WISCONSIN

GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS

For the fiscal year ended June 30, 2006

STATE OF
WISCONSIN

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For the fiscal year ended June 30, 2006

Jim Doyle, Governor

Department of Administration
Stephen E. Bablitch, Secretary
William J. Raftery, State Controller

Prepared by the State Controller's Office DOA-6082AP (R12/06)

State of Wisconsin

General Purpose External Financial Statements
For the Fiscal Year Ended June 30, 2006

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WISCONSIN DEPARTMENT OF
ADMINISTRATION

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December 15, 2006

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, 2006.

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,

Stephen E. Bablitch
Secretary

William J. Raftery, CPA
State Controller

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Janice Mueller
State Auditor

INDEPENDENT AUDITOR'S REPORT

Honorable Members of the Legislature

The Honorable James Doyle, Governor

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Wisconsin as of and for the year ended June 30, 2006, 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 2 percent of the expenditures of the aggregate remaining fund information; the Badger Tobacco Asset Securitization Fund, which represents 10 percent of the liabilities of the governmental activities; the Environmental Improvement Fund, which is a major fund and represents 18 percent of the assets and 19 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 referred to in the first paragraph 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, 2006, 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 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 schedules 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 15, 2006, on our consideration of the State of Wisconsin's internal control over financial reporting; tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report on internal control and compliance is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

LEGISLATIVE AUDIT BUREAU

December 15, 2006 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, 2006. 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 2006 by $12.0 billion (reported as "net assets"). Of this amount, $(8.1) billion was reported as "unrestricted net assets". A positive balance in unrestricted net assets would represent the amount available to be used to meet a government's ongoing obligations to citizens and creditors.
- *Changes in Net Assets.* The State's total net assets increased by $0.5 billion in Fiscal Year 2006. Net assets of governmental activities increased by $176.2 million or 3.5 percent, while net assets of the business-type activities showed an increase of $297.1 million or 4.6 percent.
- *Excess of Revenues over (under) Expenses -- Governmental Activities.* During Fiscal Year 2006, the State's total revenues for governmental activities of $21.46 billion were $1.2 billion more than total expenses (excluding transfers) for governmental activities of $20.28 billion. Of these expenses, $7.8 billion were covered by program revenues. General revenues, generated primarily from various taxes, totaled $13.6 billion.

Fund

- *Governmental Funds -- Fund Balances.* As of the close of Fiscal Year 2006, the State's governmental funds reported combined ending fund balances of $(968.9) million, a decrease of $137.4 million in comparison with the prior year. Of this total amount, $(3.1) 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 $(2.5) billion, or (14.7) percent of total General Fund expenditures.

Long-term Debt

- The State's total long-term debt obligations (bonds and notes payable) increased by $352.9 million during the current fiscal year which represents the net difference between new issuances, payments and refundings of outstanding debt. The key factors contributing to this increase are the issuance during the fiscal year of $662.9 million of general obligation bonds and $80.0 million of revenue bond obligations, and the early redemptions and refundings of general obligation and revenue bonds. Additional detail regarding these activities begins on Page 17.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

(Table 1, continued)

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

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

Additional Required Supplementary Information

In addition to this Management's Discussion and Analysis, which is required supplementary information, the basic financial statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements. The required supplementary information includes (1) 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, 2006 were $30.5 billion, while total liabilities were $18.5 billion, resulting in combined net assets (government and business-type activities) of $12.0 billion. The largest component of the State's total net assets, $15.5 billion or approximately 129.6 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 $4.6 billion of net assets were restricted by external sources or the State Constitution or Statutes, and were not available to finance the day-to-day operations of the State.

The unrestricted net assets, which, if positive, could be used at the State's discretion, showed a negative balance of $(8.1) billion. Therefore, based on this measurement, no funds were available for discretionary purposes. A contributing factor to the negative balance is that governments recognize a liability on the government-wide statement of net assets as soon as an obligation is incurred. While financing focuses on when a liability will be paid, accounting is primarily concerned with when a liability is incurred. Accordingly, the State recognizes long-term liabilities (such as general obligation debt, compensated absences, and future benefits and loss liabilities – listed in Note 10 to the financial statements) on the statement of net assets. In addition to the effect of reporting long-term liabilities when incurred, the General Fund's total deficit fund balance of $(2.2) 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 2006, the State issued $0.7 billion of general obligation bonds, primarily for the acquisition or improvement of land, water, property, highways, buildings, and equipment, the refunding of certain outstanding bonds, and the funding of veterans loan programs. General obligation bonds outstanding at June 30, 2006 totaled $4.9 billion. Outstanding appropriation bonds, issued in Fiscal Year 2004 to pay the State's unfunded accrued prior service (pension) liability and its unfunded accrued liability for sick leave conversion credits, were $1.8 billion at June 30, 2006. Outstanding revenue bonds, which are not considered general obligation debt of the State, were $3.8 billion at June 30, 2006.

Table 2
Net Assets
(in millions)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2006	2005	2006	2005	2006	2005	2006-2005
Current and Other Assets	$ 5,026.1	$ 5,021.2	$ 6,680.5	$ 6,570.7	$ 11,706.7	$ 11,591.8	1.0 %
Capital Assets	15,007.0	14,378.1	3,807.8	3,546.2	18,814.8	17,924.3	5.0
Total Assets	20,033.2	19,399.3	10,488.3	10,116.9	30,521.5	29,516.1	3.4
Long-term Liabilities	9,265.5	8,942.4	3,052.5	2,997.2	12,318.0	11,939.6	3.2
Other Liabilities	5,496.8	5,362.2	715.3	696.3	6,212.1	6,058.5	2.5
Total Liabilities	14,762.3	14,304.6	3,767.8	3,693.5	18,530.2	17,998.2	3.0
Net Assets:							
Invested in Capital Assets Net of Related Debt	12,291.6	11,492.9	3,243.6	3,013.5	15,535.3	14,506.4	7.1
Restricted	1,218.0	1,314.9	3,336.8	3,222.6	4,554.8	4,537.6	0.4
Unrestricted (deficit)	(8,238.8)	(7,713.2)	140.0	187.2	(8,098.7)	(7,526.0)	7.6
Total Net Assets	$ 5,270.9	$ 5,094.6	$ 6,720.5	$ 6,423.3	$ 11,991.3	$ 11,518.0	4.1

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 $13.5 billion and general revenues of $13.7 billion for total revenues of $27.2 billion during Fiscal Year 2006. Expenses for the State during Fiscal Year 2006 were $26.7 billion. As a result of the excess of revenues over expenses, the total net assets of the State increased $0.5 billion, net of contributions and transfers.

Table 3
Changes in Net Assets
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	2006	2005	2006	2005	2006	2005	2006-2005
Program Revenues:							
Charges for Goods and Services	$ 1,518.6	$ 1,324.7	$ 5,311.3	$ 5,187.9	$ 6,829.9	$ 6,512.7	4.9 %
Operating Grants and Contributions	5,723.5	5,826.3	332.4	356.7	6,055.9	6,183.0	(2.1)
Capital Grants and Contributions	600.7	666.8	35.7	34.5	636.4	701.4	(9.3)
General Revenues:							
Income Taxes	6,867.0	6,467.4	-	-	6,867.0	6,467.4	6.2
Sales and Excise Taxes	4,489.7	4,395.3	-	-	4,489.7	4,395.3	2.1
Public Utility Taxes	250.1	255.7	-	-	250.1	255.7	(2.2)
Motor Fuel Taxes	990.7	989.6	-	-	990.7	989.6	0.1
Other Taxes	565.3	564.6	-	-	565.3	564.6	0.1
Other General Revenues	456.4	466.8	58.8	9.6	515.2	476.4	8.1
Total Revenues	21,461.9	20,957.2	5,738.2	5,588.8	27,200.1	26,546.0	2.5
Program Expenses:							
Commerce	267.2	257.1	-	-	267.2	257.1	3.9
Education	6,270.2	5,818.4	-	-	6,270.2	5,818.4	7.8
Transportation	1,774.2	1,801.6	-	-	1,774.2	1,801.6	(1.5)
Environmental Resources	467.0	418.6	-	-	467.0	418.6	11.6
Human Relations and Resources	8,436.7	8,434.9	-	-	8,436.7	8,434.9	0.0
General Executive	542.3	478.8	-	-	542.3	478.8	13.3
Judicial	114.9	111.7	-	-	114.9	111.7	2.8
Legislative	59.9	57.0	-	-	59.9	57.0	5.1
Tax Relief and Other General Expenditures	857.9	838.0	-	-	857.9	838.0	2.4
Intergovernmental - Shared Revenue	1,016.7	1,011.1	-	-	1,016.7	1,011.1	0.6
Interest on Long-term Debt	477.5	424.2	-	-	477.5	424.2	12.6
Injured Patients and Families Compensation	-	-	(2.3)	77.6	(2.3)	77.6	(103.0)
Environmental Improvement	-	-	42.8	39.5	42.8	39.5	8.3
Veterans Mortgage Loan Repayment	-	-	25.8	29.1	25.8	29.1	(11.3)
University of Wisconsin System	-	-	3,519.7	3,425.0	3,519.7	3,425.0	2.8
Unemployment Reserve	-	-	821.1	844.9	821.1	844.9	(2.8)
Lottery	-	-	481.3	451.8	481.3	451.8	6.5
Health Insurance	-	-	983.7	896.6	983.7	896.6	9.7
Other Business-type	-	-	592.1	582.1	592.1	582.1	1.7
Total Expenses	20,284.4	19,651.3	6,464.2	6,346.7	26,748.6	25,998.0	2.9
Excess (deficiency) before Contributions and Transfers	1,177.5	1,305.9	(726.0)	(757.9)	451.5	548.0	17.6
Contributions to Term and Permanent Endowments	-	-	0.2	0.6	0.2	0.6	(62.9)
Contributions to Permanent Fund Principal	21.6	20.1	-	-	21.6	20.1	7.5
Transfers	(1,022.9)	(1,008.2)	1,022.9	1,008.3	-	0.1	
Increase (decrease) in Net Assets	176.2	317.9	297.1	251.0	473.4	568.9	16.8
Net Assets - Beginning (Restated)	5,094.6	4,776.7	6,423.3	6,172.3	11,518.0	10,949.1	5.2
Net Assets - Ending	$ 5,270.9	$ 5,094.6	$ 6,720.5	$ 6,423.3	$ 11,991.3	$ 11,518.0	4.1

Governmental Activities

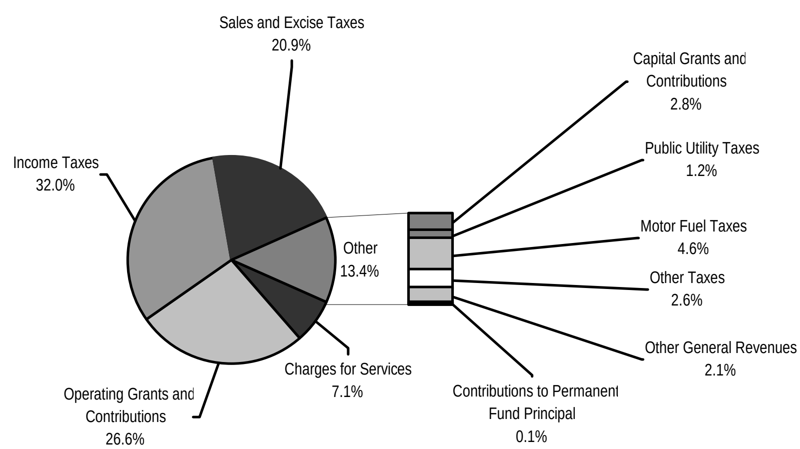
The net assets of governmental activities increased $0.2 billion in Fiscal Year 2006. Revenues for the governmental activities (including Contributions to Permanent Fund Principal) totaled $21.5 billion, while expenses and net transfers totaled $21.3 billion in 2006.

General and program revenues of governmental activities increased $504.7 million during this fiscal year. The largest increase, $490.1 million, relates to tax revenues which largely was the result of an increase in income tax revenues due to the growth in employment and wages in the State.

The State's governmental activities program expenses increased $633.1 million during Fiscal Year 2006. Education expenditures grew $451.8 million, a significant portion of which reflects an increase in state aids paid to schools.

As shown in Table 4, below, approximately 61.3 percent of revenues from all sources earned came from taxes (sales and excise, income, public utility, motor fuel, and other taxes). Operating grants and contributions, which represent amounts received from other governments/entities – primarily the federal government – for non-capital purposes provided 26.6 percent of total revenues. Charges for services contributed 7.1 percent, and various other revenues provided 5.0 percent of the remaining governmental activity revenue sources.

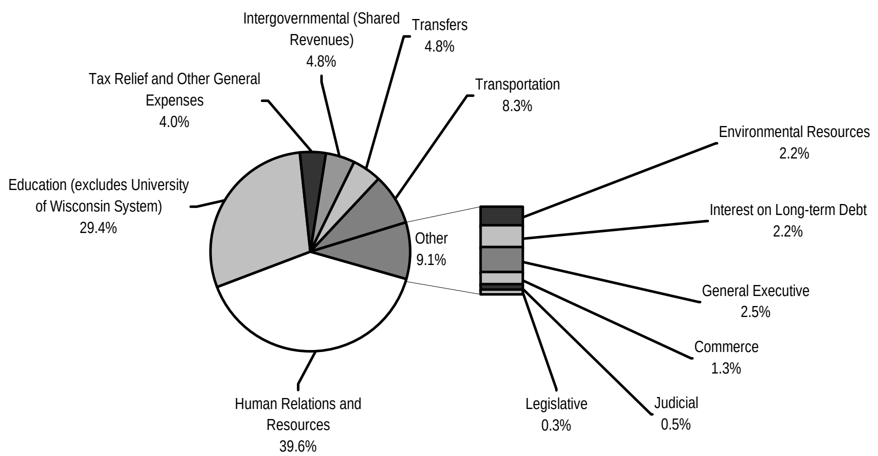
Table 4
Governmental Activities - 2006 Revenues



As shown in Table 5, below, expenses for Human Relations and Resources programs make up the largest portion – 39.6 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 29.4 percent. Tax Relief and Other General Expenses and the municipal and county shared revenue program represent 8.8 percent of the total, while Transportation expenses represent 8.3 percent. Net transfers to business-type activities, which include a general purpose revenue "GPR" subsidy to the University of Wisconsin System, make up 4.8 percent of the total expenses/transfers. The interest on long-term debt and remaining functional expenses total 9.1 percent.

