STATE OF WISCONSIN
CONTINUING DISCLOSURE
ANNUAL REPORT

Filed Pursuant to Undertakings Provided to Permit Compliance With
Securities Exchange Commission Rule 15c2-12

GENERAL OBLIGATIONS
(Base CUSIPs 977053, 977055, 977056, and 97705L)

MASTER LEASE CERTIFICATES OF PARTICIPATION
(Base CUSIP 977087)

TRANSPORTATION REVENUE OBLIGATIONS
(Base CUSIP 977123)

CLEAN WATER REVENUE BONDS
(Base CUSIP 977092)

PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS
(Base CUSIP 977109)

GENERAL FUND ANNUAL APPROPRIATION BONDS
(Base CUSIP 977100)

DECEMBER 23, 2004

JIM DOYLE
GOVERNOR

MARC J. MAROTTA
SECRETARY

WISCONSIN DEPARTMENT OF ADMINISTRATION

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December 23, 2004

Thank you for your interest in the State of Wisconsin.

This is the Continuing Disclosure Annual Report for the fiscal year ending June 30, 2004 (**Annual Report**).

The Annual Report provides information on different securities that the State issues and fulfills the State's continuing disclosure undertakings. These undertakings of the State are intended to help dealers and brokers comply with Rule 15c2-12 under the Securities Exchange Act of 1934. As of this date, the State has filed the Annual Report with each nationally recognized municipal securities information repository using the central post office provided by the Texas Municipal Advisory Council.

Official Statements for securities that the State issues during the next year may incorporate parts of this Annual Report by reference.

Organization of the Annual Report

The Annual Report is divided into eight parts. The first two parts present general information.

- **Part I** presents the **State's continuing disclosure undertakings**. A Master Agreement on Continuing Disclosure establishes a general framework. Separate addenda describe the information to be provided for specific types of securities.

- **Part II** presents **general information about the State**, including its operations and financial results. This part includes the audited basic financial statements for the fiscal year ending June 30, 2004 and the State Auditor's report. This part also includes the results of the 2003-04 fiscal year and the current status of the budget for the 2004-05 fiscal year.

The remaining parts present information about different types of securities that the State issues.

- **Part III — General obligations (including bonds, commercial paper, and extendible municipal commercial paper)**
- **Part IV — Master lease certificates of participation**
- **Part V — Transportation revenue obligations (including bonds and commercial paper)**
- **Part VI — Clean water revenue bonds**
- **Part VII — Petroleum inspection fee revenue obligations (including bonds and extendible municipal commercial paper)**
- **Part VIII – General fund annual appropriation bonds (including bonds and auction rate certificates)**

Please note that certain terms may have different meanings in different parts.

Ratings on the State's Securities
The following chart presents a summary of the long-term ratings currently assigned to different types of securities that the State issues.

Security	Fitch Ratings	Moody's Investors Service, Inc.	Standard & Poor's Ratings Services
General Obligations	AA-[1]	Aa3 [2]	AA–
Master Lease Certificates of Participation	A+ [1]	A1 [2]	A+
Transportation Revenue Bonds	AA	Aa3	AA–
Clean Water Revenue Bonds	AA+	Aa2	AA+
Petroleum Inspection Fee Revenue Bonds	AA–	Aa3	AA–
General Fund Annual Appropriation Bonds	A+ [1]	A1 [2]	A+

(1) On March 2, 2004, Fitch Ratings downgraded the State's general obligations from "AA" to "AA-" and downgraded the State's master lease certificates of participation and general fund annual appropriation bonds from "AA-" to "A+".

(2) Moody's has assigned a negative outlook on the State's long-term general obligation bonds, master lease certificates of participation, and general fund annual appropriation bonds.

How to Get Additional Information

If you are interested in information about securities that the State issues, please contact the Capital Finance Office. *The Capital Finance Office is the only party authorized to speak on the State's behalf about the State's securities.*

The Capital Finance Office maintains a web site that provides access to both disclosure and non disclosure information.

www.doa.wi.gov/capitalfinance

The Capital Finance Office posts to this web site monthly general fund cash flow reports. The Capital Finance Office also posts to this web site all information and material event filings that it makes with each nationally recognized municipal securities information repository.

We welcome your comments or suggestions about the format and content of the Annual Report. The general telephone number of the Capital Finance Office is (608) 266-2305. The e-mail address is **capfin@doa.state.wi.us.**

Sincerely,

Frank R. Hoadley
Capital Finance Director

SUMMARY OF OUTSTANDING STATE OF WISCONSIN OBLIGATIONS AS OF DECEMBER 1, 2004

	Principal Balance 12/1/2003	Principal Issued 12/1/2003 – 12/1/04	Principal Matured, Redeemed, or Defeased 12/1/2003 – 12/1/04	Principal Balance 12/1/2004
GENERAL OBLIGATIONS [(a)]				
Total	**$4,370,162,682**	**$1,386,275,689**	**$879,978,030**	**$4,876,460,340**
General Purpose Revenue (GPR)	3,301,980,073	659,393,045	736,065,302	3,225,307,815
Self-Amortizing: Veterans	413,275,000	22,000,000	65,335,000	369,940,000
Self-Amortizing: Other	654,907,609	704,882,644	78,577,728	1,281,212,525
MASTER LEASE CERTIFICATES OF PARTICIPATION				
Total	**$ 115,140,426**	**$18,033,274**	**$51,070,895**	**$82,102,804**
TRANSPORTATION REVENUE OBLIGATIONS [(a)]				
Total	**$1,442,078,000**	**$95,905,000**	**$161,240,000**	**$1,376,743,000**
CLEAN WATER REVENUE BONDS				
Total	**$ 620,480,000**	**$116,795,000**	**$54,340,000**	**$682,935,000**
PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS [(a)]				
Total	**$ 317,290,000**	**$140,470,000**	**$109,305,000**	**$348,455,000**
TAXABLE GENERAL FUND ANNUAL APPROPRIATION BONDS [(a)]				
Total	**$1,794,850,000**	—	—	**$1,794,850,000**

(a) This table includes variable rate obligations that have been issued by the State. Please see the respective part of this Annual Report for more information on the variable rate obligations issued for each credit.

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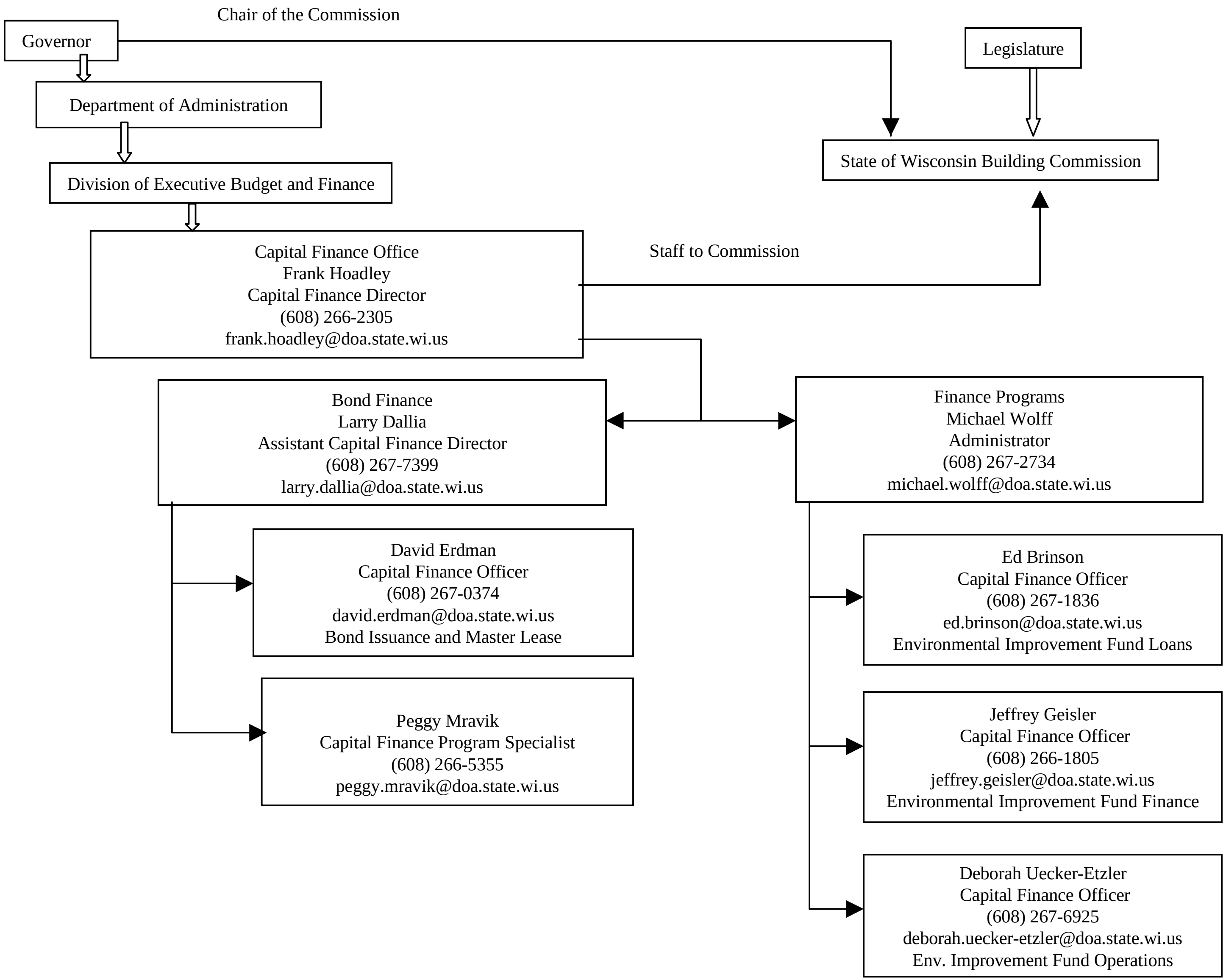
Capital Finance Office Staff (As of December 1, 2004)



STATE OFFICIALS PARTICIPATING IN THE ISSUANCE AND SALE OF BONDS AND NOTES

BUILDING COMMISSION MEMBERS

Voting Members	**Term of Office Expires**
Governor Jim Doyle, Chairperson	January 8, 2007
Senator Fred A. Risser, Vice-Chairperson	January 3, 2005
Senator Robert Cowles	January 3, 2005
Senator Carol Roessler	January 3, 2005
Representative Spencer Black	January 3, 2005
Representative Jeff Fitzgerald	January 3, 2005
Representative Daniel Vrakas	January 3, 2005
Mr. Terry McGuire, Citizen Member	At the pleasure of the Governor
Nonvoting, Advisory Members	
Mr. Adel Tabrizi, State Chief Engineer Department of Administration	——
Mr. Dave Haley, State Chief Architect Department of Administration	——
Building Commission Secretary	
Mr. Robert G. Cramer, Administrator Division of State Facilities Department of Administration	At the pleasure of the Building Commission and the Secretary of Administration

OTHER PARTICIPANTS

Ms. Peggy A. Lautenschlager State Attorney General	January 8, 2007
Mr. Marc J. Marotta, Secretary Department of Administration	At the pleasure of the Governor

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PART II

GENERAL INFORMATION ABOUT THE STATE OF WISCONSIN

This part provides general information about the State of Wisconsin **(State)**. It describes the following:

- Revenues and Expenditures
- Accounting and Financial Reporting
- Budgeting Process and Fiscal Controls
- Results of 2003-04 Fiscal Year
- State Budget
- General Fund Information
- State Government Organization
- State Obligations
- Statistical Information

APPENDIX A to this part includes the audited general purpose external financial statements for the fiscal year ending June 30, 2004 and the independent auditor's report that is provided by the State Auditor.

Requests for additional information about the State may be directed as follows:

Contact:	Capital Finance Office Attn: Capital Finance Director
Phone:	(608) 266-2305
Mail:	101 East Wilson Street, FLR 10 P.O. Box 7864 Madison, WI 53707-7864
E-mail:	capfin@doa.state.wi.us
Web site:	www.doa.wi.gov/capitalfinance

The State has independently provided, since July 2001, monthly reports on general fund financial information. These monthly reports are not required by any of the State's undertakings provided to permit compliance with Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934. These monthly reports are available on the State's Capital Finance Office web site that is listed above; however, the State is not obligated to continue providing such monthly reports.

This part of the Annual Report presents financial information about the State in various forms. Some financial information is presented on a budgetary basis, while other information is presented on a cash basis. Some financial information relates to the General Fund while other information relates to all funds. Readers should be aware of these different forms when using the financial information presented within this part of the Annual Report.

This Annual Report includes information and defined terms for different types of securities issued by the State. The context or meaning of terms used in this Part II of the Annual Report may differ from that of terms used in another part. Any information or resource referred to in this Annual Report is not part of the Annual Report unless expressly included.

REVENUES

Revenue Structure

The State raises revenues from diverse sources:

- Various taxes levied by the State
- Federal government payments
- Various kinds of fees, licenses, permits, and service charges paid by users of specific services, privileges, or facilities
- Investment income
- Gifts, donations, and contributions

Table II-1 identifies the specific sources of revenue (all funds) and the amounts raised from each source for each of the last five years. There can be no assurance that future receipts will correlate with historical data.

Tax Structure

The State collects a diverse variety of taxes. The most significant taxes are based on individual income and on general sales and use. The following is a brief description of certain taxes that appear in Table II-1.

Individual Income Tax

The tax brackets and rates for the 2004 and 2005 tax years are as follows. The taxable income brackets have been indexed for changes in the consumer price index.

2004 Taxable Income Brackets		**2004 Marginal Tax Rate**
Single	**Married Filing Jointly**[a]	
$0 to 8,610	$0 to 11,480	4.60%
8,610 to 17,220	11,480 to 22,960	6.15
17,220 to 129,150	22,960 to 172,200	6.50
129,150+	172,200+	6.75

2005 Taxable Income Brackets		**2005 Marginal Tax Rate**
Single	**Married Filing Jointly**[a]	
$0 to 8,840	$0 to 11,780	4.60%
8,840 to 17,680	11,780 to 23,570	6.15
17,680 to 132,580	23,570 to 176,770	6.50
132,580+	176,770+	6.75

[a] Brackets for married filing separately are half of the brackets for married filing jointly.

General Sales and Use Tax

A 5% tax is imposed on the sale or use of services and all tangible personal property unless specifically exempted. The most notable exemptions are food, prescription drugs, and motor and heating fuel.

Corporate Income and Franchise Taxes

Both the franchise tax measured by net income and the income tax are levied at a rate of 7.9% of corporate net income. The net tax liability is determined by subtracting allowable credits.

Table II-1

REVENUES (ALL SOURCES)[(a)]

1999-2000 TO 2003-04

	2003-04	2002-03	2001-02	2000-01	1999-2000
State Collected Taxes					
Individual Income	$ 5,277,119,228	$ 5,051,996,958	$ 4,979,661,843	$ 5,156,565,325	$ 5,959,818,943
General Sales and Use	3,899,263,728	3,737,912,069	3,695,795,708	3,609,895,359	3,501,658,965
Corporate Franchise and Income	650,526,145	526,544,586	503,007,920	537,159,154	644,625,016
Public Utility	269,805,198	276,794,706	252,297,980	239,298,968	259,991,437
Excise	355,495,288	354,759,924	348,282,067	299,775,120	301,851,909
Inheritance and Gift	86,357,310	68,702,274	82,634,627	77,084,123	133,261,148
Insurance Companies	123,620,317	114,896,687	96,055,400	89,041,589	86,877,861
Motor Fuel	1,027,167,794	996,166,648	954,147,642	918,449,310	914,673,547
Forest	76,799,830	70,922,998	65,885,102	58,648,511	58,061,250
Miscellaneous	147,861,289	124,423,116	113,979,522	112,312,779	104,617,943
Subtotal	11,914,016,127	11,323,119,967	11,091,747,811	11,098,230,239	11,965,438,019
Federal Aid					
Medical Assistance	2,966,509,479	2,876,517,126	2,663,987,093	2,395,438,874	1,961,769,304
AFDC/W2	424,401,099	477,330,616	490,161,681	403,990,150	263,964,530
Transportation	740,140,823	726,594,153	769,221,794	671,344,340	608,670,820
Education	1,452,793,378	1,316,197,365	1,120,807,676	1,028,557,046	957,144,633
Other	1,718,620,059	2,121,671,098	2,158,980,902	1,727,232,553	1,055,061,747
Subtotal	7,302,464,838	7,518,310,358	7,203,159,146	6,226,562,962	4,846,611,034
Fees					
University of Wisconsin System[(b)]	880,582,998	775,395,525	84,006,675	2,155,613,345	632,110,050
Other	385,584,864	377,001,995	356,048,754	300,580,123	282,404,664
Subtotal	1,266,167,862	1,152,397,520	440,055,429	2,456,193,468	914,514,714
Licenses and Permits					
Vehicles and Drivers	353,943,546	319,449,151	340,205,268	324,531,760	326,133,108
Hunting and Fishing	92,307,370	81,846,434	81,747,187	78,929,285	132,906,803
Other	522,960,045	444,479,156	383,584,407	328,027,538	243,832,829
Subtotal	969,210,960	845,774,742	805,536,862	731,488,582	702,872,740
Miscellany					
Service Charges	756,319,038	711,017,199	625,265,992	524,635,878	500,897,911
Sales of Products	761,904,361	723,916,809	682,332,141	679,562,010	687,203,049
Investment Income	9,696,272,520	2,038,503,724	(3,541,516,552)	(4,003,889,358)	8,119,031,124
Gifts and Grants	341,902,613	343,153,253	337,321,976	373,700,027	349,206,053
Employee Benefit Contributions[(c)]	2,980,854,560	2,038,154,899	1,768,712,369	1,847,520,797	1,558,509,041
General Obligation Proceeds	2,706,057,989	646,000,534	785,363,834	1,012,418,625	702,676,279
Other Revenues[(d)]	2,043,259,818	3,002,651,240	5,265,115,871	709,942,714	1,867,986,094
Subtotal	19,286,570,899	9,503,397,656	5,922,595,630	1,143,890,693	13,785,509,551
Summary					
TOTAL NET REVENUE	40,738,430,686	30,343,000,242	25,463,094,878	21,656,365,944	32,214,946,058
Transfers	847,006,075	939,405,913	1,307,219,152	620,137,706	658,364,767
Gross Revenue	$ 41,585,436,761	$ 31,282,406,155	$ 26,770,314,030	$ 22,276,503,650	$ 32,873,310,825

[(a)] The amounts shown are based on statutorily required accounting and not on GAAP. The amounts are unaudited.

[(b)] The decrease in 2001-02 is the result of some of these fees being erroneously posted under "Miscellany; Other Revenues" in this table.

[(c)] Figures include all State and non-State employer and employee contributions. State contributions for State employees totaled $1,727,453,191 for 2003-04, $975,778,982.77 for 2002-03, $824,268,843 for 2001-02; $758,283,014 for 2000-01; and $668,926,218 for 1999-2000. The increase in the amount of State contributions in 2003-04 is the result, in part, of the State prepaying its unfunded prior service liability (as of January 1, 2003) during the 2003-04 fiscal year.

[(d)] The increase from 2000-01 to 2001-02 reflects sale of rights to tobacco settlement revenues, an increase in child support collections, certain University of Wisconsin Systems fees being erroneously posted to this category, and other intergovernmental transfers or miscellaneous revenues.

Source: Wisconsin Department of Administration.

Public Utility Taxes

There are two methods used for taxing public utilities. An ad valorem method on property is used for pipeline companies, conservation and regulation companies, railroads, and airlines. The State assesses the value of the property; then the average statewide property tax rate is applied to derive the tax. An ad valorem tax on the real and tangible personal property is used for telephone companies.

The gross receipts tax is 3.19% for electric cooperatives and municipal power companies. Private light, heat, and power companies pay a gross receipts license fee at the rates of 0.97% of revenues from gas services and 3.19% of revenues from electric services. Each year's fee is based on revenues collected in the previous year. Revenue received from utilities is deposited to the General Fund; however, revenue from railroads and airlines is deposited in the segregated Transportation Fund. Car line companies, which are businesses that furnish or lease car line equipment to a railroad but do not operate a railroad, are subject to a 3% gross receipts tax, which is also deposited into the Transportation Fund.

Excise Taxes

Cigarettes are taxed at the rate of 77 cents per pack of 20. Tobacco products, other than cigarettes, are taxed at the rate of 25% of the manufacturer's list price. The tax is collected from distributors and subjobbers. Wine is taxed at 25 cents or 45 cents per gallon, depending on its alcohol content. Liquor is taxed at $3.25 per gallon. The wine and liquor tax is collected from wholesalers. Beer is taxed at the rate of $2 per barrel, and the tax is paid monthly by brewers.

Estate, Inheritance, and Gift Taxes

For deaths occurring after September 30, 2002 and before January 1, 2008, the State imposes an estate tax in an amount equal to the credit allowed for state inheritance or estate taxes under federal law in effect on December 31, 2000.

Insurance Company Premium Tax

Wisconsin-based life insurance companies pay a tax of 2% of the premiums received less a credit equal to 50% of personal property taxes. Small companies may choose to pay 2.5% of all income except premiums less the personal property tax credit. Nondomestic life insurance companies pay the 2% rate with no personal property tax credit.

Domestic casualty insurance companies are taxed 2% on premiums received on fire insurance, while nondomestic casualty insurance companies are taxed 2.375% on all forms of casualty premiums. The 2% tax levied on fire insurance premiums is redistributed to local governments as a "fire department dues" tax.

Motor Fuel Tax

Motor fuel is taxed at the rate of 32.1 cents per gallon. The motor fuel tax is indexed using an inflation-only factor based on the Consumer Price Index. The tax is collected from the wholesaler but is specifically passed through to the user. The revenues are deposited in the Transportation Fund, where they are used primarily for highway purposes.

Forest Tax

The forest tax is the only State tax upon general property. It is a 2/10 mill levy on all taxable property in the State. The tax is collected by municipal treasurers and remitted to the State during property tax settlements. After its receipt in the General Fund, it is transferred to the segregated Conservation Fund.

Miscellaneous Taxes

The State collects other miscellaneous taxes and fees, the largest of which is the real estate transfer fee. This fee is assessed at the time of a sale or transfer of real estate and at the rate of 30.0 cents per $100 value.

Tax Credits

Complementing the State's tax structure are tax credits designed to relieve certain taxes. These credits are reflected as expenditures for budgeting purposes. A brief description of the principal tax credits follows.

Homestead Tax Credit

Property tax relief is provided to low-income homeowners and renters through a homestead tax credit on state individual income taxes. The maximum household income limit is $24,500. The maximum amount of aidable property taxes is $1,450, and the amount of farm acreage on which the property tax is based is 120 acres. For renters, the amount of rent allocated as property tax is 25%, or 20% if heat is included in rent. In the 2003-04 fiscal year, low-income homeowners and renters received $119 million in homestead tax credit relief.

Earned Income Tax Credit

The earned income tax credit provides assistance to lower-income workers. The credit supplements the wages and self-employment income of such families. It offsets the impact of the social security tax and increases the incentive to work. As of December 1, 2003, the State was one of seven states that offered an earned income credit. Four of those states, including the State, offered a refundable earned income credit.

The State's earned income tax credit is calculated as a percentage of the federal credit. The federal earned income tax credit varies by income and family size. In addition to the federal standards, the State's credit varies the percent of the federal credit by the number of children: 4% of the federal credit for one child, 14% for two, and 43% for three or more. The maximum State credit in tax year 2002 ranged from $100 for one child, $580 for two children, and $1,780 for three or more children. In the 2002-03 fiscal year, low-income wage earners received $69 million in earned income tax credits.

Farmland Preservation Tax Credit

The farmland preservation program provides property tax relief to farmland owners and encourages local governments to develop farmland preservation policies. The credit reduces income tax liability or is rebated if the credit exceeds income tax due. The credit formula is based on household income, the amount of property tax levied by all governments, and the type of land use provisions protecting the farmland (either a preservation agreement or exclusive agricultural zoning). Claimants may receive a credit on up to $6,000 of property taxes. The maximum potential credit is $4,200. In the 2003-04 fiscal year, farmland owners received $14 million in farmland preservation tax credits.

School Levy Tax Credit

The school levy tax credit is distributed based on each municipality's share of statewide levies for school purposes and is provided to all classes of taxpayers (residential, commercial, industrial, and others). For property taxes levied in December 2003, $469 million of school levy tax credits was distributed statewide, and the credit will lower school property taxes paid by taxpayers by 6.1% of the total gross school tax levy. The credits are paid to municipalities to reduce the amount due from all property taxpayers.

Lottery Property Tax Credit.

The net proceeds of the state lottery are reserved for property tax relief. The lottery credit is paid to municipalities to reduce the amount due from local taxpayers. The lottery credit is paid only for property taxes on primary residences. The total lottery credit was approximately $118 million in December 2003.

School Property Tax/Rent Credit

The school property tax/rent credit is equal to 12% of the first $2,500 in property taxes, or rent relating to allocable property taxes, for a maximum credit of $300. In the 2002-03 fiscal year, the school property tax/rent credit totaled $387 million.

Tax Collection Procedure (Delinquencies)

If a taxpayer does not file a valid return when requested, the State of Wisconsin Department of Revenue **(DOR** or **Department of Revenue)** may estimate the amount of tax due and send the taxpayer an assessment of the amount owing. Until the due date, the taxpayer may appeal the amount stated to be owing, and absent an appeal, the account is considered delinquent on the due date. A delinquency also occurs when a taxpayer fails to properly pay taxes on a filed return or undercomputes the tax due. In that case, the taxpayer is billed for the shortfall, and there is no appeal process. An assessment can also result from office or field audits. An audit adjustment may be appealed up to the due date of the assessment.

DOR uses a computer system to record payment and collection information for income, franchise, sales, and use taxes. Revenue agents around the state can access the case records for delinquent accounts through DOR.

Collection of a delinquent account begins with a notice of overdue tax, which is sent to the taxpayer. This notice informs the taxpayer that failure to pay within 10 days may result in a warrant being filed in the county of residence or other involuntary collection actions. The account is assigned to a revenue agent, who will schedule an informal hearing with the taxpayer to attempt to solicit payment in full or set up an installment payment plan. Records of all collection contacts and actions are maintained in the statewide computer system.

If voluntary payments cannot be arranged, the revenue agent may proceed to a variety of involuntary collection actions, such as attachment of wages or levy or garnishment of assets. If the delinquent taxpayer has a refund coming from any tax program administered by DOR, the refund is applied to the delinquent balance. Beginning in calendar year 2001, federal tax refunds were applied to the delinquent balance.

Other actions that may be recommended to resolve a delinquent account include:

- Revocation of a business seller's permit
- Withholding of a business's liquor license
- Denial of a state-issued occupational license
- Referral to a private collection agency

If it is unknown whether the taxpayer has any assets that may be garnished, a supplemental hearing may be called before the court commissioner in the taxpayer's county of residence, and the taxpayer's affairs could be placed in receivership. If the taxpayer is without any assets at all, proceedings may be stayed and the account periodically reviewed for up to 10 years.

An analysis of the overall delinquency rate for the income, franchise, and sales and use taxes is shown in Table II-26 of "STATISTICAL INFORMATION".

EXPENDITURES

General

State expenditures are categorized under eight functional categories and the general obligation bond program. They are subcategorized by three distinct types of expenditures. The eight functional categories, which are listed in Table II-2, are described later in this part of the Annual Report. See "STATE GOVERNMENT ORGANIZATION; Description of Services Provided by State Government". The three types of expenditures are described below.

- *State Operations.* Direct payments by State agencies to carry-out State programs for expenses such as salaries, supplies, services, debt service, and permanent property.

- *Aids to Individuals and Organizations*. Payments from a State fund made directly to, or on behalf of, an individual or private organization (for example, Medicaid or student financial assistance).
- *Local Assistance*. Payments from a State fund to, or on behalf of, local units of government and school districts, including payments associated with State programs administered by local governments and school districts (for example, aid for families with dependent children and school aids).

Table II-2 shows the amounts expended (all funds) by function and type for each of the last five years.

General Fund Expenditures

Based on the budget and allocations for the 2004-05 fiscal year, over 61% of all general-fund taxes collected by the State are returned to local units of government. The remaining funds are used for payments to individuals and organizations (15%) and state programs, including the University of Wisconsin System (24%).

ACCOUNTING AND FINANCIAL REPORTING

Statutory Basis

The State accounts for, reports, and budgets its operations as set forth in the Wisconsin Statutes. The Annual Fiscal Report (which is unaudited) must be published each year on or before October 15. Except as noted in the following paragraph, under statutory accounting, receipts are recorded only at the time money or checks are deposited in the State Treasury, and disbursements are recorded only at the time a check is drawn. As a result, actions and circumstances, including discretionary decisions by certain governmental officials, can affect the timing of payments and deposits and therefore the amounts reported in a fiscal year.

For budgeting and Wisconsin Constitutional compliance purposes, the State's records are maintained in conformity with statutory requirements. The more important legal provisions are:

- In all cases the date of the contract or order determines the fiscal year in which it is charged unless it is determined that the purpose of the contract or order is to prevent lapsing of appropriations or to otherwise circumvent budgeting intent.
- The current year records must remain open until July 31 to permit departments to certify for payment bills applicable to the year ended June 30 and to deposit revenues applicable to such year, with the following exceptions: (1) amounts withheld for income taxes prior to July 1, and (2) taxes imposed on sales prior to July 1 are deemed to be accrued tax receipts as of the close of the fiscal year, provided such revenue is deposited on or before August 15.
- On July 31 all outstanding encumbrances entered for the previous year must be transferred to the new fiscal year and an equivalent prior year appropriation balance must also be forwarded to the new fiscal year.
- Revenues and expenditures are reported on a net basis. Overcollections refunded are deducted from revenues and current year overpayments made are deducted from expenditures.
- General Fund investments are carried at the lower of cost or par with discounts, premiums, and earnings recorded on an accrual basis.
- Encumbrances are treated as expenditures in the year of initiation.

Table II-2

EXPENDITURES BY FUNCTION AND TYPE (ALL FUNDS)[(a)]

1999-2000 TO 2003-2004

	2003-04	2002-03	2001-02	2000-01	1999-2000
Commerce					
State Operations	$ 176,745,176	$ 176,083,715	$ 170,184,711	$ 171,267,613	$ 162,895,100
Aids to Individuals and Organizations	172,583,246	187,477,215	174,212,058	215,454,938	346,664,701
Local Assistance	138,932,517	74,394,249	74,407,965	51,631,378	56,346,765
Subtotal	488,260,939	437,955,179	418,804,734	438,353,929	565,906,566
Education					
State Operations	3,475,747,413	3,303,821,334	3,115,399,765	3,075,483,311	2,804,394,458
Aids to Individuals and Organizations	512,024,280	485,812,841	427,268,613	391,871,206	342,821,711
Local Assistance	5,379,843,071	5,355,644,148	5,118,756,509	4,941,446,927	4,676,809,090
Subtotal	9,367,614,765	9,145,278,323	8,661,424,887	8,408,801,444	7,824,025,259
Environmental Resources					
State Operations	1,516,414,319	1,848,457,071	1,669,826,629	1,689,461,785	1,471,082,344
Aids to Individuals and Organizations	22,054,756	16,157,370	32,409,367	25,802,608	25,185,553
Local Assistance	1,033,697,144	1,115,024,574	1,009,292,244	1,011,992,606	1,039,528,614
Subtotal	2,572,166,219	2,979,639,014	2,711,528,240	2,727,256,998	2,535,796,511
Human Relations and Resources					
State Operations	2,270,811,372	2,407,000,030	2,201,627,675	1,972,235,028	1,863,099,973
Aids to Individuals and Organizations	7,076,266,703	7,214,104,334	7,002,052,675	5,711,855,259	5,220,672,714
Local Assistance	727,628,112	754,700,651	722,778,120	697,998,641	676,100,856
Subtotal	10,074,706,187	10,375,805,016	9,926,458,471	8,382,088,927	7,759,873,543
General Executive					
State Operations	7,172,782,711	4,534,745,855	4,507,929,098	3,870,708,222	3,356,742,192
Aids to Individuals and Organizations	384,804,781	375,249,497	326,682,917	357,195,805	302,438,911
Local Assistance	140,022,849	125,798,685	104,908,224	59,560,427	40,962,042
Subtotal	7,697,610,341	5,035,794,037	4,939,520,239	4,287,464,453	3,700,143,145
Judicial					
State Operations	87,121,028	85,979,874	84,149,092	85,292,057	78,820,982
Local Assistance	24,118,000	24,073,100	23,716,900	23,726,900	23,666,900
Subtotal	111,239,028	110,052,974	107,865,992	109,018,957	102,487,882
Legislative					
State Operations	59,302,088	61,219,698	62,114,318	62,220,008	59,819,385
Subtotal	59,302,088	61,219,698	62,114,318	62,220,008	59,819,385
General					
State Operations	758,203,351	850,238,866	1,320,960,416	564,306,377	656,616,891
Aids to Individuals and Organizations	234,367,276	836,426,667	1,179,940,690	837,938,682	884,416,569
Local Assistance	1,713,112,543	1,702,335,971	1,693,443,439	1,675,208,599	1,779,060,238
Subtotal	2,705,683,171	3,389,001,503	4,194,344,545	3,077,453,657	3,320,093,698
General Obligation Bond Program					
State Operations	817,151,948	447,479,707	622,061,731	675,100,374	576,493,991
Subtotal	817,151,948	447,479,707	622,061,731	675,100,374	576,493,991
Summary Totals					
State Operations	16,334,279,406	13,715,026,150	13,754,253,435	12,166,074,774	11,029,965,316
Aids to Individuals and Organizations	8,402,101,042	9,115,227,924	9,142,566,320	7,540,118,497	7,122,200,159
Local Assistance	9,157,354,236	9,151,971,378	8,747,303,402	8,461,565,478	8,292,474,505
GRAND TOTAL	$33,893,734,685	$31,982,225,451	$31,644,123,157	$28,167,758,749	$26,444,639,980

(a) The amounts shown are based on statutorily required accounting and not on GAAP. The amounts are unaudited.

Source: Wisconsin Department of Administration.

Generally Accepted Accounting Principles

The State also accounts for and reports on its operations using generally accepted accounting principles (**GAAP**). For the fiscal year ended June 30, 2004 the State has prepared a Comprehensive Annual Financial Report (**CAFR**) in accordance with GAAP. The General Purpose External Financial Statements section of the CAFR for the fiscal year ended June 30, 2004 has been audited and is included as APPENDIX A to this Part II of the Annual Report.

Financial statements prepared in accordance with GAAP differ from those prepared in accordance with the Wisconsin Statutes. A notable difference pertains to the General Fund balance. The undesignated, unreserved balance for the fiscal year ended June 30, 2004 was $105 million on a budgetary basis. Under GAAP, the total fund balance for the fiscal year ended June 30, 2004 was a deficit of $1.931 billion. The difference results primarily because GAAP recognizes accrued liabilities that are not taken into account under the statutory basis. The single largest accrued liability for the fiscal year ended June 30, 2004 was $742 million and related to the State's individual income tax accruals.

Component Unit—Badger Tobacco Asset Securitization Corporation

For GAAP purposes, the financial reporting entity for the State is all funds, elected offices, departments, and agencies of the State, as well as boards, commissions, authorities, and universities. The State also considers all potential component units based on criteria set forth by the Governmental Accounting Standards Board **(GASB)**. A GASB technical bulletin released in 2004 clarified guidance on whether a tobacco settlement authority 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.

As a result of this guidance, the Badger Tobacco Asset Securitization Corporation **(BTASC)**, previously reported by the State as a discrete component unit, is now reported as a blended component unit to the State and reported as a debt service fund. The Articles of Incorporation of BTASC requires that the corporation hold itself apart and separate from the State. Accounting guidance from the GASB requires the State to incorporate the financial results of BTASC in its financial statements as a blended component unit. Such accounting treatment is not requested or condoned by BTASC and such accounting treatment does not create a liability of the State for the obligations of BTASC.

BUDGETING PROCESS AND FISCAL CONTROLS

Annual appropriations are made through the enactment of the State budget. Most of the budget process derives from statutory laws or custom and practice, and thus the process is subject to change.

The State budget is the legislative document that sets the level of authorized state expenditures for the two fiscal years in a biennium and the corresponding level of revenues (primarily taxes) projected to be available to finance those expenditures. A biennium begins on July 1 of each odd-numbered year and ends on June 30 of the subsequent odd-numbered year. The requirement for a state budget is linked directly to the Wisconsin Constitution, which provides that "No money shall be paid out of the treasury except in pursuance of an appropriation by law." The Wisconsin Constitution requires a balanced budget. It also requires that, if final budgetary expenses of any fiscal year exceed available revenues, then the Legislature must take actions to pay the deficiency in the succeeding fiscal year.

Budget Requests from Agencies

The formal budget process begins when the State Budget Office in the State of Wisconsin Department of Administration **(DOA** or **Department of Administration)** issues instructions to State agencies for submission of their budget requests for the next biennium. Most larger agencies actually begin their internal processes for development of their budget requests several months prior to the issuance of these instructions.

Pursuant to the Wisconsin Statutes, agency budget requests are to be submitted no later than September 15 of each even-numbered year. Agencies are also required, to submit copies of their budget requests to the Legislative Fiscal Bureau **(LFB)** at the same time that copies are delivered to the State Budget Office.

Executive Budget

Pursuant to the Wisconsin Statutes, the Secretary of Administration is required, to provide to the Governor or Governor-Elect and to each member of the next Legislature, by November 20 of each even-numbered year, a compilation of the total amount of each agency's biennial budget request. The Wisconsin Statutes also require that DOR compile and provide, by November 20 of each even-numbered year, information on the actual and estimated revenues for the current and forthcoming biennium. These revenue estimates are used by the Governor as the basis on which total General Fund biennial budget spending levels are recommended. The State Budget Director (who is an appointee of the Secretary of Administration) is involved in the review of agency requests and the development of the Governor's budget recommendations for appropriations. In addition, the Governor's budget recommendations include any statutory language changes needed to accomplish the policy initiatives and program or appropriation changes that are part of the Governor's recommendations. A draft bill is prepared by the Legislative Reference Bureau incorporating the Governor's fiscal and statutory recommendations.

The Governor is required to deliver the biennial budget message and executive budget bill or bills to the Legislature on or before the last Tuesday in January of the odd-numbered year. However, upon request of the Governor, a later submission date may be allowed by the Legislature upon passage of a joint resolution. For 9 of the last 10 biennial budgets, a delayed submission date, averaging 16 days, has been requested by the Governor.

The Wisconsin Statues provide that immediately after delivery of the Governor's budget message, the executive budget bill or bills must be introduced by the Joint Committee on Finance, without change, into one of the two houses of the Legislature. Upon introduction, the bill or bills must be referred to that committee for review. Because of both the complexity of the budget and its significance, committee review of the budget bill is the most extensive and involved review given to any bill in a legislative session.

Legislative Consideration

LFB usually provides initial overview briefings on the budget for the Joint Finance Committee. The committee holds public hearings on the proposed budget, including both hearings at which agencies present informational briefings and hearings to allow public comment. Other legislative committees may hold meetings, at the discretion of the committee chairperson, to inform committee members of particular aspects of the budget that may affect the substantive interests of the committee.

Upon conclusion of the public hearings, the Joint Committee on Finance commences executive sessions of the Governor's recommended budget. The committee invariably adopts a budget that contains numerous changes to the Governor's recommendations. The form of the committee's budget is usually a substitute amendment to the Governor's budget bill rather than being a separately identified new bill.

The two houses of the Legislature rarely pass identical versions of the budget in their first consideration. There are alternative methods available for achieving resolution of the differences between the two houses on bills. A common method is for one house to seek a committee of conference on the bill wherein a specified number of members from each house are delegated to meet as a bargaining committee with the goal of producing a report reconciling the differences. Another method that has been used from time to time has been to successively pass, between the houses, narrowing amendments dealing only with the points of difference between the respective budgets as initially recommended by the two houses.

While the Wisconsin Statutes require that summary information be compiled by DOR on the actual and estimated revenues for the current and forthcoming biennium and that this summary information be available on November 20th of each even-numbered year, LFB may use its discretion to provide updated revenue estimates at any time for the current and forthcoming biennium.

Governor's Partial Veto Power

The Wisconsin Constitution grants the Governor the power of partial veto for any appropriation bill. This means that rather than having to approve or reject the budget bill in its entirety, the Governor may selectively delete portions of the budget bill. Thus, both language and dollar amounts in a budget bill may be eliminated by the Governor's veto, and dollar amounts may be reduced. The budget bill (less any items deleted or reduced by the Governor's partial veto) then becomes the State's fiscal policy document for the next two years.

Just as it may do with a Governor's veto of a bill in its entirety, the Legislature may, with a two-thirds vote by each house, override a partial veto and enact the vetoed portion into law. This action may be taken before or after the budget becomes effective.

Continuing Authority

The failure of the Legislature to adopt a new budget before the commencement of a biennium does not result in a lack of spending authority. The Wisconsin Statutes provide that if an existing appropriation for the second year of a biennium is not amended or repealed, it continues in effect for all subsequent fiscal years. Thus, in the event that a budget is not in effect at the start of a fiscal year, the prior year's budget serves as the budget until such time as a new one in enacted.

Fiscal Controls

No money shall be paid out of the Treasury except as appropriated by law. The Wisconsin Statutes require that the Secretary of Administration and the State Treasurer must approve all payments. The Secretary of Administration is also responsible for audit of expenditures prior to disbursement. The Legislative Audit Bureau has postaudit responsibility.

The Department of Administration maintains separate accounts for all appropriations, showing the amounts appropriated, the amounts allotted, the amounts encumbered, the amounts expended, and certain other data necessary to the financial management and control of all State accounts. The Department of Administration also maintains the general ledgers of the General Fund and all other funds of the State.

State law prohibits the enactment of legislation that would cause the estimated General Fund balance to be less than a specified amount or percentage of the general purpose revenue appropriations for that fiscal year. The specified amount for the 2003-04 fiscal year was $35 million. State law currently requires that the amount for the 2004-05 fiscal year should be $40 million and for the 2005-06 fiscal year should be $75 million. State law also requires that, beginning with the 2006-07 fiscal year, the statutory required reserve should be 2.0% of the general purpose revenue appropriations for that fiscal year.

The budget could move out of balance if estimated revenues are less than anticipated in the budget or if expenditures for open-ended appropriations are greater than anticipated. The Wisconsin Statutes provide that, following the enactment of the budget, if the Secretary of Administration determines that budgeted expenditures will exceed revenues by more than one-half of one percent of general purpose revenues (consisting of general taxes, miscellaneous receipts, and revenues collected by state agencies which lose their identity and are available for appropriation by the Legislature), no approval of expenditure estimates can occur. Further, the Secretary of Administration must notify the Governor and the Legislature, and the Governor must submit a bill correcting the imbalance. If the Legislature is not in session, the Governor must call a special session to take up the matter.

The Secretary of Administration also has statutory power to order reductions in the appropriations of state agencies (which represent less than one-fourth of the General Fund budget). The Secretary of Administration may also temporarily reallocate free balances of certain funds to other funds that have insufficient balances and, further, may prorate or defer certain payments in the event current or projected balances are insufficient to meet current obligations. See "GENERAL FUND INFORMATION, General Fund Cash Flow." The Department of Administration may also request the issuance of operating notes by the State of Wisconsin Building Commission (**Commission**).

RESULTS OF 2003-04 FISCAL YEAR

The Annual Fiscal Report (Budgetary Basis) for the fiscal year ending June 30, 2004 was published October 15, 2004. It reports that the State's actual General Fund tax collections for the 2003-04 fiscal year, on a budgetary basis, were $69 million above the LFB projection from February 2004, and were nearly $540 million, or 5.3%, above collections in the 2002-03 fiscal year. It also reports that the State ended the 2003-04 fiscal year on a statutory and unaudited basis with an undesignated balance of $105 million. This is $28 million lower than the balance projected in the final appropriation schedule for this fiscal year, but $30 million more than the balance projected by LFB on February 10, 2004 in its projections of General Fund tax collections for the 2003-05 biennium. See "STATE BUDGET; Budget for 2003-05.

The State issued and retired $400 million of operating notes during the 2003-04 fiscal year.

The Annual Fiscal Report is not part of this Annual Report. A complete copy of the Annual Fiscal Report may be obtained at the following address:

State of Wisconsin Capital Finance Office
Department of Administration
101 East Wilson Street, FLR 10
P.O. Box 7864
Madison, WI 53707-7864
(608) 266-2305
capfin@doa.state.wi.us
www.doa.wi.gov/capitalfinance

Tables II-3, II-4, and II-5 in the section "STATE BUDGET" summarize the results from the 2003-04 fiscal year.

STATE BUDGET

Budget for 2003-05

The State is in the last year of a biennial budget. See "RESULTS OF 2003-04 FISCAL YEAR" for information from the Annual Fiscal Report (Budgetary Basis) for the 2003-04 fiscal year, which was the first year of the biennial budget.

Fiscal Year 2004-05

Revenue Estimates - November 20, 2004

On November 20, 2004, DOR released estimates of General Fund tax revenues for the 2004-05 fiscal year. The total estimate of General Fund tax revenues is $11.336 billion, which is approximately $147 million more than the amount previously estimated in February 2004 by LFB. The new estimates from DOR show the following differences from the previous LFB estimates:

- General Fund tax revenues are estimated to be $147 million greater at $11.336 billion.
- Individual Income tax revenues are estimated to be $63 million greater at $5.620 billion.
- General Sales and Use tax revenues are estimated to be $1 million less at $4.094 billion.
- Corporate Income/Franchise tax revenues are estimated to be $56 million greater at $683 million.

A copy of the DOR report may be obtained from:

State of Wisconsin Capital Finance Office
Department of Administration
101 East Wilson Street, FLR 10
P.O. Box 7864
Madison, WI 53707-7864
(608) 266-2305
capfin@doa.state.wi.us
www.doa.wi.gov/capitalfinance

Projected Net General Fund Budgetary Balance—June 30, 2005

On November 20, 2004, DOA released a report of agency budget requests, which also contained a projected net General Fund budgetary balance (including the statutory required reserve) for the end of the 2004-05 fiscal year. This projected balance is $176 million and takes into account the undesignated balance available at the end of the 2003-04 fiscal year and the estimates of General Fund tax revenues released by DOR on November 20, 2004. This projected net General Fund budgetary balance for the end of the 2004-05 fiscal year is approximately $249 million more than the balance projected by LFB in February 2004. This projected net General Fund budgetary balance for the end of the 2004-05 fiscal year makes the following assumptions:

- The projection does not take into account a projected $230 million shortfall in Medical Assistance-related programs (Medical Assistance, BadgerCare, and Senior Care). This expected shortfall is associated with insufficient federal Medicaid enhancement revenues and higher-than-expected caseload and medical cost inflation. The Legislature has not made appropriations to address this shortfall, and therefore the projected shortfall is not incorporated in the projected net General Fund budgetary balance.
- The projection assumes that the full payment will be made from all tribal governments pursuant to existing amendments to gaming compact amendments. In May 2004, the Wisconsin Supreme Court ruled that the Governor's execution on the State's behalf of an amendment to the gaming compact with a tribal government was unconstitutional. Although the decision concerned only an amendments to a gaming compact with only one tribal government, the reasoning of the opinion would apply to similar amendments to other gaming compacts that the Governor executed on the State's behalf on or after January 1, 2003.

  The State's 2003-05 biennial budget assumed $102 million of payments in the 2003-04 fiscal year from all amended gaming compacts. Subsequent to the Wisconsin Supreme Court's decision, the State received payments expected to be received by June 30, 2004 from all but one of the tribal governments; the amount that was not received is $30 million. The State's 2003-05 biennial budget assumes that $105 million of payments will be made in the 2004-05 fiscal year. Discussions continue with the tribal governments regarding the one outstanding payment and all payments due during or after the 2004-05 fiscal year.

