128,540	(22,183)	65,230	(11,152)	63,310	(11,031)	86,407	27,012	113,419	88.2%
1992	144,452	15,912	73,180	7,950	71,272	7,962	100,017	28,346	128,363	88.9%
1993	145,499	1,047	73,772	592	71,727	455	100,728	27,956	128,684	88.4%
1994	149,545	4,046	75,893	2,121	73,652	1,925	103,452	28,196	131,648	88.0%
1995	151,541	1,996	76,471	578	75,070	1,418	106,886	27,816	134,702	88.8%
1996	151,710	169	76,778	307	74,932	(138)	106,910	27,931	134,841	88.9%
1997	151,027	(683)	76,429	(349)	74,598	(334)	107,121	27,455	134,576	89.1%
1998	153,227	2,200	77,533	1,104	75,694	1,096	108,786	27,723	136,509	89.1%
1999	154,328	1,101	78,141	608	76,187	493	111,712	27,207	138,919	90.0%
2000	154,977	649	78,599	458	76,378	191	110,397	28,342	138,739	89.5%
2001	150,256	(4,721)	76,048	(2,551)	74,208	(2,170)	107,905	26,479	134,384	89.4%
2002	149,992	(264)	76,142	94	73,850	(358)	109,852	25,066	134,918	90.0%
2003	162,011	12,019	82,187	6,045	79,824	5,974	122,631	23,760	146,391	90.4%
2004	164,641	2,630	83,399	1,212	81,242	1,418	128,862	21,829	150,691	91.5%
2005	180,706	18,695	91,885	9,698	88,821	8,997	131,394	23,046	154,440	85.5%

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

**MILWAUKEE PUBLIC SCHOOLS**

Annual Enumeration of Children Residing  
in the City of Milwaukee

As of June 30, 2005

<u>Ages</u>	<u>Males</u>	<u>Females</u>	<u>Total</u>	<u>Attended public school</u>	<u>Attended parochial or private school</u>	<u>Did not attend school</u>
0	520	461	981	0	0	981
1	1,435	1,325	2,760	0	0	2,760
2	2,006	1,871	3,877	0	0	3,877
3	2,731	2,568	5,299	730	167	4,402
Total 0 – 3	6,692	6,225	12,917	730	167	12,020
4	4,064	3,913	6,644	2,641	411	4,925
5	5,162	4,998	11,690	5,885	828	3,447
6	5,459	5,242	9,306	7,745	1,049	1,907
7	5,352	5,204	10,366	8,399	1,240	917
8	5,131	4,990	10,449	8,274	1,335	512
9	5,223	5,038	10,390	8,472	1,501	288
10	5,367	5,134	10,265	8,682	1,667	152
11	5,345	5,217	10,440	8,848	1,636	78
12	5,390	5,400	10,767	9,110	1,632	48
13	5,485	5,265	10,610	9,064	1,652	34
14	5,485	5,314	10,704	9,213	1,548	38
15	5,497	5,337	10,822	9,378	1,408	48
16	5,249	5,000	10,485	8,962	1,234	53
17	5,051	4,763	10,260	8,547	1,189	78
18	4,989	4,783	10,032	8,081	1,431	260
19	6,944	6,998	12,049	9,363	3,118	1,461
Total 4 – 19	85,193	82,596	165,279	130,664	22,879	14,246
Grand total	91,885	88,821	178,196	131,394	23,046	26,266

