

PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 17, 2003

**NEW ISSUE
BOOK ENTRY ONLY**

RATINGS: Fitch Moody's Standard & Poor's
The Notes: Applied For MIG 1 SP-1+
(See "RATINGS" herein)

In the opinion of Bond Counsel, under existing statutes and court decisions and assuming compliance with certain tax covenants described herein, interest on the Notes is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and interest on the Notes is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. (See "TAX STATUS" herein for a description of certain other provisions of law which may affect the federal tax treatment of interest on the Notes.) Interest on the Notes is not exempt from State of Wisconsin income or franchise tax.

**\$150,000,000
CITY OF MILWAUKEE, WISCONSIN
SHORT-TERM SCHOOL ORDER NOTES, SERIES OF 2003 M5
(REVENUE ANTICIPATION NOTES)
(Not a general obligation of the City)**

Dated: September 30, 2003

Due: June 30, 2004

The Short-Term School Order Notes, Series of 2003 M5 (the "Notes") are issued in fully registered form in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Individual purchases will be made in the principal amounts of \$25,000 or any integral multiple thereof and will be in book-entry-form only. Purchasers will not receive certificates representing their beneficial ownership in the Notes. Interest shall be payable at maturity. The Notes are not a general obligation of the City, do not constitute an indebtedness for the purpose of determining the City's constitutional debt limitation, and no tax shall be levied to pay the Notes or the interest thereon. The Notes are not subject to prior redemption.

<u>Amount</u>	<u>Rate</u>	<u>Yield</u>
\$150,000,000	%	%

The Notes are issued for the purpose of financing the Milwaukee Public School's general operating purposes pending receipt of State school aid payments. School Operations Fund revenues have been pledged as security for the repayment on the Notes. In addition, the City has pledged surplus revenues in its Debt Service Fund to the payment of accrued interest on the Notes at maturity. (See "THE NOTES - SECURITY" herein.)

The Notes have been offered for sale by competitive bid in accordance with the Official Notice of Sale dated September 17, 2003 and are being issued subject to the legal opinion of Hawkins, Delafield & Wood, New York, New York, and Quarles & Brady LLP, Milwaukee, Wisconsin, Bond Counsel, and other conditions specified in the Official Notice of Sale. Delivery of the Notes will be on or about October 16, 2003 in New York, New York.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THIS ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

For Further Information Contact:
W. Martin Morics, City Comptroller and Secretary to Public Debt Commission
Room 1017-Zeidler Municipal Building, 841 North Broadway - Milwaukee, WI 53202 - Phone (414) 286-2301

**SEALED BIDS AND ELECTRONIC BIDS FOR THE NOTES WILL BE RECEIVED
UP TO 10:00 A.M. (C.D.S.T.) ON THURSDAY, SEPTEMBER 25, 2003**

This is a Preliminary Official Statement, subject to correction and change. The City has authorized the distribution of the Preliminary Official Statement to prospective purchasers and others. Upon the sale of the Notes, the City will complete, adopt and deliver a Final Official Statement substantially in this form.

No dealer, broker, salesperson or other person has been authorized by the City of Milwaukee or Milwaukee Public Schools to give any information or to make any representation other than as contained in this Official Statement in connection with the sale of these securities and, if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities by a person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City of Milwaukee or Milwaukee Public Schools since the date hereof. The Notes have not been registered pursuant to the Securities Act of 1933, in reliance upon exemptions contained in such Act.

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INTRODUCTION TO THE OFFICIAL STATEMENT

The purpose of this Official Statement, including the cover page and appendices, is to set forth certain information concerning the City of Milwaukee (“City”), Milwaukee Public Schools (“MPS”) and the offering of \$150,000,000 Short-Term School Order Notes, Series of 2003 M5 of the City dated the September 30, 2003 (the “Notes”).

The following information is furnished solely to provide limited introductory information regarding the Notes and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the more detailed descriptions appearing in this Official Statement, including Appendices hereto.

SUMMARY STATEMENT

Issuer:	City of Milwaukee, Wisconsin.
Issue:	\$150,000,000 Short-Term School Order Notes, Series of 2003 M5.
Dated Date:	September 30, 2003.
Sale Date and Time:	September 25, 2003 – 10:00 A.M. C.D.S.T.
Maturity:	June 30, 2004.
Principal Amount:	\$150,000,000.
Interest:	Calculated at 270 days on a 360-day basis.
Denominations:	\$25,000 or integral multiples thereof.
Purpose:	To finance MPS operations on an interim basis pending receipt of State school aid payments.
Security:	<p>The City has irrevocably pledged all available revenues of the School Operations Fund as security for repayment of the Notes and surplus revenues in its Debt Service Fund to the payment of accrued interest on the Notes at maturity. (See “THE NOTES – SECURITY AND PURPOSE” herein.)</p> <p>The Notes are not a general obligation, do not constitute an indebtedness of the City for the purpose of determining the City’s constitutional debt limitation, and no tax shall be levied to pay the Notes or interest thereon.</p>
Authority for Issuance:	The City of Milwaukee Common Council and the Milwaukee Board of School Directors (“MBSD”) have authorized the issuance and sale of the Notes in accordance with the provisions of the City Charter and Section 67.12(1), Wisconsin Statutes.

Form of Issuance: The Notes will be issued in fully registered “Book-Entry-Form” in the name of Cede & Co., as nominee of The Depository Trust Company of New York, New York which will act as security depository for the Notes. (See “BOOK-ENTRY-ONLY SYSTEM” herein.)

Tax Exemption: Under existing statutes and court decisions and assuming compliance with certain tax covenants described herein, interest on the Notes is excluded from gross income for federal income tax purposes under existing statutes and court decisions pursuant to Section 103 of the Internal Revenue Code of 1986, as amended, and is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. (See “TAX STATUS” herein.)

Redemption Feature: The Notes are not subject to redemption prior to maturity.

Official Statement: The City will provide the original purchaser(s) of the Notes with up to 100 copies (pro rata) of this Official Statement within seven business days following the award of the Notes.

Professionals:

Bond Counsel:	Hawkins, Delafield & Wood New York, New York
	Quarles & Brady LLP Milwaukee, Wisconsin
Financial Advisor:	Robert W. Baird & Co. Milwaukee, Wisconsin

Delivery: Delivery will be on or about October 16, 2003 at the expense of the City, through the facilities of The Depository Trust Company (“DTC”), New York, New York.

Reoffering: The public reoffering prices or yields of the Notes are detailed on the cover of the Final Official Statement.

Continuing Disclosure Certificate: In order to assist bidders in complying with the continuing disclosure requirements of SEC Rule 15c2-12 and as part of the City’s contractual obligation arising from its acceptance of the successful bidder’s proposal, at the time of the delivery of the Notes the City will provide an executed copy of its Continuing Disclosure Certificate. (See “RULE 15c2-12” herein.)

THE NOTES

AUTHORITY

Pursuant to Sections 65.05 and 119.46 of the Wisconsin Statutes, MBSD has full responsibility for its budget expenditures, and the required tax levy. These requirements are included with the City's financial requirements and thereupon MBSD is effectively treated as a department of the City.

Pursuant to a resolution adopted on June 26, 2003, MBSD has determined that it will be necessary to finance the operating budget of Milwaukee Public Schools ("MPS") on an interim basis, and has requested the City to issue notes pursuant to Section 67.12(1) Wisconsin Statutes for that purpose.

The Common Council of the City has authorized the issuance and sale of the Notes through adoption of a resolution on June 24, 2003 in accordance with the provisions of the City Charter and Section 67.12(1) of the Wisconsin Statutes, which reads as follows:

"67.12 Temporary borrowing and borrowing on promissory notes.

(1) BORROWING IN ANTICIPATION OF REVENUES. (a) Except for school districts and vocational, technical and adult education districts, any municipality that becomes entitled to receive federal or state aids, taxes levied or other deferred payments may, in the same fiscal year it is entitled to receive the payments, issue municipal obligations in anticipation of receiving the payments. The municipal obligations issued under this paragraph shall not exceed 60% of the municipality's total actual and anticipated receipts in that fiscal year and shall be repaid no later than 18 months after the first day of that fiscal year.

(b) Any municipality may issue municipal obligations in anticipation of receiving proceeds from bonds or notes the municipality has authorized or covenanted to issue under this Chapter or from grants that are committed to the municipality. Any municipal obligation issued under this paragraph may be refunded one or more times. Such obligation and any refundings thereof shall be repaid within 5 years after the date of the original obligation.

(c) Any municipality that issues a municipal obligation under this subsection shall adopt a resolution indicating the amount and purpose of the obligation and the anticipated revenue to secure the obligation and may pledge or assign all or portions of the revenue due and not yet paid as security for repayment of the obligations. Municipal obligations issued under this subsection shall be executed as provided in s. 67.08(1), may be registered under s. 67.09, and do not constitute an indebtedness for the purpose of determining the municipality's constitutional debt limitation."

SECURITY AND PURPOSE

The Notes are being issued to fund MPS operations pending receipt of State school aid payments. A cash flow deficit of approximately \$164 million is anticipated to occur in November, 2003 due to the receipt of the majority of State aids and property tax revenues during December, 2003 through June, 2004, the last seven months of the MPS fiscal year. In contrast, MPS expenditures are relatively evenly distributed throughout the school year (See "School Operations Fund Trends" herein). This Note issue of \$150 million is the only anticipated interim borrowing for MPS during the 2003-2004 fiscal year. (See "MILWAUKEE PUBLIC SCHOOLS - Borrowing – Future Financing" herein.)

Pursuant to Chapter 121.115 Wisconsin Statutes, MBSD is anticipating receipt of State School Aid revenue payments from the State of Wisconsin to the School Operations Fund in September and December, 2003 and in March and June, 2004. Such payments shall, per Section 119.50 of the Wisconsin Statutes, be received by the City Treasurer.

Pursuant to its resolution of MBSD adopted on June 26, 2003, MBSD has authorized the City to issue the Notes, and to pledge all revenues of the School Operations Fund due MBSD and not yet paid as of the date of delivery of the Notes and which are not otherwise applied through June 30, 2004, as security for repayment of the Notes.

By resolution of June 24, 2003, the Common Council of the City has pledged all revenues of the School Operations Fund for the repayment of the Notes and has established a segregated account within that Fund to capture State school aid payments received under Section 121.15, Wisconsin Statutes, in June, 2004 in the principal amount of the Notes. The City Treasurer was directed by such June 24, 2003 resolution to segregate, for payment of the Notes, June, 2004 school aid payments, in the principal amount of the Notes. The City Treasurer has no discretion to otherwise apply such revenues.

The City has pledged surplus revenues in its Debt Service Fund to the payment of accrued interest on the Notes at maturity for the purpose of paying interest on the Notes. As of September 15, 2003 unrestricted funds available to be pledged in the City's Debt Service Fund were approximately \$14,925,310.53.

MATURITY, INTEREST RATE(S) AND REDEMPTION

The Notes are dated September 30, 2003 and will mature on June 30, 2004 without option of prior redemption. Interest is payable at maturity at a rate or rates to be determined on September 25, 2003 and is calculated as 270 days on a 360 day basis.

STATUTORY BORROWING LIMITATIONS⁽¹⁾

Section 67.12(1)(a) of the Wisconsin Statutes limits issuance for the purpose of the RANs to sixty percent (60%) of the Estimated School Operation Fund Revenues for 2003-2004 Fiscal Year.

Total Amount of Estimated General Fund Revenues For the 2002-2003 Fiscal Year	\$ 1,063,642,147
Statutory Borrowing Limit (60% of Estimated Revenues)	\$ 638,185,288
Borrowing-Short-Term School Order Notes, Series of 2003 M5, dated September 30, 2003 ⁽¹⁾	<u>\$ 150,000,000</u>
Unused Amount Following this Issue	<u>\$ 488,185,288</u>
Percentage of Borrowing Limit Used	23.5%
Percentage of Borrowing to Estimated Revenues	14.1%

(1) The City has issued similar revenue anticipation notes for the City's General Fund interim financing pending receipt of State Shared Revenues. These notes, totaling \$98,000,000, mature December 15, 2003 and constitute use of approximately 33.4 percent of the City's General Fund borrowing limitation.

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MILWAUKEE PUBLIC SCHOOLS

GENERAL

MPS was established on February 3, 1846, and operates under Chapter 119 of the Wisconsin Statutes. MPS is governed by MBSD. The MBSD has budget adoption authority (the City must then levy and collect a tax to support the MBSD budget) and provides elementary, secondary, vocational and special education services for grades K through 12 to residents of the City, whose boundaries are coterminous with those of the MPS. MPS is effectively treated by State Statutes as a City department authorized by law to fix its own tax levy. All funds for MPS flow through the City Treasurer who, by Statute, disburses them at the direction of the Director/Board Clerk of the MBSD. The City Comptroller, City Treasurer and City Attorney perform their respective functions for MPS as well as the City.

BORROWING - GENERAL OBLIGATION DEBT

MPS does not have authority to issue debt. The City has the authority (under either Chapter 67 or 119, Wisconsin Statutes) to issue municipal obligations for specific school purposes including the acquisition of sites and constructing, enlarging and remodeling of school buildings for the purpose of providing additional classroom space to accommodate anticipated school enrollments. Such municipal obligations require the adoption of a resolution by the City and the levying by the City of required debt service. (See "MILWAUKEE PUBLIC SCHOOLS - Borrowing - Future Financing" herein.) As shown below, as of September 15, 2003, the City had outstanding general obligation debt for school purposes of \$102,364,068.

**CITY OF MILWAUKEE
OUTSTANDING GENERAL OBLIGATION DEBT
FOR SCHOOL PURPOSES
AS OF SEPTEMBER 15, 2003**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2003	\$3,505,123	\$663,464
2004	10,795,642	4,674,116
2005	10,354,662	4,226,790
2006	9,952,755	3,761,131
2007	9,704,343	3,299,760
2008	9,324,285	2,862,851
2009	8,143,123	2,433,211
2010	7,743,865	2,034,295
2011	7,354,074	1,639,723
2012	6,487,514	1,282,989
2013	5,887,692	940,895
2014	5,067,847	641,073
2015	3,942,831	398,690
2016	2,720,987	192,986
2017	1,022,833	53,150
2018	310,093	10,072
2019	46,399	1,160
	<u>\$102,364,068</u>	<u>\$29,116,356</u>

Wisconsin Statutes establish a limit on the authority of the City to incur general obligation indebtedness in any form for City and school purposes of 7% of the full value of taxable property located within the City, as equalized by the Wisconsin Department of Revenue. Of the 7%, 2% is authorized for school purposes only. The City may issue bonded debt for school purposes pursuant to the provisions of Chapter 119 or Chapter 67. Bonded indebtedness issued by the City under Chapter 119 for school purposes is further limited to 2% of the full value of taxable property in the City as equalized by the State Department of Revenue. Municipal obligations issued by the City under Chapter 67 for school purposes count against the City's debt limit of 5% of the full value of taxable property within the City. Debt issued under Chapter 67 requires adoption of a resolution by the City but does not require voter approval. The history of the full valuation of property for the City for the years 1998 to 2003 and the total unused debt margin as of September 15, 2003 are set forth in the following tables.

**HISTORY OF FULL VALUATION IN
THE CITY OF MILWAUKEE
(1998-2003)**

Levy Year	Collection Year	Full Valuation	Percent Increase/Decrease
1998	1999	\$16,228,218,000	+4.62
1999	2000	16,701,225,300	+2.91
2000	2001	17,344,251,400	+3.85
2001	2002	19,453,830,200	+12.16
2002	2003	20,298,387,000	+4.34
2003	2004	21,730,754,000	+7.06

**TOTAL UNUSED DEBT MARGIN FOR
THE CITY OF MILWAUKEE UNDER CHAPTER 119
AS OF SEPTEMBER 15, 2003**

2003 Equalized Value of Taxable Property in the City	<u>\$ 21,730,754,000</u>
Legal Debt Limitation	
5% of Equalized Value for City Borrowing	\$ 1,086,537,700
2% of Equalized Value for School Borrowing	<u>\$ 434,615,080</u>
	\$ 1,521,152,780
General Obligation Debt Outstanding as of September 15, 2003 (Includes the new G.O. Bonds & G.O. Notes being issued concurrently with this issue of RANs) ⁽¹⁾	
	\$ 713,439,386
Less: Provision for 2003 Maturities	<u>(\$60,124,953)</u>
Net General Obligation Debt Outstanding as of	<u>\$ 653,314,433</u>
Total Debt Margin (In Dollars)	<u>\$ 867,838,347</u>
(As a Percentage)	57.1%

(1) Includes \$102,364,068 of municipal obligations issued by the City for school purposes which applies against the City's debt limit of 5% of the value of equalized taxable property as specified by Section 67.03(1) of the Wisconsin Statutes.

DEVELOPMENT REVENUE BONDS

In February 2002, the Authority issued \$33,170,000 Revenue Bonds, Series 2002A (the “Series 2002A Bonds”) on behalf of the MBSD – Neighborhood Schools Initiative. The Authority loaned the proceeds of the Series 2002A Bonds to MBSD to partially finance the initial cost of providing approximately 750,000 square-feet of additional classroom capacity for MBSD schools, to implement the Neighborhood Schools Initiative and for related activities of MBSD. Under the Agreement, MBSD will repay the principal of and interest on the bonds. MBSD’s repayment obligation under the Agreement is payable solely from and secured by a pledge of all intradistrict aid received by MBSD from the State of Wisconsin (the “State”). Additional borrowings are expected to follow in line with the State’s authorization of more than \$98,000,000 for this project.

The schedule of remaining debt service payments on the Series 2002A Bonds is as follows:

**CITY OF MILWAUKEE
REDEVELOPMENT AUTHORITY REVENUE BONDS
ANNUAL DEBT SERVICE PAYMENTS
AS OF SEPTEMBER 15, 2003**

<u>Year</u>	<u>Debt Service Payments</u>	<u>Year</u>	<u>Debt Service Payments</u>	<u>Year</u>	<u>Debt Service Payments</u>
2003	\$1,510,170	2009	\$2,901,450	2016	\$3,404,160
2004	1,510,170	2010	2,929,510	2017	3,492,213
2005	1,510,170	2011	3,002,710	2018	3,578,013
2006	1,510,170	2012	3,083,830	2019	3,664,931
2007	2,300,170	2013	3,161,970	2020	3,760,638
2008	2,592,520	2014	3,240,623	2021	3,854,156
		2015	3,319,948		

On November 8, 1990, \$47,730,866 Authority revenue bonds (the “1990 Bonds”) were issued on behalf of the Wisconsin Preservation Fund, Inc. to acquire and renovate several facilities for lease and occupancy by MPS which is utilizing the facilities as middle schools, K-8 elementary schools and various common facilities related to public education. The Authority subsequently issued \$39,415,000 Development Revenue Refunding Bonds, dated April 15, 1993 (the “1993 Bonds”) to advance refund certain 1990 Bonds.