A copy of the DOA report may be obtained from:

State of Wisconsin Capital Finance Office
Department of Administration
101 East Wilson Street, FLR 10
P.O. Box 7864
Madison, WI 53707-7864
(608) 266-2305
capfin@doa.state.wi.us
www.doa.wi.gov/capitalfinance

Revenue Estimates—January/February 2004

On January 15, 2004, LFB previously released a re-estimate of departmental revenues and expenditures for the 2003-05 biennium. This prior re-estimate did not include tax collections and did not revise the General Fund condition statement. On February 10, 2004, LFB previously released projections of General Fund tax collections for the 2003-05 biennium. This letter also included a projected net ending General Fund balance of negative $32 million (including the statutory required reserve) for the end of the biennium, which is June 30, 2005. This ending balance is approximately $259 million less than the balance that was indicated upon enactment of the State's 2003-05 biennial budget (2003 Wisconsin Act 33).

Budget Tables

Table II-3 provides a general summary, and Tables II-4 and II-5 provide a more detailed budget summary of 2003-05 biennial budget (2003 Wisconsin Act 33) and all acts of the 2003 legislative session, along with the Annual Fiscal Report (Budgetary Basis) for the fiscal year ended June 30, 2004. The following budget tables do not reflect the November 20, 2004 revenue estimates from DOR, nor do they reflect the projected net General Fund budgetary balance for the end of the 2004-05 fiscal year, which DOA provided on November 20, 2004.

Budget for 2005-07

The General Fund tax revenue estimates released by DOR on November 20, 2004 also included estimates of General Fund tax revenues for the 2005-07 biennium. These estimates are $11.825 billion for the 2005-06 fiscal year and $12.373 billion for the 2006-07 fiscal year, or increases of 4.3% and 4.6%, respectively. A copy of the DOR report may be obtained from:

State of Wisconsin Capital Finance Office
Department of Administration
101 East Wilson Street, FLR 10
P.O. Box 7864
Madison, WI 53707-7864
(608) 266-2305
capfin@doa.state.wi.us
www.doa.wi.gov/capitalfinance

The Governor is required to submit a proposed biennial budget to the Legislature on or before January 25, 2005, however, upon request of the Governor, a later submission date may be allowed by the Legislature upon passage of a joint resolution.

Table II-3
State Budget Summary
General Fund Basis
(Amounts in Millions)

	Actual 2003-04	Budget 2003-04	Budget 2004-05
Beginning Balance	$ (282)	$ (282)	$ 133
Tax Revenues[a]	10,760	10,670	11,189
Tribal Gaming Revenues [b]	n/a	80	81
Nontax Revenues	11,281	9,092	9,371
Total Amount Available	$ 21,759	$ 19,560	$ 20,774
Total Disbursements/Reserves	$ 21,602	$ 19,426	$ 20,758
Estimated Gross Balance	$ 156	$ 133	$ 17
GPR Designated and PR Balances[c]	51	n/a	n/a
Required Statutory Reserve	n/a	35	40
Net Balance	$ 105	$ 98	$ (23)

All-Funds Basis[d]
(Amounts in Millions)

	Actual 2003-04	Budget 2003-04	Budget 2004-05
Beginning Balance	$ (282)	$ (282)	$ 133
Tax Revenues[a]	11,914	10,670	11,189
Tribal Gaming Revenues [b]	n/a	80	81
Nontax Revenues	29,671	20,562	20,531
Total Amount Available	$ 41,303	$ 31,030	$ 31,935
Total Disbursements/Reserves	$ 41,147	$ 30,897	$ 21,918
Estimated Gross Balance	$ 156	$ 133	$ 17
GPR Designated and PR Balances[c]	51	n/a	n/a
Required Statutory Reserve	n/a	35	40
Net Balance	$ 105	$ 98	$ (23)

(a) Does not reflect the revenue estimates released by DOR on November 20, 2004.

(b) Tribal gaming revenues are budgeted separately; however, when the payments are received by the State they are not specifically reported but are included within the category entitled "Nontax Revenues".

(c) Amount designated for continuing appropriations. See Exhibit A-2 of the Annual Fiscal Report (budgetary basis) for the 2003-04 fiscal year.

(d) The all-funds budget assumes that certain categories of revenues are expended in like amounts. This includes federal funds, revenues paid into specific funds (other than the General Fund) for a specified program or purpose or which are credited to an appropriation to finance a specific program or agency, and proceeds of general obligation debt. In any given fiscal year, there may be a balance at year-end in the funds, specific program, or agency.

Table II-4
State Budget–General Fund[a]

	Actual 2003-2004 [c]	Budget 2003-2004[d]	Budget 2004-2005[d]
RECEIPTS			
Fund Balance from Prior Year...................................	$ (282,221,000)	$ (282,221,000)	$ 133,428,000
Tax Revenue			
State Taxes Deposited to General Fund[b]			
Individual Income...	5,277,119,000	5,220,000,000	5,556,590,000
General Sales and Use...	3,899,264,000	3,899,625,000	4,094,750,000
Corporate Franchise and Income............................	650,526,000	650,000,000	627,050,000
Public Utility...	269,801,000	261,000,000	271,000,000
Excise			
Cigarette/Tobacco Products.................................	307,424,000	305,600,000	302,000,000
Liquor and Wine...	38,470,000	39,000,000	40,000,000
Malt Beverage..	9,601,000	9,700,000	9,800,000
Inheritance, Estate & Gift..	86,357,000	85,000,000	90,000,000
Insurance Company..	123,621,000	125,000,000	120,000,000
Other...	97,331,000	75,100,000	78,000,000
Subtotal..	10,759,514,000	10,670,025,000	11,189,190,000
Nontax Revenue			
Departmental Revenue			
Tribal Gaming Revenues [e].............................	n/a	80,276,600	80,595,400
Other…………………………………………	284,051,000	328,970,400	329,151,800
Program Revenue-Federal...	6,333,545,000	5,710,050,800	5,509,198,900
Program Revenue-Other..	4,663,830,000	3,052,502,000	3,533,134,400
Subtotal..	11,281,426,000	9,171,799,800	9,452,080,500
Total Available...	$ 21,758,719,000	$ 19,559,603,800	$ 20,774,698,500
DISBURSEMENTS AND RESERVES			
Commerce...	310,494,000.00	$ 266,885,900	$ 274,448,400
Education..	9,338,633,000	9,182,818,900	9,381,679,500
Environmental Resources..	182,335,000	191,037,600	252,105,900
Human Relations and Resources.................................	7,936,185,000	7,660,725,800	8,435,726,300
General Executive...	2,104,690,000	293,152,400	636,573,200
Judicial...	110,882,000	110,945,700	110,988,200
Legislative...	59,302,000	62,468,300	62,479,800
General Appropriations...	1,673,811,000	1,667,554,700	1,656,183,700
Subtotal..	21,716,332,000	19,435,589,300	20,810,185,000
Less: (Lapses)..	n/a	(242,066,400)	(215,125,400)
Compensation Reserves..	n/a	109,152,900	163,019,600
Required Statutory Balance...	n/a	35,000,000	40,000,000
Transfer to Medical Assistance Trust Fund	n/a	123,500,000	-
Changes in Continuing Balance....................................	(114,007,000)	n/a	n/a
Total Disbursements & Reserves.............................	$ 21,602,325,000	$ 19,461,175,800	$ 20,798,079,200
Fund Balance...	$ 156,394,000	$ 98,428,000	$ (23,380,700)
Undesignated Balance..	$ 105,200,000 [f]	$ 133,428,000	$ 16,619,300

(a) The amounts shown are based on statutorily required accounting and not on GAAP.
(b) Does not reflect the revenue estimates released by DOR on November 20, 2004.
(c) The amounts shown are unaudited and rounded to the nearest thousand dollars.
(d) The amounts shown incorporate all budget acts of the 2003 legislative session.
(e) Tribal gaming revenues are budgeted separately; however, when the payments are received by the State they are not specifically reported, but included within the category entitled "Nontax Revenues".
(f) The Undesignated Balance is lower due to $51.2 million being designated for continuing appropriations.

Sources: Legislative Fiscal Bureau and Department of Administration.

Table II-5
State Budget–All Funds[a]

	Actual 2003-2004 [c]	Budget 2003-2004[d]	Budget 2004-2005[d]
RECEIPTS			
Fund Balance from Prior Year	$ (282,221,000)	$ (282,221,000)	$ 133,428,000
Tax Revenue[b]			
Individual Income	5,277,119,000	5,220,000,000	5,556,590,000
General Sales and Use	3,899,264,000	3,899,625,000	4,094,750,000
Corporate Franchise and Income	650,526,000	650,000,000	627,050,000
Public Utility	269,801,000	261,000,000	271,000,000
Excise			
Cigarette/Tobacco Products	307,424,000	305,600,000	302,000,000
Liquor and Wine	38,470,000	39,000,000	40,000,000
Malt Beverage	9,601,000	9,700,000	9,800,000
Inheritance, Estate & Gift	86,357,000	85,000,000	90,000,000
Insurance Company	123,621,000	125,000,000	120,000,000
Other	1,251,834,000 [f]	75,100,000 [f]	78,000,000 [f]
Subtotal	11,914,017,000	10,670,025,000	11,189,190,000
Nontax Revenue			
Departmental Revenue			
Tribal Gaming Revenues [e]	-	80,276,600	80,595,400
Other	284,051,000	328,970,400	329,151,800
Total Federal Aids	6,333,545,000	6,343,733,000	6,172,387,600
Total Program Revenue	4,663,830,000	3,388,287,300	3,533,134,400
Total Segregated Funds	2,851,232,000	3,190,796,700	2,808,703,900
Bond Authority	2,706,057,000	475,000,000	485,000,000
Employee Benefit Contributions [g]	12,832,705,000	6,835,282,000	7,203,432,000
Subtotal	29,671,420,000	20,642,346,000	20,612,405,100
Total Available	$ 41,303,216,000	$ 31,030,150,000	$ 31,935,023,100
DISBURSEMENTS AND RESERVES			
Commerce	$ 498,554,000	$ 458,866,100	$ 473,052,600
Education	9,659,543,000	9,284,053,800	9,507,703,400
Environmental Resources	2,947,226,000	2,271,685,400	2,477,859,700
Human Relations and Resources	10,159,591,000	8,564,114,600	8,867,059,700
General Executive	7,713,151,000	782,477,400	791,644,300
Judicial	111,238,000	111,659,000	111,701,500
Legislative	59,302,000	62,468,300	62,479,800
General Appropriations	2,745,128,000	2,060,528,900	1,990,576,600
General Obligation Bond Program	748,064,000	475,000,000	485,000,000
Employee Benefit Payments [g]	5,087,852,000	4,028,899,000	4,428,317,000
Reserve for Employee Benefit Payments [g]	7,744,853,000	2,806,383,000	2,775,115,000
Subtotal	47,474,502,000	30,906,135,500	31,970,509,600
Less: (Lapses)	n/a	(242,066,400)	(215,125,400)
Compensation Reserves	n/a	109,152,900	163,019,600
Required Statutory Balance	n/a	35,000,000	40,000,000
Transfer to Medical Assistance Trust Fund	n/a	123,500,000	-
Change in Continuing Balance	(6,327,680,000)	n/a	n/a
Total Disbursements & Reserves	$ 41,146,822,000	$ 30,931,722,000	$ 31,958,403,800
Fund Balance	$ 156,394,000	$ 98,428,000	$ (23,380,700)
Undesignated Balance	$ 105,200,000 [h]	$ 133,428,000	$ 16,619,300

(a) The amounts shown are based on statutorily required accounting and not on GAAP. The all-funds budget assumes that certain categories of revenues are expended in like amounts. This includes federal funds, revenues paid into specific funds (other than the General Fund) for a specified program or purpose or which are credited to an appropriation to finance a specific program or agency, and proceeds of general obligation debt. In any given fiscal year, there may be a balance at year-end in the funds, specific program, or agency.

(b) Does not reflect the revenue estimates released by DOR on November 20, 2004.

(c) The amounts shown are unaudited and rounded to the nearest thousand dollars.

(d) The amounts shown incorporate all budget acts of the 2003 legislature.

(e) Tribal gaming revenues are budgeted separately; however, when the payments are received by State they are not specifically reported, but included within the category entitled "Nontax Revenues".

(f) The budgeted amounts do not include taxes collected for segregated funds. The largest such tax is the motor fuel tax. The State collected $935 million of motor fuel taxes in the 2003-04 fiscal year.

(g) State law separates the accounting of employee benefits from the budget. They are included for purposes of comparability to the figures presented in this table and Tables II-1 and II-2 in this Part II of the Annual Report.

(h) The Undesignated Balance is lower due to $51.2 million being designated for continuing appropriations.

Sources: Legislative Fiscal Bureau and Department of Administration.

Sale of Tobacco Settlement Revenues

The State has previously sold to BTASC the right of the State to receive, after June 30, 2003, tobacco settlement revenues to be made by the participating cigarette manufacturers under the Master Settlement Agreement, which was entered into among the participating cigarette manufacturers and the attorneys general of 46 states and six other U.S. jurisdictions on November 23, 1998 in connection with the settlement of certain smoking-related litigation.

BTASC issued $1.591 billion principal amount of bonds to finance the purchase and to fund necessary reserves, operating costs, and costs of issuance. The State received $1.275 billion for selling its right to receive the tobacco settlement revenues. Of this amount, $681 million was transferred to the General Fund in 2001-02 fiscal year, and the balance was used in lieu of General Fund money to make shared revenue payments to local municipalities in the 2002-03 fiscal year.

BTASC is a special purpose nonstock, nonprofit corporation, organized under the general nonstock corporation law of the State by the Secretary of Administration pursuant to authority granted under Section 16.63 of the Wisconsin Statutes. A board of directors that consists of three directors governs BTASC. The Secretary of Administration appoints all directors. Financial reports and further information may be obtained from BTASC, 10 East Doty Street, Suite 800, Madison, WI 53703. The e-mail address is btasc@btasc.org and the web site address is www.btasc.org.

Potential Effect of Litigation

APPENDIX A to this part of the Annual Report includes the General Purpose External Financial Statements for the fiscal year ended June 30, 2004. The notes to the General Purpose External Financial Statements include a description of various legal proceedings, claims, and tax refunds that may have a potential budgetary effect. The potential budgetary impact of these legal proceedings and claims, and any updates to those proceedings subsequent to June 30, 2004, are outlined below. The following also includes a description of various other legal proceedings, claims, and tax refunds that were not included in the notes to the General Purpose External Financial Statements, but may have a potential budgetary effect.

Corporate Tax Measured by Interest from U.S. Securities

The State was involved in a corporate franchise tax case. Although the State Supreme Court ruled in favor of the State, certain taxpayers maintain the decision is not applicable to certain years. The State maintains the principles of the decision apply to those years. The 2004-05 budget does not provide for payment of any claim.

Federal Pension Income

The refunds resulting from this case are essentially complete. Subsequent litigation with other retirees on a variety of issues has occurred, with prevailing in all instances. Litigation is still in process on a limited number of cases. The 2004-05 budget does not provide for payment of refunds in the event that the State should fail to prevail on this matter.

Environmental Clean-Up Actions

The State is involved in the environmental clean-up of property owned by the State that has the potential to cause soil and groundwater contamination and that does not involve releases from underground storage tanks. The estimated remediation costs of these properties is $2 million. The 2004-05 budget does not specifically provide for payment of these costs; however, the payment would be made from certain funds already established by the State.

Sales Tax on Customized Computer Software

The State Tax Appeals Commission previously ruled that sales of certain customized computer software are not subject to the State's sale tax. The State appealed this decision, and on October 26, 2004, the Dane County Circuit Court reversed the decision of the State Tax Appeals Commission. The plaintiffs in this case have appealed this decision to the Wisconsin Court of Appeals. At this date, DOR has not established an estimate of the financial impact that could result from this case. The State previously estimated that it collects about $65 million annually in sales tax under circumstances similar to those in the case. The 2004-05 budget does not provide for payment of refunds or loss of tax revenue in the event that the State should fail to prevail on this matter.

Validity of Gaming Compacts

The State is involved in a suit that challenges the validity of all of the existing tribal compacts as a result of a 1993 amendment to the Wisconsin Constitution. The State prevailed in Circuit Court. The plaintiff has appealed the decision. There have been a series of interactions between the Appeals Court and the Wisconsin Supreme Court. Currently, the Wisconsin Supreme Court is reviewing whether or not to accept the case.

The suit does not contain a monetary claim. There would be a loss of future revenue in the event that the State would not prevail. At this time, it is not possible to determine the initial fiscal year that would be impacted by an adverse decision.

Other

The State, its officers, and its employees are defendants in numerous other lawsuits. It is the opinion of the Attorney General that such pending litigation will not be finally determined so as to result individually or in the aggregate in a final judgment against the State which would materially impair its financial position. Potential liability for such pending litigation does not constitute a significant impairment of the State's financial position or payment of debt service.

Employee Relations

Of the State's approximately 41,000 civil service employees, approximately 35,000 are employees whose wage rates, fringe benefits, hours, and conditions of employment are determined by collective bargaining agreements. All these classified employees are either assigned to a collective bargaining unit or are exempted from bargaining unit coverage due to their "confidential" or "management" designation. Covered employees are assigned to one of twenty-two bargaining units set up by occupational groupings based by their civil service classification. An exclusive bargaining agent represents nineteen of the bargaining units. Eight of the nineteen bargaining units have reached agreement on their 2003-05 contracts. Labor agreements for the remaining eleven bargaining units expired on June 30, 2003, but have been extended while the State continues to negotiate the agreements for the period ending June 30, 2005.

The employment of non-represented civil service employees is covered by civil service statutes, rules, and the non-represented compensation plan.

Each contract contains a no-strike and no-lockout provision, and State law specifies that it is illegal for a State employee "to engage in, induce, or encourage any employee to engage in a strike or a concerted refusal to work or perform their usual duties as employees". Also, the State and its agencies have established contingency plans to staff and operate the various State agencies, programs, and institutions should an incident occur that could disrupt the delivery of critical State services and necessary agency functions. These plans covering various situations including strikes and work stoppages are updated annually.

The budget provides for salary and fringe benefits in an amount that is expected to be sufficient to meet all contract obligations. The Wisconsin Statutes require the contracts between the State and the individual bargaining units to be two-year contracts that coincide with the State's biennium. A contract agreement requires ratification by the members of the labor unions, approval by the Joint Committee on Employment Relations, passage by both houses of the Legislature, and signature of the Governor.

State Budget Assumptions

Tax revenues for the 2003-05 biennial budget were initially based on January 23, 2003 estimates from LFB. Estimates of tax revenues have changed twice since that time with the most recent revenue estimates being provided by DOR on November 20, 2004, as required by the Wisconsin Statutes. The estimates are based on the State tax structure and on assumptions about basic economic factors and their historical relationships to State tax receipts. Revenue sources other than taxes are estimated in the preparation of the budget. The all-funds budget establishes estimates of these nontax revenues and presumes that an equal amount of expenditures will be made. Any variation from that expected level of revenue will result in a corresponding increase or decrease in expenditures.

State disbursements for the budget are based on assumptions relating to economic and demographic factors, desired levels of services, and the success of expenditure control mechanisms applied by the Secretary of Administration pursuant to statutory authority in controlling disbursements for State operations. Factors that may affect the level of disbursements in the budgets and make the projected levels difficult to maintain include uncertainties relating to the economy of the nation and the State.

Economic Assumptions

The economic forecast underlying the revenue estimates provided by DOR on November 20, 2004 was based primarily on certain projections presented in a November 8, 2004 report by Global Insight, Inc. **(Global Insight)**, which provides national economic forecasts, data base support, and consulting services. See Table II-6 for a summary of excepts from the November 8, 2004 Global Insight report. Portions of Table II-6 also contain a summary of information from DOR's Wisconsin Econometric Model **(Model),** which includes information from the November 8, 2004 report from Global Insight.

A complete copy of these reports can be obtained from:

State of Wisconsin Capital Finance Office
Department of Administration
101 East Wilson Street, FLR 10
P.O. Box 7864
Madison, WI 53707-7864
(608) 266-2305
capfin@doa.state.wi.us
www.doa.wi.gov/capitalfinance

Wisconsin Econometric Model

The Model is a forecasting tool used for assessing the future of the State's economy, measured primarily by income and employment. The Model provides DOR with information about how the State's economy responds to changes in the national economic conditions and plays a critical role in the revenue estimating process. The Model was first designed in 1978 by a predecessor of Global Insight (Data Resources Inc.). DOR has periodically redesigned the Model to correspond to changes in national modeling concepts in the Global Insight macro model of the U.S. economy and to incorporate new data definitions as embodied in the national and regional income accounts.

The Model provides forecasts of the major components of income and employment. Income measures correspond to the measures of State personal income provided by the U.S. Department of Commerce, Bureau of Economic Analysis. Employment measures correspond to the North American Industry Classification System **(NAICS)** as provided by the U.S. Department of Labor, Bureau of Labor Statistics through their current employment statistics program. The Model is a structural model that employs accounting identities and theoretical constructs for predictions on each economic variable. It is driven by a set of variables that are exogenous, or determined outside the Model. These variables include forecasts of both national and State data. The forecast data are used in the Model to generate forecasts of State employment, income, tax revenue, and other economic indicators.

The Model is similar to many economic models in that the economy is described by a set of mathematical equations. There are equations for employment, wages, proprietary income, transfer payments, industrial production, housing permits, and taxes. The Model currently consists of 125 equations, 49 of which are simultaneous.

The equations of the Model are a mixture of definitional equations and stochastic equations. Definitional equations are used to formulate accounting relationships (for example, total employment is the sum of employment for each industry). Stochastic equations are used to specify probability or statistical relationships in which the relation between any two economic measures cannot be defined exactly. Stochastic equations within the Model are determined using regression techniques. All estimated coefficients are statistically significant and consistent with economic theory. Both types of equations rely on an extensive historical database that contains both national and State measures.

The Model's structure uses an adaptive expectations framework in which the forecasted economic variables (for example, the level of income and employment) in the current period depend on expectations about the economic variables. Adaptive expectations models assume that expectations about current economic phenomena are based on the historical values of the economic phenomena.

Forecasts of economic variables at the national level are required to solve the Model. National forecast data include measures of industry output, factor costs, tax levels and rates, interest rates, inflation, etc. Currently, the Model uses forecasts provided by Global Insight for these national variables.

Other exogenous data come from both federal and State agencies. These data are principally measures of State population, milk prices, and State tax rates. After the data are compiled into the Model, the system of equations can be simultaneously solved for income, employment, and other economic variables.

DOR maintains the Model through a process of keeping the Model's database up to date and re-examining the Model's equations when historical data are revised significantly. The Model is calibrated to be temporally consistent with current data estimates either by adjusting the equations to accurately reflect current levels or by re-estimating the system of equations.

Updating and revising the Model is necessary to keep the Model's forecasts as reliable as possible. It is believed that if the Model can account for previous changes in income and employment, then it should be able to accurately forecast current levels of income and employment barring any large, unforeseen changes in the structure of the economy.

Table II-6

ECONOMIC FORECASTS
U.S. ECONOMIC FORECAST

	Calendar Year				
	2004	**2005**	**2006**	**2007**	**2008**
Real GDP and its Components					
(Amounts in Billions of Chain Weighted 1996 Dollars)					
GDP	78$10,836	$11,186.8	$11524.1	$11,884.4	$12,253.6
Percent Change	4.4	3.2	3.0	3.1	3.1
Consumption	7,619.9	7,836.0	8,069.6	8,293.0	8,516.2
Investment (including inventory)	1,845.7	1,936.1	1,969.5	2,048.9	2,123.6
Nonresidential Structures	243.2	261.5	270.2	272.1	274.2
Business Equipment	992.8	1,086.4	1,164.7	1,252.8	1,345.1
Residential Fixed	561.7	555.5	525.2	508.5	504.2
Change in Inventory	49.1	43.1	33.1	54.3	53.1
Exports	1,121.5	1,215.9	1,335.6	1,473.2	1,619.1
Imports	1,704.7	1,802.2	1,881.8	1,981.7	2,072.8
Federal Government	722.6	747.4	758.8	764.1	770.1
State and Local Government	1,228.2	1,252.0	1,274.3	1,295.5	1,315.0
GDP (Current Dollars)	11,726.6	12,352.3	12,948.0	13,583.7	14,275.0
Money and Interest Rates					
Money Supply (M2) (billions)	$6,266.9	$6,506.2	$6,716.6	$6,967.6	$7,260.7
Percent Change	4.5	3.8	3.2	3.7	4.2
Prime Commercial Rate	4.3	5.6	6.4	6.5	6.9
3-Month Treasury Bills (rate)	1.3	2.6	3.2	3.3	3.6
10-Year Treasury Note Yield (rate)	4.3	4.7	5.2	5.4	5.9
G.O. AAA Municipals (rate)	4.5	4.7	5.0	5.2	5.6
30-Year Mortgage (rate)	5.9	6.2	6.6	6.8	7.3
Income, Profits and Savings					
(Amounts in Billions)					
Personal Income	$9,638.0	$10,109.3	$10,656.5	$11,209.3	$11,826.5
Percent Change	5.2	4.9	5.4	5.2	5.5
Personal Income ($ 2000)	8,941.4	9,203.3	9,552.1	9,860.2	10,189.2
Percent Change	3.0	2.9	3.8	3.2	3.3
Savings Rate (%)	1.0	0.6	0.9	1.0	1.2
Corporate Profits Before Tax	1,184.1	1,263.1	1,298.4	1,356.9	1,388.5

Source: Global Insight November 2004

Table II-6 - Continued

WISCONSIN EMPLOYMENT FORECAST

	Calendar Year				
	2004	**2005**	**2006**	**2007**	**2008**
Annual Industry Detail Average (Thousands of Workers)					
Manufacturing	$512.4	$522.5	$526.4	$531.2	$535.7
Percent Change	1.0	2.0	0.7	0.9	0.8
Trade, Transportation & Utilities	548.5	550.7	553.3	557.8	561.7
Percent Change	1.8	0.4	0.5	0.8	0.7
Government	407.6	412.7	417.0	421.3	425.5
Percent Change	(1.0)	1.2	1.0	1.0	1.0
Total Nonfarm	2,825.5	2,876.7	2,912.1	2,953.3	2,990.0
Percent Change	1.6	1.8	1.2	1.4	1.2

Source: Department of Revenue, Economic Outlook, November 2004

WISCONSIN INCOME FORECAST

	Calendar Year				
	2004	**2005**	**2006**	**2007**	**2008**
Components of Personal Income (Amounts in Billions)					
Wages and Salaries	$98.008	$103.943	$109.525	$115.710	$121.967
Proprietor's Income	12.273	13.025	13.708	14.314	14.939
Rental Income	3.035	3.290	3.513	3.735	3.987
Personal Dividend Income	7.941	8.485	8.969	9.423	9.954
Personal Interest Income	17.542	17.794	18.039	18.623	20.142
Transfer Payments	24.546	25.447	26.929	28.725	30.402
Residence Adjustment	3.148	3.397	3.65	3.931	4.227
Contributions to Social Insurance	15.205	16.099	17.003	17.977	18.973
Total Personal Income	175.647	185.234	194.695	205.299	217.011
Personal Taxes and Nontax Pmts	18.956	20.713	22.455	24.193	26.079
Disposable Personal Income	156.692	164.521	172.240	181.106	190.932
Inflation Adjusted Income Measures (2000 Dollars)					
Real Personal Income (billions)	$162.947	$168.634	$174.517	$180.590	$186.967
Percent Change	2.3	3.5	3.5	3.5	3.5
Real Per Capita Income	29,444	30,284	31,134	32,005	32,917
Percent Change	1.6	2.9	2.8	2.8	2.8
Per Capita Income (current $)	31,738	33,265	34,734	36,385	38,207
Percent Change	3.8	4.8	4.4	4.8	5.0

Source: Department of Revenue, Wisconsin Economic Outlook, November 2004

Budget Format

The State prepares two budgets—a general-fund budget and an all-funds budget—as well as subbudgets for each fund.

The general-fund budget includes the money appropriated for the fiscal year from:

- All state-collected general taxes

- Revenues collected by State agencies that are deposited into the General Fund and lose their identity (departmental revenues)
- Various miscellaneous receipts

A portion of these revenues is returned to local governments in the form of shared tax payments and to school districts in the form of general equalization aid payments. Additionally, some of the revenues are used for aids to individuals. The remaining portion constitutes the operating budget for State agencies conducting State-administered programs.

The all-funds budget includes all money appropriated for the fiscal year from:

- All revenues included in the general-fund budget
- Revenues collected by State agencies that are paid into a specific fund (such as the Transportation or Conservation Fund)
- Federal funds that are estimated to be received and either paid into a specific fund (such as the Transportation or Conservation Fund) for a specified program or purpose, or credited to an appropriation to finance a specific program or agency
- Revenues resulting from the contracting of public debt

The all-funds budget presented in this Annual Report also includes employee benefits, which under State law are separated from the budget. The all-funds budget assumes that certain categories of revenues are expended in like amounts. These categories include federal funds, revenues paid into specific funds (other than the General Fund) for a specified program or purpose or which are credited to an appropriation to finance a specific program or agency, and proceeds of general obligation debt. In any given fiscal year, there may be a balance at year-end in the funds, specific program, or agency. Because it includes only estimates of federal funds to be received and expended, the all-funds budget may vary during the course of the fiscal year.

Impact of Federal Programs

The State does not typically receive substantial amounts of Federal aid. Any reduction in Federal aid would have a more immediate effect on individuals, local governments, and other service providers than on the State directly. Any reduction would, however, increase the likelihood of the State being asked to increase its support of the affected parties, which could not happen without the Legislature's approval.

See "STATE BUDGET; Fiscal Year 2004-05*; Projected Net General Fund Budgetary Balance-June 30, 2005* " for discussion on Federal aid and budgetary impact on the State's Medical Assistance Trust Fund.

Supplemental Appropriations

Even after the budget is adopted, the State may increase appropriations or reduce taxes. However, it has been the State's practice that supplemental appropriations adopted by the Legislature will be within revenue projections for that fiscal period or balanced by reductions in other appropriations.

No legislation directly or indirectly affecting general purpose revenue may be enacted if it would cause the estimated General Fund balance at the end of the fiscal year to be less than the required statutory reserve.

GENERAL FUND INFORMATION

General Fund Cash Flow

Many of the budgetary tables presented thus far in this part of the Annual Report have reported information on a budgetary basis. The following tables present information primarily on a cash basis.

The State has experienced and expects to continue to experience certain periods when the General Fund is in a negative cash position. The Wisconsin Statutes provide certain administrative remedies to deal with these periods. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. This amount is approximately $589 million for the 2004-05 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount of up to 3% of the general-purpose revenue appropriations then in effect (approximately $354 million for the 2004-05 fiscal year) for a period of up to 30 days. The Secretary of Administration may set priorities for payments from the General Fund as well as prorate certain payments.

The Wisconsin Statutes provide that all payments shall be in accordance with the following order of preference:

- All direct and indirect payments of principal and interest on State general obligation debt have first priority and may not be prorated or reduced.
- All direct and indirect payments of principal and interest on operating notes have second priority and may not be prorated or reduced.
- All State employee payrolls have third priority and may be prorated or reduced.
- All other payments shall be paid in a priority determined by the Secretary of Administration and may be prorated or reduced. Pursuant to indentures and trust agreements, the Secretary of Administration has covenanted to give high priority to payments due under the Master Lease Program and debt service due on the General Fund Annual Appropriation Bonds.

Table II-7 is presented over two pages and includes the detailed actual cash flow for the 2003-04 fiscal year and the detailed actual cash flow (through November 30, 2004) and projected cash flow (December 1, 2004 through June 30, 2005) for the 2004-05 fiscal year. Table II-8 provides year-to-date receipts and disbursement on a cash basis along with a comparison to estimates for the same period and actual receipts and disbursements for the same period of the previous fiscal year. Table II-9 presents a monthly summary of the General Fund from July 1, 2002 through November 30, 2004 and the projected cash flow for December 1, 2004 through June 30, 2005. The amounts reported include the proceeds of the sale of operating notes in September 2003 and the payment of impoundment's for February, March, April, and May of 2004. No operating notes were issued in the 2002-03 fiscal year and, as of this date, for the 2004-05 fiscal year. The tables should be read in conjunction with other information concerning the State budget set forth elsewhere in this part of the Annual Report, including "BUDGETING PROCESS AND FISCAL CONTROLS", "STATE BUDGET", and "STATE OBLIGATIONS; Operating Notes". As noted above, there has been and will continue to be differences in the amounts shown for the cash-flow basis and the budgetary basis presentations. For example, the cash-flow basis presentation in the following tables includes all tax receipts as revenues and tax refunds as disbursements, while the budgetary basis presentations in Tables II-3 through II-5 include tax revenues that are net of tax refunds.

Monthly projections of cash flow are based upon on the 2003-05 biennial budget bill and all budget acts of the 2003 legislative session and upon historical experience as adjusted to reflect economic conditions, statutory, and administrative changes and anticipated payment dates for debt service, payrolls, and State aid. The monthly projections of General Fund cash flow also reflect the revenue re-estimates that were provided by DOR on November 20, 2004. The monthly projections of cash flow do not address the Wisconsin Supreme Court's decision in May 2004 concerning amendments to gaming compacts. The State's 2003-05 biennial budget assumed $102 million of payments in the 2003-04 fiscal year from all amended gaming compacts. Subsequent to the decision, the State received payments expected to be received by June 30, 2004 from all but one of the tribal governments; the amount that was not received is $30 million. Discussions continue with the tribal governments regarding the one outstanding payment and the $105 million of assumed payments due during the 2004-05 fiscal year.

Unforeseen events or variations from underlying assumptions may cause a decrease in receipts or an increase in disbursements from those projected for a given month and thus may adversely affect the projection of cash flow for the time shown. Additionally, the timing of transactions from month to month may vary from the forecast.

Table II-10 presents the actual cash balances available for interfund borrowings from July 31, 2002 through November 30, 2004 and the projected balances for December 31, 2004 through June 30, 2005.

Tables II-11 and II-12 present recorded revenues deposited into the General Fund and recorded expenditures made from the General Fund, as recorded by State agencies, for the period of July 1, 2004 to November 30, 2004 as compared to the period of July 1, 2003 to November 30, 2003. These tables present information that is based on the revenues and expenditures that are recorded in, or processed through, the State's central accounting system.

Table II-7

ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2003 TO JUNE 30, 2004[(a)]

(In Thousands of Dollars)

	July 2003	August 2003	September 2003	October 2003	November 2003	December 2003	January 2004	February 2004	March 2004	April 2004	May 2004	June 2004
BALANCES[(a)]												
Beginning Balance	($301,120)	($622,418)	($400,502)	$418,507	$907,811	$863,882	$1,013,762	$1,191,403	$1,038,826	($14,243)	$552,517	$758,574
Ending Balance [(b)]	($622,418)	($400,502)	$418,507	$907,811	$863,882	$1,013,762	$1,191,403	$1,038,826	($14,243)	$552,517	$758,574	($21,216)
Lowest Daily Balance [(b)]	($762,702)	($757,258)	($654,756)	$289,720	$648,269	($200,315)	$1,013,762	$1,013,762	($78,170)	($14,243)	$412,085	($322,282)
RECEIPTS												
TAX RECEIPTS												
Individual Income [(c)]	$535,668	$361,664	$632,800	$495,028	$390,357	$431,441	$815,263	$457,296	$530,620	$851,947	$385,478	$633,196
Sales & Use	368,518	363,614	375,775	374,113	350,192	321,577	394,456	295,514	293,589	339,858	343,335	364,588
Corporate Income	15,220	19,228	126,009	28,093	26,301	160,444	20,170	21,229	176,514	28,379	17,663	136,053
Public Utility	296	0	325	4,994	129,422	337	69	20	158	5,071	136,052	201
Excise	38,152	34,660	28,651	32,261	28,631	28,784	32,244	26,592	22,978	32,116	29,565	32,506
Insurance	828	1,375	25,541	293	1,334	28,444	2,696	17,785	25,650	27,842	767	28,153
Inheritance	5,660	11,035	7,017	6,607	6,089	9,493	4,990	5,314	4,948	8,163	8,739	10,219
Subtotal Tax Receipts	$964,342	$791,576	$1,196,118	$941,389	$932,326	$980,520	$1,269,888	$823,750	$1,054,457	$1,293,376	$921,599	$1,204,916
NON-TAX RECEIPTS												
Federal	$420,678	$479,004	$507,840	$618,086	$454,026	$534,209	$543,037	$491,036	$567,534	$534,657	$487,096	$617,201
Other & Transfers [(c)]	291,431	190,445	519,577	270,496	197,625	912,951	329,290	353,425	307,728	277,273	216,301	464,782
Note Proceeds [(d)]	0	0	400,000	0	0	0	0	0	0	0	0	0
Subtotal Non-Tax Receipts	$712,109	$669,449	$1,427,417	$888,582	$651,651	$1,447,160	$872,327	$844,461	$875,262	$811,930	$703,397	$1,081,983
TOTAL RECEIPTS	$1,676,451	$1,461,025	$2,623,535	$1,829,971	$1,583,977	$2,427,680	$2,142,215	$1,668,211	$1,929,719	$2,105,306	$1,624,996	$2,286,899
DISBURSEMENTS												
Local Aids	$890,876	$172,578	$741,814	$109,530	$781,331	$1,178,138	$211,010	$237,278	$1,204,072	$153,766	$235,068	$1,846,208
Income Maintenance[(f)]	439,565	373,987	352,115	385,040	293,337	363,184	189,065	503,149	397,567	148,118	329,091	366,219
Payroll and Related	317,741	312,301	225,424	462,397	252,453	305,623	439,081	247,685	304,277	491,789	251,034	307,410
Tax Refunds	68,585	50,293	54,656	50,624	58,967	122,179	69,625	415,005	407,083	335,879	138,614	104,930
Debt Service	0	984	118,305	441	441	0	0	934	105,066	0	10,985	0
Miscellaneous [(e)]	280,982	328,966	312,212	332,635	241,377	308,676	1,055,793	318,657	463,264	307,447	352,527	441,922
Note Repayment [(d)]	0	0	0	0	0	0	0	98,080	101,459	101,547	101,620	0
TOTAL DISBURSEMENTS	$1,997,749	$1,239,109	$1,804,526	$1,340,667	$1,627,906	$2,277,800	$1,964,574	$1,820,788	$2,982,788	$1,538,546	$1,418,939	$3,066,689

(a) The General Fund cash balances presented in this schedule are not based on Generally Accepted Accounting Principles (GAAP). The General Fund includes funds designated for operations and capital purposes of certain proprietary programs of the State's Universities. Receipts and disbursements of such funds for the designated programs and the disbursement of such funds for other purposes are reflected in the cash flow. A use of the designated funds for purposes other than the proprietary programs is, in effect, a borrowing of such funds. Therefore, at any time that the balance in the General Fund is less than the balance of such designated funds, the State is obligated to replenish the designated funds to the extent of the shortfall. Ther designated funds were expected to range from $150 to $300 million during the 2003-04 fiscal year. In addition, the General Fund is the depository for several escrow accounts pursuant to court orders or federal rulings. These funds were expected to average approximately $50 million during the 2003-04 fiscal year.

(b) The Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. This amount was approximately $542 million for the 2003-04 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect (approximately $325 million for the 2003-04 fiscal year) for a period of up to 30 days. If the amount of interfund borrowing available to the General Fund is not sufficient, the Secretary of Administration is authorized to prorate and defer certain payments.

(c) The July Individual Income Tax Receipts and the July Non-Tax Receipts for Other & Transfers were restated in September, 2003 due to a reporting reclassification by the Department of Revenue.

(d) Includes $400 million in operating note proceeds received in September, 2003 and impoundment payments due on February 27, March 31, April 30, and May 28, 2004. The February 27, 2004 impoundment payment excludes the premium deposited on September 18, 2003 into the operating note redemption fund.

(e) Includes $750 million of bond receipts that were received into the General Fund in December and disbursed on January 30, 2004.

(f) Includes $124 million of transfers from the General Fund (disbursements) to the Medical Assistance Trust Fund in March 2004, pursuant to 2003 Wisconsin Act 129.

Table II-7 (Continued)
ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2004 TO NOVEMBER 30, 2004
PROJECTED GENERAL FUND CASH FLOW; DECEMBER 1, 2004 TO JUNE 30, 2005[a]

(In Thousands of Dollars)

	July 2004	August 2004	September 2004	October 2004	November 2004	December 2004	January 2005	February 2005	March 2005	April 2005	May 2005	June 2005
BALANCES[b]												
Beginning Balance	($21,216)	($431,440)	$209,127	$536,311	$875,711	$912,695	$318,147	$1,363,913	$1,581,204	$633,757	$1,003,321	$1,237,230
Ending Balance [c]	($431,440)	$209,127	$536,311	$875,711	$912,695	$318,147	$1,363,913	$1,581,204	$633,757	$1,003,321	$1,237,230	$479,631
Lowest Daily Balance [c]	($431,440)	($436,769)	$53,578	$403,787	$383,199	($329,061)	$318,147	$1,021,415	$546,912	$357,103	$742,828	$221,063
RECEIPTS												
TAX RECEIPTS												
Individual Income	$533,817	$540,819	$571,670	$464,819	$526,873	$626,700	$912,400	$476,700	$417,200	$941,900	$408,900	$625,600
Sales & Use	380,702	389,894	384,632	378,842	371,408	318,700	427,100	333,600	301,200	339,600	361,000	370,600
Corporate Income	30,839	16,739	144,521	34,036	36,179	173,200	29,100	15,200	202,100	31,600	20,700	144,400
Public Utility	0	38	179	3,948	131,313	4,100	0	3,500	200	4,900	112,200	1,600
Excise	29,945	32,206	32,708	31,917	29,395	29,500	28,800	30,500	25,600	28,100	31,500	31,000
Insurance	295	2,305	27,417	229	1,496	27,800	2,300	15,100	24,100	30,400	4,900	29,200
Inheritance	8,654	7,954	14,003	10,329	9,156	6,300	10,700	7,200	8,100	13,400	8,300	7,400
Subtotal Tax Receipts	$984,252	$989,955	$1,175,130	$924,120	$1,105,820	$1,186,300	$1,410,400	$881,800	$978,500	$1,389,900	$947,500	$1,209,800
NON-TAX RECEIPTS												
Federal	$344,173	$535,363	$537,338	$462,100	$546,148	$440,800	$588,900	$510,700	$461,600	$518,200	$504,900	$536,400
Other & Transfers[d]	196,901	339,783	411,016	330,993	241,754	242,950	416,250	418,050	348,750	350,750	330,150	503,850
Note Proceeds	0	0	0	0	0	0	0	0	0	0	0	0
Subtotal Non-Tax Receipts	$541,074	$875,146	$948,354	$793,093	$787,902	$683,750	$1,005,150	$928,750	$810,350	$868,950	$835,050	$1,040,250
TOTAL RECEIPTS	$1,525,326	$1,865,101	$2,123,484	$1,717,213	$1,893,722	$1,870,050	$2,415,550	$1,810,550	$1,788,850	$2,258,850	$1,782,550	$2,250,050
DISBURSEMENTS												
Local Aids[e][f]	$835,926	$170,248	$670,948	$115,497	$774,303	$1,171,442	$227,374	$232,359	$1,193,196	$122,127	$248,992	$1,817,211
Income Maintenance	383,180	416,654	427,137	405,086	419,216	555,913	344,776	414,316	471,345	434,538	408,025	388,860
Payroll and Related	390,998	244,728	314,918	378,189	319,992	327,706	359,826	325,251	369,525	470,929	255,539	313,235
Tax Refunds	49,162	55,304	51,246	50,655	64,252	153,904	62,810	350,703	352,497	315,206	235,992	209,511
Debt Service	0	687	0	118,493	1,108	0	0	3,621	0	266,649	39,575	0
Miscellaneous	276,284	336,913	332,051	309,893	277,867	255,633	374,998	267,009	349,734	279,837	360,518	278,832
Note Repayment	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL DISBURSEMENTS	$1,935,550	$1,224,534	$1,796,300	$1,377,813	$1,856,738	$2,464,598	$1,369,784	$1,593,259	$2,736,297	$1,889,286	$1,548,641	$3,007,649

(a) Projections reflect the revised General Fund revenue estimates that were released by DOR on November 20, 2004. Prior to this release, the estimates reflected the re-estimates of departmental revenues and expenditures provided by LFB on January 15, 2004 and the General Fund tax collection estimates provided by LFB on February 10, 2004. While the estimates from DOR and LFB are presented on a budgetary basis, the estimates herein are presented on a cash basis and not a budgetary basis. The following information also does not reflect the Wisconsin Supreme Court's decision concerning amendments to gaming compacts. In light of the decision, it was uncertain whether or to what extent the tribal governments would make the payments due under the amended gaming compacts. Subsequent to the decision, the State received the payments expected to be received by June 30, 2004 from all but one of the tribal governments; the amount that was not received is $30 million. It remains uncertain whether or to what extent the tribal governments will make the payments prior to June 30, 2005, and discussions continue with tribal governments regarding the one outstanding payment and the payments due on or after June 30, 2005. Projections do not include interfund borrowings.

(b) The General Fund cash balances presented in this schedule are not based on Generally Accepted Accounting Principles (GAAP). The General Fund includes funds designated for operations and capital purposes of certain proprietary programs of the State's Universities. Receipts and disbursements of such funds for the designated programs and the disbursement of such funds for other purposes are reflected in the cash flow. A use of the designated funds for purposes other than the proprietary programs is, in effect, a borrowing of such funds. Therefore, at any time that the balance in the General Fund is less than the balance of such designated funds, the State is obligated to replenish the designated funds to the extent of the shortfall. Ther designated funds are expected to range from $150 to $300 million during the 2004-05 fiscal year. In addition, the General Fund is the depository for several escrow accounts pursuant to court orders or federal rulings. These funds are expected to average approximately $50 million during the 2004-05 fiscal year.

(c) The Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. This amount is approximately $589 million for the 2004-05 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect (approximately $354 million for the 2004-05 fiscal year) for a period of up to 30 days. If the amount of interfund borrowing available to the General Fund is not sufficient, the Secretary of Administration is authorized to prorate and defer certain payments.

(d) Includes $75 million to be transferred from the Transportation Fund to the General Fund in June 2005.

(e) $190 million of the November 2004 shared revenue payments are to be made from Segregated Funds and are not included in these Local Aid disbursement totals.

(f) $60 million of the September 2004 equalization payments were made from the Transportation Fund and are not included in these Local Aid disbursement totals.

Table II-8

GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS YEAR-TO-DATE COMPARED TO ESTIMATES AND PREVIOUS FISCAL YEAR[(a)]

(Cash Basis)

As of November 30, 2004

	FY04 through November 2003	FY05 through November 2004				
	Actual	Actual	Estimate[(b)]	Variance	Adjusted Variance[(c)]	Difference FY04 Actual to FY05 Actual
RECEIPTS						
Tax Receipts						
Individual Income	$ 2,415,517	$ 2,637,998	$ 2,445,600	$ 192,398	$ 192,398	$ 222,481
Sales	1,832,212	1,905,478	1,924,200	(18,722)	(18,722)	73,266
Corporate Income	214,851	262,314	224,900	37,414	37,414	47,463
Public Utility	135,037	135,478	144,300	(8,822)	(8,822)	441
Excise	162,355	156,171	159,100	(2,929)	(2,929)	(6,184)
Insurance	29,371	31,742	31,200	542	542	2,371
Inheritance	36,408	50,096	42,200	7,896	7,896	13,688
Total Tax Receipts	$ 4,825,751	$ 5,179,277	$ 4,971,500	$ 207,777	$ 207,777	$ 353,526
Non-Tax Receipts						
Federal	$ 2,479,634	$ 2,425,122	$ 2,460,200	$ (35,078)	$ (35,078)	$ (54,512)
Other and Transfers	1,469,574	1,520,447	1,366,250	154,197	154,197	50,873
Note Proceeds	400,000	-	-	-	-	(400,000) [(d)]
Total Non-Tax Receipts	$ 4,349,208	$ 3,945,569	$ 3,826,450	$ 119,119	$ 119,119	$ (403,639)
TOTAL RECEIPTS	$ 9,174,959	$ 9,124,846	$ 8,797,950	$ 326,896	$ 326,896	$ (50,113)
DISBURSEMENTS						
Local Aids	$ 2,696,129	$ 2,566,922	$ 2,593,961	$ 27,039	$ 27,039	$ (129,207)
Income Maintenance	1,844,044	2,062,118	2,146,057	83,939	83,939	218,074
Payroll & Related	1,570,316	1,648,825	1,683,781	34,956	34,956	78,509
Tax Refunds	283,125	270,619	303,589	32,970	32,970	(12,506)
Debt Service	120,171	120,288	146,878	26,590	26,590	117
Miscellaneous	1,496,172	1,522,163	1,445,213	(76,950)	(76,950)	25,991
Note Repayment	-	-	-	-	-	-
TOTAL DISBURSEMENTS	$ 8,009,957	$ 8,190,935	$ 8,319,479	$ 128,544	$ 128,544	$ 180,978
VARIANCE FY05 YEAR-TO-DATE				$ 455,440	$ 455,440	

(a) None of the data presented here has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments. In addition, comparison of monthly general fund financial information has many inherent problems. Unforeseen events (including even a change in weather conditions) or variations from underlying assumptions may cause a decrease in receipts or an increase in disbursements from those projected for a given month.

