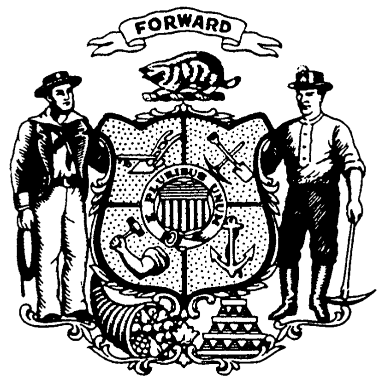
WISCONSIN

GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS



For the fiscal year ended June 30, 2008

STATE OF
WISCONSIN

GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS

For the fiscal year ended June 30, 2008

Jim Doyle, Governor

Department of Administration
Michael L. Morgan, Secretary
Stephen J. Censky, State Controller

Prepared by the State Controller's Office

DOA-6082AP (R12/08)

General Purpose External Financial Statements
For the Fiscal Year Ended June 30, 2008

Table of Contents

WISCONSIN DEPARTMENT OF
ADMINISTRATION

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December 11, 2008

The Honorable Jim Doyle
The Honorable Members of the Legislature
Citizens of the State of Wisconsin

We are pleased to submit the General Purpose External Financial Statements of the State of Wisconsin for the fiscal year ended June 30, 2008.

These General Purpose External Financial Statements are part of the audited Comprehensive Annual Financial Report. They include management's discussion and analysis (MD&A), the basic financial statements, and required supplementary information (RSI). MD&A introduces the basic financial statements and provides an analytical overview of the State's financial activities. The basic financial statements provide a summary overview of the government as a whole (excluding the State's fiduciary activities), as well as detailed information on all governmental, proprietary, fiduciary fund activity, together with notes to the financial statements. RSI includes data on infrastructure and the budgetary comparison schedule with accompanying notes. These statements, which present financial information in conformity with generally accepted accounting principles, will benefit users requiring summary information about our State's finances.

The General Purpose External Financial Statements, as well as the Comprehensive Annual Financial Report, are on file at the office of the State Controller. Additional copies are available upon request. A copy of the Comprehensive Annual Financial Report is also available on the Department of Administration homepage on the World Wide Web: http://www.doa.state.wi.us/debf.

Sincerely,

Michael L. Morgan
Secretary

Stephen J. Censky, CPA
State Controller

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Legislative Audit Bureau

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Janice Mueller
State Auditor

INDEPENDENT AUDITOR'S REPORT

Honorable Members of the Legislature The Honorable James Doyle, Governor

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Wisconsin as of and for the year ended June 30, 2008, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Wisconsin's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the following financial statements: the Wisconsin Department of Transportation Revenue Bond Program and Commercial Paper Program, which represent 12 percent of the liabilities of the governmental activities and 2 percent of the expenditures of the aggregate remaining fund information; the Badger Tobacco Asset Securitization Fund, which represents 10 percent of the liabilities of the governmental activities; the Environmental Improvement Fund, which is a major fund and represents 20 percent of the assets and 20 percent of the liabilities of the business-type activities; or the College Savings Program Trust, which represents 2 percent of the assets of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts audited by others, are based solely upon their reports. In addition, we did not audit the financial statements of the discretely presented component units. Other than the income statement for the University of Wisconsin Foundation, those financial statements were audited by other auditors. Our opinion on the aggregate discretely presented component units, insofar as it relates to the amounts audited by others, is based upon the reports of the Wisconsin Housing and Economic Development Authority, the University of Wisconsin Hospitals and Clinics Authority, and the balance sheet for the University of Wisconsin Foundation.

Except as discussed in the following paragraph, 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. The financial statements of the Wisconsin Housing and Economic Development Authority, which were audited by other auditors, were also audited in accordance with these standards. The financial statements of the other funds and component units that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *Government Auditing Standards*. Auditing 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. Except as discussed in the following paragraph, we believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

The revenues and expenses included in the Statement of Activities for the University of Wisconsin Foundation component unit have not been audited, and we were not engaged to audit this information as part of our audit of the State's basic financial statements. The Foundation represents 26 percent of the revenues and 19 percent of the expenses of the State's aggregate discretely presented component units.

In our opinion, based on the reports of other auditors and except for the effects of any such adjustments as might have been determined to be necessary had the University of Wisconsin Foundation's revenues and expenses been audited, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the aggregate discretely presented component units for the State of Wisconsin as of June 30, 2008, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, based on our audit and the reports of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial positions of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Wisconsin as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, the State implemented accounting changes and additional note disclosures under Governmental Accounting Standards Board Statement Number 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement 45 requires the State, for the first time, to report the costs related to other postemployment benefits, such as the benefit available to retired state employees to purchase health insurance at a subsidized rate.

As discussed in Note 19A(3) to the financial statements, the Injured Patients and Families Compensation Fund's loss liabilities are estimates based on recommendations of a consulting actuary. The Injured Patients and Families Compensation Fund's Board of Governors and management believe the estimated loss liabilities are reasonable and represent the most probable estimate of the losses the Fund will pay for the claims incurred to date. However, uncertainties inherent in projecting the frequency and severity of large medical malpractice claims because of the Fund's unlimited liability coverage and extended reporting and settlement periods make it likely that amounts paid will ultimately differ from the recorded estimated liabilities. These differences cannot be quantified.

As discussed in Note 24, subsequent to June 30, 2008, global investment markets have been experiencing significant adverse events. As a result, the State's investment assets, such as those of the Wisconsin Retirement System, have experienced a considerable decline in value subsequent to June 30, 2008.

Management's discussion and analysis, the infrastructure narrative, the schedule of funding progress for the state retiree health insurance other postemployment benefit plan, and the budgetary comparison schedule with related notes as listed in the table of contents are not required parts of the basic financial statements of the State of Wisconsin but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have prepared a report dated December 11, 2008, on our consideration of the State's internal control over financial reporting; tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report on internal control and compliance is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

LEGISLATIVE AUDIT BUREAU

December 11, 2008 by Janice Mueller

Janice Mueller
State Auditor

MANAGEMENT'S DISCUSSION AND ANALYSIS

The *Management's Discussion and Analysis* of the State of Wisconsin's Comprehensive Annual Financial Report (CAFR) presents a discussion and analysis of the State's financial performance during the fiscal year that ended June 30, 2008. It should be read in conjunction with the transmittal letter located at the front of this CAFR, and the State's financial statements, which follow this part of the CAFR.

FINANCIAL HIGHLIGHTS -- PRIMARY GOVERNMENT

Government-wide (Tables 2 and 3 on Pages 8 and 9)

- *Net Assets.* The assets of the State of Wisconsin exceeded its liabilities at the close of Fiscal Year 2008 by $12.8 billion (reported as "net assets"). Of this amount, $(8.0) billion was reported as "unrestricted net assets". A positive balance in unrestricted net assets would represent the amount available to be used to meet a government's ongoing obligations to citizens and creditors.
- *Changes in Net Assets.* The State's total net assets increased by $0.1 billion in Fiscal Year 2008. Net assets of governmental activities increased by $397.2 million or 7.2 percent, while net assets of the business-type activities showed a decrease of $294.0 million or 4.1 percent.
- *Excess of Revenues over (under) Expenses -- Governmental Activities.* During Fiscal Year 2008, the State's total revenues for governmental activities of $23.0 billion were $1.4 billion more than total expenses (excluding transfers) for governmental activities of $21.6 billion. Of these expenses, $8.4 billion were covered by program revenues. General revenues, generated primarily from various taxes, totaled $14.6 billion.

Fund

- *Governmental Funds -- Fund Balances.* As of the close of Fiscal Year 2008, the State's governmental funds reported combined ending fund balances of $(1,474.0) million, a decrease of $183.1 million in comparison with the prior year. Of this total amount, $(3.6) billion represents the "unreserved fund balances".
- *General Fund -- Fund Balance*. At the end of the current fiscal year, the unreserved fund deficit for the General Fund was $(2.9) billion, or (15.5) percent of total General Fund expenditures.

Additional information regarding individual funds begins on Page 13.

Long-term Debt

- The State's total long-term debt obligations (bonds and notes payable) increased by $7.4 million during the current fiscal year which represents the net difference between new issuances, payments and refundings of outstanding debt. The key factors contributing to this increase are the issuance during the fiscal year of $391.1 million of general obligation bonds, a $97.6 million decrease in revenue bond obligations, and the early redemptions and refundings of general obligation and revenue bonds. Additional detail regarding these activities begins on Page 17.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Section of this CAFR consists of four parts: (1) **management's discussion and analysis** (this section), (2) **basic financial statements**, (3) additional **required supplementary information,** and (4) optional **other supplementary information.** Parts (2), (3), and (4) are briefly described on the following pages:

Basic Financial Statements

The basic financial statements include two sets of statements that present different views of the State -- the ***government-wide financial statements*** and the ***fund financial statements***. These financial statements also include notes that explain some of the information in the financial statements and provide more detail.

- The *government-wide financial statements* provide a broad view of the State's operations. The statements provide both short-term and long-term information about the State's financial status, which assists in assessing the State's financial condition at the end of the fiscal year.

- The *fund financial statements* focus on individual parts of the State government, reporting the State's operations in greater detail than the government-wide statements. The basic fund financial statements provide more detailed information on the State's most significant funds.

Table 1, below, summarizes the major features of the financial statements.

Table 1
Major Features of State of Wisconsin's Government-wide and Fund Financial Statements

	GOVERNMENT-WIDE STATEMENTS	**FUND STATEMENTS**		
		Governmental Funds	**Proprietary Funds**	**Fiduciary Funds**
Scope	Entire State government (except fiduciary funds) and the State's component units, reported as follows: • *Governmental Activities* – Most services generally associated with State government fall into this category, including commerce, education, transportation, environmental resources, human relations and resources, general executive, judicial and legislative. • *Business-Type Activities* – Those operations for which a fee is charged to external users for goods and services are reported in this category. • *Discretely Presented Component Units* – These are operations for which the State has financial accountability but that have certain independent qualities. The State's discretely presented component units are discussed in Note 1-B to the financial statements.	These funds report activities of the State that are not proprietary or fiduciary in nature. Most of the basic services provided by the State, which are primarily financed through taxes, intergovernmental revenues, and other nonexchange revenues, are reported as governmental funds. Examples of the State's governmental funds (including the State's two major governmental funds), as reported within their respective fund types, follow: • *General Fund* (a major fund) • *Special Revenue:* -- Transportation (a major fund) • *Debt Service:* -- Bond Security and Redemption • *Capital Projects:* -- Capital Improvement • *Permanent:* -- Common School	The activities the State operates similar to private business. These funds are used to show activities that operate more like those of commercial enterprises. Fees are charged for services provided, both to outside customers and to other units of the State. Examples of the State's proprietary funds, including the State's four major enterprise funds, follow: • *Enterprise:* -- Injured Patients and Families Compensation (a major fund) -- Environmental Improvement (a major fund) -- University of Wisconsin System (a major fund) -- Unemployment Reserve (a major fund) -- Lottery • *Internal services:* -- Technology Services -- Facilities Operations and Maintenance	These funds are used to show assets held by the State as trustee or agent for others and cannot be used to support the State's own programs. Examples of the State's fiduciary funds, as reported within their respective fund types, follow: • *Pension and Other Employee Benefit Trust Funds:* -- Wisconsin Retirement System • *Investment Trust:* -- Local Government Pooled Investment • *Private Purpose Trust:* -- College Savings Program Trust • *Agency:* -- Support Collection Trust
Required financial statements	• Statement of net assets – Presents all of the government's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the state's net assets are an indicator of whether its financial health is improving or weakening, respectively. • Statement of activities – Presents a comparison between direct expenses and program revenues for each function of the State's governmental activities and for different identifiable business-type activities of the State.	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• Balance sheet • Statement of revenues, expenses and changes in fund equity • Statement of cash flows	• Statement of fiduciary net assets • Statement of changes in fiduciary net assets Because the State can not use these assets to finance its operations, fiduciary funds are not included in the government-wide financial statements discussed in the left column.

(Table 1, continued)

Table 1 (Continued)
Major Features of State of Wisconsin's Government-wide and Fund Financial Statements

	GOVERNMENT-WIDE STATEMENTS	FUND STATEMENTS		
		Governmental Funds	**Proprietary Funds**	**Fiduciary Funds**
Accounting basis and measurement focus	Accrual accounting and economic resource focus The accrual basis of accounting, which is similar to the methods used by most businesses, takes into account all revenues and expenses associated with the fiscal year even if cash involved has not been received or paid.	Modified accrual accounting and current financial resource focus These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State. Because this information does not encompass the long-term focus of the government-wide statements, reconciliations are provided on the subsequent page of the governmental fund statements.	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow-outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	• Revenues for which cash is received during or soon after the end of the year • Expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

Additional Required Supplementary Information

In addition to this Management's Discussion and Analysis, which is required supplementary information, the basic financial statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements. The required supplementary information includes (1) post-employment benefits - state health insurance program, (2) condition and maintenance data regarding the State's infrastructure, and (2) a budgetary comparison schedule of the General and the Transportation funds, including reconciliations between the statutory and GAAP fund balances at fiscal year-end.

Other Supplementary Information

The Other Supplementary Information includes combining financial statements for nonmajor governmental funds, nonmajor enterprise funds, internal service funds and fiduciary funds, each of which are added together and presented in single columns in the basic financial statements.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Tables 2 and 3, below, present summary information of the State's net assets and changes in net assets.

Net Assets

As presented in Table 2, total assets of the State on June 30, 2008 were $31.9 billion, while total liabilities were $19.1 billion, resulting in combined net assets (government and business-type activities) of $12.8 billion. The largest component of the State's total net assets, $16.3 billion or approximately 127.8 percent, reflects its investment in capital assets (i.e., land, buildings, equipment, infrastructure, and others), less any related debt outstanding that was needed to acquire or construct the assets. Approximately $4.5 billion of net assets were restricted by external sources or the State Constitution or Statutes, and were not available to finance the day-to-day operations of the State.

The unrestricted net assets, which, if positive, could be used at the State's discretion, showed a negative balance of $(8.0) billion. Therefore, based on this measurement, no funds were available for discretionary purposes. A contributing factor to the negative balance is that governments recognize a liability on the government-wide statement of net assets as soon as an obligation is incurred. While financing focuses on when a liability will be paid, accounting is primarily concerned with when a liability is incurred. Accordingly, the State recognizes long-term liabilities (such as general obligation debt, compensated absences, and future benefits and loss liabilities – listed in Note 10 to the financial statements) on the statement of net assets. In addition to the effect of reporting long-term liabilities when incurred, the General Fund's total deficit fund balance of $(2.5) billion at year-end, as discussed on Page 13, also contributed to the deficit unrestricted net assets reported in the statement of net assets.

During Fiscal Year 2008, the State issued $0.4 billion of general obligation bonds, primarily for the acquisition or improvement of land, water, property, highways, buildings, and equipment, the refunding of certain outstanding bonds, and the funding of veterans loan programs. General obligation bonds outstanding at June 30, 2008 totaled $5.2 billion. Outstanding appropriation bonds, issued in Fiscal Year 2004 to pay the State's unfunded accrued prior service (pension) liability and its unfunded accrued liability for sick leave conversion credits, were $1.8 billion at June 30, 2008. Outstanding revenue bonds, which are not considered general obligation debt of the State, were $3.8 billion at June 30, 2008.

Table 2
Net Assets
(in millions)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2008	2007	2008	2007	2008	2007	2008-2007
Current and Other Assets	$ 4,770.7	$ 5,123.7	$ 6,560.7	$ 6,798.4	$ 11,331.4	$ 11,922.1	(5.0) %
Capital Assets	16,126.1	15,564.8	4,401.2	4,176.4	20,527.3	19,741.2	4.0
Total Assets	20,896.8	20,688.5	10,961.9	10,974.8	31,858.7	31,663.3	0.6
Long-term Liabilities	9,240.7	9,283.2	3,334.0	3,074.4	12,574.7	12,357.6	1.8
Other Liabilities	5,768.6	5,914.9	728.7	707.1	6,497.3	6,622.1	(1.9)
Total Liabilities	15,009.3	15,198.1	4,062.7	3,781.6	19,072.0	18,979.7	0.5
Net Assets:							
Invested in Capital Assets Net of Related Debt	12,900.4	12,241.7	3,439.0	3,225.3	16,339.3	15,466.9	5.6
Restricted	1,309.4	1,331.1	3,161.9	3,510.9	4,471.3	4,842.0	(7.7)
Unrestricted (deficit)	(8,322.2)	(8,082.4)	298.3	457.0	(8,023.9)	(7,625.4)	5.2
Total Net Assets	$ 5,887.6	$ 5,490.4	$ 6,899.2	$ 7,193.2	$ 12,786.7	$ 12,683.6	0.8

Changes in Net Assets

The revenues and expenses information, as shown in Table 3, was derived from the government-wide statement of activities and reflects how the State's net assets changed during the fiscal year. The State earned program revenues of $14.1 billion and general revenues of $14.7 billion for total revenues of $28.8 billion during Fiscal Year 2008. Expenses for the State during Fiscal Year 2008 were $28.7 billion. As a result of the excess of revenues over expenses, the total net assets of the State increased $0.1 billion, net of contributions and transfers.

Table 3
Changes in Net Assets
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	2008	2007	2008	2007	2008	2007	2008-2007
Program Revenues:							
Charges for Goods and Services	$ 1,617.5	$ 1,474.5	$ 5,237.3	$ 5,028.7	$ 6,854.8	$ 6,503.2	5.4 %
Operating Grants and Contributions	6,030.6	5,820.9	397.9	389.0	6,428.5	6,209.9	3.5
Capital Grants and Contributions	726.7	720.6	70.9	112.8	797.6	833.3	(4.3)
General Revenues:							
Income Taxes	7,503.6	7,381.6	-	-	7,503.6	7,381.6	1.7
Sales and Excise Taxes	4,809.3	4,517.6	-	-	4,809.3	4,517.6	6.5
Public Utility Taxes	286.5	271.2	-	-	286.5	271.2	5.6
Motor Fuel Taxes	1,037.7	1,020.8	-	-	1,037.7	1,020.8	1.7
Other Taxes	575.3	595.1	-	-	575.3	595.1	(3.3)
Other General Revenues	422.3	485.2	15.5	214.3	437.8	699.5	(37.4)
Total Revenues	23,009.5	22,287.5	5,721.6	5,744.8	28,731.1	28,032.2	2.5
Program Expenses:							
Commerce	293.4	289.5	-	-	293.4	289.5	1.4
Education	6,477.2	6,413.1	-	-	6,477.2	6,413.1	1.0
Transportation	1,911.5	1,850.7	-	-	1,911.5	1,850.7	3.3
Environmental Resources	486.5	455.9	-	-	486.5	455.9	6.7
Human Relations and Resources	9,078.7	8,699.1	-	-	9,078.7	8,699.1	4.4
General Executive	536.5	539.0	-	-	536.5	539.0	(0.5)
Judicial	125.8	120.0	-	-	125.8	120.0	4.8
Legislative	65.4	62.5	-	-	65.4	62.5	4.6
Tax Relief and Other General Expenditures	1,135.6	956.7	-	-	1,135.6	956.7	18.7
Intergovernmental - Shared Revenue	1,019.3	1,016.3	-	-	1,019.3	1,016.3	0.3
Interest on Long-term Debt	500.3	479.4	-	-	500.3	479.4	4.4
Injured Patients and Families Compensation	-	-	137.7	57.9	137.7	57.9	138.0
Environmental Improvement	-	-	43.4	42.7	43.4	42.7	1.8
University of Wisconsin System	-	-	3,920.6	3,663.1	3,920.6	3,663.1	7.0
Unemployment Reserve	-	-	950.9	882.6	950.9	882.6	7.7
Lottery	-	-	487.7	494.6	487.7	494.6	(1.4)
Other Business-type	-	-	1,478.5	1,368.1	1,478.5	1,368.1	8.1
Total Expenses	21,630.0	20,882.1	7,018.9	6,509.1	28,649.0	27,391.2	4.6
Excess (deficiency) before Contributions and Transfers	1,379.5	1,405.4	(1,297.3)	(764.3)	82.1	641.1	(87.2)
Contributions to Term and Permanent Endowments	-	-	1.3	3.1	1.3	3.1	(58.1)
Contributions to Permanent Fund Principal	19.7	18.0	-	-	19.7	18.0	9.4
Transfers	(1,002.0)	(1,163.5)	1,002.0	1,163.5	-	-	
Increase (decrease) in Net Assets	397.2	259.9	(294.0)	402.3	103.1	662.2	(84.4)
Net Assets - Beginning (Restated)	5,490.4	5,230.6	7,193.2	6,790.9	12,683.6	12,021.5	5.5
Net Assets - Ending	$ 5,887.6	$ 5,490.4	$ 6,899.2	$ 7,193.2	$ 12,786.7	$ 12,683.6	0.8

Governmental Activities

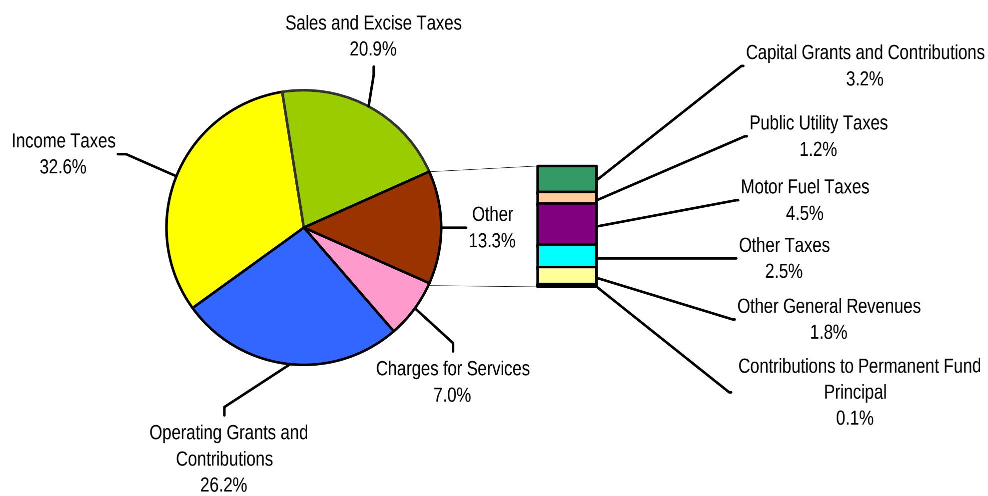
The net assets of governmental activities increased $0.4 billion in Fiscal Year 2008. Revenues for the governmental activities (including Contributions to Permanent Fund Principal) totaled $23.0 billion, while expenses and net transfers totaled $22.6 billion in 2008.

General and program revenues of governmental activities increased $722.0 million during this fiscal year. The largest increase, $426.1 million, relates to tax revenues and largely was the result of an increase in income tax revenues due to the growth in employment and wages in the State.

The State's governmental activities program expenses increased $747.9 million during Fiscal Year 2008. Human Relations and Resources expenditures increased $379.5 million. Expenditure increases for medical assistance and correctional services contributed to this rise. Fiscal Year 2008 Education expenditures grew $64.1 million, reflecting increased state aid payments to schools.

As shown in Table 4, below, approximately 61.7 percent of revenues from all sources earned came from taxes (sales and excise, income, public utility, motor fuel, and other taxes). Operating grants and contributions represent amounts received from other governments/entities – primarily the federal government. Operating grants and contributions for non-capital purposes provided 26.2 percent of total revenues. Capital grants provided 3.2 percent, charges for services contributed 7.0 percent, and various other revenues provided 1.9 percent of the remaining governmental activity revenue sources.

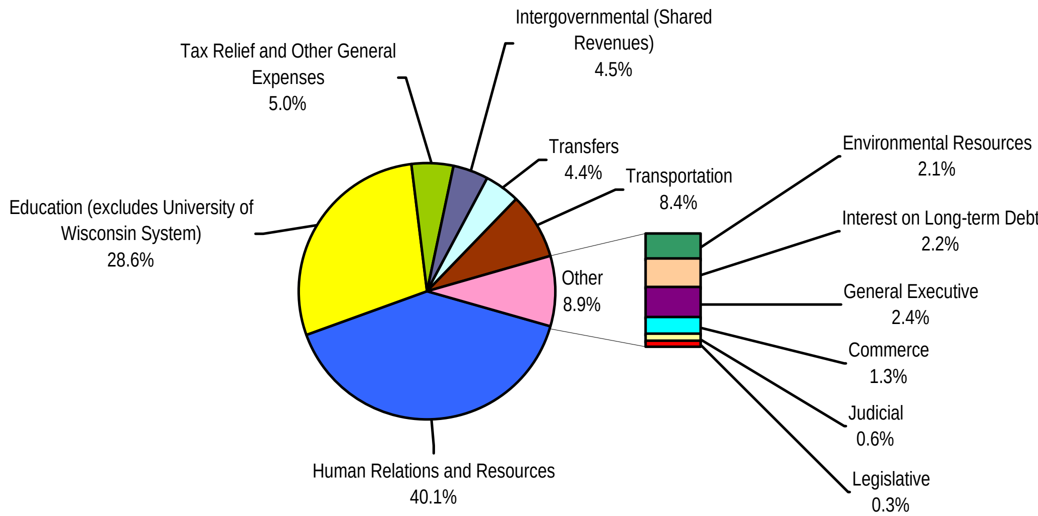
Table 4
Governmental Activities - 2008 Revenues



As shown in Table 5, below, expenses for Human Relations and Resources programs make up the largest portion – 40.1 percent – of total governmental expenses and transfers. Included in this cost function are programs such as Medical Assistance and temporary assistance for needy families "TANF" as well as costs for state correctional facilities and services.

Educational expenses, which include various school aids but exclude expenses of the University of Wisconsin System, make up 28.6 percent of total expenses. Tax Relief and Other General Expenses and the municipal and county shared revenue program represent 9.5 percent of the total, while Transportation expenses represent 8.4 percent. Net transfers to business-type activities, which include a general purpose revenue "GPR" subsidy to the University of Wisconsin System, make up 4.4 percent of the total expenses and transfers. The interest on long-term debt and remaining functional expenses total 9.0 percent.

Table 5
Governmental Activities - 2008 Expenses



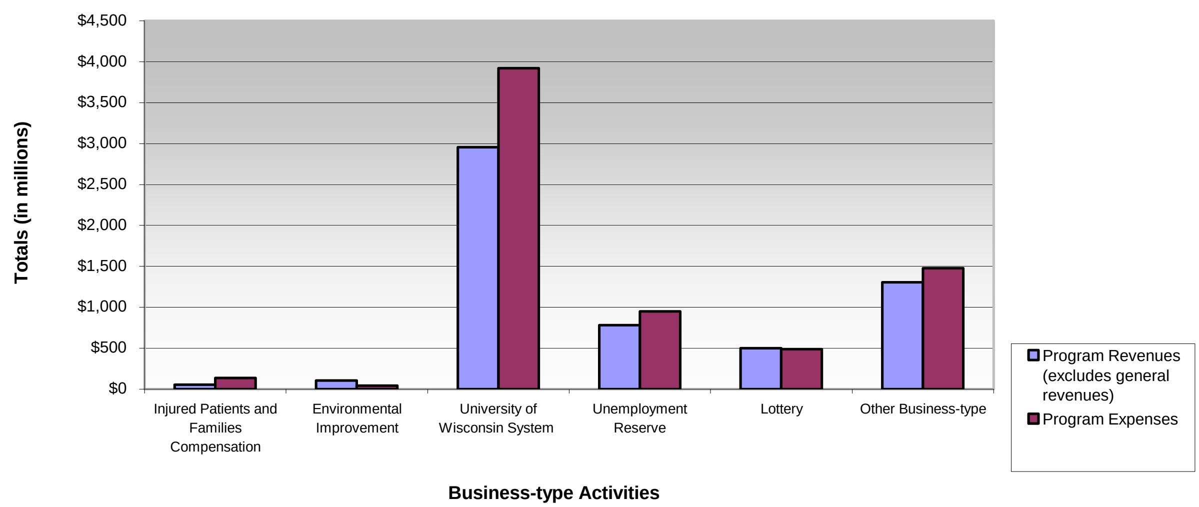
Business-Type Activities

Net assets of the State's business-type activities decreased $294.0 million in Fiscal Year 2008. Total business-type program revenues increased $175.7 million. University of Wisconsin System operating revenues increased $96.2 million due primarily to a 5.5 percent increase in tuition rates, a 9.2% increase in sales and services of educational activities, and a 9.8 percent increase in sales and services of auxiliary enterprises. Unemployment Reserve fund revenues increased $16.6 million due to an increase in participant contributions. Similarly, participant contributions for non-major funds increased by $69.9 million during Fiscal Year 2008. Program expenses of business-type activities increased $509.8 million from Fiscal Year 2007 to 2008. The largest increase in program expenses, $257.4 million, related to the University of Wisconsin System. In addition, Unemployment Compensation fund program expenses increased by $68.3 million while benefit expenses of the Injured Patients and Families Compensation fund increased $79.1 million.

Revenues of business-type activities totaled $5.7 billion for Fiscal Year 2008. Program revenues consisted of $5.2 billion of charges for services, $0.4 billion of operating grants and contributions, and $70.9 million of capital grants and contributions. General revenues, contributions to endowments and permanent fund principal, and net transfers totaled $15.5 million, $1.3 million, and $1,002.0 million, respectively. The total expenses for business-type activities were $7.0 billion.

Table 6, below, compares the program revenues and program expenses of the various State business-type activities. This table does not include the transfer in (subsidy) from the General Fund to the University of Wisconsin System or other business-type activities.

Table 6
Fiscal Year 2008
Business-type Activities
Comparison of Program Revenues to Program Expenses



FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

Governmental Funds

At the end of Fiscal Year 2008, the State's governmental funds reported a negative combined fund balance of $(1,474.0) million. Funds with significant changes in fund balance are discussed below:

General Fund

The General Fund is the chief operating fund of the State. In Fiscal Year 2008, the Medical Assistance Trust Fund was combined with the General Fund for financial reporting purposes. (The inclusion of the activity of this former special revenue fund increased General Fund expenditures by $292.4 million in Fiscal Year 2008.) At June 30, 2008, the State's General Fund reported a total fund deficit of $(2,502.7) million. The net change in fund balance during Fiscal Year 2008 was $(108.3) million, in contrast to $(248.3) million in Fiscal Year 2007. Major revenue, expenditure and other sources/uses contributing to the change in fund balance are as follows:

Revenues

Revenues of the General Fund totaled $19,573.8 million in Fiscal Year 2008, an increase of $584.6 million from Fiscal Year 2007. Factors contributing to the increase included the following:

- Revenues from taxes increased $428.6 million from Fiscal Year 2007 to Fiscal Year 2008. The most significant increase related to individual income tax withholdings, which increased $221.8 million or 3.5 percent, and estimated individual income tax payments, which increased $59.2 million or 5.3 percent. These increases were due to the growth in employment and wages in the State during that period. In addition, sales tax collections increased 2.7 percent, or approximately $113.6 million from Fiscal Year 2007 to Fiscal Year 2008.

- Intergovernmental revenues (e.g., federal assistance) increased $150.0 million in Fiscal Year 2008, primarily due to an increase in expenditures that were eligible for Federal reimbursement. The most significant change related to intergovernmental revenues for human relations and resources programs, which increased $144.5 million.

- Charges for Goods and Services revenue increased $67.0 million in Fiscal Year 2008, primarily due to the $60.0 million court settlement of the gaming compact with the Ho-Chunk Nation.

- License and permits revenue increased $30.9 million in Fiscal Year 2008. This increase is primarily associated with return of the activity of the Medical Assistance Trust Fund to the General Fund. The license revenue of this activity totaled $41.7 million in Fiscal Year 2008.

- Miscellaneous revenue decreased $93.4 million in Fiscal Year 2008, primarily due to a change in methodology for recording prescription drug rebates, as well as, a significant decrease ($44.0 million) in collections by the Unclaimed Property program.

- Other revenues, such as fines and forfeitures, gifts and donations, and investment income increased $1.4 million.

Expenditures

Expenditures of the General Fund totaled $18,450.7 million in Fiscal Year 2008, an increase of $685.4 million from Fiscal Year 2007. The factors contributing to the increase included the following:

- An increase in education expenditures of $62.9 million primarily resulted from an increase in State assistance to school districts (school aids) of $46.2 million in Fiscal Year 2008.

- An increase in human relations and resources expenditures of $472.4 million, which primarily relates to additional medical assistance payments, some of which previously had been reported by the Medical Assistance Trust Fund.

- Tax relief expenditures increased by $132.8 million, primarily due to a budgeted increase in the state property tax credit program of $123.7 million, from $469.3 million in Fiscal Year 2007 to $593.0 million in Fiscal Year 2008.

- Other functional expenditures, including commerce, environmental resources, judicial, and legislative increased by $2.3 million. In addition, capital outlay expenditures grew by $15.0 million between Fiscal Years 2007 and 2008.

Other Financing Sources and Uses

Other financing sources/uses and increases/decreases totaled a net $(1,231.3) million in Fiscal Year 2008, a change of $(240.8) million from the prior year. The components of this change included the following:

- Transfers in to the General Fund increased by $113.2 million (from $212.6 million in Fiscal Year 2007 to $325.8 million in Fiscal Year 2008).

  Much of this change relates to the increase of statutory lapses to the General Fund as required by the 2007 Wisconsin Acts 20 and 226. In Fiscal Year 2007, statutory mandated transfers from the Transportation and nonmajor special revenue funds totaled $138.2 million. In contrast, in Fiscal Year 2008 these funds transferred $158.5 million to the General Fund, an increase of $20.3 million. In addition, the inclusion of the activity of the former Medical Assistance Trust Fund with the General Fund resulted in increased transfers in of $71.5 from the Injured Patients and Families Compensation Fund and $15.0 million from the University of Wisconsin System.

- Transfers out of the General Fund totaled $1,563.1 million, a decrease of $131.1 million from the prior year.

  The major reason for this reduction was the elimination of transfers to the Medical Assistance Trust Fund (transfers out to this fund totaled $127.8 million in Fiscal Year 2007). In addition, the amount transferred to the Common School Fund decreased by $35.0 million in Fiscal Year 2008. These large decreases are partially offset by increases to the General Purpose Revenue supplements to other funds of $45.3 million.

- Other financing sources/uses and other increases/decreases resulted in a net decrease to fund balance of $3.5 million from the prior fiscal year.

As of June 30, 2008, the General Fund reported a deficit of $(2,852.6) million in its "Unreserved" Fund Balance. This compares to a General Fund Unreserved Fund Deficit of $(2,863.8) million as of June 30, 2007. A deficit unreserved fund balance represents the excess of the liabilities of the General Fund over its assets and reserved fund balance accounts. Reservations of fund balances of governmental funds represent amounts that are not available for appropriation. Examples of fund balance reservations reported in the General Fund include reserves for encumbrances, inventories, prepaid items, and the Budget Stabilization Fund.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were significant (a $1.0 billion increase in appropriations). This was due primarily to the fact that several of the State's programs and various transfers (including Food Stamps - see the items denoted with *, below) are not included in the original budget. In addition, numerous adjustments to spending estimates were needed as the year progressed because of changing circumstances (spending needs can change dramatically over a one-year period). The largest variances incurred in the following appropriations (in millions):

Program	Variance
UW-System General Program Operations – Doctoral Universities	74.9
UW-System Gifts and Donations – General	50.3
Federal Aid, Medical Assistance	93.0
Food Stamps, Electronic Benefit Transfer	401.5 *

Actual charges to appropriations (expenditures) were $1.5 billion below the final budgeted estimates. One of the most significant positive variances occurred in the UW-System Federal Aid – Special Projects ($158.0 million).

During the past fiscal year, the budgetary-based fund balance increased by $83.6 million for the General Fund, primarily due to higher than expected tax collections.

Transportation Fund

In Fiscal Year 2008, the Transportation Fund reported a net decrease in fund balance of $37.0 million. This compares to a $70.2 million increase in fund balance in Fiscal Year 2007. This decrease resulted primarily from the following factors:

- The increase in transfers out of $68.5 million from 2007 to 2008 was the largest contributing factor for the decrease. Under 2007 Wisconsin Acts 20 and 226, $155.2 million was transferred to the General Fund in Fiscal Year 2008 compared to $88.7 million transferred in 2007 (a change of $66.5 million).

- Revenues of this fund increased $150.1 million, primarily due to the Fiscal Year 2008 increase in vehicle licensing fees. This increase in revenues was offset by an increase in expenditures of $197.0 million. Expenditures totaled $2,217.5 million in Fiscal Year 2008 compared to $2,020.5 million in Fiscal Year 2007.

Transportation maintenance and capital outlay expenditures, which are funded with general obligation bonds and reported in the Capital Improvement Fund (a capital projects fund) rather than the Transportation Fund, totaled $28.8 million in Fiscal Year 2008, a decrease of $153.4 million from Fiscal Year 2007. This large drop in general obligation bond funded construction was partially offset by the large increase in maintenance and capital outlay expenditures in the Transportation Fund, including a Fiscal Year 2008 increase of $103.4 million of capital outlay expenditures

Medical Assistance Trust Fund

The Medical Assistance Trust Fund, created to account for revenues received under the intergovernmental transfers program and previously shown as a special revenue fund, was combined with the General Fund for financial reporting purposes in Fiscal Year 2008. As a consequence, the financial activities of this program are discussed under the General Fund section.

Proprietary Funds

The State's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail. Significant changes to balances of proprietary funds from Fiscal Year 2007 to Fiscal Year 2008 include the following:

- The Environmental Improvement Fund issued new revenue bonds of $127.3 million in Fiscal Year 2008, which contributed to a net increase of the fund's liabilities of $54.5 million or approximately 7.3 percent over Fiscal Year 2007. A primary purpose of this fund is to provide loans to local governments for environmental purposes (e.g., clean water projects), therefore loans receivable reported a corresponding increase of $150.1 million or 9.6 percent over Fiscal Year 2007.

- In Fiscal Year 2008, the University of Wisconsin System's Tuition and Fees revenue increased $48.6 million or 5.8 percent, due primarily to a 5.5 percent increase in tuition. Fiscal Year 2008 operating expenses increased $252.9 million or 7.0 percent from Fiscal Year 2007, due primarily to a 6.7 percent increase in personal services that includes health insurance increases and pay plan adjustments.

- The fund equity of the Unemployment Reserve Fund decreased by $175.0 million during Fiscal Year 2008 to $608.9 million at June 30, 2008. Although tax receipts increased 2.5 percent in Fiscal Year 2008, benefit expenses increased by 7.7 percent resulting in the decrease to fund equity. Law changes enacted and scheduled to take effect during calendar year 2009 should increase tax payments over the next few years and, depending on the economy, have a positive effect on fund balance.

- The Lottery Fund reported a slight increase in operating revenues of $2.1 million, or 0.4 percent, in Fiscal Year 2008 while operating expenses decreased slightly primarily due to a 1.8% decrease in lottery prize awards. The property tax credit, which serves to provide property tax relief through application of net proceeds from the Wisconsin Lottery, totaled $133.5 million in Fiscal Year 2008 in contrast to $138.7 million in 2007, reflecting a decrease of 3.8 percent. The amount of the property tax credit is determined and distributed before the end of the fiscal year and is based upon the prior year's balance carryover and the current year's estimated performance. Therefore, it is possible that increases or decreases in the property tax credit will differ from the increases and decreases in revenue as is the case this fiscal year.

- The Injured Patients and Families Compensation Fund reported an increase in benefit expenses of $79.0 million caused by an increase in the future benefits and loss liabilities. This increase is attributable to the increase in risk margin approved by the Board of Governors from 5 percent to 25 percent. The risk margin is established to ensure that reserves will remain adequate in the event of any court decision or law change that would adversely affect the amount of claim payments in the future. Transfers out increased by $71.5 million in FY 2008 pursuant to 2007 Wisconsin Act 20. While operating revenues increased slightly by $1.6 million, investment and interest income declined by $40.5 million in Fiscal Year 2008 due to the decline in investment balances and market conditions. As a result of the year's financial activity, fund equity declined by $155.9 million to a deficit balance of $(61.5) million at June 30, 2008.

GOVERNMENT-WIDE CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the close of Fiscal Year 2008, the State had $20.5 billion invested in capital assets, net of accumulated depreciation of $3.7 billion. This represents an increase of $786.3 million, or 4.0 percent, from Fiscal Year 2007. Depreciation charges totaled $110.0 million and $187.0 million for governmental and business-type activities, respectively, in Fiscal Year 2008. The details of these assets are presented in Table 7, below. Additional information about the State's capital assets is presented in Note 7 to the financial statements.

Table 7
Capital Assets, Net of Depreciation, as of June 30
(in millions)

	Governmental Activities		Business Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Land and Land Improvements	$ 1,914	$ 1,776	$ 127	$ 124	$ 2,041	$ 1,900
Buildings and Improvements	1,334	1,303	2,577	2,409	3,911	3,712
Library Holdings	81	80	1,071	1,053	1,152	1,132
Machinery and Equipment	243	248	262	270	505	519
Infrastructure	11,208	11,023	-	-	11,208	11,023
Construction in Progress	1,346	1,135	365	321	1,711	1,456
Totals	$ 16,126	$ 15,565	$ 4,401	$ 4,176	$ 20,527	$ 19,741

The major capital asset additions completed during Fiscal Year 2008 included the:

- Grainger Hall Addition – UW-Madison ($33.6 million),
- Phoenix Sports Center – UW-Green Bay ($33 million),
- Dayton Street Residence Hall – UW-Madison ($32 million), and
- Ullsvik Center Remodeling – UW-Platteville ($25.1 million).

In addition to these completed projects, construction in progress as of June 30, 2008 for governmental and business type activities totaled $1,346.2 million and $364.5 million, respectively. (For business type activities, certain construction in progress for the University of Wisconsin System is reported within various other categories of capital assets.) A list of construction in progress projects is provided in Note 7.

The State's continuing or proposed major capital projects for Fiscal Year 2008 through 2017 include the:

- Wisconsin Institute for Discovery (2005-2015) – UW-Madison (estimated budget of $150 million),
- Academic Buildings (2008-2010) – UW-La Crosse, Oshkosh, Parkside and Superior (est. budget of $168.0 million),
- Union South Replacement (2008-2011) – UW-Madison (estimated budget of $85.7 million),
- Davies Center Addition (2008-2011) – UW-Eau Claire (estimated budget of $31.4 million), and
- Sand Ridge Secure Treatment Center (2007-2011) Mauston – (estimated budget of $37.6 million).

Debt Administration

The State of Wisconsin Building Commission, an agency of the State, is empowered by law to consider, act upon, authorize, issue and sell all debt obligations of the State. The total general obligation debt outstanding for the State as of June 30, 2008 was $5.2 billion, as shown in Table 8.

During Fiscal Year 2008, $391.1 million of these general obligation bonds were issued to provide for the acquisition or improvement of land, water, property, highways, buildings, equipment, or facilities for public purposes, to refund current outstanding bonds and the funding of veterans loan programs.

In Fiscal Year 2004, the State issued $1.8 billion of annual appropriation bonds to pay the State's unfunded accrued prior service (pension) liability and its unfunded accrued liability for sick leave conversion credits. The first payment of principal on these bonds is due in Fiscal Year 2009.

Chapter 18 of the Wisconsin Statutes authorizes the State to issue revenue obligations. These obligations, which are not general obligation debt of the State, are secured by a pledge of revenues or property derived from the operations of a program funded by the issuance of the obligations. Revenue bonds of the primary government totaled $3.8 billion outstanding at June 30, 2008, as shown in Table 8. These bonds included $1,485.8 million of Transportation Revenue Bonds, $111.1 million of Petroleum Inspection Revenue Bonds, $797.9 million of Environmental Improvement Revenue Bonds, and $1,388.8 million of Badger Tobacco Asset Securitization Corporation bonds.

Based on the application of the criteria contained in GASB Statement No. 14, as amended by GASB Statement No. 39 and clarified by GASB Technical Bulletin No. 2004-1, the Badger Tobacco Asset Securitization Corporation (BTASC) is reported as a blended component unit in a debt service fund. The bylaws of BTASC require that the corporation hold itself apart and separate from the State of Wisconsin. Bonds issued by the BTASC are the sole obligation of the BTASC. The State is not legally liable for payment of principal and interest on these bonds nor is the debt dependent upon any dedicated stream of revenue generated by the State.

Table 8
Outstanding Debt as of June 30, 2008 and 2007
(in millions)

	Governmental Activities		Business-Type Activities		Total	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
General obligation bonds	$ 4,080.9	$ 4,066.3	$ 1,154.6	$ 1,122.3	$ 5,235.5	$ 5,188.6
Annual appropriation bonds	1,850.8	1,792.7	--	--	1,850.8	1,792.7
Revenue bonds	2,985.8	3,135.1	797.9	746.2	3,783.7	3,881.3
Totals	$ 8,917.5	$ 8,994.1	$ 1,952.5	$ 1,868.5	$ 10,870.0	$ 10,862.6

Article VIII of the Wisconsin Constitution and Wis. Stat. Sec. 18.05 limit the amount of general obligation bond debt the State can contract in total and in any calendar year. In total, debt cannot exceed five percent of the value of all taxable property in the State. The amount of debt contracted in any calendar year is limited to the lesser of three-quarters of one percent of the aggregate value of taxable property or five percent of the aggregate value of taxable property less net indebtedness at January 1.

At June 30, 2008, State of Wisconsin fixed bonds had a rating of Aa3 from Moody's Investors Services, AA- from Standard and Poor's Rating Services, and AA- from Fitch Ratings. Variable notes had a rating of P-1 from Moody's, A-1+ from Standard and Poor's Corporation, and F-1+ from Fitch Investors Services, L.P.

Detailed information about the State's long-term debt activity is presented in Note 11 to the financial statements.