Table 5
Governmental Activities - 2006 Expenses



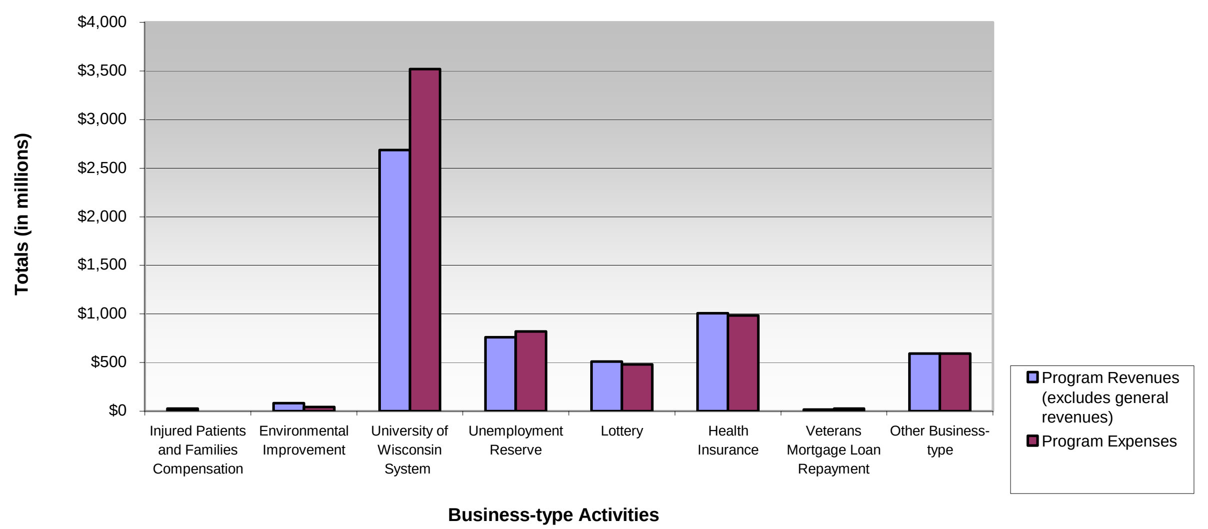
Business-Type Activities

Net assets of the State's business-type activities increased $297.1 million in Fiscal Year 2006. Total business-type program revenues and expenses increased $100.2 million and $117.5 million, respectively. An increase of 7 percent in tuition at the University of Wisconsin System was a contributing factor to the increase in business-type program revenues. Correspondingly, the largest increase in program expenses, $94.7 million, also related to University activity.

Revenues of business-type activities totaled $5.7 billion for Fiscal Year 2006. The program revenues consisted of $5.3 billion of charges for services, $0.3 billion of operating grants and contributions, and $35.7 million of capital grants and contributions. General revenues, contributions to endowments and permanent fund principal, and net transfers totaled $58.8 million, $0.2 million, and $1,022.9 million, respectively. The total expenses for business-type activities were $6.5 billion.

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

Table 6
Fiscal Year 2006
Business-type Activities
Comparison of Program Revenues to Program Expenses



FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

Governmental Funds

At the end of Fiscal Year 2006, the State's governmental funds reported a negative combined fund balance of $(968.9) 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 2006, the State's General Fund reported a total fund deficit of $(2,150.5) million. The net change in fund balance during Fiscal Year 2006 was $(8.5) million, in contrast to $(223.1) million in Fiscal Year 2005. Major revenue, expenditure and other sources/uses contributing to the change in fund balance are as follows:

Revenues

Revenues of the General Fund totaled $18,238.8 million in Fiscal Year 2006, an increase of $599.6 million from Fiscal Year 2005. Factors contributing to the increase included the following:

- Revenues from taxes increased $527.1 million from Fiscal Year 2005 to Fiscal Year 2006. The most significant increase related to individual income tax withholdings, which increased $390.4 million or 7.0 percent, and estimated individual income tax payments, which increased $102.5 million or 11.1 percent. These increases were due to the growth in employment and wages in the State during that period. In addition, sales tax collections increased 2.2 percent, or approximately $89.2 million from Fiscal Year 2005 to Fiscal Year 2006.

- Intergovernmental revenues (e.g., federal assistance) decreased $126.3 million in Fiscal Year 2006, primarily due to a decrease in expenditures that were eligible for Federal reimbursement. The most significant changes related to intergovernmental revenues for human relations and resources programs, which decreased $210.0 million, while those covering education programs increased $60.6 million.

- Charges for goods and services increased $130.4 million in Fiscal Year 2006. The majority of this change, $90.9 million, resulted from increased collections from the tribal gaming operations in the State.

- Other revenues, such as licenses and permits, and gifts and grants increased $68.4 million.

Expenditures

Expenditures of the General Fund totaled $17,020.7 million in Fiscal Year 2006, an increase of $278.8 million from Fiscal Year 2005. The factors contributing to the increase included the following:

- An increase in education expenditures of $437.7 million primarily resulted from an increase in State aids to schools of $368.2 in Fiscal Year 2006.

- A decrease in human relations and resources expenditures of $225.3 million, which occurred primarily because of the shift of a portion of medical assistance payments from the General Fund to the Medical Assistance Trust Fund. Wisconsin, along with other states, continues to struggle with increasing Medical Assistance costs.

- Other expenditures increased $66.5 million.

Other Financing Sources and Uses

Other financing sources/uses and increases/decreases totaled a net $(1,226.6) million in Fiscal Year 2006, a change of $106.4 million from the prior year. The components of this change included the following:

- Transfers in of the General Fund increased by $128.7 million to $513.8 million in Fiscal Year 2006.

  The majority of the 2006 transfers in, $390.8 million, related to the statutory mandated transfers from the Transportation, Utility Public Benefits, Petroleum Inspection, Environmental and Recycling funds, as required by 2005 Wisconsin Act 25.

  In Fiscal Year 2005, the State had transferred to the General Fund $170.0 million from the Transportation Fund and $20.0 million from the Utility Public Benefits Fund to fund a portion of the Fiscal Year 2005 shared revenue payments to local governments. No similar transfers were made in Fiscal Year 2006.

- Transfers out of the General Fund totaled $1,743.5 million, an increase of $232.8 million from the prior year. The majority of this change relates to an increase in transfers to the Medical Assistance Trust Fund of $178.4 million in Fiscal Year 2006.

- Other financing sources/uses and other increases/decreases resulted in a net decrease to fund balance of $2.2 million from the prior fiscal year.

As of June 30, 2006, the General Fund reported a deficit of $(2,506.9) million in its “Unreserved” Fund Balance. This compares to a General Fund Unreserved Fund Deficit of $(2,459.5) million as of June 30, 2005. 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 $1.2 billion increase in appropriations). This was due primarily to the fact that several of the State’s programs and various transfers (including the transfer to the Medical Assistance Trust Fund and Food Stamps - see the items denoted with *, below) are not included in the original budget. In addition, numerous adjustments to spending estimates were needed as the year progressed because of changing circumstances (spending needs can change dramatically over a one-year period). The largest variances incurred in the following appropriations (in millions):

Program	Variance
Department of Public Instruction Federal Aids; Local Aids	$ 56.2
Medical Assistance Program Benefits	64.8
Food Stamps, Electronic Benefit Transfer	343.0 *
GPR Funds General Program Supplement	(58.2)
Transfer to Medical Assistance Trust Fund	341.8 *

Actual charges to appropriations (expenditures) were $1.5 billion below the final budgeted estimates. The most significant positive variance occurred in UW System Federal Aid – Special Projects ($83.4 million).

During the past fiscal year the budgetary-based fund balance increased by $205.3 million for the General Fund, primarily due to an increase in tax collections.

Transportation Fund

In Fiscal Year 2006, the Transportation Fund reported a net change in fund balance of $(26.1) million as compared to $16.3 million in Fiscal Year 2005, a decrease of $42.4 million.

An increase in transfers out of $53.8 million from 2005 to 2006 was the largest contributing factor for the decrease. Under 2005 Wisconsin Act 25, $338.4 million was transferred to the General Fund in Fiscal Year 2006 compared to $78.9 million transferred under 2003 Wisconsin Act 33 in 2005.

In contrast, in Fiscal Year 2005, the Transportation Fund transferred to the General Fund $170.0 million to fund a portion of the 2005 shared revenue payments to local governments. No similar transfer was made in Fiscal Year 2006.

Transportation maintenance and capital outlay expenditures, which are funded with general obligation bonds and reported in the Capital Improvement (a capital projects fund) rather than the Transportation Fund, totaled $320.2 million in Fiscal Year 2006, an increase of $31.3 million from Fiscal Year 2005.

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 $(25.6) million. Revenues in the fund decreased by $88.9 million, primarily due to the elimination of intergovernmental transfers received by this fund. Expenditures increased by $229.3 million, due to the shift of a portion of Medical Assistance costs from the General Fund. The reduction of revenues in Fiscal Year 2006 has been partially offset through increased transfers from the General Fund ($175.9 million in Fiscal Year 2005 compared to $303.4 million in Fiscal Year 2006, an increase of $127.5 million).

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 2005 to Fiscal Year 2006 include the following:

- In Fiscal Year 2006, the future benefits and loss liabilities of the Injured Patients and Families Compensation Fund decreased $36.0 million or 5.0 percent from Fiscal Year 2005, reflecting a modification in the methodology for projection of those costs. Correspondingly, benefit expenses decreased $79.9 million in 2006, contributing to an increase in operating income of $21.1 million.

- The Environmental Improvement Fund issued new revenue bonds of $80.0 million in Fiscal Year 2006, which contributed to a net increase of the fund's liabilities of $38.6 million or approximately 5.9 percent over Fiscal Year 2005. Given that a primary purpose of this fund is to provide loans to local governments for environmental purposes (e.g., clean water projects), loans receivable reported a corresponding increase of $91.7 million or 6.5 percent over Fiscal Year 2005.

- In Fiscal Year 2006, the University of Wisconsin System's Tuition and Fees revenue increased $51.2 million or 7.1 percent, due primarily to a 7.0 percent increase in tuition. Fiscal Year 2006 operating expenses increased $104.8 million or 3.1 percent from Fiscal Year 2005, due primarily to a 2.3 percent increase in personal services that includes health insurance increases and pay plan adjustments.

- The Unemployment Reserve Fund experienced a $23.7 million or 2.8 percent decrease in expenses in Fiscal Year 2006 in comparison to Fiscal Year 2005. Due to the improvement in the overall economy of the State, the Unemployment Reserve Fund has experienced a slowing of the net loss reported for the prior few years. However the fund continues to reflect a net loss (a net loss of $28.8 million in Fiscal Year 2006 compared to a $47.3 loss in Fiscal Year 2005). The fund's equity was $895.0 million as of June 30, 2006.

- In Fiscal Year 2006, revenues of the Health Insurance Fund, which accounts for group health insurance provided to State employees and employees of other participating governments, increased to $1,009.0 million and expenses increased to $983.7 million, reflecting a $61.5 million and $87.1 million increase, respectively, due to the rising cost of health care premiums paid to health insurance providers and the rising cost of self-insured expenses of the program.

- The Lottery Fund reported an increase in operating revenues of $57.2 million or 12.7 percent in Fiscal Year 2006. This increase was attributed to Powerball jackpots larger than the previous year, which have a significant effect on ticket sales. Lottery prize award expenses reflected a corresponding increase of $31.7 million or 12.1 percent. The property tax credit, which serves to provide property tax relief through application of net proceeds from the Wisconsin Lottery, totaled $122.1 million in Fiscal Year 2006 in contrast to $129.0 million in 2005.

GOVERNMENT-WIDE CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the close of Fiscal Year 2006, the State had $18.8 billion invested in capital assets, net of accumulated depreciation of $3.2 billion. This represents an increase of $890.0 million, or 5.0 percent, from Fiscal Year 2005. Depreciation charges totaled $96.6 million and $167.7 million for governmental and business-type activities, respectively, in Fiscal Year 2006. 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	
	2006	2005	2006	2005	2006	2005
Land and Land Improvements	$ 1,652	$ 1,532	$ 120	$ 114	$ 1,772	$ 1,646
Buildings and Improvements	1,324	1,304	2,042	2,001	3,366	3,305
Library Holdings	79	78	1,037	1,019	1,115	1,097
Machinery and Equipment	232	221	261	257	493	478
Infrastructure	10,727	10,325	-	-	10,727	10,325
Construction in Progress	993	919	348	154	1,341	1,073
Totals	$ 15,007	$ 14,379	$ 3,808	$ 3,546	$ 18,815	$ 17,925

The major capital asset additions completed during Fiscal Year 2006 included the:
- Madison Cogeneration Facility ($92.2 million),
- Residence Hall – La Crosse ($21.1 million), and
- Grandstand Replacement – State Fair Park ($20.8 million).