(b) Estimates include the revised General Fund revenue collections, as released by DOR on November 20, 2004. Prior to this release, the estimates reflected the re-estimates of departmental revenues and expenditures provided by LFB on January 15, 2004 and the General Fund tax collection estimates provided by LFB on February 10, 2004. While the estimates from DOR and LFB are presented on a budgetary basis, the estimates herein are presented on a cash basis and not a budgetary basis.

(c) Changes are sometimes made after the beginning of the fiscal year to the projected revenues and disbursements. Depending on when these changes occur, there are situations in which prior estimates cannot be changed and results in large variances. This column includes adjustments to the variances to more accurately reflect the variance between the estimated and actual amounts.

(d) Operating notes were issued on September 18, 2003 for the 2003-04 fiscal year but have not been issued for the 2004-05 fiscal year.

Table II-9

GENERAL FUND MONTHLY CASH POSITION
July 1, 2002 through November 30, 2004 — Actual
December 1, 2004 through June 30, 2005 — Estimated[a]
(Amounts in Thousands)

	Starting Date	Starting Balance		Receipts[c]	Disbursements[c]
2002	July	$ (421,915)	[d]	$ 1,700,476	$ 1,895,272
	August	(616,711)	[d]	1,637,001	1,171,887
	September	(151,597)	[d]	2,025,879	1,562,196
	October	312,086		1,606,014	1,280,382
	November	637,718		1,482,326	1,488,485
	December	631,559	[d]	1,706,488	2,178,341
2003	January	159,706		2,105,857	1,431,836
	February	833,727		1,721,792	1,615,352
	March	940,167		1,652,274	2,383,386
	April	209,055	[d]	2,101,401	1,712,702
	May	597,754		1,485,340	1,566,243
	June	516,851	[d]	2,030,380	2,848,351
	July	(301,120)	[d]	1,676,451	1,997,749
	August	(622,418)	[d]	1,461,025	1,239,109
	September	(400,502)	[d]	2,623,535	1,804,526
	October	418,507		1,829,971	1,340,667
	November	907,811		1,583,977	1,627,906
	December	863,882	[d]	2,427,680	2,277,800
2004	January	1,013,762		2,142,215	1,964,574
	February	1,191,403		1,668,211	1,820,788
	March	1,038,826	[d]	1,929,719	2,982,788
	April	(14,243)	[d]	2,105,306	1,538,546
	May	552,517		1,624,996	1,418,939
	June	758,574	[d]	2,286,899	3,066,689
	July	(21,216)	[d]	1,525,326	1,935,550
	August	(431,440)	[d]	1,865,101	1,224,534
	September	209,127		2,123,484	1,796,300
	October	536,311		1,717,213	1,377,813
	November	875,711		1,893,722	1,856,738
	December	912,695	[d]	1,870,050	2,464,598
2005	January	318,147		2,415,550	1,369,784
	February	1,363,913		1,810,550	1,593,259
	March	1,581,204		1,788,850	2,736,297
	April	633,757		2,258,850	1,889,286
	May	1,003,321		1,782,550	1,548,641
	June	1,237,230		2,250,050	3,007,649

(a) The General Fund balances presented in this table are not based on Generally Accepted Accounting Principles (GAAP).

(b) The monthly receipt and disbursement projections for December 1, 2004 through June 30, 2005 are based on the revised General Fund revenue collections as released by DOR on November 20, 2004.

(c) The amounts shown in September 2003 include receipts from the issuance of operating notes and amounts shown in February–May 2004 include disbursements for impoundment payments required in connection with the issuance of operating notes. No operating notes were issued for the 2002-03 fiscal year and no operating notes have been issued for the 2004-05 fiscal year.

(d) The Wisconsin Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. This amount is approximately $589 million for the 2004-05 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect (approximately $354 million for the 2004-05 fiscal year for a period of up to 30 days. If the amount of interfund borrowing available to the General Fund is not sufficient, the Secretary of Administration is authorized to prorate and defer certain payments.

Source: Department of Administration.

Table II-10
CASH BALANCES IN FUNDS AVAILABLE FOR INTERFUND BORROWING[a]
July 31, 2002 to November 30, 2004 — Actual
December 31, 2004 to June 30, 2005 — Estimated[b]
(Amounts in Millions)

The following two tables show, on a monthly basis, the cash balances available for interfund borrowing. The first table does not include balances in the Local Government Investment Pool (LGIP). While the LGIP is available for interfund borrowing, funds in the LGIP are deposited and withdrawn by local units of government, and thus are outside the control of the State.

(Does Not Include Balances in the Local Government Investment Pool)

Month (Last Day)	2002	2003	2004	2005
January		$ 1,100	$ 1,027	$ 1,018
February		1,138	1,126	1,105
March		1,203	1,179	1,107
April		1,133	1,157	997
May		1,187	1,163	1,061
June		1,279	1,054	1,117
July	$ 1,033	1,140	908	
August	1,049	1,242	1,003	
September	1,055	1,226	997	
October	1,032	1,187	954	
November	1,105	1,078	827	
December	1,131	1,130	1,042[b]	

The second table includes the balances in the LGIP. The average daily balances in the LGIP for the past five years have ranged from a low of $2.216 billion for the month of November 2000 to a high of $4.521 billion for the month of March 2002.

(Includes Balances in the Local Government Investment Pool)

Month (Last Day)	2002	2003	2004	2005
January		$ 5,025	$ 4,673	$ 5,360
February		5,235	4,852	5,463
March		5,438	5,197	5,628
April		5,113	4,707	5,135
May		4,674	4,417	4,158
June		4,835	4,274	4,329
July	$ 5,401	5,135	4,268	
August	4,785	4,580	3,904	
September	4,898	4,378	3,726	
October	4,328	3,922	3,233	
November	4,242	3,797	3,059	
December	4,737	4,090	4,737[b]	

[a] The following funds are available for interfund borrowing. The amounts shown reflect a reduction in the aggregate cash balances available to the extent any fund listed below has a negative balance and is subject to interfund borrowing.

Transportation	Common School	Conservation (Partial)
University	Waste Management	Normal School
Local Government Investment Pool	Wisconsin Election Campaign	Farms for the Future
Investment & Local Impact	Agrichemical Management	Elderly Property Tax Deferral
Historical Society Trust	Lottery	School Income Fund
Children's Trust	Benevolent	Racing
Groundwater	Work Injury Supplemental Benefit	Recycling
Environmental Improvement Fund	Uninsured Employers	Environmental
University Trust Principal	Patients Compensation	Mediation
Veterans Mortgage Loan Repayment	State Building Trust	Medical Assistance

Agricultural College	Wisconsin Health Education Loan Repayment
Petroleum Storage Environmental Cleanup	Unemployment Compensation Interest Repayment
Health Insurance Risk Sharing Plan	Local Government Property Insurance

[b] The balances for December 31, 2004 and subsequent months are estimates.

Source: Department of Administration.

Table II-11

GENERAL FUND RECORDED REVENUES[a]
(Agency Recorded Basis)
July 1, 2004 to November 30, 2004 compared with previous year

	Annual Fiscal Report Revenues 2003-04 FY[b]	Projected Revenues 2004-05 FY[c]	Recorded Revenues July 1, 2003 to November 30, 2003 [d]	Recorded Revenues July 1, 2004 to November 30, 2004 [e]
Individual Income Tax	$ 5,277,119,000	$ 5,557,000,000	$ 1,871,794,628	$ 2,049,058,939
General Sales and Use Tax	3,899,264,000	4,095,000,000	1,343,003,684	1,379,713,867
Corporate Franchise and Income Tax	650,526,000	627,000,000	161,598,421	211,269,802
Public Utility Taxes	269,801,000	271,000,000	58,349,876	132,446,518
Excise Taxes	355,495,000	351,800,000	123,090,239	124,704,153
Inheritance Taxes	86,357,000	90,000,000	35,617,137	49,563,234
Insurance Company Taxes	123,621,000	120,000,000	27,345,455	29,374,493
Miscellaneous Taxes	97,331,000	78,000,000	45,139,525	45,650,546
SUBTOTAL..........................	$ 10,759,514,000	$ 11,189,800,000	3,665,938,966	4,021,781,552
Federal and Other Inter-Governmental Revenues[f]	$ 6,617,596,000	$ 5,509,000,000	2,496,303,809	2,437,100,036
Dedicated and Other Revenues[g]	4,663,830,000	3,943,000,000	1,777,876,419	1,594,208,127
TOTAL..............................	$ 22,040,940,000	$ 20,641,800,000	$ 7,940,119,194	$ 8,053,089,715

(a) None of the data presented here has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments.

(b) The amounts are from the Annual Fiscal Report (budgetary basis) for the 2003-04 fiscal year, dated October 15, 2004.

(c) The general fund taxes are based on the re-estimates of departmental revenues and expenditures that LFB released on January 15, 2004 and the general fund tax collection estimates provided by LFB on February 10, 2004. Projections do not reflect revised General Fund revenue collections as released by DOR on November 20, 2004.

(d) The amounts shown are 2003-04 fiscal year revenues as recorded by state agencies.

(e) The amounts shown are 2004-05 fiscal year revenues as recorded by state agencies.

(f) This category includes intergovernmental transfers. The amount of these transfers may vary greatly between fiscal years, and therefore, this category may not be comparable on a historical basis.

(g) Certain transfers between General Fund appropriations are recorded as both revenues and expenditures of the General Fund. The amount of these transfers may vary greatly between fiscal years, and therefore, this category may not be comparable on a historical basis.

Source: Department of Administration.

Table II-12

GENERAL FUND RECORDED EXPENDITURES BY FUNCTION[a]
(Agency Recorded Basis)
July 1, 2004 to November 30, 2004 compared with previous year

	Annual Fiscal Report Expenditures 2003–04 FY[b]	Appropriations 2004–05 FY[c]	Recorded Expenditures July 1, 2003 to November 30, 2003[d]	Recorded Expenditures July 1, 2004 to November 30, 2004[e]
Commerce	$ 310,494,000	$ 274,448,400	$ 118,588,079	$ 101,187,157
Education	9,338,633,000	9,381,679,500	2,639,272,558	2,729,941,589
Environmental Resources	182,335,000	252,105,900	87,013,236	79,884,537
Human Relations & Resources	7,936,185,000	8,435,726,300	3,299,878,343	3,600,973,984
General Executive	2,104,690,000	636,573,200	243,507,496	255,406,848
Judicial	110,882,000	110,988,200	48,052,927	48,227,022
Legislative	59,302,000	62,479,800	20,855,679	19,630,803
General Appropriations	1,673,811,000	1,656,183,700	1,576,943,764	1,300,305,212
TOTAL	$ 21,716,332,000	$ 20,810,185,000	$ 8,034,112,081	$ 8,135,557,152

(a) None of the data presented here has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments.

(b) The amounts are from the Annual Fiscal Report (budgetary basis) for the 2003-04 fiscal year, dated October 15, 2004.

(c) Estimated appropriations based on the 2003-05 biennial budget bill (2003 Wisconsin Act 33), all budget acts from the 2003 legislative session, and the re-estimates of expenditures that LFB released on January 15, 2004.

(d) The amounts shown are 2003-04 fiscal year expenditures as recorded by state agencies.

(e) The amounts shown are 2004-05 fiscal year expenditures as recorded by state agencies.

Source: Department of Administration.

General Fund History

Table II-13 presents the General Fund condition for the previous five years.

Table II-13

COMPARATIVE CONDITION OF THE GENERAL FUND
AS OF JUNE 30[a]
(Amounts in Thousands)

	2004	2003	2002	2001	2000
ASSETS					
Cash & Investment Pool Shares…………	$ (15,344)	$ (295,396)	$ (416,191)	$ 288,792	$ 678,331
Contingent Fund Advances………………	3,521	3,533	3,539	3,514	3,910
Investments………………………………	445	445	445	446	445
Receivables					
Accounts Receivable……………………	1,098,109	1,050,580	1,069,077	1,028,554	995,286
Due from Other Funds…………………	79,682	60,087	333,205	39,165	22,398
Inventory………………………………	172			418	1
Prepayments……………………………	62,535	59,731	59,690	54,807	59,761
TOTAL ASSETS…………………………	$ 1,229,120	$ 878,980	$ 1,049,765	$ 1,415,696	$ 1,760,132
LIABILITIES					
Accounts Payable………………………	$ 338,083	$ 413,162	$ 315,491	$ 343,261	$ 282,582
Due to Other Funds……………………	78,020	62,182	66,493	46,898	63,804
Tax and Other Deposits……………… .	39,332	33,539	33,900	41,925	39,231
Deferred Revenue………………………	47,287	27,752	50,174	38,848	27,600
TOTAL LIABILITIES……………………	$ 502,722	$ 536,635	$ 466,058	$ 470,932	$ 413,217
FUND BALANCE					
Reserves					
Encumbrances & GPR Balances ………	$ 144,651	$ 98,324	$ 131,945	$ 106,438	$ 136,731
Program Revenue Balances……………	454,378	407,629	407,293	392,327	635,798
Total Reserves…………………………	$ 599,029	$ 505,953	$ 539,238	$ 498,765	$ 772,529
Unreserved Balance-Undesignated…….	127,369	(163,608)	44,469	445,999	574,416
TOTAL FUND BALANCE………………	$ 726,398	$ 342,345	$ 583,707	$ 944,764	$ 1,346,945
TOTAL LIABILITIES AND FUND BALANCE………………………	$ 1,229,120	$ 878,980	$ 1,049,765	$ 1,415,696	$ 1,760,162

[a] The amounts shown are based on statutorily required accounting and not GAAP. The amounts are unaudited.

Source: Department of Administration.

STATE GOVERNMENT ORGANIZATION

The State is located in the Midwest. The State ranks 20th among the states in population and 26th in land area. Wisconsin attained statehood in 1848, its capital is Madison, and its largest city is Milwaukee.

General Organization

Executive Branch

The executive branch is under the direction of the Governor. The Governor is the chief executive officer of the State and is assisted by five elected constitutional officers (each elected to a four-year term):

- *Lieutenant Governor*. The Governor and Lieutenant Governor are elected on the same ballot. The Lieutenant Governor serves as Acting Governor during the absence or incapacity of the Governor.

- *Attorney General*. The Attorney General heads the State of Wisconsin Department of Justice, which provides all State agencies with legal advice and counsel.
- *State Treasurer*. The State Treasurer receives and disburses all money of the State Treasury in accordance with law.
- *Secretary of State*. The Secretary of State keeps a record of the official acts of the Legislature and executive agencies.
- *Superintendent of Public Instruction*. The Superintendent of Public Instruction heads the State of Wisconsin Department of Public Instruction, which supervises the operations of and establishes standards for schools throughout the State.

The executive branch consists of 17 departments (including two headed by other constitutional officers) and 13 independent agencies.

Legislative Branch

The legislative branch consists of the Legislature and its subordinate service agencies. The Legislature is bicameral, composed of the Senate and the Assembly. The 33 members of the Senate serve staggered four-year terms, and the 99 members of the Assembly serve identical two-year terms. Both the Senate and the Assembly operate on a committee system. The Legislature's biennial session begins in odd-numbered years on the first Tuesday after the eighth day of January. By a joint resolution, the biennial session is divided into floor periods interspersed with committee work periods. In odd-numbered years, the floor periods generally cover six months, while in even-numbered years the floor periods usually run for shorter periods. The Legislature also meets in special session when so called by the Governor, at which time it may transact only that business for which the special session is called.

Judicial Branch

The judicial branch consists of:

- *Supreme Court*. The Supreme Court is composed of seven justices who are elected statewide for staggered ten-year terms.
- *Court of Appeals.* The Court of Appeals is composed of 16 judges who are elected statewide for staggered six-year terms sitting in three-judge panels.
- *Circuit Courts.* There are 69 Circuit Courts (the State's trial courts), each has one or more judges who are locally elected for six-year terms, and all are administered from ten administrative districts.

The State pays all costs of the Supreme Court and Court of Appeals and certain costs of the Circuit Courts.

Description of Services Provided by State Government

The State provides a wide range of services to its residents and to its local government units. These services are organized for both budgetary and financial reporting of the General Fund into eight functional groupings. Each State agency is categorized into one of these functions. There are some agency activities that fit into more than one function. Listed below is a description of each function, an identification of those State agencies within each function, and a brief summary of the responsibilities of each State agency.

Commerce

The State's involvement in the commerce function is in the regulation of conduct of commercial transactions. The objective is to protect the public as consumers of agricultural and manufactured goods and services and as participants in financial transactions. The State also actively promotes economic development by (1) working with companies seeking to expand or move to the State and (2) broadening markets for State goods and services. These objectives are met in several ways:

- Inspection of raw products and conditions under which they are grown or obtained, including conducting research in areas such as animal or plant diseases, grading of products, and establishing standards for contents of processed foods.
- Licensing of members of various trades and professions whose activities affect the health of individuals, such as doctors and nurses, or whose actions are considered important for public safety, such as architects and engineers.
- Maintaining an orderly market in which to conduct business and specifying methods of fair competition by:
    - regulating the rates that public utilities may charge for their services
    - setting standards for the operation of banks, savings and loan companies, and credit unions to protect depositors
    - regulating the sale of securities and insurance offered for sale in the State
    - approving or disapproving the establishment or discontinuance of transportation routes

Several State agencies participate in the field of commerce:

- *Department of Agriculture, Trade and Consumer Protection* provides consumer protection and regulates the conditions of the growth and processing of food and fair trade practices in general.
- *Department of Regulation and Licensing* supervises a variety of examining boards in the various trades and professions.
- *Department of Financial Institutions* regulates securities transactions and supervises banks, credit unions, and savings and loans.
- *Public Service Commission* regulates the rates and services offered by railroads and heat, light, power, and water companies.
- *Department of Commerce* promotes industrial development in the State and coordinates relations between the State and local governments and between the Federal Government and State and local governments.
- *Department of Tourism* promotes the State's many attributes to visitors.

Education

The State views its responsibilities in education to encompass all levels and nearly all types of education and related activities. As a result the State provides significant financial support to primary and secondary schools, technical colleges operated at the local level, assists private higher educational institutions, and operates the University of Wisconsin system.

- *Primary and Secondary Schools.* There are 426 school districts in the State, which administer the elementary and secondary schools within those districts. There were approximately 880,031 students attending public elementary and secondary schools in 2003-04. Elementary and secondary schools are operated by district boards, with supervision of the system provided by the Department of Public Instruction.
- *Technical Colleges.* The State is divided into 16 technical college districts. In the 2003-04 academic year, 416,857 full- and part-time students were enrolled in the technical college system. The technical colleges are operated by district boards, with supervision of the system provided by the Technical College System Board.
- *University of Wisconsin System.* The University of Wisconsin System consists of its doctoral campuses in Madison (the largest campus in the State) and Milwaukee as well as 11 other four-year degree-granting institutions and 13 two-year colleges. The system's total enrollment in 2003-04 was 160,703 students.

Other agencies concerned with the education function of the State include:

- *Educational Communications Board*, which operates the State public radio network, the State public television network, and the State educational television network.
- *The State Historical Society*, which maintains the State historical library, museum, and various historical sites.
- *Arts Board*, which encourages and assists artistic and cultural activities within the State.

Environmental Resources

Two major State agencies, the Department of Transportation and the Department of Natural Resources, are concerned with the development or protection of the land, forest, water, air, and minerals of the State.

The State works with municipalities and industries to treat sewage or industrial wastes to retain the purity of State lakes and streams. Smokestack and automobile exhausts are monitored to prevent air pollution. Parks and forests have been established and maintained both to preserve unusual phenomena of nature and to provide the public with recreational and educational opportunities. Private forest owners are given incentives to observe scientific conservation practices so that new growth may replace cut timber. Hunting and fishing limits are set, and hunters and fishermen licensed, to preserve the fish and wildlife from extinctive practices. Farming methods that preserve the quality and stability of the soil are encouraged.

Governmental activities for preserving and protecting the State's natural resources are largely the province of the Department of Natural Resources, but the Department of Agriculture, Trade and Consumer Protection is also actively involved.

The State has an elaborate system of highways. It consists of interstate highways financed from federal and State funds and of State highways, county trunk highways, town roads, city and village streets, and park and forest roads. Closely connected with the highway building functions of the State government and the aid granted to local units for streets and highways are the objects for which these roads are built—the motor vehicle and its occupants. While the State is concerned with the building and maintenance of an adequate number of roads of certain standards to meet the traffic demands, it is also very much concerned with the safety and convenience of the people who are using those roads. Nearly 5.2 million vehicles are registered each year.

The Department of Transportation also gives various forms of driver examination tests when driver licenses are issued or renewed to ensure drivers know the laws, are physically fit to drive, and have the required driving skills. Road building and motor vehicle regulation are also responsibilities of the Department of Transportation, which also has charge of the State's aeronautical activities, the administration of funds to assist mass transit, railroad preservation, and intermodal transportation planning.

Human Relations and Resources

Various State agencies have responsibilities to maximize human growth and development, including health, living standards, safety, and working relationships with each other.

Public health covers the prevention and detection of disease, health education programs, assistance in hospital construction, maintenance of institutions for the care and treatment of the mentally handicapped, the setting of standards of cleanliness of public facilities and safety in construction, and the maintenance of public health records.

Improving living standards for needy, aged, handicapped, and minors in need of assistance is also a goal of the State. Such health and welfare activities are primarily the work of the Department of Health and Family Services, including the State's Badger Care program, which provides health insurance coverage for low-income working families, and a prescription drug program for the elderly. The Board of Aging makes recommendations on programs to benefit the aged. The Department of Veterans Affairs operates additional assistance programs for military service veterans.

As a worker, the individual comes in contact with the State in many ways:

- Minimum wages and maximum hours are set by law.
- State worker's compensation provides financial assistance if a worker is injured on the job.
- Unemployment compensation is provided to the worker if the worker's job is lost.
- Employment services are provided by the State (in partnership with the Federal Government) to help a worker find a job or to acquire the skills necessary for employment.
- Investigation of discrimination occurs if a worker suspects employment discrimination based on race, age, gender, creed, or handicap.

The State's agent in protecting and assisting the worker is the Department of Workforce Development. The State also mediates or arbitrates labor disputes between workers and their employers, which is the task of the Employment Relations Commission.

To promote the general welfare of citizens and insure peaceable relations among them, the State seeks to protect citizens from lawless elements in society by maintaining those conditions of stability and order necessary for a well-functioning society. Law enforcement is largely a local matter, but the State's Department of Corrections is responsible for segregating convicted adult and juvenile criminals in its penal institutions and rehabilitating them for eventual return to society. The Department of Justice furnishes legal services to State agencies and provides technical assistance to local law enforcement agencies.

The State also provides an armed military force to protect the populace in times of State or national emergencies, natural or man-made, and to supplement the federal armed forces in time of war. These activities come under the jurisdiction of the Department of Military Affairs.

General Executive

The administrative or staff functions that support the direct services provided to Wisconsin residents and local governments are included in this functional group. While each operating agency may conduct some staff functions, some agencies perform staff functions almost exclusively.

- *Department of Administration* duties include budgeting, information technology, data processing, accounting, payroll, financial reporting, processing the receipt and disbursement of monies received or expended by the State, engineering, and facilities management and planning.
- *Office of Employment Relations* supervises State personnel practices.
- *Ethics Board* administers a code of ethics for State public officials.
- *Department of Revenue* collects the taxes imposed by State law, distributes that part of the revenue that is to be returned to the local units of government, and calculates the equalized value of the property that has been assessed by local government.
- *Department of Employee Trust Funds* manages the State's public employee retirement system.
- *Office of the State Treasurer* serves as custodian of unclaimed property and administers the EdVest Program, which is a Section 529 college savings program.
- *Office of the Secretary of State* keeps various state records and affixes the state seal on certain records to authenticate them.
- *Department of Financial Institutions* is responsible for chartering corporations.
- *State Elections Board* oversees the election processes of the State, monitoring campaign expenditures, and keeping election records.

Judicial

The judicial function provides for the operation of the Supreme Court, the Court of Appeals, and the Circuit Courts, as well as several State agencies that serve the courts, establish professional standards, and conduct legal research.

Legislative

The legislative function provides for the operation of the State Legislature, its committees, and service agencies.

General Appropriations

The function of general appropriations is assigned those appropriations that do not fit easily into any of the other functions. The bulk of the appropriations are for payments to local governments of taxes collected by the State, whose revenues are shared with local governments, and for other payments intended to relieve local taxes.

The major portion of this reporting area relating to State operations is the funding of any planned adjustments to employee compensation, which is budgeted centrally but transferred to and ultimately paid by each agency.

STATE OF WISCONSIN BUILDING COMMISSION

The Commission supervises all matters relating to the State's issuance of general obligations, revenue obligations, and operating notes.

Limitations in the Wisconsin Constitution severely restricted the issuance of direct State debt until 1969, when it was amended to authorize the State to borrow money. Chapter 18 of the Wisconsin Statutes delegates powers to the Commission and establishes the procedures for the issuance of debt.

The Commission is composed of eight members. The Governor serves as the chairperson. Each house of the Legislature appoints three members. One citizen member is appointed by the Governor and serves at the Governor's pleasure. State law provides for the two major political parties to be represented in the membership from each house, and one member appointed from each house must be a member of the Legislative State Supported Program Study and Advisory Committee. The members act without liability except for misconduct.

The Department of Administration assists the Commission. The Administrator of the Division of State Facilities, with the concurrence of the Secretary of Administration, serves as the Secretary to the Building Commission. The Secretary of Administration, the head of the engineering function, and the ranking architect in the Department of Administration serve as nonvoting advisory members. Employees of the Division of Executive Budget and Finance serve as the Capital Finance Director and staff responsible for managing the State's various borrowing programs.

The Commission's office is located at the Administration Building, 7th Floor, 101 East Wilson Street, its mailing address is P.O. Box 7866, Madison, Wisconsin 53707-7866, and its telephone number is (608) 266-1855.

STATE OBLIGATIONS

General Obligations

The State, acting through the Commission, may issue general obligation bonds and notes or enter into loans that are secured by the State's full faith, credit, and taxing power. Payments of debt service on State general obligations are paramount to all other obligations of the State. As of December 1, 2004, the State had $4.876 billion of outstanding general obligations.

The State has never defaulted in the punctual payment of principal or interest on any general obligation indebtedness and has never attempted to prevent or delay such required payments. The State has reserved no right to reduce or modify any terms with respect to security or source of payment of general obligation bonds or notes. See Part III of this Annual Report for additional information on general obligations.

Operating Notes

The Commission may issue operating notes to fund operating expenses upon the request of the Department of Administration if it determines that a deficiency will occur in the funds of the State that will not permit the State to pay its operating expenses in a timely manner. The Governor and the Joint Finance Committee of the Legislature must also approve the request for issuance.

Operating notes may be issued in an amount not exceeding 10% of budgeted appropriations of general purpose and program revenues in the year in which operating notes are issued. Operating notes are not general obligations of the State and are not on parity with State general obligations. The General Fund may be pledged for the repayment of operating notes, and money of the General Fund may be impounded for future payment of principal and interest; however, any such repayment or impoundment must be made subsequent to the payment of the amounts due the Bond Security and Redemption Fund securing the repayment of State general obligation bonds. All payments and impoundments securing the operating notes are also subject to appropriation. Owners of the operating notes have a right to file suit against the State in accordance with procedures established in State law.

As of this date, the State has not issued any operating notes in the 2004-05 fiscal year, but the State did issue and retire $400 million principal amount of operating notes in the 2003-04 fiscal year.

Master Lease Program

The State, acting by and through the Department of Administration, has entered into a master lease for the purpose of acquiring property (and in limited situations, prepaid service contracts) for state agencies through installment payments. The State's obligation to make lease payments is subject to annual appropriation by the Legislature. The full faith and credit of the State are not pledged to the lease payments; the State is not obligated to levy or pledge any tax to pay the lease payments. The State's obligation to make the lease payments does not constitute debt for purposes of the Wisconsin Constitutional debt limit, and there is no limit to the amount of such obligations that the State can incur. Although an effort is made to use the master lease program for all property acquired by the State through nonappropriation leases, it is possible that state agencies may separately incur such obligations. Certificates of participation have been issued that evidence a proportionate interest in certain lease payments to be made by the State. As of December 1, 2004, the outstanding principal amount of the State's obligations under the master lease program was approximately $82 million. See Part IV of this Annual Report for additional information on master lease certificates of participation.

State Revenue Obligations

Subchapter II of Chapter 18 of the Wisconsin Statutes authorizes the State, acting through the Commission, to issue revenue obligations. Revenue obligations may be in one of the following forms:

- *Enterprise obligations.* Secured by a pledge of revenues or property derived solely from the operation of a program funded by the issuance of the revenue obligations.
- *Special fund obligations.* Secured by a pledge of revenues or property derived from any program or any pledge of revenues.

Any such program to be undertaken or obligations to be issued must be specifically authorized by the Legislature. The resulting obligations are not general obligations of the State.

Revenues pledged to the repayment of revenue obligations are deposited with a trustee for the obligations. Because these revenues are pledged to the owners of revenue obligations, who have a first lien on all such monies, the owners of State general obligations have no claim to the revenues pledged for the repayment of such revenue obligations.

Three such programs have been authorized and are currently outstanding:

- *Transportation revenue bond program.* This program finances a portion of the costs of the State highways and related transportation facilities. The obligations are secured by motor vehicle registration fees. The Commission has issued fourteen series of bonds and one series of commercial paper notes for this program (not including refunding bond issues), which were outstanding in the amount of $1.377 billion as of December 1, 2004. See Part V of this Annual Report for additional information on transportation revenue obligations.
- *Clean water fund program.* This program makes loans to municipalities in the State for the construction or improvement of their water pollution control facilities. The Commission has issued nine series of bonds for this program (not including refunding bond issues), which were outstanding in the amount of $683 million as of December 1, 2004. See Part VI of this Annual Report for additional information on clean water revenue bonds.
- *Petroleum inspection fee revenue bond program.* This program funds environmental remediation claims submitted under the Petroleum Environmental Cleanup Fund Award Program. Obligations

issued for this program are secured by petroleum inspection fees. The Commission has issued three series of bonds (not including refunding bond issues) and two series of extendible municipal commercial paper for this program, which were outstanding in the amount of $348 million as of December 1, 2004. See Part VII of this Annual Report for additional information on petroleum inspection fee revenue obligations.

General Fund Annual Appropriation Bonds

The State has issued general fund annual appropriation bonds to pay the State's unfunded accrued prior service (pension) liability, as of January 1, 2003, and the unfunded accrued liability for sick leave conversion credits, as of October 1, 2003. The general fund annual appropriation bonds are not a debt of the State, and the State's obligation to make debt service payments is subject to annual appropriation by the Legislature. The full faith and credit of the State are not pledged, and the State is not obligated to levy or pledge any tax, to make the debt service payments. The State has issued the general fund annual appropriation bonds in the form of taxable fixed rate bonds and taxable auction rate certificates, which in aggregate were outstanding in the amount of $1.795 billion as of December 1, 2004. See Part VIII of this Annual Report for additional information on general fund annual appropriation bonds.

Independent Authorities

State law creates and grants to three independent special purpose authorities the power to issue bonds and notes. None of these entities is a department or agency of the State, and none can issue bonds or notes that are legal obligations of the State. By law, the Commission serves as financial advisor for two of these independent authorities in the issuance of their debt.

Wisconsin Housing and Economic Development Authority

The Wisconsin Housing and Economic Development Authority (**WHEDA**) acts as a funding vehicle for the development of housing for low- and moderate-income families and economic development projects. WHEDA is also authorized to administer the State's agricultural production loan guaranty and interest subsidy program.

WHEDA may issue bonds and notes, which are to be general obligations of WHEDA (except for bonds for the housing rehabilitation loan program) unless WHEDA chooses to limit the obligation. The State is expressly not liable on WHEDA obligations. Repayment may be secured by capital reserve funds, which may be created for each bond issue in an amount that is appropriate for the type of projects being funded. Invasion of this reserve triggers a moral obligation pledge on the part of the State and prevents further WHEDA borrowing until the reserve is replenished. In the event a capital reserve fund is not established for a particular bond issue, the moral obligation pledge would not be applicable. WHEDA has borrowing authority for several specific programs:

- *General programs.* Borrowing authority of $325 million, excluding debt issued to refund other debt, of which $83 million of borrowing authority was available on November 30, 2004.
- *Housing rehabilitation programs.* Borrowing authority of $100 million, of which $100 million of borrowing authority was available on November 30, 2004.
- *Single-family home ownership mortgage loan program.* WHEDA has issued $5.399 billion in such bonds as of November 30, 2004. In the one-year period ending November 30, 2004, WHEDA sold four single-family issues totaling $386 million.
- *Residential facilities for the elderly and chronically disabled.* Borrowing authority of $99 million, and as of November 30, 2004, WHEDA had sold three bond issues totaling $5 million.

- *Economic development and agriculture loans.* Borrowing authority of $217 million of which, as of November 30, 2004, WHEDA had sold 142 series of bonds for economic development and agriculture totaling $83 million, which are not general obligations of WHEDA, and 56 series of bonds, totaling $92 million, which are general obligations of WHEDA.

WHEDA is directed by a twelve-member board comprising the Secretary of the Department of Administration, the Secretary of the Department of Commerce, two representatives to the Assembly and two State Senators who are appointed in the same manner as the members of standing committees in their respective houses and equally represent the two major political parties, and six public members serving staggered terms, nominated by the Governor and confirmed by the Senate. Financial reports may be obtained from the Wisconsin Housing and Economic Development Authority, P.O. Box 1728, Madison, WI 53701. The phone number is (608) 266-7884, the e-mail address is info@wheda.com, and the web site address is www.wheda.com.

Wisconsin Health and Educational Facilities Authority

The Wisconsin Health and Educational Facilities Authority (**WHEFA**) provides revenue bond financing for hospitals, nursing homes, other health-related organizations, and private higher educational facilities. It may finance any qualifying capital project and may refinance any qualifying outstanding indebtedness. As of June 30, 2004, WHEFA had outstanding 266 issues totaling approximately $5.623 billion. All bonds are limited obligations of WHEFA, payable only from revenues specified in the documents pertaining to each bond financing and are not State debt. There is no capital reserve fund or authorization for a moral obligation pledge. An annual program and financial report to the Legislature and the Governor is required. The State Auditor is empowered to investigate WHEFA's financial affairs and prescribe methods of accounting. The governance of WHEFA is by a seven-member, staggered-term board nominated by the Governor and confirmed by the Senate. The Governor annually appoints the chairperson. Financial reports may be obtained from Wisconsin Health and Educational Facilities Authority, 18000 West Sarah Lane, Suite 140, Brookfield, WI 53045-5841. The phone number is (262) 792-0466, the e-mail address is info@whefa.com, and the web site address is whefa.com.

University of Wisconsin Hospitals and Clinics Authority

The University of Wisconsin Hospitals and Clinics Authority (**UWHC**) operates the University of Wisconsin hospital and a number of clinics. It provides instruction for medical and other health related professions, students, and sponsors. It also supports medical research and assists health care programs and personnel throughout the State. As of November 30, 2004. UWHC had outstanding four issues totaling approximately $235 million.

UWHC may issue bonds and notes payable solely from the funds pledged in the bond resolution or any trust indenture or mortgage or deed of trust that secures the obligations. The State is not liable for the payment of principal or interest on the debt, nor is it liable for the performance of any pledge, mortgage, obligation, or agreement entered into by UWHC.

UWHC is directed by a fifteen-member board that consists of the Secretary of the Department of Administration, a faculty member of a University of Wisconsin-Madison (**UW**) health professions school (other than the Medical School) appointed by the UW Chancellor, a chairperson of a department of the Medical School appointed by the UW Chancellor, the dean of the Medical School, the UW Chancellor, three members appointed by the Board of Regents, the co-chairs of the Legislature's joint committee on finance, three members serving three-year terms nominated by the Governor and confirmed by the Senate, and two nonvoting members from labor organizations that represent UWHC employees. Financial reports can be obtained from the University of Wisconsin Hospitals and Clinics Authority, Room H5/803, 600 Highland Avenue, Madison, WI 53792-8360. The phone number is (608) 263-8025.

Local Districts

The Legislature has authorized the creation of the following types of local districts, which may be created by one or more local units of government:

- *Exposition center district.* A district is authorized to issue bonds for costs related to an exposition center. If the Secretary of Administration determines that certain conditions are met, the State may have a moral obligation to appropriate moneys to make up deficiencies in the district's reserve funds that secure up to $200 million principal amount of bonds in the event that project revenues and tax revenues received by the district are inadequate to pay debt service on the bonds. To date, one such district has been created (the Wisconsin Center District).
- *Local professional baseball park district.* A district's territory consists of each county with a population of more than 600,000 and all contiguous counties. A district is authorized to issue bonds for costs related to a baseball park. If the Secretary of Administration determines that certain conditions are met, the State may have a moral obligation to appropriate moneys to make up deficiencies in the district's reserve funds that secure up to $160 million principal amount of bonds in the event the project revenues and tax revenues received by the district are inadequate to pay debt service. To date, one such district has been created (the Southeast Wisconsin Professional Baseball Park District).
- *Local professional football park district.* A district's territory consists of any county with a population of more than 150,000 that includes the principal site of a stadium that is the home of a professional football team. A district is authorized to issue revenue bonds for costs related to a football park. If the Secretary of Administration determines that certain conditions are met, the State may have a moral obligation to appropriate moneys to make up deficiencies in the district's reserve funds that secure up to $160 million principal amount of bonds in the event the project revenues and tax revenues received by the district are inadequate to pay debt service. To date, one such district has been created (the Green Bay-Brown County Professional Football Stadium District).

Moral Obligations

In certain situations where the State does not have a legal obligation to make a payment, the Legislature has recognized a moral obligation to make an appropriation for the payment and has expressed its expectation and aspiration that, if ever called upon to do so, it would. These situations and amount of outstanding obligations that are subject to the State's moral obligation include:

- Payments required to be made by municipalities on loans from the Clean Water Fund, if so designated by the State. Currently no Clean Water Fund loan carries a moral obligation of the State.
- Payments to reserve funds securing certain obligations of WHEDA. Currently there are 9 issues outstanding in the aggregate amount of $445 million that carry a moral obligation of the State:

Name of WHEDA Issue	Maturity Date	Principal Issued	Outstanding Balance
Housing Revenue Bonds			
1992 Series A	11/1/2012	$ 72,450,000	$ 3,370,000
1993 Series A & B	11/1/2023	77,560,000	40,650,000
1993 Series C	11/1/2019	145,785,000	87,685,000
1995 Series A & B	11/1/2026	51,700,000	34,820,000
1998 Series A, B & C	11/1/2032	39,895,000	34,610,000

Name of WHEDA Issue	Maturity Date	Principal Issued	Outstanding Balance
1999 Series A & B	11/1/2031	41,400,000	36,140,000
2000 Series A B	11/1/2032	10,785,000	10,285,000
2002 Series A-I	5/1/2034	169,160,000	156,740,000
2003 Series A-E	5/1/2044	41,975,000	41,190,000
Totals			$439,195,000

- Payments to reserve funds securing certain obligations of different types of local districts, subject to the Secretary of Administration's determination that certain conditions have been met. Currently there is one issue from a local district (Wisconsin Center District) that is outstanding in the amount of $126 million that carries a moral obligation of the State. Two other local districts (the Southeast Wisconsin Professional Baseball Park District and the Green Bay-Brown County Professional Football Stadium District) each have authority to issue $160 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. Both districts have issued revenue obligations that do not carry the moral obligation of the State.

- Payments to reserve funds securing obligations issued by certain redevelopment authorities, subject to the Secretary of Administration's determination that certain conditions have been met. Currently there are two issues from a redevelopment authority (Redevelopment Authority of the City of Milwaukee) for the Milwaukee Public Schools Neighborhood Schools Initiative that are outstanding in the total amount of $112 million that both carry a moral obligation of the State.

Employee Pension Funds

The State's pension obligations are defined by formulas that establish monthly retirement benefits as a function of annual compensation and years of service. The State's current contributions to meet these pension obligations are established first by a yearly actuarial determination of the value of the retirement benefits that have accrued to State employees and will have to be paid out in the future. After deducting the fixed contributions of employees, the State then contributes an amount sufficient to meet the remaining value of the obligations. A description of the Wisconsin Retirement System and an identification of the State's obligation follows. This is supplemented with additional statistical material in Tables II-14 through II-20.

The actuarial method used to determine the size of the contributions is known as "Frozen Initial Liability" for prior service liability and "Entry Age Normal" for current contributions. Actuarial assumptions that have been adopted in application of this method are shown in Tables II-21, II-22, and II-23.

The Department of Employe Trust Funds administers the pension programs of both the State and local governments, and the State of Wisconsin Investment Board is responsible for investment of all the funds. Although the State provides pension and investment management staff for its own and local government employees, *the State has no financial obligation for payment of any local government contribution.*

The Wisconsin Retirement System covers all full-time employees of the State. The total retirement contribution consists of a member (employee) contribution and an employer contribution. Member contributions for calendar year 2005 are set at the following rates:

- 5.0% of salary for general employees including teachers
- 2.8% for elected officials, judges, and certain other positions in State government
- 4.9% for protective occupation participants who are also covered by Social Security

- 3.3% for protective occupation participants not covered by Social Security

Employer pick-up of some or all of the member’s required contribution is permitted by the Wisconsin Statutes. Currently the entire member contribution of 5% of each State employee’s salary is assumed by the State. An additional 0.8% nonrefundable contribution is required from general employees, including teachers.

The employer contribution is actuarially determined each year by an independent actuarial firm. As of December 1, 2004, the calendar year 2005 employer contributions have been established at the following rates:

- 8.0% for protective participants with Social Security
- 10.7% for protective participants without Social Security
- 8.3% for elected officials and judges
- 4.4% for general employees

In addition, the State is charged an average of 0.7% of its protective payroll 1.0% of its elected payroll, and 1.3% of its general payroll to liquidate its portion of the fund’s accrued liability by December 31, 2029. The State is also charged 3.9% of its protective payroll for special duty disability coverage.

During calendar year 2003, proceeds from the State’s issuance of General Fund Annual Appropriation Bonds provided payment to the Wisconsin Retirement System for the State’s unfunded actuarial accrued liability. This payment of $706 million fully satisfied the prior service liability for State employes. No further payments for prior service will be required unless a new obligation is created by future legislative actions.

Monthly benefits upon retirement at normal retirement age (65 for general employees, 62 for elected officials and certain other state positions, and 55 for protective occupation participants) are computed on a formula basis (the formula varies by particular class of participation). Some inactive members and a small number of currently active employees may have benefits computed on some other basis when they apply for benefits.

Contributions into the Wisconsin Retirement System are invested by the State of Wisconsin Investment Board as provided by law, and are maintained in two separate funds: the Fixed Retirement Investment Trust and the Variable Retirement Investment Trust. Investments are recorded pursuant to the Wisconsin Statutes as follows:

- The assets of the Fixed Retirement Trust are carried by a hybrid method providing for the amortization of capital gains and losses as well as deferred items over a five-year period.
- The Variable Retirement Investment Trust assets are recorded at market value with all market adjustments included in current operations.

Except for certain protective occupation employees and a few other minor exceptions, employees under the Wisconsin Retirement System are also covered by Social Security.

Table II-14 provides comparative actuarial balance sheets for the most recent reporting periods. The unfunded accrued liability presented is solely the responsibility of local governments and is not an obligation of the State.

Table II-14

WISCONSIN RETIREMENT SYSTEM
ACTUARIAL STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2003 (UNAUDITED)
(Amounts in Millions)

	12/31/2003	12/31/2002	Increase (Decrease)
Assets and Employer Obligations:			
Net Assets			
Cash, Investments & Receivables			
Less: Payables & Suspense Items			
Fixed Division	$56,903.4	$51,385.7	$ 3,713.8
Variable Division	5,781.9	4,719.3	1,109.6
Totals	62,685.3	56,105.0	4,823.4
Obligations of Employers			
Unfunded Accrued Liability	526.4	1,756.9	(1,230.5)
TOTAL ASSETS	$63,211.7	$57,861.9	$ 3,592.2
Reserves and Surplus:			
Reserves			
Actuarial Present Value of Projected Benefits Payable to Terminated Vested Participants and Active Members:			
Member Normal Contributions	$14,363.9	$13,885.1	$ 478.8
Member Additional Contributions	139.2	137.8	1.4
Employer Contributions	20,000.8	17,797.3	446.6
Total Contributions	$34,503.9	$31,820.2	$ 926.8
Actuarial Present Value of Projected Benefits Payable to Current Retirees And Beneficiaries:			
Fixed Annuities	$24,724.0	$23,202.9	$ 1,521.1
Variable Annuities	2,892.2	3,993.1	(1,109.9)
TOTAL ANNUITIES	27,102.1	27,196.0	420.2
TOTAL RESERVES	$62,120.1	$59,016.2	$1,347.0
Surplus			
Fixed Annuity Reserve Surplus	$ 347.9	$ (60.5)	$ 408.4
Variable Annuity Reserve Surplus	743.7	(1,093.8)	1,837.5
TOTAL SURPLUS	1,091.6	(1,154.3)	2,245.9
TOTAL RESERVES AND SURPLUS	$63,211.7	$57,861.9	$ 3,592.9

Notes to Wisconsin Retirement System

All eligible State of Wisconsin employees participate in the Wisconsin Retirement system **(System)**, a cost-sharing multiple-employer public employee retirement system **(PERS)**. The payroll for employees covered by the system for the year ended December 31, 2003 was $3.15 billion.

All permanent employees expected to work over 600 hours a year are eligible to participate in the System. Covered employees are required by statute to contribute 5.0% of their salary (2.8% for Executive and Elected Officials, 4.9% for Protective Occupations with Social Security, and 3.3% for Protective Occupations without Social Security), to the plan. Participants are also required to make a non-refundable Benefit Adjustment Contribution to the plan. Employers may make these contributions to the plan on behalf of the employees. Employers are required to contribute the remaining amounts necessary to pay the projected cost of future benefits. The total required contribution for the year ended December 31, 2003 was $306 million, which consisted of $141 million or 4.5% of payroll from the employer and $165 million or 5.2% of payroll from employees.

Employees who retire at or after age 65 (55 for protective occupation employees) are entitled to receive a retirement benefit. The benefit is calculated as 1.6% (2.0% for Executives, Elected Officials, and Protective Occupations with social security and 2.5% for protective occupations without social security) of final average earnings for each year of creditable service after December 31, 1999. Service earned before January 1, 2000 accrue benefits at a rate of 1.765% (2.165% for Executives, Elected Officials, and Protective Occupations with social security and 2.665% for protective occupations without social security). Final Average Earnings is the average of the employee's three highest years' earnings. 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 benefit. Benefits are fully vested upon entry into the System.

The System also provides death and disability benefits for employees. Eligibility for and the amount of all benefits are determined under Chapter 40 of the Wisconsin Statutes.