INFRASTRUCTURE -- MODIFIED APPROACH

The State reports infrastructure (i.e., roads, bridges, and buildings considered an ancillary part of roads) as capital assets. The State has elected to report its infrastructure assets (11,200 centerline miles of roads and 4,900 bridges with a combined value of $11.2 billion), using the modified approach. Under this method, infrastructure assets are not required to be depreciated if the State manages its eligible infrastructure assets using an asset management system designed to maintain and preserve these assets at a condition level established and disclosed by the State.

All infrastructure assets constructed prior to July 1, 2000 have been recorded at estimated historical cost. Historical cost was determined by calculating current costs of a similar asset and deflating that cost, using a price-index, to the estimated average construction date. Infrastructure costs, which exclude right of way, are expressed in 2000 dollars and deflated back to the average construction date using the Federal Highway Administration's composite index for federal-aid highway construction.

In order to adequately serve the traveling public and support the State economy, it is the State's policy to ensure at least 85 percent of the state-owned roads and bridges are in good or fair condition. As of June 30, 2008, 93.1 percent of the roads and 95.5 percent of bridges were in good or fair condition, consistent with State policies.

For the fiscal year ended June 30, 2008, actual maintenance and preservation costs for the State's road network were $538.8 million, or $7.0 million less than the estimated amount. On that same date, actual maintenance and preservation costs for the State's bridge network were $46.2 million, or $14.8 million more than the estimated amount. In developing estimated costs at the beginning of the fiscal year it is difficult to predict the types of projects that will actually incur costs during the year. In addition, the State of Wisconsin, Department of Transportation's multi-year contracting process, allowing encumbrances to carry forward, makes a comparison of actual to estimated amounts difficult since expenditures for the current year may have been budgeted and committed to a project in prior years.

ECONOMIC FACTORS

In calendar year 2007, the Wisconsin economy continued its economic expansion.

Wisconsin employment continued to grow through 2007. Wisconsin employment increased 1.25 percent in 2005, 0.86 percent in 2006 and 0.53 percent in 2007. Wisconsin's employment growth has been similar to the national trend. Nationally, employment increased 1.73 percent in 2005, 1.78 percent in 2006 and 1.13 percent in 2007.

The improved employment performance led to gains in income growth. Wisconsin personal income increased 3.7 percent in 2005, 6.0 percent in 2006 and 5.7 percent in 2007. Nationally, income growth was 5.6 percent in 2005, 7.1 percent in 2006 and 6.0 percent in 2007. On a per capita basis, Wisconsin's performance is closer to the nation's. Per capita income in Wisconsin increased 3.2 percent in 2005, 5.4 percent in 2006 and 5.2 percent in 2007 compared to 4.6 percent, 6.0 percent, and 5.0 percent nationally. Since 2000, Wisconsin's per capita income has fallen away from the national average from 95.7 percent in 2000 to 94.0 percent in 2007.

The national recession has impacted employment nationally and in Wisconsin. Through September 2008, Wisconsin non-farm employment is down 0.84 percent compared to a year ago. Nationally, employment was down 0.52 percent over the same period. Wisconsin's unemployment rate in September was 5.0 percent compared to 6.1 percent nationally.

Wisconsin's property values reflect the slowing economy. Real property values continued to increase, but at a slower pace, in 2007 and 2008, up 6.2 percent and 3.3 percent, respectively. Commercial and residential real estate have increased at similar rates in these years.

CONTACTING THE STATE'S FINANCIAL MANAGEMENT

This financial report is designed to provide Wisconsin's citizens, taxpayers, customers, investors and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. Questions about this report or requests for additional financial information should be addressed to: State of Wisconsin, State Controller's Office, 101 E. Wilson Street, 5th Floor, Madison, WI 53707.

Some state agencies, such as Department of Employee Trust Funds, issue stand-alone audited financial statements for certain state funds. The information contained in those statements may vary from this document due to scope and application of generally accepted accounting principles. Questions about how to obtain the separately issued financial statements should be directed to individual agencies or to the State Controller’s Office.

The State’s component units issue their own separate audited financial statements. These statements may be obtained by directly contacting the component unit. You may contact the individual component units through their administrative offices identified in Note 1-B.

* * * *

Statement of Net Assets
June 30, 2008

(In Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Assets				
Cash and Cash Equivalents	$ 854,778	$ 1,744,197	$ 2,598,975	$ 385,800
Investments	123,586	1,472,116	1,595,702	447,661
Cash and Investments with Other Component Units	-	-	-	255,000
Receivables (net of allowance)	3,148,866	2,749,673	5,898,539	3,406,960
Internal Balances	(352,633)	352,633	-	-
Inventories	36,999	46,578	83,577	7,525
Prepaid Items	318,798	75,114	393,912	5,161
Capital Leases Receivable - Component Units	-	9,718	9,718	-
Restricted and Limited Use Assets:				
Cash and Cash Equivalents	336,399	92,103	428,502	286,450
Investments	184,863	-	184,863	2,492,490
Other Restricted Assets	389	-	389	4,164
Deferred Charges	82,608	12,664	95,273	15,205
Capital Assets:				
Depreciable	1,482,027	2,840,585	4,322,613	418,948
Nondepreciable:				
Infrastructure	11,207,969	-	11,207,969	-
Other	3,436,103	1,560,621	4,996,724	36,892
Other Assets	36,076	5,877	41,953	67,416
Total Assets	20,896,829	10,961,879	31,858,707	7,829,672
Liabilities				
Accounts Payable and Other Accrued Liabilities	1,165,471	378,650	1,544,121	123,688
Due to Other Governments	1,929,297	27,610	1,956,907	232
Tax Refunds Payable	1,119,044	-	1,119,044	-
Tax and Other Deposits	80,908	19,278	100,186	105,509
Amounts Held in Trust by Component Unit for Other Component Units	-	-	-	260,026
Amounts Held in Trust by Component Unit for Others	-	-	-	17,626
Unearned Revenue	437,619	221,330	658,949	2,335
Interest Payable	129,027	14,262	143,288	43,661
Short-term Notes Payable	907,246	67,545	974,791	-
Long-term Liabilities:				
Current Portion	566,301	338,100	904,401	137,924
Noncurrent Portion	8,674,354	2,995,946	11,670,300	3,592,266
Total Liabilities	15,009,266	4,062,722	19,071,988	4,283,266
Net Assets				
Invested in Capital Assets, Net of Related Debt	12,900,350	3,438,954	16,339,304	164,127
Restricted for:				
Capital Projects	30,631	-	30,631	-
Debt Service	373,450	-	373,450	-
Unemployment Compensation	-	608,869	608,869	-
Environmental Improvement	-	1,392,936	1,392,936	-
Permanent Trusts:				
Expendable	14,227	245,601	259,828	9,298
Nonexpendable	773,823	150,150	923,973	1,147
Future Benefits	-	337,561	337,561	14,112
Other Purposes	117,278	426,784	544,062	2,346,417
Unrestricted	(8,322,198)	298,301	(8,023,897)	1,011,305
Total Net Assets	$ 5,887,562	$ 6,899,157	$ 12,786,719	$ 3,546,407

The notes to the financial statements are an integral part of this statement.

Statement of Activities
For the Fiscal Year Ended June 30, 2008

(In Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants, Contributions and Restricted Interest	Program Revenues: Capital Grants, Contributions and Restricted Interest
Primary Government:				
Governmental Activities:				
Commerce	$ 293,362	$ 208,363	$ 64,342	$ -
Education	6,477,194	23,291	793,826	-
Transportation	1,911,514	610,421	136,895	720,728
Environmental Resources	486,531	201,790	69,207	-
Human Relations and Resources	9,078,665	226,343	4,788,174	5,943
General Executive	536,527	275,298	156,518	-
Judicial	125,798	66,165	547	-
Legislative	65,356	1,508	4	-
Tax Relief and Other General Expenses	1,135,551	4,292	21,125	-
Intergovernmental - Shared Revenue	1,019,275	-	-	-
Interest on Debt	500,270	-	-	-
Total Governmental Activities	21,630,042	1,617,470	6,030,638	726,671
Business-type Activities:				
Injured Patients and Families Compensation	137,747	25,690	27,668	-
Environmental Improvement	43,436	45,268	62,129	-
University of Wisconsin System	3,920,563	2,606,437	280,423	70,262
Unemployment Reserve	950,923	735,536	45,966	-
Lottery	487,733	495,196	5,948	-
Other Business-type	1,478,509	1,329,158	(24,246)	686
Total Business-type Activities	7,018,911	5,237,285	397,889	70,949
Total Primary Government	$ 28,648,953	$ 6,854,755	$ 6,428,527	$ 797,619
Component Units:				
Housing and Economic Development Authority	$ 333,601	$ 190,524	$ 144,681	$ -
Health Care Liability Insurance Plan	24,461	6,415	3,749	-
University Hospitals and Clinics Authority	847,158	861,872	1,781	7,710
University of Wisconsin Foundation	286,435	183,426	269,929	-
State Fair Park Exposition Center, Inc.	5,290	4,521	-	-
Total Component Units	$ 1,496,945	$ 1,246,758	$ 420,139	$ 7,710

General Revenues:
- Dedicated for General Purposes:
  - Income Taxes
  - Sales and Excise Taxes
  - Public Utility Taxes
  - Other Taxes
- Motor Fuel/Other Taxes Dedicated for Transportation
- Other Dedicated Taxes
- Interest and Investment Earnings
- Miscellaneous

Contributions to Term and Permanent Endowments
Contributions to Permanent Fund Principal
Special Items
Transfers

Total General Revenues, Contributions, and Transfers

Change in Net Assets
Net Assets - Beginning
Net Assets - Ending

The notes to the financial statements are an integral part of this statement.

Governmental Activities	Business-Type Activities	Total	Component Units
		Net (Expense) Revenue and Changes in Net Assets	
	Primary Government		
$ (20,657)		$ (20,657)	
(5,660,076)		(5,660,076)	
(443,471)		(443,471)	
(215,533)		(215,533)	
(4,058,205)		(4,058,205)	
(104,711)		(104,711)	
(59,086)		(59,086)	
(63,844)		(63,844)	
(1,110,134)		(1,110,134)	
(1,019,275)		(1,019,275)	
(500,270)		(500,270)	
(13,255,263)		(13,255,263)	
	$ (84,389)	(84,389)	
	63,961	63,961	
	(963,440)	(963,440)	
	(169,421)	(169,421)	
	13,410	13,410	
	(172,911)	(172,911)	
-	(1,312,788)	(1,312,788)	
(13,255,263)	(1,312,788)	(14,568,051)	
			$ 1,604
			(14,297)
			24,205
			166,920
			(769)
			177,662
7,503,616	-	7,503,616	-
4,809,262	-	4,809,262	-
286,501	-	286,501	-
382,529	-	382,529	-
1,037,740	-	1,037,740	-
192,722	-	192,722	-
75,998	15,460	91,459	40,849
346,349	3	346,352	-
-	1,280	1,280	67
19,731	-	19,731	-
-	-	-	(1,958)
(1,002,000)	1,002,000	-	-
13,652,449	1,018,743	14,671,191	38,958
397,186	(294,045)	103,140	216,620
5,490,377	7,193,202	12,683,579	3,329,787
$ 5,887,562	$ 6,899,157	$ 12,786,719	$ 3,546,407

Balance Sheet - Governmental Funds
June 30, 2008

(In Thousands)

	General	Transportation	Nonmajor Governmental	Total Governmental
Assets				
Cash and Cash Equivalents	$ 7,180	$ 318,043	$ 513,101	$ 838,325
Investments	960	-	122,626	123,586
Receivables (net of allowance):				
Taxes	1,168,517	92,285	30,802	1,291,604
Loans to Local Governments	5,962	-	495,645	501,607
Other Loans Receivable	20,997	32,989	35	54,021
Other Receivables	198,557	7,503	102,956	309,017
Due from Other Funds	183,054	51,064	46,748	280,867
Interfund Receivables	-	9,342	-	9,342
Due from Other Governments	664,497	261,849	15,692	942,037
Inventories	12,034	13,759	2,905	28,699
Prepaid Items	295,475	3,519	19,086	318,080
Advances to Other Funds	81	-	-	81
Restricted and Limited Use Assets:				
Cash and Cash Equivalents	-	-	336,399	336,399
Investments	-	-	184,863	184,863
Other Restricted Assets	-	-	389	389
Other Assets	36,076	-	-	36,076
Total Assets	$ 2,593,390	$ 790,354	$ 1,871,247	$ 5,254,991
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable and Other Accrued Liabilities	$ 872,562	$ 199,212	$ 48,500	$ 1,120,275
Due to Other Funds	129,578	50,784	88,802	269,164
Interfund Payables	340,446	-	-	340,446
Due to Other Governments	1,831,805	89,148	8,343	1,929,297
Tax Refunds Payable	1,115,370	3,621	53	1,119,044
Tax and Other Deposits	70,350	567	9,991	80,908
Unearned Revenue	408,113	23,392	2,830	434,334
Deferred Revenue	327,899	1,527	71,547	400,972
Interest Payable	-	-	38,529	38,529
Advances from Other Funds	-	-	2,839	2,839
Short-term Notes Payable	-	-	891,480	891,480
Revenue Bonds and Notes Payable	-	-	101,675	101,675
Total Liabilities	5,096,124	368,252	1,264,588	6,728,964
Fund Balances:				
Reserved for Encumbrances	157,238	641,304	293,405	1,091,946
Reserved for Inventories	12,034	13,759	2,905	28,699
Reserved for Prepaid Items	179,186	3,519	19,086	201,791
Reserved for Budget Stabilization Fund	1,286	-	-	1,286
Reserved for Restricted Funds	-	-	305,020	305,020
Reserved for Long-term Receivables	-	-	451,280	451,280
Reserved for Advances to Other Funds	81	-	-	81
Unreserved, Reported In:				
General Fund	(2,852,559)	-	-	(2,852,559)
Special Revenue Funds	-	(236,481)	3,654	(232,826)
Debt Service Funds	-	-	82,691	82,691
Capital Projects Funds	-	-	(888,941)	(888,941)
Permanent Funds	-	-	337,560	337,560
Total Fund Balances	(2,502,734)	422,102	606,659	(1,473,973)
Total Liabilities and Fund Balances	$ 2,593,390	$ 790,354	$ 1,871,247	$ 5,254,991

(Continued)

Balance Sheet - Governmental Funds
June 30, 2008

(Continued)

		Total Governmental
Reconciliation to the Statement of Net Assets:		
Total Fund Balances from previous page	$	(1,473,973)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Infrastructure		11,207,969
Other Capital Assets		5,510,031
Accumulated Depreciation		(886,942)
Other long-term assets that are not available to pay for current period expenditures and, therefore, are deferred in the funds.		88,133
Some of the State's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.		397,688
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		4,489
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Revenue Bonds Payable		(2,884,095)
Appropriation Bonds Payable		(1,850,802)
General Obligation Bonds Payable		(3,921,719)
Accrued Interest on Bonds		(90,498)
Capital Leases		(27,181)
Installment Contracts		(316)
Compensated Absences		(134,728)
Claims and Judgments		(1,434)
Other Postemployment Benefits Liability		(49,062)
Net Assets of Governmental Activities as reported on the Statement of Net Assets (See page 21)	$	5,887,562

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Fiscal Year Ended June 30, 2008

(In Thousands)

	General	Transportation	Nonmajor Governmental	Total Governmental
Revenues:				
Taxes	$ 12,998,395	$ 1,037,013	$ 193,872	$ 14,229,280
Intergovernmental	5,733,449	857,903	47,389	6,638,741
Licenses and Permits	271,642	419,601	510,865	1,202,109
Charges for Goods and Services	338,819	20,361	19,588	378,769
Investment and Interest Income	24,341	13,763	71,746	109,850
Fines and Forfeitures	35,606	456	22,368	58,430
Gifts and Donations	7,251	24	10,172	17,447
Miscellaneous:				
Tobacco Settlement	-	-	150,165	150,165
Other	164,253	12,863	13,971	191,087
Total Revenues	19,573,757	2,361,983	1,040,137	22,975,877
Expenditures:				
Current Operating:				
Commerce	225,473	-	69,177	294,650
Education	6,404,603	-	41,044	6,445,647
Transportation	7,522	1,829,784	20,129	1,857,435
Environmental Resources	106,929	-	364,808	471,737
Human Relations and Resources	8,940,517	-	29,417	8,969,935
General Executive	423,241	-	112,252	535,493
Judicial	121,388	-	332	121,720
Legislative	63,964	-	-	63,964
Tax Relief and Other General Expenditures	1,078,281	-	7,493	1,085,775
Intergovernmental - Shared Revenue	1,019,275	-	-	1,019,275
Debt Service:				
Principal	-	-	420,188	420,188
Interest	-	-	492,989	492,989
Other Expenditures	-	-	49,469	49,469
Capital Outlay	59,556	387,735	241,307	688,598
Total Expenditures	18,450,749	2,217,519	1,848,605	22,516,874
Excess of Revenues Over (Under) Expenditures	1,123,008	144,464	(808,469)	459,003
Other Financing Sources (Uses):				
Long-term Debt Issued	-	-	284,979	284,979
Long-term Debt Issued - Refunding Bonds	-	-	1,007,120	1,007,120
Payments to Refunding Bond Escrow Agent	-	-	(944,850)	(944,850)
Discount on Bonds	-	-	(4,377)	(4,377)
Premium on Bonds	-	-	15,515	15,515
Transfers In	325,752	24,335	653,684	1,003,771
Transfers Out	(1,563,092)	(202,284)	(241,999)	(2,007,375)
Capital Lease Acquisitions	6,921	1,608	-	8,529
Installment Purchase Acquisitions	-	-	770	770
Total Other Financing Sources (Uses)	(1,230,419)	(176,341)	770,842	(635,918)
Net Change in Fund Balances	(107,411)	(31,877)	(37,627)	(176,915)
Fund Balances, Beginning of Year	(2,394,471)	459,078	644,486	(1,290,907)
Increase (Decrease) in Reserve for Inventories	(852)	(5,099)	(200)	(6,151)
Fund Balances, End of Year	$ (2,502,734)	$ 422,102	$ 606,659	$ (1,473,973)

(Continued)

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Fiscal Year Ended June 30, 2008

(Continued)

		Total Governmental
Reconciliation to the Statement of Activities:		
Net Change in Fund Balances from previous page	$	(176,915)
Inventories, which are recorded under the purchases method for governmental fund reporting, are reported under the consumption approach on the Statement of Activities. As a result of this change, the Increase (Decrease) in Reserve for Inventories on the fund statement has been reclassified as functional expenses on the government-wide statement.		(6,151)
Repayment of bond principal is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Net Assets.		420,188
Governmental funds report the acquisition or construction of capital assets as expenditures, while governmental activities report depreciation expense to allocate the cost of these assets over their estimated useful life. Donated assets are set up at fair value with a corresponding amount of revenue recognized. In the current period, these amounts are:		
Capital Outlay/Functional Expenditures		688,040
Depreciation Expense		(82,952)
Grants and Contributions (Donated Assets)		685
Transfers of capital assets between governmental and business-type activities results in the movement of those assets on the Statement of Net Assets and corresponding recognition of the related transfer in/out on the Statement of Activities.		(536)
In the Statement of Activities, only the gain/(loss) on the sale/disposal of capital assets is reported, while in the governmental funds, any proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold/disposed.		(39,174)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(3,038)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.		
Bonds Issued		(1,292,099)
Payments to Refunding Bond Escrow Agent		944,850
Bond Premium		(15,515)
Bonds Discount		4,377
Bond Issuance Costs		(1,973)
Some expenses 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.		
Net decrease (increase) in accrued interest		4,482
Decrease (increase) in Capital Leases		1,870
Decrease (increase) in Installment Contracts		135
Decrease (increase) in Compensated Absences		(6,654)
Decrease (increase) in Claims and Judgments		13,057
Decrease (increase) in Postemployment Benefit Liabilities		(49,062)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.		(6,431)
Changes in Net Assets of Governmental Activities as reported on the Statement of Activities (See page 23)	$	397,186

The notes to the financial statements are an integral part of this statement.

Balance Sheet
Proprietary Funds
June 30, 2008

(In Thousands)

	Business-type Activities - Enterprise Funds		
	Injured Patients and Families Compensation	Environmental Improvement	University of Wisconsin System
Assets			
Current Assets:			
Cash and Cash Equivalents	$ -	$ 210,930	$ 247,757
Investments	74,474	47,734	-
Loans to Local Governments (net of allowance)	-	131,939	-
Other Loans Receivable (net of allowance)	-	-	34,012
Other Receivables (net of allowance)	9,905	1,090	105,123
Due from Other Funds	-	22	51,414
Due from Component Units	-	-	1,235
Interfund Receivables	-	-	451,584
Due from Other Governments	-	8,103	106,672
Inventories	1	-	37,455
Prepaid Items	7	22	33,823
Advances to Other Funds	-	-	-
Capital Leases Receivable - Component Units	-	-	2,047
Deferred Charges	-	-	5,655
Other Assets	-	-	-
Total Current Assets	84,387	399,839	1,076,778
Noncurrent Assets:			
Investments	686,685	147,408	348,552
Loans to Local Governments (net of allowance)	-	1,583,604	-
Other Loans Receivable (net of allowance)	-	-	165,787
Other Receivables	-	-	5,490
Prepaid Items	-	252	-
Advances to Other Funds	-	-	-
Capital Leases Receivable - Component Units	-	-	7,671
Restricted and Limited Use Assets:			
Cash and Cash Equivalents	-	92,103	-
Deferred Charges	-	2,981	-
Depreciable Capital Assets (net of accumulated depreciation)	-	-	2,673,342
Nondepreciable Capital Assets	-	-	1,551,232
Other Assets	-	-	-
Total Noncurrent Assets	686,685	1,826,348	4,752,074
Total Assets	$ 771,072	$ 2,226,187	$ 5,828,852
Liabilities and Fund Equity			
Current Liabilities:			
Accounts Payable and Other Accrued Liabilities	$ 347	$ 142	$ 225,235
Due to Other Funds	355	1,433	55,012
Due to Component Units	-	-	1,501
Interfund Payables	35,338	-	-
Due to Other Governments	-	143	19,763
Tax and Other Deposits	-	-	1,823
Unearned Revenue	4	-	121,687
Interest Payable	-	5,134	5,759
Short-term Notes Payable	-	-	65,124
Current Portion of Long-term Liabilities:			
Future Benefits and Loss Liabilities	108,677	-	-
Capital Leases	-	-	5,474
Compensated Absences	10	26	55,357
General Obligation Bonds Payable	-	-	29,355
Revenue Bonds and Notes Payable	-	60,730	-
Total Current Liabilities	144,730	67,608	586,089
Noncurrent Liabilities:			
Accounts Payable and Other Accrued Liabilities	-	-	-
Due to Other Governments	-	1,227	-
Noncurrent Portion of Long-term Liabilities:			
Future Benefits and Loss Liabilities	687,788	-	-
Capital Leases	-	-	109,289
Compensated Absences	30	51	57,010
Other Postemployment Benefits	14	9	47,143
General Obligation Bonds Payable	-	-	709,254
Revenue Bonds and Notes Payable	-	737,249	-
Total Noncurrent Liabilities	687,832	738,536	922,696
Total Liabilities	832,562	806,144	1,508,785
Fund Equity:			
Invested in Capital Assets, Net of Related Debt	-	-	3,306,078
Restricted for Unemployment Compensation	-	-	-
Restricted for Environmental Improvement	-	1,392,936	-
Restricted for Expendable Trusts	-	-	245,601
Restricted for Nonexpendable Trusts	-	-	150,150
Restricted for Future Benefits	-	-	-
Restricted for Other Purposes	-	-	367,531
Unrestricted	(61,490)	27,107	250,707
Total Fund Equity	(61,490)	1,420,043	4,320,067
Total Liabilities and Fund Equity	$ 771,072	$ 2,226,187	$ 5,828,852

The notes to the financial statements are an integral part of this statement.

Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
Unemployment Reserve	Nonmajor Enterprise	Totals	
$ 446,830	$ 838,681	$ 1,744,197	$ 16,453
-	16,955	139,163	-
-	288	132,227	-
-	14,541	48,553	-
153,636	80,421	350,176	159
319	15,350	67,105	36,343
-	-	1,235	-
-	-	451,584	-
4,185	11,003	129,964	297
-	9,121	46,578	5,016
-	40,938	74,789	718
-	-	0	25
-	-	2,047	-
-	332	5,987	111
-	1,344	1,344	-
604,971	1,028,974	3,194,949	59,123
-	150,307	1,332,953	-
-	2,160	1,585,764	-
-	296,028	461,815	-
33,639	754	39,883	-
-	73	325	-
-	-	0	2,814
-	-	7,671	-
-	-	92,103	-
-	3,696	6,677	597
-	167,243	2,840,585	259,705
-	9,389	1,560,621	35,336
-	4,533	4,533	-
33,639	634,183	7,932,930	298,452
$ 638,610	$ 1,663,156	$ 11,127,879	$ 357,575
$ 16,828	$ 67,550	$ 310,103	$ 12,915
6,627	35,886	99,312	5,595
-	-	1,501	-
-	39,166	74,504	45,975
6,286	191	26,383	95
-	17,455	19,278	-
-	99,640	221,330	-
-	3,368	14,262	1,341
-	2,421	67,545	15,766
-	59,744	168,421	38,063
-	277	5,751	10,155
-	3,355	58,747	1,194
-	15,096	44,451	9,202
-	-	60,730	-
29,741	344,149	1,172,318	140,299
-	60,985	60,985	-
-	-	1,227	-
-	232,437	920,225	56,937
-	1,399	110,688	494
-	6,738	63,828	2,643
-	6,647	53,812	997
-	400,890	1,110,144	149,960
-	-	737,249	-
-	709,096	3,058,159	211,031
29,741	1,053,245	4,230,477	351,331
-	132,876	3,438,954	110,277
608,869	-	608,869	-
-	-	1,392,936	-
-	-	245,601	-
-	-	150,150	-
-	337,559	337,559	-
-	59,253	426,784	-
-	80,224	296,549	(104,033)
608,869	609,912	6,897,402	6,244
$ 638,610	$ 1,663,156	$ 11,127,879	$ 357,575

Total Fund Equity Reported Above	$ 6,897,402
Adjustment to Reflect the Consolidation of Internal Service Activities Related to Enterprise Funds	1,755
Net Assets of Business-type Activities	$ 6,899,157

Statement of Revenues, Expenses, and Changes in Fund Equity - Proprietary Funds
For the Fiscal Year Ended June 30, 2008

(In Thousands)

	Business-type Activities - Enterprise Funds		
	Injured Patients and Families Compensation	**Environmental Improvement**	**University of Wisconsin System**
Operating Revenues:			
Charges for Goods and Services	$ 25,690	$ -	$ -
Participant and Employer Contributions	-	-	-
Tuition and Fees	-	-	884,962
Federal Grants and Contracts	-	-	729,065
Local and Private Grants and Contracts	-	-	125,385
Sales and Services of Educational Activities	-	-	276,972
Sales and Services of Auxiliary Enterprises	-	-	314,148
Sales and Services to UW Hospital Authority	-	-	45,865
Investment and Interest Income	-	26,311	-
Interest Income Used as Security for Revenue Bonds	-	18,907	-
Miscellaneous:			
Federal Aid for Unemployment Insurance Program	-	-	-
Reimbursing Financing Revenue	-	-	-
Other	-	50	229,435
Total Operating Revenues	25,690	45,268	2,605,832
Operating Expenses:			
Personal Services	595	4,147	2,624,759
Supplies and Services	595	1,766	980,946
Lottery Prize Awards	-	-	-
Scholarships and Fellowships	-	-	88,915
Depreciation	-	-	174,720
Benefit Expense	135,728	-	-
Interest Expense	-	36,439	-
Other Expenses	-	-	4,545
Total Operating Expenses	136,918	42,353	3,873,884
Operating Income (Loss)	(111,227)	2,915	(1,268,052)
Nonoperating Revenues (Expenses):			
Operating Grants	-	41,454	-
Investment and Interest Income	27,668	7,458	10,777
Investment Income Used as Security for Revenue Bonds	-	13,751	-
Gain (Loss) on Disposal of Capital Assets	-	-	(9,578)
Interest Expense	(826)	-	(35,702)
Gifts and Donations	-	-	269,646
Miscellaneous Revenues	-	-	605
Other Expenses:			
Property Tax Credits	-	-	-
Grants Disbursed	-	(1,083)	-
Federal Settlement	-	-	-
Other	-	-	-
Total Nonoperating Revenues (Expenses)	26,841	61,580	235,748
Income (Loss) Before Contributions and Transfers	(84,386)	64,495	(1,032,303)
Capital Contributions	-	-	70,262
Additions to Endowments	-	-	1,280
Transfers In	-	40,655	1,096,769
Transfers Out	(71,512)	(6,085)	(90,418)
Net Change in Fund Equity	(155,898)	99,065	45,591
Total Fund Equity, Beginning of Year	94,409	1,320,978	4,274,477
Total Fund Equity, End of Year	$ (61,490)	$ 1,420,043	$ 4,320,067

The notes to the financial statements are an integral part of this statement.

Business-type Activities - Enterprise Funds			Governmental
Unemployment Reserve	Nonmajor Enterprise	Totals	Activities - Internal Service Funds
$ -	$ 807,901	$ 833,592	$ 240,929
671,744	990,024	1,661,768	-
-	-	884,962	-
-	-	729,065	-
-	-	125,385	-
-	-	276,972	-
-	-	314,148	-
-	-	45,865	-
-	19,018	45,328	-
-	-	18,907	-
18,834	-	18,834	-
58,540	-	58,540	-
5,253	900	235,637	277
754,370	1,817,842	5,249,002	241,206
-	290,035	2,919,536	54,335
-	157,528	1,140,834	138,908
-	286,688	286,688	-
-	-	88,915	-
-	12,261	186,981	27,021
950,923	1,052,248	2,138,899	22,952
-	20,196	56,635	-
-	6,575	11,120	-
950,923	1,825,531	6,829,608	243,216
(196,553)	(7,688)	(1,580,605)	(2,010)
-	1,111	42,565	-
27,132	(5,507)	67,528	131
-	-	13,751	-
-	-	(9,578)	(51)
-	(2,192)	(38,720)	(8,532)
-	713	270,359	-
-	6,825	7,430	1,964
-	(133,496)	(133,496)	-
-	(4,409)	(5,492)	-
-	-	0	(2,289)
-	(71)	(71)	-
27,132	(137,028)	214,274	(8,777)
(169,421)	(144,716)	(1,366,331)	(10,787)
-	686	70,949	-
-	-	1,280	-
-	71,086	1,208,510	9,077
(5,561)	(32,934)	(206,511)	(6,663)
(174,982)	(105,878)	(292,103)	(8,373)
783,852	715,790	7,189,505	14,617
$ 608,869	$ 609,912	$ 6,897,402	$ 6,244

Total Net Change in Fund Equity Reported Above	$ (292,103)
Consolidation Adjustment of Internal Services Activities Related to Enterprise Funds	(1,942)
Change in Net Assets of Business-Type Activities	$ (294,045)

Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2008

(In Thousands)

	Business-type Activities - Enterprise Funds		
	Injured Patients and Families Compensation	Environmental Improvement	University of Wisconsin System
Cash Flows from Operating Activities:			
Cash Receipts from Customers	$ 24,347	$ -	$ -
Cash Payments to Suppliers for Goods and Services	(531)	(3,062)	(979,425)
Cash Payments to Employees for Services	(583)	(3,327)	(2,469,304)
Tuition and Fees	-	-	892,101
Grants and Contracts	-	-	824,225
Cash Payments for Lottery Prizes	-	-	-
Cash Payments for Loans Originated	-	-	(34,502)
Collection of Loans	-	-	24,419
Interest Income	-	-	-
Cash Payments for Benefits	(41,262)	-	-
Sales and Services of Educational Activities	-	-	280,317
Sales and Services of Auxiliary Enterprises	-	-	319,540
Sales and Services to UW Hospital Authority	-	-	47,602
Scholarships and Fellowships	-	-	(88,915)
Other Operating Revenues	-	50	201,795
Other Operating Expenses	-	-	-
Other Sources of Cash	-	-	-
Other Uses of Cash	-	-	-
Net Cash Provided (Used) by Operating Activities	(18,029)	(6,339)	(982,148)
Cash Flows from Noncapital Financing Activities:			
Operating Grants Receipts	-	42,240	-
Grants Disbursed	-	(1,083)	-
Proceeds from Issuance of Debt	-	107,214	-
Repayment of Bonds and Notes	-	(83,085)	-
Escrow Deposit	-	29,275	-
Interest Payments	(826)	(36,324)	-
Property Tax Credit Payments	-	-	-
Noncapital Gifts and Grants	-	-	270,926
Interfund Loans Received	35,338	-	-
Interfund Loans Repaid	-	-	-
Interfund Borrowings to Other Funds	-	-	(451,584)
Interfund Advances Collected	-	-	-
Transfers In	-	40,655	1,102,511
Transfers Out	(71,512)	(6,085)	(90,418)
Student Direct Lending Receipts	-	-	185,551
Student Direct Lending Disbursements	-	-	(185,647)
Other Cash Inflows from Noncapital Financing Activities	-	-	-
Other Cash Outflows from Noncapital Financing Activities	-	-	(621)
Net Cash Provided (Used) by Noncapital Financing Activities	(37,000)	92,807	830,719
Cash Flows from Capital and Related Financing Activities:			
Proceeds from Issuance of Debt	-	-	54,754
Capital Contributions	-	-	114,539
Repayment of Bonds and Notes	-	-	(109,565)
Interest Payments	-	-	(90,240)
Capital Lease Obligations	-	-	-
Proceeds from Sale of Capital Assets	-	-	-
Payments for Purchase of Capital Assets	-	-	(419,628)
Other Cash Inflows from Capital Financing Activities	-	-	70,159
Other Cash Outflows from Capital Financing Activities	-	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	-	-	(379,982)
Cash Flows from Investing Activities:			
Proceeds from Sale and Maturities of Investment Securities	38,280	85,542	192,286
Purchase of Investment Securities	(60,559)	(122,368)	(183,788)
Cash Payments for Loans Originated	-	(274,142)	-
Collection of Loans	-	124,067	-
Investment and Interest Receipts	35,891	77,602	25,528
Net Cash Provided (Used) by Investing Activities	13,612	(109,299)	34,026
Net Increase (Decrease) in Cash and Cash Equivalents	(41,417)	(22,831)	(497,385)
Cash and Cash Equivalents, Beginning of Year	41,417	325,863	745,142
Cash and Cash Equivalents, End of Year	$ 0	$ 303,032	$ 247,757

Business-type Activities - Enterprise Funds: Unemployment Reserve	Business-type Activities - Enterprise Funds: Nonmajor Enterprise	Business-type Activities - Enterprise Funds: Totals	Governmental Activities - Internal Service Funds
$ 643,381	$ 1,787,094	$ 2,454,823	$ 235,158
-	(128,850)	(1,111,867)	(146,029)
-	(281,428)	(2,754,642)	(52,632)
-	-	892,101	-
-	-	824,225	-
-	(295,858)	(295,858)	-
-	(57,848)	(92,350)	-
-	41,945	66,364	-
-	19,036	19,036	-
(953,253)	(1,026,113)	(2,020,628)	(23,935)
-	-	280,317	-
-	-	319,540	-
-	-	47,602	-
-	-	(88,915)	-
81,450	3,218	286,513	277
-	(38,990)	(38,990)	-
-	8,601	8,601	1,964
-	-	0	(2,293)
(228,422)	30,808	(1,204,130)	12,511
-	1,162	43,402	-
-	(5,065)	(6,147)	-
-	44,870	152,084	-
-	(44,755)	(127,840)	-
-	-	29,275	-
-	(19,908)	(57,058)	(4)
-	(129,602)	(129,602)	-
-	-	270,926	-
-	11,432	46,770	20,938
-	(2,838)	(2,838)	-
-	-	(451,584)	-
-	-	0	25
-	69,488	1,212,654	9,071
(3,071)	(36,381)	(207,468)	(6,735)
-	-	185,551	-
-	-	(185,647)	-
-	646	646	-
-	(1,284)	(1,905)	-
(3,071)	(112,234)	771,220	23,295
-	1,246	56,000	11,081
-	686	115,225	-
-	(2,437)	(112,003)	(11,885)
-	(2,245)	(92,485)	(8,580)
-	(265)	(265)	(9,667)
-	950	950	450
-	(5,610)	(425,239)	(22,844)
-	102	70,262	-
-	(156)	(156)	-
-	(7,729)	(387,711)	(41,445)
-	18,130	334,239	-
-	(3,366)	(370,081)	-
-	(195)	(274,338)	-
-	184	124,251	-
27,132	(9,824)	156,330	9
27,132	4,929	(29,600)	9
(204,362)	(84,226)	(850,220)	(5,629)
651,191	922,906	2,686,520	22,083
$ 446,830	$ 838,681	$ 1,836,300	$ 16,453

(Continued)

Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2008

(Continued)

	Business-type Activities - Enterprise Funds		
	Injured Patients and Families Compensation	**Environmental Improvement**	**University of Wisconsin System**
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operations:			
Operating Income (Loss)	$ (111,227)	$ 2,915	$ (1,268,052)
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation	-	-	174,720
Amortization		(1,591)	-
Provision for Uncollectible Accounts	-	-	-
Operating Income (Investment Income) Classified as Investing Activity	-	(45,218)	-
Operating Expense (Interest Expense) Classified as Noncapital Financing Activity	-	35,572	-
Miscellaneous Nonoperating Income (Expense)	-	-	-
Changes in Assets and Liabilities:			
Decrease (Increase) in Receivables	60	(670)	23,429
Decrease (Increase) in Due from Other Funds	-	2,246	(16,715)
Decrease (Increase) in Due from Component Units	-	-	1,737
Decrease (Increase) in Due from Other Governments	-	-	(29,099)
Decrease (Increase) in Inventories	1	-	(618)
Decrease (Increase) in Prepaid Items	-	17	(2,374)
Decrease (Increase) in Other Assets	-	-	-
Decrease (Increase) in Deferred Charges	-	(162)	1,255
Increase (Decrease) in Accounts Payable and Other Accrued Liabilities	(48)	36	99,761
Increase (Decrease) in Due to Other Funds	110	(2,044)	(3,477)
Increase (Decrease) in Due to Component Units	-	-	(942)
Increase (Decrease) in Due to Other Governments	-	102	12,678
Increase (Decrease) in Tax and Other Deposits	-	-	-
Increase (Decrease) in Unearned Revenue	(1,403)	-	(25,238)
Increase (Decrease) in Interest Payable	-	2,458	-
Increase (Decrease) in Compensated Absences	(1)	(10)	3,644
Increase (Decrease) in Postemployment Benefits	14	9	47,143
Increase (Decrease) in Future Benefits and Loss Liabilities	94,466	-	-
Total Adjustments	93,199	(9,254)	285,904
Net Cash Provided (Used) by Operating Activities	$ (18,029)	$ (6,339)	$ (982,148)
Noncash Investing, Capital and Financing Activities:			
Assets Acquired through Capital Leases	$ -	$ -	$ 2,558
Contributions/Transfer In (Out) of Noncash Assets and Liabilities from/to Other Funds	-	-	-
Net Change in Unrealized Gains and Losses	(7,867)	-	(38,711)
Other	(752)	-	5,236

The notes to the financial statements are an integral part of this statement.

Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
Unemployment Reserve	Nonmajor Enterprise	Totals	
$ (196,553)	$ (7,688)	$ (1,580,605)	$ (2,010)
-	12,261	186,981	27,021
-	-	(1,591)	-
2,705	(175)	2,530	-
-	(257)	(45,475)	-
-	20,196	55,768	-
-	3,305	3,305	(329)
(30,133)	(49,672)	(56,986)	(75)
(48)	3,225	(11,292)	(5,700)
-	-	1,737	126
(279)	3,745	(25,634)	(119)
-	(1,307)	(1,923)	1,219
-	610	(1,748)	(34)
-	(316)	(316)	-
-	507	1,601	-
(5,207)	(3,654)	90,888	4,183
(28)	5,073	(366)	1,368
-	-	(942)	-
1,121	78	13,979	(13,537)
-	365	365	-
-	9,551	(17,090)	-
-	-	2,458	-
-	767	4,400	383
-	6,574	53,740	997
-	27,620	122,085	(983)
(31,870)	38,496	376,475	14,521
$ (228,422)	$ 30,808	$ (1,204,130)	$ 12,511
$ -	$ 52	$ 2,610	$ 2,351
-	531	531	-
-	4,052	(42,526)	-
-	3	4,487	24

Statement of Fiduciary Net Assets
June 30, 2008

(In Thousands)

	Pension and Other Employee Benefit Trust	Investment Trust	Private-Purpose Trust	Agency
Assets				
Cash and Cash Equivalents	$ 403,852	$ 3,795,798	$ 156,422	$ 37,973
Securities Lending Collateral	6,109,451	-	-	-
Prepaid Items	6,583	-	1,024	13
Receivables (net of allowance):				
Loans Receivable	-	-	40	-
Prior Service Contributions Receivable	276,414	-	-	-
Benefits Overpayment Receivable	3,042	-	-	-
Due from Other Funds	33,877	2,000	-	1,280
Due from Component Units	3,267	-	-	-
Interfund Receivables	2,023,294	-	-	-
Due from Other Governments	122,901	-	5,560	-
Interest and Dividends Receivable	214,272	-	-	-
Investment Sales Receivable	1,728,803	-	-	-
Other Receivables	8,211	-	2,502	7,677
Total Receivables	4,414,080	2,000	8,102	8,957
Investments:				
Fixed Income	22,279,066	-	-	-
Stocks	49,689,705	-	-	-
Limited Partnerships	6,169,330	-	-	-
Preferred Securities	227,877	-	-	-
Convertible Securities	35,607	-	-	-
Mortgages	129,005	-	-	-
Real Estate	467,910	-	-	-
Investments of Private Purpose Trust Funds	-	-	2,033,512	-
Investments of Agency Funds	-	-	-	788
Multi-asset Investments	840,176	-	-	-
External Investment Pool	560,047	-	-	-
Total Investments	80,398,722	-	2,033,512	788
Inventories	123	-	-	-
Capital Assets	37	-	5	-
Other Assets	-	-	-	297,576
Total Assets	91,332,848	3,797,798	2,199,065	$ 345,306
Liabilities				
Accounts Payable and Other Accrued Liabilities	78,316	-	240	$ 29,215
Securities Lending Collateral Liability	6,109,451	-	-	-
Annuities Payable	268,467	-	-	-
Advance Contributions	225	-	-	-
Due to Other Funds	44,982	2,136	5	277
Interfund Payables	2,023,294	-	-	-
Due to Other Governments	33,067	-	-	1,861
Tax and Other Deposits	-	-	-	313,953
Future Benefits and Loss Liabilities	-	-	3,684	-
Financial Futures Contracts	76	-	-	-
Investment Payable	1,846,080	-	-	-
Unearned Revenue	406	-	-	-
Advances from Other Funds	-	-	81	-
Compensated Absences Payable	2,152,539	-	-	-
Other Postemployment Benefits	290	-	-	-
Total Liabilities	12,557,193	2,136	4,011	$ 345,306
Net Assets				
Held in Trust for Pension Benefits, Pool Participants and Other Purposes	$ 78,775,655	$ 3,795,662	$ 2,195,055	

The notes to the financial statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended June 30, 2008

(In Thousands)

	Pension and Other Employee Benefit Trust	Investment Trust	Private-Purpose Trust
Additions			
Contributions:			
Employer Contributions	$ 709,632	$ -	$ -
Employee Contributions	741,160	-	-
Other	-	-	22
Total Contributions	1,450,792	-	22
Deposits	-	10,752,102	331,799
Premiums			151,491
Federal Subsidy			10,549
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	(5,865,754)	-	-
Interest	675,462	-	-
Dividends	592,099	-	-
Securities Lending Income	315,186	-	-
Other	71,908	-	-
Investment Income of Investment, Private Purpose, and Other Employee Benefit Trust Funds	(87,960)	126,069	(126,224)
Less:			
Investment Expense	(220,687)	(1,769)	(8,050)
Securities Lending Rebates and Fees	(264,396)	-	-
Investment Income Distributed to Other Funds	159,268	-	-
Net Investment Income	(4,624,875)	124,300	(134,273)
Interest on Prior Service Receivable	20,819	-	-
Miscellaneous Income	917	-	-
Total Additions	(3,152,347)	10,876,402	359,587
Deductions			
Retirement Benefits and Refunds:			
Retirement, Disability, and Beneficiary	3,664,967	-	-
Separations	24,079	-	-
Total Retirement Benefits and Refunds	3,689,046	-	-
Distributions	23,981	10,488,456	185,254
Other Benefit Expense	322,175	-	155,191
Unusual Write-off of Receivable	4	-	-
Administrative Expense	22,611	263	12,531
Transfers Out	267	-	6
Total Deductions	4,058,084	10,488,719	352,982
Net Increase (Decrease)	(7,210,431)	387,683	6,605
Net Assets - Beginning of Year	85,986,085	3,407,979	2,188,450
Net Assets - End of Year	$ 78,775,655	$ 3,795,662	$ 2,195,055

The notes to the financial statements are an integral part of this statement.

Index

Page

Detailed Disclosures Regarding Liabilities and Expenses/Expenditures

Other Note Disclosures

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying basic financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB).

B. Financial Reporting Entity

For GAAP purposes, the State of Wisconsin includes all funds, elected offices, departments and agencies of the State, as well as boards, commissions, authorities and universities. The State has also considered all potential "component units" for which it is financially accountable, and other affiliated organizations for which the nature and significance of their relationship, including their ongoing financial support, with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete.

The decision to include a potential component unit in the State's reporting entity is based on the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity,* and GASB Statement No. 39*, Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14*. GASB Statement No. 14 criteria include the ability to appoint a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State. GASB Statement No. 39 provisions relate to separately legal, tax-exempt organizations and include: (1) the economic resources received or held are entirely or almost entirely for the direct benefit of the State, (2) the State is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and (3) the economic resources received or held by an individual organization that the State is entitled to, or has the ability to otherwise access, are significant to the State.