In addition to these completed projects, construction in progress as of June 30, 2006 for governmental and business type activities totaled $993.5 million and $347.7 million, respectively. (For business type activities, certain construction in progress for the University of Wisconsin System is reported within various other categories of capital assets.) A list of construction in progress projects is provided in Note 7.

The State's continuing or proposed major capital projects for Fiscal Year 2006 through 2015 include the:
- Wisconsin Institute for Discovery (2005-2015) – Madison (estimated budget of $380.7 million),
- Jarvis Science Wing renovation and addition (2005-2007) – Stout (estimated budget of $40.6 million),
- University Square Development (2005-2009) – Madison (estimated budget of $56.8 million),
- Tri-State initiative (2005-2009) – Various locations (estimated budget of $50.6 million),
- Business & Economics building (2005) – Whitewater (estimated budget of $41.0 million), and
- Columbia Campus Acquisition (2005-2011) – Milwaukee (estimated budget of $112.1 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, 2006 was $4.9 billion, as shown in Table 8.

During Fiscal Year 2006, $662.9 million of these general obligation bonds were issued to provide for the acquisition or improvement of land, water, property, highways, buildings, equipment, or facilities for public purposes, to refund current outstanding bonds and the funding of veterans loan programs.

In Fiscal Year 2004, the State issued $1.8 billion of annual appropriation bonds to pay the State's unfunded accrued prior service (pension) liability and its unfunded accrued liability for sick leave conversion credits.

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, 2006, as shown in Table 8. These bonds included $1,485.6 million of Transportation Revenue Bonds, $190.9 million of Petroleum Inspection Revenue Bonds, $690.9 million of Environmental Improvement Revenue Bonds, and $1,474.1 million of Badger Tobacco Asset Securitization Corporation bonds.

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

Table 8
Outstanding Debt as of June 30, 2006 and 2005
(in millions)

	Governmental Activities		Business-Type Activities		Total	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
General obligation bonds	$ 4,042.0	$ 3,764.0	$ 896.3	$ 893.2	$ 4,938.3	$ 4,657.2
Annual appropriation bonds	1,792.4	1,792.3	--	--	1,792.5	1,792.3
Revenue bonds	3,150.6	3,117.7	690.9	652.2	3,841.5	3,769.9
Totals	$ 8,985.0	$ 8,674.0	$ 1,587.2	$ 1,545.4	$ 10,572.2	$ 10,219.4

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

At June 30, 2006, 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 notes had a rating of P-1 from Moody's, A-1+ from Standard and Poor's Corporation, and F-1+ from Fitch Investors Services, L.P.

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

INFRASTRUCTURE -- MODIFIED APPROACH

The State reports infrastructure (i.e., roads, bridges, and buildings considered an ancillary part of roads) as capital assets. The State has elected to report its infrastructure assets (11,200 centerline miles of roads and 4,900 bridges with a combined value of $10.7 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, 2006, 94.6 percent of the roads and 95.7 percent of bridges were in good or fair condition, consistent with State policies.

For the fiscal year ended June 30, 2006, actual maintenance and preservation costs for the State's road network were $425.9 million, or $69.8 million less than the estimated amount. On that same date, actual maintenance and preservation costs for the State's bridge network were $31.3 million, or $11.1 million more than the estimated amount. In developing estimated costs at the beginning of the fiscal year it is difficult to predict the types of projects that will actually incur costs during the year. In addition, the State of Wisconsin, Department of Transportation's multi-year contracting process, allowing encumbrances to carry forward, makes a comparison of actual to estimated amounts difficult since expenditures for the current year may have been budgeted and committed to a project in prior years.

ECONOMIC FACTORS

In calendar year 2005, the Wisconsin economy continued its economic expansion.

Wisconsin employment has rebounded. After a decrease of 0.3 percent in 2003, Wisconsin employment increased 1.1 percent in 2004 and 1.2 percent in 2005. Wisconsin has matched the national experience in the early recovery. Nationally, employment also declined 0.3 percent in 2003, increased 1.1 percent in 2004 and 1.5 percent in 2005.

The improved employment performance led to gains in income growth. Wisconsin personal income increased 2.6 percent in 2003, 5.4 percent in 2004 and 4.2 percent in 2005. Nationally, income growth was 6.2 percent in 2004 and 5.2 percent in 2005. On a per capita basis, Wisconsin's performance is closer to the nation's. Per capita income in Wisconsin increased 4.4 percent in 2004 and 3.5 percent in 2005 compared to 5.2 percent and 4.2 percent nationally. Since 2000, Wisconsin's per capita income has moved closer to the national average from 95.7 percent in 2000 to 96.4 percent in 2005.

Wisconsin's employment continues to expand. Through September 2006, Wisconsin non-farm employment is up 0.8 percent compared to a year ago. Nationally, employment was up 1.4 percent over the same period. Wisconsin's unemployment rate in September was 4.7 percent compared to 4.6 percent nationally.

Wisconsin's property values reflect an expanding economy. Real property values increased significantly in 2005 and 2006, up 9.4 percent and 9.6 percent respectively. Commercial and residential real estate have increased significantly in these years.

CONTACTING THE STATE'S FINANCIAL MANAGEMENT

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

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

* * * *

Statement of Net Assets
June 30, 2006

(In Thousands)

	Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Totals	Component Units
Assets				
Cash and Cash Equivalents	$ 811,327	$ 2,562,267	$ 3,373,594	$ 260,767
Investments	127,508	1,370,720	1,498,228	1,213,288
Cash and Investments with Other Component Units	-	-	-	206,765
Receivables (net of allowance)	2,891,189	2,570,537	5,461,726	2,718,710
Internal Balances	106,777	(106,777)	-	-
Inventories	41,782	42,283	84,065	6,812
Prepaid Items	329,615	130,610	460,225	3,185
Capital Leases Receivable - Component Units	-	14,761	14,761	-
Restricted and Limited Use Assets:				
Cash and Cash Equivalents	348,573	78,076	426,648	97,910
Investments	218,602	-	218,602	1,451,185
Cash and Investments with Other Component Units	-	-	-	61,924
Other Restricted Assets	651	-	651	1,079
Deferred Charges	90,076	12,058	102,134	12,041
Capital Assets:				
Depreciable	1,450,588	2,305,800	3,756,388	343,759
Nondepreciable:				
Infrastructure	10,727,018	-	10,727,018	-
Other	2,829,435	1,501,978	4,331,412	32,182
Other Assets	60,046	5,995	66,040	47,432
Total Assets	20,033,187	10,488,305	30,521,492	6,457,037
Liabilities				
Accounts Payable and Other Accrued Liabilities	1,403,044	329,580	1,732,624	150,399
Due to Other Governments	1,699,745	13,170	1,712,916	-
Tax Refunds Payable	1,079,279	-	1,079,279	-
Tax and Other Deposits	39,100	18,892	57,992	84,294
Amounts Held in Trust by Component Unit for Other Component Units	-	-	-	196,122
Unearned Revenue	402,107	261,437	663,544	2,087
Interest Payable	129,605	11,123	140,728	30,886
Short-term Notes Payable	743,937	81,120	825,057	-
Long-term Liabilities:				
Current Portion	536,741	323,937	860,679	90,586
Noncurrent Portion	8,728,772	2,728,579	11,457,350	2,894,446
Total Liabilities	14,762,332	3,767,838	18,530,170	3,448,820
Net Assets				
Invested in Capital Assets, Net of Related Debt	12,291,617	3,243,637	15,535,254	107,950
Restricted for:				
Transportation Programs	22,602	-	22,602	-
Capital Projects	35,055	-	35,055	-
Debt Service	384,714	-	384,714	-
Unemployment Compensation	-	894,967	894,967	-
Environmental Improvement	-	1,202,237	1,202,237	-
Permanent Trusts:				
Expendable	11,762	227,480	239,242	33,353
Nonexpendable	668,592	138,150	806,742	1,347,376
Future Benefits	-	477,064	477,064	18,830
Other Purposes	95,280	396,886	492,166	1,119,554
Unrestricted	(8,238,766)	140,047	(8,098,719)	381,154
Total Net Assets	$ 5,270,855	$ 6,720,467	$ 11,991,322	$ 3,008,217

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

Statement of Activities
For the Fiscal Year Ended June 30, 2006

(In Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Commerce	$ 267,195	$ 181,332	$ 74,706	$ -
Education	6,270,218	21,781	773,790	-
Transportation	1,774,161	520,807	198,644	595,662
Environmental Resources	466,997	198,344	82,862	3,163
Human Relations and Resources	8,436,702	203,413	4,385,753	1,856
General Executive	542,303	325,570	152,056	-
Judicial	114,853	60,777	481	-
Legislative	59,938	1,332	4	-
Tax Relief and Other General Expenses	857,866	5,280	55,232	-
Intergovernmental - Shared Revenue	1,016,718	-	-	-
Interest on Debt	477,465	-	-	-
Total Governmental Activities	20,284,418	1,518,636	5,723,527	600,681
Business-type Activities:				
Injured Patients and Families Compensation	(2,307)	25,857	-	-
Environmental Improvement	42,764	42,162	39,687	-
University of Wisconsin System	3,519,740	2,403,104	259,047	24,781
Unemployment Reserve	821,122	729,124	29,752	-
Lottery	481,272	509,242	-	-
Health Insurance	983,699	1,009,013	-	-
Veterans Mortgage Loan Repayment	25,822	16,141	-	-
Other Business-type	592,068	576,629	3,876	10,939
Total Business-type Activities	6,464,181	5,311,272	332,362	35,719
Total Primary Government	$ 26,748,598	$ 6,829,909	$ 6,055,889	$ 636,401
Component Units:				
Housing and Economic Development Authority	$ 281,295	$ 151,093	$ 137,564	$ -
Health Care Liability Insurance Plan	(93)	9,514	-	-
University Hospitals and Clinics Authority	709,497	748,015	827	9,757
University of Wisconsin Foundation	145,980	206,869	139,892	-
State Fair Park Exposition Center, Inc.	5,191	4,475	-	57
Total Component Units	$ 1,141,870	$ 1,119,965	$ 278,283	$ 9,814

General Revenues:
Dedicated for General Purposes:
Income Taxes
Sales and Excise Taxes
Public Utility Taxes
Other Taxes
Motor Fuel/Other Taxes Dedicated for Transportation
Other Dedicated Taxes
Interest and Investment Earnings
Miscellaneous
Contributions to Term and Permanent Endowments
Contributions to Permanent Fund Principal
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
$ (11,157)		$ (11,157)	
(5,474,647)		(5,474,647)	
(459,048)		(459,048)	
(182,628)		(182,628)	
(3,845,680)		(3,845,680)	
(64,678)		(64,678)	
(53,595)		(53,595)	
(58,602)		(58,602)	
(797,355)		(797,355)	
(1,016,718)		(1,016,718)	
(477,465)		(477,465)	
(12,441,573)		(12,441,573)	
	$ 28,163	28,163	
	39,085	39,085	
	(832,808)	(832,808)	
	(62,247)	(62,247)	
	27,970	27,970	
	25,314	25,314	
	(9,680)	(9,680)	
	(624)	(624)	
-	(784,827)	(784,827)	
(12,441,573)	(784,827)	(13,226,400)	
			$ 7,362
			9,606
			49,102
			200,781
			(659)
			266,193
6,867,020	-	6,867,020	-
4,489,663	-	4,489,663	-
250,088	-	250,088	-
355,724	-	355,724	-
990,688	-	990,688	-
209,528	-	209,528	-
72,643	49,660	122,303	32,802
383,710	9,153	392,862	-
-	235	235	136
21,646	-	21,646	-
(1,022,896)	1,022,896	-	-
12,617,813	1,081,945	13,699,757	32,938
176,239	297,117	473,357	299,131
5,094,616	6,423,349	11,517,965	2,709,087
$ 5,270,855	$ 6,720,467	$ 11,991,322	$ 3,008,217

Balance Sheet - Governmental Funds
June 30, 2006

(In Thousands)

	General	Transportation	Nonmajor Governmental	Total Governmental
Assets				
Cash and Cash Equivalents	$ 5,484	$ 258,097	$ 521,030	$ 784,611
Investments	926	-	126,582	127,508
Receivables (net of allowance):				
Taxes	1,127,692	97,950	28,761	1,254,403
Loans to Local Governments	11,408	-	491,381	502,789
Other Loans Receivable	709	24,013	-	24,722
Other Receivables	165,164	10,723	86,104	261,991
Due from Other Funds	256,033	60,095	110,514	426,642
Due from Component Units	2,075	-	-	2,075
Due from Other Governments	575,530	195,718	32,148	803,396
Inventories	12,288	17,248	2,327	31,863
Prepaid Items	310,974	3,031	14,959	328,965
Advances to Other Funds	200	-	-	200
Restricted and Limited Use Assets:				
Cash and Cash Equivalents	-	-	348,573	348,573
Investments	-	-	218,602	218,602
Other Restricted Assets	-	-	651	651
Other Assets	60,046	-	-	60,046
Total Assets	$ 2,528,529	$ 666,876	$ 1,981,632	$ 5,177,037
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable and Other Accrued Liabilities	$ 718,782	$ 144,345	$ 71,694	$ 934,821
Due to Other Funds	128,466	50,975	138,811	318,253
Interfund Payables	403,327	-	300	403,627
Due to Other Governments	1,618,614	67,346	13,785	1,699,745
Tax Refunds Payable	1,072,583	6,265	431	1,079,279
Tax and Other Deposits	31,271	615	7,214	39,100
Deferred Revenue	705,958	10,103	60,629	776,691
Interest Payable	-	-	40,629	40,629
Advances from Other Funds	-	-	2,889	2,889
Short-term Notes Payable	-	-	721,600	721,600
Revenue Bonds and Notes Payable	-	-	129,300	129,300
Total Liabilities	4,679,002	279,649	1,187,282	6,145,934
Fund Balances:				
Reserved for Encumbrances	175,184	554,837	421,595	1,151,615
Reserved for Inventories	12,288	17,248	2,327	31,863
Reserved for Prepaid Items	167,399	3,031	14,668	185,098
Reserved for Restricted Funds	1,380	-	292,660	294,040
Reserved for Long-term Receivables	-	-	454,751	454,751
Reserved for Advances to Other Funds	200	-	-	200
Unreserved, Reported In:				
General Fund	(2,506,925)	-	-	(2,506,925)
Special Revenue Funds	-	(187,889)	(77,771)	(265,660)
Debt Service Funds	-	-	123,093	123,093
Capital Projects Funds	-	-	(667,392)	(667,392)
Permanent Funds	-	-	230,420	230,420
Total Fund Balances	(2,150,474)	387,227	794,350	(968,897)
Total Liabilities and Fund Balances	$ 2,528,529	$ 666,876	$ 1,981,632	$ 5,177,037