The System utilizes the "Entry Age Normal with Frozen Initial Liability" actuarial method in establishing employer contribution rates. Under this method, the Unfunded Accrued Actuarial Liability is affected only by the monthly amortization payments, compound interest, the added liability created by new employer units, and any added liabilities caused by changes in benefit provisions. All actuarial gains or losses arising from the difference between actual and assumed experience are reflected in the determination of the normal cost. The unfunded accrued actuarial liability is being amortized over a 40-year period beginning January 1, 1990. However, periodically, the Employe Trust Funds Board has reviewed and, when appropriate, adjusted the actuarial assumptions used to determine this liability. Changes in the assumptions affect the unfunded accrued actuarial liability, and the resulting actuarial gains or losses are credited or charged to employer's unfunded liability accounts. The State of Wisconsin, as of December 31, 2003, had no unfunded liability. The total system unfunded liability of $499 million is attributable to local governments.

Ten-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's December 31, 2003 Comprehensive Annual Financial Report.

The preceding provides a comparative actuarial balance sheet for the most recent reporting periods.

Table II-15

WISCONSIN RETIREMENT SYSTEM
FUNDING RATIO
(Amounts in Thousands)

Year	A Net Real Assets	B Unfunded Actuarial Liability	C Reserve Requirement (A+B)	D Funding Ratio (A÷C)
1993	$25,437,200	$2,042,926	$27,480,126	92.6
1994	26,884,600	2,006,900	28,891,500	93.1
1995	30,059,826	2,055,718	32,115,544	93.6
1996	33,962,600	2,134,400	36,097,000	94.1
1997	38,584,600	2,178,300	40,762,900	94.7
1998	43,390,500	2,226,600	45,617,100	95.1
1999	49,403,700	2,145,800	51,549,500	95.8
2000	51,824,600	2,169,000	53,993,600	96.0
2001	58,024,300	2,110,400	60,134,700	96.5
2002	57,861,900	1,756,900	59,618,800	97.1
2003	62,685,300	526,400	63,211,700	99.2

Source: Department of Employe Trust Funds.

Table II-16

WISCONSIN RETIREMENT SYSTEM
COVERED EMPLOYEES
1994-2003

Year	Active State	Active Local	Retired
1994	64,178	169,488	86,214
1995	63,977	172,297	88,998
1996	63,886	175,749	92,198
1997	64,381	179,531	95,128
1998	65,663	183,074	99,112
1999	66,716	186,582	102,817
2000	68,330	189,710	107,425
2001	70,512	193,371	112,142
2002	71,222	195,128	116,289
2003	71,031	194,119	121,582

Source: Department of Employe Trust Funds.

Table II-17

WISCONSIN RETIREMENT SYSTEM
REQUIRED CONTRIBUTIONS BY SOURCE[a]
(Amounts in Thousands)

	State		Local		Total	
Year	**Employee**	**Employer**	**Employee**	**Employer**	**Employee**	**Employer**
1994	$5,921	$258,278	$5,218	$656,714	$11,139	914,992
1995	6,410	270,770	4,816	683,840	11,226	954,610
1996	7,582	282,430	5,570	759,765	13,152	1,042,195
1997	6,006	294,834	8,336	761,116	14,342	1,055,950
1998	1,686	298,793	4,015	777,419	5,701	1,076,212
1999	886	294,436	3,564	863,003	4,450	1,157,439
2000	800	305,049	3,543	754,516	4,343	1,059,565
2001	739	283,567	3,467	765,541	4,206	1,049,108
2002	763	315,782	3,679	733,748	4,442	1,049,530
2003	860	304,740	3,871	758,829	4,731	1,063,569

[a] Employer contributions include employer pick-up of employee contributions.

Source: Department of Employe Trust Funds.

Table II-18

WISCONSIN RETIREMENT SYSTEM
STATE EMPLOYER CONTRIBUTION RATES[a]

Employee Classification	**Current Service**	**Prior Service**	**Total**
Protective	8.0%	0.0%	8.0%
Elected	8.3	0.0	8.3
General.......................	4.4	0.0	4.4

[a] Effective January 1, 2005

Source: Department of Employe Trust Funds.

Table II-19

WISCONSIN RETIREMENT SYSTEM
REVENUES BY TYPE
(Amounts in Thousands)

	Contributions						
Year	**Required Employee**	**Required Employer[a]**	**Additional Employee**	**Investment Income**	**Supplemental**	**Misc.**	**Total**
1994	$364,864	$561,265	$ 6,060	$ 1,654,301	$ 444	$0	$ 2,586,934
1995	380,993	584,842	8,977	5,903,712	407	113	6,879,044
1996	393,765	661,582	13,199	5,414,556	358	160	6,483,620
1997	410,567	659,725	6,422	7,241,025	216,590	179	8,534,508
1998	520,864	561,049	9,848	7,037,489	7,315	231	8,136,796
1999	505,411	656,478	8,802	9,235,371	6,272	205	10,412,539
2000	511,661	561,052	10,441	(1,032,185)	5,496	184	56,649
2001	496,012	557,303	5,086	(1,990,408)	4,517	211	(927,279)
2002	513,038	910,181	13,593	(5,880,598)	3,873	184	(4,439,279)
2003	564,754	1,737,816	6,329	12,043,429	3,301	3,563	14,359,192

(a) Employer contributions include amounts required to reduce unfunded accrued liability over a 40–year amortization period beginning in 1990.

Source: Department of Employe Trust Funds.

Table II-20

WISCONSIN RETIREMENT SYSTEM
BENEFIT EXPENDITURES BY TYPE[a]
(Amounts in Thousands)

Year	**Separations**	**Death**	**Annuities**	**Supplemental[b]**	**Misc.**	**Total**
1994	$23,966	$11,339	$ 993,771	$ 444	$31,362	1,060,882
1995	30,180	10,812	1,080,227	407	25,593	1,147,219
1996	36,883	15,359	1,254,044	358	24,586	1,331,230
1997	41,039	12,332	1,514,634	216,590	11,108	1,795,703
1998	41,931	13,939	1,624,293	7,315	10,978	1,698,456
1999	35,609	13,858	1,844,479	6,272	12,328	1,912,546
2000	49,814	25,724	2,237,824	5,496	183,350	2,502,208
2001	40,740	22,308	2,467,690	4,517	15,635	2,550,890
2002	38,470	27,551	2,603,193	3,873	18,667	2,691,754
2003	28,847	32,725	2,627,877	3,301	16,392	2,729,142

(a) Amounts include payments from employee additional contributions.

(b) Supplemental benefits were granted to certain employees by the Legislature in 1974. These benefits are paid out of the State General Fund.

Source: Department of Employe Trust Funds.

ACTUARIAL ASSUMPTIONS

The following set forth the actuarial assumptions that will be applied in the determination of contribution levels required for the funding of the retirement system effective January 1, 2004.

Table II-21

WISCONSIN RETIREMENT SYSTEM
SEPARATION BEFORE AGE AND SERVICE RETIREMENT

Select and Ultimate Withdrawal

	% of Active Participants Terminating								
	Protective		Public Schools		University			Others	
Age &	With	Without					Executive		
Service	Soc. Sec.	Soc. Sec.	Males	Females	Males	Females	&Elected	Males	Females
0	11.0%	5.0%	11.0%	10.0%	18.0%	18.0%	9.0%	18.0%	18.0%
1	6.0	2.5	7.0	8.0	13.0	15.0	8.5	10.0	11.0
2	3.5	2.2	5.0	6.0	10.0	13.0	8.0	8.0	9.0
3	3.2	2.0	4.5	5.4	9.0	10.0	7.0	6.0	7.0
4	3.2	1.7	3.5	4.4	7.0	9.0	5.0	5.0	6.0
5 & over						9.0	5.0	5.0	5.5
25	21.6	0.9	3.5	4.0	7.0				
30	1.5	0.8	2.7	3.5	6.7	7.8	4.7	4.1	4.9
35	1.3	0.8	1.5	2.3	6.2	6.1	4.2	2.8	3.6
40	1.2	0.7	1.2	1.5	4.8	4.7	3.4	2.0	2.7
45	1.1	0.7	1.0	1.2	3.1	3.4	2.4	1.6	2.2
50	0.8	0.7	0.9	1.2	1.9	2.6	2.0	1.3	2.0
55	0.6	0.7	0.9	1.2	1.5	2.4	2.0	1.3	2.0
60	0.6	0.7	0.9	1.2	1.5	2.4	2.0	1.3	2.0

Disability Rates

	% of Active Participants Becoming Disabled							
	Protective		Public Schools		University		Others	
	With	Without						
Age	Soc. Sec.	Soc. Sec.	Males	Females	Males	Females	Males	Females
20	0.01%	0.04%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
25	0.01	0.04	0.01	0.01	0.01	0.01	0.01	0.01
30	0.01	0.05	0.01	0.01	0.01	0.01	0.01	0.04
35	0.03	0.06	0.01	0.01	0.01	0.04	0.01	0.05
40	0.05	0.11	0.02	0.02	0.01	0.06	0.01	0.07
45	0.09	0.19	0.05	0.08	0.03	0.05	0.02	0.10
50	0.30	0.59	0.15	0.16	0.05	0.10	0.05	0.16
55	1.00	0.65	0.27	0.23	0.15	0.15	0.18	0.29
60	0.68	0.50	0.45	0.34	0.20	0.23	0.22	0.41

Source: Department of Employe Trust Funds.

Table II-22

WISCONSIN RETIREMENT SYSTEM
RETIREMENT PATTERNS

Rates of Retirement for Those Eligible to Retire
(Normal Retirement Pattern)

	% Retiring Next Year								
	General		Public Schools		University		Protective		
							With	Without	Executive
Age	Males	Females	Males	Females	Males	Females	Soc. Sec.	Soc. Sec.	& Elected
50							6%	2%	
51							7	2	
52							7	9	
53							38	38	
54							20	36	
55							20	36	
56							25	36	
57	28%	27%	25%	30%	25%	20%	20	36	8%
58	28	27	25	30	20	20	20	40	8
59	28	25	25	30	20	20	20	30	12
60	28	25	30	30	20	20	20	30	14
61	30	25	35	35	20	20	20	30	35
62	40	30	60	40	20	20	20	15	10
63	40	35	50	35	20	20	20	15	10
64	35	35	50	25	20	20	20	15	10
65	35	30	70	30	20	20	25	40	10
66	35	30	70	25	20	20	25	40	20
67	15	20	50	25	20	20	25	40	20
68	15	15	50	20	20	20	20	40	20
69	15	15	50	20	20	20	20	40	20
70	15	15	50	20	20	20	20	100	10
71	15	15	50	20	20	20	20	100	10
72	15	15	50	20	20	20	20	100	10
73	15	15	50	20	20	20	20	100	10
74	15	15	50	20	20	20	20	100	10
75	100	100	100	100	100	100	100	100	100

Source: Department of Employe Trust Funds.

Table II-23

WISCONSIN RETIREMENT SYSTEM
OTHER ASSUMPTIONS

Mortality Rates

Active & Retired Life Mortality Rates

Sample Attained Ages	Future Life Expectancy (years) Males	Females
40	40.3	45.1
45	35.5	40.3
50	30.8	35.4
55	26.3	30.7
60	21.9	26.1
65	17.8	21.6
70	14.0	17.3
75	10.7	13.4
80	7.9	10.1
85	5.8	7.3

Salary Scale

% Increases in Salaries Next Year

	Merit					Total			
Age	Other	Teachers	Protective	Executive & Elected	Base (Economy)	Other	Teachers	Protective	Executive & Elected
1	3.5%	5.8%	4.0%	1.2%	4.1%	7.6%	9.9%	8.1%	5.3%
2	3.5	5.8	4.0	1.2	4.1	7.6	9.9	8.1	5.3
3	3.2	5.3	3.6	1.2	4.1	7.3	9.4	7.7	5.3
4	2.9	4.9	3.2	1.2	4.1	7.0	9.0	7.3	5.3
5	2.6	4.4	2.8	1.1	4.1	6.7	8.5	6.9	5.2
10	1.6	2.6	1.7	1.0	4.1	5.7	6.7	5.8	5.1
15	1.3	1.5	1.2	0.9	4.1	5.4	5.6	5.3	5.0
20	1.1	1.0	1.0	0.8	4.1	5.2	5.1	5.1	4.9
25	0.9	0.6	1.0	0.6	4.1	5.0	4.7	5.1	4.7
30	0.7	0.2	1.0	0.4	4.1	4.8	4.3	5.1	4.5

Future Annual Investment Return

For purposes of the above tables, the future annual invested return is assumed to be 7.8%.

For benefit calculation purposes, an assumed benefit rate of 5.0% is used.

Source: Department of Employe Trust Funds.

STATE OF WISCONSIN INVESTMENT BOARD

The State of Wisconsin Investment Board (**SWIB**) invests the assets of the State Investment Fund, the Wisconsin Retirement System, and several smaller trust funds established by the State. Overall policy direction for SWIB is established by an independent, nine-member Board of Trustees (**Trustees**). The Trustees establish long-term investment polices, set guidelines for each investment portfolio, and monitor investment performance.

Pursuant to Wisconsin Statutes, the State Investment Fund consists of cash balances of the General Fund, State agencies and departments, and Wisconsin Retirement System reserves. In addition, the State Investment Fund also includes investment deposits from elective participants consisting of over 1,100 municipalities and other public entities, which are accounted for in a subset of the State Investment Fund called the Local Government Investment Pool (**LGIP**). The LGIP portion of the State Investment Fund is additionally insured as to most credit risks by an independent insurer.

The objectives of the State Investment Fund are to provide (in order of priority):

- Safety of principal
- Liquidity
- Reasonable rate of return

This fund includes the cash balances from retirement trust funds while they are pending longer-term investment. This fund also acts as the State's cash management fund and provides the State's General Fund with liquidity for operating expenses. The State Investment Fund is strategically managed as a mutual fund and may have a longer average maturity than a money market fund. This strategy is made possible by the mandatory investment of State funds for which the cash-flow requirements can be determined significantly in advance. Because of the role played by the State Investment Fund, the cash balances available for investment vary daily as cash is accumulated or withdrawn from various funds.

With regard to investments of the State Investment Fund, State law establishes parameters and the Trustees establish and monitor policies covering:

- Types of assets and the amount that can be acquired
- Delegation of powers to purchase and sell and specific guidelines for various types of investments
- Emergency powers in the event the Trustees are unable to meet
- Guidelines pertaining to use of derivatives, financial futures, and related options

The policies seek to achieve safety of principal and liquidity by attention to quality standards, maturity, and marketability. The policies seek to enhance return through portfolio management that considers, among other things, anticipated changes in interest rates and the yield curve.

SWIB's executive director is appointed by the Trustees. The executive director is responsible for oversight of staff activities and developing and recommending policies for adoption by the Trustees. The investment directors, portfolio managers, and analysts are all responsible for daily investment decisions in their markets. Their activities are monitored by SWIB's three chief investment officers, who are appointed by the executive director with participation of the Trustees.

The nine members of the Trustees include:

- The Secretary of Administration or a designee.

- Two members are participants in the Wisconsin Retirement System. One of these is a teacher who is appointed by the Teacher Retirement Board. The other represents non-teacher participants and is appointed by the Wisconsin Retirement Board.
- Six members, called public members, are appointed by the Governor. Of these public members, four are required to have at least ten years of investment experience and one is required to be a non-elected government official from a smaller LGIP participant, with at least ten years of financial experience.

All appointed members serve six-year terms. The Trustees usually meet on a monthly basis.

As a public agency, SWIB is not registered under the Investment Company Act of 1940, the Investment Advisor Act of 1940, or the Commodity Exchange Act. However, a description of LGIP and State Investment Fund risk factors, guidelines, and investment objectives may be obtained from the State of Wisconsin Investment Board, P.O. Box 7842, Madison, WI 53707-7842 . The phone number is (608) 266-2381, the e-mail address is info@swib.state.wi.us, and the web site address is www.swib.state.wi.us.

Table II-24 presents unaudited statistical information for the State Investment Fund. A copy of SWIB's annual report or information on the LGIP and State Investment Fund may be obtained from SWIB.

Table II-24

STATE INVESTMENT FUND
AS OF SEPTEMBER 30, 2004 (UNAUDITED)
Market Versus Amortized Cost Valuation Report

	Amortized Cost	Market Value	Portfolio Percentage at Amortized Cost
U.S. Government Repurchase Agreements	$2,730,000,000	$2,730,000,000	51.2%
U.S. Government Agencies	754,499,712	753,491,616	14.1
U.S. Government Treasuries	140,153,028	142,942,240	2.6
Corporate Commercial Paper	1,058,850,037	1,058,833,872	19.9
Certificates of Deposit	650,000,000	650,000,000	12.2
Mortgage-Backed Securities	770,499	770,499	0.0
Swaps	0	(6,046,249)	0.0
	$5,334,273,276	$5,329,991,978	100.0%

Accrued Gross Income: $5,048,210

Average Maturity for the Last Six Months

Reporting Date	Average Maturity (Days)	Reporting Date	Average Maturity (Days)
9/30/2004	31	6/30/2004	49
8/31/2004	42	5/31/2004	59
7/31/2004	46	4/30/2004	74

Summary of Investment Fund Participants
As of September 30, 2004

	Par Amount (Amounts in Thousands)	Percent of Portfolio
Mandatory Participants		
State of Wisconsin and Agencies........................	$ 1,837,228	36.5%
State of Wisconsin Investment Board.................	460,980	9.2
Elective Participants		
Local Government Investment Pool....................	2,727,290	54.3
	$ 5,025,498	100.0%

NOTE: The difference between the total of the participants' share ($5,025,498,000) and the amortized cost ($5,334,273,276) is the result of check float (checks written and posted at the Department of Administration that have not cleared the bank) and a timing delay by the State in posting bank receipts that have already been invested by SWIB.

Source: State of Wisconsin Investment Board

STATISTICAL INFORMATION

The following tables present information pertaining to the State's economic condition, including property value, population, income, and employment.

Table II-25
STATE ASSESSMENT
(EQUALIZED VALUE)
OF TAXABLE PROPERTY
1995 TO 2004

Calendar Year	Value of Taxable Property	Rate of Increase (Decrease)
1995............................	$201,538,109,000	—
1996............................	216,943,757,600	7.6%
1997............................	233,074,233,400	7.4
1998............................	248,994,915,200	6.8
1999............................	266,567,513,500	7.1
2000............................	286,321,491,800	7.4
2001............................	312,483,706,600	9.1
2002............................	335,326,478,700	7.3
2003............................	360,710,211,300	7.6
2004............................	391,187,814,700	8.4

Source: Department of Revenue.

Table II-26
DELINQUENCY RATE:
INCOME, FRANCHISE, GIFT, SALES, AND USE TAXES
1994-95 TO 2002-03

Fiscal Year	Total Revenues Expected (Amounts in Thousands)	Delinquent Balance (Amounts in Thousands)	Delinquent Balance as a Percent of Total Revenues Expected
1994-95	$7,139,198	$460,108	6.44%
1995-96	7,535,003	497,220	6.60
1996-97	8,059,345	503,470	6.25
1997-98	8,767,838	549,488	6.27
1998-99	9,011,610	478,883	5.31
1999-2000	10,144,899	515,487	5.08
2000-01	9,327,051	538,914	5.78
2001-02	9,255,488	615,933	6.65
2002-03	9,264,797	564,275	6.09

Source: Department of Revenue.

Table II-27
POPULATION TREND

	Wisconsin Total		% Change		Population Per Sq. Mile	
	(Amounts in Thousands)	Rank	Wisconsin	U.S.	Wisconsin	U.S.
1910	2,334	13	12.8	21.0	42.2	26.0
1920	2,632	13	12.8	15.0	47.6	29.9
1930	2,939	13	11.7	16.2	53.7	34.7
1940	3,138	13	6.8	7.3	57.3	37.2
1950	3,435	14	9.5	14.5	62.8	42.6
1960	3,952	15	15.1	18.5	72.6	50.6
1970	4,418	16	11.8	13.3	81.1	57.5
1980	4,706	16	6.5	11.4	86.5	64.0
1990	4,892	16	4.0	9.8	90.1	70.3
2000	5,364	18	9.6	13.2	98.8	79.6
2001	5,405	18	0.8	1.3	99.5	80.6
2002	5,440	20	0.6	1.0	100.2	81.4
2003	5,472	20	0.6	1.0	100.8	82.2

Source: Decennial census and land area statistics—2000 Census of Population and Housing, and U.S. Bureau of the Census World Wide Web Site.

Table II-28
POPULATION CHARACTERISTICS
(April 2000)

	Wisconsin	U.S.
% Urban	68.3	79.0
% Rural/nonfarm	29.1	19.9
% Rural/farm	2.6	1.1
% Foreign-born	3.6	11.1
Dependency Ratio [a]	1.59	1.62

Years of School Completed
(as % of population age 25 and over)

	Wisconsin	U.S.
Grade School - 8 years	94.6	92.5
High School - 4 years	85.0	80.4
Bachelor's Degree	22.5	24.4

[a] Population age 18-64 years of age divided by population less than 18 years of age and population 65 years of age and older.

Source: 2000 Census of Population and Housing, U.S. Bureau of the Census World Wide Web Site.

Table II-29
POPULATION BY AGE GROUP
(July 2003)

	Wisconsin	U.S.
Under 5	6.2%	6.8%
5-17	18.2	18.3
18-64	62.6	62.5
65 +	13.0	12.4
Total	100.0	100.0

Source: U.S. Bureau of the Census; World Wide Web Site.

Table II-30
ESTIMATED PERSONAL INCOME

Year	Wisconsin Total (Amounts in Millions)	Per Capita Wisconsin	Per Capita U.S.	Percentage Wis. to U.S.
1993	$104,337	$20,519	$21,539	95.3%
1994	110,570	21,538	22,340	96.4
1995	115,960	22,365	23,255	96.2
1996	121,864	23,301	24,270	96.0
1997	128,920	24,481	25,412	96.3
1998	137,759	26,004	26,893	96.7
1999	143,589	26,926	27,880	96.6
2000	153,547	28,573	29,847	95.7
2001	158,654	29,352	30,580	96.0
2002	163,118	29,987	30,795	97.4
2003	168,128	30,723	31,459	97.7

Source: Bureau of Economic Analysis, U.S. Department of Commerce, World Wide Web Site.

Table II-31
MEDIAN INCOME FOR FOUR-PERSON FAMILY

Year	Wisconsin	U.S.	Percentage Wis. to U.S.
1993	$46,363	$45,161	102.7%
1994	48,982	47,012	104.2
1995	50,628	49,687	101.9
1996	52,986	51,518	102.8
1997	57,270	53,350	107.3
1998	58,000	56,061	103.5
1999	63,436	59,981	105.8
2000	66,725	62,228	107.2
2001	65,441	63,278	103.4
2002	66,988	62,732	106.8

Source: U.S. Bureau of the Census for Low Income Home Energy Assistance Program of the U.S. Department of Health and Human Services; World Wide Web Site.

Table II-32
DISTRIBUTION OF EARNINGS BY INDUSTRY
(By Place of Work)

	Wisconsin Distribution		U.S. Distribution	
	2003	**2002**	**2003**	**2002**
Farm	0.9%	0.7%	0.7%	0.5%
Nonfarm				
Private Nonfarm	84.6	84.9	83.0	83.2
Natural Resources & Mining	0.5	0.5	1.2	1.2
Construction	6.2	6.2	6.1	6.1
Manufacturing	23.0	23.3	13.4	13.6
Wholesale Trade	5.1	5.2	5.1	5.2
Retail Trade	6.8	7.0	6.8	6.9
Transportation, Warehousing & Utilities	4.4	4.4	4.3	4.4
Information	2.3	2.3	3.9	4.0
Financial Activities	8.0	7.7	10.0	9.8
Professional & Business Services	10.5	10.5	14.7	14.9
Educational & Health Services	12.1	11.8	10.7	10.5
Leisure & Hospitality	3.1	3.1	3.8	3.8
Other Services	2.9	2.9	3.0	3.0
Government	14.5	14.5	16.3	16.3
Total Earnings by Industry	100.0	100.0	100.0	100.0

Note: This table has been updated to reflect the North American Industry Classification System (NAICS), which is a new industry classification system being used to report such information and replacing the SIC system.

Source: Bureau of Economic Analysis, U.S. Department of Commerce, World Wide Web Site.

Table II-33
ESTIMATED EMPLOYEES IN WISCONSIN ON NONAGRICULTURAL PAYROLLS[a]
2003 ANNUAL AVERAGE

	Wisconsin		U.S.	
	(Amounts in Thousands)	**%**	**(Amounts in Thousands)**	**%**
Natural Resources & Mining	3.8	0.1	571	0.4
Construction	123.5	4.4	6,722	5.2
Manufacturing	506.4	18.2	14,525	11.2
Transportation, Warehousing & Utilities	106.2	3.8	4,758	3.7
Wholesale Trade	113.0	4.1	5,606	4.3
Retail Trade	319.0	11.5	14,911	11.5
Information	49.7	1.8	3,198	2.5
Financial Activities	157.7	5.7	7,947	6.1
Professional & Business Services	244.9	8.8	15,997	12.3
Educational & Health Services	366.6	13.2	16,577	12.8
Leisure & Hospitality	245.0	8.8	12,125	9.3
Other Services	131.3	4.7	5,393	4.2
Government	411.8	14.8	21,575	16.6
Total	2,778.9	100.0	129,932	100.0

[a] Not seasonally adjusted.

Source: Department of Workforce Development

Table II-34
GENERAL STATISTICS OF MANUFACTURING[(a)]

	1992	**1997**
New Capital Expenditures (millions)	$ 2,951.2	$ 4,092.9
Number of Employees (thousands)	546.0	562.5
Total Payroll (millions)	$ 16,087.3	$ 18,766.4
Number of Production Workers (thousands)	369.4	416.3
Value Added by Manufacturer (millions)	$ 41,704.9	$ 54,947.1
Value of Shipments (millions)	$ 88,560.2	$117,383.0

(a) Data for 1992 and 1997 is from census of manufacturers.

Source: U.S. Bureau of the Census; World Wide Web Site.

Table II-35
ESTIMATED PRODUCTION WORKERS
IN MANUFACTURING: HOURS AND EARNINGS
ANNUAL AVERAGE

	Wisconsin			**United States**		
	1990	**2003**	**% Change**	**1990**	**2003**	**% Change**
Weekly Earnings	$459.77	$649.64	41.3	$288.62	$636.07	120.4
Weekly Hours	41.4	40.3	(2.7)	40.5	40.4	(0.2)
Hourly Earnings	$ 11.10	$ 16.12	45.2	$ 10.77	$ 15.74	46.1
Number of All Manufacturer Workers (Amounts in thousands)	523	506	(3.3)	17,695	14,525	(17.9)

Source: Department of Workforce Development.

Table II-36
TOTAL NEW HOUSING UNITS AUTHORIZED
IN PERMIT–ISSUING PLACES

		% Change	
Year	**Wisconsin**	**Wisconsin**	**U.S.**
1993	32,114	3.6	9.5
1994	34,619	7.8	14.4
1995	32,403	(6.4)	(2.8)
1996	33,296	2.8	7.0
1997	31,925	(4.1)	1.1
1998	35,436	11.0	11.9
1999	35,570	0.4	3.2
2000	34,154	(4.0)	(4.3)
2001	37,773	10.6	2.8
2002	38,208	1.2	6.8
2003	40,884	7.0	8.1

Source: U.S. Bureau of the Census, World Wide Web Site.

Table II-37
UNEMPLOYMENT RATE COMPARISON[a]
BY MONTH 1999 To 2004
BY QUARTER 1995 To 1998

	2004		2003		2002		2001		2000		1999	
	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.
January.......	6.0	6.3	6.7	6.5	5.8	6.3	4.8	4.7	4.0	4.5	4.0	4.8
February.....	6.5	6.0	7.0	6.4	6.8	6.1	5.3	4.6	4.3	4.4	4.0	4.7
March	6.2	6.0	6.9	6.2	6.7	6.1	5.3	4.6	4.3	4.3	3.7	4.4
April	5.1	5.4	6.2	5.8	5.8	5.7	4.8	4.2	3.8	3.7	3.1	4.1
May............	4.8	5.3	5.4	5.8	4.6	5.5	4.2	4.1	3.5	3.9	2.8	4.0
June............	5.1	5.8	5.8	6.5	5.5	6.0	4.8	4.7	4.0	4.2	3.0	4.5
July	4.6	5.7	5.7	6.3	5.3	5.9	4.6	4.7	3.7	4.2	2.9	4.5
August	4.4	5.4	5.3	6.0	5.1	5.7	4.1	4.9	3.3	4.1	2.6	4.2
September..	4.1	5.1	4.7	5.8	4.6	5.4	3.8	4.7	2.9	3.8	2.3	4.1
October......	4.1	5.1	4.5	5.6	4.6	5.3	4.1	5.0	2.7	3.6	2.5	3.8
November ..			4.7	5.6	5.0	5.6	4.4	5.3	2.9	3.8	2.8	3.8
December...			4.9	5.4	5.3	5.7	4.4	5.4	3.0	3.7	2.8	3.7
Annual Average ...			5.6	6.0	5.5	5.8	4.6	4.8	3.5	4.0	3.0	4.2

1998 Quarters	Wis.	U.S.
I	3.9	5.1
II	3.2	4.3
III	3.4	4.5
IV	3.1	4.1
Annual Average................	3.4	4.5

1997 Quarters	Wis.	U.S.
I	4.5	5.7
II	3.9	4.9
III	3.4	4.8
IV	3.0	4.4
Annual Average	3.7	4.9

1996 Quarters	Wis.	U.S.
I	4.6	6.0
II	3.7	5.4
III	3.1	5.2
IV	3.0	5.0
Annual Average................	3.5	5.4

1995 Quarters	Wis.	U.S.
I	4.5	5.9
II	3.8	5.6
III	3.2	5.6
IV	3.2	5.2
Annual Average	3.7	5.6

[a] Figures show the percentage of labor force that is unemployed and are *not seasonally adjusted*.

Source: Department of Workforce Development and U.S. Bureau of Labor Standards.

APPENDIX A

GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS

The following material is a reprint of the "General Purpose External Financial Statements" section of the audited CAFR for the fiscal year ended June 30, 2004. The entire CAFR is available from the State Controller's Office, Department of Administration, P.O. Box 7864, Madison, WI 53707-7864. The entire CAFR is also available on the internet at:

www.doa.wi.gov/capitalfinance

{This page number is the last sequential page number of the Annual Report to be used in this Part II of the Annual Report. The following uses page numbers from the general purpose external financial statements. The sequential page numbers for the Annual Report continue in Part III.}

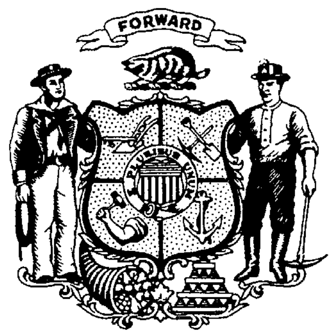
WISCONSIN

GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS

For the fiscal year ended June 30, 2004

STATE OF
WISCONSIN

GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS



For the fiscal year ended June 30, 2004

Jim Doyle, Governor

Department of Administration
Marc J. Marotta, Secretary
William J. Raftery, State Controller

Prepared by the State Controller's Office

DOA-6082AP (R12/04)

State of Wisconsin

General Purpose External Financial Statements For the Fiscal Year Ended June 30, 2004

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WISCONSIN DEPARTMENT OF
ADMINISTRATION

JIM DOYLE
GOVERNOR
MARC J. MAROTTA
SECRETARY
Office of the Secretary
Post Office Box 7864
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December 21, 2004

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, 2004.

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,

Marc J. Marotta
Secretary

William J. Raftery, CPA
State Controller

State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

JANICE MUELLER
STATE AUDITOR

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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, 2004, 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 11 percent of the liabilities of the governmental activities and 3 percent of the liabilities of the aggregate remaining fund information; the Badger Tobacco Asset Securitization Fund, which represents 11 percent of the liabilities of the governmental activities; the Environmental Improvement Fund, which is a major fund and represents 19 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. 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 University of Wisconsin Foundation.

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. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements previously referred to present fairly, in all material respects, the respective financial positions 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 June 30, 2004, 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 1 to the financial statements, the State implemented two accounting changes during fiscal year 2003-04. Governmental Accounting Standards Board (GASB) Statement Number 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14*—broadened the definition of component units and as a result, required the inclusion of the financial statements of the University of Wisconsin Foundation as a discretely presented component unit in the State's Comprehensive Annual Financial Report. GASB Technical Bulletin Number 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues,* required the State to report the Badger Tobacco Asset Securitization Corporation as a blended component unit.

As discussed in Note 18C to the financial statements, the Injured Patients and Families Compensation Fund's projected ultimate loss liability is an estimate based on recommendations of a consulting actuary. The Injured Patients and Families Compensation Fund Board of Governors believes that the estimated loss liability is reasonable and adequate to cover the cost of claims incurred to date. However, uncertainties inherent in projecting the frequency and severity of large medical malpractice claims because of the Injured Patients and Families Compensation 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.

Management's discussion and analysis, the infrastructure narrative, 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 21, 2004, on our consideration of the State of Wisconsin's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. A more detailed version of that report will be included in the State's single audit report. 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 21, 2004 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, 2004. 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 9 and 10)

- *Net Assets.* The assets of the State of Wisconsin exceeded its liabilities at the close of Fiscal Year 2004 by $10.9 billion (reported as "net assets"). Of this amount, $(7.3) 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 decreased by $0.9 billion in Fiscal Year 2004. Net assets of governmental activities decreased by $956.1 million or 16.9 percent, while net assets of the business-type activities showed an increase of $16.9 million or 0.3 percent.
- *Excess of Revenues over (under) Expenses -- Governmental Activities.* During Fiscal Year 2004, the State’s total revenues for governmental activities of $19.91 billion were $29.2 million more than total expenses (excluding transfers) for governmental activities of $19.88 billion. Of these expenses, $7.5 billion were covered by program revenues. General revenues, generated primarily from various taxes, totaled $12.4 billion.

Fund

- *Governmental Funds -- Fund Balances.* As of the close of Fiscal Year 2004, the State's governmental funds reported combined ending fund balances of $(741.3) million, an increase of $316.5 million in comparison with the prior year. Of this total amount, $(2.6) 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 $(2.3) billion, or (13.4) percent of total General Fund expenditures.

Long-term Debt

- The State's total long-term debt obligations (bonds and notes payable) increased by $2,534.8 million during the current fiscal year which represents the net difference between new issuances, payments and refundings of outstanding debt. A key factor contributing to the increase is the issuance of $1,794.9 million of General Fund annual appropriation bonds, which were issued to pay off the State’s unfunded accrued prior service (pension) liability and the unfunded accrued liability for sick leave conversion credits. Additionally the issuance during the fiscal year of $1,305.1 million of general obligation bonds and $507.3 million of revenue bond obligations, and early redemptions and refundings of general obligation and revenue bonds contributed to this increase. 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 page:

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.

Government-wide Financial Statements

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 government-wide financial statements include two statements:

- The *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.

- The *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.

These government-wide financial statements are divided into three categories:

- *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 as well. The State's discretely presented component units (all business-type activities) are:
  - Wisconsin Housing and Economic Development Authority,
  - Wisconsin Health Care Liability Insurance Plan,
  - University of Wisconsin Hospitals and Clinics Authority,
  - State Fair Park Exposition Center, Inc., and
  - University of Wisconsin Foundation.

  Complete financial statements of the individual component units can be obtained from their respective administrative offices. Addresses and other additional information about the State's component units are presented in Note 1-B to the financial statements.

The government-wide financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The accrual basis of accounting, which is similar to the methods used by most businesses, takes into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid.

Fund Financial Statements

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

The State has three kinds of fund categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently.

- *Governmental Funds* – Most of the basic services provided by the State are financed through governmental funds. Governmental funds report information using the flow of current financial resources measurement focus and the modified accrual basis of accounting. 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. The State has two major governmental funds -- the General Fund and the Transportation Fund. Examples of non-major governmental funds include the Conservation Fund, the Bond Security and Redemption Fund, and the Capital Improvement Fund.

- *Proprietary Funds* – 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. Proprietary funds, like the government-wide statements, use the accrual basis of accounting. The State has five major proprietary funds -- the Injured Patients and Families Compensation Fund, the Environmental Improvement Fund, the Veterans Mortgage Loan Repayment Fund, the University of Wisconsin System and the Unemployment Reserve Fund. Examples of the State's non-major proprietary funds include the Lottery and the Health Insurance Fund.

- *Fiduciary Funds* – These funds are used to show assets held by the State as trustee or agent for others outside the State, such as the Wisconsin Retirement System and the Local Government Pooled Investment Fund. Similar to proprietary funds, these funds use the accrual basis of accounting. Because the State can not use these assets to finance its operations, fiduciary funds are not included in the government-wide financial statements discussed above.

Table 1, below, shows how the required parts of this financial report are arranged and relate to one another.

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	The activities of the State that are not proprietary or fiduciary. Governmental activities are primarily financed through taxes, intergovernmental revenues, and other nonexchange revenues. Examples of governmental funds include: • General • Transportation • Bond Security and Redemption • Capital Improvement • Common School	The activities the State operates similar to private business. Examples of proprietary funds include: • Enterprise funds: -- Injured Patients and Families Compensation -- Environmental Improvement -- University of Wisconsin System -- Lottery • Internal service funds: -- Technology Services -- Facilities Operations and Maintenance	Instances in which the State is the trustee or agent for someone else's resources. Examples of fiduciary funds include: • Wisconsin Retirement System • Local Government Pooled Investment • Unclaimed Property • College Savings Program Trust
Required financial statements	• Statement of net assets • Statement of activities	• 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
Accounting basis and measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resource focus	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) 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, 2004 were $28.5 billion, while total liabilities were $17.7 billion, resulting in combined net assets (government and business-type activities) of $10.9 billion. The largest component of the State's total net assets, $14.0 billion or approximately 129.1 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 $4.2 billion of net assets were restricted by external sources or the State Constitution, 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 $(7.3) 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 $(1.9) 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 2004, the State issued $1.8 billion of General Fund annual appropriation bonds to pay the unfunded accrued prior service (pension) liability and the unfunded accrued liability for sick leave conversion credits. Further, the State issued $1.3 billion of general obligation bonds and global certificates, primarily for the acquisition or improvement of land. General Obligation Bonds outstanding at June 30, 2004 totaled $4.4 billion. Outstanding revenue bonds, which are not considered general obligation debt of the State, were $3.8 billion at June 30, 2004.

Table 2
Net Assets
(in millions)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2004	2003	2004	2003	2004	2003	2004-2003
Current and Other Assets	$ 5,040.5	$ 4,658.3	$ 6,408.3	$ 6,473.3	$ 11,448.8	$ 11,131.6	2.8 %
Capital Assets	13,756.7	13,316.0	3,326.3	3,132.8	17,082.9	16,448.9	3.9
Total Assets	18,797.2	17,974.3	9,734.5	9,606.2	28,531.7	27,580.4	3.4
Long-term Liabilities	8,749.0	6,975.6	2,910.8	2,830.8	11,659.8	9,806.4	18.9
Other Liabilities	5,356.4	5,350.8	661.6	630.1	6,018.0	5,980.9	0.6
Total Liabilities	14,105.4	12,326.4	3,572.4	3,460.9	17,677.8	15,787.3	12.0
Net Assets:							
Invested in Capital Assets Net of Related Debt	11,146.1	11,084.9	2,870.4	2,830.7	14,016.5	13,915.6	0.7
Restricted	1,321.9	(652.4)	2,852.4	3,012.9	4,174.3	2,360.5	76.8
Unrestricted (deficit)	(7,776.2)	(4,784.6)	439.3	301.7	(7,336.9)	(4,482.9)	63.7
Total Net Assets	$ 4,691.8	$ 5,647.9	$ 6,162.2	$ 6,145.3	$ 10,853.9	$ 11,793.2	(8.0)

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 $12.8 billion and general revenues of $12.4 billion for total revenues of $25.2 billion during Fiscal Year 2004. Expenses for the State during Fiscal Year 2004 were $26.2 billion. These expenses included payment of $782.4 million for the unfunded liability for sick leave conversion credits, which was funded through the issuance of annual appropration bonds. As a result of the excess of expenses over revenues, the total net assets of the State decreased $0.9 billion, net of contributions and transfers.

Table 3
Changes in Net Assets
(in millions)

	Governmental Activities 2004	Governmental Activities 2003	Business-type Activities 2004	Business-type Activities 2003	Total Primary Government 2004	Total Primary Government 2003	Total Percentage Change 2004-2003
Program Revenues:							
Charges for Goods and Services	$ 1,307.5	$ 1,162.8	$ 4,837.2	$ 4,392.2	$ 6,144.7	$ 5,555.0	10.6 %
Operating Grants and Contributions	5,559.5	5,425.7	457.9	497.3	6,017.4	5,923.0	1.6
Capital Grants and Contributions	635.6	635.4	20.8	35.5	656.4	670.9	(2.2)
General Revenues:							
Income Taxes	5,956.3	5,502.4	-	-	5,956.3	5,502.4	8.2
Sales and Excise Taxes	4,249.7	4,102.4	-	-	4,249.7	4,102.4	3.6
Public Utility Taxes	254.2	273.9	-	-	254.2	273.9	(7.2)
Motor Fuel Taxes	950.5	924.5	-	-	950.5	924.5	2.8
Other Taxes	524.7	483.6	-	-	524.7	483.6	8.5
Other General Revenues	468.2	925.2	(4.8)	18.2	463.4	943.4	(50.9)
Total Revenues	19,906.2	19,436.0	5,311.1	4,943.1	25,217.4	24,379.1	3.4
Program Expenses:							
Commerce	281.8	224.4	-	-	281.8	224.4	25.6
Education	5,749.4	5,675.1	-	-	5,749.4	5,675.1	1.3
Transportation	1,795.5	1,590.7	-	-	1,795.5	1,590.7	12.9
Environmental Resources	444.3	475.0	-	-	444.3	475.0	(6.5)
Human Relations and Resources	8,000.8	8,151.3	-	-	8,000.8	8,151.2	(1.8)
General Executive	425.3	488.9	-	-	425.3	488.9	(13.0)
Judicial	109.8	107.8	-	-	109.8	107.8	1.8
Legislative	57.6	59.8	-	-	57.6	59.8	(3.6)
Tax Relief and Other General Expenditures:							
Employee Benefit Liability	782.4	-	-	-	782.4	-	n/a (a)
Other	789.7	843.8	-	-	789.7	843.8	(6.4)
Intergovernmental	1,058.2	1,108.0	-	-	1,058.2	1,108.0	(4.5)
Interest on Long-term Debt	382.2	290.9	-	-	382.2	290.9	31.4
Injured Patients and Families Compensation	-	-	36.1	102.9	36.1	102.9	(64.9)
Environmental Improvement	-	-	42.2	42.6	42.2	42.6	(0.7)
Veterans Mortgage Loan Repayment	-	-	32.7	47.3	32.7	47.3	(30.9)
University of Wisconsin System	-	-	3,278.4	3,075.5	3,278.4	3,075.5	6.6
Unemployment Insurance Reserve	-	-	1,068.6	1,186.6	1,068.6	1,186.6	(9.9)
Lottery	-	-	458.1	418.5	458.1	418.5	9.5
Health Insurance	-	-	854.0	762.0	854.0	762.0	12.1
Other Business-type	-	-	536.8	486.3	536.8	486.3	10.4
Total Expenses	19,877.0	19,015.7	6,307.0	6,121.5	26,184.0	25,137.1	4.2
Excess (deficiency) before Contributions and Transfers	29.2	420.3	(995.8)	(1,178.3)	(966.6)	(758.0)	27.5
Contributions to Term and Permanent Endowments	-	-	5.3	2.1	5.3	2.1	157.6
Contributions to Permanent Fund Principal	22.0	20.8	-	-	22.0	20.8	6.0
Transfers	(1,007.4)	(1,098.4)	1,007.4	1,098.4	-	-	
Increase (decrease) in Net Assets	(956.1)	(657.3)	16.9	(77.9)	(939.3)	(735.2)	27.8
Net Assets - Beginning (Restated)	5,647.9	6,305.2	6,145.3	6,223.2	11,793.2	12,528.4	(5.9)
Net Assets - Ending	$ 4,691.8	$ 5,647.9	$ 6,162.2	$ 6,145.3	$ 10,853.9	$ 11,793.2	(8.0)

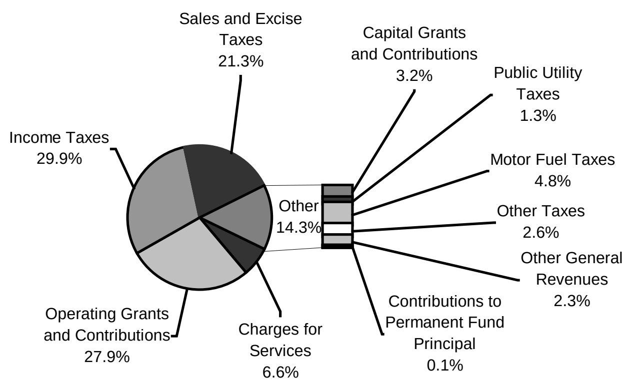
(a) Employee Benefit Liability expenses are only applicable to 2004.

Governmental Activities

The net assets of governmental activities decreased $1.0 billion in Fiscal Year 2004. Revenues for the governmental activities (including Contributions to Permanent Fund Principal) totaled $19.9 billion, while expenses and net transfers totaled $20.9 billion in 2004.

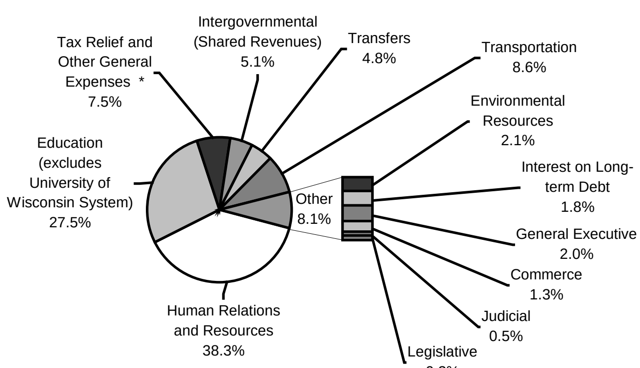
As shown in Table 4, below, approximately 59.9 percent of revenues from all sources earned came from taxes (sales and excise, income, public utility, motor fuel, and other taxes). Operating and capital grants and contributions, which represent amounts received from other governments/entities – primarily the federal government – provided 31.1 percent of total revenues. Charges for services contributed 6.6 percent, and various other revenues provided 2.5 percent of the remaining governmental activity revenue sources.

Table 4
Governmental Activities - 2004 Revenues



As shown in Table 5, below, expenses for Human Relations and Resources programs make up the largest portion – 38.3 percent – of total governmental expenses and transfers. Included in this function are various programs such as Medical Assistance, the prison system, and the temporary assistance for needy families "TANF" program. Educational expenses, which include various school aids but exclude expenses of the University of Wisconsin System, make up 27.5 percent. Tax Relief and Other General Expenses, which includes the expense related to payment of the employee benefit liability, and the municipal and county shared revenue program represent 7.5 and 5.1 percent of the total, respectively, while Transportation expenses represent 8.6 percent. Net transfers to business-type activities, which include a general purpose revenue "GPR" subsidy to the University of Wisconsin System for various programs, make up 4.8 percent of the total expenses/transfers. The interest on long-term debt and remaining functional expenses total 8.1 percent.