In addition, GASB Technical Bulletin No. 2004-1 (TB), *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, clarified guidance on whether a Tobacco Settlement Authority (TSA) that is created to obtain the rights to all or a portion of future tobacco settlement resources is a component unit of the government that created it. This guidance resulted in the Badger Tobacco Asset Securitization Corporation (BATSC) to be reported as a blended component unit in the primary government in a debt service fund. The State has no legal liability for the obligations of BTASC.

Based upon the application of the criteria contained in GASB Statement No. 14, as amended by GASB Statement No. 39 and clarified by GASB Technical Bulletin No. 2004-1, the Wisconsin Public Broadcasting Foundation, Inc., Celebrate Children Foundation, Inc., and the Badger Tobacco Asset Securitization Corporation are reported as blended component units; and the Wisconsin Housing and Economic Development Authority, the Wisconsin Health Care Liability Insurance Plan, the University of Wisconsin Hospitals and Clinics Authority, the University of Wisconsin Foundation and the State Fair Park Exposition Center, Inc., are presented as discrete component units, as discussed below.

Complete financial statements of the individual component units that issue separate statements can be obtained from their respective administrative offices:

Wisconsin Public Broadcasting Foundation Inc.
Wisconsin Educational Communications Board
3319 West Beltline Highway
Madison, WI 53702

Celebrate Children Foundation, Inc.
110 East Main Street, Suite 614
Madison, WI 53703

Badger Tobacco Asset Securitization Corporation
10 East Doty Street, Suite 800
Madison, WI 53703

Wisconsin Housing and Economic Development Authority
201 West Washington Avenue, Suite 700
Madison, WI 53702

Wisconsin Health Care Liability Insurance Plan
Office of the Commissioner of Insurance
125 South Webster Street
Madison, WI 53702

University of Wisconsin Hospitals and Clinics Authority
635 Science Drive, Room 310
Madison, WI 53711

University of Wisconsin Foundation
Attn: Finance
PO Box 8860
Madison, WI 53708-8860

State Fair Park Exposition Center, Inc.
8200 West Greenfield Avenue
West Allis, WI 53214

Blended Component Units

Blended component units are entities that are legally separate from the State, but are so intertwined with the State that they are, in substance, the same as the State. The blended component unit serves or benefits the primary government. They are reported as part of the State and blended into the appropriate funds.

Wisconsin Public Broadcasting Foundation, Inc. – The Wisconsin Public Broadcasting Foundation, Inc. (Foundation), created in 1983 by the Wisconsin Legislature, is a private, nonstock, nonprofit Wisconsin Corporation, wholly owned by the Wisconsin Educational Communications Board (ECB), a unit of the State. The Foundation solicits funds in the name of, and with the approval of, the ECB. The Foundation's funds are managed by a five-member board of trustees consisting of the executive director of the ECB and four members of the ECB board. The Foundation is reported as a special revenue fund.

Celebrate Children Foundation, Inc. (CCF) – The Celebrate Children Foundation, Inc., was organized as a nonstock, nonprofit corporation for the exclusive purposes of soliciting and accepting contributions, grants, gifts and bequests for the State's Children's Trust Fund or for deposit into a fund maintained by the CCF. The Child Abuse and Neglect Prevention Board (a 20 member Board attached to the State Department of Health and Family Services) administers the Children's Trust Fund, a statutory fund included in the State's CAFR as a special revenue fund. In addition to the State appointing a voting majority of the CCF, the State is able to impose its will on the CCF and a financial benefit/burden relationship exists. The CCF is reported as a special revenue fund.

Badger Tobacco Asset Securitization Corporation (BTASC) – A nonstock public corporate entity created under Chapter 181 of the Wisconsin Statutes was created for the purpose of making a one-time purchase of Tobacco Settlement Revenues (TSRs) from the State. In May 2002, BTASC issued bonds to provide sufficient funds for carrying out its purpose. Bonds issued by the BTASC are the sole obligation of the BTASC. The State is not legally liable for payment of principal and interest on these bonds nor is the debt dependent upon any dedicated stream of revenue generated by the State. Directors of the corporation are appointed by the Secretary of Administration for staggered three-year terms. Once appointed, directors can only be removed for cause. At least one of the directors must be determined to be "independent" for federal bankruptcy law purposes. The State appoints the BTASC board and a financial benefit exists. BTASC reports on a fiscal year ended May 31. BTASC is reported as a debt service fund (Badger Tobacco Asset Securitization).

Pursuant to a Purchase and Sale Agreement with the State, BTASC acquired all of the State's right, title, and interest in the TSRs under the Master Settlement Agreement and the Consent Decree and Final Judgment (MSA). The MSA was entered into on November 23, 1998, among the attorneys general of 46 states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Commonwealth of the Northern Mariana Islands (the "Settling States") and the four largest United States tobacco manufacturers.

On May 23, 2002 the State sold the TSRs to BTASC for $1.3 billion and a residual certificate. Upon discharge of BTASC's obligations under its May 1, 2002 bond indenture, all subsequent TSRs are owned by the State pursuant to the residual certificate.

Discretely Presented Component Units

Discretely presented component units are entities which are legally separate from the State, but are financially accountable to the State, whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The Wisconsin Housing and Economic Development Authority, the Wisconsin Health Care Liability Insurance Plan, the University of Wisconsin Hospitals and Clinics Authority, the University of Wisconsin Foundation and the State Fair Park Exposition Center, Inc., are reported in a separate column and in separate rows in the government-wide statements to emphasize that they are legally separate.

Wisconsin Housing and Economic Development Authority – The Wisconsin Housing and Economic Development Authority (Authority) was established by the Wisconsin Legislature in 1972 to help meet the housing needs of Wisconsin's low and moderate income citizens. The State has significantly expanded the scope of services of the Authority by adding programs that include financing for farmers and for economic development projects. While the Authority receives no State tax dollars for its bond-supported programs and the State is not liable on bonds the Authority issues, the State has the ability to impose its will on the Authority through legislation. The State appoints the Authority's Board. The Authority reports on a June 30 fiscal year-end.

Wisconsin Health Care Liability Insurance Plan – The Wisconsin Health Care Liability Insurance Plan (Plan) was established by rule of the Commissioner of Insurance of the State of Wisconsin to provide health care liability insurance and liability coverage normally incidental to health care liability insurance to eligible health care providers in the State. Eight out of 13 members of the Board of Directors are appointed by the Governor, and the State has the ability to impose its will upon the Plan. The Plan reports on a fiscal year ended December 31.

University of Wisconsin Hospitals and Clinics Authority – The University of Wisconsin Hospitals and Clinics Authority (Hospital) is a not-for-profit academic medical center. The Hospital operates an acute-care hospital with approximately 480 available beds, numerous specialty clinics, and seven ambulatory facilities providing comprehensive health care to patients, education programs, research and community service to residents of southern Wisconsin. Prior to June 1996, the Hospital was a unit of the University of Wisconsin-Madison. In June 1996, in accordance with legislation enacted by the State Legislature, the Hospital was restructured as a Public Authority, a public body corporate and politic created by State statutes. The State appoints a majority of the Hospital's Board of Directors and a financial benefit/burden relationship exists between the Hospital and the State. The Hospital reports on a June 30 fiscal year-end.

The legislation that created the Hospital Authority also provided, among other things, for the Board of Regents of the University of Wisconsin System to execute various agreements with the Hospital. These agreements include an Affiliation Agreement, a Lease Agreement, a Conveyance Agreement and a Contractual Services Agreement and Operating and Service Agreement.

The Affiliation Agreement requires the Hospital to continue to support the educational, research and clinical activities of the University of Wisconsin-Madison, which are administered by the Hospital. Under the terms of a Lease Agreement, the Hospital leases facilities, which were occupied by the Hospital as of June 29, 1996 (see Note 12A to the financial statements). Under a Conveyance Agreement, certain assets and liabilities related to the Hospital were identified and transferred to the Hospital effective July 1, 1996. Subject to the Contractual Services Agreement and Operating and Service Agreement between the Board of Regents and the Hospital, the two parties have entered into contracts for the continuation of services in support of programs and operations.

University of Wisconsin Foundation – The University of Wisconsin Foundation (the Foundation) is a legally separate, tax-exempt component unit of the State. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University of Wisconsin-Madison and several other units of the University of Wisconsin System (a fund of the State) in support of its programs. These include scientific, literary, athletic and educational program purposes. Although the State does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University of Wisconsin-Madison and other units of the University of Wisconsin System by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University of Wisconsin-Madison and several other units of the University of Wisconsin System, the Foundation is considered a component unit of the State. The Foundation reports on a fiscal year ended December 31.

State Fair Park Exposition Center, Inc. – In October 2000, the State Fair Park Exposition Center, Inc. (the Center) was organized by the State of Wisconsin State Fair Park as a nonstock, not-for-profit corporation under the Internal Revenue Code 501(c)(3). Authorization for the Center's organization is found under Chapter 42, Wis. Stats. The Center has broad general powers that include approving the sale, lease, or purchase of any real estate and obtaining financing through loans or other methods. The board of the Center includes the chairperson of the State Fair Park Board, and three members appointed by the Center's Board. In addition to the State appointing a voting majority of the Center, the State is able to impose its will on the Center, and a financial benefit relationship exists. The Center reports on a fiscal year ended December 31.

Related Organizations

These related organizations are excluded from the reporting entity because the State's accountability does not extend beyond appointing a voting majority of the organization's board members. Financial statements are available from the respective organizations.

Wisconsin Health and Educational Facilities Authority – a public body politic and corporate that provides financing for capital expenditures and refinancing of indebtedness for Wisconsin health care and educational institutions.

Bradley Center Sports and Entertainment Corporation – a public body politic and corporate that operates the Bradley Center.

World Dairy Center Authority - an authority created to establish a center for the development of dairying in the United States and the world; to analyze worldwide trends in the dairy industry and recommend actions to be taken by the State; promote dairy cattle, technology, products and services; and develop new markets for dairy and dairy-related products.

Wisconsin Advanced Telecommunications Foundation – organized as a nonstock corporation, administers an endowment fund to support advanced telecommunications technology application projects and efforts to educate telecommunications users about advanced services.

Fox River Navigational System Authority – created under Chapter 237 as a public body corporate and politic to oversee the navigational system on the Fox River after the federal government (the U.S. Army Corps of Engineers) transferred the system to the State.

Health Insurance Risk-Sharing Plan Authority – created under 2005 Wisconsin Act 74, Chapter 149, to assume all responsibilities for administration of the health insurance risk-sharing plan.

C. Government-wide and Fund Financial Statements

The *government-wide* financial statements consist of the statement of net assets and the statement of activities.

These statements report information on all activities, except for fiduciary activities, of the primary government and its component units. The statement of net assets and the statement of activities distinguish between the governmental and business-type activities of the State. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange revenues. Business-type activities are generally financed in whole or in part by fees charged to external parties for goods and services. The focus of the government-wide statements is the primary government. A separate column on the statement of net assets and the statement of activities reports activities for all discretely presented component units.

The *fund* financial statements provide detailed information on all governmental, proprietary and fiduciary funds. Separate columns are presented for all major governmental and enterprise funds. Nonmajor governmental and enterprise funds are aggregated and presented as a single column on the respective governmental or proprietary statements. Internal service funds are exempt from the major fund reporting requirements and are aggregated and ultimately reported as a single column on the proprietary statement. Fiduciary funds are also exempt from major fund reporting and are aggregated by fund type and ultimately reported as single columns on the fiduciary statements.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The *government-wide* statement of net assets and statement of activities, as well as the *proprietary and fiduciary fund* statements, are reported using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Under the accrual basis, revenues are recorded when earned and expenses are recorded when the related liability is incurred.

In the University of Wisconsin System's enterprise fund, revenues and expenses of an academic term that spans two fiscal years are recognized in two years based on a proration of summer session days.

In reporting the financial activity of its enterprise funds and business-type activities, the State applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure. Further, except for the State Life Insurance Fund, the State has elected not to apply the provisions of relevant pronouncements of FASB issued after November 30, 1989 for its enterprise funds and business-type activities. The State Life Insurance Fund is reported as an insurance enterprise fund and, accordingly, applies the provisions of relevant pronouncements of FASB, including those issued after November 30, 1989.

The Wisconsin Health Care Liability Insurance Plan (Plan) and the State Fair Park Exposition Center, Inc. (the Center) are reported as component units, and in applying GAAP, have elected to apply the provisions of relevant pronouncements of FASB including those issued after November 30, 1989.

Governmental fund financial statements are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net available financial resources.

Governmental funds are reported on the modified accrual basis of accounting. This basis of accounting recognizes revenues generally when they become measurable and available to pay current reporting period liabilities. For this purpose, the State considers tax revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Other revenues are considered to be available if received within one year after the fiscal year end. Material revenue sources susceptible to accrual include individual and corporate income taxes, sales taxes, public utility taxes, motor fuel taxes and federal revenues.

Expenditures and related liabilities are recognized when obligations are incurred as a result of the receipt of goods and services. However, expenditures related to debt service, compensated absences, and claims and judgments, are recorded only when payment is due.

The State reports the following major funds:

Major Governmental Funds

- *General Fund* – the primary operating fund of the State, accounts for all financial transactions except those required to be accounted for in another fund.

- *Transportation Fund* – a special revenue fund, accounts for the proceeds from motor fuel taxes, vehicle registrations, licensing fees, and federal and local governments which are used to supply and support safe, efficient and effective transportation in Wisconsin.

Major Enterprise Funds

- *Injured Patients and Families Compensation Fund* – accounts for the program to provide excess medical malpractice insurance for Wisconsin health care providers. The revenues to finance this insurance are primarily derived from assessments against health care providers.

- *Environmental Improvement Fund* – accounts for financial resources generated and used for clean water projects. Federal capitalization grants, interest earnings, revenue bond proceeds, and general obligation bond proceeds are its primary funding sources.

- *University of Wisconsin System Fund* – accounts for the 13 universities, 13 two-year colleges, the University of Wisconsin Extension and System Administration.

- *Unemployment Reserve Fund* – accounts for unemployment contributions made by employers, federal program receipts, benefit payment recoveries and unemployment benefits paid to laid off workers in the State.

In addition, the State reports the following fund types:

Governmental Funds

- *Special Revenue Funds* – account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditure for specified purposes. Examples include the Conservation Fund and the Petroleum Inspection Fund.

- *Debt Service Funds* – account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

- *Capital Projects Funds* – account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

- *Permanent Funds* – account for resources that are legally restricted to the extent that only earnings and not principal, may be used for purposes that support the State's programs.

Proprietary Funds

- *Enterprise Funds* – account for the activities for which fees are charged to external users for goods or services. Examples include the Lottery Fund and the Veterans Trust Fund.

- *Internal Service Funds* – account for the operations of State agencies which provide goods or services to other State units or other governments on a cost-reimbursement basis. These services include technology, fleet management, financial, facilities management, and risk management. Additional goods and services are provided by the inmate work experience program, Badger State Industries.

Fiduciary Funds

- *Pension and Other Employee Benefit Trust Funds* – account for the Wisconsin Retirement System as well as other employee benefit programs including accumulated sick leave, duty disability, employee reimbursement accounts, life insurance, and retiree life insurance.

- *Investment Trust Funds* – account for the local government investment pool managed by the State Treasurer and the Milwaukee Retirement System.

- *Private-purpose Trust Funds* – account for the State-sponsored college savings programs and the BadgerRx for Individuals Fund.

- *Agency Funds* – account for the assets of liquidated insurance companies to insure payments to claimants, transactions of the retiree health insurance program, assets held by the State for inmates and residents of state facilities, deposits of bank and insurance companies doing business in the state, and the collection and disbursement of court-ordered support payments.

Amounts reported as program revenues on the government-wide statement of activities include (a) charges for services – amounts received from customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided by the State; including interest earnings from various loan funds/ component units, (b) program-specific operating grants, contributions, and restricted interest, and (c) program-specific capital grants, contributions, and restricted interest. General revenues consist of taxes and all other revenues that do not meet the definition of program revenues. Special items, if any, are significant transactions or events within the control of management that are either unusual in nature or infrequent in occurrence.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. This includes all internal service fund activity, as well as, other internal allocations. Exceptions to this general rule are certain charges between various functions of the government, whose elimination would distort the direct costs and program revenues reported for the various functions concerned.

The revenues and expenses shown on the proprietary fund statements are identified as either operating or nonoperating. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's primary mission. The State's enterprise funds are involved in many diverse fields including patient care, insurance programs, loan programs, the University of Wisconsin System, employee benefit plans, and the lottery. The internal service funds provide services and goods to other State agencies and departments.

A significant portion of operating revenues for the proprietary funds are recorded under charges for goods and services. In the case of the State's loan program enterprise funds, investment and interest income is an important component of operating revenue. Operating revenues of the University of Wisconsin include tuition and fees, certain grants and contracts resulting from exchange transactions, and sales and services of educational activities and auxiliary enterprises. In regards to the employee benefit plans, the primary operating revenue source is participant and employer contributions. Operating expenses for the proprietary funds include the costs of sales and services, benefit expenses, administration expenses and depreciation on capital assets. All revenues and expenses not related to a fund's primary purpose are reported as nonoperating.

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Assets, Liabilities, and Net Assets/Fund Balances/Fund Equity

1. Cash and Cash Equivalents

Cash balances of most funds are deposited with the Department of Administration where the available balances beyond immediate needs are pooled in the State Investment Fund for short-term investment purposes. Balances pooled are restricted to legally stipulated investments valued consistent with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Cash balances not controlled by the Department of Administration may be invested where permitted by statute.

Cash and cash equivalents, reported on the balance sheet and statement of cash flows, include bank accounts, petty cash, cash in transit, short-term investments with an original maturity of three months or less such as certificates of deposit, money market certificates and repurchase agreements and individual funds' shares in the State Investment Fund.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires disclosure of risks associated with deposit and investment balances and the policies applied to mitigate such risks. Specific disclosures are included in Note 5, Deposits and Investments.

2. Investments

Primary Government

The State may invest in direct obligations of the United States and Canada, securities guaranteed by the United States, certificates of deposit issued by banks in the United States and solvent financial institutions in the State, commercial paper and nonsecured corporate notes and bonds, bankers acceptances, participation agreements, privately placed bonds and mortgages, common and preferred stock and other securities approved by applicable sections of the Wisconsin Statutes, bond resolutions, and various trust indentures (see Note 5 to the financial statements).

Generally, investments of the primary government are reported at fair value consistent with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Typically, fair value information is determined using quoted market prices. However, when quoted market prices are not available for certain securities, fair values are estimated through techniques such as discounted future cash flows, matrix pricing and multi-tiers.

There are a certain number of securities carried at cost. Certain non-public or closely held stock are carried at cost since no independent quotation is available to price these securities. Further, certain investment agreements are reported on a cost basis because the State cannot readily determine whether these agreements meet the definition of interest-earning investment contracts as defined by GASB Statement No. 31. However, the impact on the financial statements is immaterial.

Under Wisconsin Statutes, the investment earnings of certain Permanent Funds are assigned to other funds. The following table shows the funds earning the investment income and the ultimate recipients of that income:

Fund Generating Investment Income	Fund Receiving Investment Income
Agricultural College	University of Wisconsin System
Normal School	General
University	University of Wisconsin System
Benevolent	General

Component Units

Except for forward delivery agreements, investments of the Badger Tobacco Asset Securitization Corporation, a blended component unit, are reported at fair value. Forward delivery agreements are securities with maturities of one year or less and are reported at cost.

Investments of the Wisconsin Housing and Economic Development Authority (the Authority) are reported at fair value based on quoted market prices. Collateralized and uncollateralized investment agreements are not transferable and are considered nonparticipating contracts. As such, both types of investment agreements are reported at contract value.

Investments of the University of Wisconsin Hospitals and Clinics Authority (the Hospital) in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value based on quoted market prices.

Certain investments of the Wisconsin Health Care Liability Insurance Plan are reported on a cost basis; however, the impact on the financial statements is not material.

Investments of the University of Wisconsin Foundation are reported at fair value.

3. Mortgage and Other Loans

Mortgage loans of the Wisconsin Housing and Economic Development Authority, a component unit, are carried at their unpaid principal balance, less allowance for possible loan losses. Loan origination fees and associated costs are deferred and recognized as income or expenses over the projected life of the loan.

Mortgage loans of the Veterans Mortgage Loan Repayment Fund and the Veterans Trust Fund programs, business-type activities, are stated at the outstanding loan balance less an allowance for doubtful accounts.

4. Forestation State Tax

The State levies an annual tax of two-tenths of one mill for each dollar of the assessed valuation of the property in the State, as described in Wis. Stat. Sec. 70.58. This tax is levied for the purpose of acquiring, preserving and developing the forests of the state; for forest crop law and county forest law administration and aid payments; and for the acquisition, purchase and development of forests. The proceeds of the tax are paid to the Conservation Fund.

This tax, the only property tax levied by the State, is levied to each county on or before the fourth Monday in August of each year on assessed valuation as of January 1 of that year. The tax is due and payable January 31 or on the due dates established through an installment option permitted under Wis. Stat. Sec. 74.12.

Consistent with the requirements of GASB Interpretation No. 5, *Property Tax Revenue Recognition in Governmental Funds,* collections received July 1 through August 31 that were due but unpaid at June 30 are accrued.

5. Interfund Assets/Liabilities

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. The balance sheet classifies these receivables and payables as "Due from Other Funds" or "Due to Other Funds." Short-term interfund loans are classified as "Interfund Receivables" or "Interfund Payables."

Long-term interfund loans are classified as "Advances to Other Funds" and "Advances from Other Funds." Advances to Other Funds, as reported in the governmental fund financial statements, are offset with a fund balance reserve to indicate that they are neither available for appropriation nor expendable available financial resources.

Balances that exist between the primary government and component units are classified as “Due to/from Primary Government” and, correspondingly, “Due to/from Component Units”. Further, cash and investments invested by one component unit with another component unit are reported on the statement of net assets as “Cash and Investments with Other Component Units” and “Amounts Held in Trust by Component Units for Other Component Units”.

Amounts reported in the funds as interfund assets/liabilities are eliminated in the governmental and business-type columns of the Statement of Net Assets, except for the net residual amount due between governmental and business-type activities which is shown as internal balances.

6. Inventories and Prepaid Items

Inventories of governmental and proprietary funds are valued at cost, which approximates market, using the first-in/first-out, last in/first out, or weighted-average method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed.

Inventories of the University of Wisconsin System held by central stores are valued at average cost, fuels are valued at market, and other inventories held by individual institutional cost centers are valued using a variety of cost flow assumptions that, for each type of inventory, are consistently applied from year to year.

Prepaid items reflect payments for costs applicable to future accounting periods.

The fund balances of governmental funds are reserved for inventories and prepaid items, except in cases where prepaid items are offset by deferred revenues, to indicate that these accounts do not represent expendable available financial resources.

7. Capital Assets

Capital assets, which include property, plant, equipment, land and infrastructure assets (roads, bridges, and buildings considered an ancillary part of roads), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Assets of the primary government, other than infrastructure and land purchased for the construction of infrastructure assets, are capitalized when they have a unit cost of $5,000 or more (except for a collection of library resources that must have a cumulative value equal to or greater than $5.0 million) and a useful life of two or more years. Assets of the discretely presented component units are capitalized when they have a unit cost of $5,000 or more, except for the University of Wisconsin Foundation, which capitalizes assets greater than $2,500, and the State Fair Park Exposition Center, Inc., which capitalizes assets greater than $500.

Purchased or constructed capital assets are valued at cost or estimated historical cost if actual historical cost is not practicably determinable. Donated capital assets are recorded at their fair value at the time received.

The State has elected to report infrastructure assets (roads, bridges and buildings considered an ancillary part of roads) using the modified approach. Under this method infrastructure assets are not required to be depreciated if the State manages its eligible infrastructure assets using an asset management system designed to maintain and preserve its infrastructure assets at a condition level established and disclosed by the State. All infrastructure assets constructed prior to July 1, 2000 have been recorded at estimated historical cost. The estimated historical cost was determined by calculating current cost of a similar asset and deflating that cost through the use of a price-index to the estimated average construction date. Costs, which exclude right of way, are expressed in 2000 dollars and deflated back to the average construction date using the Federal Highway Administration’s composite index for federal-aid highway construction. The costs of maintenance and preservation that do not add to the asset’s capacity or efficiency are not capitalized. Interest incurred during construction is not capitalized.

Exhaustible capital assets of the primary government and the component units generally are depreciated on the straight-line method over the asset’s useful life. Select buildings of the University of Wisconsin System are depreciated using the componentized method over the estimated useful life of the related assets. Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds and component units. There is no depreciation recorded for land, construction in process, infrastructure and other capital assets defined as inexhaustible. Generally, estimated useful lives are as follows:

Buildings and improvements	2 - 40 years
Equipment, machinery and furnishings	2 - 40 years

Collections of works of art, historical treasures, and similar assets, which are on public display, used in furtherance of historical education, or involved in advancement of artistic or historical research, are not capitalized unless these collections were already capitalized at June 30, 1999. Collections range from memorabilia on display in the Wisconsin Veterans Museum, the Wisconsin Historical Society Museum and other museums to buildings such as the Villa Louis Mansion and the Fur Trade Museum located at the Villa Louis historical site. In addition, works of art or historical treasures on display in the various State office buildings, as well as statues on display outside the State Capitol, also are not capitalized.

8. Restricted and Limited Use Assets

Governmental fund and proprietary fund assets required to be held and/or used as specified in bond indentures, bond resolutions, trustee agreements, board resolutions, and donor specifications have been reported as Restricted and Limited Use Assets. Likewise, assets of the Wisconsin Housing and Economic Development Authority, the University of Wisconsin Hospitals and Clinics Authority, and the University of Wisconsin Foundation (discretely presented component units) that meet similar criteria have been reported as Restricted and Limited Use Assets. These assets are classified into four categories: Cash and Cash Equivalents, Investments, Cash and Investments with Other Component Units, and Other Restricted Assets.

9. Local Assistance Aids

Municipal and County Shared Revenue Program

Through the Municipal and County Shared Revenue Program, the State distributes general revenues collected from general State tax sources to municipal and county governments to be used for providing local government services. State statutes require that payment to local governments be made during July and November.

At June 30, 2008, the State was liable to various local governments for unpaid shared revenue aid. To measure the amount of the program allocable to the State's fiscal year, the amount is prorated over portions of recipient local governments' calendar fiscal years that are within the State's fiscal year. The result is that a liability of $476.2 million representing one-half of the total appropriated amount is reported at June 30, 2008 as Due to Other Governments.

State Property Tax Credit Program

At June 30, 2008, the State was liable to various taxing jurisdictions for property tax credits paid through the State Property Tax Credit Program. Under the program, payments to local taxing jurisdictions provide property tax relief directly to taxpayers in the form of State credits on individual property tax bills. State statutes require that payment to local taxing jurisdictions be made during July. Although the property tax credit is calculated on the property tax levy for school purposes, the State's July payment is paid to an administering municipality who treats the payment the same as other tax collections and distributes the collections to the various tax levying jurisdictions (e.g., cities; towns; villages; school districts; technical colleges).

The school portion of the property tax credit liability represents the amount of the July payment earned over the school districts' previous fiscal year ended June 30. Since the entire school districts' portion of the July payment occurs within the State's fiscal year, 100 percent of the July payment relating to the school taxing jurisdictions' levy is reported as a liability at June 30, 2008.

The general government portion of the property tax credit liability represents the amount of the July payment prorated over the portion of the local governments' calendar year which is within the State's fiscal year. The result is that 50 percent of the July payment based on the general government taxing jurisdictions' levy is reported as a liability at June 30, 2008.

The aggregated State Property Tax Credit Program liability of $508.7 million is reported in the General Fund as Due to Other Governments.

Lottery Property Tax Credit Program

The Lottery Property Tax Credit provides direct property tax relief to taxpayers in the form of State Credits on property tax bills. Under the program, owners of property used as a primary residence receive a tax credit equal to the school property tax on a portion of the dwelling's value.

The State pays municipal treasurers for lottery credits who distribute the moneys to the various taxing jurisdictions. For credits reducing the calendar year 2008 property tax bills, the State made this payment in March 2008.

The Lottery Tax Credit Program is accounted for in the Lottery Fund, an enterprise fund, that records revenues and expenses on the accrual basis. A portion of the State's March payment distributed to the general government taxing jurisdictions applies to their fiscal year that ends on December 31. Therefore, part of the March distribution represents an expense of the State in Fiscal Year 2008, while the remaining portion represents a prepaid item. The resulting prepaid item reported within the Lottery Fund totals $31.5 million at June 30, 2008.

State Aid for Exempt Computers

The Aid for Exempt Computers compensates local governments for tax base lost due to the property tax exemption for computers, software and related equipment. Aid payments are calculated using a procedure that results in an aid amount equal to the amount of taxes that would be paid if the property were taxable. Payments to local governments are made on the fourth Monday in July.

At June 30, 2008, the State was liable to various local governments and other taxing jurisdictions for unpaid exempt computer aid payments of $48.3 million.

10. Long-term Debt Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt is reported as a liability. Bond premiums and discounts, as well as issuance costs, are deferred and amortized using the effective interest rate method on a prospective basis beginning in Fiscal Year 2004, except for the annual appropriation bonds that are amortized ratably over the life of the obligations to which they relate. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums and discounts on debt issuances are reported as other financing sources and other financing uses, respectively.

Debt issuance costs, as well as bond premiums and discounts, relating to revenue obligations of the Environmental Improvement Fund, an enterprise fund, were deferred and are being amortized using the effective interest rate method.

Debt issuance costs relating to general obligation bonds of the University of Wisconsin System Fund and the Veterans Mortgage Loan Repayment Fund, both enterprise funds, are amortized using the effective interest method. On the government-wide financial statements, bond premiums and discounts, as well as issuance costs, related to the Transportation Revenue Bonds and the Petroleum Inspection Fee Obligation Revenue Bonds (which finance programs in a capital projects fund and a special revenue fund, respectively) are also amortized ratably over the life of the obligations to which they relate. Results from the use of this method do not vary materially from those that would be obtained by use of the effective interest rate method.

Debt issuance costs, and bond premiums and discounts, of the Wisconsin Housing and Economic Development Authority and the University of Wisconsin Hospitals and Clinics Authority, both discretely presented component units, are amortized ratably over the life of the obligations to which they relate.

Debt issuance costs, bond premiums and discounts of the Badger Tobacco Asset Securitization Corporation, a blended component unit, are capitalized and amortized over the lives of the related debt using the effective interest rate method.

Debt issuance costs of the State Fair Park Exposition Center, Inc., a discretely presented component unit, are being amortized using the effective-interest method over the life of the related bonds.

11. Compensated Absences

Consistent with the compensated absences reporting standards of GASB Statement No. 16, *Accounting for Compensated Absences,* an accrual for certain salary-related payments associated with annual leave and an accrual for sick leave is included in the compensated absences liability at year end.

Annual Leave

Full-time employees' annual leave days are credited on January 1 of each calendar year in general at a minimum of 15 or 13 days per year, depending on Fair Labor Standards Act (FLSA) status. There is no requirement to use annual leave. However, unused leave is lost unless approval to carry over the unused portion is obtained from the employing agency. Generally, compensatory time accumulates for eligible employees for hours worked in excess of forty hours per week. Each full-time employee is eligible for four and one-half personal holidays each calendar year, provided the employee is in pay status for at least one day in the year. If a holiday occurs on a Saturday, employees receive leave time proportional to their working status to use at their discretion.

The State's compensated absence liability at June 30 consists of accumulated unpaid annual leave, compensatory time, personal holiday hours, and Saturday/legal hours earned and vested during January through June. The liability is reported in the government-wide, proprietary fund types and fiduciary funds.

Sick Leave

Full-time employees earn sick leave at a rate of five hours per pay period. Unused sick leave is accumulated from year to year without limit until termination or retirement. Accumulated sick leave is not paid. However, at employee retirement the accumulated sick leave may be converted to pay for the retiree's health insurance premiums. The State accumulates resources to pay for the expected health insurance premiums of retired employees. The portion of the health insurance obligation funded through the sick leave conversion and accumulated resources are presented in the Accumulated Sick Leave Fund, a pension and other employee benefit trust fund.

12. Unearned and Deferred Revenue

In both the government-wide and fund financial statements unearned revenue represents amounts for which asset recognition criteria have been met, but not revenue recognition criteria. Unearned revenue arises when resources are received by the State before it has a legal claim to them, as when grant moneys are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the State has a legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized.

Unearned revenue of the University of Wisconsin System consists of payments received but not earned at June 30, 2008, primarily for summer session tuition, tuition and room deposits for the next fall term, advance ticket sales for upcoming intercollegiate athletic events, and amounts received from grant and contract sponsors that have not yet been earned under the terms of the agreement.

Deferred revenue, reported in the governmental fund statements, represents revenues that are unavailable and consequently not susceptible to accrual. Primarily, this relates to items like long-term receivables, which represent amounts owed to the State that will not be collectible for many years. That is, under modified accrual accounting, revenue is not recognized until it is both measurable and available to finance expenditures of the current period.

13. Self-Insurance

Consistent with the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* the State's risk management activities are reported in an internal service fund, and the claims liabilities associated with that fund are reported therein.

The State's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, State management believes it is more economical to manage its own risks internally. The Risk Management Fund, an internal service fund, is used to pay for losses incurred by any State agency and for administrative costs incurred to manage a state-wide risk management program. These losses include damage to property owned by the agencies, personal injury or property damage liabilities incurred by a State officer, agent or employee, and worker's compensation costs for State employees. A limited amount of insurance is purchased to limit the exposure to catastrophic losses. Annually, a charge is allocated to each agency for its proportionate share of the estimated cost attributable to the program per Wis. Stat. Sec. 16.865(8).

14. Fund Balance Reserves and Restricted Net Assets/Fund Equity

Fund Balance Reserves

Reservations of fund balances of governmental funds represent amounts that are not available for appropriation. Examples of fund balance reservations include reserves for encumbrances, inventories, prepaid items, and the Budget Stabilization Fund.

Restricted Net Assets/Fund Equity

Restricted Net Assets (presented in the government-wide statement of net assets) and Restricted Fund Equity (presented in the balance sheet of proprietary funds) are reported when constraints placed on net assets or fund equity use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Unrestricted net assets or fund equity may be used at the State's discretion but often have limitations on use based on State statutes.

NOTE 2. DETAILED RECONCILIATION OF THE GOVERNMENT-WIDE AND FUND STATEMENTS

A. Explanation of Differences Between the Balance Sheet – Governmental Funds and the Statement of Net Assets

During the year ended June 30, 2008, the following adjustments and reclassifications were necessary to reconcile the information from the fund-based Balance Sheet – Governmental Funds to the amounts presented in the governmental section of the Statement of Net Assets (in thousands). The differences result primarily from the long-term economic focus of the Statement of Net Assets compared to the current financial focus of the Balance Sheet – Governmental Funds.

	Total Governmental Funds	Long-term Assets and Liabilities (1)	Internal Service Funds (2)	Reclassifications and Eliminations (3)	Total Amount for Statement of Net Assets
Assets:					
Cash and Cash Equivalents	$ 838,325	$ -	$ 16,453	$ -	$ 854,778
Investments	123,586	-	-	-	123,586
Receivables (net of allowance):					
Taxes	1,291,604	-	-	(1,291,604)	-
Loans to Local Governments	501,607	-	-	(501,607)	-
Other Loans Receivable	54,021	-	-	(54,021)	-
Other Receivables	309,017	2,948	457	2,836,444	3,148,866
Due from Other Funds	280,867	-	39,182	(320,048)	-
Interfund Receivables	9,342	-	-	(9,342)	-
Due from Other Governments	942,037	-	-	(942,037)	-
Internal Balances	-	-	(1,755)	(350,878)	(352,633)
Inventories	28,699	3,284	5,016	-	36,999
Prepaid Items	318,080	-	718	-	318,798
Advances to Other Funds	81	-	-	(81)	-
Restricted Assets:					
Cash and Cash Equivalents	336,399	-	-	-	336,399
Investments	184,863	-	-	-	184,863
Other Restricted Assets	389	-	-	-	389
Deferred Charges	-	81,900	708	-	82,608
Depreciable Capital Assets	-	1,222,322	259,705	-	1,482,027
Infrastructure	-	11,207,969	-	-	11,207,969
Other Non-depreciable Capital Assets	-	3,400,767	35,336	-	3,436,103
Other Assets	36,076	-	-	-	36,076
Total Assets	$ 5,254,991	$ 15,919,191	$ 355,820	$ (633,174)	$ 20,896,829
Liabilities:					
Accounts Payable and Other Accrued Liabilities	$ 1,120,275	$ -	$ 14,350	$ 30,846	$ 1,165,471
Due to Other Funds	269,164	-	51,570	(320,734)	-
Interfund Payables	340,446	-	-	(340,446)	-
Due to Other Governments	1,929,297	-	-	-	1,929,297
Tax Refunds Payable	1,119,044	-	-	-	1,119,044
Tax and Other Deposits	80,908	-	-	-	80,908
Unearned Revenue/Deferred Revenue	835,307	(397,688)	-	-	437,619
Interest Payable	38,529	90,498	-	-	129,027
Advances from Other Funds	2,839	-	-	(2,839)	-
Short-term Notes Payable	891,480	-	15,766	-	907,246
Long-term Liabilities:					
Current Portion	101,675	406,012	58,614	-	566,301
Noncurrent Portion	-	8,463,323	211,031	-	8,674,354
Total Liabilities	6,728,964	8,562,146	351,331	(633,174)	15,009,266
Fund Balances/Net Assets	(1,473,973)	7,357,046	4,489	-	5,887,562
Total Liabilities and Fund Balances/Net Assets	$ 5,254,991	$ 15,919,191	$ 355,820	$ (633,174)	$ 20,896,829

(1) Long-term asset and liability differences arise because governmental funds focus only on short-term financing (that is, resources that will be available to pay for current period expenditures). In contrast, the Statement of Net Assets has a long-term economic focus and reports on all capital and financial resources.

(2) The adjustment for internal service funds reflects the reclassification of these funds for the government-wide statement. The assets and liabilities of these funds are reported as proprietary activities on the fund statements, but are included as governmental activities on the Statement of Net Assets

(3) Various reclassifications are necessary due to the differing level of detail needed on each of the statements. Eliminations are done on the Statement of Net Assets to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government. The net residual amounts due between governmental and business-type activities are shown as internal balances.

B. Explanation of Differences Between the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds and the Statement of Activities

During the year ended June 30, 2008, the following adjustments and reclassifications were necessary to reconcile the information from the fund-based Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the amounts presented in the governmental section of the Statement of Activities (in thousands). The differences result primarily from the long-term economic focus of the Statement of Activities compared to the current financial focus of the Statement of Revenues, Expenditures, Changes in Fund Balance – Governmental Funds.

	Total Governmental Funds	Long-term Revenues and Expenses (1)	Capital-Related Items (2)
Revenues:			
Taxes	$ 14,229,280	$ -	$ -
Income Taxes	-	(16,909)	-
Sales & Excise Taxes	-	521	-
Public Utility Taxes	-	-	-
Other Taxes	-	(99)	-
Motor Fuel (Transportation) Taxes	-	727	-
Other Dedicated Taxes	-	(1,150)	-
Intergovernmental	6,638,741	-	-
Operating Grants	-	-	625
Capital Grants	-	-	60
Licenses and Permits	1,202,109	-	-
Charges for Goods and Services	378,769	3,687	-
Investment and Interest Income	109,850	-	-
Fines and Forfeitures/Contributions to Permanent Fund	58,430	-	-
Gifts and Donations	17,447	-	-
Miscellaneous:		10,186	(5,360)
Tobacco Settlement	150,165	-	-
Other	191,087	-	-
Total Revenues	22,975,877	(3,038)	(4,675)
Expenditures/Expenses:			
Current Operating:			
Commerce	294,650	3,142	1,113
Education	6,445,647	1,733	3,279
Transportation	1,857,435	4,689	43,408
Environmental Resources	471,737	5,418	9,042
Human Relations and Resources	8,969,935	28,006	48,556
General Executive	535,493	(2,396)	8,516
Judicial	121,720	1,633	2,516
Legislative	63,964	412	894
Tax Relief and Other General Expenditures	1,085,775	-	-
Intergovernmental - Shared Revenue	1,019,275	-	-
Debt Service:			
Principal	420,188	-	-
Interest and Other Charges	542,458	1,709	-
Capital Outlay	688,598	-	(688,598)
Total Expenditures/Expenses	22,516,874	44,347	(571,275)
Excess of Revenues Over (Under) Expenditures/Expenses	459,003	(47,385)	566,600
Other Financing Sources (Uses):			
Net Transfers	(1,003,605)	-	(536)
Long-term Debt Issued	1,292,099	-	-
Premium/Discount on Bonds	11,139	-	-
Payments to Refunding Bond Escrow Agent	(944,850)	-	-
Capital Lease Acquisitions	8,529	(8,529)	-
Installment Purchase Acquisitions	770	(770)	-
Total Other Financing Sources (Uses)	(635,918)	(9,299)	(536)
Net Change in Fund Balance	(176,915)	$ (56,683)	$ 566,063
Change in Reserve for Inventories	(6,151)		
Net Change for the Year	$ (183,066)		

(1) Long-term revenue differences arise because governmental funds report revenues only when they are considered "available," while government-wide statements report revenues when earned. Long-term expense differences arise because governmental funds report operating expenses (including interest) using the modified accrual basis of accounting, while government-wide statements report using the accrual basis of accounting.

(2) Capital-related adjustments consist of the difference between proceeds for the sales of capital assets and the gain or loss from the sales of capital assets, and from the difference between capital outlay expenditures recorded in the governmental funds and depreciation expense recorded in the government-wide statements.

(3) The adjustment for internal service funds reflects the elimination of these funds from the government-wide statement, which is accomplished by charging/refunding additional amounts to participating governmental activities to completely offset the internal service funds' cost for the year.

Internal Service Funds (3)	Long-term Debt Transactions (4)	Eliminations (5)	Revenue/Expense Reclassifications (6)	Total Amount for Statement of Activities
$ -	$ -	$ -	$ (14,229,280)	$ -
-	-	-	7,520,526	7,503,616
-	-	-	4,808,741	4,809,262
-	-	-	286,501	286,501
-	-	-	382,628	382,529
-	-	-	1,037,013	1,037,740
-	-	-	193,872	192,722
-	-	-	(6,638,741)	-
-	-	66,454	5,963,559	6,030,638
-	-	-	726,611	726,671
-	-	-	(1,202,109)	-
6,465	-	(12,260)	1,240,808	1,617,470
131	-	-	(33,982)	75,998
-	-	-	(38,699)	19,731
-	-	-	(17,447)	-
-	-	-	341,524	346,349
-	-	-	(150,165)	-
-	-	-	(191,087)	-
6,596	-	54,194	273	23,029,227
(339)	-	(5,023)	(182)	293,362
1,731	-	25,232	(429)	6,477,194
691	204	-	5,087	1,911,514
90	184	-	59	486,531
2,717	(13,057)	41,222	1,286	9,078,665
2,070	-	(7,238)	82	536,527
(71)	-	-	-	125,798
22	65	-	-	65,356
(2)	50,206	-	(427)	1,135,551
-	-	-	-	1,019,275
-	(420,188)	-	-	-
8,532	(53,104)	-	675	500,270
-	-	-	-	-
15,441	(435,690)	54,194	6,151	21,630,042
(8,845)	435,690	-	(5,878)	1,399,185
2,414	-	-	(273)	(1,002,000)
-	(1,292,099)	-	-	-
-	(11,139)	-	-	-
-	944,850	-	-	-
-	-	-	-	-
-	-	-	-	-
2,414	(358,388)	-	(273)	(1,002,000)
$ (6,431)	$ 77,302	$ 0	(6,151)	397,186
			6,151	-
			$ (0)	$ 397,186

(4) Long-term debt transaction differences consist of bond proceeds and principal repayments reported as other financing sources and expenditures in governmental funds, but as increases and decreases in liabilities in the government-wide statements.

(5) Intra-entity activity within the same function is eliminated to remove the grossing up of both direct expenses and program revenues within that category.

(6) Revenue and expense reclassifications are necessary due to the differing level of detail needed on each of the statements. In addition, the Statement of Activities focuses on program revenue, which has been redefined from the traditional revenue source categories.

NOTE 3. BUDGETARY CONTROL

The legal level of budgetary control for Wisconsin is at the function, agency, program, appropriation-level. Supplemental appropriations require the approval of the Joint Finance Committee of the Legislature. Routine adjustments, such as pay plan supplements and rent increases, are distributed by the Division of Executive Budget and Finance from non-agency specific appropriations authorized by the Legislature. Various supplemental appropriations were approved during the year and have been incorporated into the budget figures.

The budgetary comparison schedule and related disclosures for the General and Transportation funds are reported as Required Supplementary Information. This schedule presents the original budget, the final budget and actual data of the current period. The related disclosures describe the budgetary practices of the State, as well as, provide a detailed reconciliation between the General and Transportation funds' equity balance on the budgetary basis compared to the GAAP basis as shown on the governmental fund statements.