In May 2003, the City of Milwaukee Redevelopment Authority (the “Authority”) issued \$34,475,000 Development Revenue Refunding Bonds, Series 2003 (the “Series 2003 Bonds”) on behalf of the Milwaukee Board of School Directors (MBSD) – (2430 West Wisconsin Avenue Project and 1600 North Dr. Martin Luther King, Jr. Project)

In order to refund the outstanding bonds, the Series 2003 Bonds do not constitute general obligations of MPS or the City and shall not constitute or give rise to a charge against MPS’s or the City’s taxing powers. MPS does, however, have an obligation to pay rents under a lease to support the debt service on these revenue bonds. Under the lease, the annual rent payments constitute a budgeted expenditure of MPS payable only if funds are budgeted and appropriated annually by the MBSD from its School Operations Fund. MPS’s obligations under the lease may be terminated on an annual basis by MBSD if MBSD fails to budget and appropriate for lease payments.

The schedule of lease payments after taking into account the 2003 refinancing is as follows:

**CITY OF MILWAUKEE
REDEVELOPMENT AUTHORITY DEVELOPMENT REVENUE BONDS
ANNUAL LEASE PAYMENTS
AS OF SEPTEMBER 15, 2003**

Year	Lease Payments	Year	Lease Payments
2003	\$2,522,339	2009	\$3,867,368
2004	2,402,023	2010	3,859,038
2005	3,873,248	2011	3,853,819
2006	3,863,473	2012	3,848,400
2007	3,882,523	2013	3,844,688
2008	3,868,773	2014	3,842,950

BORROWING - FUTURE FINANCING

The 2003 adopted City Budget contains \$14,580,000 of borrowing authority for MPS deferred maintenance; expansion of facilities; fiscal reporting systems; and Americans with Disabilities Act related improvements. Of this amount, \$2,580,000 represents prior year authorizations yet to be sold and \$12,000,000 represents new 2003 authorizations. The amount of \$4,000,000 of this authority was marketed in March, 2003.

The City of Milwaukee Redevelopment Authority (the "Authority") is currently in the process of planning for the sale of approximately \$60 million of bonds on behalf of MPS for the Neighborhood Schools Initiative. See "DEVELOPMENT REVENUE BONDS" herein.

MPS, the City, and the Authority are planning for the issuance of approximately \$175 million general obligation notes and revenue bonds to provide for the unfunded liability MPS owes to the Wisconsin Retirement System. General Obligation notes issued for such purpose do not require approval of the voters, and would count against the 2% debt limit for school borrowing purposes.

BOARD OF SCHOOL DIRECTORS

MPS is governed by a nine member Board of Directors. Eight Directors represent and are elected by Districts from within a total population of approximately 596,000. One member is elected at-large. Directors serve staggered four year terms which expire in April, and annually, at its organizational meeting, elect a president. The current members and the years in which their terms of office expire are as follows:

Jeff Spence, President	(2007)	Charlene Hardin	(2005)
Joseph Dannecker – Vice President	(2007)	Jennifer Morales	(2005)
Lawrence J. O’Neil	(2005)	Peter Blewett	(2005)
Barbara P. Horton	(2007)	Thomas F. Balistreri (At-Large)	(2007)
Kenneth L. Johnson	(2007)		

The City Officials who serve in identical capacities for MPS, and the year in which their terms of office expire are as follows:

W. Martin Morics	Comptroller	(2004)
Grant F. Langley	Attorney	(2004)
Wayne F. Whittow	Treasurer	(2004)

PUBLIC SERVICES AND FACILITIES

MPS has approximately 99,054 full-time equivalent students and 7,309 teachers. It maintains 116 elementary schools, 21 middle schools, 19 high schools, one K-12 school and 2 MPS alternative schools. The average age of the MPS buildings is just over 50 years. However, significant investment was made in upgrading many of these buildings in the 1970's and 1980's.

The purpose and responsibility of MPS is to provide an efficient educational system for 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, MPS offers comprehensive programs in the areas of vocational education, special education, and bilingual education. Through its specialty school programs, MPS offers advanced educational programs in such areas as fine arts, computer science, health professions, business, and technical trades. In addition, MPS provides community recreation and education services through its parks and centers for the elderly.

All of MPS has been accredited by the North Central Association of Colleges and Schools.

ENROLLMENT

<u>School Year</u>	<u>Average School Daily Membership⁽¹⁾</u>	<u>School Year</u>	<u>Average School Daily Membership⁽¹⁾</u>
1991-1992	91,071	1997-1998	102,914
1992-1993	94,694	1998-1999	102,097
1993-1994	96,496	1999-2000	100,682
1994-1995	98,312	2000-2001	99,332
1995-1996	99,278	2001-2002	99,025
1996-1997	101,622	2002-2003	99,054

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

FINANCIAL INFORMATION

MPS has full control of all expenditures and revenues required to operate the school district. Section 119.46 of the Wisconsin Statutes requires MPS to transmit to the City a budget to operate, maintain, equip and improve the schools. The City's Common Council must levy and collect property taxes equal to the amount of money budgeted by MPS. All taxes so collected and all other funds received by MPS for these purposes are deposited to the School Operations Fund. The audited financial statements of this and other funds under the control of MPS for the year ended June 30, 2002 are set forth in Appendix A of this Official Statement.

INSURANCE

MPS carries Commercial General Liability Insurance, Auto Liability, Umbrella Excess Liability Insurance, and School Leaders Errors and Omissions Insurance. In addition, Section 893.80 of the Wisconsin Statutes, limits the amount recoverable against a political corporation, its officers, officials or employees for acts done within the scope of their official capacity to \$50,000 in tort liability for non-automobile cases and \$250,000 in automobile cases.

MPS is self-insured for health, dental, and workers' compensation benefits and certain other general liability exposures. The accrued liability for estimated self-insured claims of \$27,108,210 recorded in the School Operations Fund and \$2,375,064 in the General Long-Term Obligations Account Group represents an estimate of the amount of claims incurred, but not paid or reported as of June 30, 2002. MPS has also recorded a deposit for self insurance and a reserve of fund balance aggregating \$4,354,005 at June 30, 2002 to provide for payment of future claims.

INVESTMENT POLICIES

The City may invest any of its funds, including MPS funds, not immediately needed in accordance with Section 66.04(2) of the Wisconsin Statutes. The City, through Common Council Resolution 930358, adopted July 6, 1993, has instructed the City Treasurer to invest City funds, including MPS funds, in: (a) Certificates of Time Deposit at approved public depositories limited to the equity capital or net worth of the financial institution with collateralization required when total deposits at any institution exceed \$500,000; (b) Repurchase Agreements with public depository institutions; (c) the State of Wisconsin Local Government Investment Pool; (d) U.S. Treasury and Agency instruments and (e) commercial paper which has a rating in the highest or second highest rating category assigned by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Services, Inc., or some other similar nationally recognized rating agency. To the extent possible, the City Treasurer attempts to match investments with anticipated cash flow requirements. No limits have been placed on how much of the portfolio can be invested in any of the above investment categories.

The State of Wisconsin Investment Board ("SWIB") provides the Local Government Investment Pool as a subset of the State Investment Fund (the "Fund"). The Local Government Investment Pool includes deposits from elective participants consisting of over 1,000 municipalities and other public entities. The Fund also consists of cash balances of participants required to keep their cash balances in the Fund. These required participants include the State General Fund, State agencies and departments and Wisconsin Retirement System reserves. The Local Government Investment Pool portion of the Fund is additionally secured as to credit risk.

SWIB invests the assets of the Fund, which includes assets of the Local Government Investment Pool. Overall policy direction for SWIB is established by an independent, eight-member Board of Trustees (the "Trustees"). The Trustees establish long-term investment policies, set guidelines for each investment portfolio and monitor investment performance.

The objectives of the Fund are to provide (in order of priority) safety of principal, liquidity, and a reasonable rate of return. The Fund includes retirement trust funds cash balances pending longer-term investment by other investment divisions. The Fund also acts as the State's cash management fund and provides the State's General Fund with liquidity for operating expenses. The Fund is strategically managed as a mutual fund with a longer average life than a money market fund. This strategic advantage is made possible by the mandatory investment of State funds for which the cash flow requirements can be determined significantly in advance. Because of the role played by the Fund, the cash balances available for investment vary daily as cash is accumulated or withdrawn from various funds.

A copy of SWIB's annual report may be obtained by submitting a written request to the State of Wisconsin Investment Board, P.O. Box 7842, Madison, WI 53707-7842.

The Local Government Investment Pool is a local option City depository. The City utilizes the Local Government Investment Pool in a manner similar to a "money market" account. When other investment options provide more favorable results, such options are utilized. As of June 30, 2003, the City had approximately 63% (\$230,000,000) of its and MPS's investments deposited in the Local Government Investment Pool.

REVENUES OF MILWAUKEE PUBLIC SCHOOLS

SOURCES OF FUNDING

In addition to borrowing, MPS revenues are derived from three major sources - local property taxes, state school aids and federal school aids. Sources of MPS revenues are detailed in the four year summary presented under the caption "REVENUES OF MILWAUKEE PUBLIC SCHOOLS - School Operations Fund Trends".

LOCAL PROPERTY TAX

Property taxes levied on behalf of MPS by the City account for a significant portion of the School Operations Fund revenues available to MPS. For the fiscal years 2001-2002 and 2002-2003, MPS's share of the levy produced approximately \$158,610,459 and, \$162,696,867 respectively, of the total revenues to the School Operations Fund. MPS's 2003-2004 School Operations Fund revenues are budgeted at \$1,063,642,147 of which City ad valorem property taxes are estimated at \$173,593,163, an increase of approximately 6.69% from 2002-2003.

MILWAUKEE PUBLIC SCHOOLS PROPERTY TAX LEVIES⁽¹⁾ ALL FUNDS (1998-2003)

<u>Levy</u> <u>Year</u>	<u>Collection Year</u>	<u>Taxes Levied</u>
1998	1999	\$173,492,952
1999	2000	160,561,007
2000	2001	169,720,932
2001	2002	174,734,593
2002	2003	181,046,151
2003	2004	197,030,606 ⁽²⁾

(1) Exclusive of Tax Incremental District levies.

(2) Estimate.

In addition to taxes for operations levied under Section 119.46 of the Wisconsin Statutes, the MBSD by two-third vote of members elect may direct the City to levy a tax to provide funds to purchase school sites and construct or remodel school buildings. The school construction fund taxes in any one year may not exceed 0.6 mills on each dollar of assessed valuation of taxable property in the City.

Property Subject to Taxation - The City, at the direction of the MBSD, is required to levy and collect ad valorem taxes on or against all taxable property within MPS. Both real and personal property are subject to taxation, but there are certain classes of property which are exempt from taxation. These include, but are not limited to, property of the United States of America; property of the State and its political subdivisions; public libraries; public school property; certain charitable property not used for profit; religious property; manufacturing machinery and equipment; business computers; non-profit cemeteries; household furnishings and personal effects not used to produce income; intangible personal property; and inventories of merchandise and materials and supplies which are held for consumption by a business or are held primarily for sale.

Assessment of Property - The City Tax Commissioner's staff of assessors and appraisers annually conducts appraisals in order to determine the full (fair market) value of all non-manufacturing taxable real property and full cash value of all taxable personal property within MPS as of January 1st. Real property is divided into classes for taxation purposes. In cities there are four classes of real estate: (1) Residential; (2) Commercial; (3) Manufacturing; and (4) Agricultural.

The assessed value of a property is intended to represent current full market (cash) value and, with certain exceptions, is determined from manuals and associated data published by the State Department of Revenue. The State Department of Revenue certifies the competency of local assessors and supervises the administration of all laws concerning the valuation and assessment of taxable property and the levying of property taxes. Annually, the Department analyzes sales data reported to the Register of Deeds for each county to determine the relative level of local assessments to actual market sales. This process is referred to as “equalization”. The ratios developed by the Department of Revenue are reported to each assessor.

Assessed valuation represents the value upon which ad valorem property taxes are levied. Wisconsin law requires that assessed values in any taxation district be established within 10% of “full value,” as determined by the Department of Revenue, at least once during each four year period ending with the current year. If a district fails to meet this criteria in any year, the district’s assessors are subject to special supervision by Department of Revenue employees during the ensuing assessment year. For 2002, the City’s ratio of assessed to equalized value, as reported by the Department of Revenue, was 98.0 percent. Full values of any two major classes of property must also be within 10% during such four-year period or State Revenue Department supervision is required.

For each assessment year the City assessors must complete their assessments for review by the Tax Commissioner on or before the second Monday in May.

Manufacturing property is assessed by the Wisconsin Department of Revenue which annually notifies the City of the assessed value of all such property to be placed on the City tax roll. Manufacturing machinery and equipment are exempt from local property taxes.

Property owners are notified of increases in assessed valuation of their land or improvements, or taxable personal property in accordance with certain statutory deadlines. Property owners are given the opportunity to object to the amount or valuation of their real or personal properties by filing written objections with the board of assessors, which consists of the chief assessor, chief appraiser, supervising assessors and assistant supervising assessors of the Tax Commissioner’s office and a City Board of Review or, for State assessments of manufacturing property, by the State Tax Appeals Commission. The City Board of Review consists of nine residents of the City appointed by the Mayor with approval of the City Common Council for staggered five-year terms.

Adjustments for increases or decreases in assessed values resulting from appeals are made. Upon conclusion of such hearings, the tax assessors are required to complete the assessment roll of all taxable property for the City and return it to the City Tax Commissioner no later than the first Monday of November each year. The Tax Commissioner must prepare the tax roll and return it to the City Treasurer for collection no later than the third Monday in December. Assessments may be appealed to the State courts from the Board of Review or State Tax Appeals Commission within a short period of time, provided the taxes are paid timely on the challenged assessment. Refund of any excess taxes paid may be ordered by the court. If rebated or abated taxes reduce equalized values of the City, the Wisconsin Department of Revenue may prorate the rebated amounts among all taxing jurisdictions which levied a tax against the subject property or adjust equalized values.

Mill Levies Affecting MPS Property Owners - In 1996, the Governor and the State legislature approved reducing funding for schools from property taxes. On a statewide basis, Wisconsin approved increasing its proportionate share of school aid from 40% to at least 66.7% beginning in 1996-1997.

In addition to MPS’s tax levy, owners of property within MPS are obligated to pay taxes to other taxing entities in which their property is located. There are five other active taxing entities which have authority to levy ad valorem property taxes on property within MPS. These include the City, Milwaukee County, State of Wisconsin, Vocational School District and Milwaukee Metropolitan Sewerage District. As a result, property owners within the School District’s boundaries are subject to a variety of different mill levies.

The 2002 levies (collected in 2003) for non-MBSD purposes were as follows:

City of Milwaukee	\$197,000,000
Milwaukee County	100,800,000
MATC	39,800,000
Metropolitan Sewerage District	33,700,000
State Forestry Tax	4,100,000

The net tax rate for all taxing jurisdictions in 2002 was \$27.25 per assessed thousand of property valuation.

Property Tax Collections - Taxes levied in one year are collected in the succeeding year. Thus, taxes certified in 2003 will be collected in 2004. Taxes are due on January 31st in the year of collection; however, taxes on real property may be paid in 10 equal installments not later than the last day of each month from January to October without interest or penalty. Personal property taxes may be paid in 7 equal installments on the last day of each month from January to July without interest or penalty. First installments which are not timely paid within the prescribed time bear interest at the rate of 1% per month until paid, plus 0.5% of the tax with interest from January 31 and penalty. The City Treasurer collects current and delinquent property taxes, as well as any interest or penalty, and after deducting a statutory fee for such collection, remits the balance to MPS on a monthly basis from January through May and any balance of the annual levy remaining at June 30 is remitted to MPS in early July. If a tax payment is insufficient to pay all charges, City special charges, special assessments and special taxes are paid before MPS receives its share of the levy.

All taxes levied on property, together with interest thereon and penalties for default, as well as all other costs of collection, constitute a perpetual lien on and against the property taxed from January 1 of the levy year until paid. Such lien is on a parity with the tax liens of other general taxes. It is the City Treasurer's duty to enforce the collection of delinquent real property taxes by tax sale of such realty. Delinquent personal property taxes are enforceable by an action in debt and the property taxed or other property may be seized on execution to pay the judgment. Tax sales on realty are held on or before the second Monday in December of the collection year, preceded by a notice of delinquency to the taxpayer and a minimum of four weeks of public notice of the impending sale. Sales of personal property may be held at any time after October 1st of the collection year following notice of delinquency and public notice of sale. There can be no assurance, however, that the value of property sold, in the event of foreclosure and sale would be sufficient to produce the amount required with respect to taxes levied for MPS, taxes levied by overlapping taxing entities, as well as any interest or costs due thereon. Further, there can be no assurance that the property will be bid on and sold and if that should occur, the City Treasurer will remove the property from the tax rolls and delinquent taxes are payable when the property is sold or redeemed.

SCHOOL AIDS

The Wisconsin Constitution requires the State Legislature to provide for establishment of district schools "which shall be free and without charge for tuition to all children between the ages of 4 and 20 years". MPS receives revenues from the State in the form of general school aids. State school aids are divided into two general categories referred to as general and categorical aids. General school aids are determined by formula based upon pupil membership and property valuation. Categorical aids are based upon specific instructional or supporting programs.

In 1996, the Governor and the State Legislature approved reducing funding for schools from property taxes. The State approved increasing its proportionate share of school aid from 40% to at least 66.7% beginning in 1996-1997.

In 2003, the Governor and the State Legislature determined that the State could no longer afford to target 66.7% funding for school aid.

STATE AIDS

Equalization Aid

The school district receives the majority of its revenues from State equalization aid. Equalization aid is paid based on a formula designed to compensate for differences in property values between Wisconsin school districts. The effect is to equalize the property tax base supporting each Wisconsin student.

The State guarantees a minimum tax base to support the education of each public school child. The ratio of the district's equalized valuation to the State's guaranteed valuation determines the percentage of shared costs funded by local property tax versus State equalization aid.

$$\text{Equalization Aid} = \text{Shared Costs} \times \frac{\text{Net Guaranteed Valuation}}{\text{Guaranteed Valuation}}$$

where Net Guaranteed Valuation equals Guaranteed Valuation minus Equalized Valuation. Shared Costs equals the net cost of the general fund plus the net cost of the debt service fund.

MPS's annual revenue per pupil has been above the State-wide average during the past three school years (as detailed below), but these revenues have been met with above average federal and State aid payments.

ANNUAL REVENUES PER PUPIL

	Statewide			Milwaukee		
	<u>1998-99</u>	<u>1999-2000</u>	<u>2000-2001</u>	<u>1998-99</u>	<u>1999-2000</u>	<u>2000-2001</u>
Revenue/Pupil	\$8,290	\$8,590	\$9,011	\$8,637	\$8,979	\$9,264
Federal Share (%)	4.60	4.51	4.95	11.33	11.59	11.94
State Share (%)	54.67	55.39	55.32	67.60	69.29	68.21
Local Share (%)	40.73	40.10	39.73	21.07	19.11	19.85

Integration Aid

MPS also receives integration aid from the State under a plan where compensation is paid for each minority pupil transferring from an attendance area where minority pupils comprise 30% or more of the population to an attendance area which has less than a 30% minority population. Also, aid is paid for each non-minority pupil transferring from a non-minority attendance area to a minority attendance area.

The State provides for intradistrict transfer aid as well as interdistrict transfer aid. Intradistrict aid is calculated by multiplying the number of eligible transfer pupils by .25 and multiplying the product by the district's current equalization aid per pupil.

For interdistrict transfers, the State provides a financial incentive for both the sending and receiving districts. The receiving district is paid an amount equal to its average cost per pupil for each student it receives. The sending district is allowed to continue to count the transferred students for equalization aid purposes at 0.75 full-time equivalent (FTE), thereby removing any disincentive for transferring students. MPS must pay the transportation costs for its students sent to other districts, as well as the students it receives from other districts.