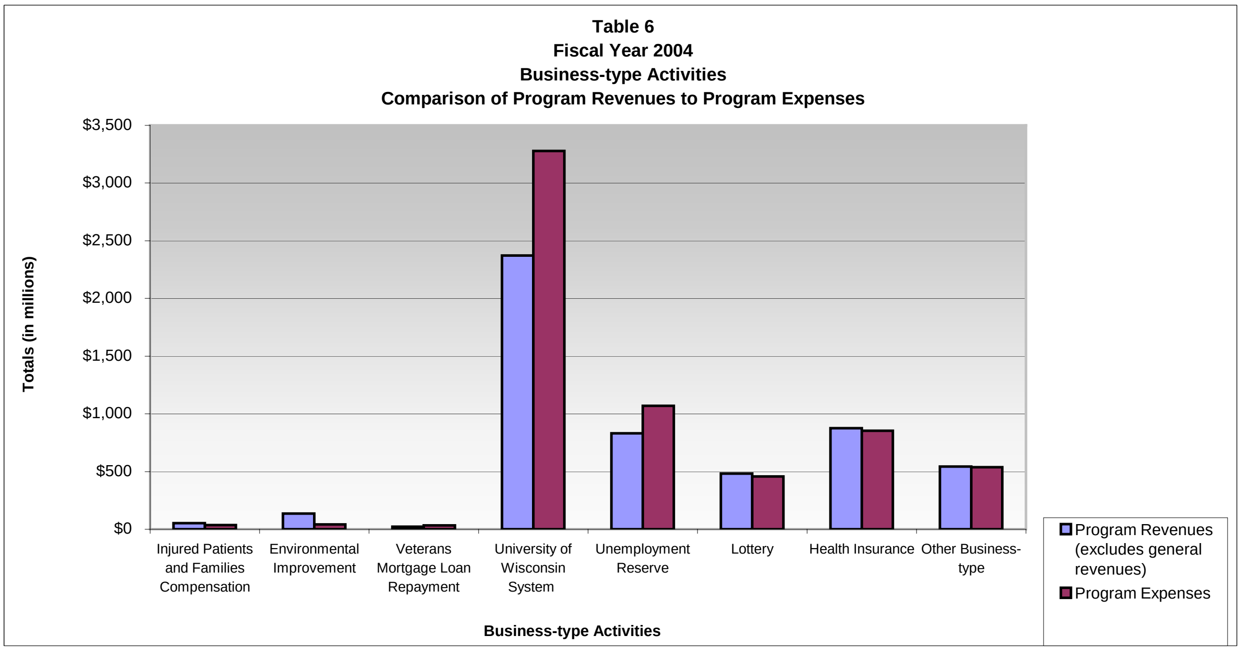
Table 5
Governmental Activities - 2004 Expenses



* Includes payment of employee benefit liability

Business-Type Activities

Revenues of business-type activities totaled $5.3 billion for Fiscal Year 2004. The program revenues consisted of $4.8 billion of charges for services, $0.5 billion of operating grants and contributions, and $.02 billion of capital grants and contributions. General revenues, contributions to endowments and permanent fund principal, and net transfers in totaled $(4.8) million, $5.3 million, and $1,007.4 million, respectively. The total expenses for business-type activities were $6.3 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.



FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

Governmental Funds

At the end of Fiscal Year 2004, the State's governmental funds reported a combined fund balance of $(741.3) million. Funds with significant changes in fund balance are discussed below:

General Fund

The General Fund is the chief operating fund of the State. At June 30 2004, the State's General Fund reported a total fund deficit of $(1,931.1) million. The net change in fund balance during Fiscal Year 2004 was $307.7 million, in contrast to $(753.1) million in Fiscal Year 2003. Major revenue, expenditure and other sources/uses contributing to the change in fund balance are as follows:

Revenues

Revenues of the General Fund totaled $16,794.6 million in Fiscal Year 2004, an increase of $95.2 million from Fiscal Year 2003. Factors contributing to the increase included the following:

- Revenues from taxes increased $609.3 million from Fiscal Year 2003 to Fiscal Year 2004. The most significant increase related to individual income tax withholdings, which increased $179.8 million or 3.5 percent. This increase was due to the growth in employment and wages in the State during that period.

- Intergovernmental revenues (e.g., federal assistance) increased $105.6 million in Fiscal Year 2004, primarily due to an increase in expenditures that were eligible for Federal reimbursement. These items included an increase in benefits paid related to Medical Assistance and the Waiver Program.

- Intergovernmental transfers in the General Fund decreased $598.6 million during Fiscal Year 2004. This decrease reflects two changes related to intergovernmental transfers. Starting in Fiscal Year 2004, these transfers are accounted for in the Medical Assistance Trust Fund, a special revenue fund, rather than the General Fund. (This special revenue fund reported a fund deficit of $(176.3) million at June 30, 2004.) Further, intergovernmental transfers declined significantly between fiscal years 2003 and 2004 due to a decrease in the supplementary nursing home Medical Assistance payments that could have been received from the federal government as a result of intergovernmental transfers between the State and certain counties. These transfers declined from $598.6 million in Fiscal Year 2003 to $95.0 million in Fiscal Year 2004.

- In Fiscal Year 2003, Tobacco Settlement revenues of $153.9 million were reported in the General Fund. In Fiscal Year 2004, tobacco settlement revenues are directed to the Badger Tobacco Asset Securitization Corporation, to provide debt service for the bonds issued in 2002 to securitize future revenue.

- Other revenues, such as charges for goods and services, and gifts and grants increased $132.9 million.

Expenditures

Expenditures of the General Fund totaled $17,152.6 million in Fiscal Year 2004, an increase of $957.0 million from Fiscal Year 2003. The factors contributing to the increase included the following:

- An increase in Tax Relief and Other General expenditures of $1,487.6 million relating to the payment of employee benefits for the unfunded accrued prior service (pension) liability and the unfunded accrued liability for sick leave conversion credits. This was funded by the issuance of General Fund annual appropriation bonds discussed below.

- A decrease in human relations and resources expenditures of $546.1 million primarily resulted from the shift of a portion of medical assistance payments to the Medical Assistance Trust fund.

- Other functional expenditures increased $15.5 million.

Other Financing Sources and Uses

Other financing sources/uses and increases/decreases totaled a net $665.7 million in Fiscal Year 2004, a change of $1,922.6 million from the prior year. The components of this change included the following:

- In Fiscal Year 2004, the State issued annual appropriation bonds to pay the unfunded accrued prior service (pension) liability and the unfunded accrued liability for sick leave conversion credits. Net proceeds of the $1,506.3 million were recorded in the General Fund.

- The State transferred to the General Fund $230.0 million from the Transportation Fund and $17.6 million from the Utility Public Benefits Fund in this fiscal year. These moneys were used to fund a portion of the Fiscal Year 2004 shared revenue payments to local governments.

- The transfer of $287.1 million in Fiscal Year 2003 from the Tobacco Settlement Endowment Fund was the final portion of the proceeds from the sale of the State's right to the Attorneys General Master Settlement Agreement of 1998. Therefore, similar transfers were not reported in Fiscal Year 2004.

- During Fiscal Year 2004, transfers from various funds to the General Fund, relating to the reduction in expenditures experienced from the issuance of the annual appropriation bonds, totaled $48.0 million. This is in contrast to the $38.6 million transferred from various funds to the General Fund in Fiscal Year 2003 for contributions initially intended to be paid to the accumulated sick leave program.

- Transfers out of the General Fund totaled $1,347.6 million, a decrease of $399.2 million from the prior year. The majority of this decrease relates to a reduction in transfers out to the Medical Assistance Trust and Bond Security and Redemption Funds of $146.2 million and $169.3 million, respectively.

- Other financing sources/uses and other increases/decreases resulted in a net increase of $47.2 million from the prior fiscal year.

As of June 30, 2004, the General Fund reported a deficit of $(2,296.8) million in its "Unreserved" Fund Balance. This compares to a General Fund Unreserved Fund Deficit of $(2,638.2) million as of June 30, 2003. 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 and prepaid items.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were significant (a $2.8 billion increase in appropriations). This was due primarily to the fact that several of the State's programs (including annual appropriation bond proceeds for the unfunded prior service (pension) liability and accumulated sick leave program, the transfer to the Medical Assistance Trust Fund, Food Stamps and certain Local Aids - 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 programs (in millions):

Program	Variance
Department of Commerce Federal Aid; Local Assistance	$ 50.0 *
UW-System General Program Operations – Doctoral Universities	67.9
UW-System General Program Operations – System Wide Accounts	(62.1)
UW-System Principal Repayment and Interest	(51.8)
UW-System Federal Aid – Special Projects	103.7
Federal Aid, Medical Assistance	67.5
Food Stamps, Electronic Benefit Transfer	266.0 *
Appropriation Obligation Proceeds (for the Unfunded Prior Service (Pension) Liability and Accumulated Sick Leave Program)	1,487.6 *
Homeland Security	79.9
Transfer to Medical Assistance Trust Fund	123.5 *

Actual charges to appropriations (expenditures) were $1.4 billion below the final budgeted estimates. The most significant positive variance occurred in UW System Federal Aid – Special Projects ($77.8 million).

During the past fiscal year the budgetary-based fund balance increased by $342.0 million for the General Fund, primarily due to an increase in tax revenue collections.

Transportation Fund

In Fiscal Year 2004, the Transportation Fund transferred to the General Fund $230.0 million to fund a portion of the 2004 shared revenue payments to local governments. This was the primary contributing factor to the increase in transfers out of $324.2 million from the preceding year. Also, total expenditures of the Transportation Fund decreased by $179.6 million, from $1,928.3 million in Fiscal Year 2003 to $1,748.7 million in Fiscal Year 2004.

Medical Assistance Trust Fund

The Medical Assistance Trust Fund, which was created to account for revenues received under the intergovernmental transfers program, ended the year with a deficit balance of ($176.3 million). Revenues in the fund increased by $125 million, primarily due to the reporting of intergovernmental transfers in this fund (in the prior year these were recorded in the General Fund). Expenditures increased by $406.2 million, while transfers in from the General Fund decreased by $146.2 million. Wisconsin, along with other states, continues to struggle with increasing Medical Assistance costs. The deficit in the Medical Assistance Trust Fund may need to be financed by the General Fund.

Annual Appropriation Bonds Fund

In December 2003, the State issued $1,794.9 million of General Fund annual appropriation bonds to obtain proceeds to pay the State's unfunded accrued prior service (pension) liability and its unfunded accrued liability for sick leave conversion credits. Of this amount, $1,509.2 million is reported as long-term debt issued in the General Fund. The remaining portion of proceeds, $285.7 million, is reported in the Annual Appropriation Bonds Fund, a debt service fund, to pay for future debt service requirements.

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 2003 to Fiscal Year 2004 include the following:

- In Fiscal Year 2004, the Environmental Improvement Fund issued new revenue bonds of $116.8 million, which contributed to the fund's increase in $67.2 million of total liabilities from Fiscal Year 2003. Correspondingly, loans receivable increased $102.1 million or 8.5 percent, while cash and cash equivalents increased $73.3 million or 37.0 percent over the prior year.

- Due to a decline in new mortgage loans and an increase in mortgage prepayments, the Veterans Mortgage Loan Repayment Fund's mortgage loans receivable has declined $87.2 million or 22.2 percent. Its cash balance decreased $111.4 million or 44.2 percent over the previous fiscal year because some of the outstanding general obligation bonds were paid off early. As a result of the early bond repayment, its outstanding general obligation bonds decreased $189.1 million or 32.5 percent.

- In Fiscal Year 2004, the University of Wisconsin System's Tuition and Fees revenue increased $75.8 million or 13.1 percent, due to increased enrollment and an 18.0 percent increase in tuition. Federal grants and contracts revenue increased $59.8 million or 9.6 percent, substantially due to numerous significant new project grants.

- The Unemployment Reserve Fund experienced a $117.9 million decrease in expenses or 9.9 percent in Fiscal Year 2004 in comparison to Fiscal Year 2003. The federal government stopped authorizing additional benefits to claimants who had exhausted their benefits, which was a significant factor contributing to this decrease. Due to the continuation of the economic slow down during the year, benefits have exceeded receipts. The operating loss for Fiscal Year 2004 and 2003 were $236.4 million and $369.2 million, respectively. The fund equity is reported as $971.0 million as of June 30, 2004.

- In Fiscal Year 2004, the revenues of the Health Insurance Fund, which accounts for group health insurance provided to State employees and employers of participating governments, increased to $875.5 million and expenses increased to $854.0 million, reflecting a $106.3 million and $92.0 million increase, respectively, due to increased participation in the program and the rising cost of health insurance premiums paid to health insurance providers.

GOVERNMENT-WIDE CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the close of Fiscal Year 2004, the State had $17.1 billion invested in capital assets, net of accumulated depreciation of $2.8 billion. This represents an increase of $638.9 million, or 3.9 percent, from Fiscal Year 2003. Depreciation charges totaled $96.2 million and $179.0 million for governmental and business-type activities, respectively, in Fiscal Year 2004. 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	
	2004	2003	2004	2003	2004	2003
Land and Land Improvements	$ 1,383	$ 1,268	$ 114	$ 114	$ 1,497	$ 1,382
Buildings and Improvements	1,292	1,277	1,967	1,804	3,259	3,081
Library Holdings	77	75	1,003	987	1,079	1,061
Machinery and Equipment	223	243	213	198	436	440
Infrastructure	9,880	9,352	-	-	9,880	9,352
Construction in Progress	901	1,098	30	29	931	1,127
Totals	$ 13,756	$ 13,314	$ 3,326	$ 3,131	$ 17,082	$ 16,444

The major capital asset additions completed during Fiscal Year 2004 included the Health Science Learning Center – Madison ($52.9 million expended) and the Klotsche Center Physical Education Addition – Milwaukee ($17.6 million expended). In addition to these completed projects, construction in progress as of June 30, 2004 for governmental and business-type activities totaled $900.8 million and $260.9 million, respectively. (For business-type activities, $231.2 million of 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 2005 include the Camp Randall Stadium Renovation – Madison (estimated budget of $107.4 million, the Microbiological Science Building – Madison (estimated budget of $108.7 million), and the Interdisciplinary Research Center – Madison (estimated budget of $133.9 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, 2004 was $4.4 billion, as shown in Table 8.

During Fiscal Year 2004, $1,305.1 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 and refund current outstanding bonds.

In addition, the State issued $1,794.9 million of annual appropriation bonds to obtain proceeds to pay the State's 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).

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, 2004, as shown in Table 8. These bonds included $1,359.8 million of Transportation Revenue Bonds, $224.7 million of Petroleum Inspection Revenue Bonds, $692.1 million of Environmental Improvement Revenue Bonds, and $1,567.0 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), previously reported as a discretely presented component unit, 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, 2004 and 2003
(in millions)

	Governmental Activities		Business-Type Activities		Total	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**
General obligation bonds and notes	$ 3,560.2	$ 3,090.9	$ 859.3	$ 913.5	$ 4,419.5	$ 4,004.4
Annual appropriation bonds	1,792.1	--	--	--	1,792.1	--
Revenue bonds and notes	3,151.5	2,892.6	692.1	623.4	3,843.6	3,516.0
Totals	$ 8,503.8	$ 5,983.5	$ 1,551.4	$ 1,536.9	$ 10,055.2	$ 7,520.4

Article VIII of the Wisconsin Constitution and Wis. Stat. Sec. 18.05 limits 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 aggregate value of taxable property or five percent of aggregate value of taxable property less net indebtedness at January 1.

At June 30, 2004, State of Wisconsin fixed bonds had a rating of Aa3 from Moody's Investors Services, AA- from Standard and Poor's Corporation, and AA- from Fitch Investors Service, L.P. Variable bonds 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 $9.9 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, 2004, 93.9 percent of the roads and 94.6 percent of bridges were in good or fair condition, consistent with State policies.

For the fiscal year ended June 30, 2004, actual maintenance and preservation costs for the State's road network were $341.1 million, or $109.7 million less than the estimated amount. On that same date, actual maintenance and preservation costs for the State's bridge network were $52.3 million, or $4.5 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. Actual maintenance and preservation costs for the road network reflect an unanticipated shift from maintenance/preservation projects to capital construction projects during the Fiscal Year 2004. In addition, the State of Wisconsin, Department of Transportation's multi-year budgeting 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 2003, the Wisconsin economy stabilized and moved into a sustainable recovery during 2004.

Employment declined slightly in 2003 in Wisconsin, down 0.3 percent. Wisconsin's employment has been expanding since January 2004. Through October 2004, Wisconsin non-farm employment is up 2.1 percent compared to a year ago. Employment losses suffered in the 2000-01 recession have been fully recovered. All private sectors of the economy are adding employment. Unemployment has declined from 5.5 percent in 2003 to 5.0 percent by October 2004.

Personal income growth has improved with the gains in employment. Wisconsin personal income increased 2.8 percent in 2002 and 3.1 percent in 2003. Nationally, income growth was 1.8 percent in 2002 and 3.3 percent in 2003. On a per capita basis, Wisconsin income increased 2.2 percent in 2002 and 2.5 percent in 2003 compared to 0.7 percent and 2.2 percent nationally. Since 2000, Wisconsin's per capita income has moved closer to the national average from 95.7 percent in 2000 to 97.7 percent in 2003. Through the first half of 2004, income growth is averaging 4.0 percent.

Wisconsin's property values reflect an expanding economy. Real property values increased significantly in 2002 and 2003, up 7.5 percent in each year. In 2004, values increased 8.7 percent. Commercial, manufacturing and residential real estate have all increased significantly in these years.

Inflation in Wisconsin has been modest. As measured by the Milwaukee-Racine CSA consumer price index, inflation in 2003 was 2.1 percent. In the first half of 2004, inflation was a moderate 1.1 percent.

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.

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.

* * * *

State of Wisconsin

Statement of Net Assets
June 30, 2004

(In Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Assets				
Cash and Cash Equivalents	$ 998,363	$ 2,498,378	$ 3,496,740	$ 284,880
Investments	150,725	1,363,022	1,513,747	1,088,246
Cash and Investments with Other Component Units	-	-	-	176,305
Receivables (net of allowance)	2,538,724	2,305,039	4,843,763	1,928,271
Internal Balances	20,824	(20,824)	-	-
Inventories	44,903	34,755	79,658	6,079
Prepaid Items	430,604	117,946	548,550	2,346
Capital Leases Receivable - Component Units	-	19,960	19,960	-
Restricted and Limited Use Assets:				
Cash and Cash Equivalents	302,992	68,577	371,568	70,622
Investments	478,901	-	478,901	1,110,342
Cash and Investments with Other Component Units	-	-	-	11,279
Other Restricted Assets	1,008	-	1,008	6,234
Deferred Charges	72,416	15,168	87,584	13,835
Capital Assets:				
Depreciable	1,413,472	2,182,695	3,596,167	296,456
Nondepreciable:				
Infrastructure	9,880,249	-	9,880,249	-
Other	2,462,939	1,143,584	3,606,523	10,816
Other Assets	1,046	6,233	7,279	18,347
Total Assets	18,797,166	9,734,533	28,531,698	5,024,058
Liabilities				
Accounts Payable and Other Accrued Liabilities	1,489,729	380,230	1,869,959	112,445
Due to Other Governments	1,613,554	29,196	1,642,750	2,590
Tax Refunds Payable	1,020,137	-	1,020,137	-
Tax and Other Deposits	37,107	17,254	54,360	94,554
Amounts Held in Trust by Component Unit for Other Component Units	-	-	-	172,191
Amounts Held in Trust by Component Unit for Others	-	-	-	292,197
Unearned Revenue	432,249	210,174	642,424	1,651
Interest Payable	127,276	10,447	137,724	22,190
Short-term Notes Payable	636,396	14,260	650,656	-
Long-term Liabilities:				
Current Portion	389,062	267,879	656,941	208,220
Noncurrent Portion	8,359,903	2,642,934	11,002,837	2,122,762
Total Liabilities	14,105,413	3,572,375	17,677,787	3,028,799
Net Assets				
Invested in Capital Assets, Net of Related Debt	11,146,113	2,870,433	14,016,546	92,029
Restricted for:				
Transportation Programs	120,526	-	120,526	-
Debt Service	588,627	-	588,627	-
Unemployment Compensation	-	971,022	971,022	-
Environmental Improvement	-	1,079,854	1,079,854	-
Permanent Trusts:				
Expendable	10,164	216,529	226,693	10,464
Nonexpendable	590,196	116,835	707,031	785,320
Other Purposes	12,364	468,196	480,559	670,700
Unrestricted	(7,776,238)	439,290	(7,336,948)	436,746
Total Net Assets	$ 4,691,753	$ 6,162,158	$ 10,853,911	$ 1,995,259

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

Statement of Activities
For the Fiscal Year Ended June 30, 2004

(In Thousands)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government:				
Governmental Activities:				
Commerce	$ 281,753	$ 166,249	$ 80,948	$ -
Education	5,749,391	22,431	709,103	-
Transportation	1,795,548	478,126	114,281	627,557
Environmental Resources	444,295	178,603	62,624	2,971
Human Relations and Resources	8,000,799	167,552	4,307,858	5,037
General Executive	425,265	231,016	134,646	-
Judicial	109,788	56,606	961	-
Legislative	57,631	1,210	8	-
Tax Relief and Other General Expenses:				
Employee Benefit Liability	782,440	-	-	-
Other	789,686	5,693	149,088	-
Intergovernmental	1,058,182	-	-	-
Interest on Debt	382,219	-	-	-
Total Governmental Activities	19,876,997	1,307,486	5,559,517	635,565
Business-type Activities:				
Injured Patients and Families Compensation	36,094	52,794	-	-
Environmental Improvement	42,246	37,871	97,643	-
Veterans Mortgage Loan Repayment	32,667	21,392	-	-
University of Wisconsin System	3,278,414	2,130,641	222,388	17,898
Unemployment Reserve	1,068,647	695,099	137,116	-
Lottery	458,110	483,224	-	-
Health Insurance	854,017	875,475	-	-
Other Business-type	536,768	540,743	712	2,901
Total Business-type Activities	6,306,963	4,837,239	457,859	20,799
Total Primary Government	$ 26,183,959	$ 6,144,725	$ 6,017,376	$ 656,364
Component Units:				
Housing and Economic Development Authority	$ 249,920	$ 119,300	$ 128,724	$ -
Health Care Liability Insurance Plan	11,022	10,487	-	-
University Hospitals and Clinics Authority	587,237	606,925	1,006	6,028
University of Wisconsin Foundation	128,542	236,677	160,426	-
State Fair Park Exposition Center, Inc.	5,439	3,971	-	-
Total Component Units	$ 982,160	$ 977,360	$ 290,156	$ 6,028

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
- Grants and Contributions Not Restricted to Specific Programs
- Interest and Investment Earnings
- Miscellaneous

Contributions to Term and Permanent Endowments
Contributions to Permanent Fund Principal
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.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (34,555)		$ (34,555)	
(5,017,857)		(5,017,857)	
(575,584)		(575,584)	
(200,097)		(200,097)	
(3,520,352)		(3,520,352)	
(59,604)		(59,604)	
(52,222)		(52,222)	
(56,413)		(56,413)	
(782,440)		(782,440)	
(634,905)		(634,905)	
(1,058,182)		(1,058,182)	
(382,219)		(382,219)	
(12,374,429)		(12,374,429)	
	$ 16,700	16,700	
	93,269	93,269	
	(11,274)	(11,274)	
	(907,487)	(907,487)	
	(236,432)	(236,432)	
	25,114	25,114	
	21,457	21,457	
	7,587	7,587	
-	(991,065)	(991,065)	
(12,374,429)	(991,065)	(13,365,494)	
			$ (1,896)
			(535)
			26,722
			268,562
			(1,468)
			291,385
5,956,292	-	5,956,292	-
4,249,709	-	4,249,709	-
254,229	-	254,229	-
311,810	-	311,810	-
950,497	-	950,497	-
212,919	-	212,919	-
1	-	1	-
23,507	(4,813)	18,694	39,349
444,705	35	444,740	-
-	5,343	5,343	-
22,005	-	22,005	-
(1,007,395)	1,007,395	-	-
11,418,280	1,007,961	12,426,241	39,349
(956,149)	16,895	(939,254)	330,734
5,647,902	6,145,263	11,793,165	1,664,525
$ 4,691,753	$ 6,162,158	$ 10,853,911	$ 1,995,259

Balance Sheet - Governmental Funds
June 30, 2004

(In Thousands)

	General	Transportation	Nonmajor Governmental	Total Governmental
Assets				
Cash and Cash Equivalents	$ 7,421	$ 332,947	$ 628,203	$ 968,571
Investments	1,056	-	149,668	150,725
Receivables (net of allowance):				
Taxes	1,151,325	94,812	26,012	1,272,149
Loans to Local Governments	14,720	-	333,137	347,857
Other Receivables	197,682	50,736	84,810	333,229
Due from Other Funds	199,766	55,867	70,339	325,972
Due from Component Units	2,380	-	-	2,380
Due from Other Governments	468,748	58,251	15,939	542,937
Inventories	13,106	19,300	2,285	34,691
Prepaid Items	365,594	2,968	42,988	411,550
Advances to Other Funds	-	-	750	750
Restricted and Limited Use Assets:				
Cash and Cash Equivalents	-	-	302,992	302,992
Investments	-	-	478,901	478,901
Other Restricted Assets	-	-	1,008	1,008
Other Assets	-	-	1,046	1,046
Total Assets	$ 2,421,799	$ 614,881	$ 2,138,078	$ 5,174,758
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable and Other Accrued Liabilities	$ 567,180	$ 138,278	$ 119,544	$ 825,001
Due to Other Funds	143,557	37,593	137,280	318,431
Due to Component Units	903	-	-	903
Interfund Payables	386,723	-	199,409	586,132
Due to Other Governments	1,490,714	76,114	45,714	1,612,541
Tax Refunds Payable	1,014,316	5,429	391	1,020,137
Tax and Other Deposits	30,396	574	6,137	37,107
Deferred Revenue	719,118	8,887	63,453	791,458
Interest Payable	-	-	41,754	41,754
Advances from Other Funds	-	-	3,714	3,714
Short Term Notes Payable	-	-	608,252	608,252
Revenue Bonds and Notes Payable	-	-	70,620	70,620
Total Liabilities	4,352,907	266,875	1,296,268	5,916,050
Fund Balances:				
Reserved for Encumbrances	179,457	610,227	212,047	1,001,731
Reserved for Inventories	13,106	19,300	2,285	34,691
Reserved for Prepaid Items	173,177	2,968	42,988	219,133
Reserved for Restricted Funds	-	-	274,190	274,190
Reserved for Long-term Receivables	-	-	316,420	316,420
Reserved for Advances to Other Funds	-	-	750	750
Unreserved, Reported In:				
General Fund	(2,296,847)	-	-	(2,296,847)
Special Revenue Funds	-	(284,489)	(241,972)	(526,460)
Debt Service Funds	-	-	314,488	314,488
Capital Projects Funds	-	-	(363,325)	(363,325)
Permanent Funds	-	-	283,939	283,939
Total Fund Balances	(1,931,108)	348,006	841,810	(741,292)
Total Liabilities and Fund Balances	$ 2,421,799	$ 614,881	$ 2,138,078	$ 5,174,758

(Continued)

Balance Sheet - Governmental Funds
June 30, 2004

(Continued)

		Total Governmental
Reconciliation to the Statement of Net Assets:		
Total Fund Balances from previous page	$	(741,292)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Infrastructure		9,880,249
Other Capital Assets		4,216,755
Accumulated Depreciation		(640,509)
Other long-term assets that are not available to pay for current period expenditures and, therefore, are deferred in the funds.		77,625
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.		364,467
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.		12,615
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		(3,080,880)
Appropriation Bonds Payable		(1,792,092)
General Obligation Bonds Payable		(3,389,177)
Accrued Interest on Bonds		(85,523)
Capital Leases		(19,783)
Installment Contracts		(2,299)
Compensated Absences		(106,368)
Claims and Judgments		(2,037)
Net Assets of Governmental Activities as reported on the Statement of Net Assets (See page 21)	$	4,691,753

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

State of Wisconsin

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Fiscal Year Ended June 30, 2004

(In Thousands)

	General	Transportation	Nonmajor Governmental	Total Governmental
Revenues:				
Taxes	$ 10,748,878	$ 950,824	$ 213,624	$ 11,913,325
Intergovernmental	5,330,427	742,485	45,286	6,118,198
Licenses and Permits	239,314	342,292	435,123	1,016,729
Charges for Goods and Services	238,625	20,151	10,872	269,649
Investment and Interest Income	4,315	2,797	40,541	47,654
Fines and Forfeitures	38,137	527	30,074	68,737
Gifts and Donations	2,288	-	10,718	13,006
Other Revenues:				
Intergovernmental Transfer	-	-	95,000	95,000
Tobacco Settlement	-	-	130,110	130,110
Other	192,619	16,195	1,521	210,335
Total Revenues	16,794,603	2,075,272	1,012,869	19,882,744
Expenditures:				
Current Operating:				
Commerce	247,639	-	37,290	284,930
Education	5,702,513	-	24,073	5,726,586
Transportation	5,861	1,462,255	185,333	1,653,448
Environmental Resources	103,448	-	336,286	439,734
Human Relations and Resources	7,168,613	-	798,043	7,966,656
General Executive	363,760	-	87,710	451,469
Judicial	107,066	-	357	107,423
Legislative	58,301	-	-	58,301
Tax Relief and Other General Expenditures:				
Employee Benefit Liability	1,487,574	-	-	1,487,574
Other	807,673	-	4,825	812,498
Intergovernmental	1,058,182	-	-	1,058,182
Debt Service:				
Principal	-	-	126,358	126,358
Interest and Other Charges	18,750	-	362,395	381,145
Capital Outlay	23,190	286,437	363,328	672,955
Total Expenditures	17,152,571	1,748,692	2,325,996	21,227,259
Excess of Revenues Over (Under) Expenditures	(357,969)	326,580	(1,313,127)	(1,344,515)
Other Financing Sources (Uses):				
Long-term Debt Issued	1,509,181	-	1,042,719	2,551,901
Long-term Debt Issued - Refunding Bonds	-	-	524,658	524,658
Payments to Refunding Bond Escrow Agent	-	-	(534,937)	(534,937)
Discount on Bonds	(2,857)	-	-	(2,857)
Premium on Bonds	-	-	98,214	98,214
Transfers In	503,455	4	771,459	1,274,917
Transfers Out	(1,347,557)	(363,356)	(542,849)	(2,253,763)
Capital Leases Acquisitions	3,379	-	-	3,379
Installment Purchase Acquisitions	20	-	1,104	1,124
Total Other Financing Sources (Uses)	665,622	(363,352)	1,360,367	1,662,637
Net Change in Fund Balances	307,653	(36,772)	47,240	318,122
Fund Balances, Beginning of Year	(2,238,857)	386,363	794,732	(1,057,762)
Increase (Decrease) in Reserve for Inventories	96	(1,585)	(163)	(1,652)
Fund Balances, End of Year	$ (1,931,108)	$ 348,006	$ 841,810	$ (741,292)

(Continued)

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Fiscal Year Ended June 30, 2004

(Continued)

		Total Governmental
Reconciliation to the Statement of Activities:		
Net Change in Fund Balances from previous page	$	318,122
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.		(1,652)
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.		126,358
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		707,289
Depreciation Expense		(74,639)
Grants and Contributions (Donated Assets)		4,245
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.		(859)
In the Statement of Activities, only the gain on the sale of capital assets is reported, while in the governmental funds, the 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.		(178,748)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		17,552
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.		
Bonds Issued		(3,076,559)
Payments to Refunding Bond Escrow Agent		534,937
Bond Premium		(97,981)
Bonds Discount		2,857
Bond Issuance Costs		27,383
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 increase in accrued interest		(10,221)
Decrease in Capital Leases		14,875
Decrease in Installment Contracts		345
Increase in Compensated Absences		(5,073)
Decrease in Claims and Judgments		136
Decrease in Employer Pension Related Debt Costs		722,248
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.		13,236
Changes in Net Assets of Governmental Activities as reported on the Statement of Activities (See page 23)	$	(956,149)

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

Balance Sheet
Proprietary Funds
June 30, 2004

(In Thousands)

	Business-type Activities		
	Injured Patients and Families Compensation	Environmental Improvement	Veterans Mortgage Loan Repayment
Assets			
Current Assets:			
Cash and Cash Equivalents	$ 24,511	$ 271,142	$ 140,573
Investments	25,693	23,386	-
Loans to Local Governments (net of allowance)	-	84,557	-
Other Loans Receivable (net of allowance)	-	-	11,670
Other Receivables (net of allowance)	43,680	330	2,445
Due from Other Funds	-	275	11
Due from Component Units	14	-	-
Due from Other Governments	-	8,263	-
Inventories	2	-	-
Prepaid Items	7	4	68
Capital Leases Receivable - Component Units	-	-	-
Deferred Charges	-	-	101
Total Current Assets	93,907	387,957	154,867
Noncurrent Assets:			
Investments	647,373	135,016	-
Loans to Local Governments (net of allowance)	-	1,214,029	-
Other Loans Receivable (net of allowance)	-	-	293,434
Prepaid Items	-	-	-
Advances to Other Funds	-	-	-
Capital Leases Receivable - Component Units	-	-	-
Restricted and Limited Use Assets:			
Cash and Cash Equivalents	-	68,577	-
Deferred Charges	-	2,650	4,667
Capital Assets (net of accumulated depreciation)	3	-	91
Nondepreciable Capital assets	-	-	-
Other Assets	-	-	434
Total Noncurrent Assets	647,376	1,420,272	298,626
Total Assets	$ 741,283	$ 1,808,229	$ 453,493
Liabilities and Fund Equity			
Current Liabilities:			
Accounts Payable and Other Accrued Liabilities	$ 45,351	$ 189	$ 1,792
Due to Other Funds	93	1,355	418
Due to Component Units	-	-	-
Interfund Payables	-	-	-
Due to Other Governments	-	187	4
Tax and Other Deposits	-	-	1
Deferred Revenue	2,707	-	96
Interest Payable	-	2,958	3,617
Short-term Notes Payable	-	-	-
Current Portion of Long-term Liabilities:			
Future Benefits and Loss Liabilities	54,716	-	-
Capital Leases	-	-	-
Installment Contracts Payable	-	-	-
Compensated Absences	9	51	107
General Obligation Bonds Payable	-	-	8,950
Revenue Bonds and Notes Payable	-	39,340	-
Total Current Liabilities	102,875	44,080	14,986
Noncurrent Liabilities:			
Accounts Payable and Other Accrued Liabilities	-	-	-
Due to Other Governments	-	1,470	-
Deferred Revenue	-	-	-
Noncurrent Portion of Long-term Liabilities:			
Future Benefits and Loss Liabilities	613,769	-	-
Capital Leases	-	-	-
Installment Contracts Payable	-	-	-
Compensated Absences	22	32	187
General Obligation Bonds Payable	-	-	382,320
Revenue Bonds and Notes Payable	-	652,771	-
Total Noncurrent Liabilities	613,791	654,273	382,507
Total Liabilities	716,667	698,353	397,493
Fund Equity:			
Invested in Capital Assets, Net of Related Debt	3	-	91
Restricted for Unemployment Compensation	-	-	-
Restricted for Environmental Improvement	-	1,079,854	-
Restricted for Expendable Trusts	-	-	-
Restricted for Nonexpendable Trusts	-	-	-
Restricted for Future Benefits	24,613	-	-
Restricted for Other Purposes	-	-	-
Unrestricted	-	30,022	55,910
Total Fund Equity	24,616	1,109,876	56,000
Total Liabilities and Fund Equity	$ 741,283	$ 1,808,229	$ 453,493

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

Business-type Activities				Governmental Activities - Internal Service Funds
University of Wisconsin System	**Unemployment Reserve**	**Nonmajor Enterprise**	**Totals**	
$ 493,766	$ 819,162	$ 749,224	$ 2,498,378	$ 29,791
-	-	16,390	65,470	-
-	-	450	85,007	-
29,754	-	8,289	49,712	-
112,424	179,459	43,729	382,066	96
53,901	393	9,301	63,880	36,564
1,003	-	-	1,017	199
54,737	3,814	4,099	70,912	267
27,597	-	7,156	34,755	7,164
26,253	-	91,614	117,946	12,686
1,798	-	-	1,798	-
6,922	-	-	7,022	845
808,153	1,002,827	930,252	3,377,964	87,611
322,375	-	192,788	1,297,552	-
-	-	1,107	1,215,136	-
153,499	-	54,121	501,054	-
-	-	-	-	6,368
-	-	-	-	2,964
18,162	-	-	18,162	-
-	-	-	68,577	-
-	-	828	8,145	6
2,044,371	-	138,230	2,182,695	270,679
1,110,116	-	33,468	1,143,584	29,484
-	-	5,799	6,233	-
3,648,524	-	426,341	6,441,138	309,502
$ 4,456,677	$ 1,002,827	$ 1,356,593	$ 9,819,102	$ 397,113
$ 142,887	$ 15,431	$ 48,079	$ 253,728	$ 9,492
51,628	9,127	43,841	106,462	3,968
1,645	-	-	1,645	-
-	-	8,971	8,971	32,663
20,030	7,248	257	27,726	77
1,586	-	15,667	17,254	-
110,347	-	97,025	210,174	5,043
3,529	-	344	10,447	1,663
12,664	-	1,596	14,260	28,144
-	-	87,003	141,719	25,385
8,825	-	280	9,105	54
-	-	-	-	236
46,385	-	3,629	50,181	1,032
16,705	-	1,879	27,534	7,835
-	-	-	39,340	-
416,231	31,805	308,570	918,547	115,591
-	-	99,415	99,415	11,086
-	-	-	1,470	-
-	-	-	-	1,231
-	-	463,682	1,077,452	85,471
37,492	-	1,981	39,473	489
-	-	-	-	236
36,378	-	4,891	41,511	1,765
410,054	-	39,354	831,727	163,207
-	-	-	652,771	-
483,924	-	609,324	2,743,819	263,484
900,155	31,805	917,894	3,662,367	379,075
2,743,521	-	126,818	2,870,433	100,807
-	971,022	-	971,022	-
-	-	-	1,079,854	-
216,529	-	-	216,529	-
116,835	-	-	116,835	-
-	-	135,751	160,364	-
235,439	-	72,376	307,815	-
244,197	-	103,754	433,883	(82,770)
3,556,522	971,022	438,699	6,156,736	18,038
$ 4,456,677	$ 1,002,827	$ 1,356,593	$ 9,819,102	$ 397,113

Total Fund Equity Reported Above	$ 6,156,736
Adjustment to Reflect the Consolidation of Internal Service Activities Related to Enterprise Funds	5,423
Net Assets of Business-type Activities	$ 6,162,158

Statement of Revenues, Expenses, and Changes in Fund Equity - Proprietary Funds For the Fiscal Year Ended June 30, 2004

(In Thousands)

	Business-type Activities		
	Injured Patients and Families Compensation	Environmental Improvement	Veterans Mortgage Loan Repayment
Operating Revenues:			
Charges for Goods and Services	$ 32,106	$ -	$ -
Participant and Employer Contributions	-	-	-
Tuition and Fees	-	-	-
Federal Grants and Contracts	-	-	-
Local and Private Grants and Contracts	-	-	-
Sales and Services of Educational Activities	-	-	-
Sales and Services of Auxiliary Enterprises	-	-	-
Sales and Services to UW Hospital Authority	-	-	-
Interest Income Used as Security for Revenue Bonds	-	17,144	-
Investment and Other Interest Income	20,552	20,686	21,392
Other Income:			
Federal Aid for Unemployment Insurance Program	-	-	-
Reimbursing Financing Revenue	-	-	-
Other	-	41	-
Total Operating Revenues	52,658	37,871	21,392
Operating Expenses:			
Personal Services	495	5,016	3,819
Supplies and Services	386	1,637	823
Lottery Prize Awards	-	-	-
Scholarships and Fellowships	-	-	-
Depreciation	3	-	45
Benefit Expense	35,212	-	-
Interest Expense	-	34,527	26,274
Other Expenses	-	-	1,349
Total Operating Expenses	36,095	41,180	32,311
Operating Income (Loss)	16,563	(3,309)	(10,919)
Nonoperating Revenues (Expenses):			
Operating Grants	-	92,589	-
Investment Income Used as Security for Revenue Bonds	-	3,723	-
Other Investment and Interest Income	-	1,661	1,713
Gain (Loss) on Disposal of Capital Assets	-	-	-
Interest Expense	-	-	-
Gifts and Donations	-	-	-
Other Revenues	136	-	1
Other Expenses:			
Property Tax Credits	-	-	-
Grants Disbursed	-	(1,065)	(444)
Other	-	-	-
Total Nonoperating Revenues (Expenses)	136	96,908	1,269
Income (Loss) Before Contributions and Transfers	16,699	93,599	(9,650)
Capital Contributions	-	-	-
Additions to Endowments	-	-	-
Transfers In	-	38,320	-
Transfers Out	(15)	(6,095)	(81)
Net Change in Fund Equity	16,684	125,824	(9,731)
Total Fund Equity, Beginning of Year	7,932	984,052	65,731
Total Fund Equity, End of Year	$ 24,616	$ 1,109,876	$ 56,000

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

Business-type Activities				Governmental
University of Wisconsin System	Unemployment Reserve	Nonmajor Enterprise	Totals	Activities - Internal Service Funds
$ -	$ -	$ 895,148	$ 927,254	$ 246,452
-	578,439	925,409	1,503,848	-
653,268	-	-	653,268	-
685,619	-	-	685,619	-
112,101	-	-	112,101	-
221,119	-	-	221,119	-
247,450	-	-	247,450	-
39,457	-	-	39,457	-
-	-	-	17,144	-
-	55,316	76,697	194,643	-
-	137,116	-	137,116	-
-	56,036	-	56,036	-
171,626	5,308	388	177,363	1,291
2,130,641	832,215	1,897,642	4,972,420	247,743
2,204,278	-	238,323	2,451,931	45,455
794,244	-	162,779	959,869	129,210
-	-	275,179	275,179	-
81,625	-	-	81,625	-
168,219	-	10,724	178,991	21,459
-	1,068,647	1,032,005	2,135,864	14,627
-	-	698	61,499	-
4,299	-	7,976	13,625	-
3,252,664	1,068,647	1,727,685	6,158,583	210,752
(1,122,023)	(236,432)	169,957	(1,186,163)	36,991
-	-	712	93,300	-
-	-	-	3,723	-
41,794	-	(9,391)	35,777	46
(10,389)	-	16	(10,372)	(205)
(18,716)	-	(1,918)	(20,635)	(9,637)
183,129	-	-	183,129	-
-	-	1,800	1,936	1,153
-	-	(115,319)	(115,319)	-
-	-	(7,172)	(8,681)	-
(1,163)	-	(120)	(1,283)	-
194,654	-	(131,391)	161,576	(8,644)
(927,369)	(236,432)	38,566	(1,024,587)	28,347
17,898	-	2,901	20,799	-
5,343	-	-	5,343	-
1,003,079	-	63,295	1,104,694	7,755
(50,140)	(8,351)	(32,617)	(97,299)	(14,921)
48,812	(244,783)	72,144	8,950	21,181
3,507,710	1,215,805	366,555	6,147,786	(3,143)
$ 3,556,522	$ 971,022	$ 438,699	$ 6,156,736	$ 18,038

Total Net Change in Fund Equity Reported Above	$ 8,950
Consolidation Adjustment of Internal Services Activities Related to Enterprise Funds	7,945
Change in Net Assets of Business-Type Activities	$ 16,895

Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2004

(In Thousands)

	Business-type Activities		
	Injured Patients and Families Compensation	Environmental Improvement	Veterans Mortgage Loan Repayment
Cash Flows from Operating Activities:			
Cash Receipts from Customers	$ 32,004	$ -	$ -
Cash Payments to Suppliers for Goods and Services	(384)	(2,782)	(1,211)
Cash Payments to Employees for Services	(489)	(4,152)	(3,648)
Tuition and Fees	-	-	-
Grants and Contracts	-	-	-
Cash Payments for Lottery Prizes	-	-	-
Cash Payments for Loans Originated	-	-	(66,064)
Collection of Loans	-	-	156,568
Interest Income	-	-	22,270
Cash Payments for Benefits	(23,041)	-	-
Sales and Services of Educational Activities	-	-	-
Sales and Services of Auxiliary Enterprises	-	-	-
Sales and Services of Hospitals	-	-	-
Scholarships and Fellowships	-	-	-
Other Operating Revenues	-	41	-
Other Operating Expenses	-	-	(1,330)
Other Sources of Cash	136	-	-
Other Uses of Cash	-	-	-
Net Cash Provided (Used) by Operating Activities	8,225	(6,892)	106,585
Cash Flows from Noncapital Financing Activities:			
Operating Grants Receipts	-	91,133	-
Grants for Loans to Governments	-	-	-
Grants Disbursed	-	(1,065)	(440)
Proceeds from Issuance of Long-term Debt	-	123,165	30,000
Retirement of Long-term Debt	-	(54,340)	(219,390)
Interest Payments	-	(34,255)	(27,961)
Property Tax Credits	-	-	-
Noncapital Gifts and Grants	-	-	-
Interfund Loans Received	-	-	-
Interfund Loans Repaid	-	-	-
Interfund Advances Collected	-	-	-
Transfers In	-	38,320	-
Transfers Out	(15)	(6,095)	(81)
Student Direct Lending Receipts	-	-	-
Student Direct Lending Disbursements	-	-	-
Other Cash Inflows from Noncapital Financing Activities	-	-	1
Other Cash Outflows from Noncapital Financing Activities	-	-	(463)
Net Cash Provided (Used) by Noncapital Financing Activities	(15)	156,862	(218,334)
Cash Flows from Capital and Related Financing Activities:			
Proceeds from Issuance of Long-term Debt	-	-	-
Capital Contributions	-	-	-
Repayment of Long-term Debt	-	-	-
Repayment of Short-term Notes	-	-	-
Interest Payments	-	-	-
Capital Lease Obligations	-	-	-
Proceeds from Sale of Capital Assets	-	-	-
Payments for Purchase of Capital Assets	-	-	-
Other Cash Inflows from Capital Financing Activities	-	-	-
Other Cash Outflows from Capital Financing Activities	-	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	-	-	-
Cash Flows from Investing Activities:			
Proceeds from Sale and Maturities of Investment Securities	109,384	50,021	-
Purchase of Investment Securities	(130,469)	(66,773)	-
Cash Payments for Loans Originated	-	(181,386)	-
Collection of Loans	-	79,310	-
Investment and Interest Receipts	31,293	46,612	1,582
Net Cash Provided (Used) by Investing Activities	10,207	(72,217)	1,582
Net Increase (Decrease) in Cash and Cash Equivalents	18,417	77,753	(110,168)
Cash and Cash Equivalents, Beginning of Year	6,094	261,966	250,741
Cash and Cash Equivalents, End of Year	$ 24,511	$ 339,719	$ 140,573

Business-type Activities				Governmental Activities - Internal Service Funds
University of Wisconsin System	Unemployment Reserve	Nonmajor Enterprise	Totals	
$ -	$ 552,837	$ 1,856,277	$ 2,441,117	$ 244,659
(790,160)	-	(130,952)	(925,489)	(133,951)
(2,240,864)	-	(240,295)	(2,489,447)	(45,120)
659,837	-	-	659,837	-
821,316	-	-	821,316	-
-	-	(289,528)	(289,528)	-
(47,471)	-	(11,744)	(125,279)	-
39,027	-	17,874	213,468	-
-	-	4,025	26,295	-
-	(1,070,123)	(996,591)	(2,089,756)	(22,036)
199,184	-	-	199,184	-
228,250	-	-	228,250	-
40,384	-	-	40,384	-
(81,625)	-	-	(81,625)	-
172,456	198,917	74	371,488	1,291
-	-	(33,596)	(34,927)	-
-	-	9,206	9,342	1,394
-	-	(128)	(128)	-
(999,665)	(318,369)	184,620	(1,025,497)	46,237
-	-	653	91,786	-
-	-	30	30	-
-	-	(7,426)	(8,932)	-
-	-	-	153,165	-
-	-	-	(273,730)	-
-	-	(692)	(62,908)	-
-	-	(118,357)	(118,357)	-
188,473	-	-	188,473	-
-	-	5,751	5,751	-
-	-	(25,574)	(25,574)	(6,088)
-	-	-	-	20
949,412	-	62,642	1,050,374	7,930
-	(1,957)	(32,509)	(40,657)	(14,783)
134,211	-	-	134,211	-
(137,446)	-	-	(137,446)	-
-	-	31	32	-
(2,604)	-	-	(3,067)	-
1,132,045	(1,957)	(115,452)	953,150	(12,921)
227,451	-	706	228,157	4,805
19,134	-	2,901	22,034	-
(28,349)	-	(1,541)	(29,890)	(7,086)
-	-	-	-	(3,031)
(54,840)	-	(1,968)	(56,808)	(9,133)
(4,745)	-	(385)	(5,131)	(5,114)
-	-	237	237	3,267
(351,724)	-	(11,466)	(363,190)	(16,310)
-	-	227	227	-
-	-	(158)	(158)	(538)
(193,074)	-	(11,447)	(204,521)	(33,140)
484,136	-	32,802	676,343	-
(490,932)	-	(13,435)	(701,609)	-
-	-	(165)	(181,551)	-
-	-	200	79,510	-
7,296	55,316	80,515	222,614	45
500	55,316	99,917	95,306	45
(60,193)	(265,009)	157,639	(181,562)	222
553,959	1,084,171	591,585	2,748,516	29,570
$ 493,766	$ 819,162	$ 749,224	$ 2,566,954	$ 29,791