(Continued)

Balance Sheet - Governmental Funds
June 30, 2006

(Continued)

		Total Governmental
Reconciliation to the Statement of Net Assets:		
Total Fund Balances from previous page	$	(968,897)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Infrastructure		10,727,018
Other Capital Assets		4,728,688
Accumulated Depreciation		(755,452)
Other long-term assets that are not available to pay for current period expenditures and, therefore, are deferred in the funds.		96,578
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.		374,583
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.		14,926
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		(3,021,326)
Appropriation Bonds Payable		(1,792,488)
General Obligation Bonds Payable		(3,879,823)
Accrued Interest on Bonds		(88,977)
Capital Leases		(24,580)
Installment Contracts		(430)
Compensated Absences		(125,537)
Claims and Judgments		(13,429)
Net Assets of Governmental Activities as reported on the Statement of Net Assets (See page 21)	$	5,270,855

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, 2006

(In Thousands)

	General	Transportation	Nonmajor Governmental	Total Governmental
Revenues:				
Taxes	$ 11,971,250	$ 990,473	$ 208,887	$ 13,170,610
Intergovernmental	5,385,030	795,103	50,649	6,230,782
Licenses and Permits	251,216	355,483	517,257	1,123,956
Charges for Goods and Services	328,635	18,980	14,189	361,804
Investment and Interest Income	15,882	12,776	74,823	103,482
Fines and Forfeitures	36,778	395	35,090	72,263
Gifts and Donations	7,431	5	11,251	18,687
Other Revenues:				
Tobacco Settlement	-	-	121,227	121,227
Other	242,545	19,104	13,170	274,820
Total Revenues	18,238,767	2,192,319	1,046,544	21,477,631
Expenditures:				
Current Operating:				
Commerce	230,406	-	40,124	270,530
Education	6,196,522	-	48,730	6,245,252
Transportation	4,501	1,528,681	139,516	1,672,697
Environmental Resources	99,351	-	363,490	462,841
Human Relations and Resources	8,010,528	-	365,469	8,375,997
General Executive	412,387	-	137,195	549,582
Judicial	111,148	-	347	111,495
Legislative	60,169	-	-	60,169
Tax Relief and Other General Expenditures	845,557	-	11,556	857,113
Intergovernmental - Shared Revenue	1,016,718	-	-	1,016,718
Debt Service:				
Principal	-	-	426,357	426,357
Interest	-	-	479,376	479,376
Other Expenditures	-	-	3,439	3,439
Capital Outlay	33,396	331,181	423,420	787,998
Total Expenditures	17,020,684	1,859,862	2,439,019	21,319,565
Excess of Revenues Over (Under) Expenditures	1,218,083	332,457	(1,392,475)	158,066
Other Financing Sources (Uses):				
Long-term Debt Issued	-	-	627,497	627,497
Long-term Debt Issued - Refunding Bonds	-	-	133,829	133,829
Payments to Refunding Bond Escrow Agent	-	-	(93,592)	(93,592)
Premium on Bonds	-	-	44,896	44,896
Transfers In	513,848	9,164	931,557	1,454,568
Transfers Out	(1,743,467)	(369,071)	(354,422)	(2,466,960)
Capital Lease Acquisitions	3,267	1,312	1,406	5,985
Installment Purchase Acquisitions	-	-	2,457	2,457
Total Other Financing Sources (Uses)	(1,226,352)	(358,595)	1,293,629	(291,319)
Net Change in Fund Balances	(8,268)	(26,138)	(98,846)	(133,253)
Fund Balances, Beginning of Year	(2,141,986)	417,262	893,267	(831,457)
Increase (Decrease) in Reserve for Inventories	(219)	(3,897)	(71)	(4,187)
Fund Balances, End of Year	$ (2,150,474)	$ 387,227	$ 794,350	$ (968,897)

(Continued)

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Fiscal Year Ended June 30, 2006

(Continued)

		Total Governmental
Reconciliation to the Statement of Activities:		
Net Change in Fund Balances from previous page	$	(133,253)
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.		(4,187)
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.		426,357
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		786,759
Depreciation Expense		(74,984)
Grants and Contributions (Donated Assets)		3,764
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.		66
In the Statement of Activities, only the gain/(loss) on the sale/disposal of capital assets is reported, while in the governmental funds, any proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold/disposed.		(95,249)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(13,174)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.		
Bonds Issued		(761,326)
Payments to Refunding Bond Escrow Agent		93,592
Bond Premium		(44,896)
Bond Issuance Costs		908
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Net decrease (increase) in accrued interest		17,346
Interest Accreted on Capital Appreciation Debt		(3,524)
Decrease (increase) in Capital Leases		(3,832)
Decrease (increase) in Installment Contracts		669
Decrease (increase) in Compensated Absences		(10,059)
Decrease (increase) in Claims and Judgments		(1,192)
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.		(7,543)
Changes in Net Assets of Governmental Activities as reported on the Statement of Activities (See page 23)	$	176,239

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

Balance Sheet
Proprietary Funds
June 30, 2006

(In Thousands)

	Business-type Activities		
	Injured Patients and Families Compensation	Environmental Improvement	University of Wisconsin System
Assets			
Current Assets:			
Cash and Cash Equivalents	$ 14,016	$ 190,953	$ 531,162
Investments	69,735	29,808	-
Loans to Local Governments (net of allowance)	-	110,464	-
Other Loans Receivable (net of allowance)	-	-	33,822
Other Receivables (net of allowance)	8,870	354	152,423
Due from Other Funds	-	151	26,489
Due from Component Units	-	-	5,402
Due from Other Governments	-	8,214	84,984
Inventories	2	-	34,264
Prepaid Items	8	20	29,052
Capital Leases Receivable - Component Units	-	-	2,788
Deferred Charges	-	-	5,329
Other Assets	-	-	-
Total Current Assets	92,631	339,963	905,715
Noncurrent Assets:			
Investments	653,770	125,682	308,238
Loans to Local Governments (net of allowance)	-	1,381,942	-
Other Loans Receivable (net of allowance)	-	-	156,595
Other Receivables	-	-	6,171
Prepaid Items	-	286	-
Advances to Other Funds	-	-	-
Capital Leases Receivable - Component Units	-	-	11,972
Restricted and Limited Use Assets:			
Cash and Cash Equivalents	-	78,076	-
Deferred Charges	-	2,584	-
Depreciable Capital Assets (net of accumulated depreciation)	-	-	2,153,628
Nondepreciable Capital Assets	-	-	1,463,769
Other Assets	-	-	-
Total Noncurrent Assets	653,770	1,588,568	4,100,373
Total Assets	$ 746,401	$ 1,928,532	$ 5,006,087
Liabilities and Fund Equity			
Current Liabilities:			
Accounts Payable and Other Accrued Liabilities	$ 306	$ 96	$ 113,107
Due to Other Funds	85	925	125,952
Due to Component Units	-	-	1,544
Interfund Payables	-	-	-
Due to Other Governments	-	23	6,687
Tax and Other Deposits	-	-	1,825
Deferred Revenue	1,147	-	161,576
Interest Payable	-	3,687	4,286
Short-term Notes Payable	-	-	18,123
Current Portion of Long-term Liabilities:			
Future Benefits and Loss Liabilities	83,234	-	-
Capital Leases	-	-	4,728
Installment Contracts Payable	-	-	-
Compensated Absences	9	42	52,425
General Obligation Bonds Payable	-	-	24,644
Revenue Bonds and Notes Payable	-	47,085	-
Total Current Liabilities	84,781	51,859	514,897
Noncurrent Liabilities:			
Accounts Payable and Other Accrued Liabilities	-	-	-
Due to Other Governments	-	1,455	-
Deferred Revenue	-	-	-
Noncurrent Portion of Long-term Liabilities:			
Future Benefits and Loss Liabilities	601,733	-	-
Capital Leases	-	-	40,618
Compensated Absences	26	40	46,154
General Obligation Bonds Payable	-	-	512,665
Revenue Bonds and Notes Payable	-	643,788	-
Total Noncurrent Liabilities	601,759	645,283	599,437
Total Liabilities	686,540	697,142	1,114,334
Fund Equity:			
Invested in Capital Assets, Net of Related Debt	-	-	3,101,971
Restricted for Unemployment Compensation	-	-	-
Restricted for Environmental Improvement	-	1,202,237	-
Restricted for Expendable Trusts	-	-	227,480
Restricted for Nonexpendable Trusts	-	-	138,150
Restricted for Future Benefits	59,861	-	-
Restricted for Other Purposes	-	-	321,832
Unrestricted	-	29,153	102,321
Total Fund Equity	59,861	1,231,390	3,891,754
Total Liabilities and Fund Equity	$ 746,401	$ 1,928,532	$ 5,006,087

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

Business-type Activities			
Unemployment Reserve	**Nonmajor Enterprise**	**Totals**	**Governmental Activities - Internal Service Funds**
$ 758,109	$ 1,068,027	$ 2,562,267	$ 26,717
-	16,426	115,969	-
-	525	110,989	-
-	16,534	50,356	-
154,006	59,748	375,401	192
343	79,416	106,399	25,766
-	-	5,402	3
3,277	19,975	116,450	353
-	8,016	42,283	6,239
-	101,244	130,324	651
-	-	2,788	-
-	101	5,430	154
-	1,189	1,189	-
915,735	1,371,201	3,625,246	60,074
-	167,061	1,254,751	-
-	1,761	1,383,703	-
-	277,234	433,829	-
15,112	1,011	22,295	-
-	-	286	-
-	-	-	2,889
-	-	11,972	-
-	-	78,076	-
-	4,044	6,628	746
-	152,173	2,305,800	279,769
-	38,209	1,501,978	27,017
-	4,806	4,806	-
15,112	646,300	7,004,123	310,421
$ 930,848	$ 2,017,501	$ 10,629,369	$ 370,496
$ 22,451	$ 59,769	$ 195,729	$ 12,627
8,535	41,718	177,215	8,334
-	-	1,544	-
-	23,523	23,523	23,066
4,895	110	11,715	97
-	17,068	18,892	-
-	98,712	261,436	-
-	3,150	11,123	1,326
-	62,997	81,120	22,337
-	94,996	178,230	26,452
-	328	5,056	4,152
-	-	-	236
-	4,354	56,830	1,465
-	12,091	36,736	8,352
-	-	47,085	-
35,881	418,817	1,106,234	108,445
-	81,814	81,814	-
-	-	1,455	-
-	1	1	-
-	528,787	1,130,520	73,709
-	2,012	42,630	8,108
-	5,889	52,109	2,320
-	346,867	859,532	153,807
-	-	643,788	-
-	965,370	2,811,849	237,944
35,881	1,384,187	3,918,083	346,388
-	141,666	3,243,637	110,132
894,967	-	894,967	-
-	-	1,202,237	-
-	-	227,480	-
-	-	138,150	-
-	417,195	477,056	-
-	75,054	396,886	-
-	(600)	130,874	(86,025)
894,967	633,314	6,711,286	24,107
$ 930,848	$ 2,017,501	$ 10,629,369	$ 370,496

Total Fund Equity Reported Above	$ 6,711,286
Adjustment to Reflect the Consolidation of Internal Service Activities Related to Enterprise Funds	9,181
Net Assets of Business-type Activities	$ 6,720,467

Statement of Revenues, Expenses, and Changes in Fund Equity - Proprietary Funds
For the Fiscal Year Ended June 30, 2006

(In Thousands)