NOTE 4. DEFICIT FUND BALANCE/FUND EQUITY AND RESTRICTED NET ASSETS

A. Deficit Fund Balance/Fund Equity

In addition to the General Fund, funds reporting a deficit fund balance, fund equity, or net assets position at June 30, 2008 are (in thousands):

Special Revenue:		
Petroleum Inspection	$	139,679
VendorNet		2,839
Capital Projects:		
Capital Improvement		526,476
Transportation Revenue Bonds		201,627
Enterprise:		
Injured Patients and Families Compensation		61,490
Northern Developmental Disabilities Center		7,254
Life Insurance		113
Internal Service:		
Technology Services		3,557
Risk Management		82,815
Pension and Other Employee Benefit Trust:		
Accumulated Sick Leave		48,245

B. Restricted Net Assets

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, which amends GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* provides guidance in determining when net assets have been restricted to a particular use by the passage of enabling legislation and how those net assets should be reported in financial statements when there are changes in the circumstances surrounding such legislation. Net assets restricted (1) by external parties or for constitutional purposes or (2) by enabling legislation were as follows on June 30, 2008 (in thousands):

Governmental Activities:		
Net Assets Restricted by External Parties or for Constitutional Purposes	$	1,220,796
Net Assets Restricted by Enabling Legislation		88,614
Business-type Activities:		
Net Assets Restricted by External Parties or for Constitutional Purposes		2,814,258
Net Assets Restricted by Enabling Legislation		347,644

NOTE 5. DEPOSITS AND INVESTMENTS

The State maintains a short-term investment "pool", the State Investment Fund, for the State, its agencies and departments, and certain other public institutions which elect to participate. The investment "pool" is managed by the State of Wisconsin Investment Board (the Board) which is further authorized to carry out investment activities for certain enterprise, trust and agency funds. A small number of State agencies and the University of Wisconsin System also carry out investment activities separate from the Board.

A. Deposits

Deposits include cash and cash equivalents on deposit in banks or other financial institutions, and nonnegotiable certificates of deposit. The majority of the State's deposits are under the control of the Department of Administration. The Department of Administration maintains multiple accounts with an agreement with the bank that allows an overdraft in one account if the overdraft is offset by balances in other accounts.

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The State's policy regarding custodial credit risk is detailed in Chapter 34 of the State Statutes. In brief, any federal or state bank, credit union or savings bank may be designated a public depository. A surety bond may be required. The State's insured deposits are covered by the Federal Deposit Insurance Corporation (FDIC) and an appropriation for losses on public deposits. In the event of loss, the division of banking makes payments up to $400,000 per depositor for the excess of the payments made by the Federal Deposit Insurance Corporation or the Wisconsin Credit Union Savings Insurance Corporation. Payments are made, until the funds available in the appropriation are exhausted, in the order in which satisfactory proofs of loss are received by the State's Department of Financial Institutions.

1. Primary Government

As of June 30, 2008, $457.2 million of the primary government's bank balance of $465.8 million (excluding one bank overdraft of $29.3 million in a bank account that is covered by compensating balances in other accounts) was exposed to custodial credit risk as follows (in millions):

Uninsured and uncollateralized	$	457.2

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit. Deposits in foreign currency at June 30, 2008 are immaterial. The primary government does not have a formal policy specifically related to foreign currency risk.

The State's Unemployment Reserve Fund had $461.3 million on deposit with the U.S. Treasury. This amount is presented as Cash and Cash Equivalents and is not included in the carrying amount of deposits nor is it categorized according to risk because it is neither a deposit with a financial institution nor an investment.

2. Component Units

The bank balance of deposits of the Wisconsin Housing and Economic Development Authority at June 30, 2008, the Wisconsin Health Care Liability Insurance Plan at December 31, 2007, the University of Wisconsin Hospitals and Clinics Authority at June 30, 2008, the University of Wisconsin Foundation at December 31, 2007, and the State Fair Park Exposition Center, Inc. at December 31, 2007 was $327.0 million.

As of their fiscal year end, $324.0 million of the component units' bank balance of $327.0 million was exposed to custodial credit risk as follows (in millions):

Uninsured and uncollateralized	$	324.0

B. Investments

1. Primary Government

Wisconsin Statutes, program policy provisions, appropriate governing boards, and general resolutions contained in revenue bond indenture documents define the types of securities authorized as appropriate investments and the conditions for making investment transactions.

Investments of the State are managed by various portfolios. For disclosure purposes, the following investment portfolios are discussed separately:

- Primary government, excluding the University of Wisconsin System, the Wisconsin Retirement System and the State Investment Fund. The primary government portfolios include various funds managed by the State of Wisconsin Investment Board consisting of the following:
  -- Local Government Property Insurance Fund (LGPIF)
  -- State Life Insurance Fund (SLF)
  -- Injured Patients and Families Compensation Fund (IPFCF)
  -- Historical Society Fund
  -- Tuition Trust Fund
- University of Wisconsin System (UWS)
- Wisconsin Retirement System (WRS)
- State Investment Fund (SIF) -- functions as the State's cash management fund by "pooling" the idle cash balances of all State funds and other public institutions. Investments of the SIF are discussed in section B 3 of this note disclosure.

Primary Government *(excluding the University of Wisconsin System (UWS), the Wisconsin Retirement System (WRS), and the State Investment Fund (SIF))*

For the primary government, except for the various funds discussed later, permitted investments include: direct general obligations of the United States of America and obligations (including obligations of any federal agency or corporation) for which the payment of the principal and interest are unconditionally guaranteed by the full faith and credit of the United States; bonds or other obligations of any state or the United States of America or of any agency, instrumentality or local governmental unit of any such state including the State of Wisconsin; bonds, debentures, participation certificates, notes or similar evidences of indebtedness of any of the Federal Financing Bank, Federal Home Loan Bank System, Federal Farm Credit Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Resolution Funding Corporation, Government National Mortgage Association, Student Loan Marketing Association or Tennessee Valley Authority; public housing bonds issued by public agencies or municipalities; commercial paper; interest-bearing time deposits, certificates of deposit or other similar banking arrangements; shares of a diversified open-end management investment company; repurchase agreements; common and preferred stock; bankers acceptances; corporate commercial paper; bonds issued by a local district created under Wisconsin Act 229; and investment agreements with a bank, bank holding company, insurance company or other financial institution.

The State of Wisconsin Investment Board (the Board) has exclusive control over the investments of the Local Government Property Insurance Fund (LGPIF), the State Life Insurance Fund (SLF), the Injured Patients and Families Compensation Fund (IPFCF), the Historical Society Fund, and the Tuition Trust Fund, which are collectively known as the “various funds”.

Wisconsin Statutes allows investments of the LGPIF in direct obligations of the United States and Canada, securities guaranteed by the United States, unsecured notes of financial and industrial issuers, Yankee/Euro dollar issues, and certificates of deposit issued by banks in the United States, and solvent financial institutions in this State.

Permitted classes of investments of the SLF and the IPFCF include bonds of government units or of private corporations, loans secured by mortgages, preferred or common stocks, real property and other investments not specifically prohibited by statutes.

Funds available for the Historical Society Fund are authorized to be invested in every kind of property, real, personal or mixed, and every kind of investment specifically including but not limited to bonds, debentures and other corporate obligations, preferred or common stocks, and shares of investment companies and investment trusts.

The Board is directed to invest moneys held in the Tuition Trust Fund in investments with maturities and liquidity that are appropriate for the needs of the fund as reported by the State Treasurer.

University of Wisconsin System (UWS)

The University of Wisconsin System (UWS) investment policies and guidelines are governed and authorized by the Board of Regents. The current approved asset allocation policy for long-term funds sets a general target of 24.5 percent marketable equities, 16.5 percent fixed income, 34.0 percent alternatives, and 25.0 percent tactical strategies. The approved asset allocation for intermediate term funds is 100 percent intermediate maturity, investment-grade fixed income.

Wisconsin Retirement System (WRS)

All assets of the WRS are invested by the State of Wisconsin Investment Board (the Board). The WRS consists of shares in the core retirement trust fund and the variable retirement trust fund.

The investments of the core retirement trust fund consist of a highly diversified portfolio of securities. Wis. Stat. Sec. 25.17(3)(a) allows investments in loans, securities and any other investments as authorized by Wis. Stat. Sec. 620.22. Permitted classes of investments include bonds of governmental units or of private corporations, loans secured by mortgages, preferred or common stock, real property and other investments not specifically prohibited by statute.

Investments of the variable retirement trust fund are authorized under Wis. Stat. Sec. 25.14 and 25.17. Wis. Stat. Sec. 25.17(5) states assets of the variable retirement trust fund shall be invested primarily in equity securities which shall include common stocks, real estate or other recognized forms of equities whether or not subject to indebtedness, including securities convertible into common stocks and securities of corporations in the venture capital stage. The variable retirement trust fund consists primarily of common stock and bonds convertible into common stock, although, because of existing conditions in the securities market, there may temporarily be other types of investments.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the State will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Primary Government *(excluding the University of Wisconsin System (UWS), the Wisconsin Retirement System (WRS), and the State Investment Fund (SIF))*

At June 30, 2008, the reported amount of investments of the primary government, including the various funds, was $4,830.9 million, of which $471.4 million is reported as cash equivalents and $333.2 million is reported as “Other Assets”. The primary government, including the various funds, does not have an investment policy specifically for custodial credit risk, however, at June 30, 2008, the primary government had no custodial credit risk exposure for these investments.

University of Wisconsin System (UWS)

At June 30, 2008, the UWS reported investments of $393.7 million, of which $45.2 million is reported as cash equivalents. No custodial credit risk exposure existed for these investments.

Wisconsin Retirement System (WRS)

At June 30, 2008, the WRS investments were $79.8 billion. The WRS does not have a formal policy for custodial credit risk. As of June 30, 2008, the WRS held 16 tri-party repurchase agreements totaling $1.0 billion. The securities lending collateral account and cash management account participate in repurchase agreement pools, purchasing only a portion of a repurchase agreement in which the manager of these accounts is the buyer-lender. Since the manager that purchased the repurchase agreements is the counterparty, the securities are not held in the WRS’s name. They are held in the counterparty’s name and held by the counterparty’s agent.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

Primary Government *(excluding the University of Wisconsin System (UWS), the Wisconsin Retirement System (WRS), and the State Investment Fund (SIF))*

Although the primary government, except for the various funds discussed later, does not have a formal policy on limiting the exposure to changes in interest rates, it is the primary government’s policy to comply with the provisions contained within the general resolutions of revenue bond indentures and other program policy investment criteria. For example, the Lottery Fund acquires investments with maturity dates that significantly coincide with scheduled payment dates of prize annuities. Investments are held to maturity unless an annuitant requests premature termination of an annuity, then any loss or gain due to market fluctuations are passed through to the redeeming annuitant. Therefore, the Lottery Fund has minimal interest rate risk exposure. Further, as a means of limiting its exposure to interest rate risks, certain funds are required to limit at least half of the fund’s investment portfolio to maturities of less than one year. In addition, interest rate risk of certain other funds such as the Retiree Life Insurance Fund is minimized by maintaining a diversified portfolio of investments and monitoring cash flow patterns in order to approximately match the expected maturity of liabilities.

The following table provides information about the interest rate risks associated with the primary government's investments, except those of the various funds. The investments include certain short-term cash equivalents, and various long-term items.

At June 30, 2008, the primary government's investments were (in millions):

Primary Government (excluding Badger Tobacco Securitization Corporation, the various funds, UWS, WRS, SIF, and investments in an external investment pool)

	Investment Maturities				
Investment Type	**Less Than 1 Year**	**1 to 5 Years**	**6 to 10 years**	**More Than 10 Years**	**Fair Value**
U.S. Government and U.S. agency holdings	$ 17.4	$ 36.6	$ 22.6	$ 12.4	$ 89.0
State and municipal bonds and notes	1.9	89.4	40.7	120.6	252.6
Corporate bonds and notes	.1	--	--	--	.1
Negotiable certificates of deposit	.5	--	--	--	.5
Repurchase agreements	7.6	--	--	--	7.6
Forward delivery agreements	47.7	--	--	--	47.7
Guaranteed investment contracts	28.1	--	--	--	28.1
Money market funds	284.0	--	--	--	284.0
Mutual funds – open ended	44.5	537.8	23.9	--	606.2
Total	$ 432.0	$ 663.8	$ 87.1	$ 133.1	$ 1,316.0

External Investment Pool

Investments of the Retiree Life Insurance Fund and the Life Insurance Fund (reported as pension and other employee benefit trust funds) are held in an external investment pool with the investment objective of maintaining levels in its general account sufficient to guarantee principal amounts of reserves. The interest rate exposure of this pool expressed in terms of duration and average remaining life is 4.8 and 7.5 to 8 years, respectively.

As of May 31, 2008, the Badger Tobacco Asset Securitization Corporation's investments were as follows (in millions):

Investment	**Fair Value**	**Weighted Average Maturity (Years)**
JPM Prime Moneymarket Fd 829 Inst	$ 153.1	0.06
Federal Natl. Mtge. Assn.	68.6	0.12
Mont Blanc Capital Corp.	68.6	0.02
Federated Tax-free Obligations Fund 15	0.8	0.00
Total Fair Value	$ 291.1	
Portfolio weighted average maturity		0.06

The various funds, which are managed by the Board, use the duration method to identify and manage interest rate risk. Three of the various funds have investment guidelines relating to interest rate risk. The LGPIF guidelines provide that a bond's maturity must not exceed ten years. The SLF guidelines provide the weighted average maturity (WAM), including cash, shall be a minimum of ten years. The IPFCF guidelines provide that the average duration of the aggregate bond portfolio shall be less than ten years.

As of June 30, 2008, the various funds had interest rate risk statistics as detailed below (in millions):

Various Funds
Duration for Fixed Income Securities (in years)

	LGPIF		SLF		IPFCF		Historical Society		Tuition Trust	
	Fair Value	Duration	Fair Value	WAM	Fair Value	Duration	Fair Value	Duration	Fair Value	Duration
Government/ Agency	$ --	--	$ 36.1	15.47	$ 269.2	4.41	$ --	--	$ 7.5	4.51
Corporate	--	--	45.9	18.01	370.2	5.17	--	--	0.9	3.97
Bond Funds	--	--	--	--	--	--	2.5	5.18	--	--
Total/Average	$ 0	--	$ 82.0	16.89	$ 639.4	4.85	$ 2.5	5.18	$ 8.4	4.45

University of Wisconsin System (UWS)

The UWS uses the option adjusted duration method to analyze interest rate risk. The UWS's investment guidelines mandate that individual fixed income manager portfolios must maintain an effective modified duration within one year of the effective modified duration of the index. As of June 30, 2008, all investment managers were in compliance with the effective modified duration guideline.

As of June 30, 2008, the UWS had interest rate risk statistics as detailed below (in millions):

UWS

Fixed Income Sector	Fair Value	Modified Duration
Corporate and other credit	$ 14.6	3.28
U.S. Government mortgages	4.2	5.49
Government	.9	1.29
Collateralized mortgage obligations: U. S. Agencies	10.1	3.70
U.S. private placements	2.4	3.09
Asset backed securities	1.3	3.04
Collateralized mortgage obligations: Corporate	11.1	2.90
U.S. Agencies	3.3	4.28
Treasury inflation protected securities	30.5	7.37
Total	$ 78.4	

As of June 30, 2008, the University of Wisconsin System's Long Term Fund had an aggregated modified duration of 4.29 while the Lehman Aggregate benchmark had an aggregated modified duration of 4.9. As of June 30, 2008, the University of Wisconsin System's Intermediate Term Fund had an aggregated modified duration of 4.75 while the Lehman Government/Credit Intermediate benchmark had an aggregated modified duration of 3.9.

Wisconsin Retirement System (WRS)

Generally, analysis of long or intermediate term portfolios' interest rate risk is performed using various duration calculations. Modified duration, which is stated in years, is the measure of price sensitivity of a fixed income security to an interest rate change of 100 basis points. The calculation is based on the weighted average of present values for all cash flows. Some pooled investments are analyzed using an option adjusted duration calculation which is similar to the modified duration method. Option adjusted duration incorporates the duration shortening effect of any embedded call provisions in the securities.

On the other hand, short term portfolios use the weighted average maturity to analyze interest rate risk. Weighted average maturity is the maturity of each position in a portfolio weighted by the dollar value of the position to compute an average maturity for the portfolio as a whole. This measure indicates a portfolio's sensitivity to interest rate changes: a longer average weighted maturity implies greater volatility in response to interest rate changes. SWIB's investment guidelines related to interest rate risk vary by portfolio. Some fixed income portfolios are required to be managed within a range of a targeted duration, while others are required to maintain a weighted average maturity at or below a specified number of days or years.

Interest rate risk exposure as of June 30, 2008, stated in terms of modified duration and weighted average maturity, is presented below (in millions):

WRS

Investment Type	Fair Value	Modified Duration (Years)
Asset backed securities	$ 145.1	5.230
Certificates of deposit	2.5	0.164
Commercial paper	156.0	0.111
Commercial paper	7.5	N/A
Corporate bonds	3,125.3	5.203
Corporate bonds	4.3	N/A
Municipal bonds	3.4	8.007
Government agency	906.5	3.929
Commercial mortgages	157.9	3.575
Private placements	444.1	5.706
Private placements	1.2	N/A
Repurchase agreements	141.1	0.001
Sovereign debt	3,545.3	6.286
Sovereign debt	13.8	N/A
U.S. Treasury securities	3,473.0	7.967
Total	$12,127.0	

Pooled Investments

Pooled Investment	Fair Value	Modified Duration (Years)
Emerging market fixed income	$ 497.0	6.768
Global fixed income	491.4	4.670
Domestic fixed income	9,656.8	5.156
	$ 10,645.2	

Securities Lending Collateral Pool	Fair Value	Weighted Average Maturity (Days)
Asset backed securities	$ 683.0	25
Certificate of deposit	86.9	59
Commercial paper	592.5	35
Corporate bonds	2,830.9	26
Repurchase agreements	865.3	1
Pooled investments	918.6	28
	$ 5,977.2	

	Fair Value	Weighted Average Maturity (Days)
Short term pooled investments	$ 82.3	40

Credit Quality Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Primary Government *(excluding the University of Wisconsin System (UWS), the Wisconsin Retirement System (WRS), and the State Investment Fund (SIF)*

The primary government, except for the various funds discussed later, follows Wisconsin Statutes, program policy provisions, appropriate governing boards, and general resolutions contained in revenue bond indenture documents limits investments in public housing bonds issued by public agencies or municipalities, the State of Wisconsin, interest-bearing time deposits, certificates of deposit or other similar banking arrangement, shares of a diversified open-end management investment company repurchase agreements and investment agreements to a rating no lower than the rating assigned to the bonds. Investments in all other permitted debt securities are required to bear the highest rating available from each nationally recognized rating agency. In addition, credit risk of certain funds such as the Retiree Life Insurance Fund is minimized by monitoring portfolio diversification by asset class, creditor and industry and by complying with investment limitations governed by insurance laws and regulations.

As of June 30, 2008, the above mentioned investments for the primary government including the various funds, were rated by Standard and Poor's, Moody's Investors Service, and Fitch Ratings and the ratings are presented below using the Standard and Poor's rating scale (in millions):

Primary Government
(excluding the various funds, UWS, WRS and SIF)

Credit Quality Ratings	Fair Value
AAA	$ 582.6
AA	765.1
A	106.5
Not Rated	619.5
Total	$ 2,073.8

The various funds' (except for the Tuition Trust Fund) investments guidelines provide that issues be rated "A-" or better at the time of purchase based on the minimum credit ratings as issued by nationally recognized rating agencies. IPFCF guidelines provide that at the time of purchase at least 80 percent of the bond portfolio must be rated "A3/A1-" or better. The Tuition Trust Fund guidelines do not specifically list a minimum credit quality.

The following schedule displays the credit ratings at June 30, 2008, for the various funds (in millions):

Various Funds

	LGPIF	SLF	IPFCF	Historical Society	Tuition Trust
	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value
AAA	$ --	$ 38.1	$ 293.5	$ --	$ 7.6
AA	--	8.7	52.7	--	.2
A	--	22.1	157.7	--	.2
BBB	--	11.9	108.9	--	.1
BB	--	.7	16.7	--	.1
B	--	--	4.7	--	--
CCC	--	.5	5.2	--	.2
Not rated	--	--	--	2.5	--
Totals	$ 0	$ 82.0	$ 639.4	$ 2.5	$ 8.4

University of Wisconsin System (UWS)

The UWS's investment guidelines prohibit security transactions that involve a counterparty rated below AA by Standard & Poor's and/or Aa by Moody's. In addition, all securities in that individual manager's portfolio must have a minimum quality rating of investment grade of BBB- by Standard & Poor's and/or Baa3 by Moody's with an average portfolio quality of at least AA as rated by Standard & Poor's and/or Aa by Moody's.

The following schedule displays the lowest credit rating available as rated by several nationally recognized statistical rating organizations on debt securities held as of June 30, 2008 (in millions). Obligations of the United States and obligations explicitly guaranteed by the U.S. government have been included in the AAA rating below although they are considered to be without credit risk.

UWS

Ratings	Fair Value
AAA	$ 58.6
AA+	1.2
AA	1.2
AA-	3.0
A+	1.7
A	1.7
A-	3.2
BBB+	1.7
BBB	1.5
BBB-	1.1
Unrated and Unrated Pooled Cash	48.0
Total	$ 122.9

Wisconsin Retirement System (WRS)

With the exception of derivative instrument credit risk, there are no fund-wide or system-wide investment guidelines related to credit risk exposures for investments of the WRS. Fixed income credit risk investment guidelines spell out the minimum ratings at the time of purchase by individual portfolios or groups of portfolios based on the portfolios' investment objectives. In addition, some fixed income portfolios are required to carry a minimum weighted average rating at all times.

The following schedule displays the lowest credit rating available as rated by several nationally recognized statistical rating organizations on debt securities held as of June 30, 2008 (in millions). Obligations of the United States and obligations explicitly guaranteed by the U.S. government have been included in the AAA rating below although they are considered to be without credit risk.

WRS

Ratings	Fair Value
P-1 or A-1	$ 878.1
AAA	7,481.0
AA	2,808.9
A	2,552.8
BBB	964.4
BB	413.8
B	380.4
CCC	129.8
CC	4.2
D	8.6
Commingled or pooled	11,646.1
Not rated	1,563.6
Total	$ 28,831.7

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Primary Government *(excluding the University of Wisconsin System (UWS), the Wisconsin Retirement System (WRS), and the State Investment Fund (SIF)*

Although the primary government, except for the various funds discussed later, does not have a formal policy on limiting the exposure to concentrations of credit risk, it is the primary government's policy to comply with the provisions contained within the general resolutions of revenue bond indentures and other program policy investment criteria. For example, the College Savings Program Trust Fund's exposure to a particular industry is limited to no more than double that industry's percentage in the ML All Corporate Index (COAO).

The primary government's, except for the various funds, largest concentration by a single issuer is the State of Wisconsin Global Certificates with approximately 3.0 percent and the State of Wisconsin's general obligation bonds with approximately 1.6 percent of investments.

With the exception of the Tuition Trust Fund, the various funds investment guidelines limit concentrations of credit risk by establishing maximum issuer and/or sector exposure limits. Generally, the guidelines provide that no single issuer may exceed 5 percent of the fund investments, with the exception of U.S. Government and its agencies, which may be unlimited. The LGPIF further limits AAA-rated mortgage-backed, AAA-rated asset-backed and individual corporate issuers to 3 percent of the market value of the fund investments.

Excluding investments issued or explicitly guaranteed by the U.S. Government, as of June 30, 2008, none of the various funds had more than five percent of their total investments in a single issuer.

University of Wisconsin System (UWS)

The UWS's investment guidelines prohibit more than 7 percent of the fund be invested in the securities of any one issuer, unless the issue is U.S. Government guaranteed, or an issue of an agency of the U.S. government. The UWS's largest concentration by issuer is Wachovia Bank with .9 percent of total trust fund assets.

Wisconsin Retirement System (WRS)

For investments of the WRS, concentration of credit risk is limited by establishing investment guidelines for individual portfolios or groups of portfolios that generally restrict issuer concentrations in any one company or Rule 144A securities below 5 percent of assets.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment.

Primary Government *(excluding the University of Wisconsin System (UWS), the Wisconsin Retirement System (WRS), and the State Investment Fund (SIF)*

The primary government, except for the various funds discussed later, does not have a formal policy to limit foreign currency risk, however, certain funds such as the Environmental Improvement Fund are not permitted to invest in foreign currency based on provisions contained in its bond indenture general resolution. However, foreign currency risk of the Retiree Life Insurance Fund is minimized by utilizing short-duration spot forward contracts to minimize the adverse impact of foreign currency exchange rate risks inherent in the elapsed time between trade processing and trade settlement.

At June 30, 2008, the primary government, except for the various funds, did not own any issues denominated in a foreign currency.

The various fund's investment guidelines do not specifically address foreign currency risk with the exception that SLF only allows investments in U.S. dollar denominated instruments. As of June 30, 2008, the various funds did not own any issues denominated in a foreign currency.

University of Wisconsin System (UWS)

As of June 30, 2008, the UWS held equity securities denominated in foreign currencies within pooled investment vehicles only, with market values totaling $94.3 million. Some of the trades for such foreign positions will not settle in foreign currencies until after the fiscal year end. Foreign currency forward exchange contracts are often used to manage the risk related to fluctuations in currency exchange rates between the time of purchase or sale and the actual settlement of foreign currencies. The UWS's foreign pooled investment managers also use foreign exchange forwards and futures to manage longer term currency risk exposures. Counterparty risk in foreign exchange forwards and futures instruments is negligible.

Wisconsin Retirement System (WRS)

The WRS held foreign currency denominated cash and securities directly in designated actively managed portfolios and indirectly through its investment in certain commingled invest funds.

As of June 30, 2008, the following assets were denominated in the following currencies (in millions):

Currency Exposure by Investment Type

Currency	Cash and Cash Equivalents	Convertible Securities	Equity	Fixed Income	Preferred Securities	Limited Partnerships	Mortgage	Real Estate	Multi Asset	Total Exposure by Currency
Australian Dollar	3.8	--	421.6	111.1	--	--	--	--	--	536.6
Brazil Real	0.9	--	10.6	60.4	179.9	--	--	--	--	251.8
British Pound Sterling	6.5	--	1,809.8	316.1	--	125.7	--	--	--	2,258.1
Canadian Dollar	8.4	--	512.9	108.5	--	29.2	--	--	--	659.0
Columbian Peso	--	--	--	8.3	--	--	--	--	--	8.3
Danish Krone	0.8	--	81.0	28.8	--	--	--	--	--	110.6
Euro Currency Unit	114.2	--	3,561.9	1,333.6	34.2	521.2	--	--	--	5,565.1
German Mark	--	--	--	0.2	--	--	--	--	--	0.2
Hong Kong Dollar	1.7	--	186.8	--	--	--	--	--	--	188.6
Hungarian Forint	--	--	1.9	--	--	--	--	--	--	1.9
Iceland Krona	--	--	--	17.9	--	--	--	--	--	17.9
Indian Rupee	1.2	--	27.3	--	--	--	--	--	--	28.4
Indonesian Rupian	0.1	--	23.5	25.8	--	--	--	--	--	49.4
Israeli Shekel	0.3	--	12.6	--	--	--	--	--	--	12.9
Italian Lira	--	--	--	1.8	--	--	--	--	--	1.8
Japanese Yen	31.5	--	2,074.8	931.8	--	--	--	--	--	3,038.1
Malaysian Ringgit	1.7	--	7.7	77.5	--	--	--	--	--	86.9
Mexican New Peso	(0.1)	--	76.9	64.5	--	--	--	--	--	141.3
Taiwan Dollar	1.6	--	157.0	--	--	--	--	--	--	158.6
Turkish Lira	1.9	--	33.4	5.8	--	--	--	--	--	41.1
New Zealand Dollar	--	--	1.9	50.2	--	--	--	--	--	52.1
Norwegian Krone	2.3	--	198.5	16.9	--	--	--	--	--	217.7
Peruvian Nuevo Sol	0.4	--	--	1.8	--	--	--	--	--	2.2
Philippines Peso	--	--	6.9	--	--	--	--	--	--	6.9
Polish Zloty	--	--	10.1	55.5	--	--	--	--	--	65.6
South African Rand	0.4	--	29.5	31.0	--	--	--	--	--	60.9
Singapore Dollar	1.3	--	125.3	56.4	--	--	--	--	--	183.0
South Korean Won	--	--	154.9	8.1	8.5	--	--	--	--	171.5
Swedish Krona	7.6	--	130.0	97.0	--	--	--	--	--	234.6
Swiss Franc	1.6	--	534.4	--	--	--	--	--	--	536.0
Thailand Baht	0.8	--	32.8	--	--	--	--	--	--	33.6
Uruguayan Peso	--	--	--	2.2	--	--	--	--	--	2.2
Total Foreign Currency Exposure	189.2	--	10,224.5	3,411.3	222.6	676.1	--	--	--	14,723.9
United States Dollar	928.5	35.6	39,465.2	18,867.7	5.2	5,493.2	129.0	467.9	840.1	66,232.5
Total Investments by Currency Exposure	1,117.7	35.6	49,688.7	22,279.0	227.8	6,169.3	129.0	467.9	840.1	80,956.4

Securities Lending Transactions

Wisconsin Retirement System (WRS)

Securities Lending Transactions – State statutes and Board policies permit the use of investments of the WRS to enter into securities lending transactions. These transactions involve the lending of securities to broker-dealers and other entities for collateral, in the form of cash or securities, with the simultaneous agreement to return the collateral for the same securities in the future. The securities custodian is an agent in lending the domestic and international securities. When domestic securities are delivered to a borrower as part of a securities lending agreement, the borrower is required to place collateral equal to 102 percent of the loaned securities' fair value, including interest accrued, as of the delivery date with the lending agent. In the event that foreign securities are loaned, the borrower is required to place collateral totaling 105 percent of the loaned securities' fair value, including interest accrued, as of the delivery date with the lending agent except when the collateral is denominated in the same currency as the loaned security. In this case, collateral is required to total 102 percent of the loaned securities' fair value including interest accrued, as of the delivery date.

The cash collateral is reinvested by the lending agent or its affiliate in accordance with the contractual investment guidelines, which are designed to insure the safety of principal and obtain a moderate rate of return. The investment guidelines include very high credit quality standards and also allow for a portion of the collateral investments to be invested with short-term securities. The earnings generated from the collateral investments, less the amount of rebates paid to the dealers and fees paid to agents, results in the gross earnings from lending activities, which is then split on a percentage basis with the lending agent.

In accordance with money market mutual fund industry standards, the cash collateral reinvestment pools are valued at amortized cost. The amortized or book value of a fund's assets and underlying fair market value of the assets may differ based on market conditions. The pools' market value relative to its amortized cost is expressed as net asset value (NAV) and is derived by dividing total market value by amortized cost. In Fiscal Year 2008, the securities lending reinvestment pools' NAV fell below the typical money market fund floor value of 99.50 percent. As of June 30, 2008, the U.S. dollar cash collateral reinvestment pools' NAV was 99.38 percent while the foreign reinvestment pool had a NAV of 99.36 percent.

At year end, no credit risk exposure to borrowers existed because the amounts owed the borrowers exceeded the amounts the borrowers owed. The contract with the lending agent requires it to indemnify if the borrowers fail to return the loaned securities and the collateral is inadequate to replace the securities lent. Losses resulting from violations of investment guidelines are also indemnified.

The majority of securities loans can be terminated on demand. The average term of the loans is approximately one week, which is shorter than the weighted average maturity of 23 days for investments made with the U.S. dollar cash collateral and the weighted average maturity of 28 days for investments made with foreign cash collateral.

Pledging or selling collateral securities cannot be done without a borrower default. The quantity of dollar value of securities lending contracts entered into is not restricted.

Derivative Financial Instruments

Various Funds

Interest Only Strips — Interest only strips are securities that derive cash flow from the payment of interest on underlying debt securities. The Tuition Trust Fund held several interest only strips for yield enhancing purposes. Because the underlying securities are United States Treasury obligations, the credit risk is low. On the other hand, interest only strips are more volatile in terms of pricing, and thus the market risk is higher than traditional United States Treasury obligations.

As of June 30, 2008 the Tuition Trust Fund held interest only strips valued at $7.3 million representing approximately 78.8 percent of portfolio investments.

Wisconsin Retirement System (WRS)

Derivatives offer a very liquid, low cost and effective way to establish or hedge existing portfolio positions. Investment guidelines define allowable derivative activity for each portfolio and are based on the investment objectives which have been established by the Board. Where derivatives are permitted, guidelines stipulate allowable instruments and the manor in which they are to be used. For those portfolios given the authority to utilize derivatives, all derivative issuers or counterparties used must be a recognized exchange or a bank or broker dealer with an actual credit rating of at least: (1) 'A1/P1' or better on short term debt from S&P or Moody's; or (2) 'A' or better on long term debt from S&P or Moody's.

Foreign Currency Forwards and Options – Currency exposure management is permitted through the use of exchange traded currency instruments, and through the use of spot and forward contracts in foreign currencies. Direct currency hedging is permitted to hedge currency exposure back to the U.S. dollar when consistent with the strategy of the portfolio. Cross-currency exposure management to transfer out of an exposed currency and into a benchmark currency is permitted. In certain cases, currencies of non-benchmark countries may be held through the use of forward contracts provided that the notional value of any single non-benchmark currency does not exceed 5 percent of the market value of the portfolio. Losses may arise from future changes in the value of the underlying currency, or if the counterparties do not perform under the terms of the contract.

During Fiscal Year 2008, currency exposure management involved foreign currency spot and forward contracts only. Generally, these contracts are entered into to hedge foreign exchange risk. At June 30, 2008, the fair value of foreign currency forward contract assets totaled $4.5 billion, while the liabilities totaled $4.5 billion.

Futures Contracts – A financial futures contract is an exchange traded agreement to buy or sell a financial instrument at an agreed upon price and time in the future. Upon entering into a futures contract, collateral is deposited with the broker in accordance with the initial margin requirements of the broker. Futures contracts are marked to market daily by the board of trade or exchange on which they are traded. The resulting gain/loss is received/paid the following day until the contract expires. Futures contracts involve, to varying degrees, risk of loss in excess of the variation margin. Losses may arise from future changes in the value of the underlying instrument, or if the counterparties do not perform under the terms of the contract.

Asset Backed Securities – Asset backed securities are debt securities whose value is derived from payments and prepayments of principal and interest generated from whole loan mortgages, mortgage pass-through securities, credit card receivables, car loans and leases receivables, insurance proceeds receivable, as well as, airline and railroad car loans receivable. In some cases, cash flows are distributed to different investment classes or traunches in accordance with the security's established payment order. Some traunches have more stable cash flows relative to changes in interest rates while others are significantly more sensitive to interest rate fluctuations. In a declining interest rate environment, some asset backed securities may be subject to a reduction in interest payments as a result of prepayment of underlying mortgages, leases or loans that make up the collateral pool. A reduction in interest payments causes a decline in cash flows and thus a decline in the fair value of the security. Rising interest rates may cause an increase in anticipated interest payments, thus an increase in fair value of the security. Only high quality, senior traunches, resulting in minimal risks of default and prepayment are held for the WRS. The degree of prepayment risk also varies with the type of underlying assets. Mortgage backed securities tend to have a higher degree of prepayment risk due to the long term nature of the security. At June 30, 2008, mortgage backed securities with a fair value totaling $169.8 million were held for the WRS.

Credit Default Swaps – Certain fixed income portfolios are permitted to manage credit exposures through the use of credit default swaps. A credit default swap (CDS) is an over-the-counter contract whereby the credit risk associated with an investment is transferred by entering into an agreement with another party who, in exchange for periodic fees, agrees to make payments in the event of a default or other predetermined credit event. This agreement effectively introduces credit exposure to the seller's portfolio without actually holding the bond, basket of investments, or bond index. One of the main advantages of CDS is that it allows for exposure to credit risk while limiting exposure to other risks such as interest rate, currency, and call risk, that often come with a typical bond. Losses may arise in the event of the bond issuer's bankruptcy or failure to make a coupon payment, or if the counterparties do not perform under the terms of the contract. Liquidity in the cash bond market may also affect performance of these instruments, if the contract is structured to have a physical, rather than a cash settlement.

As of June 30, 2008, no open CDS contracts were held.

Options – Option contracts give the purchaser of the contract the right to buy (call) or sell (put) the security or index underlying the contract at an agreed upon price on or before the expiration of the option contract. The seller of the contract is subject to market risk, while the purchaser is subject to credit risk and market risk to the extent of the premium paid to enter into the contract. Internal U.S. equity portfolios are allowed to buy put options and sell call options in connection with existing portfolio positions. Call options may be purchased or put options sold on investments that could be held in the portfolio if the options were exercised. Domestic fixed income portfolios are permitted to enter into option contracts for the purpose of adjusting duration, taking or modifying positions, or investing anticipated cash flows. At June 30, 2008, the WRS held no options.

Unfunded Capital Commitments

University of Wisconsin System (UWS)

The UWS has unfunded limited partnership commitments of $20.6 million as of June 30, 2008.

Wisconsin Retirement System (WRS)

The Board has committed to fund various limited partnerships and side-by-side agreements related to its private equity and real estate holdings. Commitments that have not been funded as of June 30, 2008 totaled $5.9 billion.

2. Component Units

***Component Units** except for the Wisconsin Health Care Liability Insurance Plan and the University of Wisconsin Foundation (Other Component Units)*

Wisconsin Housing and Economic Development Authority (Authority) – The Authority is required by statute to invest at least fifty percent of its General Fund funds in obligations of the State, of the United States, or of agencies or instrumentalities of the

United States, or obligations, the principal and interest of which are guaranteed by the United States, or agencies or instrumentalities of the United States. Each investment portfolio specifies what constitutes a permitted investment and such investments may include obligations of the U.S. government and agencies securities; corporate bonds and notes; money market mutual funds; commercial paper; and repurchase agreements and investment agreements.

The Authority enters into collateralized investment contracts with various financial institutions. The investment contracts are generally collateralized by obligations of the United States government.

The Authority is also authorized to invest its funds in the State Investment Fund.

The Authority's aggregate investments at June 30, 2008 were $830.4 million of which $348.9 million are reported as cash equivalents.

University of Wisconsin Hospital and Clinics Authority – The University of Wisconsin Hospitals and Clinics Authority's (the Hospital) aggregate investments at June 30, 2008 were $288.1 million of which $255.0 million (invested with the University of Wisconsin Foundation, see subsequent investment disclosure discussion for the University Wisconsin Foundation) are reported as "Cash and Investments with Other Component Units." The board of directors has authorized management to invest in debt and equity securities. In addition, the Hospital reported $33.1 million of investments in highly liquid short-term securities.

State Fair Park Exposition Center, Inc. – The aggregate investments at December 31, 2007 were $4.4 million, consisting of $3.9 million of money market funds that are reported as cash equivalents.

Custodial Credit Risk

The component units do not have a formal policy for custodial credit risk. At fiscal year end, the reported amount of investments was $867.9 million. Of this amount, $332.1 million were securities held by the counterparty but in the State's name.

Interest Rate Risk

It is the component units' policy to comply with the provisions contained within the general resolutions of revenue bond indentures and other program policy investment criteria. For example, investment maturities will coincide with the anticipated debt service payment dates and cash flow obligations associated with the life of bonds outstanding. Market conditions, rates of return, interest rate spreads within and across asset classes, and other factors will influence maturity selection for all funds in excess of those required to meet the projected cash flow obligations. No investment will mature after the final bond maturity of the issue.

The following table provides information about the interest rate risks associated with the component units' investments. The investments include certain short-term cash equivalents, and various long-term items. As of fiscal year end, the component units had the following debt investments and maturities (in millions):

	Investment Maturities				
Investment Type	**Less Than 1 Year**	**1 to 5 Years**	**6 to 10 years**	**More Than 10 Years**	**Fair Value**
U.S. Government and U.S. agency holdings	$ 62.1	$ 58.6	$ 3.9	$ 3.3	$ 127.9
Corporate notes and bonds	--	1.7	--	--	1.7
Money market funds	386.4	--	--	--	386.4
Noncollateralized investment contracts	10.7	138.7	--	--	149.4
Mortgage-backed securities	161.3	5.0	0.6	18.7	185.6
Collateralized investment contracts	0.7	1.4	--	--	2.2
Negotiable certificates of deposit	13.9	0.6	--	--	14.5
Total	$ 635.2	$ 206.2	$ 4.5	$ 22.0	$ 867.9

Credit Quality Risk

The component units have established different investment policies for different investment types that generally include minimum rating requirements. For example, corporate bonds and notes are limited to U.S. domestic corporations having been rated not less than AA category or its equivalent as to investment quality by two or more nationally recognized investment rating firms. At least one rating must be in the top two short- or long-term rating categories and all other ratings must be in the top three rating categories. Further, money market funds must be regulated by the Securities and Exchange Commission and must consist of Government securities or other dollar-denominated permitted investments. Securities purchased by money market funds must be rated by at least one nationally recognized rating agency in the top two short-term rating categories or must be guaranteed by an entity with such ratings. Any other ratings must be in the top three rating categories. The following table presents the component units' ratings at fiscal year end (in millions):

		Credit Quality Ratings			
Investment Type	**Fair Value**	**AAA**	**AA**	**A**	**Unrated**
Corporate notes and bonds	$ 1.7	$ --	$ 1.7	$ --	$ --
Money market funds	386.4	348.9	37.5	--	--
Noncollateralized investment contracts	149.4	--	--	149.4	--
Negotiable certificates of deposit	14.6	--	--	--	14.6
Mortgage-backed securities	2.4	--	--	--	2.4
Collateralized investment contracts	185.6	--	--	185.6	--

Concentration of Credit Risk

Investment policies generally limit the concentration of credit risk with an issuer to a predetermined dollar value and/or percent. For example, the investment policy outlined in a general resolution requires that for funds not invested in government securities or money market mutual funds, no more than 5 percent of total portfolio market value can be invested with any issuer or secured by any one guarantor, and not more than 15 percent of the portfolio's market value will be invested in any municipal or industry sector. There were no non-government investments that exceeded 5 percent of the total portfolio.

Foreign Currency Risk

The component units' policy generally prohibits investments traded in foreign currencies. Although trading in foreign currencies may be acceptable for a limited number of portfolios, no exposure to foreign currency existed at fiscal year end.

Securities Lending

The Wisconsin Housing and Economic Development Authority's (Authority) Finance committee approved the use of a security-lending program with the trust department of a bank acting as an agent. As of June 30, 2008 the Authority had $103.0 million of securities on loan to broker-dealers for a fee.

Security lending transactions involve the lending of securities to broker-dealers and other entities for collateral, in the form of cash or securities, with the simultaneous agreement to return the collateral for the same securities in the future. The securities custodian is an agent in lending the domestic and international securities for collateral of 102 percent and 105 percent, respectively, of the loaned securities' market value. The lending agent in accordance with contractual investment guidelines, which are designed to insure the safety of principal and obtain a moderate rate of return, reinvests the collateral. The investment guidelines include very high credit quality standards and also allow for a portion of the collateral investments to be invested with short-term securities. The Authority has the following types of securities on loan: U.S. agency securities, U.S. government securities and corporate notes. The Authority receives cash collateral for securities lent. The fair value of the investment securities loaned was $103.0 million as of June 30, 2008, and the fair value of the collateral received was $100.9 million. The Authority may request the bank to terminate any loan of securities for any reason at any time.

As of June 30, 2008, no credit risk exposure to borrowers existed because the amounts owed the borrowers exceeded the amounts the borrowers owed. The contract with the lending agent states that in the event that a borrower fails to return the lent security, the bank will indemnify the Authority for the following amounts: a) The difference between the closing market value of security on the date it should have been returned to the account and the cash collateral substituted for the lent securities, or b) In the case of collateral received in kind, the difference between the closing market value of the security on the date it should have been returned to the account and the closing market value of the collateral in kind on the same date.

The Authority assumes all risk of loss arising out of collateral investment loss and any resulting collateral deficiencies. The bank expressly assumes the risk of loss arising from negligent or fraudulent operations of its securities lending program. The bank operates the securities lending program as a business trust investment pool with open and matched components. In the matched portion of the investment pool, the maturities of the securities lent and collateral are the same. The open portions of the pool maintain a weighted average maturity of the portfolio at approximately 15 days, with a range from one day to 25 days. The open portions of the pool generally have a 15-day mismatch between the portfolio coverage maturity and the open loans. As of June 30, 2008 approximately 100 percent of the securities lent were in the open portion of the investment pool. No restrictions on the amount of the loans exist or can be made. The earnings generated from the securities lending program is reported as other income. During the year ended June 30, 2008 the Authority received $163 thousand of income related to security lending transactions.

Other Component Units

Wisconsin Health Care Liability Insurance Plan (WHCLIP) – Aggregate investments of the WHCLIP were $64.8 million, of which $2.5 million are money market and other highly liquid debt instruments reported as cash equivalents.

The board of governors is responsible for and establishment of appropriate investment policies relating to the investment of the WHCLIP's assets. The following investment guidelines are established: a minimum of 30 percent of the loss reserves must be invested in U.S. treasuries or agency securities and AAA rated CMOs, investments must be in the form of marketable debt issues, at the time of purchase all bonds must be rated no lower than A by a major rating bond agency, at least 80 percent of the bond portfolio must be rated A or better, adequate corporate diversification by issuer and sector must be maintained (the securities of any issuer should not exceed 1.5 percent of the bond portfolio based on market value at the time of purchase, excluding government or government agency securities), the average duration of the aggregate bond portfolio shall be less than 10 years, as deemed appropriate by the investment manager(s) and is not permitted to invest in common stock.

Excluded investments include: bonds rated below A by a major rating service at the time of purchase, foreign bonds not denominated in U.S. currency, futures transactions, short selling, use of margin, derivatives and hedge funds.

The investments of the WHCLIP at December 31, 2007 were $61.6 million consisting of the following (in millions):

Investment Type	Amortized Cost	Estimated Fair Value
U.S. Treasury securities and obligations of the U.S. government corporations and agencies	$ 9.3	$ 10.7
Debt securities issued by foreign governments and corporations	2.5	2.5
Industrial and miscellaneous	22.3	22.5
Public utilities	2.0	2.0
Loan-backed securities	25.5	25.8
Total	$ 61.6	$ 63.5

The custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the component units will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty, or by the counterparty's trust department or agent but not in the name of the WHCLIP. The WHCLIP had no custodial credit risk exposure for these investments.