(Continued)

Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2004

(Continued)

	Business-type Activities		
	Injured Patients and Families Compensation	Environmental Improvement	Veterans Mortgage Loan Repayment
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operations:			
Operating Income (Loss)	$ 16,563	$ (3,309)	$ (10,919)
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation	3	-	45
Amortization	-	137	-
Provision for Uncollectible Accounts	-	-	(82)
Operating Income (Investment Income) Classified as Investing Activity	(20,552)	(37,830)	-
Operating Expense (Interest Expense) Classified as Noncapital Financing Activity	-	34,181	26,274
Miscellaneous Nonoperating Income (Expense)	136	-	-
Changes in Assets and Liabilities:			
Decrease (Increase) in Receivables	21	-	91,559
Decrease (Increase) in Due from Other Funds	-	29	22
Decrease (Increase) in Due from Component Units	2	-	-
Decrease (Increase) in Due from Other Governments	-	-	-
Decrease (Increase) in Inventories	(1)	-	-
Decrease (Increase) in Prepaid Items	-	-	-
Decrease (Increase) in Other Assets	-	-	(147)
Decrease (Increase) in Deferred Charges	-	(114)	101
Increase (Decrease) in Accounts Payable and Other Accrued Liabilities	(61)	108	571
Increase (Decrease) in Compensated Absences	-	(8)	20
Increase (Decrease) in Due to Other Funds	71	(283)	(764)
Increase (Decrease) in Due to Component Units	-	-	-
Increase (Decrease) in Due to Other Governments	-	(13)	4
Increase (Decrease) in Tax and Other Deposits	-	-	(1)
Increase (Decrease) in Deferred Revenue	(125)	-	(98)
Increase (Decrease) in Interest Payable	-	209	-
Increase (Decrease) in Future Benefits and Loss Liabilities	12,170	-	-
Total Adjustments	(8,338)	(3,584)	117,504
Net Cash Provided (Used) by Operating Activities	$ 8,225	$ (6,892)	$ 106,585
Noncash Investing, Capital and Financing Activities:			
Capital Leases (Initial Year):			
Fair Market Value	$ -	$ -	$ -
Current Year Cash Receipts (Payments)	-	-	-
Contributions/Transfer In (Out) of Noncash Assets and Liabilities from/to Other Funds	-	-	-
Net Change in Unrealized Gains and Losses	(58,506)	-	-
Other	-	-	-

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

Business-type Activities				Governmental Activities - Internal Service Funds
University of Wisconsin System	Unemployment Reserve	Nonmajor Enterprise	Totals	
$ (1,122,023)	$ (236,432)	$ 169,957	$ (1,186,163)	$ 36,991
168,219	-	10,724	178,991	21,459
-	-	-	137	-
-	(502)	(55)	(639)	-
-	(55,316)	(72,729)	(186,428)	-
-	-	692	61,147	-
(24,237)	-	1,837	(22,264)	899
(38,873)	(28,334)	9,159	33,533	291
(11,741)	107	22,940	11,358	(2,095)
-	-	-	2	48
(5,820)	4,926	6,250	5,356	(2)
1,651	-	600	2,250	(1,062)
(2,455)	-	2,927	473	7,484
-	-	2,256	2,109	-
(1,373)	-	14	(1,371)	-
(1,440)	(2,694)	(20,911)	(24,428)	(6,893)
5,425	-	625	6,062	146
14,481	(465)	3,906	16,945	268
-	-	(11)	(11)	(3)
2,629	341	183	3,143	(24)
-	-	1,578	1,577	-
15,891	-	5,076	20,744	(3,861)
-	-	-	209	-
-	-	39,602	51,772	(7,409)
122,359	(81,938)	14,663	160,666	9,246
$ (999,665)	$ (318,369)	$ 184,620	$ (1,025,497)	$ 46,237
$ 12,567	$ -	$ 459	$ 13,026	$ -
(708)	-	(88)	(795)	-
-	-	87	87	42
17,401	-	(17,166)	(58,270)	-
2,086	-	39	2,126	10

Statement of Fiduciary Net Assets
June 30, 2004

(In Thousands)

	Pension and Other Employee Benefit Trust	Investment Trust	Private-Purpose Trust	Agency
Assets				
Cash and Cash Equivalents	$ 1,128,473	$ 2,573,261	$ 33,042	$ 75,711
Securities Lending Collateral	5,053,059	-	-	-
Prepaid Items	5,042	-	7	-
Receivables (net of allowance):				
Prior Service Contributions Receivable	469,306	-	-	-
Benefits Overpayment Receivable	2,312	-	-	-
Due from Other Funds	38,843	-	-	606
Due from Component Units	2,276	-	-	-
Interfund Receivables	489,329	627,765	-	-
Due from Other Governments	90,563	-	-	-
Interest and Dividends Receivable	183,001	-	-	-
Investment Sales Receivable	368,437	-	-	-
Other Receivables	2,584	-	181	5,231
Total Receivables	1,646,649	627,765	181	5,837
Investments:				
Fixed Income	16,500,477	-	-	-
Stocks	43,081,043	-	-	-
Limited Partnerships	2,529,989	-	-	-
Mortgages	593,064	-	-	-
Real Estate	417,080	-	-	-
Investments of Private Purpose Funds	-	-	1,197,790	-
Investments of Agency Funds	-	-	-	743
Financial Futures Contracts	88	-	-	-
Multi-asset Investments	1,767,683	-	-	-
Total Investments	64,889,426	-	1,197,790	743
Capital Assets	9	-	-	-
Other Assets	-	-	37,315	279,836
Total Assets	72,722,658	3,201,026	1,268,335	$ 362,126
Liabilities				
Accounts Payable and Other Accrued Liabilities	41,509	-	122	$ 65,488
Securities Lending Collateral Liability	5,053,059	-	-	-
Annuities Payable	197,142	-	-	-
Advance Contributions	289	-	-	-
Due to Other Funds	31,272	16	15	5,701
Interfund Payables	489,329	-	-	-
Due to Other Governments	24,023	-	-	-
Tax and Other Deposits	-	-	-	290,937
Investment Payable	744,480	-	-	-
Deferred Revenue	2,177	-	-	-
Compensated Absences Payable	1,624,942	-	-	-
Total Liabilities	8,208,222	16	137	$ 362,126
Net Assets				
Held in Trust for Pension Benefits, Pool Participants and Other Purposes	$ 64,514,436	$ 3,201,010	$ 1,268,198	

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, 2004

(In Thousands)

	Pension and Other Employee Benefit Trust	Investment Trust	Private-Purpose Trust
Additions			
Contributions:			
Employer Contributions	$ 1,333,728	$ -	$ -
Employee Contributions	758,694	-	-
Total Contributions	2,092,422	-	-
Deposits	-	11,244,730	351,020
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	8,498,783	-	-
Interest	548,335	-	-
Dividends	304,237	-	-
Securities Lending Income	46,074	-	-
Other	97,994	-	-
Investment Income of Investment, Private Purpose, and Other Employee Benefit Trust Funds	416,130	48,379	138,343
Less:		-	
Investment Expense	(146,551)	(1,290)	(6,468)
Securities Lending Rebates and Fees	(37,329)	-	-
Investment Income Distributed to Other Funds	(306,119)	-	-
Net Investment Income	9,421,555	47,089	131,875
Interest on Prior Service Receivable	36,119	-	-
Miscellaneous Income			
Escheat Additions	-	-	81,026
Other	2,380	-	-
Total Miscellaneous Income	2,380	-	81,026
Total Additions	11,552,476	11,291,819	563,921
Deductions			
Benefits and Refunds:			
Retirement, Disability, and Beneficiary	2,744,709	-	-
Separations	23,777	-	-
Total Benefits and Refunds	2,768,486	-	-
Distributions	74,533	11,650,770	158,918
Insurance Premiums	421,240	-	-
Unusual Write-off of Receivable	(159)	-	-
Administrative Expense	18,415	218	10,646
Miscellaneous Expense	5	-	-
Transfers Out	488	-	20,036
Total Deductions	3,283,007	11,650,987	189,601
Net Increase (Decrease)	8,269,469	(359,168)	374,320
Net Assets - Beginning of Year	56,244,967	3,560,178	893,878
Net Assets - End of Year	$ 64,514,436	$ 3,201,010	$ 1,268,198

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

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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* (effective beginning with Fiscal Year 2004). 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*, became effective beginning with Fiscal Year 2004. The TB 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), previously reported as a discretely presented component unit, to be a blended component unit in the primary government and reported as 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. 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

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. In addition to accountability for fiscal matters, the State has the ability to significantly influence operations of the Foundation through legislation. The Foundation 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.

Discrete Component Units

Discrete 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 significantly influence operations of the Authority through legislation. The State appoints the Authority's Board and has the ability to impose its will on the Authority. 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.

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-wid*e 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 school days.

In reporting the financial activity of its proprietary funds, except for the State Life Insurance Fund, 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. 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.

The University of Wisconsin Foundation, a discretely presented component unit, prepares its separately issued financial statements on the basis of cash receipts and disbursements. The financial information presented in the State’s government-wide financial statements and the accompanying footnote disclosures has been adjusted to an accrual basis in conformity with GAAP. Certain accrual adjustments not reported are not considered material.

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* - 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 revenue sources.

- *Veterans Mortgage Loan Repayment Fund* – accounts for the issuance and administration of veterans' first mortgage loans. Revenues are primarily derived from bond proceeds, mortgage payments, and investment income.

- *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, employee reimbursement accounts, life insurance and deferred compensation.

- *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 escheated property held by the State for private individuals and the State-sponsored college savings programs.

- *Agency Funds* – account for assets held by the State for inmates and residents of state facilities, deposits of bank and insurance companies doing business in the state, assets of liquidated insurance companies to insure payments to claimants, 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; or investment and interest earnings from various loan and insurance funds/component units, (b) program-specific operating grants and contributions, and (c) program-specific capital grants and contributions. 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 insurance and loan 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 State Treasurer 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 State Treasurer 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.

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 primarily 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 with origination fees and associated costs deferred and recognized over a fifteen year period using the straight-line method.

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 (except for construction in progress reported by the University of Wisconsin System, which is included in the applicable major capital assets categories). Generally, estimated useful lives are as follows:

Buildings and improvements	2 - 40 years
Equipment, machinery and furnishings	2 - 27 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. Through Wis. Stat. Sec. 20.835(1)(t) and (u), the State transferred moneys from the Transportation Fund and the Utility Public Benefits Fund in the amounts of $230.0 million and $17.6 million, respectively, in order to fund the Fiscal Year 2004 payment to the local governments.

At June 30, 2004, 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 $474.9 million representing one-half of the total appropriated amount is reported at June 30, 2004 as Due To Other Governments.

State Property Tax Credit Program

At June 30, 2004, 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, 2004.

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, 2004.

The aggregated State Property Tax Credit Program liability of $354.7 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 2004 property tax bills, the State made this payment in March 2004.

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 2004, while the remaining portion represents a prepaid item. The resulting Prepaid Item reported within the Lottery Fund totals $29.2 million at June 30, 2004.

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 first Monday in May.

A portion of the May payment distributed to the general government taxing jurisdictions, Tax Incremental Districts, and special districts applies to their fiscal period ending December 31. Therefore, part of the May distribution represents an expense to the State in Fiscal Year 2004, while the remaining portion represents a prepaid item. The resulting Prepaid Item within the General Fund totals $21.0 million at June 30, 2004.

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 2002, 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 Veterans Mortgage Loan Repayment Fund and the University of Wisconsin System Fund, both enterprise funds, are amortized ratably over the life of the obligations to which they relate. 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 interest method.

Debt issuance costs of the State Fair Park Exposition Center, Inc., a 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 at a minimum of 10 days per year. 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. Compensatory time accumulates for eligible employees for hours worked in excess of forty hours per week. Each full-time employee is eligible for three 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. That portion of the total health insurance obligation for which the State has already accumulated resources is presented in the Accumulated Sick Leave Fund, a pension and other employee benefit trust fund.

12. Deferred Revenue

In the government-wide statements and proprietary fund financial statements deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Deferred revenues arise 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 deferred revenue is removed and revenue is recognized. In the governmental fund statements revenues are also deferred for amounts that are unearned or unavailable.

Deferred revenues of the University of Wisconsin System consist of payments received but not earned at June 30, 2004, 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.

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 and prepaid items.

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 regulation of other governments), or (2) imposed by law through constitutional provisions. 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, 2004, 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	$ 968,571	$ -	$ 29,791	$ -	$ 998,363
Investments	150,725	-	-	-	150,725
Receivables (net of allowance):					
Taxes	1,272,149	-	-	(1,272,149)	-
Loans to Local Governments	347,857	-	-	(347,857)	-
Other Receivables	333,229	3,011	562	2,201,922	2,538,724
Due from Other Funds	325,972	-	39,528	(365,500)	-
Due from Component Units	2,380	-	-	(2,380)	-
Due from Other Governments	542,937	-	-	(542,937)	-
Internal Balances	-	-	(5,423)	26,247	20,824
Inventories	34,691	3,049	7,164	-	44,903
Prepaid Items	411,550	-	19,054	-	430,604
Advances to Other Funds	750	-	-	(750)	-
Restricted Assets:					
Cash and Cash Equivalents	302,992	-	-	-	302,992
Investments	478,901	-	-	-	478,901
Other Restricted Assets	1,008	-	-	-	1,008
Deferred Charges	-	71,565	851	-	72,416
Depreciable Capital Assets	-	1,142,792	270,679	-	1,413,472
Infrastructure	-	9,880,249	-	-	9,880,249
Other Non-depreciable Capital Assets	-	2,433,454	29,484	-	2,462,939
Other Assets	1,046	-	-	-	1,046
Total Assets	$ 5,174,758	$ 13,534,121	$ 391,690	$ (303,404)	$ 18,797,166
Liabilities:					
Accounts Payable and Other Accrued Liabilities	$ 825,001	$ 3	$ 22,318	$ 642,407	$ 1,489,729
Due to Other Funds	318,431	-	36,631	(355,062)	-
Due to Component Units	903	-	-	(903)	-
Interfund Payables	586,132	-	-	(586,132)	-
Due to Other Governments	1,612,541	1,013	-	-	1,613,554
Tax Refunds Payable	1,020,137	-	-	-	1,020,137
Tax and Other Deposits	37,107	-	-	-	37,107
Deferred Revenue	791,458	(365,483)	6,274	-	432,249
Interest Payable	41,754	85,523	-	-	127,276
Advances from Other Funds	3,714	-	-	(3,714)	-
Short Term Notes Payable	608,252	-	28,144	-	636,396
Long-term Liabilities:					
Short-term Portion	70,620	283,900	34,541	-	389,062
Long-term Portion	-	8,108,735	251,167	-	8,359,903
Total Liabilities	5,916,050	8,113,691	379,075	(303,404)	14,105,413
Fund Balances/Net Assets	(741,292)	5,420,430	12,615	-	4,691,753
Total Liabilities and Fund Balances/Net Assets	$ 5,174,758	$ 13,534,121	$ 391,690	$ (303,404)	$ 18,797,166

(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, 2004, 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	$ 11,913,325	$ -	$ -
Income Taxes	-	20,365	-
Sales & Excise Taxes	-	3,128	-
Public Utility Taxes	-	-	-
Other Taxes	-	(330)	-
Motor Fuel (Transportation) Taxes	-	(327)	-
Other Dedicated Taxes	-	(688)	-
Intergovernmental	6,118,198	-	-
Operating Grants	-	-	1,275
Capital Grants	-	-	2,970
Unrestricted Grants	-	-	-
Licenses and Permits	1,016,729	-	-
Charges for Goods and Services	269,649	2,085	-
Investment and Interest Income	47,654	-	-
Fines and Forfeitures/Contributions to Permanent Fund	68,737	-	-
Gifts and Donations	13,006	-	-
Other Revenues:		(6,681)	(4,339)
Intergovernmental Transfer	95,000	-	-
Tobacco Settlement	130,110	-	-
Other	210,335	-	-
Total Revenues	19,882,744	17,552	(94)
Expenditures:			
Current Operating:			
Commerce	284,930	503	1,698
Education	5,726,586	2	2,569
Transportation	1,653,448	(379)	145,518
Environmental Resources	439,734	(1,116)	8,575
Human Relations and Resources	7,966,656	(12,367)	48,683
General Executive	451,469	(2,149)	4,665
Judicial	107,423	31	2,563
Legislative	58,301	(740)	443
Tax Relief and Other General Expenditures:			
Employee Benefit Liability	1,487,574	(705,134)	-
Other	812,498	(17,114)	-
Intergovernmental	1,058,182	-	-
Debt Service:			
Principal	126,358	-	-
Interest and Other Charges	381,145	1,513	-
Capital Outlay	672,955	-	(672,955)
Total Expenditures	21,227,259	(736,950)	(458,241)
Excess of Revenues Over (Under) Expenditures	(1,344,515)	754,502	458,147
Other Financing Sources (Uses):			
Net Transfers	(978,845)	-	(859)
Long-term Debt Issued	3,076,559	-	-
Premium/Discount on Bonds	95,357	-	-
Payments to Refunding Bond Escrow Agent	(534,937)	-	-
Capital Leases Acquisitions	3,379	(3,379)	-
Installment Purchase Acquisitions	1,124	(1,124)	-
Total Other Financing Sources (Uses)	1,662,637	(4,504)	(859)
Net Change in Fund Balance	318,122	$ 749,998	$ 457,288
Change in Reserve for Inventories	(1,652)		
Net Change for the Year	$ 316,470		

(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
$ -	$ -	$ -	$ (11,913,325)	$ -
-	-	-	5,935,928	5,956,292
-	-	-	4,246,581	4,249,709
-	-	-	254,229	254,229
-	-	-	312,140	311,810
-	-	-	950,824	950,497
-	-	(17)	213,624	212,919
-	-	-	(6,118,198)	-
-	-	35,440	5,522,801	5,559,517
-	-	2	632,594	635,565
-	-	-	1	1
-	-	-	(1,016,729)	-
1,106	-	(28,815)	1,063,461	1,307,486
46	-	-	(24,193)	23,507
-	-	-	(46,732)	22,005
-	-	-	(13,006)	-
-	-	(244)	455,970	444,705
-	-	-	(95,000)	-
-	-	-	(130,110)	-
-	-	-	(210,335)	-
1,152	-	6,365	20,524	19,928,242
(1,164)	-	(4,125)	(89)	281,753
(2,456)	-	22,570	121	5,749,391
(4,745)	135	-	1,570	1,795,548
(1,924)	(1,087)	(101)	213	444,295
(14,345)	(136)	12,604	(296)	8,000,799
(3,597)	(545)	(24,583)	6	425,265
(357)	127	-	-	109,788
(297)	(76)	-	-	57,631
-	-	-	-	782,440
(3)	-	-	(5,694)	789,686
-	-	-	-	1,058,182
-	(126,358)	-	-	-
9,637	(15,898)	-	5,822	382,219
-	-	-	-	-
(19,250)	(143,838)	6,365	1,652	19,876,997
20,402	143,838	-	18,873	51,246
(7,166)	-	-	(20,524)	(1,007,395)
-	(3,076,559)	-	-	-
-	(95,357)	-	-	-
-	534,937	-	-	-
-	-	-	-	-
-	-	-	-	-
(7,166)	(2,636,979)	-	(20,524)	(1,007,395)
$ 13,236	$ (2,493,140)	$ 0	(1,652)	(956,149)
			1,652	-
			$ 0	$ (956,149)

(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/NET ASSETS

In addition to the General Fund, funds reporting a deficit fund balance, fund equity, or net assets position at June 30, 2004 are (in thousands):

Special Revenue:		
Medical Assistance Trust	$	176,310
Petroleum Inspection		182,634
VendorNet		2,964
Capital Projects:		
Capital Improvement		202,258
Transportation Revenue Bonds		9,645
Enterprise:		
Duty Disability		176,121
Internal Service:		
Fleet Services		921
Risk Management		109,313
Pension and Other Employee Benefit Trust:		
Accumulated Sick Leave		12,261

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. Disclosures of the State's investment activities are presented in the following categories: State Investment Fund, Other Funds Managed by the Board, Other State Agencies and Funds, and Component Units.

A. Deposits

Primary Government

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 State Treasurer. The State Treasurer 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.

The State's insured deposits are covered by the Federal Deposit Insurance Corporation (FDIC) and an appropriation for losses on public deposits. The State, as required by Wis. Stat. Sec. 34.08, is to make payments to public depositors for proofs of loss up to $400 thousand per depositor above the amount of federal insurance. 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.

At June 30, 2004, the carrying amount of the primary government deposits reported as cash was $(167.6) million and the bank balance was $332.9 million. Further, $525 thousand of deposits of the Bank and Insurance Company agency fund are reported as “Other Assets”. Of the bank amount, excluding a bank overdraft of $38.2 million in two bank accounts that are covered by compensating balances in other accounts,

- $9.5 million was covered by federal depository insurance, the State Public Deposit Guarantee Fund or collateralized with securities held by the State or its agent in the State's name, and
- $361.6 million was uncollateralized and uninsured.

The State’s Unemployment Reserve Fund had $832.7 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.

Petty cash and contingent accounts authorized under Wis. Stat. Sec 20.920, which are held by agencies and reported as Cash and Cash Equivalents in the amount of $133.1 thousand, are not included in the carrying amount nor bank balance of deposits in this note because these are neither deposits nor investments.

Component Units

The carrying amount of deposits of the Wisconsin Housing and Economic Development Authority at June 30, 2004, the Wisconsin Health Care Liability Insurance Plan at December 31, 2003, the University of Wisconsin Hospitals and Clinics Authority at June 30, 2004, the University of Wisconsin Foundation at December 31, 2003, and the State Fair Park Exposition Center, Inc. at December 31, 2003 was $29.3 million and the bank balance was $29.2 million. Of the bank amount, $2.1 million was covered by federal depository insurance, the State Public Deposit Guarantee Fund or collateralized with securities held by the State or its agent in the State's name and $27.1 million was uncollateralized and uninsured.

B. Investments

Primary Government

State Investment Fund

This fund 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 State Investment Fund 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 fund 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) and (bd) enumerate the various types of securities in which the State Investment Fund can invest, which include direct obligations of the United States and Canada, securities guaranteed by the United States, securities of federally chartered corporations such as the African Development Bank, unsecured notes of financial and industrial issuers, Yankee/Euro issues, certificates of deposit issued by banks in the United States and solvent financial institutions in this State, and bankers acceptances. Other prudent investments may be approved by the State of Wisconsin Investment Board's Board of Trustees. The Board of Trustees has given standing authority to the Board to invest in resale agreements, financial futures contracts, options and interest rate swaps.

Valuation of Securities

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. 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. Repurchase agreements and certificates of deposit are valued at cost because they are nonparticipating contracts that do not capture interest rate changes in their value. Swaps are valued at the net present value of estimated expected future cash flows using discount rates commensurate with the risk involved. In addition, a bond issued by other State agencies having a par value of $0.9 million is valued at par, which management believes approximates fair value. The fair value of investments is determined at the end of each month.

Pool Earnings and Pool Shares

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.

Derivative Financial Instruments

As of June 30, 2004, the only derivative financial instrument held by the State Investment Fund was a restructured interest rate swap. Each swap transaction involves the exchange of interest rate payment obligations without the exchange of underlying principal amounts. The notional amounts used to express the volume of these transactions do not represent the amounts subject to risk, but represent the amount on which both parties calculate interest rate obligations. The settlement of the interest rate exchange occurs at predetermined dates, with the net difference between the interest paid and interest received reflected as an increase in income. Entering into interest rate swap agreements subjects the investor to the possibility of financial loss in the event of adverse changes in market rates or nonperformance by the counterparty to the swap agreement. Selecting creditworthy counterparties mitigates credit risks arising from derivative transactions.

Restructured Investments - During fiscal year 1995, the State of Wisconsin Investment Board became aware of the existence of market exposure in certain swap agreements and structured bonds which could impair the earnings of the fund.

The State of Wisconsin Investment Board entered into agreements with two counterparties which resulted in the counterparties' assumption of all future market risk associated with ten swap agreements and two structured bonds. At the time of the agreement the counterparties assigned a market value to these investments of negative $95.3 million. Within this restructuring, one swap agreement requires periodic payments over a period of ten years, while the other agreement requires periodic payment of the loss over a period of five years. Interest costs associated with the periodic payment of the loss over time is estimated to be $24.8 million. Future period earnings will be charged as payments are made.

As of June 30, 2004, the fair value of the restructured investments was negative $4.4 million while the amortized deferred loss was negative $3.8 million.

The State of Wisconsin Investment Board has suspended the use of nonrisk reducing derivatives in the fund and investment guidelines prohibiting the use of such instruments were adopted by the Board on November 2, 1995.

Deposits

The State Investment Fund holds certificates of deposit at various Wisconsin banks as part of the Wisconsin Certificate of Deposit Program implemented in July 1987. As of June 30, 2004, the fair value of these certificates of deposit was $450.0 million.

Approximately $400.0 million are Category 1 risk level deposits which are insured by the FDIC, the Wisconsin State Deposit Guarantee Fund and Financial Securities Assurance Corporation insurance. The remaining $50.0 million are considered Category 3 uncollateralized deposits.

Investments

GASB Statement No. 3 requires investments to be categorized to indicate the level of risk assumed by the State Investment Fund. These categories are:

- Category 1 are those investments which are insured or registered, or securities which are held by the State Investment Fund in this fund's name or its agent in the name of this Fund.
- Category 2 are those investments which are uninsured and unregistered, with the securities held by the counterparty's trust department or agent in the State Investment Fund's name.
- Category 3 are those investments which are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or agent, but not in the State Investment Fund's name.

The following table presents investments held by the State Investment Fund categorized in accordance with GASB Statement No. 3 requirements to indicate the level of risk assumed by the fund at year-end:

At June 30, 2004, the State Investment Fund's investments are as follows (in millions):

	Category			Fair
	1	**2**	**3**	**Value**
U.S. government and agency holdings	$ 3,467.5	$ --	$ --	$ 3,467.5
Repurchase agreements	1,268.0	--	--	1,268.0
Commercial paper	636.9	--	--	636.9
Mortgage backed securities	.8	--	--	.8
Certificates of deposit	147.0	--	--	147.0
	$ 5,520.2	$ --	$ --	5,520.2
Swaps				(9.1)
				$ 5,511.1

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

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

Other Funds Managed by the Board

Other investments under exclusive control of the Board which are not held in the cash management pool include those held by certain permanent, proprietary, and fiduciary funds. A discussion of these investment activities follows:

Governmental

Historical Society - At June 30, 2004, investments of $10.7 million consisted of stock and bond index funds.

Business-type

Local Government Property Insurance, State Life Insurance, and Injured Patients and Families Compensation Funds - At June 30, 2004, investments were $8.1 million for the Local Government Property Insurance Fund, $72.7 million for the State Life Insurance Fund, and $673.1 million for the Injured Patients and Families Compensation Fund, consisting of stocks and fixed income.

Fiduciary

Wisconsin Retirement System Fund – This trust is a pooled fund consisting of retirement contributions made by and on behalf of participants in the Wisconsin Retirement System (WRS) (see Note 13 to the financial statements). At June 30, 2004, the Wisconsin Retirement System Fund held $63,458.4 million of investments consisting of fixed income, stocks, limited partnerships, real estate, mortgages and other investments valued at fair value in accordance with Wis. Stat. Sec. 25.17(14). In addition, $609.1 million of investments are included in the fund's cash and cash equivalents. Further, $243.0 million is invested in a time deposit reported as part of the securities lending collateral and not included in the investments.

In addition, $5,053.0 million of securities lending transactions were held at June 30, 2004. These transactions are categorized consistent with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*.

Tuition Trust Fund – At June 30, 2004, investments of $11.4 million consisted of bonds and principal only strips.

The following table presents investments of these funds at June 30, 2004, categorized in accordance with the requirements of GASB Statement No. 3.

At June 30, 2004, the investments of the Other Funds Managed by the Board consisted of (in millions):

	Category			Fair
	1	2	3	Value
Fixed Income	$ 9,120.3	$ --	$ --	$ 9,120.3
Stocks	14,061.3	--	--	14,061.3
Repurchase Agreements	1,335.1	--	--	1,335.1
Certificates of Deposit	441.0	--	--	441.0
	$ 24,957.7	$ --	$ --	24,957.7
Limited Partnerships				2,529.9
Pooled Equity Funds				27,911.4
Pooled Fixed Income Funds				6,698.9
Mortgages				593.1
Pooled Multi-asset Fund				336.8
Real Estate				417.1
Custodial Pooled Cash and Equivalents				388.3
Investments Held by Broker Dealers Under Securities Loans:				
Fixed Income				3,765.0
Equities				1,221.3
Securities Lending Cash Collateral Pooled Investments				833.9
				$ 69,653.4

Securities Lending Transactions – State statutes and State of Wisconsin Investment Board (SWIB) policies permit the use of investments 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 for collateral of 102 percent and 105 percent, respectively, of the loaned securities' market value. The cash collateral is reinvested by 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. 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, results in the gross earnings from lending activities, which is then split on a percentage basis with the lending agent.

Securities on loan at June 30, 2004 are presented as unclassified in the preceding schedule of custodial risk. 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 them to indemnify if the borrowers fail to return the loaned securities and the collateral is inadequate to replace the securities lent.

The majority of securities loans can be terminated on demand, although the average term of the loans is approximately one week. The term to maturity of the securities loans is matched with the term to maturity of the investments of the cash collateral by investing in a variety of short term investments with a weighted average maturity of 24 days.

The ability to pledge or sell collateral securities cannot be made without a borrower default. In addition, no restrictions on the amount of the loans exist.

Derivative Financial Instruments

Foreign Currency Forwards and Options - The State of Wisconsin Investment Board's derivative trading activities primarily involve forward contracts and foreign currency options. Generally, foreign currency forwards and options are held to hedge foreign exchange risk. Market risk is generally controlled by holding substantially offsetting purchase and sell positions. At June 30, 2004 the fair value of foreign currency forward contracts assets totaled $1.7 billion, while the liabilities totaled $1.7 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.

Investment guidelines allow external portfolio managers to manage interest rate exposure only through the use of exchange-traded interest rate instruments. As of June 30, 2004, SWIB was invested in exchange-traded interest rate futures contracts with a net exposure totaling negative $379.7 million.

Internally managed fixed income portfolios are allowed to invest in financial futures, options, and swaps for the purposes of adjusting duration and to invest anticipated cash flows, subject to review by the SWIB Risk and Investment Committee. During the period presented, these portfolios held no futures, options or swaps.

In addition, investment guidelines allow internally managed active U.S. equity managers to use index futures, index options, and options on index futures up to 20 percent of the aggregate value of all SWIB U.S. equity portfolios, subject to review by the SWIB Risk and Investment Committee when entered into for the purpose of equitizing cash holdings. During the period presented in these financial statements, no index futures, index options, or options on index futures were held.

One outside equity manager is permitted by the investment guidelines to use exchange-traded Standard and Poor's Equity Index futures contracts to manage its exposure to the stock market during the fiscal year presented. This manager is authorized to utilize futures up to 5 percent of the fair value of the portfolio although it held no futures during the fiscal year presented.

Collateralized Mortgage Obligations (CMOs) – Bonds that are collateralized by whole loan mortgages, mortgage pass-through securities or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes or traunches in accordance with each CMOs established payment order. Some CMO 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 CMOs may be subject to a reduction in interest payments as a result of prepayments of mortgages which 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 interest payments, thus an increase in fair value of the security. CMOs are held to maximize yields and in part to hedge against a rise in interest rates. At June 30, 2004, CMOs valued at $8.2 million were held.

Principal Only Strips – Securities that derive cash flow from the payment of principal on underlying debt securities. SWIB holds several principal only strips for yield enhancing purposes. The underlying securities are United States Treasury obligations, therefore the credit risk is low. On the other hand, principal 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, 2004, no principal only strips were held.

Credit-linked Trust Certificates

SWIB has allowed one external manager credit exposure management through the use of credit-linked trust certificates, provided the counter-party is a recognized exchange or is a bank or broker dealer with an actual credit rating of at least: (1) 'B/C' or better from Thomson Bankwatch (Keefe); (2) "A1/P1" or better on short term debt from Standard and Poor's or Moody's; or (3) "A" or better on long-term debt from Standard and Poor's or Moody's. Credit-linked trust certificates are exchange-traded securities, created through a Special Purpose Company, or trust. Proceeds from the sale of the certificates are invested in AAA rated securities, then lent out under a securities lending agreement. The trust also enters into a credit default swap that references 100 high yield corporate bonds. The trust pays a variable coupon and receives a fixed coupon on the notional value during the life of the note. If the issuer of one of more of the 100 high yield corporate bonds defaults, the trust will receive the current market value of the defaulted asset and the notional value will be reduced, lessening future interest earnings.

By investing in credit-linked trust certificates, SWIB gains immediate, diversified exposure to the high yield fixed income market. For taking on the risk associated with the 100 high yield corporate bonds, SWIB earns a premium rate of return. Investment in these certificates involves risk of loss from credit downgrades, illiquidity and counterparty risk. Valuation of this security is calculated by the party marketing the security. At June 30, 2004, SWIB was invested in credit-linked trust certificates totaling $20.00 million.

Unfunded Capital Commitments

Partnership agreements generally set a limit on the total dollar amount that limited partners must commit to funding when entering the partnership. Over the life of the partnership, the general partner will request capital contributions totaling the agreed upon limit. As of June 30, 2004, unfunded capital commitments totaled $1.3 billion.

Other State Agencies and Funds

The following funds also make investments following pertinent State statutes and policy provisions as set out by the appropriate governing boards or bond resolutions:

Governmental

General Fund – At June 30, 2004, investments of $0.9 million of which $0.5 million are considered deposits and included in Note 5A.

Transportation Revenue Bond Funds – At June 30, 2004, the Transportation Revenue Bond Capital Projects Fund and the Transportation Revenue Bond Debt Service Fund had investments totaling $246.6 million, of which $153.4 million are reported as cash equivalents. Investments of $93.2 million satisfy risk category No. 1, while the remaining investments are uncategorized.

Annual Appropriation Bonds – At June 30, 2004 investments totaling $248.6 million were held of which $240.3 million meet risk Category 1 and the remaining $8.3 million are uncategorized.

Common School Fund – At June 30, 2004, investments totaling $130.7 million meet risk Category 1.

Petroleum Inspection Revenue Bonds Fund – At June 30, 2004, investments of $4.1 million consisting of government and agency investments which meet Category 1 risk criteria.

Wisconsin Public Broadcasting Foundation Fund – The fund's investments at June 30, 2004 were $6.7 million, which consists of $4.2 million of various investments and $2.5 million of money market funds which are reported as cash equivalents. All investments meet Category 1 risk criteria.

Badger Tobacco Asset Securitization Corporation -- Investments of $274.5 million of which $137.4 million are reported as cash equivalents. Investments of $137.1 million meet the Category 1 risk level.

Business-type

Environmental Improvement Fund – The fund's aggregate investments at June 30, 2004 were $194.0 million, of which $35.7 million are reported as cash equivalents consisting of a repurchase agreement which is a Category 2 level of risk. Investments of $158.3 million consist of government and agency holdings and satisfy Category 1 risk criteria.

Lottery Fund – Investments are all in the form of U.S. Treasury zero coupon bonds. At June 30, 2004, investments of $128.4 million which meet Category 1 risk criteria were held.

The *University of Wisconsin System* – The fund's aggregate investments at June 30, 2004 were $344.1 million of which $21.8 million are reported as cash equivalents. Of the remaining $322.4 million, $254.8 million meet Category 1 risk criteria while the remaining investments are uncategorized.

Fiduciary

Inmate and Resident Fund – At June 30, 2004, investments totaling $0.7 million of which $0.5 million are reported as cash equivalents and $0.2 million meet risk Category 3.

College Savings Program Trust – At June 30, 2004, investments totaling $1,186.4 million, which consist of $3.4 million of short-term securities which meet risk Category 1 and the remaining investments are uncategorized.

At June 30, 2004, the State has approximately $279.3 million of securities which it holds for banks and insurance companies. These assets are held for the period of time specified by statute and then returned to their owner. The assets are presented in the *Bank and Insurance Company Deposits Fund* as "Other Assets". All investments meet risk Category 1.

Unclaimed property, usually in the form of stocks, bank accounts, insurance proceeds, utility deposits and uncashed checks, are transferred periodically to the *Unclaimed Property Program Fund*. The $37.3 million securities, presented as "Other Assets" on the financial statements meet risk Category 1.

The State's Section 457 *Deferred Compensation Plan Fund* investments, totaling $1,430.8 million at June 30, 2004, are in the form of equity, bond and money market mutual funds, insured savings accounts and investment contracts with insurance companies.

The following table presents investments of the Other State Agencies and Funds at June 30, 2004, categorized in accordance with the requirements of GASB Statement No. 3.

At June 30, 2004, the Other State Agencies and Funds' investments consisted of (in millions):

	Category 1	Category 2	Category 3	Reported Amount	Fair Value
Government and agency holdings	$ 924.9	$ --	$ .2	$ 925.2	$ 925.2
Municipal bonds	105.1	--	--	105.1	105.1
Commercial paper and nonsecured corporate notes and bonds	238.9	--	--	238.9	238.9
Repurchase agreements	3.4	35.7	--	39.1	39.1
Forward delivery agreements	137.1	--	--	137.1	140.4
Negotiable certificates of deposit	5.9	--	--	5.9	5.9
Mortgaged backed securities	10.4			10.4	10.4
Fixed Income	50.8	--	--	50.8	50.8
	$ 1,476.5	$ 35.7	$ .2	1,512.4	1,515.8
Mutual funds				1,223.9	1,223.9
Money market funds				310.0	310.0
Limited partnerships				2.9	2.9
Deferred compensation investments				1,430.9	1,430.9
Other				32.4	32.4
				$ 4,512.6	$ 4,515.9

Component Units

Wisconsin Housing and Economic Development Authority (Authority) – The Authority is required by statute to invest at least 50 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 bond resolution specifies what constitutes a permitted investment and such investments may include obligations of the U.S. Treasury, agencies and instrumentalities; commercial paper; bankers acceptances; and repurchase agreements and investment agreements.

The Authority's aggregate investments at June 30, 2004 were $677.9 million of which $132.7 million are reported as cash equivalents consisting of money market funds. The Authority's investments except for uncollateralized investment agreements of $137.2 million are a Category 1 level of risk. The Authority's investments in uncollateralized investment agreements are a Category 3 level of risk.

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 has established a Master Repurchase Agreement with its banking institutions to govern the purchase of repurchase agreements. This agreement requires the institution to take possession of collateral having a market value of at least 103 percent of the cost of the repurchase agreement. The underlying collateral must be maintained at this level at all times.

The Authority's 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, 2004 the Authority had $69.7 million of securities on loan to broker-dealers for a fee. The transactions are categorized consistently with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*.

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 has received the following types of collateral for the securities lent: cash, government securities or irrevocable letters of credit. The fair value of the investment securities loaned was $69.7 million as of June 30, 2004, and the fair value of the collateral received was $70.8 million. The Authority may request the bank to terminate any loan of securities for any reason at any time.

As of June 30, 2004, 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 maintains a weighted average maturity of the portfolio at approximately 15 days, with a range from 1 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, 2004, approximately 50.0% of the securities lent were in the matched portion and approximately 50.0% 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, 2004 the Authority received $94 thousand of income related to security lending transactions.

Wisconsin Health Care Liability Insurance Plan – The investments of the Wisconsin Health Care Liability Insurance Plan at December 31, 2003 were $88.0 million, of which $7.1 million are reported as cash equivalents. Investments of $2.0 million in bonds meet the Category 1 risk level, while all remaining investments meet the Category 2 risk level.

University of Wisconsin Hospital and Clinics Authority – The University of Wisconsin Hospitals and Clinics Authority (the Hospital) aggregate investments of $226.8 million consist of $39.0 million of repurchase agreements which meet Category 2 risk criteria and $0.2 million of money market funds which are uncategorized. In addition, $187.6 million of investments reported as "Cash and Investments with Other Component Units" are uncategorized as ownership does not depend on control of individual securities.

University of Wisconsin Foundation – Aggregate investments of the University of Wisconsin Foundation are $1,716.5 million of which $183.2 million are money market funds reported as cash equivalents. The remaining $1,533.3 million consist of various investments of which $720.6 million meet Category 1 risk criteria and the remaining $812.7 million are uncategorized.

State Fair Park Exposition Center, Inc. – Investments, consisting of $3.1 million of money market funds reported as cash equivalents, are not categorized.

The following table presents investments of the Wisconsin Housing And Economic Development Authority, the Wisconsin Health Care Liability Insurance Plan, the University of Wisconsin Hospital and Clinics Authority, the University of Wisconsin Foundation, and the State Fair Park Exposition Center, Inc., categorized in accordance with the requirements of GASB Statement No. 3.

The investments of the Wisconsin Housing and Economic Development Authority at June 30, 2004, the Wisconsin Health Care Liability Insurance Plan at December 31, 2003, the University of Wisconsin Hospitals and Clinics Authority at June 30, 2004, the University of Wisconsin Foundation at December 31, 2003, and the State Fair Park Exposition Center, Inc. at December 31, 2003 consisted of (in millions):

	Category			Reported	Fair
	1	2	3	Amount	Value
Government and agency holdings	$ 222.5	$ 21.2	$ --	$ 243.7	$ 245.8
Bonds	484.0	--	--	484.0	484.0
Corporate notes and bonds	161.2	33.3	--	194.5	194.5
Negotiable certificates of deposit	15.7	--	--	15.7	15.7
Mortgage-backed securities	8.1	--	--	8.1	8.1
Repurchase agreements	--	39.0	--	39.0	39.0
Collateralized investment contracts	239.0	26.4	--	265.4	265.4
Investment agreements	--	137.2	--	137.2	137.2
	$ 1,130.5	$ 257.1	$ --	1,387.6	1,389.7
Money market funds				325.2	325.2
Limited partnerships				137.9	137.9
Mutual funds				538.1	538.1
International equities				135.9	135.9
				$ 2,524.7	$ 2,526.8

The following schedule summarizes investments of the reporting entity presented in the above investment note discussions (in millions):

Other Funds Managed by the Board	$ 69,653.4
Other State Agencies and Funds	4,512.7
Component Units	2,524.7
Total Investments	$ 76,690.8

C. Lottery Investments and Related Future Prize Obligations

Investments of the State Lottery Fund totaling $128.4 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
2005	$ 16,516
2006	16,643
2007	16,774
2008	16,909
2009	16,900
Thereafter	87,490
Total future value	171,232
Less: Present value adjustment	(55,694)
Present value of payments	$ 115,538

NOTE 6. RECEIVABLES AND NET REVENUES

A. Receivables

Receivables at June 30, 2004 were as follows (in thousands):

	Taxes	Student Loans	Veterans Loans	Mortgage Loans	Insurance Policy Loans	Loans to Local Governments	Other Receivables	Due From Other Governments	Due From Component Units	Total Receivables
Governmental Activities:										
General	$ 1,151,325	$ -	$ -	$ -	$ -	$ 14,720	$ 197,682	$ 468,748	$ 2,380	$ 1,834,856
Transportation	94,812	-	-	-	-	-	50,736	58,251	-	203,798
Nonmajor Governmental	26,012	-	-	-	-	333,137	84,810	15,939	-	459,898
Total Governmental:	1,272,149	-	-	-	-	347,857	333,229	542,937	2,380	2,498,552
Government-wide Adjustments:										
Internal Service Funds	-	-	-	-	-	-	96	267	199	562
Accrual Adjustments	-	-	-	-	-	-	3,011	-	-	3,011
Fiduciary Receivables	-	-	-	-	-	-	36,599	-	-	36,599
Total – Governmental Activities	$ 1,272,149	$ -	$ -	$ -	$ -	$ 347,857	$ 372,935	$ 543,205	$ 2,579	$ 2,538,724
Related revenue deferral because the receivable does not meet the availability criteria	$ 274,640	$ -	$ -	$ -	$ -	$ -	$ 93,892	$ -	$ -	$ 368,531
Business-type Activities:										
Current:										
Injured Patients and Families Compensation	$ -	$ -	$ -	$ -	$ -	$ -	$ 43,680	$ -	$ 14	$ 43,694
Environmental Improvement	-	-	-	-	-	84,557	330	8,263	-	93,149
Veterans Mortgage Loan Repayment	-	-	-	11,670	-	-	2,445	-	-	14,114
University of Wisconsin System	-	29,754	-	-	-	-	112,424	54,737	1,003	197,918
Unemployment Reserve	-	-	-	-	-	-	179,459	3,814	-	183,273
Nonmajor Enterprise	-	321	6,892	1,076	-	450	43,729	4,099	-	56,566
Total Current:	-	30,075	6,892	12,745	-	85,007	382,066	70,912	1,017	588,714
Noncurrent:										
Environmental Improvement	-	-	-	-	-	1,214,029	-	-	-	1,214,029
Veterans Mortgage Loan Repayment	-	-	-	293,434	-	-	-	-	-	293,434
University of Wisconsin System	-	153,499	-	-	-	-	-	-	-	153,499
Nonmajor Enterprise	-	547	39,813	10,075	3,687	1,107	-	-	-	55,228
Total Noncurrent	-	154,046	39,813	303,508	3,687	1,215,136	-	-	-	1,716,190
Government-wide Adjustments:										
Fiduciary Receivables	-	-	-	-	-	-	135	-	-	135
Total – Business-type Activities	$ -	$ 184,121	$ 46,705	$ 316,254	$ 3,687	$ 1,300,143	$ 382,201	$ 70,912	$ 1,017	$ 2,305,039

B. Net Revenues

Certain revenues of the University of Wisconsin System are reported net of scholarship allowances. For Fiscal Year 2004, these scholarship allowances totaled as follows (in thousands):

Student Tuition and Fees	$ 70,883
Sales and Services of Auxiliary Enterprises	13,321
Total	$ 84,204

NOTE 7. CAPITAL ASSETS

Primary Government

Capital asset activity for the fiscal year ended June 30, 2004 was as follows (in thousands):

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and Land Improvements	$ 1,209,401	$ 120,797	$ (1,556)	$ 1,328,643
Buildings and Improvements	154,519	1,558	-	156,078
Library Holdings	75,641	1,176	(22)	76,795
Equipment	642	-	-	642
Construction in Progress	1,104,971	530,667	(734,855)	900,782
Infrastructure	9,353,244	670,326	(143,322)	9,880,249
Total capital assets, not being depreciated	11,898,419	1,324,525	(879,754)	12,343,189
Capital assets, being depreciated:				
Land Improvements	80,453	2,903	-	83,356
Buildings and Improvements	1,553,622	59,233	(4,277)	1,608,577
Equipment	535,773	38,560	(30,149)	544,184
Totals	2,169,847	100,696	(34,426)	2,236,117
Less accumulated depreciation for:				
Land Improvements	24,307	4,819	-	29,126
Buildings and Improvements	431,805	42,054	(1,516)	472,344
Equipment	296,276	49,350	(23,850)	321,776
Totals	752,388	96,223	(25,366)	823,245
Total Capital Assets, being depreciated, net	1,417,459	4,473	(9,060)	1,412,872
Governmental activities capital assets, net	$ 13,315,878	$ 1,328,998	$ (888,815)	$ 13,756,061
Business-type activities:				
Capital assets, not being depreciated:				
Land and Land Improvements	$ 110,924	$ 284	$ -	$ 111,208
Library Holdings	986,646	21,524	(5,579)	1,002,592
Construction in progress	30,721	10,512	(11,449)	29,785
Total Capital Assets, not being depreciated	1,128,291	32,320	(17,027)	1,143,584
Capital assets, being depreciated:				
Land Improvements	8,692	236	(2)	8,926
Buildings	3,174,886	285,640	(674)	3,459,852
Equipment	650,010	73,198	(16,124)	707,084
Totals	3,833,588	359,075	(16,800)	4,175,863
Less accumulated depreciation for:				
Land Improvements	5,903	454	(2)	6,355
Buildings	1,370,757	123,151	(1,191)	1,492,717
Equipment	452,381	55,383	(13,670)	494,095
Totals	1,829,042	178,988	(14,863)	1,993,168
Total Capital Assets, being depreciated, net	2,004,546	180,086	(1,937)	2,182,695
Business-type activities capital assets, net	$ 3,132,837	$ 212,407	$ (18,965)	$ 3,326,279

In addition to the capital assets reported by governmental and business-type activities, the fiduciary funds reported gross capital assets of $3,750 thousand at June 30, 2004, with accumulated depreciation totaling $3,741 thousand.