**MILWAUKEE PUBLIC SCHOOLS**

Population and Pupils  
Residing in the City of Milwaukee

Last Ten Fiscal Years

	<u>1995- 1996</u>	<u>1996- 1997</u>	<u>1997- 1998</u>	<u>1998- 1999</u>	<u>1999- 2000</u>	<u>2000- 2001</u>	<u>2001- 2002</u>	<u>2002- 2003</u>	<u>2003- 2004</u>	<u>2004- 2005</u>
Total number of school age children according to city-wide child census	151,710	151,027	153,227	154,328	154,977	150,256	149,992	162,011	164,641	180,706
Enrollment for state aid:*										
Third Friday	101,060	103,507	106,337	104,249	103,660	101,744	101,618	101,715	102,033	100,403
Summer school	240	255	196	1,516	1,819	1,585	1,113	964	333	247
Total	<u>101,300</u>	<u>103,762</u>	<u>106,533</u>	<u>105,765</u>	<u>105,479</u>	<u>103,329</u>	<u>102,731</u>	<u>102,679</u>	<u>102,366</u>	<u>100,650</u>
Average number enrolled:										
Senior high	25,514	25,618	25,851	25,433	26,009	25,157	25,389	26,766	28,003	27,642
Junior high/middle	14,273	21,863	21,992	21,860	22,039	22,841	23,974	23,670	23,432	21,554
Elementary	65,182	58,320	58,866	58,375	57,567	55,571	53,940	52,683	51,699	49,354
Total	<u>104,969</u>	<u>105,801</u>	<u>106,709</u>	<u>105,668</u>	<u>105,615</u>	<u>103,569</u>	<u>103,303</u>	<u>103,119</u>	<u>103,134</u>	<u>98,550</u>
Average number attending:										
Senior high	19,084	19,188	19,758	19,382	20,463	19,396	19,727	20,936	22,251	22,127
Junior high/middle	12,275	18,758	18,746	18,603	19,168	19,848	20,927	20,843	20,968	19,225
Elementary	60,228	53,888	54,510	53,848	53,880	51,846	50,240	48,858	48,078	45,745
Total	<u>91,587</u>	<u>91,834</u>	<u>93,014</u>	<u>91,833</u>	<u>93,511</u>	<u>91,090</u>	<u>90,894</u>	<u>90,637</u>	<u>91,297</u>	<u>87,097</u>

\* Non-resident and choice students not included.

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

Calendar year	Commercial construction		Residential construction		Bank deposits (A)	Real property value Equalized		
	Number of permits	Value	Number of units	Value		Commercial	Residential	Nontaxable
1995	71	\$ 39,983	390	\$ 20,776	\$ 13,013,020	\$ 5,268,072	\$ 7,911,127	\$ 3,448,884
1996	77	37,780	183	12,122	16,205,221	5,388,417	8,246,386	3,497,462
1997	86	161,479	345	27,512	17,921,013	5,409,709	8,501,628	3,525,520
1998	79	68,042	589	45,257	20,832,537	5,475,827	8,859,451	3,566,982
1999	95	128,344	203	20,442	15,975,126	6,221,962	9,683,606	3,456,294
2000	88	99,968	352	35,184	17,926,606	6,241,899	10,187,868	3,384,708
2001	99	106,537	542	99,106	23,185,907	7,011,654	11,364,344	3,422,534
2002	89	87,778	697	72,252	20,513,650	7,221,024	12,179,233	3,368,493
2003	96	61,825	825	111,861	22,674,292	7,614,584	13,236,433	3,400,762
2004	89	63,485	747	78,243	22,131,059	8,159,591	14,496,333	3,881,313

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

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

**MILWAUKEE PUBLIC SCHOOLS**

Principal Taxpayers—  
City of Milwaukee

December 31, 2004

(in thousands)

<b>Taxpayer</b>	<b>Type of business</b>	<b>2004 assessed valuation</b>	<b>Percentage of Total assessed valuation</b>
US Bank	Banking	\$ 221,109	0.97 %
Northwestern Mutual Life Insurance Company	Insurance	166,456	0.73
Teachers Insurance & Annuity/ TIAA Realty	Real estate	104,989	0.46
Towne Realty	Real estate	85,266	0.37
M&I Marshall & Ilsley Bank/ Metavante Corp.	Banking	79,325	0.35
Metropolitan Associates	Real estate	76,536	0.34
Marcus Corp./Mil. City Center/ Pfister	Hotels/Motels/Restaurants	71,424	0.31
Miller Brewing	Brewery	71,372	0.31
100 E. Wisconsin Joint Venture	Real estate	56,968	0.25
Great Lakes REIT LP	Real estate	56,455	0.25
	Total	\$ <u>989,900</u>	<u>4.34 %</u>

Source: City of Milwaukee, Assessor's Office