	Business-type Activities		
	Injured Patients and Families Compensation	**Environmental Improvement**	**University of Wisconsin System**
Operating Revenues:			
Charges for Goods and Services	$ 18,970	$ -	$ -
Participant and Employer Contributions	-	-	-
Tuition and Fees	-	-	772,798
Federal Grants and Contracts	-	-	738,256
Local and Private Grants and Contracts	-	-	136,913
Sales and Services of Educational Activities	-	-	220,433
Sales and Services of Auxiliary Enterprises	-	-	285,458
Sales and Services to UW Hospital Authority	-	-	49,719
Federal Subsidy for Medicare Part D	-	-	-
Interest Income Used as Security for Revenue Bonds	-	17,459	-
Investment and Other Interest Income	6,833	24,697	-
Other Income:			
Federal Aid for Unemployment Insurance Program	-	-	-
Reimbursing Financing Revenue	-	-	-
Other	-	6	199,232
Total Operating Revenues	25,803	42,162	2,402,809
Operating Expenses:			
Personal Services	517	3,602	2,360,509
Supplies and Services	468	1,249	894,959
Lottery Prize Awards	-	-	-
Scholarships and Fellowships	-	-	76,662
Depreciation	-	-	155,891
Benefit Expense	(3,297)	-	-
Interest Expense	-	33,197	-
Other Expenses	-	-	4,171
Total Operating Expenses	(2,312)	38,048	3,492,192
Operating Income (Loss)	28,115	4,115	(1,089,383)
Nonoperating Revenues (Expenses):			
Operating Grants	-	29,818	-
Investment Income Used as Security for Revenue Bonds	-	4,050	-
Other Investment and Interest Income	-	6,385	52,145
Gain (Loss) on Disposal of Capital Assets	(3)	-	(8,548)
Interest Expense	-	-	(25,102)
Gifts and Donations	-	-	215,458
Other Revenues	54	-	295
Other Expenses:			
Property Tax Credits	-	-	-
Grants Disbursed	-	(4,717)	-
Federal Settlement	-	-	-
Other	-	-	-
Total Nonoperating Revenues (Expenses)	51	35,536	234,248
Income (Loss) Before Contributions and Transfers	28,166	39,651	(855,135)
Capital Contributions	-	-	24,781
Additions to Endowments	-	-	235
Transfers In	-	11,280	1,038,137
Transfers Out	(11)	(6,106)	(42,883)
Net Change in Fund Equity	28,155	44,824	165,135
Total Fund Equity, Beginning of Year	31,706	1,186,566	3,726,619
Total Fund Equity, End of Year	$ 59,861	$ 1,231,390	$ 3,891,754

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

Business-type Activities			Governmental Activities - Internal Service Funds
Unemployment Reserve	Nonmajor Enterprise	Totals	
$ -	$ 960,834	$ 979,804	$ 243,832
679,464	1,054,896	1,734,360	-
-	-	772,798	-
-	-	738,256	-
-	-	136,913	-
-	-	220,433	-
-	-	285,458	-
-	-	49,719	-
-	4,130	4,130	-
-	-	17,459	-
-	14,198	45,728	-
29,752	-	29,752	-
44,996	-	44,996	-
4,663	442	204,343	173
758,875	2,034,500	5,264,149	244,006
-	245,931	2,610,559	48,367
-	166,891	1,063,567	139,664
-	293,884	293,884	-
-	-	76,662	-
-	11,814	167,705	21,600
821,122	1,207,855	2,025,680	7,215
-	20,416	53,613	-
-	8,322	12,493	-
821,122	1,955,113	6,304,163	216,846
(62,247)	79,387	(1,040,014)	27,160
-	3,828	33,646	-
-	-	4,050	-
35,146	79,793	173,469	44
-	8,977	426	18
-	(2,116)	(27,218)	(8,992)
-	48	215,506	-
-	2,125	2,474	190
-	(122,141)	(122,141)	-
-	(5,961)	(10,677)	-
-	-	-	(6,270)
-	(3)	(3)	(2)
35,146	(35,449)	269,532	(15,012)
(27,101)	43,938	(770,482)	12,148
-	10,939	35,719	-
-	-	235	-
-	63,949	1,113,365	10,890
(1,660)	(39,809)	(90,469)	(21,832)
(28,760)	79,016	288,369	1,205
923,727	554,299	6,422,917	22,902
$ 894,967	$ 633,314	$ 6,711,286	$ 24,107

Total Net Change in Fund Equity Reported Above	$ 288,369
Consolidation Adjustment of Internal Services Activities Related to Enterprise Funds	8,748
Change in Net Assets of Business-Type Activities	$ 297,117

Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2006

(In Thousands)

	Business-type Activities		
	Injured Patients and Families Compensation	Environmental Improvement	University of Wisconsin System
Cash Flows from Operating Activities:			
Cash Receipts from Customers	$ 14,701	$ -	$ -
Cash Payments to Suppliers for Goods and Services	(662)	(4,144)	(850,862)
Cash Payments to Employees for Services	(522)	(1,720)	(2,409,128)
Tuition and Fees	-	-	760,222
Grants and Contracts	-	-	900,218
Cash Payments for Lottery Prizes	-	-	-
Cash Payments for Loans Originated	-	-	(42,566)
Collection of Loans	-	-	39,881
Interest Income	-	-	-
Cash Payments for Benefits	(32,658)	-	-
Sales and Services of Educational Activities	-	-	213,774
Sales and Services of Auxiliary Enterprises	-	-	287,893
Sales and Services of Hospitals	-	-	47,460
Scholarships and Fellowships	-	-	(76,662)
Other Operating Revenues	-	24	210,705
Other Operating Expenses	-	-	-
Other Sources of Cash	54	-	-
Other Uses of Cash	-	-	-
Net Cash Provided (Used) by Operating Activities	(19,087)	(5,839)	(919,065)
Cash Flows from Noncapital Financing Activities:			
Operating Grants Receipts	-	29,728	-
Grants Disbursed	-	(4,717)	-
Proceeds from Issuance of Debt	-	84,800	-
Repayment of Bonds and Notes	-	(44,775)	-
Escrow Deposit	-	-	-
Interest Payments	-	(33,301)	-
Property Tax Credits	-	-	-
Noncapital Gifts and Grants	-	-	215,694
Interfund Loans Received	-	-	-
Interfund Loans Repaid	-	-	-
Interfund Advances Collected	-	-	-
Transfers In	-	11,280	1,010,534
Transfers Out	(11)	(6,106)	(33,062)
Student Direct Lending Receipts	-	-	159,920
Student Direct Lending Disbursements	-	-	(159,696)
Other Cash Inflows from Noncapital Financing Activities	-	-	245
Other Cash Outflows from Noncapital Financing Activities	-	-	(877)
Net Cash Provided (Used) by Noncapital Financing Activities	(11)	36,909	1,192,758
Cash Flows from Capital and Related Financing Activities:			
Proceeds from Issuance of Debt	-	-	175,045
Capital Contributions	-	-	29,140
Repayment of Bonds and Notes	-	-	(105,923)
Interest Payments	-	-	(69,048)
Capital Lease Obligations	-	-	-
Proceeds from Sale of Capital Assets	-	-	-
Payments for Purchase of Capital Assets	-	-	(403,715)
Other Cash Inflows from Capital Financing Activities	-	-	-
Other Cash Outflows from Capital Financing Activities	-	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	-	-	(374,500)
Cash Flows from Investing Activities:			
Proceeds from Sale and Maturities of Investment Securities	60,064	74,397	471,838
Purchase of Investment Securities	(81,812)	(80,818)	(422,759)
Cash Payments for Loans Originated	-	(195,871)	-
Collection of Loans	-	104,177	-
Investment and Interest Receipts	32,759	72,419	17,605
Net Cash Provided (Used) by Investing Activities	11,011	(25,697)	66,684
Net Increase (Decrease) in Cash and Cash Equivalents	(8,087)	5,373	(34,123)
Cash and Cash Equivalents, Beginning of Year	22,103	263,656	565,284
Cash and Cash Equivalents, End of Year	$ 14,016	$ 269,029	$ 531,162

Unemployment Reserve	Nonmajor Enterprise	Totals	Governmental Activities - Internal Service Funds
$ 701,910	$ 1,976,495	$ 2,693,106	$ 263,573
-	(140,821)	(996,489)	(135,508)
-	(252,056)	(2,663,426)	(47,639)
-	-	760,222	-
-	-	900,218	-
-	(309,226)	(309,226)	-
-	(20,196)	(62,762)	-
-	53,883	93,764	-
-	19,223	19,223	-
(819,048)	(1,165,927)	(2,017,634)	(20,220)
-	-	213,774	-
-	-	287,893	-
-	-	47,460	-
-	-	(76,662)	-
79,801	2,637	293,167	-
-	(38,237)	(38,237)	-
-	9,239	9,293	208
-	(51)	(51)	(6,858)
(37,338)	134,963	(846,366)	53,556
-	3,294	33,022	-
-	(6,663)	(11,379)	-
-	61,000	145,800	-
-	(21,650)	(66,425)	-
-	-	-	-
-	(20,057)	(53,358)	(22)
-	(119,827)	(119,827)	-
-	-	215,694	-
-	7,585	7,585	290
-	(551)	(551)	(8,027)
-	-	-	25
-	64,057	1,085,872	10,863
(2,525)	(37,518)	(79,222)	(21,805)
-	-	159,920	-
-	-	(159,696)	-
-	299	543	-
-	-	(877)	-
(2,525)	(70,031)	1,157,100	(18,677)
-	3,554	178,599	14,288
-	10,964	40,105	-
-	(1,919)	(107,842)	(10,270)
-	(2,207)	(71,255)	(9,057)
-	(334)	(334)	(2,043)
-	9,156	9,156	226
-	(20,432)	(424,147)	(29,972)
-	155	155	-
-	(551)	(551)	(236)
-	(1,614)	(376,114)	(37,064)
-	21,175	627,474	-
-	(4,006)	(589,396)	-
-	(326)	(196,197)	-
-	279	104,456	-
35,146	92,842	250,771	43
35,146	109,964	197,108	43
(4,716)	173,282	131,729	(2,142)
762,825	894,745	2,508,613	28,859
$ 758,109	$ 1,068,027	$ 2,640,342	$ 26,717

(Continued)

Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2006

(Continued)

	Business-type Activities		
	Injured Patients and Families Compensation	Environmental Improvement	University of Wisconsin System
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operations:			
Operating Income (Loss)	$ 28,115	$ 4,115	$ (1,089,383)
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation	-	-	155,891
Amortization	-	(970)	-
Provision for Uncollectible Accounts	-	-	-
Operating Income (Investment Income) Classified as Investing Activity	(6,833)	(42,109)	-
Operating Expense (Interest Expense) Classified as Noncapital Financing Activity	-	33,255	-
Miscellaneous Nonoperating Income (Expense)	54	-	14,741
Changes in Assets and Liabilities:			
Decrease (Increase) in Receivables	13	-	(16,787)
Decrease (Increase) in Due from Other Funds	-	(91)	9,516
Decrease (Increase) in Due from Component Units	-	-	-
Decrease (Increase) in Due from Other Governments	-	-	(11,222)
Decrease (Increase) in Inventories	-	-	155
Decrease (Increase) in Prepaid Items	-	17	(1,361)
Decrease (Increase) in Other Assets	-	-	-
Decrease (Increase) in Deferred Charges	-	-	2,388
Increase (Decrease) in Accounts Payable and Other Accrued Liabilities	(104)	(49)	(22,030)
Increase (Decrease) in Compensated Absences	(5)	5	7,484
Increase (Decrease) in Due to Other Funds	(90)	(924)	33,031
Increase (Decrease) in Due to Other Governments	-	-	(14,598)
Increase (Decrease) in Tax and Other Deposits	-	-	-
Increase (Decrease) in Deferred Revenue	(4,281)	-	13,111
Increase (Decrease) in Interest Payable	-	912	-
Increase (Decrease) in Future Benefits and Loss Liabilities	(35,956)	-	-
Total Adjustments	(47,202)	(9,954)	170,318
Net Cash Provided (Used) by Operating Activities	$ (19,087)	$ (5,839)	$ (919,065)
Noncash Investing, Capital and Financing Activities:			
Assets Acquired through Capital Leases	$ -	$ -	$ 5,420
Contributions/Transfer In (Out) of Noncash Assets and Liabilities from/to Other Funds	-	-	-
Net Change in Unrealized Gains and Losses	(23,078)	-	(9,295)
Other	(1,419)	-	2,559

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

Unemployment Reserve	Nonmajor Enterprise	Totals	Governmental Activities - Internal Service Funds
$ (62,247)	$ 79,387	$ (1,040,014)	$ 27,160
-	11,814	167,705	21,600
-	-	(970)	-
4,832	251	5,082	-
-	4,700	(44,242)	-
-	20,416	53,670	-
-	2,778	17,574	(6,821)
17,509	36,981	37,716	72
84	(36,081)	(26,572)	19,729
-	-	-	9
(106)	(14,851)	(26,180)	(73)
-	(938)	(783)	423
-	(3,998)	(5,341)	4,282
-	(331)	(331)	-
-	113	2,501	-
3,747	(9,666)	(28,102)	(2,167)
-	645	8,130	678
(23)	(1,633)	30,361	5,251
(1,134)	(59)	(15,791)	11
-	539	539	-
-	2,750	11,579	(3,593)
-	-	912	-
-	42,146	6,191	(13,005)
24,909	55,576	193,648	26,396
$ (37,338)	$ 134,963	$ (846,366)	$ 53,556
$ -	$ 24	$ 5,444	$ 10,659
-	8	8	-
-	(18,095)	(50,468)	-
-	4	1,143	6,471

Statement of Fiduciary Net Assets
June 30, 2006

(In Thousands)