Depreciation Expense

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

Governmental Activities		
Commerce	$	1,544
Education		2,548
Transportation		9,252
Environmental Resources		9,448
Human Relations and Resources		44,395
General Executive		4,403
Judicial		2,563
Legislative		395
Depreciation on capital assets held by the internal service funds		21,675
Total depreciation expense - governmental activities	$	96,223

Business-type Activities		
Injured Patients and Families Compensation	$	3
Veterans Mortgage Loan Repayment		45
University of Wisconsin System		168,219
Lottery		63
Other Business-Type		10,659
Total depreciation expense - business-type activities	$	178,988

Construction in Progress

Construction in progress of the primary government reported in the government-wide statement of net assets at June 30, 2004 included the following projects (in thousands):

	Allotments	Expended to June 30, 2004	Encumbrances Outstanding	Unencumbered Allotment Balance
Governmental Activities:				
Reported through capital projects funds:				
State Highway and Southeast Wisconsin Freeway Rehabilitations	$ 184,841	$ 45,740	$ --	$ 139,101
Justice Center and Law Library	42,600	171	20	42,409
Fox Lake Correctional Institution Infrastructure Improvements	14,056	6,556	5,425	2,075
Camp Douglas US Property and Fiscal	13,717	3,335	7,310	3,071
Madison Crime Lab Remodeling	11,159	9,504	346	1,309
Other projects with allotments totaling less than $10 million		44,597		
		109,904		
Other:				
Transportation-related funded through sources other than capital projects		788,789		
Other		2,090		
Total construction in progress – governmental activities		$ 900,782		
Business-type Activities:				
University of Wisconsin System:				
Camp Randall Stadium Renovation – Madison	$ 107,391	$ 70,631	$ 27,740	$ 9,020
Microbiological Science Building – Madison	105,799	6,330	2,645	96,825
Madison Cogeneration Facility	90,000	54,031	36,519	(550)
Mechanical Engineering Addition/Remodeling – Madison	46,057	4,728	1,089	40,241
Student Center – River Falls	29,533	2,851	622	26,060
Fine Arts Center Remodeling/Addition – Stevens Point	26,120	9,882	11,717	4,521
Veterinarian Diagnostic Building – Madison	25,198	1,427	470	23,301
Residence Hall – La Crosse	22,344	716	32	21,596
Lot 76 Parking Ramp – Madison	18,000	786	232	16,982
Upham Hall Addition – Whitewater	17,011	59	13,442	3,509
North Campus Resident Hall – Stout	16,694	2,786	13,094	814
Taylor Hall Renovation – Oshkosh	12,261	642	217	11,402
Residence Hall – River Falls	10,641	6,461	3,826	354
Lampham Northwest Wing Remodeling – Milwaukee	10,295	961	400	8,935
Homes for Veterans:				
Home-skilled Nursing Facility – Southern Wisconsin Center	19,094	2,476	12,408	4,210
State Fair Park:				
Grandstand Replacement	20,500	20,795	10	(305)
Other projects with allotments totaling less than $10 million:				
University of Wisconsin System		68,874		
Other		6,513		
Total construction in progress – business-type activities		$ 260,948		

As discussed in Note 1E7, construction in progress of the University of Wisconsin System 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 totaled $231.2 million and $29.8 million as of June 30, 2004, respectively.

Component Units

Capital Assets balance of the Wisconsin Housing and Economic Development Authority at June 30, 2004, the University of Wisconsin Hospitals and Clinics Authority at June 30, 2004, the University of Wisconsin Foundation at December 31, 2003, and the State Fair Park Exposition Center, Inc. at December 31, 2003 were as follows (in thousands):

	Amount
Capital Assets, not being depreciated:	
Land and Land Improvements	$ 6,323
Construction in Progress	4,493
Total Capital Assets, not being depreciated	10,816
Capital Assets, being depreciated:	
Buildings	356,385
Equipment	161,084
Totals	517,469
Less accumulated depreciation for:	
Buildings	119,066
Equipment	101,947
Totals	221,013
Total Capital Assets, being depreciated, net	296,455
Component Units Capital Assets, net	$ 307,271

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 of 4.5 percent applied to a 12-quarter moving average market value of the fund. 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, 2004, net appreciation of $8.3 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 65 percent marketable equities, 15 percent fixed income and 20 percent alternatives. 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 100 percent intermediate maturity, investment-grade fixed income.

The fair value of Endowments as of June 30, 2004 was $336.3 million including unrealized gains of $17.4 million when fair values as of June 30, 2004 are compared to asset acquisition costs. This compares to a fair value as of June 30, 2003 of $295.9 million. The net increase in fund balance during 2003-04 was $40.4 million.

The book value of Endowments under control of the University of Wisconsin System was $318.9 million as of June 30, 2004 compared to a book value of $284.9 million as of June 30, 2003. 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, 2004, 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	$ 133.3
Realized Gains – Undistributed	185.6
Book Value	318.9
Unrealized Net Gains/Losses - Undistributed	17.4
Fair Value	$ 336.3

On June 30, 2004, the portfolio at market contained 73.7 percent in stocks, 23.2 percent in fixed income obligations, 1.0 percent in alternative assets, and 2.1 percent in short-term investments. The total return on the principal Long Term Fund including capital appreciation was 17.0 percent. The total return on the principal Intermediate Fund including capital appreciation was 0.9 percent. External investment counsel was furnished for funds representing 97.0 percent of market-value principal.

Component Unit

University of Wisconsin Foundation

At December 31, 2003, there were 3,066 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, 2003, the endowment fund accounts reported cash and money market funds of $68.6 million and investments with a fair value of $754.3 million. This compares to a fair value for investments as of December 31, 2002 of $614.2 million. The asset allocation for endowment assets at December 31, 2003 is 49.9 percent in domestic equities, 14.5 percent in international equities, 32.7 percent in alternative investment managers and 2.9 percent in cash.

NOTE 9. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances as of or for the year ended June 30, 2004 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, 2004 were as follows (in thousands):

	Due to Other Funds:			
	General	Transportation	Nonmajor Governmental	Injured Patients and Families Compensation
Due from Other Funds:				
General	$ -	$ 15,220	$ 62,126	$ 11
Transportation	1,116	-	54,687	-
Nonmajor Governmental	44,937	17,599	5,047	73
Environmental Improvement	53	-	222	-
Veterans Mortgage Loan Repayment	-	-	-	-
University of Wisconsin System	51,529	442	1,843	-
Unemployment Reserve	393	-	-	-
Nonmajor Enterprise	8,302	-	22	-
Internal Service	18,164	3,145	11,347	4
Fiduciary	19,064	1,186	1,986	6
Total	$ 143,557	$ 37,593	$ 137,280	$ 93

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	Veterans Mortgage Loan Repayment	University of Wisconsin System	Unemployment Reserve	Nonmajor Enterprise	Internal Service	Fiduciary	Total
$ 339	$ 49	$ 35,066	$ 9,127	$ 39,917	$ 2,690	$ 35,222	$ 199,766
-	-	65	-	-	-	-	55,867
989	-	189	-	1,025	478	-	70,339
-	-	-	-	-	-	-	275
-	-	-	-	11	-	-	11
17	-	-	-	2	67	-	53,901
-	-	-	-	-	-	-	393
-	309	-	-	517	16	135	9,301
1	19	1,581	-	681	245	1,377	36,564
9	41	14,727	-	1,687	472	270	39,449
$ 1,355	$ 418	$ 51,628	$ 9,127	$ 43,841	$ 3,968	$ 37,005	$ 465,866

B. Due from/to Component Units

Receivables and payables between funds and component units at June 30, 2004 were as follows (in thousands);

	Due from Component Unit					Due from Primary Government		
	General	Injured Patients and Families Compensation	University of Wisconsin System	Internal Service	Fiduciary	University of Wisconsin Hospitals and Clinics Authority	State Fair Park Exposition Center, Inc.	Total
Due to Primary Government:								
Wisconsin Housing and Economic Development Authority	$2,375	$ --	$ --	$ 24	$ --	$ --	$ --	$ 2,399
Wisconsin Health Care Liability Insurance Plan	--	14	--		--	--	--	14
University of Wisconsin Hospitals and Clinics Authority		--	1,003	172	2,276	--	--	3,451
State Fair Park Exposition, Center Inc.	--	--	--	90	--	--	--	90
Due to Component Unit:								
General	--	--	--	--	--	903	--	903
University of Wisconsin System	--	--	--	--	--	1,645	--	1,645
Nonmajor Enterprise	--	--	--	--	--	--	131	131
Total	$2,375	$ 14	$ 1,003	$ 286	$ 2,276	$ 2,548	$ 131	$ 8,633

The receivable and payable balances between the primary government and the component units typically result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between entities are made.

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, 2004 were as follows (in thousands):

	Interfund Receivables
	Fiduciary
Interfund Payables:	
General	$ 386,723
Nonmajor Governmental	199,409
Nonmajor Enterprise	8,971
Internal Service	32,663
Fiduciary	489,329
Total	$ 1,117,094

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, 2004 were as follows (in thousands):

	Advances to Other Funds (asset):		
	Nonmajor Governmental	Internal Service	Total
Advances from Other Funds (liability):			
Nonmajor Governmental	$ 750	$ 2,964	$ 3,714
Total	$ 750	$ 2,964	$ 3,714

E. Interfund Transfers

Interfund Transfers in and out that occurred during Fiscal Year 2004 were as follows (in thousands):

	Transfers in:							
	General	Transportation	Nonmajor Governmental	Environmental Improvement	University of Wisconsin System	Nonmajor Enterprise	Internal Service	Total
Transfers out:								
General	$ -	$ 4	$ 363,493	$ -	$ 923,041	$ 55,748	$ 5,272	$ 1,347,557
Transportation	338,495	-	24,819	-	-	-	42	363,356
Nonmajor Governmental	61,888	-	355,484	38,320	79,964	6,898	296	542,849
Injured Patients and Families Compensation	15	-	-	-	-	-	-	15
Environmental Improvement	95	-	6,000	-	-	-	-	6,095
Veterans Mortgage Loan Repayment	81	-	-	-	-	-	-	81
University of Wisconsin System	48,665	-	1,475	-	-	-	-	50,140
Unemployment Reserve	8,351	-	-	-	-	-	-	8,351
Nonmajor Enterprise	31,607	-	127	-	-	721	162	32,617
Internal Service	13,733	-	61	-	75	-	1,053	14,921
Fiduciary	524	-	20,000	-	-	-	-	20,524
Capital Assets Transferred Between Proprietary Funds and Governmental Funds	-	-	-	-	-	(71)	930	859
Total	$ 503,455	$ 4	$ 771,459	$ 38,320	$ 1,003,079	$ 63,295	$ 7,755	$ 2,387,367

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.

In the fiscal year ended June 30, 2004, transfers considered non-routine or inconsistent with the fund making the transfer included the following (in thousands):

Funds Reporting the Transfer	Amount
Amounts transferred to the General Fund from other funds to address revenue shortfalls:	
Transportation	$ 3,499
Petroleum Inspection	20,767
Environmental	2,119
Recycling	7,237
University of Wisconsin System	2,625
Other funds	1,385
Amounts transferred to the General Fund from other funds in lieu of payments for the annual appropriation bonds, which were issued to pay the unfunded pension liability and unfunded accumulated unused sick leave:	
Transportation	4,376
Conservation	2,606
University of Wisconsin System	34,420
Other funds	6,541
Transfers to fund a portion of the shared revenue program in the General Fund:	
Transportation	230,000
Utility Public Benefits	17,600

NOTE 10. CHANGES IN LONG-TERM LIABILITIES

During the year ended June 30, 2004, the following changes occurred in long-term liabilities (in thousands):

Primary Government

Governmental Activities	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Amounts Due Within One Year
Bonds and Notes Payable:					
General Obligation Bonds	$ 3,090,875	$ 1,073,030	$ 603,686	$ 3,560,219	$ 237,513
Annual Appropriation Bonds	-	1,792,092	-	1,792,092	-
Revenue Bonds	2,892,579	417,548	158,627	3,151,500	74,611
Total Bonds and Notes Payable	5,983,454	3,282,670	762,313	8,503,811	312,124
Other Liabilities:					
Future Benefits and Loss Liability	118,265	14,819	22,228	110,856	25,385
Capital Leases	40,315	3,379	23,368	20,326	5,450
Installment Contracts	3,653	1,124	2,008	2,770	1,470
Compensated Absences	103,945	48,877	43,657	109,164	44,633
Employer Pension Related Debt Costs	722,248	-	722,248	-	-
Claims, Judgments and Commitments	2,174	-	137	2,037	-
Total Governmental Activities Long-term Liabilities	$ 6,974,054	$ 3,350,869	$ 1,575,959	$ 8,748,965	$ 389,062

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 2004. 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.

In July 2003, Wisconsin Act 33 was enacted and authorized the issuance of appropriation obligations to obtain proceeds to pay the State’s anticipated unfunded accrued prior service (pension) liability under Wis. Stat. Sec. 40.05(2)(b) and its unfunded accrued liability for sick leave conversion credits under Wis. Stat. Sec. 40.05(4)(b), (bc), and (bw) and Subchapter IX of Chapter 40. In December 2003, the State issued $1.8 billion of these bonds. A portion of the proceeds was used to pay the State’s unfunded prior service (pension) liability, which was reported as “Employer Pension Related Debt Costs.”

Business-type Activities	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Amounts Due Within One Year
Bonds and Notes Payable:					
General Obligation Bonds	$ 913,452	$ 296,285	$ 350,475	$ 859,262	$ 27,534
Revenue Bonds	623,418	106,238	37,545	692,111	39,340
Total Bonds and Notes Payable	1,536,870	402,523	388,020	1,551,373	66,874
Other Liabilities:					
Future Benefits and Loss Liability	1,167,400	199,093	147,322	1,219,171	141,719
Capital Leases	40,916	13,026	5,364	48,577	9,105
Compensated Absences	85,642	9,625	3,576	91,692	50,181
Total Business-type Activities Long-term Liabilities	$ 2,830,828	$ 624,268	$ 544,282	$ 2,910,814	$ 267,879

Component Units

The following table presents the changes in long-term liabilities of the Wisconsin Housing and Economic Development Authority at June 30, 2004, the Wisconsin Health Care Liability Insurance Plan at December 31, 2003, the University of Wisconsin Hospitals and Clinics Authority at June 30, 2004, the University of Wisconsin Foundation at December 31, 2003, and the State Fair Park Exposition Center, Inc. at December 31, 2003:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Amounts Due Within One Year
Bonds and Notes Payable:					
Revenue Bonds and Notes	$ 2,245,536	$ 155,798	$ 223,229	$ 2,178,105	$ 191,328
Future Benefits and Loss Liability	51,680	--	7,920	43,760	6,699
Capital Leases	22,927	--	2,770	20,157	2,053
Compensated Absences	4,221	237	--	4,458	4,030
Pension Related	81,061	3,439	--	84,500	4,109
Total Component Units Long-term Liabilities	$ 2,405,425	$ 159,474	$ 233,919	$ 2,330,981	$ 208,220

NOTE 11. BONDS, NOTES AND OTHER DEBT OBLIGATIONS

The following schedule summarizes outstanding long-term bonds and notes payable at June 30, 2004 (in thousands):

Primary Government	
Governmental Activities:	
General Obligation Bonds	$ 3,560,219
Annual Appropriation Bonds	1,792,092
Revenue Bonds:	
Transportation	1,359,849
Petroleum Inspection	224,658
Badger Tobacco Asset Securitization Corporation	1,566,993
Total Governmental Activities	8,503,811
Business-type Activities:	
General Obligation Bonds:	
Veterans Mortgage Loan Repayment	391,270
University of Wisconsin System	426,759
Other Business-type	41,232
Revenue Bonds:	
Environmental Improvement	692,111
Total Business-type Activities	1,551,372
Total Primary Government	10,055,183
Component Units:	
Wisconsin Housing and Economic Development Authority Revenue Bonds	1,958,760
University of Wisconsin Hospitals And Clinics Authority Revenue Bonds	175,628
State Fair Park Exposition Center, Inc. Revenue Bonds and Notes Payable	40,924
Subtotal	2,175,312
University of Wisconsin Foundation Note Payable	2,792
Total at June 30, 2004	$12,233,287

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, 2004, $2,561.7 million of general obligation bonds were authorized but unissued.

General obligation bonds issued and outstanding as of June 30, 2004 were as follows (in thousands):

Fiscal Year Issued	Series	Dates	Interest Rates	Maturity Through	Amount Issued	Amount Outstanding
1990	1990 Series D	5/90	6.95 to 7.0	5/10	$ 65,859	$ 21,094
1991	1991 Series B	5/91	6.65 to 6.85	5/11	117,136	40,009
1992	1992 Refunding Issue	3/92	6.35 to 6.55	5/15	448,935	145,250
1993	1992 2;	10/92	4.6 to 7.75	5/15	423,565	261,530
	1993 1, 2	1/93; 3/93				
1994	1993 Refunding Issues 3, 5, 6;	8/93; 12/93;	4.65 to 6.2	5/24	515,830	229,675
	1994 Refunding Issue 2	10/93; 3/94;				
1995	1994 Series 3 and C;	9/94; 9/94; 2/95	5.5 to 7.0	5/25	331,715	21,355
	1995 Series A & B, and 1	1/95; 2/95				
1996	1995 Series 2 and C;	10/95; 9/95;	4.4 to 7.3	11/25	448,537	153,609
	1996 Series 1, A, B	2/96; 1/96; 5/96				
	and Note 995B	and 7/95				
1997	1996 C and D;	9/96; 10/96;	5.75 to 6.25	5/28	190,230	29,815
	1997 1 and A	3/97; 3/97				
1998	1997 B, C and D;	7/97; 9/97	4.5 to 7.25	11/28	411,765	195,090
	1998 A, B and C	9/97; 3/98; 5/98; 5/98				
1999	1998 Series 1, 2, D, E and F;	8/98; 9/98; 9/98; 10/98	4.0 to 7.25	11/30	590,675	382,810
	1999 Series 1, A and B	10/98; 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	101,970
2001	2000 Series B, C, D, E; and	7/00;7/00;11/00;11/00	4.0 to 8.05	11/31	546,710	330,770
	2001 Series A, B, C and D	2/01; 4/01; 6/01; 6/01				
2002	2001 Series 1, E, F and F1; and	10/01; 10/01; 10/01	3.0 to 6.96	5/33	819,545	713,495
	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	2.45 to 6.00	5/33	415,190	391,755
	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 17.785	5/34	1,305,096	1,305,096
	2004 1, 2, A, 3 and CWGBC	1/04; 1/04, 3/04; 6/04; 4/04				
Total					6,945,788	4,323,323
Premiums/Discounts					--	133,275
Deferred Amount on Refunding					--	(37,117)
Total General Obligation Bonds and Notes					$ 6,945,788	$ 4,419,481

As of June 30, 2004, 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
2005	$ 223,471	$ 183,662	$ 26,494	$ 44,681
2006	243,154	176,586	29,647	43,486
2007	242,319	163,920	31,806	42,061
2008	242,570	149,474	34,208	40,427
2009	254,097	128,086	34,411	38,727
2010-2014	1,148,274	430,221	187,317	166,599
2015-2019	753,097	189,829	191,357	115,667
2020-2024	362,756	37,198	173,724	66,311
2025-2029	--	--	97,585	26,869
2030-2034	--	--	47,035	6,157
Total	3,469,738	1,458,976	853,584	590,985
Premiums/Discounts	117,560	--	15,715	--
Deferred Amount on Refunding	(27,079)	--	(10,038)	--
Total	$ 3,560,219	$ 1,458,976	$ 859,261	$ 590,985

Zero Coupon Bonds

The general obligation bonds of 1990, Series D (Higher Education Series), are zero coupon bonds recorded in the amount of $21.1 million which is the accreted value at June 30, 2004. 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 $40.0 million. The bonds mature on May 1 through the year 2011.

B. Annual Appropriation Bonds

Wisconsin Acts 33 and 84 were enacted and authorized the issuance of appropriation obligations 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. The bonds 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 Bonds 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 on the Bonds. The Legislature, recognizing its moral obligation to make timely appropriations from the General Fund sufficient to pay debt service on obligations such as the Bonds, 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.

In December 2003, the State issued $1.8 billion of these General Fund Annual Appropriation Bonds (Bonds) consisting of Series A (Taxable Fixed Rate) and Series B (Taxable Auction Rate Certificates). The Series A Bonds, in the amount of $ 850.0 million, are dated the date of their issuance. The Series A Bonds bear interest from that date, payable semiannually on each May 1 and November 1 until their maturity dates. The Series A Bonds bear interest rates from 4.80 percent to 5.70 percent computed on the basis of a 30-day month and a 360-day year.

The Series B Bonds, in the amount of $944.9 million, are multi-modal bonds that are initially being issued, in multiple subseries, as Auction Rate Certificates. Interest on the Series B Bonds is variable and is computed on the basis of a 360-day year and for the number of days actually elapsed.

As of June 30, 2004, the debt service requirements for principal and interest on these bonds are as follows (in thousands):

Fiscal Year Ended June 30	Principal	Interest
2005	$ --	$ 84,993
2006	--	84,993
2007	--	84,993
2008	--	85,011
2009	6,100	84,977
2010 - 2014	353,840	409,704
2015 - 2019	142,700	342,985
2020 - 2024	435,730	291,131
2025 - 2029	611,630	154,694
2030 - 2032	244,850	23,055
Total	1,794,850	1,646,534
Unamortized Premium/Discount	(2,758)	--
Total, net	$ 1,792,092	$ 1,646,534

Interest Rate Swaps

The State has entered into interest rate exchange agreements, or swap agreements, to modify interest rates on its outstanding annual appropriation 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 issued annual appropriation bonds in the amount of $1.8 billion. Of this amount, $944.9 million was issued as taxable auction rate certificates (ARCs) in nine sub-series and having variable interest rates set every respective 28 days at an auction. 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 ARCs.

Terms – ARCs in the total amount of $592.2 million are subject to the interest rate exchange agreements, which were effective at the same time as the issuance of the obligations (December 2003). The ARCs mature and a related notional amount of the related interest rate exchange agreements decline from May 1, 2026 through 2032. Based on the interest rate exchange agreements, the State owes interest calculated at a fixed rate of 5.47 percent to the counterparties and the counterparties owe the State interest 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, 2004, the aggregate fair value of the interest exchange agreements is $11.2 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 four counterparties -- JP Morgan, Citigroup, UBS AG, and Bear Stearns. Based on those parameters, and swap market conditions prevailing on the June 30, 2004 valuation date, the third party consultant calculated the estimated 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 changes in fixed swap interest rates and swap market conditions.

Associated Debt – Using rates as of June 30, 2004, debt service requirements are presented for the ARCs 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 ARCs and net swap payments will vary.

(in thousands)

Fiscal Year Ended June 30	Principal	Interest	Interest Rate Swaps, Net	Totals
2005	$ --	$ 9,413	$ 24,348	$ 33,761
2006	--	9,413	24,348	33,761
2007	--	9,413	24,348	33,761
2008	--	9,439	24,326	33,765
2009	--	9,413	24,348	33,761
2010 - 2014	--	47,092	121,719	168,811
2015 - 2019	--	47,092	121,719	168,811
2020 - 2024	--	47,118	121,696	168,814
2025 - 2029	350,300	37,884	97,887	486,071
2030 - 2032	244,850	6,439	16,616	267,905
	$ 595,150	$ 232,719	$ 601,355	$ 1,429,224

Interest Rate Risk – Although the interest rate is synthetically fixed under the interest rate exchange agreements, interest payments on the ARCs subject to the interest rate exchange agreements and net swap payments will vary as interest rates vary.

Credit Risk – As of June 30, 2004, the State was exposed to credit risk in the amount of the aggregate fair value of the interest rate exchange agreements. The State has entered into four interest rate agreements with four different counterparties. The lowest rating assigned to these counterparties is, as of June 30, 2004, Aa2 by Moody's, AA- by Standard & Poor's, and AA- by Fitch Ratings (which only assigns a rating for three of the four 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 of BBB by either Standard & Poor's or Fitch Ratings.

Basis Risk – The interest rate exchange agreements expose the State to basis risk as the relationship between the one-month LIBOR and the ARCs vary, which changes the synthetic rate on the bonds. As of June 30, 2004, the one-month LIBOR was 1.36% and the interest rate on the ARCs was 1.56%. This variance, in essence, results in an adjustment to the intended synthetic interest rate of 5.47% to an actual synthetic interest rate of 5.67%. The relationship between the one-month LIBOR and ARCs will vary over time.

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. 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. If any interest rate exchange agreement is terminated, the State would be unhedged and exposed to additional interest rate risk on the related ARCs. 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. To further mitigate the risk of an involuntary termination event, the State has also purchased a swap insurance policy from a financial guaranty insurance company that was rated Aaa by Moody's and AAA by Standard & Poor's and Fitch. The State's regularly scheduled net payment obligations under three of the four interest rate exchange agreements are insured subject to the terms and conditions of the policy.

Market-access Risk and Rollover Risk – The State's swap agreements are for the term (maturity) of the related ARCs 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 $2,095.6 million of revenue bonds. Presently, there are twelve issues of Transportation Revenue Bonds totaling $1,316.3 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, 2004 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2003A	11/03	2.5 to 5.25	7/24	$ 250,000	$ 250,000
2002A	10/02	3.0 to 5.0	7/23	200,000	200,000
20022	4/02	3.0 to 5.5	7/22	68,930	68,930
20021	4/02	5.0 to 5.75	7/19	241,865	227,805
2001A	11/01	3.0 to 5.0	7/22	140,000	130,580
2000A	9/00	5.3 to 5.5	7/21	93,100	93,100
1998A&B	8&10/98	4.125 to 5.5	7/19	229,545	208,140
1996A	5/96	5.0 to 6.0	7/08	54,630	26,545
1995A	9/95	4.8 to 6.25	7/07	49,495	19,750
1994A	7/94	5.3 to 7.5	7/05	41,845	9,395
1993A	9/93	4.5 to 5.0	7/12	116,450	82,005
				1,485,860	1,316,250
Unamortized Premium					43,599
Total				$ 1,485,860	$ 1,359,849

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, there are four issues of PIF Bonds outstanding totaling $224.7 million. Debt service payments are secured by petroleum inspection fees.

The PIF revenue bonds issued and outstanding as of June 30, 2004 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2004-1	5/04	3.0 to 5.0	7/12	$ 95,470	$ 95,470
2004A	2/04	3.0 to 5.0	7/12	45,000	45,000
2001A	12/01	5.0	7/08	30,000	30,000
2000A	3/00	5.25 to 6.0	7/12	170,250	48,420
				340,720	218,890
Unamortized Premium				--	11,043
Deferred Amount on Refunding				--	(5,275)
Total				$ 340,720	$ 224,658

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 $1,616.0 million in Revenue Bonds. At June 30, 2004, there were eleven issues of Revenue Bonds outstanding totaling $692.1 million. These bonds are secured by payments on program loans and earnings of investments.

Bonds issued and outstanding for the Fund as of June 30, 2004 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2004-1	3/04	4.0 to 5.0	6/24	$ 116,795	$ 116,795
2002-2	8/02	3.0 to 5.5	6/26	85,575	84,340
2002-1	5/01	4.0 to 5.25	6/23	100,000	94,295
2001-1	4/01	4.5 to 5.25	6/21	70,000	62,825
1999-1	9/99	5.0 to 5.75	6/20	80,000	50,740
1998-2	8/99	4.0 to 5.5	6/17	104,360	90,400
1998-1	1/98	4.0 to 5.0	6/18	90,000	65,780
1997-1	2/97	4.5 to 6.0	6/17	80,000	10,915
1995-1	7/95	4.0 to 6.25	6/15	80,000	4,365
1993-2	9/93	2.75 to 6.125	6/08	81,950	45,035
1993-1	9/93	3.6 to 5.3	6/13	84,345	--
1991-1	4/91	5.4 to 6.9	6/11	225,000	57,445
				1,198,025	682,935
Unamortized Premium					19,388
Less: Unamortized discount and charge					(10,212)
Total, net of discount, charge and premium				$ 1,198,025	$ 692,111

As of June 30, 2004, 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	Interest	Governmental Activities: Petroleum Inspection Fee Revenue Bonds Principal	Interest	Business-Type Activities: Clean Water Revenue Bonds Principal	Interest
2005	$ 57,885	$ 66,719	$ 12,735	$ 11,187	$ 39,340	$ 35,497
2006	68,320	61,836	18,205	9,582	44,775	33,516
2007	71,285	58,692	19,775	8,596	47,085	31,121
2008	74,380	55,305	35,270	7,230	49,540	28,620
2009	72,630	51,764	36,280	5,495	52,070	26,326
2010-2014	339,405	207,273	96,625	9,404	222,690	89,184
2015-2019	334,500	116,721	--	--	148,085	40,914
2020-2024	278,740	35,772	--	--	79,350	9,830
2025-2029	19,105	478	--	--	--	--
Total	1,316,250	654,560	218,890	51,493	682,935	295,008
Unamortized Premium	43,599	--	11,043	--	19,388	--
Unamortized Discount/Charge	--	--	(5,275)	--	(10,212)	--
Total, net	$ 1,359,849	$ 654,560	$ 224,658	$ 51,493	$ 692,111	$ 295,008

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 on due 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, 2004 were as follows (in thousands):

Fiscal Year Ended	Principal	Interest
2005	$ --	$ 97,643
2006	12,210	97,307
2007	12,315	96,633
2008	12,485	95,966
2009	31,220	94,858
2010-2014	173,130	447,308
2015-2019	214,360	390,419
2020-2024	283,220	316,937
2025-2029	437,685	207,245
2030-2033	414,470	47,248
Total	1,591,095	1,891,564
Unamortized Premium/Discount	(24,102)	--
Deferred Amount on Refunding	--	--
Total	$1,566,993	$ 1,891,564

Component Units – Discrete Presentation

Wisconsin Housing and Economic Development Authority

Bonds and notes payable at June 30, 2004 of the Wisconsin Housing and Economic Development Authority (Authority) consisted of the following (in thousands):

Revenue bonds and notes	$ 1,704,757
Special obligation and subordinated Special obligation	260,088
Total	1,964,845
Less: Deferred amount on refunding	(6,085)
Total, net	$ 1,958,760

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 103 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, 2004 consisted of the following (in thousands):

Series/ Issue	Date	Rates	Maturity Through	Outstanding
Housing Revenue Bonds:				
1992 A	1/92	6.85	2012	$ 3,370
1993 A&B	10/93	5.0 to 5.65	2023	43,690
1993 C	12/93	5.2 to 5.875	2019	96,040
1995 A&B	7/95	5.3 to 6.5	2026	36,730
1998 A,B&C	2/98	4.4 to 6.88	2032	35,170
1999 A&B	10/99	4.75 to 6.18	2031	37,960
2000 A&B	9/00	Variable	2032	10,440
2002 A, B&C	5/02	3.2 to 5.6	2033	105,015
2002 D, E&G	5/02	Variable	2034	15,620
2002 F	5/02	Variable	2033	10,280
2002 H	5/02	4.68	2033	25,520
2002 I	5/02	Variable	2033	6,900
2003 A&B	12/03	Variable	2034	6,460
2003 C	12/03	1.4 to 5.25	2043	15,000
2003 D& E	12/03	Variable	2044	20,515
				468,710
Home Ownership Revenue Bonds:				
1995 A&B	1/95	6.3	2025	100
1995 C,D&E	5/95	5.55 to 7.45	2026	16,465
1995 F,G&H	9/95	5.25 to 7.2	2017	6,960
1996 A&B	3/96	5.3 to 6.15	2027	17,240
1996 C&D	7/96	5.5 to 6.35	2027	14,580
1996 E&F	11/96	5.0 to 6.1	2026	12,280
1997 A,B&C	4/97	5.2 to 6.1	2028	17,095
1997 D&E	6/97	4.85 to 6.0	2028	27,410
1997 G,H&I	11/97	4.85 to 5.55	2028	17,110
1998 A,B&C	4/98	4.75 to 5.375	2028	62,375
1998 D&E	6/98	4.55 to 5.45	2028	37,930
1999 C,D&E	4/99	4.15 to 7.29	2029	30,120
1999 A&B	8/99	5.3 to 5.5	2021	11,240
1999 F,G&H	7/99	4.55 to 7.07	2030	27,280
2000 A,B&C	3/00	5.2 to 8.57	2030	17,770
2000 D,E&F	6/00	5.75 to 7.91	2031	17,760
2000 F	7/00	Variable	2015	6,690
2000 G	11/00	7.21	2031	9,390
2000 H	11/00	Variable	2024	12,920
2001 A,B&C	5/01	3.95 to 6.4	2032	31,330
2002 A&C	2/02	2.6 to 5.5	2032	66,790
2002 B	2/02	5.88	2032	17,740
2002 C	2/02	3.69	2016	14,945
2002 D	2/02	2.91	2022	6,570
2002 E,G&H	3/03	2.2 to 5.25	2022	108,865
2002 I	10/02	Variable	2032	82,740
2002 F	7/02	Variable	2032	21,180
2002 J	10/02	Variable	2032	8,640

(Continued)

Series/ Issue	Date	Rates	Maturity Through	Outstanding
2003 A	4/03	1.3 to 4.95	2033	108,310
2003 B	7/03	3.935	2034	109,395
2003 C	11/03	1.25 to 4.95	2034	89,920
2003 D	11/03	Variable	2028	19,830
2004 A	4/04	4.47	2034	130,000
2004 B	4/04	Variable	2034	6,295
				1,185,265
Business Development Bonds:				
1989 3	Various	4.5 to 5.0	2014	955
1991 4,6	Various	3.75 to 5.5	2006	1,460
1995 1-2,4-9	Various	Variable	2015	9,800
				12,215
Notes Payable	Various	Variable	2021	38,567
Authority's Total Revenue Bonds and Notes				$ 1,704,757

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, 2004 consist of the following (in thousands):

Series/ Issue	Date	Rates	Maturity Through	Outstanding
Home Ownership Revenue Bonds:				
1994 C&D	8/94	5.75 to 6.3	2025	$ 7,365
1998 F&G	10/98	4.1 to 6.7	2029	35,290
				42,655
Single Family Drawdown Revenue Bonds:				
2001-1	11/01	Variable	2004	103,120
2003-1	4/03	Variable	2006	114,313
				217,433
Total Special Obligation Bonds				$ 260,088

Debt service requirements for principal and interest for the Authority at June 30, 2004 are as follows (in thousands):

Fiscal Year Ended	Principal	Interest
2005	$ 190,817	$ 64,022
2006	174,243	61,068
2007	61,350	57,466
2008	64,075	54,901
2009	67,565	52,655
2010-2014	326,840	216,340
2015-2019	295,380	146,928
2020-2024	271,985	88,828
2025-2029	267,820	39,296
2030-2034	220,715	9,847
2035	24,055	1,495
Total	1,964,845	792,846
Unamortized Premium/Discount	--	--
Deferred Amount on Refunding	(6,085)	--
Total	$ 1,958,760	$ 792,846

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, 2004, the Authority had issued 142 series of such bonds in an aggregate principal amount of $82.6 million for economic projects in Wisconsin.

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 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, 2004 are classified as effective. The Authority does not intend to terminate these agreements prior to their maturity.

The following table outlines information related to agreements in place as of June 30, 2004 (in thousands):

Program and Bond Issue	Notional Value at 6/30/04	Effective Date	Swap Termination Date	Counterparty Credit Rating	Percent Fixed Rate Paid	Variable Rate/Index Received	Swap Termination Market Value at 6/30/04
Housing Revenue Bonds							
2002 Series H	$ 25,520	5/21/2002	11/1/2033	AAA	4.68	70% of one month London Interbank Offered Rate (LIBOR)	$ (1,329)
2003 Series D	8,710	12/23/2003	5/1/2044	AAA	4.21	65% of one month LIBOR + 25 basis points	(91)
2003 Series E	11,805	12/23/2003	5/1/2043	AAA	4.05	63.5% of one month LIBOR + 25 points	(111)
							(1,531)
1987 Home Ownership Revenue Bonds							
2002 Series B	17,740	2/6/2002	3/1/2020	AAA	5.88	One month LIBOR + 35 basis points	(716)
2002 Series C	14,945	2/6/2002	9/1/2012	AAA	3.69	67 percent of one month LIBOR	(570)
2002 Series D	6,570	2/6/2002	9/1/2006	AAA	2.91	70 percent of one month LIBOR	(71)
2002 Series I	8,175	10/17/2002	3/1/2008	AA+	2.33	70 percent of one month LIBOR	(4)
2002 Series I	35,020	10/17/2002	9/1/2032	AA+	4.07	70 percent of one month LIBOR	(92)
2002 Series J	9,640	10/17/2002	9/1/2006	AA+	3.13	One month LIBOR + 40 basis points	(6)
2003 Series B	109,395	7/29/2003	9/1/2034	AAA	3.935	65 percent of one month LIBOR + 25 basis points	(1,202)
2004 Series A	31,020	4/29/2004	9/1/2022	AAA	4.47	BMA + 8 basis points	(368)
2004 Series A	30,515	4/29/2004	9/1/2012	AAA	2.87	65 percent of one month LIBOR + 25 basis points	138
2004 Series A	42,035	4/29/2004	3/1/2035	AAA	4.27	65 percent of one month LIBOR + 25 basis points	(964)
							(3,855)
1988 Home Ownership Revenue Bonds							
2002 Series E	20,205	7/11/2002	3/1/2011	AAA	3.24	70 percent of one month LIBOR	(319)
2002 Series E	23,890	7/11/2002	9/1/2032	AAA	4.67	70 percent of one month LIBOR	(904)
2002 Series F	21,180	7/11/2002	9/1/2014	AAA	5.20	Three months LIBOR + 40 basis	(422)
2003 Series A	24,985	4/3/2003	9/1/2014	AAA	2.98	65 percent one month LIBOR + 25 basis points	329
2003 Series A	31,375	4/3/2003	9/1/2030	AAA	4.26	65 percent one month LIBOR + 25 basis points	61
2003 Series A	17,920	4/3/2003	9/1/2033	AAA	4.17	65 percent one month LIBOR + 25 basis points	111
2003 Series C	21,520	11/4/2003	3/1/2019	AAA	3.32	65 percent one month LIBOR + 25 basis points	138
2003 Series C	38,605	11/4/2003	3/1/2034	AAA	4.3	65 percent one month LIBOR + 25 basis points	(660)
							(1,666)
							$ (7,052)

The commercial paper obligations are issued for terms of one to 270 days. These obligations bear interest at various rates, which ranged from 1.15 percent to 1.25 percent and 0.95 percent to 1.3 percent at June 30, 2004 and June 30, 2003 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 line of credit agreements used for temporary mortgage financing, one of which is renewable annually, bear interest based on the 30 day LIBOR rate. The three agreements bear interest at the rates of 1.875 percent, 1.99 percent and 1.59 percent at June 30, 2004.

University of Wisconsin Hospitals and Clinics Authority

In April 1997, the University of Wisconsin Hospitals and Clinics Authority (the Hospital) issued $50.0 million of Variable Rate Demand Hospital Revenue Bonds, Series 1997. The bond proceeds are designated to finance qualified capital projects. Principal payments on the Series 1997 Bonds are due annually commencing in April 2010 through April 2026. Interest is payable monthly. The effective annual estimated interest rate was 1.0 percent in 2004.

In March 2000, the Hospital issued $56.5 million of Hospital Revenue Bonds Series 2000. The bond proceeds are designated to finance qualified capital projects. Principal payments are due annually commencing in April 2007 through April 2029. Interest rates range from 5.35 percent to 6.20 percent and interest is payable semiannually on April 1 and October 1 each year beginning October 1, 2000. The effective annual interest rate was 6.1 percent in 2004.

The Series 1997 Bonds, Series 2000 Bonds and Series 2002 Bonds 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 the lease agreement (Note 1-B) and provisions limiting the amount of additional indebtedness which may be incurred. The borrowing agreements also require the establishment and maintenance of certain funds under the control of a trustee.

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 beginning November 29, 2002. Principal payments on the Series 2002B Bonds range from $1.4 million to $1.9 million due annually commencing in April 2006 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 2.2 percent in 2004. The effective annual interest rate of the Series 2002B Bonds was 5.4 percent in 2004.

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, 2004, 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, 2004, the interest rate received by the Hospital was 1.1 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. As of June 30, 2004, the Hospital was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Hospital would be exposed to credit risk in the amount of the swap's fair value. The fair value of the swap is $(375,361) at June 30, 2004.

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
2005	$ 2,053	$ 6,686	$ 608	$ 9,347
2006	4,737	6,575	608	11,920
2007	4,825	6,356	609	11,790
2008	4,736	6,711	609	12,056
2009	4,864	5,858	609	11,331
2010-2014	30,669	25,267	3,042	58,978
2015-2019	36,128	19,885	3,042	59,055
2020-2024	44,470	14,781	1,825	61,076
2025-2029	55,110	7,785	--	62,895
2030-2032	7,630	341	--	7,971
Premium on 2002B Bonds	563	--	--	563
	$195,785	$ 100,245	$ 10,952	$306,982

The Hospital is limited to total borrowings, exclusive of amounts payable to the primary government, to $235.0 million, with limited exceptions.

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, 2004 are as follows (in thousands):

Fiscal Year Ended	Principal	Interest
2005	$ --	$ 5,185
2006	1,385	5,186
2007	2,035	5,114
2008	2,480	5,007
2009	2,815	4,870
2010-2014	21,325	21,789
2015-2019	35,280	17,752
2020-2024	43,970	13,446
2025-2029	54,510	7,636
2030-2034	11,200	240
Total	175,000	86,225
Unamortized Premium/Discount	628	--
Deferred Amount on Refunding	--	--
Total	$ 175,628	$ 86,225

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 for the first two years. 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 October 15, 2003. The letter of credit was renewed effective October 15, 2003 through October 15, 2004. 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, 2003.

Debt service requirements for principal and interest for the Center, at December 31, 2003 are as follows (in thousands):

Fiscal Year Ended	Principal	Interest
2004	$ 290	$ 2,579
2005	390	2,560
2006	495	2,536
2007	610	2,504
2008	715	2,466
2009-2013	5,555	11,471
2014-2018	7,845	9,415
2019-2023	10,600	6,608
2024-2028	14,295	2,751
Total	40,795	42,890
Unamortized Premium/Discount	--	--
Deferred Amount on Refunding	--	--
Total	$ 40,795	$ 42,890

In addition, the Center had notes payable of $130 thousand outstanding at June 30, 2004.

University of Wisconsin Foundation

Long-term debt consists of a note payable to U.S. Bank, N.A. The note was refinanced effective March 1, 2003. The note is payable in accreting monthly principal installments beginning with $10.6 thousand, with a 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, 2003 was $2.8 million.

Future maturities of long-term debt as of December 31, 2003 are as follows (in thousands):

Year ended December 31	Total Principal
2004	$ 137
2005	144
2006	152
2007	160
2008	168
Later years	2,032
	$ 2,792

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 2003, the State issued $67.9 million of general obligation refunding bonds (2003 Series 3), the proceeds of which were used to current refund the May 1, 2004 through November 1, 2006 maturities of the 1993 Series 5 bonds. The refunding resulted in an increase in total debt service payments by $50.7 million with an economic loss of $9.0 million

In January 2004, the State issued $147.0 million of general obligation refunding bonds (2004 Series 1), the proceeds of which were deposited in an escrow account to provide for future debt service payments and redemption of $145.1 million of various general obligation bonds outstanding at the time of the refunding. As a result of the refunding, the bonds are considered defeased and the associated liability removed from the financial statements. The refunding resulted in a decrease in total debt service payments by $5.8 million and an economic gain of $5.7 million.

In January 2004, the State issued $175.8 million of general obligation refunding bonds (2004 Series 2), the proceeds of which were deposited in an escrow account to provide for future debt service payments and redemption of $177.5 million of various general obligation bonds outstanding at the time of the refunding. As a result of the refunding, the bonds are considered defeased and the associated liability removed from the financial statements. The refunding resulted in a decrease in total debt service payments by $8.3 million and an economic gain of $8.1 million.

In March 2004, the State issued $175.0 million of general obligation refunding notes (2004 Series 1), the proceeds of which were used to current refund on May 1, 2004 principal of various general obligation bonds in the amount of $175.0 million. In June 2004, the State issued $175.0 million of general obligation refunding bonds (2004 Series 3), the proceeds of which were used to fund the notes. The refunding resulted in an increase in total debt service payments by $66.2 million and an economic loss of $12.0 million.

Current Year Exchange/General Obligation Bonds

In April 2004, the Environmental Improvement Fund exchanged $116.8 million of general obligation bonds (multiple issues), the debt service of which is used to bridge the difference between the payments received in the Leveraged Loan Portfolio and the debt service due on the revenue obligations issued to fund the Leveraged Loan Portfolio, for a global certificate in the amount of $116.8 million. The exchange resulted in an increase in total debt service payments by $6.7 million and an economic gain of $0.8 million.

Current Year Refundings/Revenue Bonds

In March 2004, the State issued $116.8 million of clean water revenue bonds (2004 Series 1) of which $16.8 million was used to current refund the outstanding 2008 maturity of the 1993 Series 2 bonds. The refunding resulted in a decrease of $1.0 million in total debt service payments and an economic gain of $1.0 million.

In May 2004, the State issued $95.5 million of petroleum inspection fee revenue refunding bonds (2004 Series 1), the proceeds of which were deposited in an escrow account to provide for future debt service payments and redemption of $96.6 million of the 2000 Series A bonds maturing from 2007 through 2012 outstanding at the time of the refunding. As a result of the refunding, the bonds are considered defeased and the associated liability removed from the financial statements. The refunding resulted in a decrease in total debt service payments by $4.8 million and an economic gain of $4.0 million.

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, 2004, approximately $703.2 million of general obligation bond principal have been defeased.

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, 2004, revenue bonds outstanding of $219.7 million have been defeased.
- Transportation revenue bonds – At June 30, 2004, revenue bonds outstanding of $233.3 million have been defeased.
- Petroleum Inspection Fee revenue bonds – At June 30, 2004, revenue bonds outstanding of $96.6 million have been defeased.

In addition, the Wisconsin Housing and Economic Development Authority (the Authority), a proprietary component unit, 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, 2004, the remaining outstanding defeased debt was $30.7 million.