STATE CATEGORICAL AIDS

MPS receives State categorical aids to finance or reimburse specific categories of instructional or supporting programs.

Pupil transportation aids are paid to reimburse MPS for transportation of public and non-public school pupils. Reimbursement for transportation aids is made on the basis of the number of children/mileage transported during the prior year and miles transported during the regular school year, with an additional flat per pupil payment for summer school. MPS is not required to transport children who live two miles or less from the school attended following the shortest commonly traveled route unless the route is considered hazardous.

The State pays tuition for the following types of children attending public schools:

- a) children in children's homes;
- b) children of parents employed at and residing on the grounds of a state or federal military camp, federal veteran's hospital, or state, charitable or penal institution; and
- c) children in foster homes or group homes if the home is located outside the district in which the child's parent or guardian resides and is exempt from property tax.

School library aid paid from the common school fund under Article 10, sections 4 and 5 of the Wisconsin Constitution and Section 43.70 of the Wisconsin Statutes, is distributed on the basis of the number of children between age 4 and 20 residing in the district as of June 30 of the year before payments are made. School library aid payments to MPS for 2002-2003 were \$2,080,797 or \$13.87 per child.

The State pays special aids to the district to finance approved programs for handicapped children or children with exceptional educational needs, including those with visual or hearing disabilities, speech or language disabilities, learning disabilities and requiring homebound instruction. This aid has been decreasing as a percent of costs for the last two decades.

Other categorical aids include grants for demonstration projects to assist minors in avoiding or overcoming problems resulting from the abuse of alcohol or drugs; State matching payments for school lunch programs required under 42 U.S.C. 1751, et. seq.; elderly food service aid; grants to provide pre-school structured educational experience focusing on the needs of low-income pupils and encouraging early skill development; bilingual/bicultural aids for programs designed to improve comprehension, speaking, reading and writing ability of limited English speaking pupils in the English language; youth initiatives for education and training programs for youths 14 through 21; and Wisconsin morning milk program for children enrolled in kindergarten through grade 5. MPS also receives funding under Sections 119.71, 119.72 and 119.74 of the Wisconsin Statutes for five-year old kindergarten and early childhood education.

These categorical aids are in addition to equalization aid and integration aid.

PARENTAL CHOICE PROGRAM

Beginning in the 1990-91 school year, low-income children constituting up to 1.5% of the pupils in grades kindergarten to 12 residing in the City and enrolled in MPS may attend at no charge any private non-sectarian school located in the City which meets all public school health and safety laws and codes, complies with federal non-discrimination laws and meets a standard of advancement, attendance, academic progress, or parental involvement. Beginning in the 1996-97 school year, no more than 15% of the school district's membership may attend private school under Wisconsin Statute 119.23. Upon proof of a pupil's enrollment in the private school the State Superintendent provides a proportionate share of basic and supplemental State school aids. Prior to fiscal year 2000, payments to Parental Choice Schools were deducted from MPS aid entitlements. Beginning with fiscal year 2000, these payments were made from an appropriated sum sufficient for this purpose.

For the 2002-03 school year, approximately 10,300 low-income children enrolled in the Milwaukee Parental Choice Program.

FEDERAL SCHOOL AIDS

In addition to State school aids, MPS receives federal aids for specific school programs.

The federal government provides basic school lunch aid to school districts. This program is administered by the State Department of Public Instruction. For the 2002-2003 school year, MPS received in excess of \$19,900,000 in basic lunch aid under the federal program administered by the United States Department of Agriculture through the Wisconsin Department of Public Instruction.

MPS has applied for and received federal aid for numerous other programs. In general, these federal aids are known as categorical aids and require MPS to make the expenditure first, with federal reimbursement following. The federal programs administered by the Wisconsin Department of Public Instruction from which MPS received program reimbursement in 2002-2003 include the following: Public Law 89-313 providing funds for handicapped children; Title I - Disadvantaged and Low Income Children; Special Education – Grants to States; Carl Perkins Act; Emergency Immigrant Educational Assistance; Title II; Public Law 99-457. MPS received aid directly from the Federal Government in the case of several federal programs including the Drug Free Schools program and Headstart.

For the year 2002-2003, total federal aids to MPS for food services and other categorical aids is estimated to be approximately \$150,000,000.

SCHOOL OPERATIONS FUND TRENDS

Equalization aid revenues in the 2000-2001 school year rose by approximately \$8 million due to increased shared costs in the previous year. Property tax revenues increased almost \$14 million after having decreased approximately \$13 million the previous year. MPS's revenue limit, equalization aid plus property tax, increased \$22 million or 3.3% over the 1999-2000 school year.

Total expenditures increased \$34 million in 2000-2001 over the previous year. Expenditures for instructional services were 57% of total expenditures, approximately the same as it has been for the last four years. The District remains under a revenue cap limitation first imposed in 1993-1994. Despite this restriction, MPS expects to provide all necessary instructional and operating services without major disruptions. Instructional expenditures remained constant while operating expenditures grew at a 4.1% rate.

Following is a summary of the MPS School Operations Fund Revenues and Expenditures for the fiscal years ended June 30, 1999 through June 30, 2002.

**MILWAUKEE PUBLIC SCHOOLS
SCHOOL OPERATIONS FUND⁽¹⁾
FOUR YEAR SUMMARY
(ACTUAL - NON-GAAP BASIS)**

	2001-2002 Year End	2000-2001 Year End	1999-2000 Year End	1998-1999 Year End
REVENUES				
Locally Generated:				
Property Taxes	\$158,610,459	\$157,722,667	\$143,837,618	\$157,434,763
Other	61,005,885	15,050,780	5,553,431	4,805,614
Total Locally Generated	<u>219,616,344</u>	<u>172,773,447</u>	<u>149,391,049</u>	<u>162,240,377</u>
State Aid:				
Equalization Aid	541,388,517	530,389,369	522,070,078	486,666,416
Special Classes	41,148,872	40,368,704	38,472,504	38,729,189
Integration Aid	38,830,913	38,440,145	38,233,657	36,234,250
Other	56,419,803	40,420,806	28,103,142	27,873,898
Total State Aid	<u>677,788,105</u>	<u>649,619,024</u>	<u>626,879,381</u>	<u>589,503,753</u>
Federal Aid:				
Education Consolidation Improvement Act	48,563,189	55,068,159	51,740,308	46,232,508
Other	83,313,434	38,897,383	26,517,359	28,652,151
Total Federal Aid	<u>131,876,623</u>	<u>93,965,542</u>	<u>78,257,667</u>	<u>74,884,659</u>
TOTAL REVENUES	<u><u>\$1,029,281,072</u></u>	<u><u>\$916,358,013</u></u>	<u><u>\$854,528,097</u></u>	<u><u>\$826,628,789</u></u>
EXPENDITURES				
Current Operating:				
Instructional Services:				
Undifferentiated curriculum	354,701,321	320,577,457	313,248,173	301,235,587
Regular and other curriculum	111,447,623	110,316,508	113,916,701	127,339,132
Special curriculum	95,436,587	87,656,198	84,132,507	83,539,335
Total Instructional Services	<u>561,585,531</u>	<u>518,550,163</u>	<u>511,297,381</u>	<u>512,114,054</u>
Pupil and staff services	106,999,506	83,316,554	81,582,352	77,337,490
General & school building admin.	79,896,072	74,474,932	72,214,767	68,732,226
Business services	153,658,408	139,496,099	136,015,529	130,668,291
Other	90,598,928	65,392,557	51,286,074	27,898,899
Total Current Operating	<u>431,152,914</u>	<u>362,680,142</u>	<u>341,098,722</u>	<u>304,636,906</u>
Capital Outlay:				
Sites and buildings	-	5,749,168	8,004,630	8,216,733
Furniture and equipment	-	15,572,267	8,008,250	19,337,993
Total Capital Outlay	<u>0</u>	<u>21,321,435</u>	<u>16,012,880</u>	<u>27,554,726</u>
TOTAL EXPENDITURES	<u><u>\$992,738,445</u></u>	<u><u>\$902,551,740</u></u>	<u><u>\$868,408,983</u></u>	<u><u>\$844,305,686</u></u>
SUMMARY				
Total Revenues	\$1,029,281,072	\$916,358,013	\$854,528,097	\$826,628,789
Total Expenditures	<u>\$992,738,445</u>	<u>\$902,551,740</u>	<u>\$868,408,983</u>	<u>\$844,305,686</u>
Generated Surplus (Use of Surplus)	<u><u>\$36,542,627</u></u>	<u><u>\$13,806,273</u></u>	<u><u>(\$13,880,886)</u></u>	<u><u>(\$17,676,897)</u></u>

(1) Source: Comprehensive Annual Financial Reports for the appropriate years.

**MILWAUKEE PUBLIC SCHOOLS
SCHOOL OPERATIONS FUND
BUDGETS AND ACTUAL (NON-GAAP BASIS)**

	2003-2004 Budget ⁽¹⁾	2002-2003 Budget ⁽²⁾	2001-2002 Actual ⁽³⁾
REVENUES			
Locally Generated:			
Property Tax Levy	\$ 173,592,163	\$ 162,696,867	\$ 158,610,459
Other Local Sources	52,535,877	54,427,435	61,005,885
Subtotal	<u>226,128,040</u>	<u>217,124,302</u>	<u>219,616,344</u>
State Aid:			
Equalization Aid	563,605,569	556,168,855	541,388,517
Special Classes	40,000,000	40,400,000	41,148,872
Integration	38,738,661	38,717,682	38,830,913
Other	53,978,781	68,714,757	56,419,803
Subtotal	<u>696,323,011</u>	<u>704,001,294</u>	<u>677,788,105</u>
Federal Aid:			
Elementary & Secondary Education Act, Title I	56,018,356	62,586,514	48,563,189
Other	83,872,740	99,170,509	83,313,434
Subtotal	<u>139,891,096</u>	<u>161,757,023</u>	<u>131,876,623</u>
Applied Surplus	1,300,000	20,084,659	
TOTAL REVENUES	<u><u>\$ 1,063,642,147</u></u>	<u><u>\$ 1,102,967,278</u></u>	<u><u>\$ 1,029,281,072</u></u>
EXPENDITURES			
Instructional Services	808,112,507	794,062,289	546,319,745
Board of School Directors	410,000	414,741	401,652
Support Services	255,119,640	308,490,248	446,017,048
TOTAL EXPENDITURES	<u><u>\$ 1,063,642,147</u></u>	<u><u>\$ 1,102,967,278</u></u>	<u><u>\$ 992,738,445</u></u>
SUMMARY			
Total Revenues	\$ 1,063,642,147	\$ 1,102,967,278	\$ 1,029,281,072
Total Expenditures	\$ 1,063,642,147	\$ 1,102,967,278	\$ 992,738,445
Generated Surplus	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 36,542,627</u></u>

(1) Source: Fiscal Proposed 2004 Budget Report – to be submitted to Department of Public Instruction.

(2) Source: Fiscal Adopted 2003 Budget Report – submitted to Department of Public Instruction.

(3) Source: Comprehensive Annual Financial Report for June 30, 2002, less, extension and capital trust.

The management of MPS has prepared the projected financial information set forth below to present the cash flow needs of MPS for the fiscal year 2003-2004. It is the belief of MPS management that these projections are reasonable and reflect the best current estimates and judgments regarding future cash flows. MPS's independent auditors have not compiled, examined, or performed any procedures with respect to the prospective financial information set forth below, nor have they expressed any opinion or any form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, this prospective financial information.

MILWAUKEE PUBLIC SCHOOLS
SCHOOL OPERATIONS FUND MONTHLY CASH FLOW SUMMARY
2002-2003 ACTUAL RESULTS (UNAUDITED)
2003-2004 PROJECTED
(Millions of Dollars)

	Beginning Cash Balance (Deficit)	Receipts	Disbursements	Ending Cash Balance (Deficit)	Ending Cash Balance Including Proceeds of Notes
July (2002)	89.461	22.250	54.319	57.392	
August	57.392	22.469	66.266	13.595	
September	13.595	223.765 ⁽¹⁾	76.456	160.904	
October	160.904	5.038	92.490	73.452	
November	73.452	23.579	98.528	(1.497)	
December	(1.497)	170.916	91.462	77.957	
January (2003)	77.957	104.029	126.380	55.606	
February	55.606	83.925	95.073	44.458	
March	44.458	171.200	94.380	121.278	
April	121.278	27.672	99.584	49.366	
May	49.366	28.599	85.271	(7.306)	
June (2003)	(7.306)	309.180	246.602	55.272	
Projected					
July (2003)	55.272	17.760	64.819	8.213	8.213
August	8.213	27.782	66.472	(30.477)	(30.477)
September	(30.477)	85.489	76.537	(21.525)	(21.525)
October	(21.525)	9.689	94.460	(106.296)	43.704
November	(106.296)	34.812	88.655	(160.139)	(10.139)
December	(160.139)	169.082	93.438	(84.495)	65.505
January (2004)	(84.495)	123.783	123.034	(83.746)	66.254
February	(83.746)	66.546	94.661	(111.861)	38.139
March	(111.861)	171.483	94.275	(34.653)	115.347
April	(34.653)	27.628	90.661	(97.686)	52.314
May	(97.686)	30.808	88.790	(155.668)	(5.668)
June (2004)	(155.668)	316.862	100.667	60.527	60.527 ⁽²⁾

⁽¹⁾ Includes \$133,000,000 School Order Notes, Series 2002-B

⁽²⁾ Balance after repayment of \$150,000,000 Notes principal.

MILWAUKEE PUBLIC SCHOOLS
SCHOOL OPERATIONS FUND - PROJECTED CASH FLOW SUMMARY
JULY 1, 2003 - JUNE 30, 2004
(Millions of Dollars)

	July	August	September	October	November	December	January	February	March	April	May	June	Total
Balance	55.272	8.213	(30.477)	(21.525)	43.704	(10.139)	65.505	66.254	38.139	115.347	52.314	(5.668)	
RECEIPTS													
Property Taxes							92.860	25.474	4.875	8.281	5.173	36.929	173.592
Integration Aid												38.739	38.739
Computer Aid											4.152		4.152
State Aid													
Equalization	10.305		81.911			139.022			138.083			193.317	562.638
Other	0.186	0.604	0.514	0.070	6.093	7.537	8.307	6.379	8.191	2.104	2.307	10.618	52.910
Categorical Aid	2.520	22.000	1.656	1.677	13.109	14.618	13.301	27.061	13.742	10.446	12.166	22.898	155.194
Nutrition	1.886	3.800	-	0.516	0.144	2.229	2.521	2.531	1.934	2.230	2.291	2.418	22.500
Other Local Receipts	1.271	1.271	1.271	1.271	5.171	1.271	1.271	1.271	1.271	1.271	1.271	1.271	19.152
Local Revenues	1.592	0.107	0.137	3.539	0.173	0.118	0.119	0.142	0.220	0.128	0.153	5.566	11.994
Other Receipts													
Note Proceeds				150.000									150.000
Other Financings (NSI)				2.616	10.122	4.287	5.404	3.688	3.167	3.168	3.295	5.106	40.853
Total Receipts	17.760	27.782	85.489	159.689	34.812	169.082	123.783	66.546	171.483	27.628	30.808	316.862	1,231.724
DISBURSEMENTS													
Salaries and Benefits	41.545	30.667	58.325	65.915	65.171	65.480	95.497	68.580	69.299	68.183	67.296	68.293	764.251
Services & Supplies	22.003	29.878	14.319	22.987	16.809	18.304	23.099	18.882	20.410	16.101	15.357	26.277	244.426
Other Local Expenses	1.271	1.271	1.271	1.271	1.271	1.271	1.271	1.271	1.271	1.271	1.271	1.271	15.252
Disbursement Borrowed													
Proceeds (NSI)		2.616	2.622	4.287	5.404	3.688	3.167	3.168	3.295	5.106	4.866	4.826	43.045
Note Principal to Trustee												150.000	150.000
Debt Service		2.040				4.695		2.760					9.495
Total Disbursements	64.819	66.472	76.537	94.460	88.655	93.438	123.034	94.661	94.275	90.661	88.790	250.667	1,226.469
Balance	8.213	(30.477)	(21.525)	43.704	(10.139)	65.505	66.254	38.139	115.347	52.314	(5.668)	60.527	

THE CITY OF MILWAUKEE

GENERAL

The City is located on the western shore of Lake Michigan in southeastern Wisconsin. The City is the hub of the metropolitan area and a thriving place to live and work. Milwaukee is Wisconsin's largest city with a population of 595,958 and is the principal trade, service and financial center of southeastern Wisconsin. The surrounding Standard Consolidated Metropolitan Statistical Area (SCMSA) consisting of Milwaukee, Waukesha, Washington, Ozaukee, and Racine Counties, has a population of over 1.6 million. This SCMSA is the 24th largest metropolitan area in the United States.

The Port of Milwaukee provides access to the sea lanes of the world. General Mitchell International Airport is served by domestic and international airlines. Five rail lines serve the City and provide transportation links throughout the United States. The City is also connected with the interstate highway system.

Milwaukee was incorporated as a city on January 31, 1846 pursuant to the laws of the territory of Wisconsin. Wisconsin gained statehood in 1848. The City, operating under a Home Rule Charter since 1874, has a council-mayor form of government.

CITY OF MILWAUKEE SELECTED ECONOMIC DATA

	<u>Population⁽¹⁾</u>	<u>Per Capita Average Income</u>	<u>Per Capita Household Income</u>	<u>Per Capita Equalized Value</u>
1997	612,740	\$13,219	\$34,271	\$25,315
1998	610,654	13,436	34,839	26,575
1999	608,150	13,780	35,830	27,462
2000	605,572	14,170	36,830	28,641
2001	595,508	14,147	36,339	32,667
2002	595,958	Not Available	Not Available	34,022

(1) The population figures are derived through estimates from the Wisconsin Department of Revenue for use in the distribution of State Shared Revenues.

Sources: Derived from data contained in Sales and Marketing Management magazine as reported for the appropriate year. Other sources include the Bureau of Census; Wisconsin Department of Revenue; Metropolitan Milwaukee Association of Commerce and the City of Milwaukee Division of Economic Development.

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BUILDING PERMITS

Another indicator of economic growth is the activity in the building industry. The following table indicates building permit activity during the period 1998 through December 2002.

General Total

<u>Year</u>	<u>Value</u>	<u>Permits Issued</u>
1998	\$246,033,955	2,408
1999	332,184,632	2,429
2000	281,978,437	2,448
2001	388,613,133	2,752
2002	337,028,003	2,756

Residential Building

<u>Year</u>	<u>Single Family</u>		<u>Multi-Family</u>		<u>Total</u>		<u>Permits Issued</u>
	<u>Value</u>	<u># Of Units</u>	<u>Value</u>	<u># Of Units</u>	<u>Value</u>	<u># Of Units</u>	
1998	\$6,781,406	67	\$38,475,720	522	\$45,257,126	589	97
1999	9,489,837	84	10,951,700	119	20,441,537	203	109
2000	13,501,445	113	21,682,808	239	35,184,253	352	137
2001	17,597,336	141	81,508,896	401	99,106,232	542	168
2002	18,726,773	135	53,525,650	562	72,252,423	697	172

Commercial Building

<u>Year</u>	<u>Value</u>	<u>Permits Issued</u>
1998	\$68,042,140	79
1999	128,343,915	95
2000	99,967,923	88
2001	106,537,251	99
2002	87,778,047	89

Public Building

<u>Year</u>	<u>Value</u>	<u>Permits Issued</u>
1998	\$25,046,871	191
1999	30,726,416	145
2000	43,153,279	181
2001	64,534,354	406
2002	24,122,613	159

Alterations And Additions

<u>Year</u>	<u>Value</u>	<u>Permits Issued</u>
1998	\$107,687,818	2,041
1999	152,672,764	2,080
2000	103,672,982	2,042
2001	118,435,296	2,079
2002	152,874,920	2,336

Note: Miller Park, the City's new major league baseball venue, was completed in March 2001. This \$350 + million project is not incorporated within the above schedules.