	Pension and Other Employee Benefit Trust	Investment Trust	Private-Purpose Trust	Agency
Assets				
Cash and Cash Equivalents	$ 338,589	$ 2,482,831	$ 6,891	$ 70,309
Securities Lending Collateral	5,842,133	-	-	-
Prepaid Items	6,511	-	2	-
Receivables (net of allowance):				
Loans Receivable	-	-	183	-
Prior Service Contributions Receivable	330,909	-	-	-
Benefits Overpayment Receivable	2,577	-	-	-
Due from Other Funds	57,410	-	-	605
Due from Component Units	2,774	-	-	-
Interfund Receivables	1,657,411	450,216	-	-
Due from Other Governments	121,068	-	-	-
Interest and Dividends Receivable	184,193	-	-	-
Investment Sales Receivable	236,026	-	-	-
Other Receivables	1,891	-	98	3,351
Total Receivables	2,594,259	450,216	282	3,956
Investments:				
Fixed Income	20,531,930	-	-	-
Stocks	49,260,220	-	-	-
Limited Partnerships	3,317,658	-	-	-
Preferred Securities	394,840	-	-	-
Convertible Securities	51,572	-	-	-
Mortgages	344,116	-	-	-
Real Estate	477,769	-	-	-
Investments of Private Purpose Funds	-	-	1,722,617	-
Investments of Agency Funds	-	-	-	704
Multi-asset Investments	765,766	-	-	-
Total Investments	75,143,871	-	1,722,617	704
Inventories	110	-	-	-
Capital Assets	21	-	-	-
Other Assets	-	-	-	300,015
Total Assets	83,925,494	2,933,047	1,729,792	$ 374,984
Liabilities				
Accounts Payable and Other Accrued Liabilities	71,868	-	34	$ 62,484
Securities Lending Collateral Liability	5,842,133	-	-	-
Annuities Payable	224,167	-	-	-
Advance Contributions	270	-	-	-
Due to Other Funds	112,595	166	15	246
Interfund Payables	1,657,411	-	-	-
Due to Other Governments	27,577	-	-	-
Tax and Other Deposits	-	-	-	312,255
Financial Futures Contracts	872	-	-	-
Investment Payable	180,352	-	-	-
Deferred Revenue	2,400	-	-	-
Advances from Other Funds	-	-	200	-
Compensated Absences Payable	1,822,881	-	-	-
Total Liabilities	9,942,526	166	249	$ 374,984
Net Assets				
Held in Trust for Pension Benefits, Pool Participants and Other Purposes	$ 73,982,969	$ 2,932,881	$ 1,729,543	

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, 2006

(In Thousands)

	Pension and Other Employee Benefit Trust	Investment Trust	Private-Purpose Trust
Additions			
Contributions:			
Employer Contributions	$ 614,832	$ -	$ -
Employee Contributions	722,655	-	-
Other	-	-	55
Total Contributions	1,337,487	-	55
Deposits	-	9,471,942	286,363
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	7,391,167	-	-
Interest	583,741	-	-
Dividends	462,058	-	-
Securities Lending Income	262,999	-	-
Other	69,070	-	-
Investment Income of Investment, Private Purpose, and Other Employee Benefit Trust Funds	212,837	127,746	122,926
Less:		-	
Investment Expense	(189,422)	(2,184)	(7,353)
Securities Lending Rebates and Fees	(249,596)	-	-
Investment Income Distributed to Other Funds	(294,318)	-	-
Net Investment Income	8,248,537	125,562	115,572
Interest on Prior Service Receivable	25,006	-	-
Miscellaneous Income			
Other	821	-	-
Total Miscellaneous Income	821	-	-
Total Additions	9,611,850	9,597,504	401,990
Deductions			
Retirement Benefits and Refunds:			
Retirement, Disability, and Beneficiary	3,171,811	-	-
Separations	21,211	-	-
Total Retirement Benefits and Refunds	3,193,022	-	-
Distributions	22,801	9,448,946	123,394
Other Benefit Expense	199,026	-	-
Unusual Write-off of Receivable	11	-	-
Administrative Expense	18,606	258	7,605
Transfers Out	-	-	4
Total Deductions	3,433,465	9,449,204	131,004
Net Increase (Decrease)	6,178,385	148,300	270,987
Net Assets - Beginning of Year	67,804,584	2,784,581	1,458,556
Net Assets - End of Year	$ 73,982,969	$ 2,932,881	$ 1,729,543

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

Notes To The Financial Statements

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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*. GASB Statement No. 14 criteria include the ability to appoint a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State. GASB Statement No. 39 provisions relate to separately legal, tax-exempt organizations and include: (1) the economic resources received or held are entirely or almost entirely for the direct benefit of the State, (2) the State is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and (3) the economic resources received or held by an individual organization that the State is entitled to, or has the ability to otherwise access, are significant to the State.

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

Based upon the application of the criteria contained in GASB Statement No. 14, as amended by GASB Statement No. 39 and clarified by GASB Technical Bulletin No. 2004-1, the Wisconsin Public Broadcasting Foundation, Inc. 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. 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.

Discretely Presented Component Units

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

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

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

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

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

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

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

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

Related Organizations

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

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

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

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

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

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

C. Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

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

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 funding sources.

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

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

In addition, the State reports the following fund types:

Governmental Funds

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

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

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

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

Proprietary Funds

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

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

Fiduciary Funds

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

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

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

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

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

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

2. Investments

Primary Government

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

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

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

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

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

Component Units

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

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

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

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

Investments of the University of Wisconsin Foundation are 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. Generally, estimated useful lives are as follows:

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

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

8. Restricted and Limited Use Assets

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

9. Local Assistance Aids

Municipal and County Shared Revenue Program

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

At June 30, 2006, the State was liable to various local governments for unpaid shared revenue aid. To measure the amount of the program allocable to the State's fiscal year, the amount is prorated over portions of recipient local governments' calendar fiscal years that are within the State's fiscal year. The result is that a liability of $476.3 million representing one-half of the total appropriated amount is reported at June 30, 2006 as Due to Other Governments.

State Property Tax Credit Program

At June 30, 2006, 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, 2006.

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, 2006.

The aggregated State Property Tax Credit Program liability of $353.4 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 2006 property tax bills, the State made this payment in March 2006.

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 2006, while the remaining portion represents a prepaid item. The resulting Prepaid Item reported within the Lottery Fund totals $29.6 million at June 30, 2006.

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 2006, while the remaining portion represents a prepaid item. The resulting Prepaid Item within the General Fund totals $19.4 million at June 30, 2006.

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 University of Wisconsin System Fund and the Veterans Mortgage Loan Repayment 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 15 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 four and one-half personal holidays each calendar year, provided the employee is in pay status for at least one day in the year. If a holiday occurs on a Saturday, employees receive leave time proportional to their working status to use at their discretion.

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

Sick Leave

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

12. 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, 2006, 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 regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Unrestricted net assets or fund equity may be used at the State's discretion but often have limitations on use based on State statutes.

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

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

During the year ended June 30, 2006, 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	$ 784,611	$ -	$ 26,717	$ -	$ 811,327
Investments	127,508	-	-	-	127,508
Receivables (net of allowance):					
Taxes	1,254,403	-	-	(1,254,403)	-
Loans to Local Governments	502,789	-	-	(502,789)	-
Other Loans Receivable	24,722	-	-	(24,722)	-
Other Receivables	261,991	3,722	548	2,624,928	2,891,189
Due from Other Funds	426,642	-	28,655	(455,297)	-
Due from Component Units	2,075	-	-	(2,075)	-
Due from Other Governments	803,396	-	-	(803,396)	-
Internal Balances	-	-	(9,181)	115,958	106,777
Inventories	31,863	3,680	6,239	-	41,782
Prepaid Items	328,965	-	651	-	329,615
Advances to Other Funds	200	-	-	(200)	-
Restricted Assets:					
Cash and Cash Equivalents	348,573	-	-	-	348,573
Investments	218,602	-	-	-	218,602
Other Restricted Assets	651	-	-	-	651
Deferred Charges	-	89,176	900	-	90,076
Depreciable Capital Assets	-	1,170,818	279,769	-	1,450,588
Infrastructure	-	10,727,018	-	-	10,727,018
Other Non-depreciable Capital Assets	-	2,802,417	27,017	-	2,829,435
Other Assets	60,046	-	-	-	60,046
Total Assets	$ 5,177,037	$ 14,796,831	$ 361,315	$ (301,996)	$ 20,033,187
Liabilities:					
Accounts Payable and Other Accrued Liabilities	$ 934,821	$ -	$ 14,050	$ 454,173	$ 1,403,044
Due to Other Funds	318,253	-	31,400	(349,653)	-
Interfund Payables	403,627	-	-	(403,627)	-
Due to Other Governments	1,699,745	-	-	-	1,699,745
Tax Refunds Payable	1,079,279	-	-	-	1,079,279
Tax and Other Deposits	39,100	-	-	-	39,100
Deferred Revenue/Unearned Revenue	776,691	(374,583)	-	-	402,107
Interest Payable	40,629	88,977	-	-	129,605
Advances from Other Funds	2,889	-	-	(2,889)	-
Short-term Notes Payable	721,600	-	22,337	-	743,937
Long-term Liabilities:					
Current Portion	129,300	366,784	40,657	-	536,741
Noncurrent Portion	-	8,490,828	237,944	-	8,728,772
Total Liabilities	6,145,934	8,572,006	346,388	(301,996)	14,762,332
Fund Balances/Net Assets	(968,897)	6,224,826	14,926	-	5,270,855
Total Liabilities and Fund Balances/Net Assets	$ 5,177,037	$ 14,796,831	$ 361,315	$ (301,996)	$ 20,033,187

(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, 2006, 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	$ 13,170,610	$ -	$ -
Income Taxes	-	1,663	-
Sales & Excise Taxes	-	(10,646)	-
Public Utility Taxes	-	-	-
Other Taxes	-	228	-
Motor Fuel (Transportation) Taxes	-	215	-
Other Dedicated Taxes	-	641	-
Intergovernmental	6,230,782	-	-
Operating Grants	-	-	575
Capital Grants	-	-	3,163
Licenses and Permits	1,123,956	-	-
Charges for Goods and Services	361,804	1,667	-
Investment and Interest Income	103,482	-	-
Fines and Forfeitures/Contributions to Permanent Fund	72,263	-	-
Gifts and Donations	18,687	-	-
Other Revenues:		(7,318)	(4,112)
Tobacco Settlement	121,227	-	-
Other	274,820	-	-
Total Revenues	21,477,631	(13,550)	(374)
Expenditures/Expenses:			
Current Operating:			
Commerce	270,530	402	1,501
Education	6,245,252	249	3,831
Transportation	1,672,697	1,588	97,196
Environmental Resources	462,841	(1,348)	8,653
Human Relations and Resources	8,375,997	(1,137)	47,077
General Executive	549,582	3,839	5,750
Judicial	111,495	8	3,104
Legislative	60,169	(431)	223
Tax Relief and Other General Expenditures	857,113	-	-
Intergovernmental - Shared Revenue	1,016,718	-	-
Debt Service:			
Principal	426,357	-	-
Interest and Other Charges	482,815	1,141	-
Capital Outlay	787,998	-	(787,998)
Total Expenditures/Expenses	21,319,565	4,312	(620,663)
Excess of Revenues Over (Under) Expenditures/Expenses	158,066	(17,862)	620,290
Other Financing Sources (Uses):			
Net Transfers	(1,012,392)	376	66
Long-term Debt Issued	761,326	-	-
Premium/Discount on Bonds	44,896	-	-
Payments to Refunding Bond Escrow Agent	(93,592)	-	-
Capital Lease Acquisitions	5,985	(5,985)	-
Installment Purchase Acquisitions	2,457	(2,457)	-
Total Other Financing Sources (Uses)	(291,319)	(8,066)	66
Net Change in Fund Balance	(133,253)	$ (25,928)	$ 620,356
Change in Reserve for Inventories	(4,187)		
Net Change for the Year	$ (137,440)		

(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
$ -	$ -	$ -	$ (13,170,610)	$ -
-	-	-	6,865,358	6,867,020
-	-	-	4,500,308	4,489,663
-	-	-	250,088	250,088
-	-	-	355,496	355,724
-	-	-	990,473	990,688
-	-	-	208,887	209,528
-	-	-	(6,230,782)	-
-	-	40,118	5,682,833	5,723,527
-	-	-	597,518	600,681
-	-	-	(1,123,956)	-
3,395	-	(22,803)	1,174,573	1,518,636
44	-	-	(30,883)	72,643
-	-	-	(50,617)	21,646
-	-	-	(18,687)	-
-	-	(911)	396,051	383,710
-	-	-	(121,227)	-
-	-	-	(274,820)	-
3,438	-	16,404	4	21,483,553
(762)	-	(4,413)	(64)	267,195
(321)	-	21,109	98	6,270,218
(1,452)	252	-	3,880	1,774,161
(1,788)	284	(1,952)	307	466,997
(4,809)	1,192	19,009	(627)	8,436,702
426	-	(17,349)	56	542,303
(159)	405	-	-	114,853
(86)	63	-	-	59,938
(2)	1,087	-	(333)	857,866
-	-	-	-	1,016,718
-	(426,357)	-	-	-
8,992	(16,353)	-	870	477,465
-	-	-	-	-
39	(439,426)	16,404	4,187	20,284,418
3,399	439,426	-	(4,183)	1,199,136
(10,942)	-	-	(4)	(1,022,896)
-	(761,326)	-	-	-
-	(44,896)	-	-	-
-	93,592	-	-	-
-	-	-	-	-
-	-	-	-	-
(10,942)	(712,631)	-	(4)	(1,022,896)
$ (7,543)	$ (273,205)	$ 0	(4,187)	176,239
			4,187	-
			$ 0	$ 176,239

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

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

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

NOTE 3. BUDGETARY CONTROL

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

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

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

A. Deficit Fund Balance/Fund Equity

In addition to the General Fund, funds reporting a deficit fund balance, fund equity, or net assets position at June 30, 2006 are (in thousands):

Special Revenue:		
Medical Assistance Trust	$	25,648
Petroleum Inspection		142,853
VendorNet		2,889
Capital Projects:		
Capital Improvement		319,102
Transportation Revenue Bonds		97,838
Enterprise:		
Northern Developmental Disabilities Center		829
Duty Disability		118,987
Internal Service:		
Fleet Services		331
Risk Management		91,702
Pension and Other Employee Benefit Trust:		
Life Insurance		199

B. Restricted Net Assets

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, which amends GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* provides guidance in determining when net assets have been restricted to a particular use by the passage of enabling legislation and how those net assets should be reported in financial statements when there are changes in the circumstances surrounding such legislation. Net assets restricted (1) by external parties or for constitutional purposes or (2) by enabling legislation were as follows on June 30, 2006 (in thousands):

Governmental Activities:		
Net Assets Restricted by External Parties or for Consitutional Purposes	$	1,164,801
Net Assets Restricted by Enabling Legislation		53,204
Business-type Activities:		
Net Assets Restricted by External Parties or for Consitutional Purposes		2,891,331
Net Assets Restricted by Enabling Legislation		445,452

NOTE 5. DEPOSITS AND INVESTMENTS

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

A. Deposits

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

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

1. Primary Government

As of June 30, 2006, $327.8 million of the primary government's bank balance of $337.3 million (excluding a bank overdraft of $13.8 million in one bank account that is covered by compensating balances in other accounts) was exposed to custodial credit risk as follows (in millions):

Uninsured and uncollateralized	$	327.8

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit. Deposits in foreign currency at June 30, 2006 are immaterial. The primary government does not have a formal policy specifically related to foreign currency risk.