Early Extinguishments

Component Units

Wisconsin Housing and Economic Development Authority

During 2004, 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 and, in certain instances, the payment of an early redemption premium. A summary of these early redemptions follows (in thousands):

Bond Issue	Redemptions 2004
Home Ownership Revenue Bond Resolutions:	
1987	$ 112,655
1988	193,775
All Other	291,835
Housing Revenue Bonds	18,060
General funds	2,755

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 in anticipation of revenue or bond financing. 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. As of June 30, 2004, the State issued $166.7 million of general obligation commercial paper notes. 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 payments to the issuing and paying agent that will be equal to the interest due on maturing notes. At June 30, 2004, the amount of commercial paper notes outstanding was $68.6 million which had interest rates ranging from 0.92 percent to 1.11 percent and maturities ranging from July 6, 2004 to August 16, 2004.

Short-term debt activity for the year ended June 30, 2004 for the general obligation commercial paper notes was as follows (in millions):

Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004
$ 77.1	$ --	$ 8.5	$ 68.6

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. As of June 30, 2004, the State issued $440.5 million of general obligation extendible municipal commercial paper. 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 payments to the issuing and paying agent that will be equal to the upcoming interest due on maturing notes. At June 30, 2004, the amount of extendible municipal commercial paper outstanding was $313.9 million which had interest rates ranging from 0.98 percent to 1.14 percent and maturities ranging from July 6, 2004, to September 8, 2004.

Short-term debt activity for the year ended June 30, 2004 for the general obligation extendible municipal commercial paper was as follows (in millions):

Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004
$ 239.9	$ 100.0	$ 26.0	$ 313.9

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. As of June 30, 2004, the State issued $142.3 million of petroleum inspection fee revenue extendible municipal commercial paper. 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 payments to the issuing and paying agent that will be equal to the upcoming interest due on maturing paper. At June 30, 2004, the amount of extendible commercial paper outstanding was $142.3 million which had interest rates ranging from 1.06 percent to 1.13 percent and maturities ranging from August 10, 2004 to September 8, 2004.

Short-term debt activity for the year ended June 30, 2004 for the petroleum inspection fee revenue extendible municipal commercial paper was as follows (in millions):

Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004
$ 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. As of June 30, 2004, the State issued $157.8 million of transportation revenue commercial paper notes. 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 payments to the issuing and paying agent that will be equal to the upcoming interest due on maturing notes. At June 30, 2004, the amount of commercial paper notes outstanding was $125.8 million which had interest rates ranging from 1.05 percent to 1.20 percent and maturities ranging from July 6, 2004 to January 12, 2005.

Short-term debt activity for the year ended June 30, 2004 for the transportation revenue commercial paper notes was as follows (in millions):

Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004
$ 131.4	$ --	$ 5.6	$ 125.8

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, 2004, the following parity Master Lease certificates were outstanding:

- Master Lease Certificates of Participation of 1999, Series A, in the amount of $0.6 million. This series of Master Lease certificates have interest rates ranging from 3.8 percent to 3.9 percent and mature semi-annually through March 1, 2005.

- Master Lease Certificates of Participation of 1999, Series B (Taxable), in the amount of $3.5 million. This series of Master Lease certificates have interest rates of 5.6 percent and mature semi-annually through September 1, 2005.

- Master Lease Certificates of Participation of 2000, Series A, in the amount of $7.4 million. This series of Master Lease certificates have interest rates ranging from 4.5 percent to 4.75 percent and mature semi-annually through September 1, 2007.

- Master Lease Certificates of Participation of 2000, Series B (Taxable), in the amount of $3.8 million. This series of Master Lease certificates have interest rates ranging from 6.9 percent to 7.0 percent and mature semi-annually through September 1, 2005.

- Master Lease Certificates of Participation of 2002, Series A, in the amount of $26.2 million. This series of Master Lease certificates have interest rates ranging from 3.00 percent to 3.75 percent and mature semi-annually through September 1, 2007.

- Master Lease Certificates of Participation of 2002, Series C and Master Lease Certificates of Participation of 2003, Series B (Revolving Credit Agreement – Tax Exempt) in the amount of $14.3 million. These Master Lease certificates evidence the State’s obligation to repay tax-exempt revolving loans under a Revolving Credit Agreement, dated July 1, 2002, as amended, between U.S. Bank National Association (Trustee) and the Bank of America Leasing & Capital LLC. These Master Lease certificates shall bear interest at the rates provided for in the Revolving Credit Agreement and both mature on March 1, 2013. The balance of these certificates of participation may include some accrued interest that will be payable at the next semi-annual interest payment date.

- Master Lease Certificates of Participation of 2002, Series D, in the amount of $23.1 million. This series of Master Lease Certificates have interest rates ranging from 2.0 percent to 5.0 percent and mature semi-annually through September 1, 2007.

- Master Lease Certificates of Participation of 2003, Series A (Revolving Credit Agreement – Taxable). This Master Lease certificate evidences the State's obligation to repay revolving loans under a Revolving Credit Agreement, dated July 1, 2002, as amended, between U.S. Bank National Association (Trustee) and the Bank of America Leasing & Capital LLC. The Commitment date under the Revolving Credit Agreement is June 30, 2005. This Master Lease certificate shall bear interest at the rates provided for in the Revolving Credit Agreement and matures on March 1, 2022. The balance of this certificate of participation may include some accrued interest that will be payable at the next semi-annual interest payment date.

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, 2004, the State has deposited with the Trustee amounts, that when invested, will terminate lease schedules having an aggregate outstanding amount of $8.4 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, 2004, no material arbitrage rebate liabilities existed.

H. Moral Obligation Debt

Through legislation enacted in 1994, the State authorized the creation of local exposition 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 costs related to an exposition center, 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' reserve funds that secure up to $200 million principal amount of bonds. To date, the Wisconsin Center District has issued $125.8 million of bonds that are subject to the moral obligation. The two other local exposition 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. Each of these 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. Two bond issues of $112.0 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, 2004, $50.0 million was unused and available.

The State has previously entered into a credit agreement to provide a line of credit for liquidity support for up to $80.0 million of general obligation commercial paper notes. The line of credit expires in March, 2005, but is subject to annual renewal as provided for in the credit agreement. The cost of this line of credit is 0.125 percent per year.

Also, the State has entered into a credit agreement with two banks to provide a line of credit for liquidity support for its transportation revenue commercial paper program. The amount of the line of credit is $135.0 million. This line of credit expires in May, 2005, but is subject to renewal as provided for in the credit agreement. The cost of this line of credit is 0.170 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, 2004 for capital leases (in thousands):

Fiscal Year	Governmental Activities	Business-type Activities
2005	$ 6,440	$ 7,122
2006	5,512	6,454
2007	4,160	5,744
2008	4,696	25,931
2009	1,279	1,887
2010 – 2014	1,242	8,890
2015 – 2019	142	2,051
Total minimum future payments	23,470	58,079
Less: Executory costs	(3)	--
Less: Interest	(3,141)	(9,502)
Present value of net minimum lease payments	$ 20,326	$ 48,577

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, 2004 (in thousands):

	Governmental Activities	Business-type Activities
Land and Land Improvements	$ 376	$ 209
Buildings and Improvements	963	59,378
Machinery and Equipment	56,275	10,327
Less: Accumulated Depreciation	(13,428)	(11,732)
Carrying Amount	$ 44,186	$ 58,182

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, 2004 was as follows:

Balance Due	Average Life (Weighted Term)
$85,014,923	3.5793 Years

Component Unit

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. Interest rates on the related bonds range from 4.0 percent to 6.26 percent, with final maturities due beginning in April 2000 through April 2022. Scheduled principal and interest payments through April 2022 are $20.2 million.

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 2004 were $66.2 million. Of this amount, $65.4 million relates to minimum rental payments stipulated in lease agreements, $303 thousand relates to contingent rentals, and $510 thousand relates to sublease rental payments.

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	Units
2005	$ 39,622	$ 11,757	$ 97	$ 6,518
2006	31,454	8,042	63	6,241
2007	24,966	4,748	31	5,635
2008	22,243	3,827	25	4,476
2009	15,349	2,901	1	3,238
2010 – 2014	29,960	10,582	--	7,678
2015 – 2019	4,848	578	--	--
2020 – 2024	673	269	--	--
2025 – 2029	632	61	--	--
2030 – 2034	473	45	--	--
Thereafter	412	--	--	--
Minimum lease payments	$ 170,633	$ 42,811	$ 217	$ 33,787

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, 2004 for installment purchases (in thousands):

Fiscal Year	Governmental Activities
2005	$ 1,556
2006	911
2007	402
2008	39
Total minimum future payments	2,907
Less: Interest	(138)
Present value of net minimum installment payments	$ 2,770

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 fixed 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, 2002, 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, 2003 will be available in early Calendar Year 2005.

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 for at least one year must be covered by the WRS. As of December 31, 2003, the number of participating employers was:

State Agencies	61
Cities	153
Counties	71
4^{th} Class Cities	34
Villages	227
Towns	203
School Districts	426
Wisconsin Technical College System Board Districts	16
Cooperative Educational Service Agencies	12
Other	177
Total Employers	1,380

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 fixed retirement investment trust. The variable retirement investment trust consists primarily of equity securities. The fixed retirement investment trust is a balanced investment fund made up of fixed income securities and equity securities. Shares in the fixed 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 fixed 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 (2.6 percent for Executives and Elected Officials, 4.5 percent for Protective Occupations with Social Security, and 3.2 percent for Protective Occupations without Social Security) to the plan as of June 30, 2004. 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; however, State legislation in 1999 prescribed a $200 million contribution holiday for employers for the first time in the plan's history. State contributions made for the years ended December 31, 2003, 2002 and 2001 were as follows (in millions):

	2003	2002	2001
Employer current service	$ 140.4	$ 127.2	$ 122.9
Percent of payroll	4.5%	4.3%	4.2%
Employer prior service	$ 706.8	$ 38.3	$ 15.5
Percent of payroll	22.4%	1.3%	0.5%
Employee required	$ 154.1	$ 145.7	$ 140.9
Percent of payroll	4.9%	4.9%	4.9%
Benefit adjustment contrib.	$ 11.1	$ 5.3	$ 5.1
Percent of payroll	0.4%	0.2%	0.2%
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, 2004 and 2003, the WRS’s unfunded actuarial accrued liability was $0.5 billion and $1.7 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), with participation by the City of Milwaukee Retirement System and the Milwaukee Public Schools Retirement System, 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 Fixed Retirement Investment Trust (FRIT) and the Variable Retirement Investment Trust (VRIT), funds of the Wisconsin Retirement System (WRS). Participation of the MRS in the FRIT and VRIT is described in the DETF Administrative Code, Chapter 10.12. The State of Wisconsin Investment Board (SWIB) manages the FRIT 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 FRIT 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 FRIT 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.

At June 30, 2004, the FRIT and VRIT held $68,877.7 million of investments of which includes $5,053.0 million of securities lending collateral and $388.3 million of pooled cash and cash equivalents. The following tables present investments of the FRIT and VRIT at June 30, 2004, categorized in accordance with the level of risk requirements of GASB Statement No. 3 (in millions):

Fixed Retirement Investment Trust:

	Category 1	Category 2	Category 3	Fair Value
Fixed Income	$ 8,365.3	$ --	$ --	$ 8,365.3
Stocks	11,719.5	--	--	11,719.5
Repurchase Agreements	1,281.4	--	--	1,281.4
Certificates of Deposit	426.5	--	--	426.5
Total	$ 21,792.7	$ --	$ --	21,792.7
Limited Partnerships				2,530.0
Pooled Multi-Asset Fund				336.8
Pooled Equities				24,591.4
Pooled Bonds				6,699.0
Mortgages				593.1
Real Estate Owned				417.1
Custodial Pooled Cash and Equivalents				370.3
Investments Held by Broker Dealers under Securities Loans:				
Fixed Income				3,765.0
Equities				1,022.4
Securities Lending Cash Collateral Pooled Investments				800.4
				$ 62,918.2

Variable Retirement Investment Trust:

	Category 1	Category 2	Category 3	Fair Value
Fixed Income	$ 92.2	$ --	$ --	$ 92.2
Stocks	2,228.8	--	--	2,228.8
Repurchase Agreements	53.6	--	--	53.6
Certificates of Deposit	14.4	--	--	14.4
Total	$ 2,389.0	$ --	$ --	2,389.0
Pooled Equities				3,320.1
Pooled Cash and Equivalents				18.0
Investments Held by Broker Dealers under Securities Loans:				
Equities				198.9
Securities Lending Cash Collateral Pooled Investments				33.5
				$ 5,959.5

The following schedule provides summary information by investment classification for the FRIT at June 30, 2004 (in thousands):

Classification	Interest/Coupon Rates	Maturity Dates	Cost	Fair Value
Fixed Income	Variable and 0.3 to 28.7	7/04 to 11/49	$ 15,665,998	$ 16,500,477
Common and Preferred Stock	N/A	N/A	31,115,940	37,333,313
Limited Partnerships	N/A	N/A	2,741,924	2,529,989
Mortgages	6.77 to 12.25	8/04 to 6/22	539,949	593,064
Real Estate Owned	N/A	N/A	318,807	417,080
Multi-Asset	N/A	N/A	250,000	336,814
Total Investments			$ 50,632,619	$ 57,710,738

The following schedule provides summary information by investment classification for the VRIT at June 30, 2004 (in thousands):

Classification	Interest/Coupon Rates	Maturity Dates	Cost	Fair Value
Common and Preferred Stock	N/A	N/A	$ 4,926,422	$ 5,747,730
Total Investments			$ 4,926,422	$ 5,747,730

Significant financial data for the FRIT and VRIT for the year ended June 30, 2004 is presented below (in thousands):

Fixed Retirement Investment Trust
Condensed Statement of Net Assets
As of June 30, 2004

Assets:	
Cash and Cash Equivalents	$ 1,643,140
Securities Lending Collateral	4,850,013
Investment Receivables	439,800
Investments, at Fair Value	57,710,738
Other Assets	2,442
Total Assets	64,646,133
Liabilities:	
Securities Lending Collateral Liability	4,850,013
Investment Payables	655,479
Total Liabilities	5,505,492
Net Assets Held in Trust of:	
Internal Investment Pool Participants	59,084,812
Milwaukee Retirement System	55,830
	$ 59,140,642

Fixed Retirement Investment Trust
Condensed Statement of Changes in Net Assets
For the Year Ended June 30, 2004

Additions:	
Net Increase (Decrease) in Fair Value of Investments	$ 7,396,289
Interest	547,506
Dividends	263,790
Securities Lending Income	44,422
Other	97,995
Total Additions	8,350,002
Deductions:	
Investment Expense	139,135
Securities Lending Rebates and Fees	36,256
Net Withdrawals by Pool Participants	(694,261)
Total Deductions	(518,870)
Net Increase (Decrease)	8,868,872
Net Assets Held in Trust for Pool Participants	
Beginning of Year	50,271,770
End of Year	$ 59,140,642

Variable Retirement Investment Trust
Condensed Statement of Net Assets
As of June 30, 2004

Assets:	
Cash and Cash Equivalents	$ 63,212
Securities Lending Collateral	203,046
Investment Receivables	114,422
Investments, at Fair Value	5,747,730
Total Assets	6,128,411
Liabilities:	
Securities Lending Collateral Liability	203,046
Investment Payables	116,092
Total Liabilities	319,139
Net Assets Held in Trust of:	
Internal Investment Pool Participants	5,774,033
Milwaukee Retirement System	35,240
	$ 5,809,273

Variable Retirement Investment Trust
Condensed Statement of Changes in Net Assets
For the Year Ended June 30, 2004

Additions:	
Net Increase (Decrease) in	
Fair Value of Investments	$ 1,102,491
Interest	786
Dividends	40,447
Securities Lending Income	1,652
Total Additions	1,145,376
Deductions:	
Investment Expense	7,416
Securities Lending Rebates and Fees	1,073
Net Withdrawals by Pool Participants	378,123
Total Deductions	386,612
Net Increase (Decrease)	758,764
Net Assets Held in Trust for Pool Participants	
Beginning of Year	5,050,509
End of Year	$ 5,809,273

NOTE 15. OTHER EMPLOYMENT BENEFITS

In addition to providing pension benefits, the State participates in the Department of Employee Trust Funds administered post retirement life insurance and health insurance benefit programs. The State provides life and health insurance benefits for retired employees in accordance with Chapter 40 of the Wisconsin Statutes.

Post retirement life insurance is provided to employees retiring before age 65 if they (1) have 20 years of creditable service, and (2) are eligible for a retirement annuity. This coverage is at the employee's expense (employee must pay the full premium) until age 65 when reduced coverage is provided at no cost. Employees retiring at or after age 65 are immediately eligible for reduced coverage at no cost. Beginning in the month in which an insured annuitant reaches age 65, premiums are no longer collected and coverage is continued for life. Approximately 13,112 State annuitants currently qualify for coverage without premium. Post retirement life insurance is fully insured by an independent insurance carrier. Premiums are prefunded with employer paid premiums during the employee's active career. The amount of premiums is determined by the insurer. The accrued liability and assets specifically related to post employment benefits could not be determined.

In accordance with Chapter 40, Wisconsin Statutes, the State also provides that employees retiring and beginning an immediate annuity are eligible for conversion of unused sick leave to post retirement health insurance. At the time of eligibility for an immediate annuity or employee's death, that employee's accumulated unused sick leave balance may be converted at the employee's current rate of pay to credits for the payment of health insurance premiums for the employee or the employee's surviving dependents. The program also provides partial matching of sick leave accumulation depending on years of service and employment category. Health insurance premiums are paid on the employee, or employee's dependents behalf, until the sick leave conversion credits are exhausted. At that time, the employee has the option to continue coverage by paying the total cost of the premiums. Approximately 9,044 annuitants are currently receiving health insurance coverage through sick leave conversion credits. Accumulated sick leave conversion is prefunded based on an actuarially determined percentage of payroll. The actuarial valuation is based on the frozen initial liability cost method.

Significant actuarial assumptions include an 7.8 percent assumed interest rate, 4.1 percent assumed annual salary growth, and an average sick leave accumulation of 6.4 days per year for non-University employees and 7.4 days per year for University employees. The assets and reserves of the sick leave conversion program are accounted for in a fiduciary fund. The accrued liability for the post retirement health insurance benefits at December 31, 2003, determined through an actuarial valuation performed on that date, was $1,625.0 million. The program's assets on that date were $1,605.0 million. The unfunded liability was $20.0 million.

Assets of the life insurance and health insurance benefit programs are valued at fair value.

The State's postemployment life insurance required and actual contributions totaled $4.6 million during the calendar year ended December 31, 2003.

For that same time period, the State paid required and excess contributions totaling $813.1 million to fund health insurance and to pay the State’s unfunded actuarially accrued liability for health benefits to be paid in the future.

NOTE 16. 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, protective occupation duty disability insurance and long-term disability insurance. The information provided in this note applies to the period ending December 31, 2003.

A. Description of Funds

The Health Insurance Fund offers group health insurance for current and retired employees of the State government and of participating local public employers. All public employers in the State are eligible to participate. Approximately 305 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). Also, starting January 1, 2004, a self-insured plan began 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 147 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 Duty Disability Fund offers special disability insurance for State and local Wisconsin Retirement System participants in protective occupations. Participation in the program is mandatory for all Wisconsin Retirement System employers with protective occupation employees. Approximately 476 local employers plus the State currently participate. The plan is self-insured and risk is shared between the State and local portions of the plan.

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, Duty Disability and Long-term Disability Insurance funds are invested in the fixed 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 8 percent for income continuation, long-term disability, and duty disability insurance. The liabilities for income continuation, long-term disability, health insurance and duty disability insurance were determined by actuarial methods. The Duty Disability Fund's accounting deficit is being amortized over a twenty-three year period beginning January 1, 2000. Face values are not available.

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 (Health, Income Continuation Insurance and Long-term Disability Insurance) and the Employee Trust Funds Board (Duty Disability) 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 2003 (in millions):

	Health Insurance		Income Continuation Insurance		Duty Disability		Long-term Disability Insurance	
	2003	2002	2003	2002	2003	2002	2003	2002
Unpaid claims at beginning of the calendar year	$ 8.1	$ 12.8	$58.2	$57.0	$320.8	$318.3	$43.8	$34.3
Incurred claims:								
Provision for insured events of the current calendar year	73.2	70.5	23.4	17.1	41.0	30.7	15.9	11.7
Changes in provision for insured events of prior calendar years	(1.1)	(5.4)	(13.2)	(2.8)	0.4	(6.6)	1.3	3.0
Total incurred claims	72.1	65.1	10.2	14.3	41.4	24.1	17.2	14.7
Payments:								
Claims and claim adjustment expenses attributable to insured events of the current calendar year	65.1	62.5	4.5	3.5	0.3	0.2	0.3	0.0
Claims and claim adjustment expenses attributable to insured events of prior calendar years	6.8	7.3	7.0	9.6	22.7	21.4	6.7	5.2
Total payments	71.9	69.8	11.5	13.1	23.0	21.6	7.0	5.2
Total unpaid claims expenses at end of the calendar year	$ 8.3	$ 8.1	$56.9	$58.2	$339.2	$320.8	$54.0	$43.8

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, 2003 will be available in early Calendar Year 2005. Copies of these and prior years statements may be requested from:

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

NOTE 17. 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 2004, 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, 2004 are estimated to total $3.5 million.

Property Damages and Bodily Injuries to Third Parties

The State is self-funded for third party liability to a level of $3 million per occurrence and purchases insurance in excess of this self-funded retention. The policy limit during Fiscal Year 2004 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. Claims incurred but not paid as of June 30, 2004 are estimated to total $44.7 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, 2004 are estimated to total $62.7 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):

	2004	2003
Beginning of fiscal year liability	$ 118,265	$ 111,821
Current year claims and changes in estimates	14,819	30,509
Claim payments	(22,228)	(24,065)
Balance at fiscal year-end	$ 110,856	$ 118,265

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, 2004 is $4.9 million.

NOTE 18. INSURANCE FUNDS

Primary Government

A. 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, 2004, the Local Government Property Insurance Fund insured 1,203 local governmental units. The total amount of insurance in force as of June 30, 2004 was $35.9 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, 2004, the fund had $24.1 million of shares in the State Investment Fund which are considered cash equivalents and $8.1 million of high grade, long-term, fixed income obligations.

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 future benefits and loss liabilities 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.

Premium Deficiency – Investment income is considered in determining whether a premium deficiency exists. No premium deficiency existed at June 30, 2004.

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, 2004 the fund had $240 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 $18.0 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. Premium ceded to reinsurers during the fiscal year amounted to $5.7 million. Reinsurance loss and adjusting expense recoveries earned for the year amounted to $87 thousand.

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):

	2004	2003
Unpaid claims and claim adjustment expenses at beginning of the year	$12,178	$11,773
Less: Reinsurance recoverable	(6,468)	(4,706)
Net unpaid loss liability at beginning of year	5,710	7,067
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	11,118	14,406
Increase (decrease) in provision for insured events of prior years	(595)	446
Total incurred claims and claim adjustment expenses	10,523	14,852
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	7,139	9,040
Claims and claim adjustment expenses attributable to insured events prior years	4,740	7,169
Total payments	11,879	16,209
Net unpaid claims and claim adjustment expenses at end of year	4,354	5,710
Reinsurance recoverable	3,652	6,468
Total unpaid claims and claim adjustment expenses	$8,006	$12,178

Trend Information

Historical trend information showing revenue and claims development information is presented in the Office of the Commissioner of Insurance June 30, 2004 financial statements. Copies of these statements may be requested from:

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

B. 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	$ 13,011	$ 8,706
1967-1976	38,058	15,811
1977-1985	83,857	20,816
1986-1994	55,063	6,504
1995+	33,952	2,849
	$ 223,941	$ 54,686

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 Last 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, 2003 were $79.9 million and the statutory capital and surplus were $4.7 million, and the capital and surplus at June 30, 2004 was $5.6 million.

C. 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 insurance for health care providers in the state. The Injured Patients and Families Compensation Fund pays that portion of a medical malpractice claim which is in excess of the legal primary insurance limit prescribed under law, or the maximum liability limit for which the health provider is insured, whichever limit is greater. 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, 2004 as follows (in thousands):

Projected ultimate loss liability	$ 1,394,692
Less: Net loss paid from inception	(559,648)
Less: Liability for reported losses	(33,071)
Liability for incurred but not reported losses	$ 801,973

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, 2004 are estimated at 6.25 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, 2004 as follows (in thousands):

Projected ultimate loss adjustment expense liability	$ 87,168
Less: Loss adjustment expense paid from inception	(41,768)
Liability for loss adjustment expense	$ 45,400

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 liabilities. These differences cannot be quantified.

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 the loss reserve liabilities. The loss reserve liabilities are discounted only to the extent that they are matched by cash and invested assets. If all loss liabilities are discounted, the discounted loss liability would be as follows as of June 30, 2004 (in thousands):

Estimated unpaid loss liabilities	$ 801,973
Estimated unpaid loss adjustment expense	45,401
Total estimated loss liabilities	847,374
Less: Amount representing interest	(213,948)
Discounted loss liabilities	$ 633,426

The future benefits and loss liabilities are continually reviewed as adjustments to these liabilities become necessary. 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.

On behalf of the Fund's Board, the Office of the Commissioner of Insurance is in the process of contracting for an actuarial audit of the Injured Patients and Families Compensation Fund, which includes a review by another actuary of the reasonableness of the actuarial methodology and assumptions used in developing estimates of the Fund's loss liabilities. The Board believes the current estimate of the Funds' loss liabilities is a reasonable estimate.

D. Health Insurance Risk Sharing Plan

The Health Insurance Risk Sharing Plan Fund was established in 1980 to provide major medical and Medicare supplemental insurance for persons unable to obtain this insurance in the private market or who otherwise qualify for eligibility under Section 149.12, Wis. Stats. The Health Insurance Risk Sharing Plan is funded primarily by premiums paid by insureds of the plan, assessments made to participating insurers and reduction of provider payments rates.

The financial statements of the Health Insurance Risk Sharing Plan fund are prepared in conformity with generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board. Premiums are recognized as revenues over the terms of the insurance policies, and a liability for unearned premiums is established to reflect premiums received applicable to subsequent accounting periods. Participating insurers are assessed every six months, and revenue is recognized in the period covered by the assessments.

The future benefits and loss liabilities include loss reserves reflecting the accumulation of losses reported but not paid prior to the close of the accounting period and estimates of incurred but unreported losses. Loss reserves are actuarially determined and are based on historical patterns of claim payments and represent the estimated ultimate cost of settling claims incurred prior to June 30. Due to the inherent uncertainties in the reserving process, loss reserves as computed may not reflect the actual payments ultimately to be made. The methods for making such estimates and for establishing the resulting reserves are continually reviewed, and any adjustments are reflected in earnings currently.

The following represents changes in the Future Benefits and Loss Liabilities account balances for the prior two fiscal years (in thousands):

	2004	2003
Balance, beginning of year	$ 15,547	$ 15,296
Incurred related to:		
Current year	106,787	90,904
Prior years	(2,746)	(3,815)
Total Incurred	104,041	87,089
Paid related to:		
Current year	90,088	76,344
Prior years	11,901	10,494
Total Paid	101,989	86,838
Balance, end of year	$ 17,599	$ 15,547

The Future Benefits and Loss Liabilities account also includes a reserve for loss adjustment costs to be incurred in settlement of the claims provided for in the loss reserves.

Component Units

E. 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, 2003.

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, 2002 and December 31, 2003, are as follows (in thousands):

	2003	2002
Balance at January 1	$ 51,680	$ 67,212
Incurred related to:		
Current year	6,739	4,044
Prior years	(12,895)	(18,892)
Total Incurred	(6,156)	(14,848)
Paid related to:		
Current year	40	62
Prior years	1,724	622
Total paid	1,764	684
Balance at December 31	$ 43,760	$ 51,680

There is inherent uncertainty in medical malpractice claims when establishing the estimates of unpaid losses and unpaid loss adjustment expenses. In 2003 and 2002, 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 19. 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, 2004 is presented below (in thousands):

Condensed Balance Sheet

Assets:		
Current Assets	$	143,198
Other Assets		725,706
Total Assets	$	868,904
Liabilities:		
Due to Other Funds	$	2,028
Other Current Liabilities (Including Current Portion of Long-term Debt)		42,486
Noncurrent Liabilities		654,210
Total Liabilities		698,724
Fund Equity:		
Restricted		170,180
Total Fund Equity		170,180
Total Liabilities and Fund Equity	$	868,904

Condensed Statement of Revenues, Expenses and Changes in Fund Equity

Operating Revenues (Expenses):		
Loan Interest	$	17,144
Interest Expense		(34,527)
Other Operating Expenses		(2,088)
Operating Income (Loss)		(19,471)
Nonoperating Revenues (Expenses):		
Investment Income		3,725
Transfers		20,000
Change in Fund Equity		4,254
Beginning Fund Equity		165,926
Ending Fund Equity	$	170,180

Condensed Statement of Cash Flows

Net Cash Provided (Used) by :		
Operating Activities	$	(2,190)
Noncapital Financing Activities		54,569
Investing Activities		(9,126)
Net Increase (Decrease)		43,253
Beginning Cash and Cash Equivalents		102,439
Ending Cash and Cash Equivalents	$	145,692

NOTE 20. COMPONENT UNITS – CONDENSED FINANCIAL INFORMATION

Significant financial data for the State's five discretely presented component units for the year ended December 31, 2003 or June 30, 2004 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, Inc.	Total
Condensed Balance Sheet						
Assets:						
Cash, Investments and Other Assets	$ 2,462,826	$ 89,095	$ 172,438	$ 1,796,284	$ 5,881	$ 4,526,524
Due from Primary Government	--	--	2,548	--	131	2,678
Cash and Investments with Other Component Units	--	--	187,584	--	--	187,584
Capital Assets, Net	19,569	--	242,938	7,818	36,946	307,272
Total Assets	$ 2,482,395	$ 89,095	$ 605,508	$ 1,804,102	$ 42,958	$ 5,024,058
Liabilities:						
Accounts Payable and Other Current Liabilities	$ 138,315	$ 35,777	$ 50,592	$ 294,099	$ 890	$ 519,673
Due to Primary Government	2,399	14	3,451	--	90	5,954
Amounts Held for Other Component Units	--	--	--	172,191	--	172,191
Long-term Liabilities (Current and Noncurrent Portions)	1,959,188	43,760	284,316	2,792	40,924	2,330,982
Total Liabilities	2,099,902	79,551	338,359	469,082	41,905	3,028,799
Fund Equity:						
Invested in Capital Assets, Net of Related Debt	1,180	--	86,374	7,818	(3,343)	92,029
Restricted	217,980	9,544	11,279	1,227,680	--	1,466,484
Unrestricted	163,333	--	169,496	99,521	4,396	436,746
Total Fund Equity	382,493	9,544	267,149	1,335,019	1,053	1,995,259
Total Liabilities and Fund Equity	$ 2,482,395	$ 89,095	$ 605,508	$ 1,804,102	$ 42,958	$ 5,024,058
Condensed Statement of Revenues, Expenses and Changes in Fund Equity						
Program Expenses:						
Depreciation	$ 5,633	$ --	$ 25,262	$ 313	$ 1,012	$ 32,221
Payments to Primary Government	--	--	725	98,587	--	99,312
Other	244,287	11,022	561,250	29,642	4,427	850,627
Total Program Expenses	249,920	11,022	587,237	128,542	5,439	982,160
Program Revenues:						
Charges for Services	3,457	2,676	595,358	--	3,828	605,319
Investment and Interest Income	105,347	7,138	--	236,516	--	349,001
Operating Grants and Contributions	128,724	--	1,006	160,426	--	290,156
Capital Grants and Contributions	--	--	6,028	--	--	6,028
Other	10,496	673	11,567	161	143	23,041
Total Program Revenues	248,024	10,487	613,959	397,103	3,971	1,273,545
Net Program Revenue/(Expense)	(1,896)	(535)	26,722	268,562	(1,468)	291,385
General Revenues:						
Interest and Investment Earnings	26,024	--	13,325	--	--	39,349
Change in Fund Equity	24,128	(535)	40,047	268,562	(1,468)	330,734
Fund Equity, Beginning of Year	358,365	10,080	227,102	1,066,457	2,521	1,664,525
Fund Equity, End of Year	$ 382,493	$ 9,544	$ 267,149	$ 1,335,019	$ 1,053	$ 1,995,259

NOTE 21. 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 2003 Comprehensive Annual Financial Report to the beginning-of-year fund balances/fund equity/net assets reported for Fiscal Year 2004 (in thousands).

A. Fund Statements – Governmental Funds

	Major Funds			
	General	Transportation	Nonmajor Funds	Total Governmental
Fund Balances June 30, 2003 as reported in the 2003 Comprehensive Annual Financial Report	$ (2,242,539)	$ 386,363	$ 552,872	$ (1,303,304)
Adoption of GASB Technical Bulletin No. 2004-1 *Tobacco Settlement Recognition and Financial Reporting Entity Issues*	-	-	234,812	234,812
Other adjustments of assets and liabilities as of June 30, 2003	3,682	-	7,048	10,730
Fund Balances July 1, 2003 as restated	$ (2,238,857)	$ 386,363	$ 794,732	$ (1,057,762)
Effect of prior period adjustments on the amount of excess revenues and other sources over expenditures and other uses of Fiscal Year 2003	$ 5,071	$ -	$ 6,835	$ 11,906

B. Fund Statements – Proprietary Funds

	Major Funds							
	Injured Patients and Families Compensation	Environmental Improvement	Veterans Mortgage Loan Repayment	University of Wisconsin System	Unemployment Reserve	Nonmajor Funds	Total Enterprise	Internal Service Funds
Fund Equity June 30, 2003 as reported in the 2003 Comprehensive Annual Financial Report	$ 7,932	$ 984,052	$ 66,996	$ 3,505,961	$ 1,217,032	$ 365,965	$ 6,147,938	$ (4,539)
Other adjustments of assets and liabilities as of June 30, 2003	-	-	(1,265)	1,749	(1,227)	590	(153)	1,395
Fund Equity July 1, 2003 as restated	$ 7,932	$ 984,052	$ 65,731	$ 3,507,710	$ 1,215,805	$ 366,555	$ 6,147,786	$ (3,143)
Effect of prior period adjustments on the amount of net change in fund equity of Fiscal Year 2003	$ -	$ -	$ -	$ -	$ (1,227)	$ 1,098	$ (129)	$ (1,529)

C. Fund Statements – Fiduciary Funds

	Pension and Other Employee Benefit Trust	Investment Trust	Private Purpose Trust	Total Fiduciary
Net Assets June 30, 2003 as reported in the 2003 Comprehensive Annual Financial Report	$ 56,244,962	$ 3,560,178	$ 893,884	$ 60,699,024
Other adjustments of assets and liabilities as of June 30, 2003	5	-	(5)	-
Net Assets July 1, 2003 as restated	$ 56,244,967	$ 3,560,178	$ 893,878	$ 60,699,024
Effect of prior period adjustments on the amount of net increase in net assets of Fiscal Year 2003	$ -	$ -	$ -	$ -

D. Government-wide Statements

	Primary Government			
	Governmental Activities	Business-type Activities	Totals	Component Units
Net Assets June 30, 2003 as reported in the 2003 Comprehensive Annual Financial Report	$ 6,947,758	$ 6,145,416	$ 13,093,174	$ (633,369)
Adoption of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units,* Addition of University of Wisconsin Foundation	-	-	-	1,139,313
Adoption of GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*	(1,309,976)	-	(1,309,976)	1,309,976
University of Wisconsin Hospital and Clinics Authority Cummulative effect of change in accounting principle for pension liability	-	-	-	(81,061)
Inclusion of State Fair Park Exposition Center as a component unit of the State	-	-	-	2,521
Other adjustments of assets and liabilities of June 30, 2003	10,120	(153)	9,968	-
Net Assets July 1, 2003 as restated	$ 5,647,902	$ 6,145,263	$ 11,793,165	$ 1,737,381
Effect of prior period adjustments on the amount of net increase in net assets of Fiscal Year 2003	$ 12,016	$ (129)	$ 11,888	$ -

NOTE 22. 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 $2.1 million on June 30, 2004 reported in the governmental activities, are discussed below:

Litigation - The Department of Health and Family Services is involved in various legal proceedings where the ultimate disposition is estimated at $0.5 million.

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 to the above individuals totaled $1.6 million at June 30, 2004.

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 impact the State by approximately $9.6 million. 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, except as noted below.

Corporate Tax Measured by Interest from U.S. Securities - In this corporate franchise tax case, American Family Mutual Insurance Company and American Standard Insurance Company sought refunds of taxes paid that were measured by U.S. interest.

Federal law prohibits an income tax on U.S. interest, but allows a non-discriminatory franchise tax measured on U.S. interest. The insurance companies argued that because bonds authorized by the State for housing and development were exempt from State taxes, that the franchise tax was discriminatory. The State had heretofore held that the exemption applied only to direct State taxes and had uniformly included interest on the State authorized bonds in the franchise tax measure. The Wisconsin Tax Appeals Commission and the County Circuit Court upheld the State.

The Court of Appeals, District IV, reversed the decisions. The Supreme Court reversed the Court of Appeals. The taxpayers maintain that the decision is not applicable to 1993 and 1994. The State maintains the principles of the decision are applicable to the subsequent years.

Due to the uncertainty in predicting the outcome, a liability has not been recorded as of June 30, 2004.

Federal Pension Income – The 1984-1988 period settlements with approximately 3,200 military retirees and 14,000 civilian retirees, triggered by the United States Supreme Court ruling in Davis v. Michigan Department of the Treasury are essentially completed. The Davis case had held that a state government violates the intergovernmental tax immunity clause when it provided for taxation of federal pension benefits. Subsequent litigation with other retirees on a variety of issues has occurred, with the Department prevailing in all instances. Litigation is still in progress on a limited number of issues. The Department of Revenue is confident that it will continue to prevail on this issue. Because a fiscal impact cannot be readily determined if the State were not to prevail, and due to the uncertainty in predicting the outcome, a liability has not been recorded.

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. Fourteen sites have soil and/or groundwater contamination associated with underground storage tank releases with an estimated remediation cost of $2.4 million.

The State is also involved in environmental remediations on five properties that do not involve releases from underground storage tanks, with an estimated cost of $2.5 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, 2004 reported as Fund Balance - Reserved for Encumbrances, additional obligations at June 30, 2004 representing multi-year, long-term commitments included (in thousands):

Transportation Fund	$ 291,527
Transportation Revenue Bonds Capital Projects Fund	41,252
General Fund – Department of Commerce programs, including economic and community development programs	30

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 $133.3 million as of June 30, 2004. 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 has defaulted on $600 thousand in annuity payments. The total estimated replacement value of the fund's annuities as of June 30, 2004 was $140.1 million. 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, 2004, the appropriation available totaled $31.8 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 $15.0 million as of June 30, 2004. 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, 2004, outstanding loan guarantees totaled $38.2 million.

NOTE 23. SUBSEQUENT EVENTS

Primary Government

Long-term Debt

State of Wisconsin General Obligation Bonds – In July 2004, the State issued a $1.0 million general obligation term bond 2004, Series B to be used to fund veterans home improvement loans. Interest is payable May 1 and November 1, beginning May 1, 2005 with mandatory sinking fund payments beginning November 1, 2005 to the stated maturity date November 1, 2014.

In July 2004, the State issued $117.2 million of general obligation bonds Series 4 to be used to refund various outstanding general obligation bonds. Interest is payable May 1 and November 1, beginning November 1, 2004, with bonds maturing May 1 of the years 2006 though 2020.

In July 2004, the State issued a $1.0 million general obligation term bond 2004, Series C to be used to fund veterans home improvement loans. Interest is payable May 1 and November 1, beginning May 1, 2005 with mandatory sinking fund payments beginning November 1, 2005 to the stated maturity date November 1, 2019.

In August 2004, the State issued a $20.0 million general obligation term bond 2004, Series D to be used to fund veterans primary mortgage home loans. Interest is payable May 1 and November 1, beginning May 1, 2005 with mandatory sinking fund payments beginning November 1, 2005 to the stated maturity date November 1, 2034.

In October 2004, the State issued $225.0 million of 2004 Series E general obligation bonds to be used for the acquisition, construction, development, extension, enlargement, or improvement of land, water, property, highways, buildings, equipment, or facilities for public purposes. Interest is payable on May 1 and November 1, beginning May 1, 2005, with bonds maturing May 1, of the years 2006 through 2025.

In October 2004, the Environmental Improvement Fund exchanged $116.8 million global certificate 1 for $116.8 global certificate 2. Interest is payable May 1 and November 1, beginning November 1, 2005 with principal installments beginning November 1, 2009 through May 1, 2024.

In November 2004, the State redeemed early $42.0 million of various outstanding veterans loan general obligation bonds pursuant to the redemption provisions of those bonds. The bonds were redeemed from mortgage prepayments and undisbursed bond proceeds.

Revenue Bonds – In September 2004, the Department of Transportation issued $95.9 million of 2004 Series 1 transportation revenue refunding bonds. The proceeds were deposited in an escrow account to provide for future debt service and redemption of $97.5 million of various outstanding revenue bonds.

On June 1, 2004, Badger Tobacco Asset Securitization Corporation (BTASC) redeemed $40.3 million of the 6.125 percent term bonds due June 1, 2027. Pursuant to the indenture, the bonds were redeemed with collections that had been deposited into the Turbo Redemption Account. Subject to conditions outlined in the indenture, turbo term bonds shall be redeemed in whole or in part prior to their stated maturity and on any distribution date from amounts on deposit in the Redemption Account.

Component Units

Wisconsin Housing and Economic Development Authority – In July 2004, the Authority issued $150.0 million of the Variable Rate Demand Home Ownership Revenue Bonds, 2004 Series C and D. These bonds were issued under the 1988 Home Ownership Revenue Bond Resolution.

In July 2004, the Authority redeemed the following bonds (in thousands):

Program/Bond Resolution	Amount Redeemed
Housing Revenue Bonds, 1991 Series F, G, H & I	$ 1,485
Home Ownership Revenue Bonds, 1994 Series C & D	2,150
General Obligation Bonds, 1995 Series 4	120
Home Ownership Revenue Bonds, 1998 Series F & G	2,975

In August 2004, the Authority redeemed the following bonds (in thousands):

Program/Bond Resolution	Amount Redeemed
Housing Revenue Bonds, 1993 Series C	$ 1,710
Housing Revenue Bonds, 2002 Series A, B & C	2,730

Required Supplementary Information

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)
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)
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. Actual costs for the year ended June 30, 2004 reflect a shift from maintenance and preservation projects to capital road construction projects that was not anticipated in the cost estimates. In addition, the State of Wisconsin, Department of Transportation's multi-year budgeting 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 State has adopted the National Bridge Inventory (NBI) 10-point rating scale as its primary condition measure. Using the Federal Highway Administration's definition, a bridge is considered "structurally deficient" if it has an NBI score of 4 or less on its deck, superstructure, or substructure. "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)
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)
2004	$ 47.8	$ 52.3	$ (4.5)
2003	46.4	45.7	0.7
2002	33.6	38.4	(4.8)

Additional bridge maintenance and preservation projects were planned and completed during the year ended June 30, 2004. The State of Wisconsin, Department of Transportation's multi-year budgeting 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.

Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2004

(In Thousands)

	Original Budget	Final Budget	Actual Amounts
Unexpended Budgetary Fund Balances, Beginning of Year			$ 336,069
Revenues and Transfers (Inflows):			
Taxes	$ 10,768,445	$ 10,690,220	10,759,514
Departmental:			
Tribal Gaming	78,306	80,277	48,012
Other	11,204,484	11,315,162	11,233,416
Transfers from:			
Transportation Fund	103,684	103,684	103,684
Injured Patients and Families Compensation Fund	2	2	2
Nonmajor Funds	30,975	30,975	30,975
Total Revenues and Transfers (Inflows)	22,185,895	22,220,319	22,175,603
Amounts Available for Appropriation			22,511,672
Appropriations (Outflows):			
Commerce	322,491	430,433	281,365
Education	9,366,406	9,690,810	9,313,248
Environmental Resources	267,288	211,692	185,103
Human Relations and Resources	7,979,338	8,622,278	7,931,806
General Executive	654,126	2,272,170	2,106,234
Judicial	110,971	112,778	110,904
Legislative	62,470	59,790	59,304
Tax Relief and Other General	1,688,231	1,679,595	1,673,811
Transfers to:			
Medical Assistance Trust Fund	-	123,500	123,500
Total Appropriations (Outflows)	$ 20,451,321	$ 23,203,046	21,785,274
Fund Balances, End of Year			726,398
Less Encumbrances Outstanding at June 30, 2004			(547,835)
Fund Balances, End of Year Budgetary Basis			$ 178,564

During Fiscal Year 2004, $59.3 million in expenditures that were incurred in the first year of the biennium (Fiscal Year 2004) were moved to the second year of the biennium (Fiscal Year 2005). This accounting treatment of biennial expenditures was reflected in the State's Fiscal Year 2004 Annual Fiscal Report (budgetary report). The Budgetary Comparison Schedule, above, mirrors the annual budgetary report and, therefore, it displays data on the budgetary basis and not on a basis consistent with generally accepted accounting principles.

Budgetary Comparison Schedule
Transportation Fund
For the Fiscal Year Ended June 30, 2004

(In Thousands)

	Original Budget	Final Budget	Actual Amounts
Unexpended Budgetary Fund Balances, Beginning of Year			$ 402,071
Revenues (Inflows):			
Taxes	$ 959,594	$ 959,594	959,594
Departmental	1,336,400	1,336,400	1,336,400
Total Revenues (Inflows)	2,295,994	2,295,994	2,295,994
Amounts Available for Appropriation			2,698,065
Appropriations and Transfers (Outflows):			
Commerce	91	97	97
Education	40,000	40,000	40,000
Environmental Resources	2,947,784	3,323,162	1,929,512
General Executive	4,179	2,318	2,240
Tax Relief and Other General	248,938	248,941	248,941
Transfers to:			
General Fund	103,684	103,684	103,684
Total Appropriations and Transfers (Outflows)	$ 3,344,675	$ 3,718,202	2,324,474
Fund Balances, End of Year			373,591
Less Encumbrances Outstanding at June 30, 2004			(1,103,793)
Fund Balances, End of Year Budgetary Basis			$ (730,203)

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, 2004 is presented below (in thousands):

	General Fund	Transportation Fund
Fund balance June 30, 2004 (budgetary basis – budgetary fund structure)		
As reported on the budgetary comparison schedule	$ 178,564	$ (730,203)
Reclassifications:		
To eliminate the effect of encumbrances that were reported as expenditures under budgetary reporting (basis difference)	547,835	1,103,793
To reclassify activities reported in another GAAP fund type (perspective differences):		
Enterprise funds (except for the University of Wisconsin System)	14,752	--
University of Wisconsin System	(236,013)	--
Internal service funds	(10,650)	--
Fiduciary funds	(45,894)	--
Transportation Revenue Bonds debt service fund	--	1,965
Fund balance June 30, 2004 (GAAP fund structure – budgetary basis, excluding encumbrances treated as expenditures at year end)	448,593	375,556
Adjustments (basis differences):		
To adjust expenditures for the municipal and county shared revenue program	(453,881)	--
To adjust expenditures for State property tax credit program	(354,704)	--
To accrue receivables and establish payables for individual income taxes (net)	(742,362)	--
To defer revenues for gross receipts public utility taxes	(170,157)	--
To adjust revenues and expenditures for tax-related items and other tax credit/aid programs (net)	(294,597)	(9,614)
To accrue unpaid Medicaid claims to providers (net of receivable from federal government)	(121,119)	--
To adjust expenditures/revenues for certain major Health and Family Services and Workforce Development human services payments to local governments	(169,151)	--
To accrue State educational aids payments deferred until the subsequent year	(75,000)	--
To adjust revenues and expenditures for other items (net)	1,271	(17,936)
Fund balance June 30, 2004 (GAAP fund structure – GAAP basis) as reported on the governmental fund statements	$(1,931,108)	$ 348,006

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. Consequently, 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. A special revenue fund, the Wisconsin Public Broadcasting Foundation, has also been excluded from reporting because it is a blended component unit that is 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 July 2003. 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.