Sources: Development Center, Department of City Development. Data accumulated from monthly reports submitted to U.S. Department of Commerce, Bureau of the Census, Construction Statistics Division, Washington D.C.

BANK DEPOSITS

	1998	1999	2000	2001	2002
Bank One, National Association ⁽¹⁾⁽²⁾	\$5,297,707	\$4,262,523	\$4,397,409	\$4,398,040	—
M & I Marshall & Ilsley Bank	6,206,362	5,245,384	8,623,224	18,244,031	\$18,523,783
Wells Fargo Bank Wisconsin, N.A.	1,673,894	1,667,542	1,803,846	1,992,708	2,200,491
Mutual Savings Bank	1,416,685	1,355,566	1,343,013	1,479,372	1,477,209
Associated Bank, National Association ⁽³⁾	698,472	1,929,558	1,918,455	5,840,463	5,648,495
Guaranty Bank	779,607	678,162	918,287	1,475,151	1,784,272
Johnson Bank	857,279	1,016,505	1,105,687	1,165,488	1,468,019
St. Francis Bank, FSB	1,255,920	1,547,272	1,480,471	1,431,840	1,400,224
State Financial Bank, N.A. ⁽⁴⁾	—	—	859,769	955,237	991,701
Park Bank	400,758	390,147	455,397	466,454	472,664

- (1) Total deposits for Bank One, Wisconsin. As of December 7, 1996, all 14 of the Bank One charters in Wisconsin merged into one charter. Bank deposits for all Bank One offices in the state are combined and reported as one amount under the name Bank One, Wisconsin. As a result, bank deposits for Bank One offices in the City of Milwaukee are not available for year-end 1996 and later.
- (2) Title change to Bank One, National Association due to a merger with Bank One, National Association of Chicago, Illinois effective August 2002. As a result, bank deposits for Bank One offices in the City of Milwaukee are not available for year-end 2002.
- (3) Changed title to Associated Bank, National Association, due to merger with Associated Bank Green Bay, National Association on April 20, 2001.
- (4) State Financial Bank, N.A. formed by merger in 2000.

Source: Wisconsin Department of Financial Institutions and The American Financial Directory (Wisconsin) January-June 2003.

Note: Other banks that have a significant presence in the Milwaukee area include TCF National Bank and U.S. Bank. These banks are not chartered in Wisconsin and information on these banks is not available through the Wisconsin Department of Financial Institutions.

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**LEADING BUSINESS AND INDUSTRIAL FIRMS
LOCATED WITHIN MILWAUKEE COUNTY**

The listing of large employers in Milwaukee County which follows, reveals the diversity of Milwaukee County's economic base. The largest of these are shown in the following list, which includes only employers with the majority or all of their employment in Milwaukee County.

<u>Employer</u>	2002 ⁽¹⁾ <u>Employment</u>	<u>Type of Business or Service</u>
Aurora Health Care	11,365	Health Care
Milwaukee Public Schools	11,329	Education
U.S. Government (Excludes V.A. Medical Center)	8,875	Government
City of Milwaukee	7,150	Government
Covenant Health Care	5,716	Health Care
M&I Marshall & Ilsley	5,579	Holding company banking/finance and data services
Milwaukee County	5,577	Government
University of Wisconsin-Milwaukee	4,178	Education
Northwestern Mutual Life	4,039	Insurance
Medical College of Wisconsin	3,760	Medical school/academic/health care
SBC Communications (Ameritech Corporation)	2,766	Communications
Rockwell Automation (formerly Allen-Bradley)	3,740	Manufacturer, electrical/electronic products
WE Energies	3,300	Electric/natural gas utility
Froedtert Memorial Lutheran Hospital	3,150	Health Care
US Bank (formerly Firstar Corporation)	2,663	Finance, banking
Columbia-St. Mary's ⁽²⁾	2,603	Health Care
Harley-Davidson Motor Company	2,450	Manufacturer, motorcycles
Johnson Controls, Inc.	2,435	Manufacturer, of electronic control systems, automobile interior modules
Briggs and Stratton	2,300	Manufacturer, small engines, automotive locks and keys
Children's Hospital of Wisconsin	2,116	Health care
Clement Zablocki Veterans Medical Clinic	1,950	Health Care
Fortis	1,865	Health care
Miller Brewing Company	1,797	Manufacturer of beer and aluminum containers

Note: Data reflects full-time equivalent employees (FTEs).

- (1) Rockwell Automation and Froedtert Memorial Lutheran Hospital did not submit a response for 2002 FTEs survey. Due to changes in methodology, U.S. Government, Clement Zablocki Medical Center and Wisconsin Energy reported higher numbers of FTEs. Briggs & Stratton Corporation and Milwaukee County experienced significant decreases due to the downsizing of their workforce.
- (2) Columbia-St. Mary's reported higher FTE amounts for 2001. St. Mary's Ozaukee clinic was included in error in 2001.
- (3) Johnson Controls, Inc. closed their Atlanta, Georgia office. Several employees from the Atlanta office relocated to the Milwaukee office.

Source: Milwaukee County Department of Administrative Services, January 2003 survey of employers.

EMPLOYMENT AND INDUSTRY

During 2002, the City's unemployment rate averaged 8.9%. Presented below are annual unadjusted unemployment rates for the City of Milwaukee, as compared to the State of Wisconsin and the United States for the period 1998 through 2002.

<u>Year</u>	<u>City of Milwaukee</u>	<u>Milwaukee - Waukesha Metropolitan Area</u>	<u>State of Wisconsin</u>	<u>United States</u>
2003*	10.5%	6.5%	5.6%	6.2%
2002	9.6	6.0	5.5	5.8
2001	7.8	4.7	4.5	4.7
2000	6.7	3.8	3.6	4.0
1999	5.4	3.1	3.0	4.2
1998	5.3	3.3	3.4	4.5

* July, 2003. Rates for City of Milwaukee and Milwaukee - Waukesha Metropolitan Area are not seasonally adjusted.
Source: U.S. Bureau of Labor Statistics.

Milwaukee's economic structure reveals a diversified economy with strong service and manufacturing sectors. The service sector (service, finance, insurance, real estate and retail trade) employs over 69 percent of the workforce. Manufacturing firms employ 17 percent of the work force. The area is not dominated by any large employers. Less than two percent of the manufacturers have employment levels greater than 500. Less than one percent of the employers in finance, insurance and services have more than 500 employees.

CITY OF MILWAUKEE ESTABLISHMENTS AND EMPLOYMENT BY INDUSTRY GROUP 1998 – 2002

Industry Group	Number of Establishments					Employment				
	1998	1999	2000	2001	2002	1998	1999	2000	2001	2002
Agriculture	109	109	108	108	108	746	750	816	700	662
Construction	828	822	826	752	739	8,035	8,134	8,318	7,847	6,984
Manufacturing	1,060	1,041	1,004	986	961	59,536	56,591	55,660	50,893	50,019
Transportation & Communications	588	580	597	574	560	18,645	16,456	16,704	14,944	14,397
Wholesale Trade	1,238	1,173	1,120	1,107	1,089	20,201	20,551	20,129	18,800	18,445
Retail Trade	2,636	2,626	2,637	2,579	2,546	42,856	43,661	43,309	42,337	38,973
Finance, Insurance & Real Estate	1,377	1,290	1,237	1,339	1,305	33,344	35,370	33,314	32,760	30,982
Services	6,533	6,107	5,862	6,084	6,125	127,280	140,006	143,968	140,365	136,141
Totals	14,369	13,748	13,391	13,529	13,433	310,643	321,519	322,218	308,646	296,603

Source: Wisconsin Department of Workforce Development.

TEN LARGEST TAXPAYERS WITH 2002 ASSESSED VALUATIONS ⁽¹⁾

First Security Bank	\$200,731,580
Northwestern Mutual Life Ins. (Insurance)	166,276,440
Teachers Insurance & Annuity/TIAA Realty (Real Estate Investment)	100,879,200
Towne Realty (Real Estate)	81,212,460
M & I Marshall & Ilsley Bank/Metavante Corp	78,633,810
Marcus Corp/Milw City Center/Pfister (Hotels, Motels, Restaurants)	74,042,840
Miller Brewing (Brewing)	69,659,720
Great Lakes REIT/GLR Milw Center (Real Estate Investment)	67,146,900
Metropolitan Associates (Real Estate Investment)	66,607,480
100 E. Wisconsin Ave Joint Venture (Real Estate Investment)	55,949,570

(1) The above assessed values represent an equalization ratio of 98.10% to full value as determined by the Wisconsin Department of Revenue. (2002 Assessments for 2003 Purposes.)

Source: City of Milwaukee, Assessor's Office.

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BOOK-ENTRY ONLY SYSTEM

The information contained in the following paragraphs of this subsection “Book-Entry Only System” has been extracted from a document prepared by The Depository Trust Company (“DTC”) entitled “SAMPLE OFFERING DOCUMENT LANGUAGE DESCRIBING BOOK-ENTRY ONLY ISSUANCE.” The City makes no representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

DTC, New York, NY, will act as securities depository for the Notes. The Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Notes, in the aggregate principal amount of such annual maturity, and such certificates will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC’s records. The ownership interest of each actual purchaser of each Note (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Notes unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC [nor its nominee], Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of The City or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Notes at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Offered Obligation certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Offered Obligation certificates will be printed and delivered.

NEITHER THE CITY, THE PAYING AGENT NOR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT; (2) THE PAYMENT BY DTC, ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE NOTES; (3) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO HOLDERS OF THE NOTES; (4) ANY CONSENT GIVEN BY DTC OR OTHER ACTION TAKEN BY DTC AS THE HOLDER OF THE NOTES; OR (5) THE SELECTION BY DTC, ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT OF ANY BENEFICIAL OWNER TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF NOTES.

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LEGAL MATTERS

LITIGATION

Milwaukee Public Schools, its board, officers and employees have been defendants in numerous lawsuits over the years. Experience has shown that a relatively small number of suits commenced are reduced to judgment. Milwaukee Public Schools does carry Commercial General Liability Insurance, Umbrella General Liability Insurance and School Teachers Error and Omissions Insurance. In §893.80 of the Wisconsin Statutes limits the amount recoverable against a political corporation, its officer, officials or employees for acts done in their official capacity to \$50,000 in tort liability of non-automobile cases and \$250,000 in automobile cases.

The City Attorney's Office has currently reviewed the status of pending or threatened litigation, claims and assessments to which the office has devoted substantive attention in the form of legal consultation or representation. Those which individually represent the maximum potential loss exposure in excess of \$1 million which existed on September 17, 2003.

Beverly Coleman v. Milwaukee Board of School Directors, USDC Case numbers 01-C-0729 and 01-C-0463 are consolidated cases wherein plaintiff alleges violations of Title VII of the Civil Rights Act of 1964, as amended in the form of discrimination on the basis of race (African American), and gender (female) by both discriminatory acts and by hostile work environment. Plaintiff also alleges retaliation for having engaged in protected activity of prior complaints of discrimination and alleges violations of the American with Disabilities Act in the form of disability discrimination and failure to accommodate. Plaintiff further alleges violation of her constitutional rights (Thirteenth Amendment) by acts of intentional discrimination based upon race impairing her right to contract. In February 2003, the Court allowed plaintiff to file a second amended complaint that incorporated earlier allegations along with more recent events, including her discharged from employment. Plaintiff claims her discharge was in violation of Title VII and the ADA. The second amended complaint has been answered, and a scheduling order entered. Trial is set for November 2004. MBSD intends to defend vigorously. There is a small likelihood of an unfavorable outcome. It is too early to determine the amount or range of potential loss.

Lamont A., et al v. Milwaukee Board of School Directors, et al, USDC Case number 01-C-0928. This is a federal civil rights suit, pending in the U.S. District Court, Eastern District of Wisconsin. It is filed on behalf of seven MPS special education students, alleging violations of the Individuals with Disabilities Education Act, the Rehabilitation Act of 1973 (Sec. 504) and Section 1983 of the Civil Rights Act of 1871 (42 U.S.C. 1983). The suit alleges that MPS violated the statutory and constitutional rights of the named plaintiffs as a result of MPS' delivery, and/or failure to provide education and services required under federal statutes. The suit also seeks certification of a class action of all MPS special education students, who number in excess of 16,000 students. The class allegations assert that MPS systematically violates the rights of all special education students. Plaintiffs seek equitable relief, including the entry of injunctions against MPS requiring MPS to ensure that the District provides education and services called for under the federal statutes. Plaintiffs also seek compensatory relief, in the form of compensatory education. It is unclear at this time whether plaintiffs are seeking monetary relief. Plaintiffs also seek attorneys fees and expenses. MBSD has denied the allegations in the complaint and has opposed the plaintiffs' motion to certify the purported class of plaintiffs. On May 23, 2003, the federal district court issued its decision regarding class certification. The Court narrowed the scope of the plaintiffs' claims by excluding those that the Court found required the plaintiffs to first exhaust their administrative remedies. The Court further ruled that the class definition must be changed to reflect its decision. The plaintiffs submitted an amended motion for class certification and the MBSD submitted its response at the end of July, 2003, opposing plaintiffs' motion. The parties are awaiting the Court's decision on the issue of an amended class.

MBSD continues to defend rigorously on both procedural and substantive grounds. It is still too early to determine the likelihood of an unfavorable outcome or the amount or range of potential loss.

Milwaukee Teachers' Education Association v. Milwaukee Board of School Directors, Milwaukee County Circuit Court case number 03CV002552. The plaintiff union claims that retroactive wage payments under the 2001-2003 collective bargaining agreement between the union and the Board were paid more than 31 days after the effective date of the contract in violation of Wis. Stat. § 109.03(1), Wisconsin's Wage Payment statute. The union seeks a declaratory ruling that the Board violated the statute, an injunction precluding the Board from violating the statute in the future and compelling the Board to make the retroactive wage payments, attorney's fees, and a penalty under § 109.11(2)(a) of up to 50% of the amount of wages that were not paid within the 31-day statutory period required by the statute. The Board paid the retroactive wages in April, 2003, approximately five months after ratification of the bargaining agreement that required the retroactive payments. The retroactive payments made at that time totaled \$11,820,452; accordingly, the maximum penalty that could be assessed against the Board is \$5,910,226.

The issuance of penalties under the wage payment statute is discretionary, and it seems somewhat unlikely that a judge would penalize a financially-strapped school district under the particular circumstances of this case: here, the union specifically sought delay of several months in implementation by the Board of salary increases under the 2002-2003 bargaining agreement; historically, retroactive payments (which require considerable time to calculate and implement) had been made only 1 to 3 months after implementation of salary increases. Arguably, this represents a contractually binding past practice that, under the statute, establishes an exception to the 31-day requirement; at a minimum, it constitutes a mitigating factor to any delay that would seem to support not imposing a penalty upon the Board. Regardless, it appears likely (though no decision has addressed the issue yet) that no discretionary penalty can be imposed under the statute unless a plaintiff has first filed a claim with the Department of Workforce Development Labor Standards Bureau, something the plaintiff failed to do so in the present case. In addition, the plaintiff failed to file a notice of injury and claim with the Board before commencing this action. Such notice is required under Wis. Stat. § 119.68(2), and failure to file such a notice mandates dismissal of a complaint. Although no cases have considered whether a notice of injury and claim is required before commencing a Chapter 109 wage action, there are persuasive arguments that it is. If the present case is dismissed due to the plaintiff's failure to file a notice of injury and claim, a current Court of Appeals decision (for which, however, a petition for review has been granted by the Wisconsin Supreme Court) holds that no discretionary penalties can be assessed under the Wage Payment statute if, at the time the complaint is filed, the wages at issue have already been paid. If the present case is dismissed because of the plaintiff's failure to comply with statutory notice of injury and claim requirements, no penalties would be available to plaintiffs under this Court of Appeals decision, assuming it is upheld by the Supreme Court, because the Board made the full retroactive payments at issue within a month after filing the present complaint. A scheduling conference is scheduled for September 16, 2003.

Grindrod v. MBSD, Spence Korte, Howard Fuller, Barbara Horton, Robert Jasna, Alan Brown, USDC Case No. Case No. 01-C-1198. Ms. Grindrod seeks to bring claims under Title VII of the Civil Rights Act of 1964, as amended, and 42 U.S.C. Sec. 1983 for Equal Protection. She claims that she has suffered reverse discrimination by not being selected as an Assistant Principal at MPS. Ms. Grindrod is Caucasian. She claims that less-qualified Black applicants have passed her over for the positions. She also claims that the system of recruitment and placement is unconstitutional. As discovery proceeds, she may also attempt to bring in other plaintiffs to make the case a class action. The trial is set for February 2004. If successful on her claim at trial Ms. Grindrod would be eligible to receive in judgment: back pay, compensatory damages, front pay (or reinstatement), and attorney's fees.

Holzbauer v. Safway Steel Products, Circuit Court Case No. 02-CV-003877. This lawsuit involves a recently filed counterclaim against MPS. Mr. Holzbauer was employed as a painter by MPS, and while engaged in painting the ceiling of an auditorium of an MPS elementary school fell through an opening left in the guardrail left at the top of scaffolding rented by MPS from Safway Steel Products. Normally, Wisconsin workers' compensation law would provide that the product-supplier would have no right of claim against Holzbauer's employer, however, the rental contract in this particular instance effectively waived this immunity. Safway and MPS strenuously disagree over whether the agreement is binding on MPS and whether, if valid, requires MPS to pay only for its share of any negligence or whether it must defend and indemnify Safway for its own negligence. If the contract is found to be enforceable, and MPS is found liable for its negligence and that of Safway, it is likely that the counterclaim against MPS could exceed \$1,000,000 as Holzbauer incurred approximately \$500,000 in medical expenses and workers' compensation benefits.

With regard to other pending or threatened litigation and unasserted claims, it is the opinion of the City Attorney that such litigation and claims will not be finally determined so as to result in individually or in the aggregate in a final judgment against Milwaukee Public Schools which would materially affect its financial position or its results of operations.

LEGAL OPINION

The legal opinion of Hawkins Delafield & Wood, New York, New York and Quarles & Brady LLP, Milwaukee, Wisconsin, Bond Counsel will be delivered to the purchasers of the Notes. A draft of the legal opinion for the Notes is included herein as Appendix B.

TAX STATUS

THE NOTES

In the opinion of Bond Counsel, under existing statutes and court decisions and assuming compliance with certain tax covenants described herein, interest on the Notes is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code, as amended and is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering their opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City and others in connection with the Notes, and Bond Counsel has assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Notes from gross income under Section 103 of the Code.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Notes. Bond Counsel renders their opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update their opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Notes.