The amortized cost and estimated fair value of bonds at December 31, 2007, by contractual maturity are presented in the table below (in millions):

	Amortized Cost	Estimated Fair Value
1 Year or Less	$ 5.0	$ 5.0
1 to 5 Years	16.7	16.7
6 to 10 Years	10.5	11.6
More Than 10 Years	3.9	4.5
	36.1	37.8
Loan-backed securities	25.5	25.7
Total	$ 61.6	$ 63.5

Mortgage-backed securities (includes residential and commercial MBS) consist of the following (in millions):

Pass-through securities:	
Guaranteed by GNMA	$ .1
Issued by FNMA and FHLMC	21.2

The WHCLIP does not hold investments in any one issuer that exceeds 5 percent of total assets.

As of December 31, 2007, the WHCLIP did not own any issues denominated in a foreign currency.

University of Wisconsin Foundation (the Foundation) - Aggregate investments of the Foundation are $2,363.4 million.

The following table summarizes the types of investments of the Foundation at December 31, 2007 (in millions):

Investment Type	Fair Value
Bond and debentures	$ 524.6
Stocks	687.7
Bond funds	104.7
Stock funds	32.7
Equity funds	3.0
Hedge funds	656.1
Limited partnerships	211.4
Real asset funds	143.2
Total	$ 2,363.4

Pooled funds and unitrusts carry investments in the University of Wisconsin Foundation Collective Bond Fund at cost on the date the units are purchased. Cost per unit is determined by the market value of the principal in the funds on the date of unit transactions. The cost and market value of University of Wisconsin Foundation Collective Bond Fund investments are as follow at December 31, 2007 (in millions):

	Cost	Market Value
Cash and Money Market Funds	$ .2	$ .2
Bonds and Debentures	18.1	18.2
Total	$ 18.3	$ 18.4

Custodial Credit Risk

At December 31, 2007, the reported amount of investments was $2,363.4 million. The Foundation had no custodial credit risk exposure for these investments.

3. State Investment Fund

The State Investment Fund (SIF) functions as the State's cash management fund by "pooling" the idle cash balances of all State funds and other public institutions. In the State's Comprehensive Annual Financial Report, the SIF is not reported as a separate fund; rather, each State fund's share in the "pool" is reported on the balance sheet as "Cash and Cash Equivalents." Shares of the SIF belonging to other participating public institutions are presented in the Local Government Pooled Investment Fund, an investment trust fund.

Wis. Stat. Secs. 25.17(3)(b), (ba), (bd) and (dg) enumerate the various types of securities in which the SIF can invest, which include direct obligations of the United States or its agencies, corporations wholly owned by the Untied States or chartered by an act of Congress, securities guaranteed by the United States, unsecured notes of financial and industrial issuers, direct obligations of or guaranteed by the government of Canada, certificates of deposit issued by banks in the United States and solvent financial institutions in Wisconsin, and bankers acceptances. Other prudent investments may be approved by the State of Wisconsin Investment Board's (the Board) Board of Trustees. The Board may approve other prudent investments and has granted derivatives authority, subject to review and approval of the Investment Committee, limited to positions in financial futures, forwards, options and swaps and only if the purpose is to hedge existing positions, to adjust portfolio duration within statutory guidelines, or otherwise to reduce the interest rate risk to which the Board is subjected in the normal course of business. Interest only and principal only securities, inverse floaters, and off balance sheet synthetic derivatives are not permitted.

Investments are valued at fair value for financial statement purposes and amortized cost for purposes of calculating income to participants. The custodial bank has compiled fair value information for all securities by utilizing third party pricing services. The fair value of investments is determined at the end of each month. Government and agency securities and commercial paper are priced using matrix pricing. This method estimates a security's fair value by using quoted market prices for securities with similar interest rates, maturities, and credit ratings. Short-term debt investments with remaining maturities of up to 90 days are valued using amortized costs to estimate fair value, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Repurchase agreements and nonnegotiable certificates of deposit are valued at cost because they are nonparticipating contracts that do not capture interest rate changes in their value. In addition, a bond issued by another State agency having a par value of $0.2 million is valued at par, which management believes approximates fair value.

For purposes of calculating earnings to each participant, all investments are valued at amortized cost. Specifically, income is distributed to pool participants monthly based on their average daily share balance. Distributed income includes realized investment gains and losses calculated on an amortized cost basis, interest income based on stated rates (both paid and accrued), amortization of discounts and premiums on a straight-line basis, and investment and administrative expenses. This method differs from the fair value method used to value investments because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair values of the pool's investments.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Board will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty or by the counterparty's trust department or agent but not in the name of the Board.

At June 30, 2008, the reported amount of investments was $5,822.4 million. The SIF had no custodial credit risk exposure for these investments.

Interest Rate Risk

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of investments. The weighted average maturity method is used to analyze interest rate risk and investment guidelines mandate that the weighted average maturity for the entire portfolio will not exceed one year. At June 30, 2008, the following table shows the investments by investment type, amount and the weighted average maturities (in millions):

Investment	Fair Value	Weighted Average Maturity (Days)
Repurchase agreements	$ 1,371.0	1
Government and agency	3,851.3	58
Certificates of deposit	600.0	137
Mortgage backed securities	0.1	331
Total	$ 5,822.4	
Portfolio weighted average maturity		53

Credit Quality Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This credit risk is measured by the credit quality ratings of investments in debt securities as described by nationally recognized rating agencies such as Standard and Poor's, Moody's Investors Service, and Fitch Ratings. Investment guidelines establish numerous, very specific maximum exposure limits based on the minimum credit ratings as issued by a nationally recognized rating agency.

The following table presents the SIF's ratings as of June 30, 2008 (in millions):

	Ratings	Fair Value	Percent
Repurchase agreements (collateral):			
U.S. government debt	N/A	$ 1,029.0	17.7
Government sponsored entity U.S agency	AAA/Aaa	342.0	5.9
Federal Home Loan Board	A-1+/P-1	1,329.8	22.8
Federal Home Loan Mortgage Corporation	A-1+/P-1	1,283.6	22.1
Federal National Mortgage Association	A-1+/P-1	1,212.8	20.8
Fed. Home Loan Board-Note	AAA/Aa	25.0	0.4
Certificates of deposit:			
Nonnegotiable (Var Wis Banks)	N/R	500.0	8.6
Negotiable	A-1+/P-1	100.0	1.7
Mortgage backed securities	N/R	0.2	0.0
Totals		$ 5,822.4	100.0%

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may occur due to the amount of investments in a single issuer. The SIF's investment guidelines limit concentrations of credit risk by establishing numerous maximum issuer and/or issue exposure limits based on credit rating. These guidelines do not place a limit on maximum exposure for any U.S. agency. As of June 30, 2008 the SIF has more than five percent of its investments in FHLB (23.3 percent), FHLMC (22.1 percent), FNMA (20.8 percent), and repurchase agreement collateral consisting of various securities issued by these same three U.S. agencies (5.9 percent). Since the repurchase agreements mature each day, new collateral, consisting of a different blend of U.S. Treasury and agency securities, is assigned each night.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The SIF is permitted to invest in Canadian or Euro denominated issues provided they are fully hedged against foreign currency risk. At June 30, 2008 the SIF did not own any issues denominated in foreign currency.

Copies of the separately issued financial report that includes financial statements and other supplementary information for the SIF may be obtained by writing to:

State of Wisconsin Investment Board
PO Box 7842
Madison, WI 53707-7842

4. Lottery Investments and Related Future Prize Obligations

Investments of the State Lottery Fund totaling $85.3 million are held to finance grand prizes payable over a 20-year or 25-year period. The investments in prize annuities are debt obligations of the U.S. government and backed by its full faith and credit as to both principal and interest. Liabilities related to the future prize obligations are presented at their present value and included as Accounts Payable and Other Accrued Liabilities. The following is a schedule of future prize obligations (in thousands):

Fiscal Year	Amount
2009	$ 16,974
2010	14,564
2011	9,747
2012	7,284
2013	7,350
Thereafter	51,503
Total future value	107,422
Less: Present value adjustment	(29,867)
Present value of payments	$ 77,555

NOTE 6. RECEIVABLES AND NET REVENUES

A. Receivables

Receivables at June 30, 2008 were as follows (in thousands):

		Loans to	Other Loans Receivable					Due From	Due From	
	Taxes	Local Governments	Student Loans	Veterans Loans	Mortgage Loans	Other Loans	Other Receivables	Other Governments	Component Units	Total Receivables
Governmental Activities:										
General	$ 1,168,517	$ 5,962	$ -	$ -	$ -	$ 20,997	$ 198,557	$ 664,497	$ -	$ 2,058,529
Transportation	92,285	-	-	-	-	32,989	7,503	261,849	-	394,626
Nonmajor Governmental	30,802	495,645	-	-	-	35	102,956	15,692	-	645,130
Total Governmental:	1,291,604	501,607	-	-	-	54,021	309,017	942,037	-	3,098,286
Government-wide Adjustments:										
Internal Service Funds	-	-	-	-	-	-	159	297	-	457
Accrual Adjustments	-	-	-	-	-	-	2,948	-	-	2,948
Fiduciary Receivables	-	-	-	-	-	-	47,175	-	-	47,175
Total – Governmental Activities	$ 1,291,604	$ 501,607	$ 0	$ 0	$ 0	$ 54,021	$ 359,299	$ 942,335	$ -	$ 3,148,866
Related revenue deferral because the receivable does not meet the availability criteria	$ 271,598	$ 0	$ 0	$ 0	$ 0	$ 0	$ 107,500	$ 0	$ 0	$ 379,098
Business-type Activities:										
Current:										
Injured Patients and Families Compensation	$ -	$ -	$ -	$ -	$ -	$ -	$ 9,905	$ -	$ -	$ 9,905
Environmental Improvement	-	131,939	-	-	-	-	1,090	8,103	-	141,133
University of Wisconsin System	-	-	34,012	-	-	-	105,123	106,672	1,235	247,042
Unemployment Reserve	-	-	-	-	-	-	153,636	4,185	-	157,821
Nonmajor Enterprise	-	288	-	6,263	8,278	-	80,421	11,003	-	106,254
Total Current:	-	132,227	34,012	6,263	8,278	-	350,176	129,964	1,235	662,155
Noncurrent:										
Environmental Improvement	-	1,583,604	-	-	-	-	-	-	-	1,583,604
University of Wisconsin System	-	-	165,787	-	-	-	5,490	-	-	171,277
Unemployment Reserve	-	-	-	-	-	-	33,639	-	-	33,639
Nonmajor Enterprise	-	2,160	-	19,536	272,719	3,773	754	-	-	298,942
Total Noncurrent	-	1,585,764	165,787	19,536	272,719	3,773	39,883	-	-	2,087,462
Government-wide Adjustments:										
Fiduciary Receivables	-	-	-	-	-	-	56	-	-	56
Total – Business-type Activities	$ 0	$ 1,717,991	$ 199,799	$ 25,799	$ 280,998	$ 3,773	$ 390,115	$ 129,964	$ 1,235	$ 2,749,673

B. Net Revenues

Certain revenues of the University of Wisconsin System are reported net of scholarship allowances. For Fiscal Year 2008, these scholarship allowances totaled as follows (in thousands):

Student Tuition and Fees	$ 90,875
Sales and Services of Auxiliary Enterprises	15,936
Total	$ 106,811

NOTE 7. CAPITAL ASSETS

Primary Government

Capital asset activity for the fiscal year ended June 30, 2008 was as follows (in thousands):

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and Land Improvements	$ 1,724,581	$ 124,022	$ (357)	$ 1,848,245
Buildings and Improvements	158,793	1,463	-	160,256
Library Holdings	79,823	924	(25)	80,722
Equipment	642	10	-	652
Construction in Progress	1,134,812	533,478	(322,062)	1,346,227
Infrastructure	11,022,515	222,317	(36,863)	11,207,969
Total capital assets, not being depreciated	14,121,165	882,215	(359,308)	14,644,072
Capital assets, being depreciated:				
Land Improvements	94,226	20,278	(10)	114,493
Buildings and Improvements	1,750,378	78,769	(1,109)	1,828,037
Equipment	651,051	52,550	(43,341)	660,261
Totals	2,495,655	151,597	(44,460)	2,602,792
Less accumulated depreciation for:				
Land Improvements	42,959	5,742	(3)	48,698
Buildings and Improvements	605,789	48,567	(343)	654,013
Equipment	403,317	55,663	(40,926)	418,054
Totals	1,052,065	109,972	(41,272)	1,120,764
Total Capital Assets, being depreciated, net	1,443,590	41,625	(3,188)	1,482,027
Governmental activities capital assets, net	$ 15,564,755	$ 923,840	$ (362,495)	$ 16,126,100
Business-type activities:				
Capital assets, not being depreciated:				
Land and Land Improvements	$ 121,567	$ 3,266	$ (7)	$ 124,826
Library Holdings	1,052,658	22,590	(3,979)	1,071,269
Construction in progress	320,971	235,882	(192,327)	364,526
Total Capital Assets, not being depreciated	1,495,196	261,738	(196,313)	1,560,621
Capital assets, being depreciated:				
Land Improvements	9,390	99	-	9,489
Buildings	4,198,022	105,065	181,700	4,484,787
Equipment	872,644	67,980	(28,334)	912,290
Totals	5,080,056	173,143	153,366	5,406,565
Less accumulated depreciation for:				
Land Improvements	7,083	494	-	7,577
Buildings	1,789,496	121,955	(3,502)	1,907,949
Equipment	602,406	64,533	(16,484)	650,455
Totals	2,398,984	186,982	(19,987)	2,565,980
Total Capital Assets, being depreciated, net	2,681,072	(13,839)	173,353	2,840,585
Business-type activities capital assets, net	$ 4,176,268	$ 247,898	$ (22,960)	$ 4,401,206

In addition to the capital assets reported by governmental and business-type activities, the fiduciary funds reported gross capital assets of $2,759 thousand at June 30, 2008, with accumulated depreciation totaling $2,717 thousand.

Depreciation Expense

Depreciation expense was charged to functions of the primary government as follows (in thousands):

Governmental Activities		
Commerce	$	1,097
Education		2,932
Transportation		10,695
Environmental Resources		8,648
Human Relations and Resources		47,160
General Executive		8,725
Judicial		2,516
Legislative		871
Depreciation on capital assets held by the internal service funds		27,326
Total depreciation expense - governmental activities	$	109,970

Business-type Activities		
University of Wisconsin System	$	174,720
Lottery		42
Veterans Mortgage Loan Repayment		21
Other Business-Type		12,198
Total depreciation expense - business-type activities	$	186,981

Impaired Capital Assets

The University of Wisconsin System reported two assets meeting the definition of a temporarily impaired asset. The University of Wisconsin – Whitewater's Central Heating Plant, net book value of $5.3 million, and the University of Wisconsin – Oshkosh's River Commons, net book value of $.6 million, were both idle as of June 30, 2008. The Central Heating Plant is expected to be fully functional in Fall 2008. Decisions regarding the River Commons are expected to be made during the 2009 fiscal year.

Construction in Progress

Construction in progress of the primary government reported in the government-wide statement of net assets at June 30, 2008 included the following projects (in thousands):

	Allotments	Expended to June 30, 2008	Encumbrances Outstanding	Unencumbered Allotment Balance
Governmental Activities:				
Reported through capital projects funds:				
State Highway Rehabilitations and Marquette Interchange	$ 253,896	$ 253,896	$ --	$ --
Armed Forces Reserve Center	38,309	3,972	1,839	32,498
Sand Ridge Secure Treatment Center Housing	21,500	10,365	9,905	1,231
Wild Rose Fish Hatchery	17,477	--	--	17,477
Madison Crime Lab Remodeling	16,030	14,255	140	1,634
Winnebago Corrections Facility Replacement	13,900	637	591	12,671
Other projects with allotments totaling less than $10 million		51,837		
		334,962		
Other:				
Transportation-related funded through sources other than capital projects		940,050		
Other		71,216		
Total construction in progress – governmental activities		$ 1,346,228		
Business-type Activities:				
University of Wisconsin System:				
Interdisciplinary Center – Madison	159,081	$ 143,424	14,002	1,656
Biochemistry II Building – Madison	116,950	7,447	1,943	107,560
University Square Development – Madison	59,681	38,643	15,837	5,200
Institute for Discovery – Madison	49,304	2,798	60	46,446
Academic Building – La Crosse	43,900	1,078	--	42,822
Jarvis Science Wing Renovation - Stout	42,991	2,357	32,346	8,287
Business and Economics Building – Whitewater	42,273	25,457	10,719	6,148
Residence Hall - Whitewater	36,860	1,755	658	34,447
Education Building Renovation - Madison	33,345	1,973	1,499	29,873
Academic Building - Superior	30,174	1,072	--	29,102
Campus Utility Upgrade – Madison	28,747	21,956	6,402	389
Engineering Building - Platteville	25,667	16,197	4,553	4,916
Student Union Expansion – Parkside	25,191	19,612	3,162	2,417
Rothwell Student Center – Superior	24,857	3,143	18,346	3,374
Residence Hall - Parkside	17,740	1,253	14,698	1,789
Sterling Hall Renovation - Madison	17,500	1,621	567	15,311
Stadium Field Complex – La Crosse	15,863	1,288	13,630	944
Chadbourne & Barnard Hall - Madison	12,373	273	70	12,030
Veteran Memorial Cemetery – Phase III Cemetery	10,900	116	86	10,699
Other projects with allotments totaling less than $10 million:				
University of Wisconsin System		70,534		
Other		6,032		
Total construction in progress – business-type activities		$ 368,031		

Certain construction in progress of the University of Wisconsin System as listed above is reported in the applicable major capital assets categories. Construction in progress of the University of Wisconsin System and of the other business-type activities as reported in the financial statements totaled $358.4 million and $6.1 million as of June 30, 2008, respectively.

Component Units

Capital Assets balance of the Wisconsin Housing and Economic Development Authority at June 30, 2008, the University of Wisconsin Hospitals and Clinics Authority at June 30, 2008, the University of Wisconsin Foundation at December 31, 2007, and the State Fair Park Exposition Center, Inc. at December 31, 2007 were as follows (in thousands)

	Amount
Capital Assets, not being depreciated:	
Land and Land Improvements	$ 15,819
Construction in Progress	22,959
Total Capital Assets, not being depreciated	38,778
Capital Assets, being depreciated:	
Buildings	513,632
Equipment	219,016
Totals	732,648
Less accumulated depreciation for:	
Buildings	180,065
Equipment	135,520
Totals	315,585
Total Capital Assets, being depreciated, net	417,063
Component Units Capital Assets, net	$ 455,840

NOTE 8. ENDOWMENTS

Primary Government

University of Wisconsin System

The University of Wisconsin System invests its trust funds, principally gifts and bequests designated as endowments or quasi-endowments, in two of its own investment pools: the Long Term Fund and the Intermediate Term Fund. Benefiting University of Wisconsin System entities receive quarterly distributions from the Long Term Fund, principally endowed assets, based on an annual spending rate applied to a 12-quarter moving average market value of the fund. Effective since the final quarter of Fiscal Year 2005, a spending rate of 4.0 percent was applied. Distributions from the Intermediate Term Fund, principally quasi-endowments and unspent income distributions, consist of interest earnings distributed quarterly. Spending rate and interest distributions from both of these funds are transferred to the State Investment Fund, pending near-term expenditures. At June 30, 2008, net appreciation of $11.8 million was available to be spent.

University of Wisconsin System investment policies and guidelines for the Long Term Fund and Intermediate Term Fund are governed and authorized by the Board of Regents. The approved asset allocation policy for the Long Term Fund sets a general target of 24.5 percent marketable equities, 16.5 percent fixed income, 34.0 percent alternatives, and 25.0 percent tactical strategies. Accordingly, the fund includes investments in domestic and non-U.S. stocks and bonds, and limited partnerships consisting of venture capital and other private equity investments. The approved asset allocation for the Intermediate Term Fund is 15.0 percent marketable equities, 65.0 percent fixed income, 10.0 percent alternatives and 10.0 percent cash.

The fair value of Endowments as of June 30, 2008 was $398.5 million including an unrealized loss of $38.7 million when fair values as of June 30, 2008 are compared to asset acquisition costs. This compares to a fair value as of June 30, 2007 of $420.3 million. The net decrease in fund balance during 2007-08 was $21.8 million.

The book value of Endowments under control of the University of Wisconsin System was $420.3 million as of June 30, 2008 compared to a book value of $366.1 million as of June 30, 2007. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments since realized gains and losses are based on the difference between the selling price and the acquisition cost of the asset. Therefore, when assets are reported at fair value much of the realized gain or loss may have already been included in prior years as part of the overall change in the fair value of investments.

At June 30, 2008, the book value and fair value of principal funds under control of the University of Wisconsin System was (in millions):

Original Contributions and Distributed Net Gains	$ 144.9
Realized Gains – Undistributed	275.4
Book Value	420.3
Unrealized Net Gains/Losses - Undistributed	(21.8)
Fair Value	$ 398.5

On June 30, 2008, the portfolio at market contained 38.5 percent in stocks, 13.9 percent in fixed income obligations, 19.3 percent in alternative assets, 17.4 percent in tactical allocation strategies, and 10.9 percent in short-term investments. The total return on the principal Long Term Fund including capital appreciation was (2.7) percent. The total return on the principal Intermediate Fund including capital appreciation was 7.6 percent. External investment counsel was furnished for funds representing 83.8 percent of market-value principal.

Component Unit

University of Wisconsin Foundation

At December 31, 2007 there were 3,700 funds pooled in an endowment fund for investment purposes. Generally, principal of the funds is to be kept intact with income from investments being distributed according to the wishes of the donor. For certain funds, principal is also available for distribution.

The University of Wisconsin Foundation's investment policies and guidelines are governed and authorized by the University of Wisconsin Foundation's Board of Directors. The Board does not limit the types of investments allowed.

For the fiscal year ended December 31, 2007, the endowment fund accounts reported cash and money market funds of $105.3 million, margin deposits for futures contracts of $2.9 million and investments with a fair value of $1,629.3 million. This compares to a fair value for investments as of December 31, 2006 of $1,444.4 million. The asset allocation for endowment assets at December 31, 2007 is 24.9 percent in domestic equities, 16.9 percent in international equities, 30.8 percent in absolute returns, 10.1 percent in fixed income, 11.1 percent in private equity, 6.1 percent in real assets and .1 percent in cash.

NOTE 9. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances as of or for the year ended June 30, 2008 consist of the following (in thousands):

A. Due from/to Other Funds:

Due from Other Funds and the Due to Other Funds represent short-term interfund accounts receivable and payable. The balances in these accounts at June 30, 2008 were as follows (in thousands):

	Due to Other Funds:			
	General	Transportation	Nonmajor Governmental	Injured Patients and Families Compensation
Due from Other Funds:				
General	$ -	$ 31,085	$ 18,048	$ 342
Transportation	1,859	-	48,927	-
Nonmajor Governmental	22,910	14,741	5,869	4
Environmental Improvement	17	-	4	-
University of Wisconsin System	48,178	679	2,263	-
Unemployment Reserve	319	-	-	-
Nonmajor Enterprise	8,122	60	4,065	1
Internal Service	22,422	2,373	7,028	4
Fiduciary	25,750	1,847	2,598	4
Total	$ 129,578	$ 50,784	$ 88,802	$ 355

The balances in the Due from Other Funds and Due to Other Funds accounts typically result from the time lag between the dates that
(1) interfund goods and services were provided and when the payments occurred, and
(2) interfund transfers were accrued and when the liquidations occurred.

	Environmental Improvement		University of Wisconsin System		Unemployment Reserve		Nonmajor Enterprise		Internal Service		Fiduciary		Total
$	219	$	49,794	$	6,626	$	29,088	$	3,387	$	44,467	$	183,054
	-		263		-		15		-		-		51,064
	1,162		57		1		1,179		824		-		46,748
	-		-		-		-		-		-		22
	47		-		-		28		219		-		51,414
	-		-		-		-		-		-		319
	-		-		-		3,013		39		52		15,350
	1		889		-		519		474		2,632		36,343
	5		4,008		-		2,044		651		250		37,157
$	1,433	$	55,012	$	6,627	$	35,886	$	5,595	$	47,400	$	421,471

B. Due from/to Component Units

Receivables and payables between funds and component units at June 30, 2008 were as follows (in thousands);

	Due from Component Unit		Due from Primary Government		
	University of Wisconsin System	Fiduciary	University of Wisconsin Hospitals and Clinics Authority	Timing Differences	Total
Due to Primary Government:					
University of Wisconsin Hospitals and Clinics Authority	$ 1,235	$ 3,267	$ -	$ -	$ 4,502
State Fair Park Exposition, Center Inc.	-	-	-	33	33
Due to Component Unit:					
University of Wisconsin System	-	-	1,501	-	1,501
Total	$ 1,235	$ 3,267	$ 1,501	$ 33	$ 6,035

Receivables and liabilities between the primary government and the discretely presented component unit do not agree because the State Fair Park Exposition Center, Inc. has a December 31 fiscal year end.

C. Interfund Receivables/Payables

Interfund Receivables/Payables represent short-term loans from one fund to another to cover cash overdrafts. Interfund receivables/payables at June 30, 2008 were as follows (in thousands):

	Interfund Receivables:			
	University of Wisconsin System	Transportation	Fiduciary	Total
Interfund Payables:				
General	$ 331,105	$ 9,342	$ -	$ 340,446
Injured Patients and Families Compensation	35,338	-	-	35,338
Nonmajor Enterprise	39,166	-	-	39,166
Internal Service	45,975	-	-	45,975
Fiduciary	-	-	2,023,294	2,023,294
Total	$ 451,584	$ 9,342	$2,023,294	$2,484,219

D. Advances to/from Other Funds

Advances to/from Other Funds represent long-term loans to one fund from another fund. Advances at June 30, 2008 were as follows (in thousands):

	Advances to Other Funds (asset):		
	General	Internal Service	Total
Advances from Other Funds (liability):			
Nonmajor Governmental	$ -	$ 2,839	$ 2,839
Fiduciary	81	-	81
Total	$ 81	$ 2,839	$ 2,920

E. Interfund Transfers

Interfund Transfers in and out that occurred during Fiscal Year 2008 were as follows (in thousands):

Transfers out: / Transfers in:	General	Transportation	Nonmajor Governmental	Environmental Improvement	University of Wisconsin System	Nonmajor Enterprise	Internal Service	Total
General	$ -	$ 4,008	$ 506,084	$ -	$ 979,069	$ 67,945	$ 5,986	$ 1,563,092
Transportation	156,783	-	45,501	-	-	-	-	202,284
Nonmajor Governmental	13,063	20,322	46,524	40,655	117,699	1,858	1,879	241,999
Injured Patients and Families Compensation	71,500	-	12	-	-	-	-	71,512
Environmental Improvement	-	-	6,085	-	-	-	-	6,085
University of Wisconsin System	48,169	-	42,069	-	-	-	181	90,418
Unemployment Reserve	5,561	-	-	-	-	-	-	5,561
Nonmajor Enterprise	25,787	-	6,140	-	-	741	266	32,934
Internal Service	4,890	5	996	-	1	12	759	6,663
Fiduciary	-	-	273	-	-	-	-	273
Noncurrent Assets Transferred Between Proprietary Funds and Governmental Funds	-	-	-	-	-	531	5	536
Total	$ 325,752	$ 24,335	$ 653,684	$ 40,655	$ 1,096,769	$ 71,086	$ 9,077	$ 2,221,358

Transfers are typically used to move: (1) revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, (3) unrestricted revenues collected in one fund to finance various programs accounted for in other funds in accordance with statute or budgetary authorizations, and (4) accumulated surpluses from other funds to the General Fund when authorized by statute.

Nonroutine and Other Transfers

In the fiscal year ended June 30, 2008, transfers considered non-routine or inconsistent with the fund making the transfer included the following (in thousands):

Funds Reporting the Transfer	Amount
Transfers to the General Fund from other funds to address revenue shortfalls:	
Transportation	$155,209
Petroleum Inspection	1,019
Financial Services	2,200
Risk Management	1,300
Other funds	2,307

Funds Reporting the Transfer	Amount
Transfers to the Medical Assistance Trust Fund later reclassified to the General Fund:	
University Wisconsin System	$ 15,000
Injured Patients and Families Compensation	71,500
Transfer to the Transportation Fund from Petroleum Inspection Fund	20,322

NOTE 10. CHANGES IN LONG-TERM LIABILITIES

During the year ended June 30, 2008, the following changes occurred in long-term liabilities (in thousands):

Primary Government

Governmental Activities	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Amounts Due Within One Year
Bonds Payable:					
General Obligation Bonds for Governmental Funds	$ 3,785,444	$ 284,979	$ 268,525	$ 3,801,899	$ 289,517
General Obligation Bonds for Internal Services Funds	155,606	8,262	8,357	155,511	8,692
Annual Appropriation Bonds	1,794,850	1,007,120	944,850	1,857,120	6,475
Revenue Bonds	3,072,245	-	142,935	2,929,310	132,895
Less Deferred Amounts:					
Issuance Premiums and Discounts	242,075	15,993	34,888	223,180	
Refundings	(56,154)	-	(6,587)	(49,567)	
Total Bonds Payable	8,994,066	1,316,354	1,392,968	8,917,452	437,579
Other Liabilities:					
Future Benefits and Loss Liability	95,984	34,531	35,515	95,000	38,063
Capital Leases	46,660	11,231	20,061	37,830	19,099
Installment Contracts	451	770	905	316	257
Compensated Absences	131,528	52,512	45,475	138,565	46,731
Other Postemployment Benefits	-	50,059	-	50,059	-
Claims, Judgments and Commitments	14,491	-	13,057	1,434	-
Total Governmental Activities Long-term Liabilities	$ 9,283,180	$ 1,465,456	$ 1,507,981	$ 9,240,655	$ 541,730

Repayment of the general obligation bonds is made from the Bond Security and Redemption Fund. The amount presented in this fund represents the liability to be paid from resources accumulated to provide debt service payments in Fiscal Year 2008. Repayment of the revenue bonds principal and interest is made from the appropriate debt service fund with payments secured by registration and inspection fees collected by the appropriate program. The compensated absences liability will be liquidated by the State's governmental and internal service funds. Long-term liabilities for claims, judgments and commitments are generally liquidated with resources of the governmental activities.

Business-type Activities	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Amounts Due Within One Year
Bonds Payable:					
General Obligation Bonds	$ 1,104,111	$ 97,954	$ 66,026	$ 1,136,038	$ 42,210
Revenue Bonds	729,575	127,335	83,085	773,825	60,730
Less Deferred Amounts:					
Issuance Premiums and Discounts	55,905	14,132	7,801	62,236	
Refundings	(21,072)	(432)	(1,978)	(19,526)	
Total Bonds Payable	1,868,518	238,989	154,934	1,952,574	102,940
Other Liabilities:					
Future Benefits and Loss Liability	966,560	233,622	111,537	1,088,646	168,421
Capital Leases	121,183	114,810	119,554	116,439	5,751
Compensated Absences	118,175	7,586	3,185	122,576	58,747
Other Postemployment Benefits	-	53,812	-	53,812	-
Total Business-type Activities Long-term Liabilities	$ 3,074,437	$ 648,819	$ 389,209	$ 3,334,046	$ 335,859

Component Units

The following table presents the changes in long-term liabilities of the Wisconsin Housing and Economic Development Authority at June 30, 2008, the Wisconsin Health Care Liability Insurance Plan at December 31, 2007, the University of Wisconsin Hospitals and Clinics Authority at June 30, 2008, the University of Wisconsin Foundation at December 31, 2007, and the State Fair Park Exposition Center, Inc. at December 31, 2007:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Amounts Due Within One Year
Bonds and Notes Payable:					
Revenue Bonds and Notes	$ 3,325,010	$ 603,599	$ 372,831	$ 3,555,778	$ 113,199
Future Benefits and Loss Liability	29,806	7,316	--	37,122	10,420
Capital Leases	11,972	--	1,728	10,244	2,320
Compensated Absences	6,545	7,563	6,049	8,059	7,559
Split-interest Agreement	--	43,143	--	43,143	--
Other Post Employment Benefits	--	4,148	--	4,148	--
Pension Related	72,901	--	1,205	71,696	4,426
Total Component Units Long-term Liabilities	$ 3,446,234	$ 665,769	$ 381,190	$ 3,730,190	$ 137,924

NOTE 11. BONDS, NOTES AND OTHER DEBT OBLIGATIONS

The following schedule summarizes outstanding long-term bonds and notes payable at June 30, 2008 (in thousands):

Primary Government	
Governmental Activities:	
General Obligation Bonds	$ 4,080,881
Annual Appropriation Bonds	1,850,802
Revenue Bonds:	
Transportation	1,485,849
Petroleum Inspection	111,142
Badger Tobacco Asset Securitization Corporation	1,388,778
Total Governmental Activities	8,917,452
Business-type Activities:	
General Obligation Bonds:	
University of Wisconsin System	738,609
Other Business-type	415,986
Revenue Bonds:	
Environmental Improvement	797,979
Total Business-type Activities	1,952,574
Total Primary Government	10,870,026
Component Units:	
Wisconsin Housing and Economic Development Authority Revenue Bonds	3,274,499
University of Wisconsin Hospitals And Clinics Authority Revenue Bonds	229,696
State Fair Park Exposition Center, Inc. Revenue Bonds and Notes Payable	40,795
University of Wisconsin Foundation Note Payable	10,788
Total Component Units	3,555,778
Total at June 30, 2008	$14,425,804

A. General Obligation Bonds

Primary Government

The State of Wisconsin Building Commission, an agency of the State, is empowered by law to consider, act upon, authorize, issue and sell all debt obligations of the State. To date, the Commission has authorized and issued general obligation bonds primarily to provide funds for the acquisition or improvement of land, water, property, highways, buildings, equipment or facilities for public purposes. Occasionally, general obligation bonds are also issued for the purpose of providing funds for veterans housing loans and to refund general obligation bonds. All general obligation bonds authorized and issued by the State are secured by a pledge of the full faith, credit and taxing power of the State of Wisconsin and are customarily repaid over a period of twenty to thirty years.

Article VIII of the Wisconsin Constitution and Wis. Stat. Sec. 18.05 set limits on the amount of debt that the State can contract in total and in any calendar year. In total, debt outstanding cannot exceed five percent of the value of all taxable property in the State. Annual debt issued cannot exceed the lesser of three-quarters of one percent or five percent of the value of all taxable property in the State less net indebtedness at January 1.

At June 30, 2008, $4,084.9 million of general obligation bonds were authorized but unissued.

General obligation bonds issued and outstanding as of June 30, 2008 were as follows (in thousands):

Fiscal Year Issued	Series	Dates	Interest Rates	Maturity Through	Amount Issued	Amount Outstanding
1990	1990 Series D	5/90	7.0	5/10	$ 65,859	$ 8,016
1991	1991 Series B	5/91	6.80 to 6.85	5/11	117,136	19,442
1992	1992 Refunding Issue	3/92	6.25	5/15	448,935	37,825
1993	1992 2;	10/92;	5.0 to 6.5	5/15	423,565	111,385
	1993 1, 2	1/93; 3/93				
1994	1993 Refunding Issues 3, 5, 6;	8/93; 12/93;	5.125 to 6.2	5/24	515,830	128,905
	1994 Refunding Issue 2	10/93; 3/94				
1995	1995 Series B	2/95	6.65	5/25	29,265	670
1996	1996 Series B	5/96	5.75 to 6.2	11/24	45,000	2,725
1997	1996 D;	10/96;	5.75 to 6.0	5/27	75,000	6,490
	1997 1 and A	3/97; 3/97				
1998	1997 C and D;	9/97; 9/97;	4.5 to 7.25	11/28	310,755	40,945
	1998 A, B and C	3/98; 5/98; 5/98				
1999	1998 Series 1, 2, D, E and F;	8/98; 9/98; 9/98; 10/98; 10/98	4.0 to 7.25	11/30	590,675	166,085
	1999 Series 1, A and B	5/99; 2/99; 5/99				
2000	1999 C and D; 2000 A	10/99; 11/99; 3/00	5.0 to 7.7	11/30	315,000	33,100
2001	2000 Series B and E;	7/00;11/00;	4.5 to 8.05	11/31	259,030	44,430
	2001 Series A, B, C and D	2/01; 4/01; 6/01; 6/01				
2002	2001 Series 1, E, F;	10/01; 10/01; 10/01;	4.0 to 6.96	5/33	819,545	412,920
	2002 Series 1, A, B, C, D	3/02; 3/02; 3/02; 6/02; 6/02				
2003	2002 Series E, F, G and H;	9/02; 9/02; 10/02; 12/02;	2.85 to 5.25	5/33	415,190	212,265
	2003 Series 1, 2, and A	4/03; 4/03; 5/03				
2004	2003 B, C, and 3;	7/03; 10/03;10/03;	0 to 19.088	5/34	1,305,096	1,009,426
	2004 1, 2, A, 3 and CWGBC	1/04; 1/04; 3/04; 6/04; 4/04				
2005	2004 Series 4, B, C, D and E;	7/04; 8/04; 8/04; 8/04; 10/04;	3.0 to 5.65	5/35	1,079,440	977,880
	2005 Series 1, A, B and C	2/05; 2/05; 4/05; 4/05				
2006	2005 Series D and E;	8/05; 12/05;	4.0 to 5.25	5/26	662,910	627,930
	2006 Series 1 and A	1/06; 3/06				
2007	2006 Series B, C and D;	7/07; 8/06; 8/06;	4.25 to 5.76	5/37	867,570	861,875
	2007 Series AW, BW and 1;	2/07; 2/07; 2/07;				
	2007 Series A and B	2/07; 6/07				
2008	2007 Series 2,3 and C;	10/07; 10/07;11/07; 6/08;6/08;	2.3 to 6.26	5/38	391,195	391,135
	2008 Series 1,2, A, AW,and BW	4/08;3/08; 5/08; 6/08				
Total					8,736,996	5,093,449
Premiums/Discounts					--	201,029
Deferred Amount on Refunding					--	(59,002)
Total General Obligation Bonds					$ 8,736,996	$ 5,235,476

As of June 30, 2008, general obligation bond debt service requirements for principal and interest for governmental activities and business - type activities are as follows (in thousands):

Fiscal Year	Governmental Activities		Business-Type Activities	
Ended June 30	Principal	Interest	Principal	Interest
2009	$ 298,209	$ 207,959	$ 42,210	$ 56,531
2010	301,798	179,408	43,002	54,604
2011	296,821	160,768	42,070	52,448
2012	283,889	146,763	44,998	50,334
2013	275,517	133,546	47,321	48,132
2014-2018	1,227,151	473,941	273,214	203,869
2019-2023	890,733	210,713	283,937	132,757
2024-2028	372,992	45,919	273,597	58,906
2029-2033	10,300	773	62,375	14,926
2034-2038	--	--	23,315	2,357
Total	3,957,410	1,559,790	1,136,039	674,864
Premiums/Discounts	171,771	--	29,258	--
Deferred Amount on Refunding	(48,300)	--	(10,702)	--
Total	$ 4,080,881	$ 1,559,790	$ 1,154,595	$ 674,864

Zero Coupon Bonds

The general obligation bonds of 1990, Series D (Higher Education Series), are zero coupon bonds recorded in the amount of $8.0 million which is the accreted value at June 30, 2008. The bonds mature on May 1 through the year 2010.

The general obligation bonds of 1991, Series B, are zero coupon bonds recorded in the amount of $19.4 million. The bonds mature on May 1 through the year 2011.

B. Annual Appropriation Bonds

In December 2003, the State issued $1.8 billion of General Fund Annual Appropriation Bonds consisting of Series A (Taxable Fixed Rate) and Series B (Taxable Auction Rate Certificates). These appropriation obligations were authorized by Wisconsin Statutes to obtain proceeds to pay the State's anticipated unfunded accrued prior service (pension) liability under Wis. Stat. Section 40.05(2)(b) and its unfunded accrued liability for sick leave conversion credits under Wis. Stat. Section 40.05(4)(b), (bc), and (bw) and Subchapter IX of Chapter 40. In April and June 2008, the State issued $1.0 billion of General Fund Annual Appropriation Refunding Bonds to refund the Series B (Taxable Auction Rate Certificates) that were issued in 2003. The 2008 issuance consisted of Series A (Taxable Fixed Rate) and Series B and C (Taxable Floating Rate Notes).

These appropriation obligations are not general obligations of the State, and do not constitute "public debt" of the State as that term is used in the Constitution and in the State Statutes. The payment of the principal of, and premium, if any, and interest on the obligations is subject to annual appropriation; that is, payments due in any fiscal year of the State will be made only to the extent sufficient amounts are appropriated by the Legislature. The State is not legally obligated to appropriate any amounts for payment of debt service. The Legislature, recognizing its moral obligation to make timely appropriations from the General Fund sufficient to pay debt service on such obligations, expresses in Wis. Stat. Section 16.527(10) its expectation and aspiration that it will do so. The Legislature's recognition of a moral obligation, however, does not create a legally enforceable obligation.

The General Fund Annual Appropriation Bonds, Series A (Taxable Fixed Rate) in the amount of $850.0 million ("2003 Series A Bonds"), bear interest at rates from 4.80 percent to 5.70 percent computed on the basis of a 30-day month and a 360-day year, payable semiannually on each May 1 and November 1 until their maturity dates.

The General Fund Annual Appropriation Refunding Bonds of 2008, Series A (Taxable Fixed Rate) in the amount of $498.1 million ("2008 Series A Bonds"), bear interest a rates from 2.936 percent to 5.238 percent computed on the basis of a 30-day month and a 360-day year, payable semiannually on each May 1 and November 1 until their maturity dates.

The General Fund Annual Appropriation Bonds of 2008, Series B (Taxable Floating Rate Notes), ("2008 Series B Bonds"), in the amont of $300.0 million, bear interest at rates 120 basis points over the one-month LIBOR, computed on the basis of a 360-day year and for the number of days actually elapsed, payable monthly on the first business day of the month.

The General Fund Annual Appropriation Bonds of 2008, Series C (Taxable Floating Rate Notes), ("2008 Series C Bonds") in the amount of $209.0 million, bear interest at rates 110 basis points over the one-month LIBOR computed on the basis of a 360-day year and for the number of days actually elapsed, payable monthly on the first business day of the month.

As of June 30, 2008, the debt service requirements for principal and interest on these bonds are as follows (in millions):

Fiscal Year Ended June 30	Principal	Interest
2009	$ 6.5	$ 104.7
2010	13.8	102.5
2011	20.1	101.9
2012	26.9	101.2
2013	286.5	100.0
2014 - 2018	518.3	414.2
2019 - 2023	229.4	275.4
2024 - 2028	518.0	165.4
2029 - 2032	237.6	34.5
Total	1,857.1	1,399.8
Unamortized Premium/Discount	(6.3)	--
Total, net	$ 1,850.8	$ 1,399.8

Interest Rate Swaps

The State has entered into interest rate exchange agreements, or swap agreements, to modify interest rates for nearly all of the 2008 Series B bonds and 2008 Series C bonds. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

Objective – In December 2003, the State entered into four interest rate exchange agreements with four different counterparties in order to reduce the interest rate risk in connection with $595.2 million of the Series B (Taxable Auction Rate Certificates) issued in 2003. In June 2005, the State entered into four additional interest rate exchange agreements with three counterparties in order to reduce the interest rate risk on the balance of the Series B (Taxable Auction Rate Certificates) issued in 2003, ($349.7 million). In April and June 2008, the State issued $509 million of annual appropriation refunding bonds as floating rate notes having variable interest rate set every month (2008 Series B Bonds and 2008 Series C Bonds). In conjunction with issuance in April 2008, at its option the State terminated and made corresponding termination payments in the aggregate amount of $40.0 million on some, and a portion of other, interest rate exchange agreements previously entered into in December 2003 and June 2005. As a result, interest rate exchange agreements remain to reduce the interest rate risk in connection with $500 million in floating rate notes.

Terms – Nearly all of the 2008 Series Series B and 2008 Series C bonds are subject to the interest rate exchange agreements. 2008 Series Bond B and Series C bonds mature and a related notional amount of the related interest rate exchange agreements decline from May 1, 2009 through 2032. Based on the interest rate exchange agreements, the State owes to the counterparties an amount calculated at fixed rates ranging from 4.661 percent to 5.47 percent and the counterparties owe the State interest on an amount based on a variable rate, which is the one-month LIBOR. The net amount is paid monthly.

Fair Value – As of June 30, 2008, the aggregate fair value of the interest exchange agreements was negative $34.6 million. The fair value was valued by a third party consultant based on information contained in the broker Interest Rate Swap Confirmations supplied by the three counterparties -- JP Morgan Chase, Citigroup N.A. New York, and UBS AG. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the interest rate exchange agreement. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the interest rate exchange agreements, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the interest rate exchange agreements. Based on those parameters, and swap market conditions prevailing on the June 30, 2008 valuation date, the third party consultant calculated the estimate market value. The valuations of derivative transactions provided by the third party consultant are indicative values based on mid-market levels as of the close of business on the date for which they are provided. The fair value may vary throughout the life of the swap agreements due to any changes in fixed swap interest rates and swap market conditions.

Associated Debt – Using rates as of June 30, 2008, debt service requirements are presented for the 2008 Series B and 2008 Series C bonds that are subject to the interest rate exchange agreements and the net swap payments assuming that interest rates remain the same for their term. As rates vary, interest payments on the floating rate notes and net swap payments will vary.