The State’s Unemployment Reserve Fund had $764.6 million on deposit with the U.S. Treasury. This amount is presented as Cash and Cash Equivalents and is not included in the carrying amount of deposits nor is it categorized according to risk because it is neither a deposit with a financial institution nor an investment.

2. Component Units

The bank balance of deposits of the Wisconsin Housing and Economic Development Authority at June 30, 2006, the Wisconsin Health Care Liability Insurance Plan at December 31, 2005, the University of Wisconsin Hospitals and Clinics Authority at June 30, 2006, the University of Wisconsin Foundation at December 31, 2005, and the State Fair Park Exposition Center, Inc. at December 31, 2005 was $69.6 million.

As of their fiscal year end, $68.0 million of the component units' bank balance of $69.6 million was exposed to custodial credit risk as follows (in millions):

Uninsured and uncollateralized	$	68.0

B. Investments

1. Primary Government

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

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

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

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

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

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

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

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

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

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

University of Wisconsin System (UWS)

The University of Wisconsin System (UWS) investment policies and guidelines are governed and authorized by the Board of Regents. The current approved asset allocation policy for long-term funds sets a general target of 30 percent marketable equities, 14 percent fixed income, 31 percent alternatives, and 25 percent tactical strategies. The approved asset allocation for intermediate term funds is 100 percent intermediate maturity, investment-grade fixed income.

Wisconsin Retirement System (WRS)

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

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

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

Custodial Credit Risk

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

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

At June 30, 2006, the reported amount of investments of the primary government, including the various funds, was $3,806.7 million, of which $315.3 million is reported as cash equivalents and $360.1 million is reported as “Other Assets”. The primary government, including the various funds, does not have an investment policy specifically for custodial credit risk, however, at June 30, 2006, the primary government had no custodial credit risk exposure for these investments.

University of Wisconsin System (UWS)

At June 30, 2006, the UWS reported investments of $367.2 million, of which $59.0 million is reported as cash equivalents. No custodial credit risk exposure existed for these investments.

Wisconsin Retirement System (WRS)

At June 30, 2006, the WRS investments were $75,144.2 million. The WRS does not have a formal policy for custodial credit risk. As of June 30, 2006, the WRS held 13 tri-party repurchase agreements totaling $894.2 million. The securities lending collateral account and cash management account participate in repurchase agreement pools, purchasing only a portion of a repurchase agreement in which the manager of these accounts is the buyer-lender. Since the manager that purchased the repurchase agreements is the counterparty, the securities are not held in the WRS’s name. They are held in the counterparty’s name and held by the counterparty’s agent.

Interest Rate Risk

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

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

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

The following table provides information about the interest rate risks associated with the primary government’s investments, except those of the various funds. The investments include certain short-term cash equivalents, and various long-term items. At June 30, 2006, the primary government’s investments were (in millions):

Primary Government (excluding Badger Tobacco Securitization Corporation, the various funds, UWS, WRS and SIF)

	Investment Maturities				
Investment Type	Less Than 1 Year	1 to 5 Years	6 to 10 years	More Than 10 Years	Fair Value
U.S. Government and U.S. agency holdings	$ 61.9	$ 67.7	$ 24.8	$ 19.3	$ 173.9
State and municipal bonds and notes	2.3	93.0	32.4	112.4	240.1
Corporate bonds and notes	6.4	10.1	.1	--	16.6
Asset backed securities	--	5.0	1.7	3.9	10.6
Repurchase agreements	7.6	--	--	--	7.6
Forward delivery agreements	29.8	--	--	--	29.8
Guaranteed investment contracts	28.1	--	--	--	28.1
Mortgage backed securities	--	--	3.5	19.0	22.5
Money market funds	159.7	--	--	--	159.7
Mutual funds – open ended	39.2	282.1	130.1	--	451.4
Mutual funds – closed	.1	--	--	--	.1
Total	$ 335.2	$ 458.0	$ 192.5	$ 154.7	$ 1,140.4

As of May 31, 2006, the Badger Tobacco Asset Securitization Corporation's investments were as follows:

Investment	Fair Value	Weighted Average Maturity (Years)
JPM Prime Moneymarket Fd 829 Inst	$ 101.3	0.04
U.S. Treasury Note	22.7	0.04
Governor & Co of Bank I	7.8	0.01
CRC Funding LLC	68.6	0.13
Gotham Funding Corp.	0.3	0.00
Gampian Funding LTD/LLC	60.5	0.10
Federated Tax-free Obligations Fund 15	0.8	0.01
Total Fair Value	$ 262.0	
Portfolio weighted average maturity		0.33

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

As of June 30, 2006, the various funds had interest rate risk statistics as detailed below (in millions):

Various Funds
Duration for Fixed Income Securities (in years)

	LGPIF		SLF		IPFCF		Historical Society		Tuition Trust	
	Fair Value	Duration	Fair Value	Duration	Fair Value	Duration	Fair Value	Duration	Fair Value	Duration
Government/ Agency	$ 4.0	0.42	$ 33.6	10.41	$ 241.1	4.81	$ --	--	$ 8.1	4.94
Corporate	--	--	42.3	9.15	339.4	5.04	--	--	1.6	4.08
Bond Funds	--	--	--	--	--	--	2.6	4.98	--	--
Total/Average	$ 4.0	0.42	$ 75.9	9.71	$ 580.5	4.94	$ 2.6	4.98	$ 9.7	4.80

University of Wisconsin System (UWS)

The UWS uses the option adjusted duration method to analyze interest rate risk. The UWS's investment guidelines mandate that individual fixed income manager portfolios must maintain an effective modified duration within one year of the effective modified duration of the index. As of June 30, 2006, all investment managers were in compliance with the effective modified duration guideline.

As of June 30, 2006, the UWS had interest rate risk statistics as detailed below (in millions):

UWS

Fixed Income Sector	Fair Value	Option Adjusted Duration
Corporate and other credit	$ 13.2	3.60
U.S. Government mortgages	18.8	3.30
Government	11.9	4.66
Other	6.0	0.08
Commercial mortgage backed securities	4.4	2.51
Collateralized mortgage obligations: U. S. Agencies	4.9	2.96
U.S. private placements	2.6	3.31
Asset backed securities	.6	4.31
Treasury	20.9	0.07
Collateralized mortgage obligations: Corporate	.5	2.76
Treasury inflation protected securities	12.7	5.63
Total	$ 96.5	

As of June 30, 2006, the University of Wisconsin System's Long Term Fund had an aggregated modified duration of 3.18 while the Lehman Aggregate benchmark had an aggregated modified duration of 4.82. As of June 30, 2006, the University of Wisconsin System's Intermediate Term Fund had an aggregated modified duration of 3.31 while the Lehman Government/Credit Intermediate benchmark had an aggregated modified duration of 3.68.

Wisconsin Retirement System (WRS)

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

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

Interest rate risk exposure as of June 30, 2006, stated in terms of modified duration, is presented below (in millions):

WRS

Investment Type	Fair Value	Modified Duration (Years)
Asset backed securities	$ 161.1	3.27
Asset backed securities	4.7	N/A
Certificates of deposit	451.1	0.43
Certificates of deposit	10.0	N/A
Commercial paper	11.5	N/A
Commercial paper	1,997.4	0.11
Corporate bonds	1.8	N/A
Corporate bonds	3,340.9	3.61
Municipalities	4.0	9.6
Government agency	697.1	3.15
Mortgages	344.1	2.64
Private placements	616.9	3.73
Private placements	.5	N/A
Repurchase agreements	894.2	0.01
Sovereign debt	3,373.4	5.48
Sovereign debt	5.8	N/A
U.S. Treasury securities	3,765.4	7.78
Pooled Investments	11,479.3	See below *
Total	$27,159.2	

*** Breakdown of Pooled Investment**

Pooled Investment	Fair Value	
Short term investment funds	$ 1,379.9	30 weighted average days
Emerging market fixed income	407.6	6.69 modified duration (years)
Global fixed Income	1,104.2	5.76 option adjusted duration (years)
Domestic fixed income	8,587.6	4.76 option adjusted duration (years)
	$11,479.3	

Credit Quality Risk

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

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

The primary government, except for the various funds discussed later, follows Wisconsin Statutes, program policy provisions, appropriate governing boards, and general resolutions contained in revenue bond indenture documents limits investments in public housing bonds issued by public agencies or municipalities, the State of Wisconsin, interest-bearing time deposits, certificates of deposit or other similar banking arrangement, shares of a diversified open-end management investment company repurchase agreements and investment agreements to a rating no lower than the rating assigned to the bonds. Investments in all other permitted debt securities are required to bear the highest rating available from each nationally recognized rating agency.

The various funds' (except for the Tuition Trust Fund) investment guidelines provide that issues be rated "A-" or better at the time of purchase based on the minimum credit ratings as issued by nationally recognized rating agencies. The Tuition Trust Fund guidelines do not specifically list a minimum credit quality.

As of June 30, 2006, the above mentioned investments for the primary government including the various funds, were rated by Standard and Poor's, Moody's Investors Service, and Fitch Ratings and the ratings are presented below using the Standard and Poor's rating scale (in millions):

Primary Government
(excluding the UWS, WRS and SIF)

Credit Quality Ratings	Fair Value
U.S. Treasury	$ 219.4
AAA	552.4
AA	489.4
A	201.5
BBB	83.6
BB	4.9
B	8.9
CCC	4.6
Not Rated	356.9
Total	$ 1,921.6

University of Wisconsin System (UWS)

The UWS's investment guidelines prohibit security transactions that involve a counterparty rated below AA by Standard & Poor's and/or Aa by Moody's. In addition, all securities in that individual manager's portfolio must have a minimum quality rating of investment grade of BBB- by Standard & Poor's and/or Baa3 by Moody's with an average portfolio quality of at least AA as rated by Standard & Poor's and/or Aa by Moody's. The UWS held a Hilton Hotels Corporation security, as of June 30, 2006, in violation of the restriction. The security, rated BB by Standard & Poor's, was sold in September 2006 in the amount of $.1 million.

The following schedule displays the lowest credit rating available as rated by several nationally recognized statistical rating organizations on debt securities held as of June 30, 2006. Obligations of the Untied States and obligations explicitly guaranteed by the U.S. government have been included in the AAA rating below although they are considered to be without credit risk.

UWS

Ratings	Fair Value
AAA	$ 77.0
AA+	.2
AA	.6
AA-	1.5
A+	2.5
A	1.5
A-	2.6
BBB+	1.2
BBB	1.5
BBB-	1.7
BB	.1
No rating	.1
Unrated Pooled Cash	38.1
Total	$ 128.6

Wisconsin Retirement System (WRS)

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

The following schedule displays the lowest credit rating available as rated by several nationally recognized statistical rating organizations on debt securities held as of June 30, 2006 (in millions). Obligations of the United States and obligations explicitly guaranteed by the U.S. government have been included in the AAA rating below although they are considered to be without credit risk.

WRS

Ratings	Fair Value
P-1	$ 2,428.0
AAA	11,017.7
AA	2,492.6
A	5,811.6
BBB	657.8
BB	539.1
B	338.3
CCC	81.1
CC	1.1
D	10.6
Not rated	3,781.3
Total	$ 27,159.2

Concentration of Credit Risk

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

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

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

The primary government's, except for the various funds, largest concentration by a single issuer is the State of Wisconsin Global Certificates with 4.7 percent of investments.

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

As of June 30, 2006, none of the various funds had more than five percent of their total investments in a single issuer.

University of Wisconsin System (UWS)

The UWS's investment guidelines prohibit more than 7 percent of the fund be invested in the securities of any one issuer, unless the issue is U.S. Government guaranteed, or an issue of an agency of the U.S. government. The UWS's largest concentration by issuer is Citigroup/Citibank with .4 percent of total trust fund assets.

Wisconsin Retirement System (WRS)

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

Foreign Currency Risk

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

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

The primary government, except for the various funds discussed later, does not have a formal policy to limit foreign currency risk, however, certain funds such as the Environmental Improvement Fund are not permitted to invest in foreign currency based on provisions contained in its bond indenture general resolution.

At June 30, 2006, the primary government, except for the various funds, did not own any issues denominated in a foreign currency.

The various fund's investment guidelines do not specifically address foreign currency risk with the exception that SLF only allows investments in U.S. dollar denominated instruments. As of June 30, 2006, the various funds did not own any issues denominated in a foreign currency.

University of Wisconsin System (UWS)

As of June 30, 2006, the UWS held equity securities denominated in foreign currencies within pooled investment vehicles only, with market values totaling $87.9 million. Some of the trades for such foreign positions will not settle in foreign currencies until after the fiscal year end. Foreign currency forward exchange contracts are often used to manage the risk related to fluctuations in currency exchange rates between the time of purchase or sale and the actual settlement of foreign currencies. The UWS's foreign pooled investment managers also use foreign exchange forwards and futures to manage longer term currency risk exposures. Counterparty risk in foreign exchange forwards and futures instruments is negligible.