CERTAIN ONGOING FEDERAL TAX REQUIREMENTS AND COVENANTS

The Code establishes certain significant ongoing requirements that must be met subsequent to the issuance and delivery of the Notes in order that interest on the Notes be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Notes, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Notes to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The City has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Notes from gross income under Section 103 of the Code.

CERTAIN COLLATERAL FEDERAL TAX CONSEQUENCES

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Notes. It does not purport to deal with all aspects of Federal taxation that may be relevant to a particular owner of a Note. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Notes.

Prospective owners of the Notes should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for Federal income tax purposes. Interest on the Notes may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Legislation affecting municipal bonds is regularly proposed. There can be no assurance that legislation enacted or proposed by the United States Congress after the date of issuance of the Notes will not have an adverse effect on the tax-exempt status or market price of the Notes.

STATE TAX MATTERS

Interest on the Notes is not exempt from State of Wisconsin income or franchise tax.

NO DESIGNATION AS QUALIFIED TAX-EXEMPT OBLIGATIONS

The Issuer will not designate the Notes as “qualified tax-exempt obligations” for purposes of Section 265 (b)(3) of the Code relating to the ability of certain financial institutions (within the meaning of Section 265(b)(5) of the Code) to deduct from income for federal income tax purposes, 80% of the interest expense that is allocable to carrying and acquiring tax-exempt obligations.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934 (the "Rule"), the Issuer shall covenant pursuant to a Resolution adopted by the Governing Body to enter into an undertaking (the "Undertaking") for the benefit of holders including beneficial holders of the Notes to provide notices of the occurrence of certain events enumerated in the Rule to certain information repositories or the Municipal Securities Rulemaking Board and to any state information depository. The detail and terms of the Undertaking, as well as the information to be contained in the notices of material events, are set forth in the Continuing Disclosure Certificate to be executed and delivered by the Issuer at the time the Notes are delivered in substantially the form attached hereto as Appendix B. The Issuer has never failed to comply in all material respects with any previous undertakings under the Rule to provide annual reports or notices of material events. A failure by the Issuer to comply with the Undertaking will not constitute an event of default on the Notes (although holders will have the right to obtain specific performance of the obligations under the Undertaking). Nevertheless, such a failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Notes in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Notes and their market price.

RATINGS

The City has requested ratings on the Notes from Fitch Ratings, Moody’s Investors Service, Inc. and from Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. Fitch Ratings has assigned a rating of “__” on the Notes. Moody’s Investors Service, Inc. has assigned a rating of “MIG 1” on the Notes. Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. has assigned a rating of “SP-1+” on the Notes.

The ratings, when issued, reflect only the views of the respective ratings agencies, and an explanation of the significance of such rating may be obtained therefrom. There is no assurance that the ratings will remain in effect for any given period of time or that they will not be revised, either upward or downward, or withdrawn entirely, by the respective agencies, if, in their judgment, circumstances so warrant. A revision or withdrawal of the credit rating could have an effect on the market price of the Notes.

FINANCIAL ADVISOR

Robert W. Baird & Co. has been retained as Financial Advisor to the City in connection with the issuance of the Notes. The Financial Advisor has requested and the City has consented to the Financial Advisor submitting bids for the Notes.

UNDERWRITING

The Notes have been purchased at competitive bidding conducted on September 25, 2003.

The award of the Notes was made to _____, its co-managers and associates.

The public reoffering prices or yields of the Notes are detailed on the cover of the Final Official Statement.

LEGISLATION

The City is not aware of any pending legislation that would cause significant adverse consequences to either the Notes, the financial condition of the City or the financial condition of MPS.

CLOSING DOCUMENTS AND CERTIFICATES

Simultaneously with the delivery of and payment for the Notes by the original purchasers thereof, the City will furnish to the original purchasers the following closing documents, in form satisfactory to Bond Counsel:

- (1) a signature and no litigation certificate;
- (2) a tax certificate;
- (3) a certificate of delivery and payment;
- (4) the opinion as to the legality of the Notes under Wisconsin law and, as to the tax-exempt status of the interest thereon for federal income tax purposes rendered by Hawkins, Delafield & Wood, New York, New York and Quarles & Brady LLP, Milwaukee, Wisconsin, Bond Counsel, in substantially the form as in Appendix B;
- (5) copies of this Official Statement issued in conjunction with the Notes within seven business days after the award of the Notes in accordance with SEC Rule 15c2-12(b)(3);
- (6) a Continuing Disclosure Certificate; and
- (7) a statement to the effect that this Official Statement, to the best of its knowledge and belief as of the date of sale and the date of delivery, is true and correct in all material respects and does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading.

REPRESENTATIONS OF THE CITY

To the best of our knowledge, the information in this Official Statement does not include any untrue statement of a material fact, nor does the information omit the statement of any material fact required to be stated therein, or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

ADDITIONAL INFORMATION

Additional information may be obtained from the undersigned City Comptroller upon request.

W. MARTIN MORICS
City Comptroller and Secretary
City of Milwaukee
Public Debt Commission
Room 1017-Zeidler Municipal Building
841 North Broadway
Milwaukee, Wisconsin 53202
(414) 286-2301

/s/ _____
W. Martin Morics
Comptroller
City of Milwaukee, Wisconsin

September 17, 2003

APPENDIX A

MILWAUKEE PUBLIC SCHOOLS

**Basic Financial Statements
Year Ended June 30, 2002 and Independent Auditors' Report**

**MILWAUKEE PUBLIC SCHOOLS
FINANCIAL STATEMENTS
For the Year Ended June 30, 2002
(Excerpts from Comprehensive Annual Financial Report)**

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777 East Wisconsin Avenue
Milwaukee, WI 53202-5337

Independent Auditors' Report

The Board of Directors of
The Milwaukee Public Schools:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Milwaukee Public Schools (District), as of and for the year ended June 30, 2002, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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, 2002, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the District adopted the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, during the year ended June 30, 2002.

The management's discussion and analysis; budgetary comparison information; and schedules of funding progress on pages 25 through 30; page 59 and page 60, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of





measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 31, 2002 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements 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 information contained in the statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion thereon.

KPMG LLP

October 31, 2002

MILWAUKEE PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2002

INTRODUCTION

This discussion and analysis of Milwaukee Public School's (MPS or District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2002. It should be read in conjunction with the MPS financial statements.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June 1999; GASB Statement No. 37, *Basic Financial Statement – and Management's Discussion and Analysis – State and Local Governments: Omnibus*; an amendment to GASB Statements No. 21 and No. 34, issued in June 2001; and, in GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, issued in 2001.

FINANCIAL HIGHLIGHTS

- The District's government-wide financial statements show that assets exceeded liabilities by \$358,951,954. Of this amount, \$415,911,456 is invested in capital assets net of related debt, and (\$56,959,502) is unrestricted.
- The District's governmental funds ended the 2002 fiscal year with a surplus of \$40,260,657. This surplus is primarily the result of recognizing bond proceeds for the Neighborhood School Initiative (\$33,300,000) and Qualified Zone Academy Bond program (\$8,590,000) in fiscal year 2002, while the majority of related expenditures will not be incurred until fiscal year 2003.
- Total fund balance for the governmental funds was \$164,304,199 at June 30, 2002. Of this amount, \$15,204,172 was reserved for encumbrances, \$4,404,429 was reserved for inventories, \$15,872,117 was reserved for self-insurance and prepaid expenditures, and \$128,823,481 remains unreserved.
- MPS added \$50,824,883 in long-term debt during the 2002 fiscal year due in large part to the \$33,300,000 bond issue associated with the District's Neighborhood School Initiative, and the \$8,590,000 lease-purchase debt associated with the Qualified Zone Academy Bond program. The District also added \$4,300,000 in American with Disabilities Act loans, \$3,034,883 in TEACH wiring loans, and \$1,600,000 for the Financial and Student Tracking System.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

1. **Management Discussion and Analysis** (this section)
2. **Basic Financial Statements**
 - Government-Wide Financial Statements
 - Statement of Net Assets
 - Statement of Activities
 - Fund Financial Statements
 - Government Funds
 - Fiduciary Funds
 - Notes to Financial Statements
3. **Required Supplementary Information (RSI)**
 - Budget-to-Actual Comparison
 - Employee pension plan liabilities, current and past service
4. **Combining Statements and Other Supplementary Information**
5. **Statistical Tables**

The **Management Discussion and Analysis** section discusses the financial performance of MPS during the year ending June 30, 2002. It includes an overview of the financial statements of the District and a report on the budgetary highlights.

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

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

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

	Government-Wide	Fund Statements	
	Statements	Governmental Funds	Fiduciary Funds
Scope	Entire MPS entity (not including fiduciary funds)	Activities that are not proprietary or fiduciary; e.g. school operations, capital projects, and debt service	Activities where MPS acts as trustee or agent for another; e.g. employee retirement plans
Required financial statements	<ul style="list-style-type: none"> - Statement of net assets - Statement of activities 	<ul style="list-style-type: none"> - Balance sheet - Statement of revenues, expenditures, and changes in fund balance 	<ul style="list-style-type: none"> - Statement of fiduciary net assets - Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resource focus	Accrual accounting and economic resource focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets consumed and liabilities due in the current year, or soon after; no capital assets	All assets and liabilities, both financial and capital, short-term and long-term
Type of inflow/outflow information	All revenues and expenses occurring during the year, regardless when cash is received or paid	Revenues when cash is received by year-end, or soon after; expenditures when goods and services have been received and payment is due by year-end, or soon after	All revenues and expenses occurring during the year, regardless 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.

Combining Statements and Other Supplementary Information provides the reader with a more detailed breakdown of the data found previously in the Fund Financial Statements.

Statistical Tables are found in the last section of the comprehensive annual financial report. These tables provide supplementary data that can be used to analyze the District's success in attaining its economic and educational goals. These tables include a ten-year history of revenues, expenditures, and cost per pupil. There is also historical information regarding assessed value, tax rates, enrollment, school buildings, and instructional staff.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

This is the first year MPS is providing government-wide financial statements using the full accrual basis of accounting; therefore, a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

Statement of Net Assets

MPS ended its fiscal year with net assets of \$359.0 million, of which \$415.9 million was invested in capital assets (net of debt) and \$(56.9) million was unrestricted.

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

	Government-wide Activities
Current Assets	\$180,009
Noncurrent Assets (net)	<u>483,212</u>
Total Assets	663,221
Current Liabilities	65,285
Noncurrent Liabilities	<u>238,984</u>
Total Liabilities	304,269
Net Assets	
Invested in capital assets, net of related debt	415,911
Unrestricted	<u>(56,959)</u>
Total Net Assets	<u>\$358,952</u>

Statement of Activities

On a government-wide basis the District ended the fiscal year with an increase in net assets.

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

Program Revenues:	
Charges for Services	\$ 9,011
Operating Grants and Contributions	164,573
Capital Grants and Contributions	<u>36,967</u>
Total Program Revenues	210,551
General Revenues:	
Property Taxes	175,075
Federal and State Aid	647,951
Interest and Investment Earnings	<u>858</u>
Total General Revenues	<u>823,884</u>
Total Revenues	1,034,435
Expenses:	
Instruction	589,461
Community Services	18,606
Pupil and Staff Services	106,353
General Administration	108,171
Business Services	154,804
School Nutrition	28,672
Interest on Long-Term Debt	1,374
Other	<u>480</u>
Total Expenses	<u>1,007,921</u>
Increase in Net Assets	<u>\$ 26,514</u>

Capital Assets

At June 30, 2002, MPS had \$733.8 million invested in capital assets including land, buildings, furniture and equipment, and software. This amount represents a net increase of \$45.2 million, or 6.6%, from the previous year. The increase came primarily in the area of construction in progress.

**Table 4
Milwaukee Public Schools
Change in Capital Assets**

<u>Governmental Activities:</u>	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets:				
Land	\$29,151,349	-	-	\$ 29,151,349
Construction in progress	94,264,525	\$ 44,988,566	(58,710,134)	80,542,957
Buildings	522,787,829	58,710,134	-	581,497,963
Furniture and equipment	30,813,344	1,479,223	(6,596,920)	25,695,647
Software	<u>11,504,055</u>	<u>5,404,748</u>	-	<u>16,908,803</u>
Total Capital Assets	688,521,102	110,582,671	(65,307,054)	733,796,719
Accumulated depreciation	<u>(288,429,572)</u>	<u>(13,100,711)</u>	<u>6,596,920</u>	<u>(294,933,363)</u>
Totals	<u>\$400,091,530</u>	<u>\$ 97,481,960</u>	<u>\$(58,710,134)</u>	<u>\$438,863,356</u>

Long-Term Obligations

At June 30, 2002, long-term obligations were \$244.6 million. This amount represents a net increase of \$52 million over the previous year. The increase is primarily the result of debt issues associated with the Neighborhood School Initiative and the Qualified Zone Academy Bond program.

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

<u>Government Activities</u> <u>(thousands)</u>	<u>July 1, 2001</u>	<u>Issuances</u>	<u>Retirements</u>	<u>June 30, 2002</u>
State of Wisconsin Trust Fund Loans	\$ 7,146	-	\$1,632	\$ 5,514
Americans with Disabilities Act Loans	4,008	\$ 4,300	406	7,902
EPA – Asbestos Abatement Note	77	-	77	-
TEACH Loan	1,323	3,035	266	4,092
Neighborhood School Initiative Bond	-	33,300	-	33,300
Qualified Zone Academy Bond	-	8,590	-	8,590
Financial and Student Tracking Note	-	<u>1,600</u>	-	<u>1,600</u>
Total	<u>12,554</u>	<u>50,825</u>	<u>2,381</u>	<u>60,998</u>
Capitalized Lease Obligations	<u>2,702</u>	-	<u>754</u>	<u>1,948</u>
Total Debt	<u>\$15,256</u>	<u>\$50,825</u>	<u>\$3,135</u>	<u>\$62,946</u>

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

The TEACH wiring loan program is sponsored by the State of Wisconsin and provides loans to schools and libraries for the purpose of installing the telecommunications wiring infrastructure necessary to provide local area networking and internet connections. This program offers a significant benefit to MPS in that one-half the amount borrowed is immediately forgiven by the State. MPS has entered into two TEACH loan agreements with the State. The first TEACH agreement authorized MPS to borrow up to \$15,000,000. The District borrowed \$9,212,237, leaving \$5,787,763 to lapse. The second TEACH agreement authorizes MPS to borrow up to \$14,360,800. At June 30, 2002 the District had used only \$169,369 of this new authority.

The Neighborhood Schools Initiative debt is part of a \$98.4 million 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 of an anticipated three tranches was issued in February 2002 in the amount of \$33.3 million. The remainder of the \$98.4 million bonding authority is expected to be financed through two additional tranches in a similar form and amount.

The Qualified Zone Academy Bond (QZAB) debt is in the form of a lease-purchase agreement collateralized by the furniture and equipment purchased with the proceeds. The QZAB program is sponsored by the Internal Revenue Service (IRS) and provides interest-free capital for the purpose of promoting academic programs in partnership with the business community. MPS used \$8.59 million of QZAB funding authority in December 2001 to purchase furniture and equipment for the new Bradley Technology and Trade School. Interest on this debt is paid by the IRS via tax credits to the lender.

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

Notes to Financial Statements

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

BUDGETARY HIGHLIGHTS

Annual budgets are prepared on a basis consistent with generally accepted accounting principals for the General, Construction, and Other Governmental Funds. Annual unencumbered appropriations lapse at fiscal year-end.

In May 2001 the MPS Board of School Directors adopted the District's fiscal year 2002 budget (July 1, 2001 – June 30 2002). The adopted budget by necessity used a *projection* of the 2002 student enrollment. In October 2001, the Board amended the budget to take into account the *actual* student enrollment as measured on the third Friday in September 2001 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 2001 the Board approved a revised 2002 fiscal year balanced budget in the amount of \$968,312,227. Including prior year encumbrances and carryover authority, the expenditure budget increased to \$1,001,078,183.

Both revenues and expenditures came in under budget in fiscal year 2002 in part due to a number of categorical programs remaining open at June 30, 2002. As these programs close out, revenues and expenditures will increase.

The expenditure variance is attributable in part to a timing difference. Schools are allowed to carryover expenditure authority to the following fiscal year up to a limit of 1.5% of their budget (3% cumulative). The total amount of expenditure authority committed, encumbered, or carried over at June 30, 2002 was \$9.8 million greater than at June 30, 2001. It is anticipated these carried over amounts will be expended in the 2003 fiscal year.

Next Year's Budget

In October 2002 the MPS Board approved a revised 2003 General Fund budget of \$1,040,449,789. This represents an increase of \$39,371,606 (3.9%) over the revised 2002 General Fund budget. The 2003 budget includes a \$21,892,175 (2.9%) increase in the state-imposed Revenue Limit to \$771,742,606. It also incorporates a wage increase of 2.25% for teachers and administrators. Encumbrances and carryovers are not included in this amount.

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, parents, students, investors, and creditors with a general overview of MPS' finances and to demonstrate the District's accountability for the funds it receives. If you have questions about this report or need additional financial information, you can contact:

**Milwaukee Public Schools
Department of Finance
5225 West Vliet Street
Milwaukee, WI 53208
Or visit our website at: www.milwaukee.k12.wi.us**

MILWAUKEE PUBLIC SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2002

	Notes	Governmental Activities
Assets		
Current Assets:		
Cash and cash equivalents	2	\$ 116,980,521
Due from other governments	3	42,629,762
Accounts receivable (net)	3	4,476,204
Inventory and prepaid expenses	1	15,922,541
Total current assets		180,009,028
Noncurrent Assets:		
Restricted cash and cash equivalents	2	39,994,595
Deposits for self insurance	1	4,354,005
Capital assets not being depreciated	5	109,694,306
Capital assets being depreciated, net	5	329,169,050
Total noncurrent assets		483,211,956
Total Assets		663,220,984
Liabilities		
Current Liabilities:		
Accounts payable and other current liabilities		56,313,455
Deferred revenue	1	2,974,475
Current portion of long-term obligations	7	5,616,096
Accrued interest payable on long-term liabilities		380,872
Total current liabilities		65,284,898
Non-Current Liabilities:		
Non-current portion of long-term obligations	7	238,984,132
Total Liabilities		304,269,030
Net Assets		
Invested in capital assets, net of related debt		415,911,456
Unrestricted		(56,959,502)
Total Net Assets		\$ 358,951,954

See accompanying notes to basic financial statements.

**MILWAUKEE PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2002**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total Governmental Activities</u>
Government activities:					
Instruction	\$ 589,461,207	992,481	82,443,894	33,847,928	(472,176,904)
Support services:					
Community services	18,606,289	3,634,145	11,562,944	-	(3,409,200)
Pupil and staff services	106,353,611	-	4,979,715	-	(101,373,896)
General, administration and central services	108,170,630	-	714,331	-	(107,456,299)
Business services	154,803,929	153,322	41,114,899	3,118,872	(110,416,836)
School nutrition services	28,672,131	4,230,650	23,757,262	-	(684,219)
Interest on long-term debt	1,373,719	-	-	-	(1,373,719)
Other	479,600	-	-	-	(479,600)
Total support services	418,459,909	8,018,117	82,129,151	3,118,872	(325,193,769)
Total School District	\$ 1,007,921,116	9,010,598	164,573,045	36,966,800	(797,370,673)
General Revenues:					
Taxes:					
Property taxes levied for general purposes					\$ 166,503,260
Property taxes levied for debt service					2,773,885
Property taxes levied for community services					5,797,660
Federal and State aid not restricted to a specific purpose					
General (Equalization Aid)					542,432,938
Other					105,517,681
Interest and investment earnings					857,961
Total general revenues					823,883,385
Changes in net assets					26,512,712
Net assets - beginning					332,439,242
Net assets - ending					\$ 358,951,954

See accompanying notes to basic financial statements.