(in millions)

Fiscal Year Ended June 30	Principal	Interest	Interest Rate Swaps, Net	Totals
2009	$ 1.3	$ 18.4	$ 14.2	$ 33.9
2010	2.3	18.3	14.2	34.8
2011	3.4	18.3	14.1	35.8
2012	4.6	18.2	14.0	36.8
2013	5.9	17.9	14.0	37.8
2014 - 2018	5.5	88.5	68.9	162.9
2019 - 2023	30.9	86.5	67.8	185.2
2024 - 2028	211.1	71.7	57.3	340.1
2029 - 2032	235.0	19.0	15.3	269.3
	$ 500.0	$ 356.8	$ 279.8	$ 1,136.6

Interest Rate Risk – Currently, the State does not have interest rate risk because it is paying a fixed-rate of interest on the interest rate exchange agreements. However, if for some unforeseen reason any of the swaps agreements are terminated prior to maturity, the State will have interest rate risk associated with the outstanding 2008 Series B and 2008 Series C bonds until their maturity.

Credit Risk – As of June 30, 2008, the State was exposed to only a minimal amount of credit risk, as the fair values of three of the four interest rate exchange agreements were negative. Should rates change, the State could have increased exposure in the future. The State has entered into four interest rate agreements with five different counterparties. The lowest rating assigned to these counterparties is, as of June 30, 2008, Aa1 by Moody's, AA- by Standard & Poor's, and AA- by Fitch Ratings (which only assigns a rating for four of the five counterparties). Under the interest rate exchange agreements and to mitigate the potential for credit risk, if any of the counterparties' credit quality falls below A3 by Moody's Investors Service or A- by either Standard & Poor's or Fitch Ratings, the fair value of the interest rate exchange agreement for that respective counterparty will be fully collateralized by that counterparty. In addition, an event of termination occurs if any of the counterparties' credit quality falls below Baa2 by Moody's investors service or BBB by either Standard & Poor's or Fitch Ratings.

Basis Risk – The interest rate exchange agreements expose the State to basis risk (i.e., a shortfall or surplus between the variable interest rate received on the interest rate exchange agreements and the interest rate paid on the floating rate notes), however this risk is fixed at the spreads for the respective series.

Termination Risk – The interest rate exchange agreements may be terminated by the State, upon two business days written notice, designating to the counterparty the termination date. In addition, the State or the counterparties may terminate the interest rate exchange agreements if the other party fails to perform under the terms of the interest rate exchange agreements or if other various events occur. As of June 30, 2008, there have not been any such events. If any interest rate exchange agreement is terminated, the State would be unhedged and exposed to additional interest rate risk on the 2008 Series B bonds and the 2008 Series C bonds. In addition, if the interest rate exchange agreement has a negative fair value at the time of termination, the State would incur a loss and would be required to make a settlement payment to the related counterparty. Actual termination payments, if required to be made, can be made, at the State's discretion, from the Stabilization Fund, or delayed until funds are available in the Subordinated Payment Obligations Fund or until the next biennium when appropriations can be made in the biennial budget for the termination payments.

Market-access Risk and Rollover Risk – The State's swap agreements are for the term (maturity) of the 2008 Series B bonds and the 2008 Series C bonds and, therefore, there is no market-access risk or rollover risk.

C. Revenue Bonds

Primary Government

Chapter 18, Wisconsin Statutes, authorizes the State to issue revenue obligations secured by a pledge of revenues or property derived from the operation of a program funded by the issuance of these obligations. The resulting bond obligations are not general obligations of the State.

Transportation Revenue Bonds

Transportation Revenue Bonds are issued to finance part of the costs of certain transportation facilities and major highway projects. Chapter 18, Subchapter II of the Wisconsin Statutes as amended, Wis. Stat. Sec. 84.59 and a general bond resolution and series resolutions authorize the issuance of these bonds.

The Department of Transportation is authorized to issue a total of $2,708.3 million of revenue bonds. Presently, there are twelve issues of Transportation Revenue Bonds totaling $1,485.8 million. Debt service payments are secured by driver and vehicle registration fees and also a reserve fund, which will be used in the event that a deficiency exists in the redemption fund.

The Transportation Revenue Bonds issued and outstanding as of June 30, 2008 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2007A	3/07	4.25 to 5.0	7/27	$ 148,710	$ 148,710
20071	3/07	4.35 to 5.0	7/22	206,900	206,900
2005B	9/05	4.0 to 5.0	7/25	158,400	151,360
2005A	3/05	3.0 to 5.25	7/25	235,585	234,915
2004 1	9/04	5.0 to 5.25	7/17	95,905	76,800
2003A	11/03	4.0 to 5.0	7/24	166,230	142,395
2002A	10/02	4.0 to 5.0	7/23	119,785	93,715
2002 1& 2	4/02	3.625 to 5.75	7/15 & 7/19	200,080	124,810
2001A	11/01	4.0 to 5.0	7/22	106,450	69,005
1998A&B	8&10/98	4.25 to 5.5	7/9 & 7/16	169,115	108,945
1993A	9/93	4.7 to 5.0	7/12	116,450	48,975
				1,723,610	1,406,530
Unamortized Premium				--	79,319
Total				$1,723,610	$1,485,849

Petroleum Inspection Fee Revenue Bonds

Petroleum Inspection Fee (PIF) Revenue Bonds are issued to finance claims made under the Petroleum Environmental Cleanup Fund Award (PECFA) Program for reimbursement of cleanup costs to soil and groundwater contamination. The program reimburses owners for 75 percent to 99 percent of cleanup costs associated with soil and groundwater contamination.

Presently, PIF Bonds outstanding are $111.1 million. Debt service payments are secured by petroleum inspection fees.

The PIF revenue bonds issued and outstanding as of June 30, 2008 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2004-A&1	2/04; 5/04	3.0 to 5.0	7/12	$ 140,470	$ 110,020
Deferred amount on refunding				--	(1,268)
Unamortized Premium				--	2,390
Total				$ 140,470	$ 111,142

Clean Water Revenue Bonds

The Environmental Improvement Fund (the Fund) provides loans and grants to local municipalities to finance wastewater treatment planning and construction. The Fund is authorized to issue up to $1,984.0 million in Revenue Bonds. At June 30, 2008, there were twelve issues of Revenue Bonds outstanding totaling $797.9 million. These bonds are secured by payments on program loans and earnings of investments.

Bonds issued and outstanding for the Environmental Improvement Fund as of June 30, 2008 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2008-2	2/08	5.0	6/18	$ 27,335	$ 27,335
2006-1	2/08	4.0 to 5.0	6/28	100,000	100,000
2006-2	11/06	4.0 to 5.0	6/27	100,000	96,975
2006-1	3/06	3.5 to 5.0	6/27	80,000	77580
2004-2	1/05	3.25 to 5.25	6/20	107,025	107,025
2004-1	3/04	4.0 to 5.0	6/24	116,795	89,075
2002-2	8/02	3.0 to 5.5	6/16	85,575	44,345
2002-1	5/02	4.0 to 5.25	6/23	100,000	55,720
2001-1	4/01	4.5 to 5.25	6/21	70,000	24,390
1999-1	9/99	5.0 to 5.75	6/20	80,000	3,535
1998-2	8/99	4.0 to 5.5	6/17	104,360	90,400
1991-1	4/91	6.875	6/11	225,000	57,445
				1,196,090	773,825
Unamortized Premium				--	33,036
Less: Unamortized discount and charge				--	(8,882)
Total, net of discount, charge and premium				$1,196,090	$ 797,979

As of June 30, 2008, revenue bond debt service requirements for principal and interest for governmental activities and business-type activities are as follows (in thousands):

Fiscal Year Ended June 30	Governmental Activities: Transportation Revenue Bonds Principal	Transportation Revenue Bonds Interest	Petroleum Inspection Fee Revenue Bonds Principal	Petroleum Inspection Fee Revenue Bonds Interest	Business-Type Activities: Clean Water Revenue Bonds Principal	Clean Water Revenue Bonds Interest
2009	$ 80,395	$ 67,601	$ 21,280	$ 4,686	$ 60,730	$ 37,754
2010	79,395	63,768	22,350	3,622	63,880	34,406
2011	71,600	60,045	23,470	2,507	67,555	30,891
2012	75,325	56,254	24,635	1,366	47,410	27,916
2013	76,760	52,330	18,285	391	48,025	25,515
2014-2018	396,770	198,204	--	--	218,445	93,063
2019-2023	441,865	94,748	--	--	174,240	43,622
2024-2028	184,420	13,012	--	--	93,540	9,764
Total	1,406,530	605,962	110,020	12,572	773,825	302,931
Unamortized Premium	79,319	--	2,390	--	33,036	--
Unamortized Discount/Charge	--	--	(1,268)	--	(8,882)	--
Total, net	$ 1,485,849	$ 605,962	$ 111,142	$ 12,572	$ 797,979	$ 302,931

Component Units – Blended Presentation

Badger Tobacco Asset Securitization Corporation

In May 2002, the Badger Tobacco Asset Securitization Corporation (BTASC) (a blended component unit – debt service fund) issued $1.6 billion of bonds for the purpose of making a one-time purchase of Tobacco Settlement Revenue (TSRs) from the State. Interest on the bonds is due on June 1 and December 1. These bonds are revenue obligations of the BTASC secured by, and payable solely and only out of, the moneys, assets or revenues pledged by the BTASC.

Debt service requirements for principal and interest for the BTASC at May 31, 2008 were as follows (in thousands):

Fiscal Year Ended	Principal	Interest
2009	$ 31,220	$ 88,261
2010	33,565	86,642
2011	35,070	84,838
2012	32,770	82,932
2013	34,040	81,011
2014-2018	209,260	370,170
2019-2023	213,250	234,387
2024-2028	309,115	170,744
2029-2033	514,470	76,805
Total	1,412,760	1,275,790
Unamortized		
Premium/Discount	(23,982)	--
Total	$ 1,388,778	$ 1,275,790

Component Units – Discrete Presentation

Wisconsin Housing and Economic Development Authority

Bonds and notes payable at June 30, 2008 of the Wisconsin Housing and Economic Development Authority (Authority) consisted of the following (in thousands):

Revenue bonds and notes	$ 3,220,345
Special obligation and subordinated	
Special obligation	58,162
Total	3,278,507
Less: Deferred amount on refunding	(4,008)
Total, net	$ 3,274,499

Authority's Revenue Bonds and Notes

The Authority's revenue bonds and notes are collateralized by the revenues and assets of the Authority, subject to the provisions of resolutions and note agreements which pledge particular revenues or assets to specific bonds or notes. The bonds are subject to mandatory sinking fund requirements and may be redeemed at the Authority's option at various dates and at prices ranging from 100 percent to 108 percent of par value. Any particular series contains both term bonds and serial bonds which mature at various dates.

The Authority's revenue bonds and notes outstanding at June 30, 2008 consisted of the following (in thousands):

Series/ Issue	Date	Rates	Maturity Through	Outstanding
Housing Revenue Bonds:				
1998 A,B&C	2/98	4.75 to 6.88	2032	$ 17,025
1999 A&B	10/99	5.1 to 6.18	2031	31,065
2000 A&B	9/00	Variable	2032	9,760
2002 A,B&C	5/02	3.9 to 5.6	2033	52,425
2002 D,E,F,G&I	5/02	Variable	2034	30,605
2002 H	5/02	Variable	2033	22,395
2003 A&B	12/03	Variable	2034	6,075
2003 C	12/03	2.75 to 5.25	2043	13,610
2003 D&E	12/03	Variable	2044	19,975
2005 A,B&C	12/05	3.2	2035	9,655
2005 D&E	12/05	3.45 to 5.15	2035	40,320
2005 F	12/05	4.31	2030	121,330
2006 A&B	12/06	3.4 to 4.75	2037	19,270
2006 C&D	12/06	Variable	2030	8,970
2007 A&B	12/07	Variable	2042	17,675
2007 C,D&E	12/07	Variable	2038	8,710
2007 F&G	12/07	Variable	2042	16,125
2008 A,B,C,D, E, F&G	6/08	Variable	2034	56,155
				501,145
Home Ownership Revenue Bonds:				
1996 E&F	11/96	5.5	2008	1,055
1997 A,B&C	4/97	5.6 to 5.65	2010	2,075
1997 D&E	6/97	5.55 to 5.8	2017	11,955
1997 G,H&I	11/97	5.25	2017	415
1998 A,B&C	4/98	5.5	2027	34,850
1998 D&E	6/98	5.35	2028	15,565
1999 C,D&E	4/99	4.55 to 6.17	2029	9,395
1999 F,G&H	7/99	5.25 to 5.65	2027	10,605
2000 A,B&C	3/00	5.6 to 5.8	2030	4,045
2000 D,E&F	6/00	5.75 to 7.91	2029	7,570
2000 F	7/00	Variable	2015	3,240
2000 H	11/00	Variable	2031	9,210
2000 G & H	11/00	7.21	2024	3,580
2001 A,B&C	5/01	4.85 to 6.4	2032	13,810
2002 A&C	2/02	4.4 to 5.5	2032	41,845
2002 B	2/02	Variable	2032	8,850
2002 C	2/02	Variable	2016	9,200
2002 E&G	3/03	3.7 to 4.85	2022	34,175
2002 I	10/02	3.4 to 4.85	2032	20,810
2002 E & F	7/02	Variable	2032	40,950
2002 I	10/02	Variable	2032	35,020

(Continued)

Series/ Issue	Date	Rates	Maturity Through	Outstanding
2003 A	4/03	4.95	2024	4,140
2003 A	4/03	Variable	2033	69,730
2003 B	7/03	Variable	2034	76,455
2003 C	11/03	3.05 to 4.85	2024	6,535
2003 C	11/03	Variable	2034	58,580
2003 D	11/03	Variable	2028	16,030
2004 A	4/04	Variable	2035	86,965
2004 A	4/04	3.05 to 4.2	2014	12,545
2004 B	4/04	Variable	2035	5,200
2004 C&D	7/04	3.4 to 5.1	2024	21,380
2004 D	7/04	Variable	2035	108,675
2004 E	11/04	Variable	2035	84,325
2005 A	4/05	3.6 to 4.95	2025	22,670
2005 A	4/05	Variable	2036	90,920
2005 B	4/05	Variable	2035	8,935
2005 C	6/05	Variable	2033	155,120
2005 C	6/05	4.875	2036	33,695
2005 D&E	9/05	3.93 to 4.875	2036	136,695
2006 A&B	1/06	4.32	2037	193,330
2006 C&D	5/06	4.85 to 6.0	2037	235,565
2006 E&F	10/06	4.7 to 5.727	2037	175,480
2007 A&B	4/07	4.65 to 5.75	2038	148,870
2007 B	4/07	Variable	2026	28,785
2007 C&D	4/07	Variable	2038	164,530
2007 C&D	4/07	3.82 to 6.06	2038	58,050
2007 E&F	12/07	3.99 to 6.0	2038	90,750
2007 E&F	12/07	Variable	2038	39,240
2008 A&B	4/07	Variable	2038	114,210
2008 A&B	5/08	5.3 to 5.625	2038	75,790
				2,641,415
Business Development Bonds:				
1989 3	Various	7.75	2014	715
1995 1-2,4-9	Various	Variable	2015	3,525
				4,240
Multifamily Housing Bonds:				
2006 A&B	7/06	Variable	2036	7,405
2007 A&B	6/07	Variable	2040	11,520
2007 C	8/07	Variable	2048	6,315
				25,240
Notes Payable	Various	Variable	2021	48,305
Authority's Total Revenue Bonds and Notes				$3,220,345

Authority's Special Obligation Bonds

The Authority's Special Obligation Bonds are special limited obligations of the Authority and are collateralized by the revenues and assets of each bond resolution.

Special obligation bonds at June 30, 2008 consist of the following (in thousands):

Series/ Issue	Date	Rates	Maturity Through	Outstanding
Home Ownership Revenue Bonds:				
1998 F&G	10/98	4.55 to 5.51	2029	$ 10,415
Single Family Drawdown Revenue Bonds:				
2006-1	4/06	Variable	2011	47,747
Total Special Obligation Bonds				$ 58,162

Debt service requirements for principal and interest for the Authority at June 30, 2008 are as follows (in thousands):

Fiscal Year Ended	Principal	Interest
2009	$ 109,190	$ 109,656
2010	66,500	105,763
2011	115,762	102,859
2012	67,850	99,385
2013	64,350	96,642
2014-2018	369,790	447,409
2019-2023	483,710	374,935
2024-2028	652,690	274,989
2029-2033	761,310	158,995
2034-2038	539,990	49,354
Thereafter	47,365	3,631
Total	3,278,507	1,823,618
Deferred Amount on Refunding	(4,008)	--
Total	$ 3,274,499	$ 1,823,618

Under a Business Development Program and a Beginning Farmer Program, revenue bonds are issued which do not constitute indebtedness of the Authority within the meaning of any provision or limitation of the Constitution or Statutes of the State of Wisconsin. They do not constitute or give rise to a pecuniary liability of the Authority or a charge against its general credit. They are payable solely out of the revenues derived pursuant to the loan agreement, or in the event of default of the loan agreement, out of any revenues derived from the sale, releasing or other disposition of the mortgaged property. Therefore, the bonds are not reflected in the financial statements. As of June 30, 2008 the Authority had issued 142 series of such bonds in an aggregate principal amount of $82.6 million for economic projects in Wisconsin.

The commercial paper obligations are issued for terms of one to 270 days. These obligations bear interest at various rates, which are 1.75 to 2.25 percent and 3.9 to 3.95 percent at June 30, 2008 and June 30, 2007 respectively. The obligations are backed by a line of credit agreement which is renewable annually and bears interest at variable rates, based on an index defined in the agreement. The Authority has entered into various line of credit agreements. A WAHA, LLC. line of credit bears interest at the rate of 5.54 percent at June 30, 2008, while a Construction Plus line of credit bears interest at the rate of 2.65 percent at June 30, 2008. Both line of credit rates are based on the 30 day Eurodollar rate.

The Authority has entered into various interest rate swap agreements. The agreements provide the Authority with synthetic fixed interest rates on a portion of its debt. During the term of the swap agreements, the Authority expects to effectively pay a fixed rate on the debt. In return, the counterparty pays interest based on a contractually agreed upon variable rate. The Authority will be exposed to variable rates on the outstanding bonds if the counterparty to the swap defaults, the swap is terminated such that the bonds outstanding is greater than the swap notional value or the effective interest rate, determined by the remarketing agent used for bond holder payments, increases over the variable rate index used for calculating the interest received from the counterparty. All interest rate swap agreements at June 30, 2008 are classified as effective. The Authority does not intend to terminate these agreements other than at par and for purposes of maintaining a match between bonds outstanding and the swap notional value prior to their maturity.

Using rates as of June 30, 2008, debt service requirements of the Authority outstanding variable rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows (in thousands). As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year Ended	Principal	Interest	Interest Rate Swaps, Net	Total
2009	$ 44,850	$ 30,479	$ 35,225	$ 110,554
2010	49,815	30,086	33,869	113,770
2011	53,280	28,655	33,239	115,174
2012	50,240	27,575	32,268	110,083
2013	49,320	26,615	31,249	107,184
2013 - 2048	1,324,650	310,559	367,985	2,003,194
Totals	$1,572,155	$ 453,969	$ 533,835	$2,559,959

The following table outlines information related to agreements in place as of June 30, 2008 (in thousands):

Program and Bond Issue	Notional Value at 6/30/08	Effective Date	Swap Termination Date	Counterparty Credit Rating	Percent Fixed Rate Paid	Variable Rate/Index Received	Swap Termination Market Value at 6/30/08
Housing Revenue Bonds							
2002 Series H	$ 22,395	5/21/2002	11/1/2033	AAA	4.68	70% of one month London Interbank Offered Rate (LIBOR)	$ (934)
2003 Series D	8,515	1/5/2005	5/1/2044	AAA	4.21	65% of one month LIBOR + 25 basis points	(273)
2003 Series E	11,460	1/5/2005	5/1/2043	AAA	4.05	63.5% of one month LIBOR + 20 basis points	(353)
2005 Series F	81,005	1/17/2006	11/1/2030	AAA	5.21	One month LIBOR	(3,982)
2006 Series C	3,890	12/14/2006	11/1/2016	AAA	3.64	BMA + 2 Basis Points	(66)
2006 Series D	5,080	12/14/2006	11/1/2016	AAA	3.64	BMA + 2 Basis Points	(86)
2007 Series A	10,180	12/19/2007	11/1/2016	AAA	4.72	BMA + 6 Basis Points	(170)
2007 Series B	7,495	12/19/2007	11/01/2016	AAA	4.58	BMA + 2 Basis Points	(110)
2007 Series F	10,950	12/19/2007	11/01/2016	AAA	4.01	BMA + 2 Basis Points	(270)
2007 Series G	5,175	12/19/2007	11/01/2016	AAA	4.01	BMA + 6 Basis Points	(127)
							(6,371)
Multifamily Housing Bonds							
2006 Series A&B	7,405	7/19/2006	10/1/2013	AAA	4.21	BMA + 2 Basis Points	(347)
2007 Series A	7,580	6/29/2007	10/1/2022	AAA	4.43	BMA + 6 Basis Points	(512)
2007 Series B	3,940	6/27/2007	10/1/2022	AAA	5.9	BMA + 2 Basis Points	(464)
2007 Series C	6,315	8/2/2007	10/1/2048	AAA	4.33	BMA + 2 Basis Points	(383)
							(1,706)
1987 Home Ownership Revenue Bonds							
2002 Series B	8,850	2/6/2002	3/1/2020	AAA	5.88	One month LIBOR + 35 Basis Points	(395)
2002 Series C	9,200	2/6/2002	9/1/2012	AAA	3.69	67 percent of one month LIBOR	(207)
2002 Series I	35,020	10/17/2002	9/1/2032	AA+	4.07	70 percent of one month LIBOR	(548)
2003 Series B	76,455	7/29/2003	9/1/2034	AAA	3.94	65 percent of one month LIBOR + 25 Basis Points	(1,634)
2004 Series A	31,020	4/29/2004	9/1/2022	AAA	4.47	BMA + 8 basis points	(1,311)
2004 Series A	18,955	4/29/2004	9/1/2012	AAA	2.87	65 percent of one month LIBOR + 25 Basis Points	(96)
2004 Series A	36,990	4/29/2004	3/1/2035	AAA	4.27	65 percent of one month LIBOR + 25 Basis Points	(1,189)
2005 Series A	90,920	4/12/2005	3/1/2036	AAA	4.03	65 percent of one month LIBOR + 25 Basis Points	(2,466)
2005 Series D	81,275	9/29/2005	9/1/2036	AAA	3.9	65 percent of one month LIBOR + 25 Basis Points	(1,392)
2007 Series B	28,785	4/10/2007	9/1/2026	AAA	5.16	One month LIBOR + 35 Basis Points	(905)
2007 Series E	27,980	12/18/2007	9/1/2038	AAA	3.96	62 percent of one month LIBOR + 38 Basis Points	(663)
2007 Series F	11,260	12/18/2007	9/1/2014	AAA	4.43	One month LIBOR	(12)
							(10,818)
1988 Home Ownership Revenue Bonds							
2002 Series E	8,170	7/11/2002	3/1/2011	AAA	3.24	70 percent of one month LIBOR	(96)
2002 Series E	23,890	7/11/2002	9/1/2032	AAA	4.67	70 percent of one month LIBOR	(142)
2002 Series F	8,890	7/11/2002	9/1/2014	AAA	5.20	Three months LIBOR + 40 Basis Points	(174)
2003 Series A	20,435	4/3/2003	9/1/2014	AAA	2.98	65 percent one month LIBOR + 25 Basis Points	(83)
2003 Series A	31,375	4/3/2003	9/1/2030	AAA	4.26	65 percent one month LIBOR + 25 Basis Points	54
2003 Series A	17,920	4/3/2003	9/1/2033	AAA	4.17	65 percent one month LIBOR + 25 Basis Points	128
2003 Series C	19,975	11/4/2003	3/1/2019	AAA	3.32	65 percent one month LIBOR + 25 Basis Points	(211)
2003 Series C	38,605	11/4/2003	3/1/2034	AAA	4.3	65 percent one month LIBOR + 25 Basis Points	(770)
2004 Series D	108,675	7/27/2004	9/1/2035	AAA	4.04	65 percent one month LIBOR + 25 Basis Points	(3,086)
2004 Series E	84,325	7/27/2004	9/1/2035	AAA	3.99	65 percent one month LIBOR + 25 Basis Points	(1,743)
2005 Series C	92,430	8/3/2005	3/1/2024	AAA	3.34	BMA + 8 basis points until 3/1/06, then 65 percent one month LIBOR + 25 Basis Points	(630)
2003 Series C	62,690	8/3/2005	9/1/2033	AAA	4.07	BMA + 8 Basis Points until 3/1/06, then 65 percent one month LIBOR + 25 Basis Points	(518)
2006 Series A	96,955	1/9/2006	3/1/2029	AAA	3.65	65 percent of one month LIBOR + 25 Basis Points	(1,744)
2006 Series A	59,020	1/9/2006	3/1/2037	AAA	4.27	65 percent of one month LIBOR + 25 Basis Points	(1,189)
2007 Series C	26,500	6/28/2007	9/1/2007	AAA	4.32	BMA + 8 Basis Points	(749)
2007 Series C	22,575	6/28/2007	9/1/2023	AAA	4.63	BMA + 8 Basis Points	(1,116)
2007 Series C	46,675	6/28/2007	9/1/2016	AAA	4.11	BMA + 8 Basis Points	(1,633)
2007 Series D	23,760	6/28/2007	9/1/2027	AAA	6.48	100 percent of one month LIBOR	(1,687)

2007 Series D	27,370	6/28/2007	9/1/2016	AAA	5.62	100 percent of one month LIBOR	(1,552)
2007 Series D	18,730	6/28/2007	9/1/2028	AAA	6.01	100 percent of one month LIBOR	(1,849)
2008 Series A	38,000	5/15/2008	9/1/2038	AAA	3.35	BMA + 8 Basis Points	105
2008 Series A	86,175	5/15/2008	9/1/2038	AAA	3.86	62 percent of one month LIBOR + 38 Basis Points	85
							(18,600)
							($37,495)

Swap Valuation -- The swap termination market values presented above were estimated by the Authority's counterparties to the swap agreements using proprietary valuation models based on standard valuation methodology. The market values in the table above represent the termination payments that would have been due had the swaps terminated on June 30, 2008. A positive value represents money due to the Authority by the counterparty upon termination while a negative value represents money payable by the Authority.

Termination Risk -- Counterparties to the Authority's swap agreements have ordinary termination rights that require a settlement payment by the Authority or the counterparty based on the market value of the swap agreement at the time of termination. As of June 30, 2008, no termination events have occurred.

Credit Risk -- The Authority is exposed to credit risk, the risk that the counterparty fails to perform according to its contractual obligations, on all swap agreements. To mitigate this risk, the Authority has entered into swap agreements with highly rated counterparties. As of June 30, 2008, the counterparties in 98 percent of the outstanding swaps were rated AAA/Aaa and the remaining counterparty was rated AA-/Aa2 by Standard and Poor's and Moody's Financial Services, respectively.

Basis and Interest Rate Risk -- This risk arises when the amount that is paid by the swap counterparty is different than the variable rate interest payment due to the bondholders. For the Authority, this can happen when the swap counterparty payment is based on a taxable index (LIBOR) while the underlying bonds are traded in the tax exempt market. Based on market conditions, the relationship between taxable and tax exempt rates may vary. To minimize this risk, the Authority has chosen to use the formula that best represents the relationship between the taxable index and the Authority's historical bond rates. In addition, even when the swap counterparty payment is based on a tax exempt index (BMA) and the underlying bonds are tax exempt, or the swap counterparty payment is based on a taxable index (LIBOR) and the underlying bonds are taxable, the Authority's variable rate bonds may be traded differently from the market indices.

Rollover Risk -- The Authority is exposed to rollover risk only on swaps that mature or may be terminated at the counterparty's option prior to the maturity of the associated bond. For the home ownership revenue bonds (HORB) issues, the Authority's swap agreements have limited rollover risk. The swap agreements contain scheduled reductions to the notional amounts that are expected to follow the scheduled and anticipated reductions in the associated bonds under a wide range of mortgage prepayment speeds. In the case of the housing revenue bonds (HRB) and multifamily housing bonds (MHB) issues, the underlying mortgages will adjust at the swap termination date to current market conditions.

The following swaps expose the Authority to rollover risk:

Associated Debt Issuance	Bond Maturity Date	Swap Termination Date
1987 HORB 2002 Series B	9/1/2032	3/1/2020
1987 HORB 2002 Series C	9/1/2016	9/1/2012
1987 HORB 2002 Series D	9/1/2022	9/1/2006
1987 HORB 2002 Series I	3/1/2025	3/1/2008
1987 HORB 2004 Series A	9/1/2028	9/1/2012
1987 HORB 2007 Series F	9/1/2018	9/1/2014
1988 HORB 2002 Series E	3/1/2028	3/1/2011
1988 HORB 2002 Series F	9/1/2032	9/1/2014
1988 HORB 2003 Series A	3/1/2029	9/1/2014
1988 HORB 2003 Series C	9/1/2033	3/1/2019
1988 HORB 2005 Series C	3/1/2028	3/1/2024
1988 HORB 2006 Series A	9/1/2030	3/1/2029
1974 HRB 2006 Series C&D	5/1/2037	11/1/2016
1974 HRB 2007 Series F&G	5/1/2042	11/1/2025
2006 MHB 2006 Series A&B	10/1/2036	10/1/2013
2007 MHB 2007 Series A&B	10/1/2040	10/1/2022
2007 MHB 2007 Series C	10/1/2048	9/1/2024

University of Wisconsin Hospitals and Clinics Authority (the Hospital)

In April 1997, the Hospital issued $50.0 million of Variable rate Demand Hospital Revenue Bonds, Series 1997 ("Series 1997 Bonds"). The Series 1997 Bonds had bore interest at weekly rates determined by a remarketing agent. Interest was payable monthly. The effective annual interest rate was 4.30 percent in 2008 and 3.7 percent in 2007. In May 2008, the Hospital refunded $50.0 million of outstanding Series 1997 with Fixed Rate Hospital Revenue Refunding Bonds, Series 2008A. The refunding of the Series 1997 Bonds resulted in the recognition of a loss of $422 thousand due to the unamoritized insurance premium and recognition of a deferred loss of $271 thousand for other unamortized deferred costs of the Series 1997 Bonds.

In March 2000, the Hospital issued $56.5 million of Hospital Revenue Bonds, Series 2000 ("Series 2000 Bonds"). In September 2005, the Hospital refunded $52.5 million of the outstanding bonds with variable Rate Demand Hospital Revenue Bonds, Series 2005. Principal payments on the remaining Series 2000 Bonds are due semiannually in April 2009 through April 2010. Interest rates range from 5.35 percent to 5.50 percent and interest is payable semiannually on April 1 and October 1 of each year. The effective annual interest rate was 6.30 percent and 5.70 percent in 2008 and 2007, respectively.

In October 2002, the Hospital issued $68.5 million of Hospital Revenue Bonds, Series 2002 (Series 2002 Bonds) consisting of $55.6 million Series 2002A Short-term Adjustable Securities and $12.9 million Series 2002B Fixed Interest Rate Bonds. The bond proceeds are designated to finance qualified capital projects. Principal payments on the Series 2002A Bonds range from $500 thousand to $3.9 million due annually commencing in April 2013 through 2032. The interest rates and the interest payment dates for the Series 2002A Bonds vary depending on if the bonds are in auction mode, daily mode, weekly mode, or in flexible mode. Principal payments on the Series 2002B Bonds range from $1.6 million to $1.9 million due annually commencing in April 2009 through April 2013. Interest rates for the Series 2002B Bonds range from 5.25 percent to 5.50 percent and interest is payable semiannually on April 1 and October 1 of each year beginning April 1, 2003. The effective annual interest rate of the Series 2002 A Bonds was 3.6 percent in 2008. The effective annual interest rate of the Series 2002B Bonds was 6.0 percent in 2008.

In October 2002, the Hospital entered into an interest rate swap in order to convert a portion of the Series 2002A Short-term Adjustable Rate Securities to fixed rates. The notional amount of this swap agreement was $21.4 million at June 30, 2008 which matures on April 1, 2022. The terms of the swap agreement are for the Hospital to pay the counterparty a fixed rate of 3.85 percent per annum, payable semiannually, and the Hospital to receive a floating rate of 70 percent of one-month LIBOR per annum, payable monthly. As of June 30, 2008 the interest rate received by the Hospital was 3.0 percent. The Hospital will be exposed to variable rates if the counterparty to the swap defaults or if the swap is terminated. The swap exposes the Hospital to basis risk should the relationship between LIBOR and auction rate converge, changing the synthetic rate on the bonds. The Hospital does not intend to terminate this agreement. The fair value of the swap is $(1.2) million at June 30, 2008.

In November 2004, the Hospital issued $60.0 million of Hospital Revenue Bonds, Series 2004 consisting of Short-term Adjustable Rate Securities, Series 2004 ("Series 2004 Bonds"). The bond proceeds were designated to finance qualified capital projects. The interest rates and the interest payment date for the Series 2004 Bonds varied depending on if the bonds were in auction mode, daily mode, weekly mode, or in flexible mode. The effective annual interest rate of the Series 2004 Bonds was 4.60 percent through June 2008 and 3.70 percent in 2007. In June 2008, the Hospital refunded $60.0 million of the outstanding Series 2004 with Variable Rate Demand Revenue Refunding Bonds, Series 2008B. The refunding of the Series 2004 Bonds resulted in the recognition of a loss of $1.5 million due to the unamortized insurance premium and recognition of a deferred loss of $1.5 million due to the unamortized insurance premium and recognition of a deferred loss of $464 thousand for other unamortized deferred costs of Series 2004 Bonds.

In November 2004, the Hospital entered into an interest rate swap in order to convert a portion of the Series 1997 Variable Rate Demand Bonds to fixed rates. The notional amount of this swap agreement was $26.8 million at June 30, 2008, which matures on April 1, 2021. The terms of the swap agreement are for the Hospital to pay the counterparty a fixed rate of 3.45 percent per annum, payable semiannually, and the Hospital to receive a floating rate of 70 percent of one-month LIBOR per annum, payable monthly. In 2008, the effective interest rate received by the Hospital was 2.9 percent. The Hospital will be exposed to variable rates if the counterparty to the swap defaults or if the swap is terminated. The swap exposes the Hospital to basis risk should the relationship between LIBOR and auction rate converge, changing the synthetic rate on the bonds. The Hospital does not intend to terminate this agreement. The fair value of the swap was $(694) thousand at June 30, 2008.

In September 2005, the Hospital issued $59.8 million of Variable Rate Demand Hospital Revenue Bonds, Series 2005 ("Series 2005 Bonds"). The bond proceeds were designated to refund a portion of the Series 2000 Bonds. Principal payments on the Series 2005 Bonds, ranging from $495 thousand to $8.1 million are due annually in April 2009 through April 2029. Series 2005 Bonds bear interest at a weekly rate determined by a remarketing agent. Interest is payable monthly. The effective interest rate was 2.9 percent in 2008.

In September 2005, the Hospital entered into an interest rate swap in order to convert the Series 2005 Variable Rate Demand Hospital Revenue Bonds to fixed rates. The notional amount of the swap agreement was $58.6 million at June 30, 2008, which matures on April 1, 2029. The terms of the swap agreement are for the Hospital to pay the counterparty a fixed rate of 3.31 percent per annum, payable monthly, and the Hospital will receive a floating rate of 58.3 percent of one-month LIBOR per annum plus 0.36 percent payable monthly. The effective interest rate received by the Hospital was 2.8 percent in 2008. The Hospital will be exposed to variable rates if the counterparty to the swap defaults or if the swap is terminated. The swap exposes the Hospital to basis risk should the relationship between LIBOR and auction rate converge, changing the synthetic rate of the bonds. The Hospital does not intend to terminate this agreement. The fair value of the 2005 swap agreement was $(1.3) million at June 30, 2008.

In May 2008, the Hospital issued $50.4 million of Fixed Rate Bonds, Series 2008A ("Series 2008A Bonds") through a private placement. The bond proceeds were used to refund $50.0 million of Variable Rate Demand Hospital Revenue Bonds, Series 1997. Principal payments on the Series 2008 A Bonds, ranging from $315 thousand to $5.2 million are due annually in April 2010 through April 2026. Interest is payable semi-annually. In 2008, the effective interest rate was 5.28 percent.

In June 2008, the Hospital issued $61.0 million of Variable Rate Demand Revenue Refunding Bonds, Series 2008B ("2008B Bonds"). The bonds proceeds were used to refund $60.0 million of Hospital Revenue Bonds consisting of Short-term Adjustable Rate Securities, Series 2004. Principal payments on the Series 2008B Bonds, ranging from $9.95 million to $15.275 million are due annually in April 2030 through April 2034. Series 2008B Bonds bear interest at a daily rate determined by a remarketing agent. Interest is payable monthly. In 2008, the effective interest rate was 1.80 percent.

The Series 2000 Bonds, Series 2002 Bonds, Series 2005 Bonds, Series 2008A Bonds, and Series 2008B are collateralized by a security interest in substantially all of the Hospital's revenue. The borrowing agreements contain various covenants and restrictions, including compliance with the terms and conditions of a Lease Agreement and provisions limiting the amount of additional indebtedness that may be incurred. The borrowing agreements also require the establishment and maintenance of certain funds under the control of a trustee. The Hospital is in compliance with all debt covenants at June 30, 2008.

The Series 2005 Revenue Bonds with variable interest rates are subject to remarketing provisions that require the Hospital to repurchase the bonds if they cannot be sold to a third party. The Hospital has entered into a standby bond purchase agreement (the "Agreement") with a commercial bank, which expires in 2010, to provide the funding for such repurchases as necessary. In the absence of the Agreement, the Hospital would be required to replace them with similar credit arrangements, convert the related debt from variable to fixed rate debt, or fund required repurchases from available funds. As of and for the year ended June 30, there was no borrowing under the agreement.

The Series 2008B Revenue Bonds with variable interest rates, while in a daily or weekly mode, are secured by an irrevocable transferable direct pay letter of credit issued by a commercial bank. The initial letter of credit expires in 2013.

Legislation which had limited the Hospital's total borrowings, exclusive of amounts payable to the State, to 235.0 million, with limited exeptions, was amended in April 2008. The statute now requires the Hospital to obtain approval of additional bond issuance from its Board of Directors, maintain an unenhanced bond rating in the category of "A" or better from Standard and Poor's Corporation and Moody's Investor service, Inc., and notify the State Joint Committee on Finance.

Scheduled principal and interest repayments on all of the Hospital's long-term debt, including the effect of the swap, are as follows (in thousands):

Fiscal Year Ended	Principal	Interest	Interest Rate Swap, Net	Total
2009	$ 5,357	$ 6,327	$ 1,796	$ 13,480
2010	5,653	6,053	1,788	13,494
2011	5,941	5,785	1,754	13,480
2012	6,731	5,540	1,716	13,987
2013	8,098	5,292	1,672	15,062
2014-2018	37,007	23,158	6,859	67,024
2019-2023	44,321	17,212	3,468	65,001
2024-2028	52,905	9,612	1,530	64,047
2029-2033	65,035	3,816	--	68,851
2034	15,275	224	--	15,499
Deferred loss on refundings	(7,215)	--	--	(7,215)
Premium on 2002B Bonds	306	--	--	306
	$239,414	$ 83,019	$ 20,583	$343,016

The revenue bonds of the Hospital do not constitute debt of the State nor is the State liable on those bonds.

Debt service requirements for principal and interest for the Hospital's revenue bonds at June 30, 2008 are as follows (in thousands):

Fiscal Year Ended	Principal	Interest
2009	$ 3,310	$ 7,644
2010	3,850	7,473
2011	4,230	7,266
2012	5,090	7,072
2013	6,810	6,851
2014-2018	35,910	29,903
2019-2023	44,190	20,663
2024-2028	52,905	11,142
2029-2033	65,035	3,816
2034	15,275	224
Total	236,605	102,054
Deferred loss on refunding	(7,215)	--
Premium/Discount	306	--
Total	$ 229,696	$ 102,054

State Fair Park Exposition Center, Inc.

In August 2001, the State Fair Park Exposition Center, Inc. (the Center) issued $44.9 million of City of West Allis, Wisconsin, Variable Rate Demand Revenue Bonds, Series 2001, which were issued to finance the construction of the exposition center. The bonds call for monthly interest-only payments until date of maturity. The bonds have a final maturity date of August 1, 2028, with no set schedule for principal repayment. However, the bonds require mandatory redemption to the extent of unused bond proceeds. Repayment of the bonds is guaranteed by a ground lease and license agreement, and letter of credit issued by US Bank which expired on April 15, 2005. The letter of credit was renewed effective April 15, 2005 through April 15, 2008. The Center refinanced the bonds on July 1, 2007. The refinance locked in a 6.1 percent interest rate, does not require a letter of credit, and requires interest payments to be made on February 1 and August 1 of each year until the bonds are paid off on August 1, 2028. The Center has not been notified of any event of default with respect to the industrial revenue bonds payable restrictive covenants as of December 31, 2007. The outstanding balance on these bonds was $40.8 million as of December 31, 2007.

Debt service requirements for interest for the Center, at December 31, 2007 are as follows (in thousands):

Fiscal Year Ended	Principal	Interest
2008	$ --	$ 2,488
2009	--	2,488
2010	--	2,489
2011	--	2,489
2012	--	2,489
2013-2017	1,250	12,422
2018-2022	12,370	10,920
2023-2027	21,950	5,769
2028-2032	5,225	319
Total	$ 40,795	$ 41,873

University of Wisconsin Foundation

Long-term debt of the University of Wisconsin Foundation consists of two notes payable to U.S. Bank, N.A. One of the notes is payable in accreting monthly principal installments with a final balloon payment due February 2010. The note is collateralized by certain investments equal to the outstanding loan balance. The outstanding balance as of December 31, 2007 was $2.2 million.

The second note is a mortgage that was assumed in April 2004. The note is payable in monthly installments, including interest, with a final balloon payment due September 2009. The outstanding balance as of December 31, 2007, is $8.6 million.

Future maturities of long-term debt as of December 31, 2007 are as follows (in thousands):

Year ended December 31	Total Principal
2008	699
2009	8,290
2010	1,799
Total	$ 10,788

D. Refundings, Exchanges and Early Extinguishments

Refunding Provisions of GASB Statement No. 23

The State implemented the provisions of GASB Statement No. 23. *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities* beginning with Fiscal Year 1996. This Statement requires proprietary activities to adopt certain accounting and reporting changes for both current refunding and advance refunding resulting in defeasance of debt. GASB Statement No. 23 permits, but does not require, retroactive application of its provisions. The State has chosen not to apply the provisions retroactively to previously issued financial statements.

In February 1996, the State participated in a refunding (1996 Series 1) of general obligation debt that fell within the provisions of GASB Statement No. 23. The State is amortizing these deferred amounts over a period of approximately 19 years, using the straight-line method.

Current Year Refundings/General Obligation Bonds

In October 2007, the State issued $16.7 million of general obligation refunding bonds (2007 Series 2), the proceeds of which were used to current refund, on December 1, 2007, various general obligation bonds issued for the veterans housing loan program. The refunding resulted in an increase in total debt service of $701 thousand and an economic gain of $1.7 million. Also in October 2007, the State issued $3.8 million of general obligation refunding bonds (2007 Series 3), the proceeds of which were used to current refund, on December 1, 2007, all of the outstanding 1994 Series C bonds issued for the veterans housing loan program. The refunding resulted in an increase in total debt service payments of $1.5 million and an economic gain of $26 thousand.

In May 2008, the State issued $4.4 million of general obligation bonds (2008 Series B, Taxable), the proceeds of which were used for the redemption of $4.4 million of Extendible Municipal Commercial Paper (EMCP), (2006 Series C AMT). As a result the EMCP (2006 Series C AMT) was paid in full and the associated liability removed from the financial statements.

In June 2008, the State issued $18.0 million of general obligation refunding bonds (2008 Series 1), the proceeds of which were used to refund, on August 1, 2008, various general obligation bonds issued for the veterans housing loan program. The refunding resulted in an increase in total debt service of $2.2 million and an economic gain of $744 thousand. Also in June 2008, the State issued $1.9 million of general obligation refunding bonds (2008 Series 2), the proceeds of which were used to current refund, on August 1, 2008, various general obligation bonds issued for the veterans housing loan program. The refunding resulted in an increase in total debt service payments of $156 thousand and an economic gain of $146 thousand.

Prior Year Refundings/General Obligation Bonds

Government Accounting Standards Board Statement No. 7 *Advance Refundings Resulting in Defeasance of Debt*, provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. At June 30, 2008, approximately $1.1 billion of general obligation bond principal have been defeased.

Current Year Refundings/Revenue Bonds

In February 2008, the State issued $27.3 million of environmental improvement fund revenue refunding bonds (2008, Series 2), the proceeds of which were deposited in an escrow account to provide for future debt service payments and redemption of various outstanding clean water revenue bonds. As a result of the refunding, the bonds are considered defeased and the associated liability removed from the financial statements. The refunding resulted an economic gain of $2.0 million.

Prior Year Refundings/Revenue Bonds

For financial reporting purposes, the following primary government revenue bonds have been defeased, and therefore, removed as a liability from the balance sheet:

- Environmental Improvement Fund revenue bonds – At June 30, 2008, revenue bonds outstanding of $265.1 million have been defeased.

- Transportation revenue bonds – At June 30, 2008, revenue bonds outstanding of $509.9 million have been defeased.

Refundings -- Component Units

Wisconsin Housing and Economic Development Authority

The Wisconsin Housing and Economic Development Authority (the Authority) defeased Insured Mortgage Revenue Bonds payable aggregating $48.4 million and sold the related Insured Mortgage Loan portfolio on March 1, 1990. As of June 30, 2008, the remaining outstanding defeased debt was $24.4 million.

Early Extinguishments/Redemptions

Component Units

Badger Tobacco Asset Securitization Corporation

In December 2007 and June 2008, the Trustee in aggregate redeemed $41.2 million of the 6.125 percent turbo term bonds due June 2027.