**MILWAUKEE PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2002**

	Notes	<u>General</u>	<u>Construction</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Deposits with the City of Milwaukee and other cash	2	\$ 95,568,889	\$ 21,411,632	\$ -	\$ 116,980,521
Receivables:					
Due from other governmental units	3	33,974,457	-	8,655,305	42,629,762
Due from other funds	4	11,167,390	30,141,766	6,286,447	47,595,603
Other	3	4,476,204	-	-	4,476,204
Total Receivables		<u>49,618,051</u>	<u>30,141,766</u>	<u>14,941,752</u>	<u>94,701,569</u>
Restricted Cash and Cash equivalents	2	39,994,595	-	-	39,994,595
Inventories	1	3,656,249	-	748,180	4,404,429
Deposits for self insurance	1	4,354,005	-	-	4,354,005
Prepaid expenditures		<u>11,518,112</u>	<u>-</u>	<u>-</u>	<u>11,518,112</u>
Total assets		<u>\$ 204,709,901</u>	<u>\$ 51,553,398</u>	<u>\$ 15,689,932</u>	<u>\$ 271,953,231</u>
Liabilities and Fund Balance					
Liabilities:					
Accounts payable		\$ 9,189,804	\$ 500,431	\$ 458,303	\$ 10,148,538
Contracts payable		491,329	2,435,476	-	2,926,805
Accrued salaries and wages		15,926,759	-	-	15,926,759
Deferred Revenue	1	2,974,475	-	-	2,974,475
Accrued claims for self-insurance	9	23,862,007	-	-	23,862,007
Accrued pensions payable	10	4,150,417	-	-	4,150,417
Other accrued expenditures		64,428	-	-	64,428
Due to other funds	4	30,141,766	6,286,447	11,167,390	47,595,603
Total liabilities		<u>86,800,985</u>	<u>9,222,354</u>	<u>11,625,693</u>	<u>107,649,032</u>
Fund balance:					
Reserved for:					
Encumbrances		15,204,172	-	-	15,204,172
Inventories		3,656,249	-	748,180	4,404,429
Self insurance deposits and prepaid expenditures		15,872,117	-	-	15,872,117
Unreserved:					
Designated by Board for subsequent year's expenditures	8	63,444,184	-	-	63,444,184
Undesignated		<u>19,732,194</u>	<u>42,331,044</u>	<u>3,316,059</u>	<u>65,379,297</u>
Total fund balance		<u>117,908,916</u>	<u>42,331,044</u>	<u>4,064,239</u>	<u>164,304,199</u>
Total liabilities and fund balance		<u>\$ 204,709,901</u>	<u>\$ 51,553,398</u>	<u>\$ 15,689,932</u>	<u>\$ 271,953,231</u>

See accompanying notes to the basic financial statements.

**MILWAUKEE PUBLIC SCHOOLS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2002**

Total fund balances - governmental funds \$ 164,304,199

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in the governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.

Cost of capital assets	\$ 733,796,719	
Accumulated depreciation	(294,933,363)	
Net capital assets		438,863,356

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	62,946,495	
Accrued bond interest payable	380,872	
Compensated absences (sick leave and vacations)	6,680,603	
Self insurance claims	3,246,203	
Workers' compensation claims	2,375,064	
Life insurance benefits & other long-term liabilities	1,857,598	
Termination benefits payable	166,728,766	
Total long-term debt liabilities		(244,215,601)

Total net assets - government activities \$ 358,951,954

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, 2002

	Notes	<u>General</u>	<u>Construction</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Property tax levy		\$ 161,632,008	\$ 10,328,700	\$ 2,773,885	\$ 174,734,593
Lunchroom sales		-	-	4,230,650	4,230,650
Other local sources		9,680,243	329,208	-	10,009,451
State aid:					
Equalization aid		541,388,517	1,044,421	-	542,432,938
Special classes		41,148,872	-	-	41,148,872
Integration		38,830,913	-	-	38,830,913
Other state aid		45,394,469	-	11,172,164	56,566,633
Federal aid:					
Education Consolidation					
Improvement Act		48,563,189	-	-	48,563,189
School nutrition services		-	-	23,096,314	23,096,314
Erate Refunds		-	3,118,872	-	3,118,872
Intergovernmental aid from the					
City of Milwaukee	7	-	23,500,000	-	23,500,000
Other federal aid		54,871,879	-	13,329,524	68,201,403
Total revenues		<u>941,510,090</u>	<u>38,321,201</u>	<u>54,602,537</u>	<u>1,034,433,828</u>
Expenditures					
Instructional services:					
Undifferentiated curriculum		355,934,282	-	-	355,934,282
Regular and other curriculum		110,567,911	-	844,408	111,412,319
Special curriculum		93,443,822	-	1,990,080	95,433,902
Total instructional services		<u>559,946,015</u>	<u>-</u>	<u>2,834,488</u>	<u>562,780,503</u>
Community services		18,312,322	-	-	18,312,322
Pupil and staff services		84,849,657	-	21,423,702	106,273,359
General and school					
building administration		82,821,806	-	-	82,821,806
Business services		150,643,630	38,182,842	-	188,826,472
School nutrition services		-	-	28,602,348	28,602,348
Debt service:					
Principal		753,525	-	2,381,405	3,134,930
Interest		239,368	-	753,490	992,858
Other		53,253,456	-	-	53,253,456
Total expenditures		<u>950,819,779</u>	<u>38,182,842</u>	<u>55,995,433</u>	<u>1,044,998,054</u>
Excess of revenues over					
(under) expenditures		(9,309,689)	138,359	(1,392,896)	(10,564,226)
Other Financing Sources (Uses)					
Proceeds from City of Milwaukee					
general obligation notes and bonds	7	-	5,900,000	-	5,900,000
Proceeds from Qualified Zone Academy Bonds	7	-	8,590,000	-	8,590,000
Proceeds from Neighborhood Schools					
Initiative bonds	7	-	33,300,000	-	33,300,000
Proceeds from Teach Loan	7	-	-	3,034,883	3,034,883
Transfers in (out)	4	(351,168)	-	351,168	-
Total other financing sources (uses)		<u>(351,168)</u>	<u>47,790,000</u>	<u>3,386,051</u>	<u>50,824,883</u>
Net change in fund balances		(9,660,857)	47,928,359	1,993,155	40,260,657
Fund balance (deficit):					
Beginning of year, as restated	1	<u>127,569,773</u>	<u>(5,597,315)</u>	<u>2,071,084</u>	<u>124,043,542</u>
End of year		<u>\$ 117,908,916</u>	<u>\$ 42,331,044</u>	<u>\$ 4,064,239</u>	<u>\$ 164,304,199</u>

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENTS OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2002

Net change in fund balances - total governmental funds \$ 40,260,657

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	\$ 51,872,537	
Depreciation expense reported in the statement of activities	<u>(13,100,711)</u>	
Amount by which capital outlays are greater (less) than depreciation in the current period.		38,771,826

Bonds or loans issued in the governmental funds are accounted for as other financing sources. In the government-wide statements they constitute a long-term liability and are not recorded as revenues. (50,824,883)

Repayment of debt service principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the statement of net assets. 3,134,930

Accrued vacation reported in the statement of activities does not require the use of current financial resources and , therefore, is not reported as expenditures in governmental funds. (695,100)

Workers' compensation claims reported in the statement of activities do not require the use of current financial resources and , therefore, are not reported as expenditures in governmental funds. 141,492

General insurance claims reported in the statement of activities do not require the use of current financial resources and , therefore, are not reported as expenditures in governmental funds. 601,892

Life insurance benefits reported in the statement of activities do not require the use of current financial resources and , therefore, are not reported as expenditures in governmental funds. 68,333

Termination benefits payable reported in the statement of activities do not require the use of current financial resources and , therefore, are not reported as expenditures in governmental funds. (4,848,766)

In the governmental funds, interest payments on outstanding debt are reported as an expenditure when paid. In the statement of activities, interest is reported as it accrues. (97,669)

Change in net assets of governmental activities	\$ 26,512,712
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See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2002

	Employee Retirement Funds	Private Purpose Trust	Agency
Assets			
Deposits with City of Milwaukee and other cash	\$ -	\$ 154,838	\$ 4,983,079
Investments	85,501,771	1,223,244	-
Receivables	204,637	-	-
	<hr/>	<hr/>	<hr/>
Total assets	85,706,408	1,378,082	4,983,079
	<hr/>	<hr/>	<hr/>
Liabilities And Net Assets			
Liabilities:			
Accounts payable	903,750	-	-
Due to student organizations	-	-	4,983,079
	<hr/>	<hr/>	<hr/>
Total liabilities	903,750	-	4,983,079
	<hr/>	<hr/>	<hr/>
Net Assets			
Held in Trust for:			
Supplemental pension benefits	84,802,658	-	-
Endowments	-	1,378,082	-
	<hr/>	<hr/>	<hr/>
Total net assets	\$ 84,802,658	\$ 1,378,082	\$ -
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to the basic financial statements.

**MILWAUKEE PUBLIC SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2002**

	Employee Retirement Funds	Private Purpose Trust
Additions		
Employer contributions	\$ 12,035,044	\$ -
Participants contributions	313,594	-
Private Donations	-	216,311
Interest income	-	71,091
Investment income (loss)	<u>(2,787,535)</u>	<u>-</u>
Total additions	9,561,103	287,402
Deductions		
Scholarships & awards	-	271,975
Support services	<u>10,637,452</u>	<u>-</u>
Total deductions	<u>10,637,452</u>	<u>271,975</u>
Changes in net assets	(1,076,349)	15,427
Net Assets--Beginning	<u>85,879,007</u>	<u>1,362,655</u>
Net Assets--Ending	<u>\$ 84,802,658</u>	<u>\$ 1,378,082</u>

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Administers the property tax levy adopted by the School Board and collects and remits the property taxes to the District.

Acts as the Treasurer for the major portion of the District's cash.

Issues debt for the benefit of the District for the purchase of sites and buildings.

Basis of Presentation

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

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

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

The District reports the following major governmental funds:

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

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

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

Additionally, the District reports the following fund types:

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

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

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

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

Measurement Focus and Basis of Accounting – The government-wide and fiduciary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Non-exchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

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

Investments – Investments, including investments in the Supplemental Pension Plans, are reported at fair value based on quoted market prices. Short-term investments are reported at cost, which approximates fair value. Investments principally

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

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. The specific identification basis is used in the determination of realized gains and losses on sales of securities excluding the investment in the State of Wisconsin Fixed Retirement Investment Trust Fund. Purchases and sales of securities are recorded on a trade date basis. Net investment income in the State of Wisconsin Fixed Retirement Investment Trust Fund consists of realized and unrealized gains and losses and investment income.

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

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

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

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

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

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

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

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, except in limited situations, do not vest. The value of unused sick leave benefits has not been determined and the expenditures for such benefits are not recognized until they are used. Accordingly, no provision is made in the financial statements for accumulated sick leave benefits.

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Insurance Deposits - The District has recorded deposits in the General Fund for self-funded health insurance and current life insurance obligations and a reserve of fund balance aggregating \$4,354,005 at June 30, 2002, to provide for payment of future claims.

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

- a. *Invested in Capital, Net of Related Debt* – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. *Restricted* – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. The District has no restricted net assets at June 30, 2002.
- c. *Unrestricted* – This consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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

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

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses/expenditures for the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements – Effective July 1, 2002, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments* and Statement No. 37, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus*. These Statements establish new financial reporting requirements and significantly change the format and content of the District’s financial statements. They require new information and restructure much of the information that the District has presented in the past.

Effective July 1, 2002, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*. This Statement modifies, establishes, and rescinds certain financial statement note disclosures.

These new standards include the presentation of net assets on the statement of net assets, the classification of assets and liabilities as current or noncurrent on the statement of net assets, the definition of operating versus nonoperating activities, and the inclusion of management’s discussion and analysis as required supplementary information.

Effective July 1, 2002, the District adopted the provisions of Governmental Accounting Standards Board Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. This Interpretation clarifies that long-term indebtedness, including debt issues, compensated absences and claims and judgements, should be recorded as a fund liability in governmental funds when they mature (i.e. are due); and unmatured liabilities should only be reported as general long-term liabilities in the government-wide statement of net assets.

MILWAUKEE PUBLIC SCHOOLS
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Prior to implementation of GASB Interpretation No. 6, the District recorded the entire liability for compensated absences and self-insurance claims in the general fund. As a result of adopting this statement, the compensated absences and self insurance claims liability were reduced by \$5,985,503 and \$3,182,325 and the fund balance was increased by \$9,167,828 in the general fund as of July 1, 2001. A reconciliation of the fund balance of the general fund as of July 1, 2001 is as follows:

Fund balance as previously stated:	\$118,401,945
Accrued Compensated Absences	5,985,503
Self-insurance claims	<u>3,182,325</u>
Fund balance as adjusted	<u>\$127,569,773</u>

2. DEPOSITS AND INVESTMENTS

As required by the Wisconsin Statutes, the City of Milwaukee acts as Treasurer for the Board of School Directors. A major portion of the District's cash is held and controlled by the Treasurer of the City of Milwaukee and is managed and commingled with other City funds. The City of Milwaukee retains all investment income and assumes all investment gains and losses related to the investment of District cash. At June 30, 2002, the aggregate cash balance held by the City Treasurer for the District's governmental fund types and fiduciary fund types were reconciled to the City Treasurer's and Comptroller's records.

The following is a summary of deposits held by the City of Milwaukee and other cash and cash equivalents on June 30, 2002:

	City Treasurer	Other	Total
General Fund	\$ 93,798,762	\$ 41,764,722	\$135,563,484
Construction Fund	21,411,632	-	21,411,632
Fiduciary Fund Types	-	<u>5,157,917</u>	<u>5,157,917</u>
Total	<u>\$115,210,394</u>	<u>\$46,922,639</u>	<u>\$162,133,033</u>

Deposits and Other Cash - At year-end, the District's demand deposit balance (exclusive of funds held and controlled by the Treasurer of the City of Milwaukee) was \$46,922,639 (including a \$20,000 certificate of deposit) and the bank balance was \$22,008,710. Of the bank balance, \$7,082,343 was covered by the Federal Depository Insurance Corporation ("FDIC") and the State of Wisconsin Public Deposit Guarantee Fund and the remainder is collateralized through collateralization agreements with various depository institutions (underlying securities are in street name and are held by the trust departments of these depository institutions).

The \$115,210,394 in funds held and controlled by the Treasurer of the City of Milwaukee are insured by the Federal Depository Insurance Corporation and the Wisconsin Public Deposit Guarantee Fund or are collateralized through collateralization agreements in the name of the City of Milwaukee. Underlying securities for the collateralization agreements are held in the City of Milwaukee's name by the trust departments of various depository institutions.

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

Time deposits

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

The State of Wisconsin local government pooled investment fund

Bonds or securities of any county, city, drainage District, vocational or technical college, village, town, school District in Wisconsin, local exposition District, local professional baseball park District or University of Wisconsin Hospitals and Clinics Authority

Repurchase agreements

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

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

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

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

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

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

FIDUCIARY FUNDS

	Category 3	Carrying Value
Categorized Investments:		
U. S. Treasury Notes	\$ 1,876,291	\$ 1,876,291
U. S. Government Bonds	7,583,344	7,583,344
Mortgage-Backed Securities	6,257,226	6,257,226
Non-Government Obligations	<u>1,059,526</u>	<u>1,059,526</u>
	<u>\$16,776,387</u>	16,776,387
Noncategorized Investments:		
Investment in State of Wisconsin Fixed Retirement Investment Trust Fund		49,808,919
Investment in State of Wisconsin Variable Retirement Investment Trust Fund		15,303,006
Money Market Mutual Fund		<u>4,816,703</u>
Total Investments		<u>\$86,705,015</u>

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

In accordance with the Wisconsin Retirement System and Employees' Retirement System of the City of Milwaukee's investment policies, the District's pension plans invests in mortgage-backed securities. These securities are reported at fair value in the statement of fiduciary net assets and are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgages, which may result from a decline in interest rates. For example, if interest rates decline and homeowners refinance mortgages, thereby prepaying the mortgages underlying these securities, the cash flow from interest payments is reduced and the value of these securities declines. Likewise, if homeowners pay on mortgages longer than anticipated, the cash flows are greater and the return on the initial investment would be higher than anticipated. The District's pension plans invests in mortgage-backed securities to diversify the portfolio and to increase the return while minimizing the extent of risk.

MILWAUKEE PUBLIC SCHOOLS
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3. RECEIVABLES

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

	General	Non-Major Funds	Total
Receivables:			
Accounts	\$4,591,725	-	4,591,725
Intergovernmental – State	33,953,067	5,969,223	39,922,290
Intergovernmental – Federal	21,707	2,686,082	2,707,789
Gross Receivables	38,566,499	8,655,305	47,221,804
Less: Allowance for Uncollectibles	(115,838)	-	(115,838)
Net Total Receivables	<u>\$38,450,661</u>	<u>8,655,305</u>	<u>47,105,966</u>

4. INTERFUND TRANSACTIONS

Interfund borrowings are reflected as "Due from/to Other Funds" on the accompanying financial statements.

The following balances as of June 30, 2002 represent Due to/from balances among all funds:

General Fund:

Due to Construction *	\$(30,141,766)
Due from Non-Major Funds **	<u>11,167,390</u>
Total – Due to/from other funds	\$(18,974,376)

Construction Fund:

Due to Non-Major Funds*	\$(6,286,447)
Due from General Fund*	<u>30,141,766</u>
Total – Due to/from other funds	\$23,855,319

Non-Major Funds:

Due to General Fund**	\$(11,167,390)
Due from Construction Fund*	<u>6,286,447</u>
Total – Due to/from other funds	\$(4,880,943)

* Construction project costs accumulated to be billed at a later date

** Cumulative net payroll and other operating costs for the Individuals with Disabilities Education Act and nutrition services programs and operations to be reimbursed by federal/state aid.

The Operating Transfer of \$351,168 from the General Fund to the Non-Major funds funded an operating deficit of \$351,168 in the Categorically Aided Programs fund.

**MILWAUKEE PUBLIC SCHOOLS
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5. CAPITAL ASSETS

Capital Assets activity for the year ended June 30, 2002 was as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$29,151,349	-	-	\$ 29,151,349
Construction in progress	94,264,525	44,988,566	(58,710,134)	80,542,957
Total capital assets not being depreciated	<u>\$123,415,874</u>	<u>44,988,566</u>	<u>(58,710,134)</u>	<u>109,694,306</u>
Capital assets being depreciated:				
Buildings	522,787,829	58,710,134	-	581,497,963
Furniture and equipment	30,813,344	1,479,223	(6,596,920)	25,695,647
Software	11,504,055	5,404,748	-	16,908,803
Total capital assets being depreciated	<u>565,105,228</u>	<u>65,594,105</u>	<u>(6,596,920)</u>	<u>624,102,413</u>
Less accumulated depreciation for:				
Buildings	(262,008,656)	(9,078,576)	-	(271,087,232)
Furniture and equipment	(24,088,332)	(1,606,592)	6,596,920	(19,098,004)
Software	(2,332,584)	(2,415,543)	-	(4,748,127)
Total accumulated depreciation	<u>(288,429,572)</u>	<u>(13,100,711)</u>	<u>6,596,920</u>	<u>(294,933,363)</u>
Total capital assets being depreciated, net	<u>276,675,656</u>	<u>52,493,394</u>	<u>-</u>	<u>329,169,050</u>
Governmental activities capital assets, net	<u>\$400,091,530</u>	<u>\$97,481,960</u>	<u>\$(58,710,134)</u>	<u>\$438,863,356</u>

Depreciation expense was charged to functions/programs of the Milwaukee Public Schools as follows:

Governmental activities:	
Instruction	\$11,040,307
Community Services	12,671
Pupil and Staff Services	171,434
General and School Building	
Administrative	192,102
Business Services	911,129
School Nutrition	20,333
Other	<u>752,735</u>
Total Depreciation	<u>\$13,100,711</u>

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
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6. SHORT-TERM BORROWINGS

The City of Milwaukee issued short-term revenue anticipation notes on behalf of the District in the amount of \$112,000,000 in September 2001. These notes bear an interest rate of 2.7 to 3.50% and mature in September 2002. The debt was repaid during June 2002 from the District's equalization aid allocations received from the State government.

7. LONG-TERM OBLIGATIONS

The City of Milwaukee school bonds, notes, Wisconsin Trust Fund loans, and capital lease obligations outstanding at June 30, 2002, totaled \$141,385,806. Of this total, \$78,439,311 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 \$62,946,495 represents trust fund loans, capital lease obligations, and promissory notes, the debt service of which is being reimbursed by the District to the City from the District's property tax levy. Since the District does have an obligation to repay this debt under intergovernmental cooperation agreements with the City, this debt is reflected in the District's long-term obligations.

Long-term obligations of the District are as follows:

Type	Original Amount	Balance at July 1, 2001	Additions	Reductions	Balance at June 30, 2002	Amount due in one year
Intergovernmental cooperation agreements with the City of Milwaukee:						
State of Wisconsin Trust Fund Loans:						
4.5% notes, due in annual installments to March, 2004	5,000,000	1,715,347	-	546,830	1,168,517	571,438
5.75% notes, due in annual installments to March, 2005	5,000,000	2,291,191	-	525,730	1,765,461	555,970
5.75% notes, due in annual installments to March, 2006	5,000,000	3,140,150	-	559,901	2,580,249	592,096
American with Disabilities Act Loans:						
4.5%–4.65% variable rate notes, due in annual installments to December, 2007	2,000,000	1,300,000	-	195,000	1,105,000	205,000
3.5%-4.25% note, due in annual installments to December, 2008	605,000	447,700	-	57,475	390,225	57,475
4.75%-5.375% Series O-G.O. Bonds, due in annual installments to June, 2014	300,000	260,000	-	20,000	240,000	20,000
4.75%-5.625% Series R Bonds, due in annual installments to September, 2016	2,000,000	2,000,000	-	133,416	1,866,584	133,416
3.59% Series T Bonds, due in annual installments to September, 2017	3,095,000	-	3,095,000	-	3,095,000	206,492
3.74% Series W Bonds, due in annual installments to September, 2017	1,205,000	-	1,205,000	-	1,205,000	80,446
EPA-Asbestos Abatement Promissory Note, non-interest bearing, due in semiannual installments of \$38,568 to May, 2002	771,369	77,136	-	77,136	-	-
5.0% Teach Loan, due in annual installments to March, 2009	6,922,502	1,322,718	3,034,883	265,917	4,091,684	256,563
3.5%-4.875% NSI-Neighborhood Schools Initiative Bonds, due in annual installments to February, 2021	33,300,000	-	33,300,000	-	33,300,000	-
QZAB-Qualified Zone Anticipated, due in annual installments to December, 2016	8,590,000	-	8,590,000	-	8,590,000	1,076,208

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Type	Original Amount	Balance at July 1, 2001	Additions	Reductions	Balance at June 30, 2002	Amount due in one year
Financial & Student Tracking Systems- 3.74%-6.24% note, due in annual installments to March, 2008	1,600,000	-	1,600,000	-	1,600,000	268,387
Capital Lease Obligations	4,437,000	2,702,300	-	753,525	1,948,775	466,525
Total Intergovernmental cooperation agreement debt		15,256,542	50,824,883	3,134,930	62,946,495	4,490,016
Accrued Compensated Absences		5,985,503	695,100	-	6,680,603	-
Workers' Compensation Claims		5,078,131	2,882,484	3,023,976	4,936,639	681,574
General Insurance Claims		2,052,019	-	601,892	1,450,127	83,925
Life Insurance Benefits		1,640,880	-	68,333	1,572,547	360,581
Pension-related debt – Wisconsin Retirement System		161,880,000	4,848,766	-	166,728,766	-
Liability for Other Long-Term Benefits		285,051	-	-	285,051	-
Total Long-term Obligations		<u>\$192,178,126</u>	<u>\$59,251,233</u>	<u>\$6,829,131</u>	<u>\$244,600,228</u>	<u>5,616,096</u>

Aggregate cash flow requirements for the retirement of the intergovernmental cooperation agreement debt (excluding the capital lease obligations) as of June 30, 2002, are as follows:

Fiscal Year Ended June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 4,292,351	\$ 2,427,165	\$ 6,719,516
2004	4,463,890	2,374,317	6,838,207
2005	4,023,191	2,257,405	6,280,596
2006	3,531,530	2,164,877	5,696,407
2007	2,927,036	2,103,832	5,030,868
2008-2012	11,840,133	8,526,116	20,366,249
2013-2017	14,009,581	6,363,802	20,373,383
2018-2022	<u>15,910,008</u>	<u>2,053,844</u>	<u>17,963,852</u>
Total	<u>\$60,997,720</u>	<u>\$28,271,358</u>	<u>\$89,269,078</u>

**MILWAUKEE PUBLIC SCHOOLS
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The following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at June 30, 2002:

Fiscal Year Ended June 30	Amount
2003	\$ 555,263
2004	540,104
2005	528,318
2006	256,088
2007	250,623
2008-2012	<u>59,914</u>
 Total minimum lease payments	 2,190,310
 Less amount representing interest	 <u>(241,535)</u>
 Present value of minimum lease payments	 <u>\$ 1,948,775</u>

The maximum allowable amount of City of Milwaukee debt (including school debt) outstanding at any time shall not be greater than 5% of the total equalized taxable property in the City of Milwaukee (State Statute Chapter 67.03). State Statute Chapter 119.49 further authorizes referendum-approved bonding in an additional amount equivalent to 2% of the equalized taxable property for school capital purposes. The total equalized taxable property in the City of Milwaukee for calendar year 2002 was \$20,298,387,000, and the 5% debt limit was \$1,014,919,350. No referendum-approved debt is outstanding at June 30, 2002.

8. FUND BALANCE

Designated for Subsequent Year's Expenditures – The unreserved fund balance of the General Fund is \$83,176,378 at June 30, 2002. This unreserved balance includes \$63,444,184 designated to partially fund school operating expenditures during the period July 1 through December 31, 2002.

Based on recent operating experience, management anticipates that approximately \$443,401,151 will be required to fully cover the anticipated School Operations operating expenditures during the period July 1 through December 31, 2002. In addition to the fund balance designated for subsequent year's expenditures, approximately \$295,055,000 of state aids will be used to fund operating expenditures through December 31, 2002.

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, 2002, is as follows:

General Fund unreserved fund balance	\$83,176,378
 Amount required to fund six months of the subsequent year's property tax levy: Current year's School Operations tax levy (\$158,610,459) multiplied by a ratio of subsequent year's tax days from July 1 to December 31 (72) to total calendar school year school days (180)	 <u>63,444,184</u>
 General Fund undesignated fund balance	 <u>\$ 19,732,194</u>

MILWAUKEE PUBLIC SCHOOLS
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9. RISK MANAGEMENT

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

The District provides health insurance benefits to employees and retirees through two fully-insured health maintenance organizations and through a self-insured comprehensive indemnity/PPO plan. Effective November 1, 2002, Milwaukee Public Schools will have only one health maintenance organization and one dental maintenance organization. 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 two fully-insured dental maintenance organizations and through a self-insured indemnity plan. The District does not purchase stop-loss insurance for its self-insured dental indemnity plan. The District is fully self-insured for worker's compensation benefits and does not purchase stop-loss insurance.

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

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

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

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

	Year Ended June 30, 2002	Year Ended June 30, 2001
Beginning of Year Liability	\$ 29,046,000	\$ 24,026,000
Current Year Claims and Changes in Estimate	142,255,000	118,661,000
Claim Payments	<u>(140,245,000)</u>	<u>(113,641,000)</u>
End of Year Liability	<u>\$ 31,056,000</u>	<u>\$ 29,046,000</u>

The District has recognized the entire liability for Health and Dental insurance, which totaled \$23,096,687 and \$20,274,970 as of June 30, 2002 and 2001, respectively, in the general fund. The District has also recognized a liability of \$1,126,080 and \$765,945 as of June 30, 2002 and 2001, respectively, in the general fund for other claims that were due as of the respective year end. All other claims liabilities are considered to be general long term liabilities and are recognized in the government wide financial statements.

10. RETIREMENT PLANS

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

MILWAUKEE PUBLIC SCHOOLS
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Wisconsin Retirement System - All eligible District employees (certificated employees, principally teachers) participate in the Wisconsin Retirement System (WRS), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). All permanent certificated employees expected to work over 440 hours a year (teachers) are eligible to participate in the WRS. Covered employees in the general/teacher category are required by statute to contribute 5.2% of their salaries to the plan for calendar year 2002. The District pays all employer and principally (with the exception of some substitute teachers) all employee required contributions to the plan. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

The payroll for the District's employees covered by the WRS for the year ended December 31, 2001, was \$372,223,000; the District's total payroll was \$508,431,000. The total required contribution for the year ended December 31, 2001, was \$40,945,000, which consisted of \$21,589,000, or 5.8% of payroll, from the District and \$19,356,000, or 5.2% of payroll, from the District on behalf of the employees. The amount contributed equaled the required contribution. Total contributions for the years ending December 31, 2000 and 1999 were \$42,889,000 and \$44,782,000, respectively, equal to the required contributions for each year.

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

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

The WRS uses the "Frozen Initial Liability Actuarial Valuation Method" in establishing employer contribution rates. Under this method the unfunded actuarial accrued liability (pensions-related debt) is affected only by the monthly amortization payments, compounded interest, the added liability created by new employer units, and any liabilities caused by changes in benefit provisions. All actuarial gains and losses arising from the difference between actual and assumed experience are reflected in the determination of the normal cost. Employers' pension-related debt for prior service costs is being amortized over a 40-year period beginning January 1, 1990. Historical trend information showing the WRS's progress in accumulating sufficient assets to pay benefits is presented in the WRS's annual financial report. As of December 31, 2001, pension-related debt for the District was \$166,729,000 or 8.0% of the WRS's total Unfunded Accrued Actuarial Liability for prior service contribution receivable of \$2,078,912,289. This liability was determined in accordance with the provisions of GASB Statement No. 27 regarding pension-related debt. The actuarial methods and assumptions used are unchanged from those used prior to the implementation of GASB Statement No. 27.

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

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

The payroll for the District's employees covered by the System for the year ended December 31, 2001, was \$106,066,000; the District's total payroll was \$508,431,000. The total required contribution for the year ended December 31, 2001, was 5,884,000 or 5.5% of covered payroll, from the District on behalf of the employees and equaled the required contribution. Total contributions for the years ending December 31, 2000 and 1999 were \$5,881,000 and \$5,851,000 respectively, equal to the required contributions for each year.

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

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

Supplemental Retirement Plans

a. Plan Descriptions and Funding Policies

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

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

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

Participants are eligible for retirement benefits provided they have made three years of participant contributions and have eight or more years of vesting service. The Plan provides for unreduced benefits at age 60, and for reduced benefits between ages 55 and 60. For participants who retire between ages 60 and 65 under the System or under the WRS, a special supplemental benefit, as defined, shall be paid until the retiree attains age 65. Benefits are paid in the form of monthly payments based on years of service and average monthly compensation for the three highest fiscal years of earnings preceding the date of retirement to a maximum benefit, from this Plan, and either the System, or WRS, of 70% of average monthly compensation. The benefit paid under this Plan for a participant whose benefit is related to the WRS shall be reduced by the amount of the WRS benefit paid. Wisconsin Act 11

MILWAUKEE PUBLIC SCHOOLS
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directly affects the Plan by decreasing the benefits paid and increasing the funded status of the Plan for which the Administration is in the midst of bargaining the impact with the union. This impact would customarily be recognized as a one-time gain and amortized over a nine-year period until the collective bargaining impact is finalized. The actuarial value for fiscal year 2002 was finalized with recognition of the impact of Wisconsin Act 11 and the total actuarial gain determined by the Plan's actuary was \$6,326,664 of which a \$937,750 gain was allocated in fiscal year 2002. In the meantime, benefits continue to be paid by the Plan and adjusted (reduced) to reflect Wisconsin Act 11.

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

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

Participant contributions are funded by payroll deductions, which cover 20% of the Plan cost, as specified in the collective bargaining agreement. The District is required to fund the remaining 80% of the actuarially determined contribution requirement.

The Plan issues a publicly available annual financial report that includes financial statements and required supplementary information for the Plan. That report can be obtained by writing the Milwaukee Public Schools, Department of Insurance and Risk Management, 5225 West Vliet Street, Milwaukee, WI 53208-2698.

(2) Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers

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

To be eligible for participation, an employee must be a teacher of the District who is in the collective bargaining unit represented by the MTEA and who is participating as an active employee in the WRS. Such employees shall become participants in the Plan on the later of the effective date of the Plan or the date they become a participant in the WRS.

The Plan provides for reduced early retirement benefits to participants who are eligible and commence their WRS benefits after age 55 and prior to age 62 and provides optional early retirement benefits if they commence WRS benefits after age 62 but prior to age 65. Benefits are paid in the form of monthly payments based on years of service, and defined average monthly compensation for the three fiscal years of highest earnings preceding the date of retirement. Effective July 1, 1998 a new 15 year vesting provision and years of creditable service provision applies to new participants and re-hired former participants to the Plan.

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

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

The Plan issues a publicly available annual financial report that includes financial statements and required supplementary information for the Plan. That report can be obtained by writing the Milwaukee Public Schools, Department of Insurance and Risk Management, 5225 West Vliet Street, Milwaukee, WI 53208-2698.

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NOTES TO BASIC FINANCIAL STATEMENTS
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b. Annual Pension Costs and Actuarial Assumptions Used

The District's annual pension costs for the year ended June 30, 2002 and related actuarial assumptions used for the current year and related information for each Plan is as follows:

	Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan	Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers	Total
Contribution rates as a percentage of payroll:			
District	2.44%	3.09%	
Plan participants	.61	-	
Annual required contribution	\$1,248,752	\$9,144,027	\$10,392,779
Interest on net pension obligation	0	0	0
Adjustment to annual required contribution	<u>0</u>	<u>0</u>	<u>0</u>
Annual pension cost	1,248,752	9,144,027	10,392,779
Contributions made	<u>1,248,752</u>	<u>9,144,027</u>	<u>10,392,779</u>
Increase (decrease) in net pension obligation	<u>0</u>	<u>0</u>	<u>0</u>
Net pension obligation, beginning of the year	<u>0</u>	<u>0</u>	<u>0</u>
Net pension obligation, end of the year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

	Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan	Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers
Actuarial valuation date	7/1/01	7/1/01
Actuarial cost method	Projected Unit Credit	Entry Age Normal
Amortization method	Level amortization over average expected future working lifetime of active participants	Level dollar amount over 30 years
Remaining amortization period	Varies, depending upon date of base creation. Newly established bases are amortized over a closed nine-year period.	Varies, depending upon date of base creation. New bases established are amortized over a closed 30 years.
Asset valuation method	Five-year smoothed market value for assets other than dedicated bond portfolios. Dedicated bond portfolios are valued as discounted cash flows.	Five-year smoothed market value for assets other than dedicated bond portfolios. Dedicated bond portfolios are valued as discounted cash flows.
Actuarial assumptions:		
Investment rate of return	8.0%	8.0%
Projected salary increases:		
Certificated Participants	Participant's pay level at "transition" is assumed to increase by the regular pay scale of 1.8% (inflation rate) plus an additional merit raise of 4.5% for each of the next six years. "Age at transition" is the assumed age at which a participant enters the ASC union. This assumed age is age at hire plus six years of service.	The assumed compensation increase (including inflation) for each participant is 3% per annum.
Classified Participants	4.0%	

**MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002**

c. Three-Year Trend Information

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

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

Fiscal Year Beginning July 1	Annual Pension Cost	% of Annual Pension Cost Contributed	Net Pension Obligation
2001	\$1,248,752	100%	\$0
2000	1,722,442	100	0
1999	1,796,826	100	0

Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers

Fiscal Year Beginning July 1	Annual Pension Cost	% of Annual Pension Cost Contributed	Net Pension Obligation
2001	\$9,144,027	100%	\$0
2000	8,673,730	100	0
1999	8,711,130	100	0

The District is currently in collective bargaining negotiations, the results of which could have an impact as to whether benefits for accrued covered service for certain eligible employees is paid from either the Milwaukee Board of School Directors Early Retirement Supplemental and Benefit Improvement Plan (ASC Plan) or the Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers (Teachers Plan). This pertains to covered employees under the ASC Plan covering certificated administrators who have prior Milwaukee Public Schools teaching service and are also eligible to receive a benefit from the Teachers Plan. The impact of this is not quantifiable at this point.

11. POST-RETIREMENT LIFE AND HEALTH CARE INSURANCE BENEFITS

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

Health insurance is available on a self-paid basis to retired employees who retire at age 55 or older, with 15 years of service by paying the premium for such coverage. In the event such employees have 70% of their maximum sick leave accumulation balance at the time of retirement, the District will pay an amount towards the health insurance premium equal to the premium for that employee at the time of retirement. Any increases in premium beyond the amount of the premium at the employee's retirement is paid by the retiree. The District's costs for retiree health insurance is recorded in current operating expenditures as paid. The District has available a self-insured indemnity/PPO health plan and two fully-insured health maintenance organizations (as of 11/1/02 there will be one fully-insured health maintenance organization). These plans are supplemental to Medicare for those retirees eligible for Medicare insurance.

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

Expenditures for post-retirement life and health care insurance benefits are financed on a pay-as-you-go basis and aggregated approximately \$20,320,000 for the year ended June 30, 2002. Approximately 4,670 participants are currently eligible to receive post-retirement life insurance benefits, and approximately 4,970 participants are eligible to receive post-retirement health care benefits.

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

12. LIMITATION ON DISTRICT REVENUES

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

- A resolution of the School Board or by a referendum prior to August 12, 1993.
- A referendum on or after August 12, 1993.

For the fiscal year ended June 30, 2002, the District is below its revenue limitation by approximately \$114,417.

13. COMMITMENTS AND CONTINGENCIES

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant program are subject to audit and adjustment by the grantor agencies. Therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2002 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.