Wisconsin Housing and Economic Development Authority

During 2008, the Wisconsin Housing and Economic Development Authority (the Authority) redeemed early various outstanding bonds according to the redemption provisions in the bond resolutions. None of these redemptions resulted in extraordinary losses due to the write-off of remaining unamortized deferred debt financing costs. A summary of these early redemptions follows (in thousands):

Bond Issue	**Redemptions 2008**
Home Ownership Revenue Bond Resolutions:	
1987	$ 50,585
1988	56,745
All Other	49,165
Housing Revenue Bonds	17,250
Multifamily Housing Bonds	95
General Fund	25

E. Short-term Financing

The State of Wisconsin Building Commission, an agency of the State, is empowered by law to consider, authorize, issue, and sell debt obligations of the State. To date, the Commission has authorized the issuance of notes. When this short-term debt does not meet long-term financing criteria, it is classified among fund liabilities.

General Obligation Commercial Paper Notes

The State has authorized General Obligation Commercial Paper Notes for the acquisition, construction, development, extension, enlargement, or improvement of land, waters, property, highway, buildings, equipment or facilities. Periodically, additional commercial paper notes are issued to pay for maturing commercial paper notes.

The State intends to make annual May 1 payments on the outstanding commercial paper notes that reflect principal amortization of the notes. The State also intends to make regular deposits to the issuing and paying agent that will be used to pay interest due on maturing notes. At June 30, 2008, the amount of general obligation commercial paper notes outstanding was $205.2 million which had interest rates ranging from 1.2 percent to 2.05 percent and maturities ranging from July 7, 2008 to October 14, 2008.

Short-term debt activity for the year ended June 30, 2008 for the general obligation commercial paper notes was as follows (in millions):

Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008
$ 213.2	$ --	$ 8.0	$ 205.2

General Obligation Extendible Municipal Commercial Paper

The State has authorized general obligation extendible municipal commercial paper for the acquisition, construction, development, extension, enlargement, or improvement of land, waters, property, highway, buildings, equipment or facilities. Periodically, additional extendible municipal commercial papers are issued to pay for maturing extendible municipal commercial paper. The State intends to make annual May 1 payments on the outstanding extendible commercial paper that reflect principal amortization of the paper. The State also intends to make regular deposits to the issuing and paying agent that will be used to pay interest due on maturing notes. At June 30, 2008, the amount of the general obligation extendible municipal commercial paper outstanding was $435.3 million which had interest rates ranging from 1.58 percent to 2.15 percent and maturities ranging from July 7, 2008, to October 15, 2008.

Short-term debt activity for the year ended June 30, 2008 for the general obligation extendible municipal commercial paper was as follows (in millions):

Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008
$ 452.2	$ --	$ 16.9	$ 435.3

Petroleum Inspection Fee Revenue Extendible Municipal Commercial Paper

The State has authorized petroleum inspection fee revenue extendible municipal commercial paper to pay the costs of claims under the Petroleum Environmental Cleanup Fund Award (PECFA) Program. Periodically, additional extendible municipal commercial paper is issued to pay for maturing paper. The State may periodically deposit money into the Junior Subordinate Principal Account, which represents principal payments to be made on the extendible municipal commercial paper. The State also intends to make regular deposits to the issuing and paying agent that will be used to pay interest due on maturing paper. At June 30, 2008, the amount of petroleum inspection fee revenue extendible commercial paper outstanding was $142.3 million which had interest rates ranging from 1.48 percent to 2.0 percent and maturities ranging from July 8, 2008 to September 12, 2008.

Short-term debt activity for the year ended June 30, 2008 for the petroleum inspection fee revenue extendible municipal commercial paper was as follows (in millions):

Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008
$ 142.3	$ --	$ --	$ 142.3

Transportation Revenue Commercial Paper Notes

The State authorized transportation revenue commercial paper notes to pay the costs of major highway projects and certain State transportation facilities. Periodically, additional commercial paper notes are issued to pay for maturing commercial paper notes. The State intends to make annual July 1 payments on the commercial paper notes that reflect principal amortization of the notes. The State also intends to make regular deposits to the issuing and paying agent that will be used to pay interest due on maturing notes. At June 30, 2008, the amount of transportation revenue commercial paper notes outstanding was $192.0 million which had interest rates ranging from 1.94 percent to 2.21 percent and maturities ranging from July 2, 2008 to February 5, 2009.

Short-term debt activity for the year ended June 30, 2008 for the transportation revenue commercial paper notes was as follows (in millions):

Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008
$ 198.8	$ --	$ 6.8	$ 192.0

F. Certificates of Participation

The State established a facility in 1992 that provides lease purchase financing for property and certain service items acquired by State agencies. This facility is the Third Amended and Restated Master Lease 1992-1. Pursuant to the terms and conditions of this agreement, the trustee for the facility issues parity Master Lease certificates of participation that evidence proportionate interest of the owners thereof in lease payments. A common pool of collateral ratably secures all Master Lease certificates. Title in the property and service items purchased under the facility remains with the State and the State grants to the Trustee, for the benefit of all Master Lease certificate holders, a first security interest in the leased items. At June 30, 2008, the following parity Master Lease certificates were outstanding:

- Master Lease Certificates of Participation of 2006, Series A, in the amount of $51.6 million. This series of Master Lease certificates has interest rates ranging from 4.0 percent to 5.0 percent and matures semi-annually through September 1, 2016.

- Master Lease Certificates of Participation of 2007, Series A (Revolving Credit Agreement – Taxable) in the amount of $10.5 million. This Master Lease certificate evidences the State's obligation to repay advances under a Revolving Credit Agreement, dated June 22, 2007, between U.S. Bank National Association (as trustee), the State of Wisconsin, acting by and through its Department of Administration, as lessee, and Dexia Credit Local. The scheduled termination date under the Revolving Credit Agreement is September 1, 2010. This Master Lease certificate shall bear interest at the rates and mature on the dates provided for in the Revolving Credit Agreement. The balance of this Master Lease certificate may include some accrued interest that will be payable at the next semi-annual interest payment date.

- Master Lease Certificates of Participation of 2007, Series B (Revolving Credit Agreement-Tax Exempt) in the amount of $16.0 million. This Master Lease certificate of participation evidences the State’s obligation to repay certain advances uder a Reveolving Credit Agreement, dated June 22, 2007, between U.S. Bank National Association, as trustee, the State of Wisconsin, acting by and through its Department of Administration, as lessee, and Dexia Credit Local. The scheduled termination date under the revolving credit agreement is September 1, 2010. This master lease certificate of participation shall bear interest at the rates and mature on the dates provided for in the Revolving Credit Agreement..

The Third Amended and Restated Master Lease 1992-1 provides that certain lease schedules to the facility can be terminated if the State deposits with the Trustee an amount that is equal to the outstanding amount of the lease schedule, or in amounts that are sufficient to purchase investments that mature on dates and in amounts to make the lease payments when due. At June 30, 2008, the State has deposited with the Trustee amounts, that when invested, will terminate lease schedules having an aggregate outstanding amount of $0.1 million. As a result of terminating these lease schedules, the associated liability is removed from the financial statements.

G. Arbitrage Rebate

The Tax Reform Act of 1986 requires that governmental entities issuing tax-exempt debt subsequent to August 1986, calculate and rebate arbitrage earnings to the federal government. Specifically, the excess of the aggregated amount earned on investments purchased with bond proceeds over the amount that would have been earned if the proceeds were invested at a rate equal to the bond yield, is to be rebated to the federal government. As of June 30, 2008, a liability of $36 thousand was recorded for the State arbitrage rebate.

H. Moral Obligation Debt

Through legislation enacted in 1999, the State authorized the creation of local districts. These districts (Wisconsin Center District, Southeast Wisconsin Professional Baseball Park District, and the Green Bay/Brown County Professional Football Stadium District) are authorized to issue bonds for their respective purpose, and if the State determines that certain conditions are satisfied, the State may have a moral obligation to appropriate moneys to make up deficiencies in the districts' special debt service reserve funds. To date, the Wisconsin Center District has the authority to issue up to $200.0 million and has issued $125.8 million of bonds that are subject to the moral obligation. The two other local districts each have authority to issue $160.0 million of revenue obligations that, subject to the Secretary of Administration’s determination that certain conditions have been met, could carry a moral obligation of the State. All of the districts have issued revenue obligations that do not carry the moral obligation of the State.

Through legislation enacted in 1999, the State authorized the issuance of up to $170.0 million principal amount of bonds to finance the development or redevelopment of sites and facilities to be used for public schools. If certain conditions are satisfied, and if a special debt service reserve fund is created for the bonds, the State will provide a moral obligation pledge, which would restore the special debt reserve fund established for the bonds to an amount not to exceed the maximum annual debt service on the bonds. Three bond issues with an aggregate outstanding balance of $107.8 million have been issued that have a special debt service reserve fund secured by the State’s moral obligation.

I. Credit Agreements

Primary Government

The State has, as part of the working bank contract, a letter of credit agreement with the US Bank National Association under which the Bank has agreed to provide to the State an open line of credit in the amount of $50.0 million. The agreement provides for advances in anticipation of bond issuance proceeds. As of June 30, 2008, $50.0 million was unused and available.

The State has entered into a credit agreement to provide a line of credit for liquidity support for up to $233.0 million of general obligation commercial paper notes. The line of credit expires in March, 2013, but is subject to renewal as provided for in the credit agreement. The cost of this line of credit is 0.095 percent per year.

Also, the State has entered into a credit agreement to provide a line of credit for liquidity support for its transportation revenue commercial paper program. The amount of the line of credit is $207.0 million. This line of credit expires in April, 2013, but is subject to termination and renewal as provided for in the credit agreement. The cost of this line of credit is 0.100 percent per year.

NOTE 12. LEASE COMMITMENTS AND INSTALLMENT PURCHASES

The State leases office buildings, space, and equipment under a variety of agreements that vary in lease term, many of which are subject to appropriation from the State Legislature to continue the lease commitment. If such funding, i.e., through legislative appropriation, is judged to be assured, and the likelihood of cancellation through exercise of the fiscal funding clause is remote, leases are considered noncancelable and reported as either a capital lease or an operating lease.

A. Capital Leases

Primary Government

Capital lease commitments in the government-wide and proprietary funds statements are reported as liabilities at lease inception. The related assets along with the depreciation are also reported at that time. Lease payments are reported as a reduction of the liability.

For capital leases in governmental funds, “Other Financing Sources - Capital Lease Acquisitions" and expenditures are recorded at lease inception. Lease payments are recorded as expenditures.

The following is an analysis of the gross minimum lease payments along with the present value of the minimum lease payments as of June 30, 2008 for capital leases (in thousands):

Fiscal Year	Governmental Activities	Business-type Activities
2009	$ 20,878	$ 10,545
2010	7,821	10,391
2011	4,947	10,021
2012	4,369	9,764
2013	2,651	9,679
2014 - 2018	1,037	36,984
2019 - 2023	-	24,335
2024 - 2028	-	29,607
2029 - 2033	-	36,022
2034 - 2038	-	25,258
Total minimum future payments	41,703	202,606
Less: Interest	(3,873)	(86,167)
Present value of net minimum lease payments	$ 37,830	$ 116,439

Assets acquired through capital leases are valued at the lower of fair market value or the present value of minimum lease payments at the inception of the lease. The following is an analysis of capital assets recorded under capital leases as of June 30, 2008 (in thousands):

Fiscal Year	Governmental Activities	Business-type Activities
Land and Land Improvements	$ 376	$ 209
Buildings and Improvements	24,181	124,750
Machinery and Improvements	13,051	2,492
Less: Accumulated Depreciation	(50,132)	(1,319)
Carrying Amount	$ 54,339	$ 126,133

Master Lease Program

The State established a facility in 1992 that provides lease purchase financing for property and certain service items acquired by state agencies. This facility is the Third Amended and Restated Master Lease between the State acting by and through the Department of Administration and U.S. Bank National Association. Lease purchase obligations under the Master Lease are not general obligations of the State, but are payable from appropriations of State agencies participating in the Master Lease Program, subject to annual appropriation. The interest component of each lease/purchase payment is subject to a separate determination. Pursuant to terms of the Master Lease, the Trustee for the facility issues parity Master Lease certificates of participation that evidence proportionate interest of the owners thereof in lease payments. The outstanding balance as of June 30, 2008 was as follows:

Balance Due	Average Life (Weighted Term)
$78,036,599	2.71637 Years

Component Unit

University of Wisconsin Hospital and Clinics Authority

Under the terms of a lease agreement, the University of Wisconsin Hospitals and Clinics Authority (the Hospital) leases facilities which were occupied by the Hospital as of June, 1996 (see Note 1B to the financial statements). The initial term of the lease is 30 years to be renewed annually with automatic extensions of one additional year on each July 1 until action is taken to stop the extensions. Included in the consideration for the lease is an amount equal to the debt service during the term of the lease agreement on all outstanding bonds issued by the State for the purpose of financing the acquisition, construction or improvement of the leased facilities. The balance at June 30, 2008 for amounts related to this agreement was $9.7 million.

University of Wisconsin Foundation

The University of Wisconsin Foundation (the Foundation) leases computer hardware and software under a capital lease which expires January 2010. The Foundation also leases a copy machine under a capital lease which expires in April 2009.

The following is a schedule by years of future minimum payments under capital leases as of December 31, 2007:

Year ended December 31	Capital Leases
2008	$ 272,608
2009	272,608
2010	21,189
2011	-
Total	566,405
Less: Interest	40,692
	$ 525,713

B. Operating Leases

Operating leases, those leases not recorded as capital leases as required by FASB Statement No. 13, are not recorded in the statement of net assets. These leases contain various renewal options, the effect of which are reflected in the minimum lease payments only if it is considered that the option will be exercised. Certain other operating leases contain escalation clauses and contingent rentals which are not included in the calculation of the future minimum lease payments. The State has adopted the operating lease scheduled rent increase provisions of FASB Statement No. 13. Operating lease expenditures/expenses are recognized as incurred or paid over the lease term.

Governmental and business-type activities and fiduciary funds rental expenses under operating leases for Fiscal Year 2008 were $76.8 million. Of this amount, $76.5 million relates to minimum rental payments stipulated in lease agreements, $277 thousand relates to contingent rentals, and $275 thousand relates to sublease rental payments received. Component unit rental expenses under operating leases were $15.9 million, of which $15.9 million relates to minimum rental payments stipulated in lease agreements.

The following is an analysis of the future minimum rental payments due under operating leases (in thousands):

Fiscal Year	Governmental Activities	Business-type Activities	Fiduciary Funds	Component Units
2009	$ 43,015	$ 22,791	$ 138	$ 13,847
2010	36,859	12,528	11	9,187
2011	31,289	8,420	-	5,263
2012	27,317	6,566	-	2,797
2013	22,339	4,767	-	1,236
2014 - 2018	62,206	23,439	-	1,292
2019 - 2023	16,081	23,780	-	-
2024 - 2028	887	23,246	-	-
2029 - 2033	321	23,007	-	-
2034 - 2038	148	-	-	-
2039 - 2043	159	-	-	-
2044 -2048	287	-	-	-
Minimum lease payments	$ 241,336	$ 148,544	$ 149	$ 33,621

C. Installment Purchases

The State has entered into installment purchase agreements. The following is an analysis of the gross minimum installment payments, along with the present value of the minimum installment payments, as of June 30, 2008 for installment purchases (in thousands):

Fiscal Year	Governmental Activities
2009	$ 268
2010	61
Total minimum future payments	329
Less: Interest	(13)
Present value of net minimum installment payments	$ 316

NOTE 13. RETIREMENT PLAN

The Wisconsin Retirement System (WRS) was established and is administered by the State of Wisconsin to provide pension benefits for State and local government public employees. The WRS consists of the Core Retirement Investment Trust, the Variable Retirement Investment Trust, and the Police and Firefighters Trust. Although separated for accounting purposes, the assets of these trust funds can be used to pay benefits for any member of the WRS, and are reported as one pension plan.

The WRS is considered part of the State of Wisconsin's financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information for the year ending December 31, 2006, may be obtained by writing to:

Department of Employee Trust Funds
801 West Badger Road
P.O. Box 7931
Madison, WI 53707-7931.

The separately issued financial reports for the year ended December 31, 2007 will be available at a later date.

Plan Description

The WRS, governed by Chapter 40 of the Wisconsin Statutes, is a cost-sharing multiple-employer defined benefit pension plan. It provides coverage to all eligible State of Wisconsin, local government and other public employees. Any employee of a participating employer who is expected to work at least 600 hours per year (440 hours per year for teachers) for at least one year must be covered by the WRS. As of December 31, 2007, the number of participating employers was:

State Agencies	58
Cities	152
Counties	71
4th Class Cities	34
Villages	240
Towns	223
School Districts	427
Wisconsin Technical College System Board Districts	16
Cooperative Educational Service Agencies	12
Other	192
Total Employers	1,425

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. Employees who retire at or after age 65 (55 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits. The WRS also provides death and disability benefits for employees.

Accounting Policies and Plan Asset Matters

The financial statements of the WRS have been prepared in accordance with generally accepted accounting principles, using the flow of economic resources measurement focus and a full accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

All assets of the WRS are invested by the State of Wisconsin Investment Board. The retirement fund assets consist of shares in the Variable Retirement Investment Trust and the Core Retirement Investment Trust. The Variable Retirement Investment Trust consists primarily of equity securities. The Core Retirement Investment Trust is a balanced investment fund made up of fixed income securities and equity securities. Shares in the Core Retirement Investment Trust are purchased as funds are made available from retirement contributions and investment income, and sold when funds for benefit payments and other expenses are needed.

The assets of the Core and Variable Retirement Investment Trusts are carried at fair value with all market value adjustments recognized in current operations. Investments are revalued monthly to current market value. The resulting valuation gains or losses are recognized as income, although revenue has not been realized through a market-place transaction.

The WRS does not have any investments (other than those issued or guaranteed by the U.S. Government) in any one organization that represent 5.0 percent or more of plan net assets.

State Contributions Required and Contributions Made

Covered State employees in the General/Teacher category are required by statute to contribute 5.0 percent of their salary (3.0 percent for Executives and Elected Officials, 5.1 percent for Protective Occupations with Social Security, and 3.4 percent for Protective Occupations without Social Security) to the plan as of June 30, 2008. Employers may make these contributions to the plan on behalf of employees.

Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits. State contributions made for the years ended December 31, 2007, 2006, and 2005 were as follows (in millions):

	2007	2006	2005
Employer current service	$ 182.9	$ 170.6	$ 159.2
Percent of payroll	5.1%	5.0%	4.9%
Employer prior service	$ 2.8	$ 2.5	$ 2.2
Percent of payroll	0.1%	0.1%	0.1%
Employee required	$ 178.4	$ 169.5	$ 161.6
Percent of payroll	5.0%	5.0%	5.0%
Benefit adjustment contributions	$ 31.0	$ 26.6	$ 22.8
Percent of payroll	0.9%	0.7%	0.7%
Percent of Required Contributions	100%	100%	100%

The WRS uses the “Entry Age Normal with Frozen Initial Liability” actuarial method in establishing employer contribution rates. Under this method, the unfunded actuarial accrued liability (UAAL) is generally affected only by the monthly amortization payments, compound interest, the added liability created by new employer units, and any liabilities caused by changes in benefit provisions. The UAAL is being amortized over a 40 year period beginning January 1, 1990. However, periodically, the Employee Trust Funds Board has reviewed and, when appropriate, adjusted the actuarial assumptions used to determine this liability. Changes in the assumptions may affect the UAAL, and the resulting actuarial gains or losses are credited or charged to employers’ unfunded liability accounts.

All actuarial gains or losses arising from the difference between actual and assumed experience are reflected in the determination of the normal cost.

As of June 30, 2008 and 2007, the WRS’s unfunded actuarial accrued liability was $0.3 billion and $0.3 billion, respectively. These amounts are presented as Prior Service Contributions Receivable on the financial statements. New prior service liabilities resulting from employers entering the WRS or increasing their prior service coverage are recognized as contributions in the year service is granted and are added to the Prior Service Contributions Receivable. Employer contributions for prior service reduce the receivable. The receivable is increased as of calendar year end with interest at the assumed interest rate of 7.8 percent.

NOTE 14. MILWAUKEE RETIREMENT SYSTEM

The Milwaukee Retirement System (MRS) is reported as an Investment Trust Fund. MRS participants provide assets to the State of Wisconsin, Department of Employee Trust Funds (DETF) for investing in its Core Retirement Investment Trust (CRIT) and the Variable Retirement Investment Trust (VRIT), funds of the Wisconsin Retirement System (WRS). Participation of the MRS in the CRIT and VRIT is described in the DETF Administrative Code, Chapter 10.12. The State of Wisconsin Investment Board (SWIB) manages the CRIT and VRIT with oversight by a Board of Trustees as authorized in Wis. Stat. 25.14 and 25.17. SWIB is not registered with the Securities and Exchange Commission as an investment company.

The investments of the CRIT and VRIT consist of a highly diversified portfolio of securities. Wis. Stat. 25.17(3)(a) allow investments in loans, securities and any other investments as authorized by Wis. Stat. 620.22. Permitted classes of investments include bonds of governmental units or of private corporations, loans secured by mortgages, preferred or common stock, real property and other investments not specifically prohibited by statute.

Investments are revalued monthly to fair value, with unrealized gains and losses reflected in income.

Monthly, the DETF distributes a pro-rata share of the total CRIT and VRIT earnings less administrative expenses to the MRS accounts. The MRS accounts are adjusted to fair value and gains/losses are recorded directly in the accounts per DETF Administrative Code, Chapter 10.12(2).

Neither State statute, a legal provision nor a legally binding guarantee exists to support the value of shares.

Copies of the separately issued financial report that includes financial statements along with the accompanying footnote disclosures and supplementary information for the CRIT and the VRIT may be obtained by writing to:

State of Wisconsin Investment Board
P.O. Box 7842
Madison, Wisconsin 53707-7842

NOTE 15. POSTEMPLOYMENT BENEFITS – STATE HEALTH INSURANCE PROGRAM

Effective Fiscal Year 2008, the State implemented the Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of other postemployment benefit expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in financial reports of state and local governmental employers.

Plan Description

The State's Health Insurance Program, a cost-sharing multiple employer, defined benefit plan, is an employer-sponsored program (not administered as a trust) offering group medical coverage to eligible employees and retirees of State and participating local government employers. Created under Chapter 40, of the Wisconsin Statutes, the State Department of Employee Trust Funds and the Group Insurance Board have program administration and oversight responsibilities under Wis. Stat. Sections 15.165(2) and 40.03(6). As of January 2007, there were 55,117 active, and 21,103 retirees and beneficiaries participating in the plan.

Under this plan, retired employees of the State are allowed to pay the same healthcare premium as active employees, creating an implicit rate subsidy for retirees. This implicit rate subsidy, which is calculated to cover pre-age 65 retirees (since at age 65 retirees are required to enroll in Medicare when eligible), is treated as an other postemployment benefit (OPEB).

The Department of Employee Trust Funds issues a publicly available financial report. That report is available at www.etf.wi.gov or may be obtained upon request from:

The Department of Employee Trust Funds
801 West Badger Road
P.O. Box 7931
Madison, Wisconsin 53707-7931

Funding Policy

The health insurance plan is currently funded on a "pay-as-you-go" basis. GASB Statement No. 45 does not require funding of the OPEB expense and the State does not currently intend to prefund the OPEB obligation. Under this plan, retirees contribute premiums directly to the plan either through "out-of-pocket" or from unused accumulated sick leave conversion credits. The value of the sick leave benefit is defined as a compensated absences and reported under the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*.

Contribution requirements are established and may be amended by the Group Insurance Board. For retirees that participate in the health insurance plan, premiums, for non-medicare retirees, are based on an effective rate structure for the health care service provider selected. Rates range from $476.20 to $895.70 for single coverage and $1,186.80 to $2,235.60 for family coverage.

The annual required contribution of the employer (ARC), is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. At December 31, 2007, the ARC was $148.5 million while the employer contributions were $44.3 million.

Annual OPEB Cost

As of January 1, 2007, the State's annual OPEB cost, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation were as follows (in thousands):

Fiscal Year	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	$148,497	$44,333	29.9%	$104,164

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2007 was as follows (in thousands):

Actuarial accrued liability (AAL)	$1,472,774
Actuarial value of plan assets	0
Unfunded actuarial accrued liability (UAAL)	$1,472,774
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	$2,842,917
UAAL as a percentage of covered payroll	51.8%

The actuarial accrued liability calculation considers the retiree drug subsidy (RDS) provisions of Medicare Part D as a separate transaction. Therefore, the actuarial accrued liability, the annual required contribution of the employer (ARC), and the annual OPEB costs are determined without reduction of RDS payments. At January 1, 2007, the Medicare part D portion included in the actuarial accrued liability is $537.7 million.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2007 actuarial valuation, the entry age normal actuarial costs method (with costs determined as a level dollar amount) was used. Actuarial assumptions included a discount rate of 4.0 percent, determined using an underlying assumption of 3.0 percent for inflation plus 1.0 percent for high quality investments with durations of one year or less, and a 4.1 percent assumed annual payroll growth. The projected annual healthcare cost trend rate is 6.2 percent initially, reduced by decrements to an ultimate rate of 5.0 percent. Other assumptions used, such as mortality, disability and retirement rates for active members, are consistent with an actuarial valuation on the Wisconsin Retirement Plan dated December 31, 2006. In addition, a 30 year, level percent of pay, closed amortization period was used for the initial UAAL, while a 15 year, level percent of pay, closed amortization period was used for any future gains and losses.

Currently, the health insurance plan is not funded by assets held in a separate trust. The discount rate (discussed above) was based on the State's general assets not earmarked for certain uses, such as building funds. The State's general assets are held in short-term fixed income investments. Therefore, the discount rate reflects that type of investment policy.

A Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 16. OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

The State of Wisconsin, Department of Employee Trust Funds (DETF), administers three postemployment benefit plans other than pension plans – the State Retiree Health Insurance Fund, the Duty Disability Fund, and the Retiree Life Insurance Fund.

Plan Descriptions

State Retiree Health Insurance Fund

The State *Retiree Health Insurance Fund* is a multiple-employer defined benefit OPEB plan offering group health insurance. Disclosures relating to the plan are provided in Note 15 – *Postemployment Benefits of the State Other Than Pensions – Health Insurance Program*.

Duty Disability Fund

The *Duty Disability Fund* is a cost-sharing multiple-employer defined benefit OPEB plan. The plan offers special disability insurance for state and local participants in protective occupations. The plan is self-insured, and risk is shared between the State and local government employers in the plan. The plan is administered under Wis. Stat. Section 40.65. The plan is reported as a pension and other employee benefit trust fund.

Contributions are actuarially determined in accordance with Wis. Stats. Section 40.05 (2)(ar). All contributions are employer paid based on a graduated, experienced-rated formula. During Calendar Year 2006 contribution rates ranged from 1.9 percent to 6.6 percent of covered payroll based on employer experience.

Eligibility for program benefits is based upon whether a duty-related injury or disease is likely to be permanent, which causes a protective occupation participant to retire, accept reduced pay or light duty assignment, or in some cases, that impairs promotional opportunities. Benefits approximate 80 percent of salary (75 percent if partially disabled and not a State Employee), less certain offsets such as; social security, unemployment compensation, worker's compensation and other retirement benefits. Survivor benefits are also offset by certain benefits based on program requirements.

Retiree Life Insurance Fund

The *Retiree Life Insurance Fund* is a cost-sharing multiple-employer defined benefit OPEB plan. The plan provides post-employment life insurance coverage to all eligible employees. The plan is administered under Wis. Stats. Section 40.70. The plan is reported as a pension and other employee benefit trust fund.

Generally, members may enroll during a 30-day enrollment period once they satisfy a six-month waiting period. They may enroll after the initial 30-day enrollment period with evidence of insurability. Members under evidence of insurability enrollment must enroll in group life insurance coverage before age 55 to be eligible for Basic or Supplemental coverage.

Employers are required to pay the following contributions for active members to provide them with basic coverage after age 65. There are no employer contributions for pre-65 annuitant coverage. All contributions are actuarially determined.

	State	Local
50 percent post retirement coverage	28 percent of the employee premium	40 percent of employee premium
25 percent post retirement coverage	N/A	20 percent of employee premium

At retirement, the member must have active group life insurance coverage and satisfy one of the following:

- Wisconsin Retirement System (WRS) coverage prior to January 1, 1989, or
- At least one month of group life insurance coverage in each of five calendar years after 1989 and one of the following:
- Eligible for an immediate WRS benefit, <u>or</u>
- At least 20 years from their WRS creditable service as of January 1, 1990, plus their years of group life insurance coverage after 1989, or
- At least 20 years on the payroll of their last employer.

In addition, terminating members and retirees must continue to pay the employee premiums until age 65 (age 70 if active).

After retirement, basic coverage is continued for life in amounts for the insurance in force before retirement. Additional coverage may be continued until age 65 at 100 percent of the amount of the insurance in force before retirement at the employee's expense, and spouse and dependent coverage benefits is terminated.

Summary of Significant Accounting Policies

Basis of Accounting

The OPEB plans are reported in accordance with GASB 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and accounted for using the flow of 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.

Method Used to Value Investments

Duty Disability Fund

Investments for the *Duty Disability Fund* are invested in the Core Retirement Investment Trust, which is managed by the State of Wisconsin Investment Board (SWIB). These investments are valued at fair value. Generally, fair value information represents actual bid prices or the quoted yield equivalent at the end of the year for securities of comparable maturity, quality, and type, as obtained from one or more major investment brokers. If quoted market prices are not available, a variety of third-party pricing methods are used, including appraisals, certifications, pricing models, and other methods deemed acceptable by industry standards.

Retiree Life Insurance Fund

Investments for the *Retiree Life Insurance Fund* are held with the insurance carrier (the Company). The Retiree Life Insurance Fund's investment is a share in the investment pool.

Fixed maturity securities, which may be sold prior to maturity, including fixed maturities on loan, are classified as available-for-sale and are carried at fair value. Premiums and discounts are amortized or accreted over the estimated lives of the securities based on the interest yield method.

The Company uses book value as cost for applying the retrospective adjustment method to loan-backed fixed maturity securities purchased. Prepayment assumptions for single class and multi-class mortgage-backed securities were obtained from broker/dealer survey values or internal estimates.

Marketable equity securities are classified as available-for-sale and are carried at fair value. Mutual funds and exchange traded fund investments in select asset classes that are sub-advised are carried at the fair value of the underlying net assets of the funds.

Available-for-sale securities are stated at fair value.

Mortgage loans are carried at amortized cost less any valuation allowances. Premiums and discounts are amortized or accreted over the terms of the mortgage loans based on the effective interest yield method.

Private equity investments in limited partnerships are carried at the amount invested, adjusted to recognize the Company's ownership share of the earnings or losses of the investee after the date of the acquisition, adjusted for any distributions received (equity method accounting).

Investments in partnerships, which represent minority interests owned in certain general agencies, are carried at the amount invested, adjusted to recognize the Company's ownership share of the earnings or losses of the investee after acquisition adjusted for any distributions received (equity method accounting).

Fair values of fixed maturity securities are based on quoted market prices where available. Fair values of marketable equity securities are based on quoted market prices. Fair values of private equity investments are obtained from the financial statement valuations of the underlying fund or independent broker bids. For fixed maturity securities not based on quoted market prices, generally private placement securities, securities that do not trade regularly, and embedded derivatives, an internally developed pricing model using a commercial software application is most often used. The internally developed pricing model is developed by obtaining spreads versus the U.S. Treasury yield for corporate securities with varying weighted average lives and bond ratings.

Real estate is carried at cost less accumulated depreciation.

The Company's derivative instrument holdings are carried at fair value. All derivatives are recorded as non-hedge transactions. Derivative instrument fair values are based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using current market assumptions and modeling techniques, which are then compared with quotes from counterparties.

For mortgage-backed securities of high credit quality, excluding interest-only securities, the Company recognizes income using a constant effective yield method based on prepayment assumptions obtained from an outside service provider or upon analyst review of the underlying collateral and the estimated economic life of the securities.

Policy loans are carried at the unpaid principal balance.

Cash and cash equivalents are carried at cost, which approximates fair value. The Company considers all money market funds and commercial paper with original maturity dates of less than three months to be cash equivalents.

Finance receivables that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding unpaid principal balances reduced by any charge-offs.

The Company holds "To-Be-Announced" (TBA) Government National Mortgage Association forward contracts that require the Company to take delivery of a mortgage-backed security at a settlement date in the future. Most of the TBAs are settled at the first available period allowed under the contract. However, the deliveries of some of the Company's TBA securities happen at a later date, thus extending the forward contract date. These securities are reported at fair value as derivative instruments with the changes in fair value reported in net realized investment gains and losses on the consolidated statements of operations.

Required Supplementary Information

Required Supplementary Information about the OPEB plans is presented in the Department of Employee Trust Funds audited financial statements. The December 31, 2007 financial report will be available at a later date.

Separately issued financial reports are available at www.etf.wi.gov and on request from:

The Department of Employee Trust Funds
801 West Badger Road
P.O. Box 7931
Madison, Wisconsin 53707-7931

NOTE 17. PUBLIC ENTITY RISK POOLS ADMINISTERED BY THE DEPARTMENT OF EMPLOYEE TRUST FUNDS

The Department of Employee Trust Funds operates four public entity risk pools: group health insurance, group income continuation insurance, long-term disability insurance, and pharmacy benefits. The information provided in this note applies to the period ending December 31, 2007.

A. Description of Funds

The Health Insurance Fund offers group health insurance for current employees of the State government and of participating local public employers. All public employers in the State are eligible to participate. Approximately 325 local employers plus the State currently participate. The State and local government portions of the fund are accounted for separately and have separate contribution rates, benefits, and actuarial valuations. The fund includes both a self-insured, fee-for-service plan as well as various prepaid plans, primarily Health Maintenance Organizations (HMO's) and a self-insured plan that provides for pharmacy benefits of covered members.

The Income Continuation Insurance Fund offers disability wage continuation insurance for current employees of the State government and of participating local public employers. All public employers in the State are eligible to participate. Approximately 165 local employers plus the State currently participate. The State and local government portions of the fund are accounted for separately and have separate contribution rates, benefits, and actuarial valuations. The plan is self-insured.

The Long-term Disability Insurance Fund offers long-term disability benefits to participants in the Wisconsin Retirement System (WRS). The long-term disability benefits provided by this program are an alternative coverage to that currently provided by the WRS. All new WRS participants on or after October 15, 1992, are eligible only for the long-term disability insurance coverage, while participating employees active prior to October 15, 1992, may elect coverage through WRS or the long-term disability insurance program.

B. Accounting Policies for Risk Pools

Basis of Accounting - All Public Entity Risk Pools are accounted for in enterprise funds using the full accrual basis of accounting and the flow of economic resources measurement focus.

Valuation of Investments - Assets of the Health Insurance Fund are invested in the State Investment Fund. Assets of the Income Continuation Insurance and Long-term Disability Insurance funds are invested in the Core Retirement Investment Trust. Investments are valued at fair value.

Unpaid Claims Liabilities - Claims liabilities are based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The estimate includes the effects of inflation and other societal and economic factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. Unpaid claims liability is presented at face value and is not discounted for health insurance. It is discounted using an interest rate of 7.8 percent for income continuation and long-term disability insurance. The liabilities for income continuation, long-term disability, and health insurance were determined by actuarial methods.

Administrative Expenses - All maintenance expenses are expensed in the period in which they are incurred. Acquisition costs are immaterial and are treated as maintenance expenses. Premium deficiencies are not calculated because acquisition costs are immaterial. Claim adjustment expenses are also immaterial.

Reinsurance - Health insurance plans provided by HMO's and health insurance for local government annuitants are fully insured by outside insurers. All remaining risk is self-insured with no reinsurance coverage.

Risk Transfer - Participating employers are not subject to supplemental assessments in the event of deficiencies. If the assets of the fund were exhausted, participating employers would not be responsible for the fund's liabilities.

Premium Setting - Premiums are established by the Group Insurance Board in consultation with actuaries.

C. Unpaid Claims Liabilities

As discussed in Section B of this Note, each fund establishes a liability for both reported and unreported insured events, which is an estimate of future payments of losses. The following represents changes in those aggregate liabilities for the nonreinsured portion of each fund during Calendar Year 2007 (in millions):

	Health Insurance		Income Continuation Insurance		Long-term Disability Insurance		Pharmacy Benefits	
	2007 *	2006	2007	2006	2007	2006	2007 *	2006
Unpaid claims at beginning of the calendar year	$ 10.2	$ 7.8	$ 71.3	$ 67.1	$ 108.3	$ 90.3	$ (6.7)	$ (8.2)
Incurred claims:								
Provision for insured events of the current calendar year	41.6	72.0	27.4	29.1	48.1	34.6	116.5	144.9
Changes in provision for insured events of prior calendar years	(3.4)	0.4	(14.7)	(8.7)	(6.2)	(2.3)	0.4	1.0
Total incurred claims	38.2	72.1	12.7	20.4	41.9	32.3	116.9	145.9
Payments:								
Claims and claim adjustment expenses attributable to insured events of the current calendar year	35.6	62.1	2.5	4.4	1.1	1.1	119.6	153.6
Claims and claim adjustment expenses attributable to insured events of prior calendar years	6.6	7.9	12.8	11.8	13.3	13.2	(8.3)	(9.2)
Total payments	42.2	70.0	15.3	16.2	14.4	14.3	111.3	144.4
Total unpaid claims expenses at end of the calendar year	$ 6.2	$ 10.2	$ 68.7	$ 71.3	$ 135.8	$ 108.3	$ (1.1)*	$ (6.7) **

* Starting in 2006, in accordance with GASB 43, retiree health is reported separately in an agency fund and is not included with the active health information in this table.

** Total unpaid claims at the end of 2007 is the net of $6.7 million in unpaid claims and $7.8 million in rebates due from pharmaceutical companies; total unpaid claims at the end of 2006 is the net of $6.6 million in unpaid claims and $13.3 million in rebates due from pharmaceutical companies.

D. Trend Information

Historical trend information showing revenue and claims development information is presented in the Department of Employee Trust Funds audited financial statements. The separately issued financial report for the year ended December 31, 2006 is available at www.etf.wi.gov and on request from:

The Department of Employee Trust Funds
801 West Badger Road
P.O. Box 7931
Madison, Wisconsin 53707-7931

The December 31, 2007 financial report will be available at a later date.

NOTE 18. SELF-INSURANCE

It is the general policy of the State not to purchase commercial insurance for the risks of losses to which it is exposed. Instead, the State believes it is more economical to manage its risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The fund services most claims for risk of loss to which the State is exposed, including damage to State owned property, liability for property damages and injuries to third parties, and worker's compensation. All funds and agencies of the State participate in the Risk Management Fund.

State Property Damage

Property damages to State-owned properties are covered by the State's self-funded property program up to $2.5 million per occurrence and $2.7 million annual aggregate. When claims, which exceed $25,000 per occurrence, total $2.7 million, the State's private insurance becomes available. Losses to property occurring after the threshold are first subject to a $25,000 deductible. The amount of loss in excess of $25,000 is covered by the State's private insurance company. During Fiscal Year 2008, the excess insurance limits were written to $300 million.

The liabilities for State property damage are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. The estimate for future benefits and loss liabilities is based on the reserves on open claims and paid claims. Losses incurred but not reported are expected to be immaterial. Claims incurred but not paid as of June 30, 2008 are estimated to total $13.9 million.

Property Damages and Bodily Injuries to Third Parties

The State is self-funded for third party liability to a level of $4 million per occurrence and purchases insurance in excess of this self-funded retention. The policy limit during Fiscal Year 2008 was $50 million.

The liabilities for property damages and injuries to third parties are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. The estimate for future benefits and loss liabilities for the prior fiscal year was the reserves on open claims. The estimate for future benefits and loss liabilities is calculated by an actuary based on the reserves on open claims and prior experience. No liability is reported for environmental impairment liability claims either incurred or incurred but not reported because existing case law makes it unlikely the State would be held liable for material amounts. Because actual claims liabilities depend upon complex factors such as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Immaterial non-incremental claims adjustment expenses are not included as part of the liability. Claims incurred but not paid as of June 30, 2008 are estimated to total $24.2 million.

Worker's Compensation

The Worker's Compensation Program was created by Wisconsin Statutes Chapter 102 to provide benefits to workers injured on the job. All employees of the State are included in the program. An injury is covered under worker's compensation if it is caused by an accident that arose out of and in the course of employment.

The responsibility for claiming compensation is on the employee. A claim must be filed with the program within two years from the date of injury, otherwise the claim is not allowable.

The worker's compensation liability has been determined by an actuary using paid claims and current claims reserves. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities are affected by external factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims incurred but not paid as of June 30, 2008 are estimated to total $68.6 million.

Changes in the balances of claims liability for the Risk Management Fund during the current and prior fiscal years are as follows (in thousands):

	2008	2007
Beginning of fiscal year liability	$ 95,984	$ 100,161
Current year claims and changes in estimates	34,531	17,638
Claim payments	(23,815)	(21,815)
	106,700	95,984
Excess insurance reimbursable	(11,700)	--
Balance at fiscal year-end	$ 95,000	$ 95,984

Settlements have not exceeded coverages for each of the past three fiscal years.

Annuity Contracts

The Risk Management Fund purchased annuity contracts in various claimants' names to satisfy claim liabilities. The likelihood that the fund will be required to make future payments on those claims is remote and, therefore, the fund is considered to have satisfied its primary liability to the claimants. Accordingly, the annuity contracts are not reported in, and the related liabilities are removed from, the fund's balance sheet. The aggregate outstanding amount of liabilities removed from the financial statements at June 30, 2008 is $8.5 million.

NOTE 19. INSURANCE FUNDS

A. Primary Government

1. Local Government Property Insurance Fund

Created by the Legislature in 1911, the purpose of the Local Government Property Insurance Fund is to provide property insurance coverage to tax-supported local government units such as counties, towns, villages, cities, school districts and library boards. Property insured includes government buildings, schools, libraries and motor vehicles. Coverage is available on an optional basis. As of June 30, 2008 the Local Government Property Insurance Fund insured 1,124 local governmental units. The total amount of insurance in force as of June 30, 2008 was $45.5 billion.

Valuation of Cash Equivalents and Investments - All investments of the Local Government Property Insurance Fund are managed by the State of Wisconsin Investment Board, as discussed in Note 5-B to the financial statements. At June 30, 2008, the fund had $53.2 million of shares in the State Investment Fund which are considered cash equivalents.

Premium - Unearned premium reported as deferred revenue represents the daily pro rata portion of premium written which is applicable to the unexpired terms of the insurance policies in force. Policies are generally written for annual terms.

Unpaid Claims Liabilities - The Local Government Property Insurance Fund establishes the unpaid claim liability titled future benefits and loss liabilities on the financial statements based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Claims liabilities are recomputed periodically to produce current estimates that reflect recent settlements, claim frequency, and other economic factors. Adjustments to future benefits and loss liabilities are charged or credited to expense in the periods in which they are made.

Policy Acquisition Costs - Since the Local Government Property Insurance Fund has no marketing staff and incurs no sales commissions, acquisition costs are minimal and charged to operations as incurred.

Reinsurance - The Local Government Property Insurance Fund uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the fund as direct insurer of the risks reinsured. The fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. As of June 30, 2008 the fund had $425.0 million of per occurrence excess of loss reinsurance in force with a $2.0 million combined single limit retention for each occurrence, and an annual aggregate reinsurance contract with a $22.0 million annual aggregate retention plus a per claim retention of $5 thousand once the aggregate is met, as respects occurrences for the term of the agreement. Premiums ceded to reinsurers, which is netted against premium revenue (charges for goods and services in the financial statements), amounted to $4.7 million during the fiscal year. Reinsurance loss and adjusting expense recoveries earned, which reduces claims paid (benefit expense on the financial statements), amounted to $3.0 million during the fiscal year.

Unpaid Claims Liabilities

As discussed above, the Local Government Property Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities for the fund during the past two fiscal years (in thousands):

	2007	2008
Unpaid claims and claim adjustment expenses at beginning of the year	$9,619	$16,215
Less: Reinsurance recoverable	(912)	(6,684)
Net unpaid loss liability at beginning of year	8,707	9,531
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	16,260	21,417
Increase (decrease) in provision for insured events of prior years	959	(416)
Total incurred claims and claim adjustment expenses	17,219	21,001
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	7,855	9.917
Claims and claim adjustment expenses attributable to insured events prior years	8,540	7,816
Total payments	16,395	17,733
Net unpaid claims and claim adjustment expenses at end of year	9,532	12,799
Reinsurance recoverable	6,684	5,318
Total unpaid claims and claim adjustment expenses	$16,215	$18,117

Trend Information

Historical trend information showing revenue and claims development information is presented in the Office of the Commissioner of Insurance June 30, 2008 financial statements. Copies of these statements may be requested from:

Office of the Commissioner of Insurance
125 South Webster Street
Madison, Wisconsin 53702

2. State Life Insurance Fund

The State Life Insurance Fund was created under Chapter 607, Wisconsin Statutes, to offer life insurance to residents of Wisconsin in a manner similar to private insurers. This fund functions much like a mutual life insurance company and is subject to the same regulatory requirements as any life insurance company licensed to operate in Wisconsin.

Premiums are reported as earned when due. Benefits and expenses are associated with earned premiums so as to result in recognition of profits over the life of the contracts. This association is accomplished by means of the provision for liabilities for future benefits and the amortization of acquisition costs.

The costs of policy issuance and underwriting, all of which vary with, and are primarily related to, the production of new business, have been deferred. These deferred acquisition costs are amortized over a forty year period, considered representative of the life of the contract. The amortization is in proportion to the ratio of annual in-force business to the amount of business issued. Such anticipated in-force business was estimated using similar assumptions to those used for computing liabilities for future policy benefits.