The District leases certain computer equipment with a carrying value of approximately \$4,610,080 from external vendors. The District also leases two facilities under an operating lease that expires in 2012. The lessor obtained financing for the acquisition and renovation of the leased property through the Redevelopment Authority of the City of Milwaukee, and the lease payments being made by the District are equal to the amounts necessary to pay debt service on the lessor's financing. For fiscal year 2002, total operating lease expense of the District was \$7,574,825. The aggregate minimum legal commitments for the five fiscal years subsequent to June 30, 2002 and thereafter for the computers and property are as follows:

Fiscal Year	Amount
2003	\$ 7,700,386
2004	5,774,407
2005	4,376,000
2006	4,376,000
2007	4,379,000
2007-2011	22,388,000
2012-2016	<u>4,028,000</u>
TOTAL	<u>\$53,021,793</u>

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.

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

14. SUBSEQUENT EVENTS

In August of 2002, the City of Milwaukee issued short-term revenue anticipation notes on behalf of the District in the amount of \$133,000,000. The Notes are issued for the purpose of financing the District's operations on an interim basis pending receipt of State school aid payments.

**MILWAUKEE PUBLIC SCHOOLS
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2002**

	<u>Budgeted Amounts</u>		<u>Actual</u>
	<u>Adopted</u>	<u>Revised</u>	<u>(GAAP Basis)</u>
Revenues			
Property tax levy	\$ 158,263,386	\$ 161,632,008	\$ 161,632,008
Other local sources	4,180,347	6,916,181	9,680,243
State aid:			
Equalization aid	545,600,000	541,388,517	541,388,517
Special classes	40,000,000	40,100,000	41,148,872
Integration	39,600,000	38,830,914	38,830,913
Other state aid	27,124,244	51,708,333	45,394,469
Federal aid:			
Education Consolidation Improvement Act	53,700,990	53,991,003	48,563,189
Other federal aid	27,990,886	73,745,271	54,871,879
Total revenues	<u>896,459,853</u>	<u>968,312,227</u>	<u>941,510,090</u>
Expenditures			
Current operating:			
Instructional services:			
Undifferentiated curriculum	373,525,524	413,067,663	355,934,282
Regular and other curriculum	60,424,424	66,192,315	110,567,911
Special curriculum	97,810,828	97,957,805	93,443,822
Total instructional services	531,760,776	577,217,783	559,946,015
Community services	15,040,482	19,557,979	18,312,322
Pupil and staff services	73,227,063	92,107,621	84,849,657
General and school building administration	79,647,507	91,850,642	82,821,806
Business services	156,180,842	151,070,573	150,643,630
Debt service	-	-	992,893
Other	65,972,914	69,273,585	53,253,456
Total expenditures	<u>921,829,584</u>	<u>1,001,078,183</u>	<u>950,819,779</u>
Excess of revenues over (under) expenditures	<u>\$ (25,369,731)</u>	<u>\$ (32,765,956)</u>	<u>\$ (9,309,689)</u>
Other financing sources (Uses)			
Transfer Out	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (351,168)</u>
Net change in fund balance	(25,369,731)	(32,765,956)	(9,660,857)
Fund balance - beginning	118,401,945	127,569,773	127,569,773
Fund balance - ending	<u>\$ 93,032,214</u>	<u>\$ 94,803,817</u>	<u>\$ 117,908,916</u>

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

**MILWAUKEE PUBLIC SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2002**

SCHEDULES OF FUNDING PROGRESS

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

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Total Unfunded AAL (2) – (1)	(4) Funded Ratio (1) / (2)	(5) Annual Covered Payroll	Unfunded AAL As a Percentage of Covered Payroll (2) – (1) / (5)
7/1/01	\$40,125,187	\$40,280,250	\$ 155,063	99.62%	\$41,022,453	00.38%
7/1/00	38,305,613	44,985,363	6,679,750	85.15	40,129,546	16.65
7/1/99	35,691,031	43,412,104	7,721,073	82.21	37,624,625	20.52

Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Total Unfunded AAL (2) – (1)	(4) Funded Ratio (1) / (2)	(5) Annual Covered Payroll	Unfunded AAL As a Percentage of Covered Payroll (2) – (1) / (5)
7/1/01	\$40,148,172	\$115,223,720	\$75,075,548	34.84%	\$295,633,828	25.40%
7/1/00	33,826,809	103,998,229	70,171,420	32.53	298,981,706	23.47
7/1/99	26,714,235	98,257,006	71,542,771	27.19	295,613,587	24.20

**MILWAUKEE PUBLIC SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2002**

1. BUDGETING

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

In accordance with the Wisconsin Department of Public Instruction's reporting requirements, the Board exercises control over budgeted amounts at the function level within the general, special revenue, and debt service funds. The capital projects fund is controlled at the project level. During the year, budgets can be amended by approval of a majority of the members of the Board. There were no supplemental budget appropriations necessary during the year.

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

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

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

NON-MAJOR FUNDS

Special Revenue Funds

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

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

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

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

Debt Service Fund

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

MILWAUKEE PUBLIC SCHOOLS
COMBINING BALANCE SHEET - NON-MAJOR FUNDS
JUNE 30, 2002

	TEACH Wisconsin Programs	Categorically Aided Programs	School Nutrition Services	Debt Service	Total
Assets					
Receivable due from other governmental units	\$ -	\$ 5,969,223	\$ 2,686,082	\$ -	\$ 8,655,305
Inventories	-	-	748,180	-	748,180
Due from other funds	6,286,447	-	-	-	6,286,447
Total assets	<u>\$ 6,286,447</u>	<u>\$ 5,969,223</u>	<u>\$ 3,434,262</u>	<u>\$ -</u>	<u>\$ 15,689,932</u>
Liabilities And Fund Balance					
Liabilities:					
Accounts payable	\$ -	\$ 445,907	\$ 12,396	\$ -	\$ 458,303
Due to other funds	102,740	5,523,316	5,541,334	-	11,167,390
Total liabilities	<u>102,740</u>	<u>5,969,223</u>	<u>5,553,730</u>	<u>-</u>	<u>11,625,693</u>
Fund balance (deficit):					
Reserved for inventories	-	-	748,180	-	748,180
Unreserved and undesignated	6,183,707	-	(2,867,648)	-	3,316,059
Total fund balance	<u>6,183,707</u>	<u>-</u>	<u>(2,119,468)</u>	<u>-</u>	<u>4,064,239</u>
Total liabilities and fund balance	<u>\$ 6,286,447</u>	<u>\$ 5,969,223</u>	<u>\$ 3,434,262</u>	<u>\$ -</u>	<u>\$ 15,689,932</u>

See accompanying independent auditors' report.

MILWAUKEE PUBLIC SCHOOLS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE (DEFICIT) - NON-MAJOR FUNDS
YEAR ENDED JUNE 30, 2002

	TEACH Wisconsin Programs	Categorically Aided Programs	School Nutrition Services	Debt Service	Total
Revenues					
Property taxes	\$ -	\$ -	\$ -	\$ 2,773,885	\$ 2,773,885
Lunchroom sales	-	-	4,230,650	-	4,230,650
State aid-other	10,511,216	-	660,948	-	11,172,164
Federal aid:					
School nutrition services	-	-	23,096,314	-	23,096,314
Other federal aid	-	13,329,524	-	-	13,329,524
Total revenues	<u>10,511,216</u>	<u>13,329,524</u>	<u>27,987,912</u>	<u>2,773,885</u>	<u>54,602,537</u>
Expenditures					
Current operating:					
Regular and other curriculum	-	844,408	-	-	844,408
Special curriculum	-	1,990,080	-	-	1,990,080
Pupil and staff services	10,577,498	10,846,204	-	-	21,423,702
School nutrition services	-	-	28,602,348	-	28,602,348
Debt service:					
Principal	265,917	-	-	2,115,488	2,381,405
Interest	95,093	-	-	658,397	753,490
Total expenditures	<u>10,938,508</u>	<u>13,680,692</u>	<u>28,602,348</u>	<u>2,773,885</u>	<u>55,995,433</u>
Excess of revenues over (under)					
Expenditures	(427,292)	(351,168)	(614,436)	-	(1,392,896)
Other financing sources:					
Operating transfer in	-	351,168	-	-	351,168
Teach Loan	3,034,883	-	-	-	3,034,883
Total other financing sources	<u>3,034,883</u>	<u>351,168</u>	<u>-</u>	<u>-</u>	<u>3,386,051</u>
Excess of revenues and other financing sources over expenditures	2,607,591	-	(614,436)	-	1,993,155
Fund balance (deficit):					
Beginning of year	<u>3,576,116</u>	<u>-</u>	<u>(1,505,032)</u>	<u>-</u>	<u>2,071,084</u>
End of year	<u>\$ 6,183,707</u>	<u>\$ -</u>	<u>\$ (2,119,468)</u>	<u>\$ -</u>	<u>\$ 4,064,239</u>

See accompanying independent auditors' report.

APPENDIX B

Draft Form of Legal Opinion

HAWKINS, DELAFIELD & WOOD

67 Wall Street
New York, New York 10005

QUARLES & BRADY LLP

411 East Wisconsin Avenue
Milwaukee, Wisconsin 53202-4497

Mr. W. Martin Morics
City Comptroller
City of Milwaukee
Room 1017-Zeidler Municipal Building
841 North Broadway
Milwaukee, Wisconsin 53202

Dear Sir:

CITY OF MILWAUKEE, WISCONSIN
SHORT-TERM SCHOOL ORDER NOTES,
SERIES OF 2003 M5, \$150,000,000

At your request, we have examined into the validity of an issue of \$150,000,000 Short-Term School Order Notes, Series of 2003-M5 (the "Notes") of the City of Milwaukee, Wisconsin (the "City"), dated September 30, 2003, in fully registered form, payable on June 30, 2004 without option of prior redemption, bearing interest payable June 30, 2004 at the rates per annum, and numbered and in the amounts as set forth below:

<u>Number</u>	<u>Amount</u>	<u>Interest Rate</u>
R-1		%

The Notes recite that they are issued pursuant to the provisions of Section 67.12(1), Wisconsin Statutes, for the purpose of financing the operating budget of the Milwaukee Public Schools on an interim basis pending receipt of state school aid payments due in June of 2004. We have examined the Constitution and statutes of the State of Wisconsin, the Charter of the City and a certified transcript of proceedings relating to the authorization and the issuance of the Notes, also a specimen Note. We have relied upon such transcript as to the matters of fact stated therein, without independent verification.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Notes, and we express no opinion relating thereto.

In our opinion, (i) the Notes have been authorized and issued in accordance with the Constitution and statutes of the State of Wisconsin and the Charter of the City, and constitute valid and legally binding obligations of the City; (ii) payment of principal of the Notes is secured solely by an irrevocable pledge of all School Operations Fund revenues included in the budget for fiscal year 2003-2004 which are due and not yet paid the City as of the date of delivery of and payment for the Notes and which are not otherwise applied through June 30, 2004; and (iii) payment of interest on the Notes is secured by a pledge of surplus revenues in the City's Debt Service.

It is to be understood that the rights of the holders of the Notes and the enforceability thereof may be subject to judicial discretion, to the exercise of the sovereign police powers of the State of Wisconsin and to valid bankruptcy, insolvency, reorganization, moratorium and other laws for the relief of debtors.

It is also our opinion that, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants, interest on the Notes is excluded from gross income for federal income tax purposes pursuant to

Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Notes is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering this opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the City and others in connection with the Notes, and we have assumed compliance by the City with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Notes from gross income under Section 103 of the Code.

We express no opinion regarding any other Federal or state tax consequences with respect to the Notes. We have rendered this opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update this opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. We express no opinion on the effect of any action taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Notes.

Very truly yours,

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APPENDIX C

Form of Continuing Disclosure Certificate

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Certificate") dated as of October 16, 2003 is executed and delivered in connection with the issuance of the City's \$150,000,000 principal amount of Short-Term School Order Notes, Series of 2002 M5 (the "Notes") and pursuant to a resolution duly adopted by the Common Council of the City of Milwaukee, Wisconsin (the "City") on June 24, 2003 (the "Resolution"). Capitalized terms used in this Certificate shall have the respective meanings specified above or in Article I hereof. Pursuant to the Resolution, the City agrees as follows:

ARTICLE I Definitions

Section 1.1. Definitions. The following terms used in this Certificate shall have the following respective meanings:

(1) "Counsel" means a nationally recognized bond counsel or counsel expert in federal securities laws, acceptable to the City.

(2) "Material Event" means any of the following events with respect to the Notes, whether relating to the City or otherwise, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) modifications to rights of securityholders;
- (viii) bond calls;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the securities; and
- (xi) rating changes.

(3) "Material Event Notice" means notice of a Material Event.

(4) "MSRB" means the Municipal Securities Rulemaking Board established pursuant to the provisions of Section 15B(b)(1) of the Securities Exchange Act of 1934.

(5) "NRMSIR" means, at any time, a then-existing nationally recognized municipal securities information repository, as recognized from time to time by the SEC for the purposes referred to in the Rule. The NRMSIRs as of the date of this Certificate are Bloomberg Municipal Repository, DPC Data Inc., FT Interactive Data and Standard & Poor's J.J. Kenny Repository. Filing information relating to such NRMSIRs is set forth in Exhibit A hereto.

(6) “Official Statement” means the “final official statement” as defined in paragraph (f)(3) of the Rule.

(7) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities and Exchange Act of 1934 as amended (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Certificate, including any official interpretations thereof issued either before or after the effective date of this Certificate which are applicable to this Certificate.

(8) “SEC” means the United States Securities and Exchange Commission.

(9) “SID” means, at any time, a then-existing state information depository, if any, as operated or designated as such by or on behalf of the State for the purposes referred to in the Rule. As of the date of this Certificate, there is no SID.

(10) “State” means the State of Wisconsin.

(11) “Underwriter” means _____, the purchaser of the Notes.

ARTICLE II The Undertaking

Section 2.1. Purpose. This Certificate is being executed and delivered solely to assist the Underwriter in complying with that portion of subsection (b)(5) of the Rule addressing notices of material events.

Section 2.2. Notices of Material Events. (a) If a Material Event occurs, the City shall provide, in a timely manner, a Material Event Notice to (i) either the MSRB or each NRMSIR and (ii) the SID.

(b) Upon any legal defeasance of the Notes, the City shall provide notice of such defeasance to (i) each NRMSIR or the MSRB and (ii) the SID, which notice shall state whether the Notes to be defeased have been defeased to maturity or to redemption and the timing of such maturity or redemption.

Section 2.3. Additional Disclosure Obligations. The City acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and SEC Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the City, and that under some circumstance compliance with this Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the City under such laws.

Section 2.4. Additional Information. Nothing in this Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Certificate or any other means of communication, or including any other information in any Material Event Notice, in addition to that which is required by this Certificate. If the City chooses to include any information in any Material Event Notice in addition to that which is specifically required by this Certificate, the City shall have no obligation under this Certificate to update such information or include it in any future Material Event Notice.

Section 2.5. No Previous Non-Compliance. The City represents that since July 3, 1995, it has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

ARTICLE III Operating Rules

Section 3.1. Material Event Notices. Each Material Event Notice shall be so captioned and shall prominently state the title, date and CUSIP numbers of the Notes.

Section 3.2. Transmission of Information and Notices. Unless otherwise required by law and, in the City's sole determination, subject to technical and economic feasibility, the City shall employ such methods of information and notice transmission as shall be requested or recommended by the herein-designated recipients of the City's information and notices.

ARTICLE IV Effective Date; Termination, Amendment and Enforcement

Section 4.1. Effective Date; Termination. (a) This Agreement shall be effective upon the issuance of the Notes.

(b) The City's obligations under this Certificate shall terminate upon legal defeasance, prior redemption or payment in full of all of the Notes.

(c) This Certificate or any provision hereof, shall be null and void in the event that the City (1) delivers to the City an opinion of Counsel, addressed to the City, to the effect that those portions of the Rule which require the provisions of this Certificate or any of such provisions, do not or no longer apply to the Notes, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to each NRMSIR and the SID.

Section 4.2. Amendment.

(a) This Certificate may be amended, by written certificate of the Comptroller, without the consent of the holders of the Notes if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the City or the Milwaukee Public Schools or the type of business conducted thereby, (2) this Certificate as so amended would have complied with the requirements of the Rule as of the date of this Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the City shall have received an opinion of Counsel addressed to the City, to the same effect as set forth in clause (2) above and further to the effect that the amendment does not materially impair the interests of the holders of the Notes and (4) the City delivers copies of such opinion and amendment to each NRMSIR and the SID.

(b) In addition to subsection (a) above, this Certificate may be amended and any provision of this Certificate may be waived, without the consent of the holders of the Notes, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date hereof which is

applicable to this Certificate; (2) the City shall have received an opinion of Counsel to the effect that performance by the City under this Certificate as so amended or giving effect to such waiver, as the case may be, will not result in a violation of the Rule; and (3) the City shall have delivered copies of such opinion and amendment to each NRMSIR and the SID.

Section 4.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Certificate shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Notes. Beneficial owners of Notes shall be third-party beneficiaries of this Certificate. The provisions of this Agreement shall create no rights in any person or entity except as provided in this subsection (a) and subsection (b) of this Section.

(b) The obligations of the City to comply with the provisions of this Certificate shall be enforceable by the holders of the Notes, including beneficial owners thereof. The Note holders' rights to enforce the provisions of this Certificate shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the City's obligations under this Certificate and the Resolution. In consideration of the third-party beneficiary status of beneficial owners of Notes pursuant to subsection (a) of this Section, beneficial owners of Notes shall be deemed to be holders of Notes for purposes of this subsection (b).

(c) Any failure by the City to perform in accordance with this Certificate shall not constitute a default under the Resolution and any rights and remedies provided by the Resolution upon the occurrence of a default shall not apply to any such failure.

(d) This Certificate shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Certificate shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Certificate addresses matters of federal securities laws, including the Rule, this Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

IN WITNESS WHEREOF, I have hereunto executed this Certificate this 16th day of October, 2003.

CITY OF MILWAUKEE, WISCONSIN

By: _____
Comptroller

EXHIBIT A
to Continuing Disclosure Certificate

Filing information relating to the Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission (subject to change):

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, NJ 08558
Telephone: (609) 279-3225
Facsimile: (609) 279-5962
[http://www.bloomberg.com/markets/
muni_contactinfo.html](http://www.bloomberg.com/markets/muni_contactinfo.html)
E-mail: munis@bloomberg.com

FT Interactive Data
Attn: NRMSIR
100 William Street
New York, NY 10038
Telephone: (212) 771-6999
Facsimile: (212) 771-7390
(Secondary Market Information)
(212) 771-7391
(Primary Market Information)

<http://www.interactivedata.com>
E-mail: nrmsir@ftid.com

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
Internet address: nrmsir@dpcdata.com
Telephone: (201) 346-0701
Facsimile: (201) 947-0107
<http://dpcdata.com>
E-mail: nrmsir@dpcdata.com

Standard & Poor's J.J. Kenny Repository
55 Water Street, 45th Floor
New York, NY 10041
Telephone: (212) 438-4595
Facsimile: (212) 438-3975
[www.jjkenny.com/jjkenny/pser_descrip_
data_rep.html](http://www.jjkenny.com/jjkenny/pser_descrip_data_rep.html)
E-mail: nrmsir_repository@sandp.com