Deferred Acquisition Cost Assumptions

Issue Years	Interest Rate	Lapse Rate	Mortality
1913-1966	3.0%	2.0%	None
1967-1976	3.0	2.0	None
1977-1985	4.0	2.0	None
1986-1994	5.0	2.0	None
1995+	4.0	2.0	None

The State Life Insurance Fund does not pay commissions nor does it incur agent expenses.

Future benefits and loss liabilities have been computed by the net level premium method based upon estimated future investment yield and mortality. The composition of liabilities and the more material assumptions pertinent thereto are presented below (in thousands):

Issue Year	Ordinary Life Insurance in Force	Amount of Policy Liability
1913-1966	$ 10,796	$ 7,842
1967-1976	33,491	16,381
1977-1985	78,188	22,748
1986-1994	52,221	7,914
1995+	41,413	4,432
	$ 216,109	$ 59,317

Bases of Assumptions

Issue Year	Interest Rate	Mortality
1913-1966	3.0%	American Experience, ANB*
1967-1976	3.0	1958 CSO, ALB, Unisex
1977-1985	4.0	1958 CSO, ALB, Female Setback 3 years
1986-1994	5.0	1980 CSO, ALB, Aggregate
1995+	4.0	1980 CSO, ALB, Aggregate

* Age Next Birthday

All of the State Life Insurance Fund's ordinary life insurance in force is participating. This fund is required by statute to maintain surplus at a level between 7 percent and 10 percent of statutory admitted assets as far as practicably possible. All excess surplus is to be returned to the policyholders in the form of policyholder dividends. Policyholder dividends are declared each year in order to achieve the required level of surplus.

The statutory assets at December 31, 2007 were $87.0 million and the statutory capital and surplus was $6.2 million, and the fund equity at June 30, 2008 was $9.0 million.

3. Injured Patients and Families Compensation Fund

The Injured Patients and Families Compensation Fund was created in 1975 for the purpose of providing excess medical malpractice claims exceeding the legal primary insurance limits prescribed in Wis. Stat. Section 655.23(4), or the maximum liability limit for which the health care provided is insured, whichever limit is greater. Management of the Injured Patients and Families Compensation Fund is vested with a 13-member Board of Governors, which is chaired by the Commissioner of Insurance. Most health care providers permanently practicing or operating in the State of Wisconsin are required to pay Injured Patients and Families Compensation Fund operating fees. Risk of loss is retained by the fund.

The Future Benefits and Loss Liability account includes individual case estimates for reported losses and estimates for incurred but not reported losses based upon the projected ultimate losses. Individual case estimates of the liability for reported losses and net losses paid from inception of the Injured Patients and Families Compensation Fund are deducted from the projected ultimate loss liabilities to determine the liability for incurred but not reported losses as of June 30, 2008 as follows (in thousands):

Projected ultimate loss liability	$ 1,488,728
Less: Net loss paid from inception	(700,503)
Less: Liability for reported losses	(49,634)
Liability for incurred but not reported losses	$ 738,591

The Future Benefits and Loss Liability account also includes a provision for the estimated future payment of the costs to settle claims. These ultimate loss adjustment expenses as of June 30, 2008 are estimated at 20.0 percent of the projected ultimate loss liabilities. The loss reserves are actuarially determined. The loss adjustment expenses paid from the inception of the Injured Patients and Families Compensation Fund are deducted from the projected ultimate loss adjustment expenses provision to determine the liability for loss adjustment expenses as of June 30, 2008 as follows (in thousands):

Projected ultimate loss adjustment expense liability	$ 224,823
Less: Loss adjustment expense paid from inception	(54,900)
Liability for loss adjustment expense	$ 164,923

In accordance with Section Ins. 17.27(3), Wis. Adm. Code, the liability for reported losses, liability for incurred but not reported losses, and liability for loss adjustment expense are maintained on a present value basis with the difference from full value being reported as a contra account to these estimated loss liabilities. These estimated loss liabilities are discounted only to the extent that they are matched by cash and invested assets. Using the actuarially determined discount factor of 0.810, which is based on an investment yield assumption of 5.5 percent approved by the Board of Governors, the discounted loss liability would be as follows as of June 30, 2008 (in thousands):

Estimated liability for Incurred But Not Reported (IBNR)	$ 738,591
Estimated liability for reported losses	49,634
Estimated unpaid loss adjustment expense	164,923
Total estimated loss liabilities	953,148
Less: Amount representing interest	(181,098)
Discounted loss liabilities	$ 772,050

Included in the above estimates of loss liabilities, both undiscounted and discounted, is a 25 percent risk margin, which was recommended by the actuary and approved by the Board of Governors. The current 25 percent risk margin represents an increase from the 5 percent risk margin approved by the Board of Governors for FY 2007.

On behalf of the Board of Governors, the Office of the Commissioner of Insurance contracted for an actuarial audit of the fund, which included a review by another actuary of the reasonableness of the actuarial methodology and assumptions used in developing estimates of the Injured Patients and Families Compensation Fund's estimated loss liabilities. The actuarial audit, which was completed on December 3, 2007, concluded that the projected ultimate loss and loss adjustment expense liabilities (before discounting) are at the high end of the reasonable range, when combined with a 25 percent risk margin.

In addition to discounted loss liabilities, the Future Benefit and Loss Liabilities account also includes a future medical expenses liability and a contributions being held liability. The future medical expenses liability consists of those accounts required by Wis. Stat. Sec. 655.015 to be established for future medical expense awards in excess of $25,000 that were entered into or rendered before June 14, 1986, or in excess of $100,000 that were entered into or rendered on or after May 25, 1995. The contributions being held liability consists of nonrefundable payments, generally in amounts equal to the primary coverage in effect for related claims, that primary insurers have voluntarily presented to the fund and which are negotiable with the fund in exchange for a release of payment for any future defense costs that may be incurred on the claim.

The breakdown of Future Benefit and Loss Liabilities, including the portions that are estimated as current and noncurrent as of June 20, 3008 (in thousands), is as follows:

Discounted loss liabilities	$ 772,050
Future medical expense liability	23,415
Contributions being held liability	1,000
Total estimated loss liabilities	796,465
Current portion	(108,677)
Noncurrent portion	$ 687,788

The uncertainties inherent in projecting the frequency and severity of large claims because of the Injured Patients and Families Compensation Fund's unlimited liability coverage, and extended reporting and settlement periods, makes it likely that the amounts ultimately paid will differ from the recorded estimated loss liabilities. These differences cannot be quantified.

The estimated amounts included in the balance of Future Benefits and Loss Liabilities are continually reviewed and adjusted as the Injured Patients and Families Compensation Fund gains additional experience. Such adjustments are reflected in current operations. Because of the changes in these estimates, the benefit expense for the fiscal year is not necessarily indicative of the loss experience for the year.

The following is a reconciliation of the change in the balance of Future Benefits and Loss Liabilities during FY 2008:

Liability at the beginning of the year	$ 701,999
Incurred claims and related expenses for the current year and the change in estimated amounts for claims incurred in prior years	135,728
Less: current year payments attributable to claims incurred in current and prior years	(41,262)
Liability at the end of the year	$ 796,465

B. Component Units

Wisconsin Health Care Liability Insurance Plan

The Wisconsin Health Care Liability Insurance Plan (the Plan) is a statutory unincorporated association established by rule of the Commissioner of Insurance of the State of Wisconsin as mandated by the State of Wisconsin legislature. The Plan provides health care liability insurance and liability coverages normally incidental to health care liability insurance to eligible health care providers in the State of Wisconsin calling for payment of premium prior to the effective date of the policy. All insurers authorized to write personal injury liability insurance in the State of Wisconsin, with certain minor exceptions, are required to be members of the Plan.

The Plan generates its premium written revenue by selling medical malpractice insurance. Rates are calculated in accordance with generally accepted actuarial principles. The rates are set so that the Plan will be self-supporting. Profit is not the intent of the Plan.

Since the inception of the Plan in 1975, the health care liability coverage limits have increased from $200 thousand per occurrence and $600 thousand annual aggregate to the current limits of $1.0 million per occurrence and $3.0 million annual aggregate. A general liability coverage is also available to participating health care providers with limits of $1.0 million per occurrence and $3.0 million annual aggregate. The Plan is not covered under any reinsurance contracts.

In the event that sufficient funds are not available for the sound financial operation of the Plan, all members shall, on a temporary basis, contribute to the financial needs of the Plan. Members shall participate in the contributions in the proportion of their respective premiums to the aggregate premiums written by all members of the Plan. Such assessments shall be recouped by rate increases applied prospectively. There were no assessments for the year ended December 31, 2007.

The future benefits and loss liability includes amounts determined from individual reported losses (case reserves) and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on estimates and, while management believes that the amounts are adequate, the ultimate liability will differ from the amounts provided. The methods for making such estimates and for establishing the resulting liability are annually reviewed, and any adjustments are reflected in income currently. Specific account balances as of December 31, 2006 and December 31, 2007, are as follows (in thousands):

	2007	2006
Balance at January 1	$ 29,806	$ 32,167
Incurred related to:		
Current year	10.608	9.786
Prior years	(726)	(10,866)
Total Incurred	9,882	(1,080)
Paid related to:		
Current year	188	169
Prior years	2,378	1,112
Total paid	2,566	1,281
Balance at December 31	$ 37,122	$ 29,806

There is inherent uncertainty in medical malpractice claims when establishing the estimates of unpaid losses and unpaid loss adjustment expenses. In 2005, 2006 and 2007 the Plan decreased its estimates of unpaid losses and unpaid loss adjustment expenses related to insured events of prior years. These decreases were greater than the estimated losses incurred for the current year, causing negative incurred losses and loss adjustment expenses.

NOTE 20. SEGMENT INFORMATION AND CONDENSED FINANCIAL DATA

Primary Government

The State issues revenue bonds to finance the Leveraged Loan Program, which is accounted for as part of the Environmental Improvement Fund. Investors in those bonds rely solely on the revenue generated within the Leveraged Loan Program. Assets of this program are used primarily for loans for Wisconsin municipal waste water projects. Condensed financial statement information of the Leveraged Loan Program as of and for the year ended June 30, 2008 is presented below (in thousands):

Condensed Balance Sheet

Assets:		
Current Assets	$	137,250
Other Assets		862,932
Total Assets	$	1,000,182
Liabilities:		
Due to Other Funds	$	2,427
Other Current Liabilities (Including Current Portion of Long-term Debt)		65,864
Noncurrent Liabilities		738,476
Total Liabilities		806,767
Fund Equity:		
Restricted		193,415
Total Fund Equity		193,415
Total Liabilities and Fund Equity	$	1,000,182

Condensed Statement of Revenues, Expenses and Changes in Fund Equity

Operating Revenues (Expenses):		
Loan Interest	$	18,907
Interest Expense		(36,439)
Other Operating Expenses		(2,514)
Operating Income (Loss)		(20,046)
Nonoperating Revenues (Expenses):		
Investment Income		13,751
Income (Loss) before Transfers		(6,295)
Transfers In (Out)		29,900
Change in Fund Equity		23,605
Beginning Fund Equity		169,810
Ending Fund Equity	$	193,415

Condensed Statement of Cash Flows

Net Cash Provided (Used) by :		
Operating Activities	$	(4,876)
Noncapital Financing Activities		46,980
Investing Activities		(35,618)
Net Increase (Decrease)		6,486
Beginning Cash and Cash Equivalents		114,384
Ending Cash and Cash Equivalents	$	120,870

NOTE 21. COMPONENT UNITS – CONDENSED FINANCIAL INFORMATION

Significant financial data for the State's five discretely presented component units for the year ended December 31, 2007 or June 30, 2008 is presented below (in thousands):

	Wisconsin Housing and Economic Development Authority	Wisconsin Health Care Liability Insurance Plan	University of Wisconsin Hospitals and Clinics Authority	University of Wisconsin Foundation*	State Fair Park Exposition Center	Total
Condensed Balance Sheet						
Assets:						
Cash, Investments and Other Assets	$ 3,937,615	$ 65,762	$ 230,880	$ 2,876,047	$ 7,028	$ 7,117,332
Due from Primary Governments	-	-	1,501	-	-	1,501
Cash and Investments with Other Component Units	-	-	255,000	-	-	255,000
Capital Assets, net	16,993	-	398,111	7,788	32,948	455,840
Total Assets	$ 3,954,608	$ 65,762	$ 885,492	$ 2,883,835	$ 39,976	$ 7,829,672
Liabilities:						
Accounts Payable and Other Current Liabilities	$ 167,859	$ 14,528	$ 79,897	$ 24,116	$ 2,116	$ 288,516
Due to Primary Government	-	-	4,502	-	33	4,535
Amounts Held for Other Component Units	-	-	-	260,026	-	260,026
Long-term Liabilities (Current and Noncurrent portions)	3,274,999	37,122	322,778	54,457	40,834	3,730,190
Total Liabilities	3,442,858	51,650	407,177	338,598	42,983	4,283,266
Fund Equity:						
Invested in Capital Assets, Net of Related Debt	1,678	-	162,156	7,788	(7,495)	164,127
Restricted	502,072	14,112	10,445	1,844,345	-	2,370,974
Unrestricted	8,000	-	305,714	693,103	4,487	1,011,305
Total Fund Equity	511,750	14,112	478,315	2,545,236	(3,007)	3,546,407
Total Liabilities and Fund Equity	$ 3,954,608	$ 65,762	$ 885,492	$ 2,883,835	$ 39,976	$ 7,829,672
Condensed Statement of Revenues, Expenses and Changes in Fund Equity						
Program Expenses:						
Depreciation	$ 8,743	$ -	$ 37,959	$ 358	$ 1,036	$ 48,096
Payments to Primary Government	-	-	2,042	228,686	-	230,728
Other	324,858	24,461	807,157	57,390	4,254	1,218,121
Total Program Expenses:	333,601	24,461	847,158	286,435	5,290	1,496,945
Program Revenues:						
Charges for Goods and Services	6,369	6,409	838,146	-	4,193	855,118
Investment and Interest Income	172,472	3,749	-	183,334	-	359,555
Operating Grants and Contributions	144,681	-	1,781	269,929	-	416,391
Capital Grants and Contributions	-	-	7,710	-	-	7,710
Miscellaneous	11,683	6	23,726	91	328	35,834
Total Program Revenues	335,205	10,164	871,363	453,354	4,521	1,674,607
Net Program Revenue/(Expense)	1,604	(14,297)	24,205	166,920	(769)	177,662
General Revenues:						
Interest and Investment Earnings	33,005	-	7,821	-	23	40,849
Loss on Unamortized Bond Insurance Premium			(1,958)			(1,958)
Contributions to Endowments	-	-	67	-	-	67
Change in Fund Equity	34,609	(14,297)	30,135	166,920	(747)	216,620
Fund Equity, Beginning of Year	477,141	28,410	448,180	2,378,317	(2,261)	3,329,787
Fund Equity, End of Year	$ 511,750	$ 14,112	$ 478,315	$ 2,545,236	$ (3,007)	$ 3,546,407

* The University of Wisconsin Foundation Balance Sheet was audited for 2008 but the Statement of Revenues, Expenses and Changes in Fund Equity was not.

NOTE 22. RESTATEMENTS OF BEGINNING FUND BALANCES/FUND EQUITY/NET ASSETS AND OTHER CHANGES

The reconciliations that follow summarize restatements of the end-of-year fund balance/fund equity/net assets as reported in the 2007 Comprehensive Annual Financial Report to the beginning-of-year fund balances/fund equity/net assets reported for Fiscal Year 2008 (in thousands):

A. Fund Statements – Governmental Funds

	Major Funds			
	General	Transportation	Nonmajor Funds	Total Governmental
Fund Balances June 30, 2007 as reported in the 2007 Comprehensive Annual Financial Report	$ (2,444,142)	$ 459,078	$ 647,124	$ (1,337,940)
Fund structure reclassification:				
Medical Assistance Trust Fund incorporated in General Fund	2,665	-	(2,665)	-
Department of Revenue additional revenues	45,713	-	-	45,713
Other adjustments of assets and liabilities as of June 30, 2007	1,294	-	27	1,321
Fund Balances July 1, 2007 as restated	$ (2,394,471)	$ 459,078	$ 644,486	$ (1,290,907)
Effect of prior period adjustments on the amount of excess revenues and other sources over expenditures and other uses of Fiscal Year 2007	$ 47,006	$ -	$ 27	$ 47,033

B. Fund Statements – Proprietary Funds

	Major Funds						
	Injured Patients and Families Compensation	Environmental Improvement	University of Wisconsin System	Unemployment Reserve	Nonmajor Funds	Total Enterprise	Internal Service Funds
Fund Equity June 30, 2007 as reported in the 2007 Comprehensive Annual Financial Report	$ 94,409	$ 1,320,978	$ 4,274,264	$ 783,852	$ 708,292	$ 7,181,794	$ 12,393
Fund structure reclassifications:							
Life Insurance Fund reclassified from fiduciary fund	-	-	-	-	4,007	4,007	-
Other adjustments of assets and liabilities as of June 30, 2007	-	-	213	-	3,491	3,704	2,224
Fund Equity July 1, 2007 as restated	$ 94,409	$ 1,320,978	$ 4,274,477	$ 783,852	$ 715,790	$ 7,189,505	$ 14,617
Effect of prior period adjustments on the amount of net change in fund equity of Fiscal Year 2007	$ -	$ -	$ -	$ -	$ 777	$ 777	$ 1,706

C. Fund Statements – Fiduciary Funds

	Pension and Other Employee Benefit Trust	Investment Trust	Private Purpose Trust	Total Fiduciary
Net Assets June 30, 2007 as reported in the 2007 Comprehensive Annual Financial Report	$ 85,990,092	$ 3,407,979	$ 2,161,599	$ 91,559,671
Fund structure reclassification/restatement:				
Life Insurance reclassified to proprietary fund	(4,007)	-	-	(4,007)
Retiree Health Insurance reclassified from agency fund	-	-	26,851	26,851
Net Assets July 1, 2007 as restated	$ 85,986,085	$ 3,407,979	$ 2,188,450	$ 91,582,514
Effect of prior period adjustments on the amount of net increase in net assets of Fiscal Year 2007	$ -	$ -	$ -	$ -

D. Government-wide Statements

	Primary Government			
	Governmental Activities	Business-type Activities	Totals	Component Units
Net Assets June 30, 2007 as reported in the 2007 Comprehensive Annual Financial Report	$ 5,437,898	$ 7,185,492	$ 12,623,390	$ 3,329,787
Fund structure reclassifications: Reclassification of Life Insurance from Fiduciary to Proprietary	-	4,007	4,007	-
Department of Revenue additional revenue	45,713	-	45,713	-
Department of Transportation restatement of capital assets and Infrastructure	(33,993)	-	(33,993)	-
Capital Accounting restatement of construction in progress	15,573	-	15,573	-
Department of Corrections restatement of unearned revenue and capital assets	18,905	-	18,905	-
Other adjustments of assets and liabilities as of June 30, 2007	6,281	3,704	9,985	-
Net Assets July 1, 2007 as restated	$ 5,490,377	$ 7,193,202	$ 12,683,579	$ 3,329,787
Effect of prior period adjustments on the amount of net increase in net assets of Fiscal Year 2007	$ 98,569	$ 777	$ 99,346	$ -

NOTE 23. LITIGATION, CONTINGENCIES AND COMMITMENTS

A. Litigation and Contingencies

The State is a defendant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations.

Claims and Judgments Reported in Governmental Activities

The State accrues liabilities related to legal proceedings, if a loss is probable and reasonably estimable. Such losses, totaling $1.4 million on June 30, 2008 reported in the governmental activities, are discussed below:

Other Claims -- Work Injury Supplemental Benefits - The Work Injury Supplemental Benefit Fund, administered by the Department of Workforce Development, provides compensatory payments to survivors of fatally injured employees or disabled employees with work-related injuries. The liability for annuities to be paid totaled $1.4 million at June 30, 2008.

The U. S. Department of Health and Human Services (U.S. DHHS) determined that the Department of Workforce Development should refund the federal share of recovered AFDC overpayments. The State of Wisconsin appealed the decision, however in fiscal year 2008 the appeal was denied. A liability for $14.2 million is reported at June 30, 2008, in the General Fund as a "Due to Other Governments".

Other Claims, Judgments, and Contingencies

The State is also named as a party in other legal proceedings where the ultimate disposition and consequence are not presently determinable. The potential liability amount relating to an unfavorable outcome for certain of these proceedings could not be reasonably determined at this time. However, the ultimate dispositions and consequences of any single legal proceeding or all legal proceedings collectively should not have a material adverse effect on the State's financial position.

Federal Share of Billings in Excess of Costs -- In September 2006, the U.S. DHHS notified the State that it had determined that the federal share of billings for mainframe, data and voice services provided by the Department of Administration exceeded costs. The U.S. DHHS proposes to collect the billings in excess of costs through several alternative methods. Because a fiscal impact cannot be readily determined and due to uncertainity in predicting an outcome if appeals were to proceed, a liability has not been recorded.

Taxability of Custom Software -- On July 11, 2008, the Wisconsin Supreme Court decided in favor of the Menasha Corporation in the case regarding the taxability of custom software. While the actual amount of the liability cannot be reasonably estimated, the State may receive refund claims that could potentially reach up to $270.0 million in tax and interest. The amount of actual refunds paid will be determined by the degree to which taxpayers make valid refund claims. However, a liability for $507.0 thousand is reported at June 30, 2008, in the General Fund as a tax refund payable.

Transfer from Injured Patients and Families Compensation Fund -- 2007 Wisconsin Act 20, which was signed into law October 2007, included a transfer of $200 million from the Injured Patients and Families Compensation Fund. The transfer consisted of $71.5 million, which was transferred in October 2007, and an additional $128.5 million which was transferred in July 2008. Subsequent to the signing of this legislation and the initial transfer, the Wisconsin Medical Society filed a lawsuit on behalf of their members challenging the transfer as unconstitutional.

Environmental Clean-up Actions - The State is involved in environmental clean-up of property owned by the State that has the potential to cause soil and groundwater contamination. Four sites have soil and/or groundwater contamination associated with underground storage tank releases with an estimated remediation cost of $0.2 million.

The State is also involved in environmental remediations on six properties that do not involve releases from underground storage tanks, with an estimated cost of $2.3 million.

B. Commitments

Primary Government

In addition to legal proceedings, the State is party to commitments which normally occur in governmental operations.

In addition to the amount of encumbrances outstanding at June 30, 2008 reported as Fund Balance - Reserved for Encumbrances, additional obligations at June 30, 2008 representing multi-year, long-term commitments included (in thousands):

Transportation Fund	$ 311,187
Transportation Revenue Bonds Capital Projects Fund	47,803
General Fund – Department of Commerce programs, including economic and community development programs	20,834
Environmental	4,479

The Environmental Improvement Fund (the Fund) was established to administer the Clean Water Fund Loan Program. Loans are made to local units of government for wastewater treatment projects for terms of up to 20 years. These loans are made at a number of prescribed interest rates based on environmental priority. The loans contractually are revenue obligations or general obligations of the local governmental unit. Additionally, various statutory provisions exist which provide further security for payment. The Fund has made financial assistance commitments of $219.9 million as of June 30, 2008. These loan commitments are expected to be met through additional federal grants and proceeds from issuance of revenue obligations.

In addition, the revenue obligation bonds of the Leveraged Loan Program in the Fund are collateralized by a security interest in all the assets of the Leveraged Loan Program. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the Fund's revenue obligation bonds. However, as the loans granted to local units of government are at an interest rate less than the revenue bond rate, the State is obligated by the Fund's General Resolution to fund, at the time each loan is made, a reserve which subsidizes the Leveraged Loan Program in an amount which offsets this interest disparity.

The *Injured Patients and Families Compensation Fund* may be required to purchase an annuity as a result of a claim settlement. Under specific annuity arrangements, the fund may have ultimate responsibility for annuity payments if the annuity company and the reassignment company default on annuity payments. One of the fund's annuity providers defaulted on $99 thousand in annuity payments through June 30, 2008, which the fund subsequently paid. The annuity provider is currently making the majority of these annuity payments, but the fund continues to make monthly annuity payments to cover defaulted payments. The fund has received reimbursement for these payments, including interest of $93 thousand through June 30, 2008. It is unclear when the annuity provider will be able to make the remaining annuity payments and whether the fund will be able to recover the remaining annuity payments made on the behalf of the annuity provider. The total estimated replacement value of the fund's annuities as of June 30, 2008 was $32.8 million. The replacement value calculation includes only annuities where the Fund remains the owner. Annuities with qualified assignments are no longer included. The fund reserves the right to pursue collection from State guarantee funds.

State Public Deposit Guarantee - As required by Wis. Stat. Sec. 34.08, the State is to make payments to public depositors for proofs of loss (e.g., loss resulting from a bank failure) up to $400 thousand per depositor above the amount of federal insurance. This statutory requirement guarantees that the State will make payments in favor of the public depositor that has submitted a proof of loss. Payments would be made in the order in which satisfactory proofs of loss are received by the State's Department of Financial Institutions, until the designated appropriation is exhausted. At June 30, 2008, the appropriation available totaled $38.8 million. Losses become fixed as of the date of the loss. A public depositor experiencing a loss must assign its interest in the deposit, to the extent of the amount paid, to the Department of Financial Institutions. Any recovery made by the Department of Financial Institutions under the assignment is to be repaid to the appropriation. The possibility of a material loss resulting from payments to and recovery from public depositors is remote.

The *Veterans Mortgage Loan Repayment Fund* accounts for the issuance and administration of veterans' first mortgage loans. The loans are made to veterans for the purchase of homes to terms up to 30 years. The loan interest rates are set by the Board of Veterans Affairs. The loans are secured by real estate mortgages. The fund has commitments for loans of $4.2 million as of June 30, 2008. The loan commitments are expected to be met from current fund assets.

Component Units

The Wisconsin Housing and Economic Development Authority's mission was expanded since its creation to include administration of the Agricultural and Business Programs. These programs administer funds that are legislatively appropriated to subsidize interest and provide guarantees of principal balances of qualifying loans. At June 30, 2008, outstanding loan guarantees totaled $33.6 million.

In April 2003, the Authority approved the Neighborhood Business Revitalization Guarantee program. The guarantee program will provide up to $12.0 million in loan guarantees for revitalization in targeted urban commercial communities with populations greater than 35,000. As of June 30, 2008, $8.3 million of loan guarantees had been approved with outstanding loan guarantees of $5.6 million.

NOTE 24. SUBSEQUENT EVENTS

Primary Government

Short-term Debt

Operating Notes – In July 2008, the State issued $800.0 million of operating notes. The proceeds of the notes were to be used within six months to fund local assistance payments to the State's municipalities and school districts, and finance day-to-day operations in anticipation of revenue received later in the fiscal year. The notes were issued because of an imbalance between the timing of payments disbursed and receipts collected. The imbalance exists because a greater percentage of receipts are received in the second half of the fiscal year, primarily January, March and April. The notes will be paid at maturity on June 15, 2009.

Long-term Debt

General Obligation Bonds – In September 2008, the State issued $302.2 million general obligation bonds 2008, Series C to be used for the acquisition, construction, development, extension, enlargement or improvement of land, water, property, highways, buildings, equipment or facilities for public purposes. The interest rates ranged from 4.0 percent to 5.0 percent payable semiannually, beginning May 1, 2009. The bonds mature May 1 of the years 2010 through 2029.

In December 2008, the State will issue $100.0 million general obligation bonds 2008, Series D to be used for the acquisition, construction, development, extension, enlargement or improvement of land, water, property, highways, buildings, equipment or facilities for public purpose. The interest rates range from 5.0 percent to 6.0 percent payable semiannually, beginning May 1, 2009. The bonds mature May 1 of the years 2012 through 2030.

Revenue Bonds – On August 27, 2008, the State issued 2008 Series A Transportation Revenue Bonds in the amount of $185.0 million. Interest rates are fixed at 5.0 percent, payable semiannually. The bonds are due in various maturities beginning in 2010, with final maturity in 2029. The bonds are being used to finance certain State transportation facilities and highway projects and to pay costs of issuance.

In November 2008, the State issued $92.2 million of 2008, Series 3 clean water revenue bonds to be used to make loans to municipalities primarily for construction or improvement of their wastewater treatment facilities, make a deposit into the Loan Credit Reserve Fund, and pay for costs of issuance. The interest rates range from 3.0 percent to 5.5 percent and are payable semiannually beginning June 1, 2009. The bonds mature June 1 of the years 2010 through 2021, 2025 and 2026.

Investment Market Events

Subsequent to June 30, 2008, global investment markets have been experiencing unprecedented, adverse events including a worldwide credit crisis, liquidity constraints in the markets and the continued write down of mortgage related assets. These events resulted in bankruptcies and acquisitions of several large financial institutions and a decline in the world's financial markets. In response to the deteriorating market conditions governments across the globe have attempted stabilization efforts. Financial markets have responded with steep declines and periodic rebounds in value indicating continued uncertainty of global market conditions.

These turbulent global investment market conditions have a significant impact on the State's investment assets. For example, the assets of the Wisconsin Retirement System (WRS) (consisting of shares in the Variable and Core Investment Trust Funds) have experienced a decline in value; however, because of the volatility in the capital markets and the changes in its values daily, assessing the long-term impact on the WRS investment assets is undeterminable at this time.

To counteract this market volatility, the State continues to focus on asset allocation and diversification as key components of a long-term investment strategy.

Component Units

Wisconsin Housing and Economic Development Authority (the Authority) – In August 2007, the Authority issued $6.3 million of variable rate demand home multifamily revenue bonds, 2007 Series C. The bonds, issued under the multifamily housing bond general resolution, are general obligations of the Authority. The Series bonds are rated Aa3 and VMIG-1 by Moody's Investor Service.

Subsequent to June 30, 2008, the Authority redeemed the following bonds (in thousands):

Program/Bond Resolution	Amount Redeeme
Home Ownership Revenue Bonds:	
1999 Series F, G, H and I	$ 1,690
1998 Series F and G	505
Housing Revenue Bonds	
2000 Series A and B	9,760
2002 Series A, B, C, D, E, F, G, H and I	46,575

In addition, the Authority retired early the following bonds (in thousands):

Program/Bond Resolution	Amount Redeeme
Home Ownership Revenue Bond Resolutions:	
1987	$ 25,635
1988	38,340
All Other	2,240
Housing Revenue Bonds	56,335

The Authority also issued the following bonds (in thousands):

Program/Bond Resolution	Amount Redeeme
Multifamily Stand Alone Bonds	13,810
Single Family Drawdown Revenue Bonds 1991-1	32,510
General Fund:	
Line of Credit – Mortgage Financing	5,162
Commercial Paper - Building	32,816

University of Wisconsin Hospital and Clinics Authority (the Hospital) – In July 2008, the Hospital exercised its option to convert the interest rate on the Series 2002A Bonds from auction rates to a weekly variable rate mode. Upon this conversion, payment of the purchase price of the Series 2002A bonds, which were tendered for purchase and not remarketed, were made available by a commercial bank under the Standby Bond Purchase Agreement. The Series 2002A Bonds continue to be insured by an insurance policy issued by Financial Security Assurance, Inc.

Required Supplementary Information

Postemployment Benefits - State Health Insurance Program

The funding progress for the State of Wisconsin Health Insurance Plan is provided below (in thousands):

Actuarial Valuation Date	Actuarial Valuation Of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a) / c)
1/1/2007	$ 0	$ 1,472,774	$ 1,472,774	0.0%	$ 2,842,917	51.8%

Infrastructure Assets Reported Using the Modified Approach

The State has adopted the modified approach for reporting infrastructure assets. Under the modified approach, infrastructure assets are not depreciated as long as the State can demonstrate that these assets are properly managed and are being preserved at or above an established condition level. Instead of depreciation, the costs to maintain and preserve infrastructure assets are expensed, while additions and improvements are capitalized. The State owns approximately 11,200 centerline miles of roads and 4,900 bridges.

Road Network

Condition assessments are completed on a two-year cycle with the most current results reported for each State road. Numerous measures are used to assess the condition of the State's road network. The State has adopted the International Roughness Index (IRI), as defined by the Federal Highway Administration, as its primary condition measure. IRI is measured on a scale of 0 to 5, with an IRI of 2.69 or greater being defined as a "poor" ride. Roads with a "poor" IRI assessment cause negative impacts for the traveling public by decreasing driver comfort and increasing the damage to vehicles and goods. It is the State's policy to ensure no more than 15 percent of its roads receive a "poor" IRI assessment.

Recent condition assessment results are as follows:

Year Ended June 30	Miles of Road	Percent Rated "Poor"	Established Percent	Variance Favorable/ (Unfavorable)
2008	11,200	6.9	15.0	8.1
2007	11,200	6.4	15.0	8.6
2006	11,200	5.4	15.0	9.6
2005	11,200	5.8	15.0	9.2
2004	11,200	6.1	15.0	8.9
2003	11,200	4.3	15.0	10.7
2002	11,200	4.6	15.0	10.4

Each year the State estimates the costs to maintain and preserve the road network at, or above, the established condition level. Actual maintenance/preservation costs compare to estimates as follows:

Year Ended June 30	Estimated Costs (In millions)	Actual Costs (In millions)	Variance (In millions) Favorable/ (Unfavorable)
2008	$ 531.8	$ 538.8	$ (7.0)
2007	501.8	458.6	43.2
2006	495.7	425.9	69.8
2005	478.6	372.3	106.4
2004	450.8	341.1	109.7
2003	420.9	336.7	84.2
2002	470.7	437.6	33.1

Estimated costs are developed at the beginning of the fiscal year based on projects planned for the current and future years. The types of projects ultimately contracted and incurring costs during the year are often very different. In addition, the State of Wisconsin, Department of Transportation's multi-year contracting process, allowing encumbrances to carry forward, makes a comparison of actual to estimated amounts difficult since expenditures for the current year may have been budgeted and committed to a project in prior years.

Bridge Network

Condition assessments are completed on a two-year cycle, with more frequent inspections completed if warranted. The most current assessment results are reported for each State bridge, making the overall assessment a blend of measures completed in the current fiscal year and those completed in the prior year.

The structural condition rating is a broad measure of the condition of a bridge. Each bridge is rated using three National Bridge Inventory (NBI) condition codes and two NBI appraisal ratings. The three NBI condition codes are Deck Condition, Superstructure Condition, and Substructure Condition. The two NBI appraisal ratings are Structural Evaluation and Waterway Adequacy. The NBI uses a 10-point scale for condition codes and appraisal ratings. A bridge is considered "structurally deficient" if any condition code is 4 or less, or if either appraisal code is 2 or less.

"Structurally deficient" bridges cause negative impacts for the public by increasing the likelihood that heavy loads will need to be rerouted to less efficient routes, thus increasing logistic costs for State businesses. It is the State's policy to ensure no more than 15 percent of its bridges are "structurally deficient".

Recent condition assessment results are as follows:

Year Ended June 30	Number of Bridges	Percent Structurally Deficient	Established Percent	Variance Favorable/ (Unfavorable)
2008	4,900	4.5	15.0	10.5
2007	4,900	4.1	15.0	10.9
2006	4,900	4.3	15.0	10.7
2005	4,900	5.1	15.0	9.9
2004	4,900	5.4	15.0	9.6
2003	4,900	6.2	15.0	8.8
2002	4,900	7.6	15.0	7.4

Each year the State estimates the costs to maintain and preserve the bridge network at, or above, the established condition level. Actual maintenance/preservation costs compare to estimates as follows:

Year Ended June 30	Estimated Costs (In millions)	Actual Costs (In millions)	Variance (In millions) Favorable/ (Unfavorable)
2008	$ 61.0	$ 46.2	$ 14.8
2007	36.0	46.9	(10.9)
2006	42.4	31.3	11.1
2005	28.3	38.6	(10.3)
2004	47.8	52.3	(4.5)
2003	46.4	45.7	0.7
2002	33.6	38.4	(4.8)

Estimated costs are developed at the beginning of the fiscal year based on projects planned for the current and future years. The types of projects ultimately contracted and incurring costs during the year are often very different. The State of Wisconsin, Department of Transportation's multi-year contracting process, allowing encumbrances to carry forward, makes a comparison of actual to estimated amounts difficult since expenditures for the current year may have been budgeted and committed to a project in prior years.

State of Wisconsin

Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2008

(In Thousands)

	Original Budget	Final Budget	Actual Amounts
Unexpended Budgetary Fund Balances, Beginning of Year			$ 576,950
Revenues and Transfers (Inflows):			
Taxes	$ 13,123,491	$ 12,890,716	13,065,360
Departmental:			
Tribal Gaming	96,732	96,732	17,998
Other	11,035,117 (A)	11,122,348 (A)	10,914,482
Transfers from:			
Transportation Fund	(A)	(A)	155,209
Nonmajor Funds	(A)	(A)	60,294
Total Revenues and Transfers (Inflows)	24,255,340	24,109,796	24,213,342
Amounts Available for Appropriation			24,790,293
Appropriations (Outflows):			
Commerce	372,493	363,417	251,885
Education	11,116,820	11,355,560	10,827,186
Environmental Resources	379,027	354,002	320,309
Human Relations and Resources	9,512,134	10,249,795	9,681,101
General Executive	987,331	1,046,923	795,369
Judicial	127,265	128,322	126,069
Legislative	71,124	65,723	65,046
Tax Relief and Other General	2,060,650	2,046,067	2,047,768
Transfers to:			
Nonmajor Funds	15,000	15,000	15,000
Total Appropriations (Outflows)	$ 24,641,844	$ 25,624,809	24,129,732
Fund Balances, End of Year			660,560
Less Encumbrances Outstanding at June 30, 2008			(522,701)
Fund Balances, End of Year Budgetary Basis			$ 137,859

Reconciliation of the End of Year, Budgetary Basis, Fund Balance to the Detail Reported in the Annual Fiscal Report:	
General Purpose:	
Designated	$ 27,434
Undesignated	130,696
Total General Purpose	158,130
Program Revenue	(20,271)
Fund Balances, End of Year Budgetary Basis	$ 137,859

(A) Interfund transfers to the General Fund were budgeted under departmental revenue during Fiscal Year 2008.

State of Wisconsin

Budgetary Comparison Schedule
Transportation Fund
For the Fiscal Year Ended June 30, 2008

(In Thousands)

	Original Budget	Final Budget	Actual Amounts
Unexpended Budgetary Fund Balances, Beginning of Year			$ 396,128
Revenues (Inflows):			
Taxes	$ 1,035,040	$ 1,035,040	1,035,040
Departmental	1,468,887	1,468,887	1,468,887
Total Revenues (Inflows)	2,503,927	2,503,927	2,503,927
Amounts Available for Appropriation			2,900,054
Appropriations and Transfers (Outflows):			
Environmental Resources	3,794,449	4,020,533	2,405,095
General Executive	2,207	1,802	1,770
Tax Relief and Other General	31,899	21,664	22,714
Transfers to:			
General Fund	50,209	155,209	155,209
Total Appropriations and Transfers (Outflows)	$ 3,878,764	$ 4,199,208	2,584,787
Fund Balances, End of Year			315,267
Less Encumbrances Outstanding at June 30, 2008			(1,177,702)
Fund Balances, End of Year Budgetary Basis			$ (862,435)

Notes To Required Supplementary Information

NOTE 1. BUDGETARY INFORMATION

A. Budgetary – GAAP Reporting Reconciliation

The accompanying Budgetary Comparison Schedule compares the legally adopted budget (more fully described in RSI Note 1-B) with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on the budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of basis and perspective differences as of June 30, 2008 is presented below (in thousands):

	General Fund	Transportation Fund
Fund balance June 30, 2008 (budgetary basis – budgetary fund structure):		
General Purpose Revenue – fund balance per budgetary basis *Annual Fiscal Report*		
Undesignated fund balance	$ 130,696	
Designated fund balance	27,434	
Total General Purpose Revenue fund balance	158,130	
Program Revenue – fund balance per budgetary basis *Annual Fiscal Report*	(20,271)	
Fund balance June 30, 2008 (budgetary basis – budgetary fund structure) As reported on the budgetary comparison schedule	137,859	$ (862,435)
Reclassifications:		
To eliminate the effect of encumbrances that were reported as expenditures under budgetary reporting (basis difference)	522,701	1,177,702
To reclassify activities of the Budget Stabilization and Medical Assistance Trust Funds (reported as special revenue funds under budgetary reporting) as part of the General Fund (perspective difference)	1,592	--
To reclassify activities reported in another GAAP fund type (perspective differences):		
Enterprise funds (except for the University of Wisconsin System)	37,870	--
University of Wisconsin System	(449,016)	--
Internal service funds	16,078	--
Fiduciary funds	(2,665)	--
Transportation Revenue Bonds capital project fund	--	8,121
Fund balance June 30, 2008 (GAAP fund structure – budgetary basis, excluding encumbrances treated as expenditures at year end)	264,419	323,388
Adjustments (basis differences):		
To accrue receivables and establish payables for individual income taxes (net)	(867,213)	--
To defer revenues for gross receipts public utility taxes	(218,609)	--
To adjust revenues and expenditures for tax-related items and other tax credit/aid programs (net)	(366,179)	(7,859)
To adjust expenditures for the municipal and county shared revenue program	(524,570)	--
To adjust expenditures for State property tax credit program	(508,738)	--
To accrue unpaid Medicaid payments to providers (net of receivable from federal government)	(191,448)	--
To adjust revenues and expenditures for certain major Health and Family Services and Workforce Development human services payments to local governments	(50,948)	--
To accrue State educational aids payments deferred until the subsequent year	(75,000)	--
To adjust revenues and expenditures for other items (net)	35,553	106,573
Fund balance June 30, 2008 (GAAP fund structure – GAAP basis) as reported on the governmental fund statements	$(2,502,734)	$ 422,102

B. Budgetary Basis of Accounting

The State's biennial budget is prepared using a modified cash basis of accounting. The final budget is primarily a general purpose revenue and expenditure budget. General purpose revenues consist of general taxes and miscellaneous receipts which are paid into the General Fund, lose their identity, and are then available for appropriation by the Legislature. The remaining revenues consist of program revenues, which are credited by law to an appropriation to finance a specified program or State agency, and segregated revenues which are paid into separate identifiable funds.

While State departments and agencies are required to submit estimates of expected revenues for program revenue and segregated revenue categories, these estimates are not formally incorporated into the adopted budget except for revenue estimates of the Lottery Fund. As a result, legally budgeted revenues for these categories are not available and, consequently, actual amounts are reported in the budget column of the Budgetary Comparison Schedules.

Expenditure budgeting differs for the various types of appropriations. For most appropriations, budgeted expenditures equal the amount from the adopted budget plus any subsequent legislative or administrative revisions. Various supplemental appropriations were approved during the year and have been incorporated into the budget figures.

While State statutes prohibit spending beyond budgetary authority, a provision is made to include the value of accounts receivable, inventories and work in process in identifying available revenues. The State also utilizes nonbudget accounts for which no budget is established but expenditures may be incurred. As a result, actual expenditures may exceed budgeted amounts in certain categories.

The budgetary basis of accounting required by State law differs materially from the basis used to report revenues and expenditures in accordance with GAAP. Other variances arise because the State's biennial budget is developed according to the statutory required fund structure which differs extensively from the fund structure used in the GAAP basis financial statements. This difference is primarily caused by the elimination of the University of Wisconsin System, and various fiduciary, proprietary and other governmental fund activity from the statutory General and Transportation funds. In addition, the Budget Stabilization and Medical Assistance Trust Funds, special revenue funds under statutory reporting, are included as part of the General Fund under GAAP reporting. As a consequence of these differences, a reconciliation between budgetary basis and GAAP basis is provided in Note 1-A of the notes to the required supplementary information.

The Budgetary Comparison Schedules for the General and the Transportation Fund present both the original and final appropriated budgets, as well as the actual inflows, outflows, and fund balance on the budgetary basis. The supplementary budget comparison schedule provides this same information (with the exception of the original budget data) for the nonmajor governmental funds with annual budgets. The capital project and debt service funds are excluded from this schedule because no comprehensive budget is approved for these funds. Two special revenue funds, the Wisconsin Public Broadcasting Foundation and the Celebrate Children Foundation, have been excluded from reporting because they are blended component units that are neither budgeted nor included under statutory reporting. Of the permanent funds, only the Historical Society Fund and a portion of the Common School Fund are budgeted.

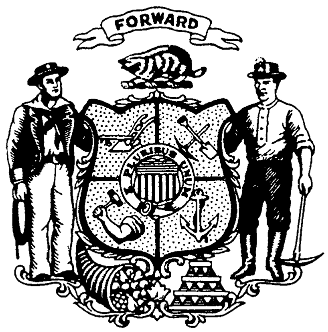
The State's biennial budget was passed in October 2007. This legislation is recognized by State officials as the original budget and is treated as such on the Budgetary Comparison Schedules.

While the legal level of budgetary control for the reported funds is maintained at the appropriation line as specified by the Legislature in Chapter 20 of the Wisconsin Statutes, this level of detail is impractical for inclusion in the Comprehensive Annual Financial Report. Accordingly, a supplementary report is available upon request which provides budgetary comparisons at the legal level of control.

Appropriation unexpended balances lapse at year-end or forward to the subsequent fiscal year depending on the type of appropriation involved:

- *Continuing* - unexpended balances automatically forward to ensuing years until fully depleted or repealed by subsequent action of the Legislature.
- *Annual*:
  - *General Purpose Revenue* - unencumbered balances lapse at year end.
  - *Program Revenue* - unexpended cash balances may be forwarded to the next fiscal year.
- *Biennial* - unexpended balances or deficits automatically forward to the second year. At the end of the second year all unencumbered general purpose revenue balances lapse.
- *Sum sufficient* - moneys are appropriated and expended in the amounts necessary to accomplish the purpose specified.

Encumbrances may be carried over to the next fiscal year as a revision to the budgetary appropriation with Department of Administration approval. Under budgetary reporting, encumbrances are treated like expenditures and are shown as a reduction of fund balance. Under GAAP reporting, encumbrances outstanding at year end for purchase orders and contracts expected to be honored in the following year are reported as reservations of fund balance since they do not constitute expenditures or liabilities.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