Wisconsin Retirement System (WRS)

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

As of June 30, 2006, the following assets were denominated in the following currencies (in millions):

Currency Exposure by Investment Type

Currency	Cash and Cash Equivalents	Convertible Securities	Equity	Fixed Income	Preferred Securities	Limited Partnerships	Mortgage	Real Estate	Multi Asset	Total Exposure by Currency
Argentina Peso	0.3	--	--	7.3	--	--	--	--	--	7.6
Australian Dollar	3.8	--	195.4	110.7	--	--	--	--	--	309.9
Brazil Real	2.1	--	6.2	21.6	72.1	--	--	--	--	102.0
British Pound Sterling	22.5	--	1,403.2	317.0	--	113.0	--	--	--	1,855.7
Canadian Dollar	27.9	--	391.5	106.6	--	33.7	--	--	--	559.7
Columbian Peso	--	--	--	3.5	--	--	--	--	--	3.5
Danish Krone	0.2	--	26.4	25.4	--	--	--	--	--	52.0
Euro Currency Unit	32.9	--	2,081.3	1,449.9	34.7	173.3	--	--	--	3,772.1
German Mark	--	--	--	2.0	--	--	--	--	--	2.0
Hong Kong Dollar	5.5	--	120.9	--	--	--	--	--	--	126.4
Hungarian Forint	0.1	--	5.5	--	--	--	--	--	--	5.5
Indian Rupee	1.2	--	7.3	--	--	--	--	--	--	8.5
Indonesian Rupian	--	--	1.6	21.4	--	--	--	--	--	23.0
Israeli Shekel	0.4	--	11.7	--	--	--	--	--	--	12.1
Italian Lira	--	--	--	1.0	--	--	--	--	--	1.0
Japanese Yen	14.3	--	1,502.5	728.2	--	1.9	--	--	--	2,246.9
Malaysian Ringgit	0.2	--	25.4	13.3	--	--	--	--	--	39.0
Mexican New Peso	0.3	--	7.9	51.5	--	--	--	--	--	59.7
Taiwan Dollar	2.1	--	113.5	--	--	--	--	--	--	115.6
Turkish Lira	0.4	--	30.1	--	--	--	--	--	--	30.5
New Zealand Dollar	0.7	--	4.1	37.6	--	--	--	--	--	42.3
Norwegian Krone	1.2	--	62.3	6.3	--	--	--	--	--	69.8
Pakistan Rupee	--	--	0.1	--	--	--	--	--	--	0.1
Peruvian Nuevo Sol	--	--	--	3.5	--	--	--	--	--	3.5
Philippines Peso	0.2	--	6.8	--	--	--	--	--	--	7.0
Polish Zloty	--	--	16.9	60.3	--	--	--	--	--	77.2
South African Rand	2.9	--	33.5	2.4	0.1	--	--	--	--	38.8
Singapore Dollar	1.9	--	43.5	60.1	--	--	--	--	--	105.5
South Korean Won	--	--	137.3	7.7	--	--	--	--	--	145.0
Swedish Krona	0.7	--	127.3	87.9	--	--	--	--	--	215.9
Swiss Franc	4.3	--	366.9	--	--	--	--	--	--	371.2
Thailand Baht	0.4	--	11.7	6.9	--	--	--	--	--	19.0
Total Foreign Currency Exposure	126.7	--	6,741.1	3,132.0	106.9	321.9	--	--	--	10,429.0
United States Dollar	957.1	51.6	42,519.0	17,399.9	287.9	2,995.8	344.1	478.1	765.8	65,799.4
Total Investments by Currency Exposure	1,083.8	51.6	49,260.1	20,531.9	394.8	3,317.7	344.1	478.1	765.8	76,228.0

Securities Lending Transactions

Wisconsin Retirement System (WRS)

Securities Lending Transactions – State statutes and Board policies permit the use of investments of the WRS to enter into securities lending transactions. These transactions involve the lending of securities to broker-dealers and other entities for collateral, in the form of cash or securities, with the simultaneous agreement to return the collateral for the same securities in the future. The securities custodian is an agent in lending the domestic and international securities. When domestic securities are delivered to a borrower as part of a securities lending agreement, the borrower is required to place collateral equal to 102 percent of the loaned securities' fair value, including interest accrued, as of the delivery date with the lending agent. In the event that foreign securities are loaned, the borrower is required to place collateral totaling 105 percent of the loaned securities' fair value, including interest accrued, as of the delivery date with the lending agent except when the collateral is denominated in the same currency as the loaned security. In this case, collateral is required to total 102 percent of the loaned securities' fair value including interest accrued, as of the delivery date. Cash collateral is reinvested by the lending agent or its affiliate in accordance with the contractual investment guidelines, which are designed to insure the safety of principal and obtain a moderate rate of return. The investment guidelines include very high credit quality standards and also allow for a portion of the collateral investments to be invested with short-term securities. The earnings generated from the collateral investments, less the amount of rebates paid to the dealers and fees paid to agents, results in the gross earnings from lending activities, which is then split on a percentage basis with the lending agent.

At year end, no credit risk exposure to borrowers existed because the amounts owed the borrowers exceeded the amounts the borrowers owed. The contract with the lending agent requires it to indemnify if the borrowers fail to return the loaned securities and the collateral is inadequate to replace the securities lent.

The majority of securities loans can be terminated on demand. The average term of the loans is approximately one week, which is shorter than the weighted average maturity of 39 days for investments made with the U.S. dollar cash collateral and the weighted average maturity of 31 days for investments made with Euro cash collateral.

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

Derivative Financial Instruments

Various Funds

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

As of June 30, 2006 the Tuition Trust Fund held interest only strips valued at $8.0 million representing approximately 78.8 percent of portfolio investments.

Wisconsin Retirement System (WRS)

Investment guidelines prohibit the use of derivatives for speculative purposes or leveraging of the assets. Any derivative issuer or counterparty used must be a recognized exchange or a bank or broker dealer with an actual credit rating of at least: (1) B/C or better from Fitch; (2) A1/P1 or better on short term debt from Standard & Poor's or Moody's; or (3) A or better on long term debt from Standard & Poor's or Moody's.

Foreign Currency Forwards and Options – Currency exposure management is permitted through the use of exchange traded currency instruments, and through the use of spot and forward contracts in foreign currencies. Direct currency hedging is permitted to hedge currency exposure back to the U.S. dollar when consistent with the strategy of the portfolio. Cross-currency exposure management to transfer out of an exposed currency and into a benchmark currency is permitted. Losses may arise from future changes in the value of the underlying currency, or if the counterparties do not perform under the terms of the contract.

During Fiscal Year 2006, currency exposure management involved foreign currency spot and forward contracts only. Generally, these contracts are entered into to hedge foreign exchange risk. At June 30, 2006, the fair value of foreign currency forward contract assets totaled $2.2 billion, while the liabilities totaled $2.2 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 fixed income portfolio managers to manage interest rate exposure only through the use of exchange-traded interest rate instruments. As of June 30, 2006, the Board was invested in exchange-traded interest rate futures contracts with a net exposure of a positive $777.5 million at June 30, 2006.

Some 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 Board's Investment Committee. During the period presented, these portfolios held no futures, options or swaps.

One externally managed equity portfolio is permitted by the investment guidelines to use exchange-traded S&P equity index futures contracts to manage its exposure to the stock market. This manager is authorized to utilize futures up to 5 percent of the fair value of the portfolio although it held no futures during Fiscal Year 2006. Other external international equity managers are allowed to invest in equity futures and options provided the equity equivalent value of the equity futures and optioned equities does not exceed 20 percent of the assets in the portfolio. For Fiscal Year 2006, equity futures contracts were not in use.

Asset Backed Securities – Asset backed securities are held to maximize yields and in part to hedge against changes in interest rates.

Asset backed securities are debt securities whose value is derived from payments and prepayments of principal and interest generated from whole loan mortgages, mortgage pass-through securities, credit card receivables, car loans and leases receivables, insurance proceeds receivable, as well as, airline and railroad car loans receivable. In some cases, cash flows are distributed to different investment classes or traunches in accordance with the security's established payment order. Some traunches have more stable cash flows relative to changes in interest rates while others are significantly more sensitive to interest rate fluctuations. In a declining interest rate environment, some asset backed securities may be subject to a reduction in interest payments as a result of prepayment of underlying mortgages, leases or loans that make up the collateral pool. A reduction in interest payments causes a decline in cash flows and thus a decline in the fair value of the security. Rising interest rates may cause an increase in anticipated interest payments, thus an increase in fair value of the security. Only high quality, senior traunches, resulting in minimal risks of default and prepayment are held for the WRS. The degree of prepayment risk also varies with the type of underlying assets. Mortgage backed securities tend to have a higher degree of prepayment risk due to the long term nature of the security. At June 30, 2006, mortgage backed securities with a fair value totaling $4.3 million were held for the WRS.

Credit-linked Trust Certificates – Investment guidelines have allowed certain fixed income managers to manage credit exposure through the use of credit-linked trust certificates. 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 or 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, the Board gains immediate, diversified exposure to the high yield fixed income market. For taking on the risk associated with the 100 high yield corporate bonds, the Board 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. For Fiscal Year 2006, credit linked trust agreements were not in use.

Options – Option contracts give the purchaser of the contract the right to buy (call) or sell (put) the security or index underlying the contract at an agreed upon price on or before the expiration of the option contract. The seller of the contract is subject to market risk, while the purchaser is subject to credit risk and market risk to the extent of the premium paid to enter into the contract. Internal U.S. equity portfolios are allowed to buy put options and sell call options in connection with existing portfolio positions. Generally, external international equity managers are allowed to invest in futures and options as long as the equity equivalent value of the equity futures and options equities do not exceed 20 percent of total portfolio assets. In addition, most fixed income portfolios are permitted to enter into option contracts to manage interest rate exposure. At June 30, 2006, the WRS held no options.

Unfundeded Capital Commitments

University of Wisconsin System (UWS)

The UWS has unfunded limited partnership commitments of $31.1 million as of June 30, 2006.

Wisconsin Retirement System (WRS)

The Board has committed to fund various limited partnerships and side-by-side agreements related to its private equity and real estate holdings. Commitments that have not been funded as of June 30, 2006 totaled $3.1 billion.

2. Component Units

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

Wisconsin Housing and Economic Development Authority (Authority) – The Authority is required by statute to invest at least fifty percent of its General Fund funds in obligations of the State, of the United States, or of agencies or instrumentalities of the United States, or obligations, the principal and interest of which are guaranteed by the United States, or agencies or instrumentalities of the United States. Each 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 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 aggregate investments at June 30, 2006 were $648.2 million of which $193.9 million are reported as cash equivalents.

University of Wisconsin Hospital and Clinics Authority – The University of Wisconsin Hospitals and Clinics Authority's (the Hospital) aggregate investments at June 30, 2006 were $271.9 million of which $268.7 million (invested with the University of Wisconsin Foundation, see subsequent investment disclosure discussion for the University Wisconsin Foundation) are reported as "Cash and Investments with Other Component Units." The board of directors has authorized management to invest in debt and equity securities.

State Fair Park Exposition Center, Inc. – The aggregate investments at December 31, 2005 were $3.6 million, consisting of $3.1 million of money market funds that are reported as cash equivalents.

Custodial Credit Risk

The component units do not have a formal policy for custodial credit risk. At fiscal year end, the reported amount of investments was $655.1 million. Of this amount, $182.8 million were securities held by the counterparty but in the State's name.

Interest Rate Risk

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

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

	Investment Maturities				
Investment Type	**Less Than 1 Year**	**1 to 5 Years**	**6 to 10 years**	**More Than 10 Years**	**Fair Value**
U.S. Government and U.S. agency holdings	$ 59.5	$ 53.4	$ 16.4	$ 3.7	$ 133.0
Corporate notes and bonds	12.0	8.7	--	--	20.8
Money market funds	200.8	--	--	--	200.8
Noncollateralized investment contracts	182.8	--	--	--	182.8
Collateralized investment contracts	117.7	--	--	--	117.7
Total	$ 572.9	$ 62.1	$ 16.4	$ 3.7	$ 655.1

Credit Quality Risk

The component units have established different investment policies for different investment types that generally include minimum rating requirements. For example, corporate bonds and notes must be rated by at least two nationally recognized rating agencies. At least one rating must be in the top two short- or long-term rating categories and all other ratings must be in the top three rating categories. Further, money market funds must be regulated by the Securities and Exchange Commission and must consist of Government securities or other dollar-denominated permitted investments. Securities purchased by money market funds must be rated by at least one nationally recognized rating agency in the top two short-term rating categories or must be guaranteed by an entity with such ratings. Any other ratings must be in the top three rating categories. The following table presents the component units' ratings at fiscal year end (in millions):

		Credit Quality Ratings		
Investment Type	**Fair Value**	**AAA**	**AA**	**A**
Corporate notes and bonds	$ 6.2	$ 1.1	$ 2.0	$ 3.1
Money market funds	197.5	193.9	3.6	--

Concentration of Credit Risk

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

Foreign Currency Risk

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

Securities Lending

The Wisconsin Housing and Economic Development Authority's (Authority) Finance committee approved the use of a security-lending program with the trust department of a bank acting as an agent. As of June 30, 2006 the Authority had $81.9 million of securities on loan to broker-dealers for a fee.

Security lending transactions involve the lending of securities to broker-dealers and other entities for collateral, in the form of cash or securities, with the simultaneous agreement to return the collateral for the same securities in the future. The securities custodian is an agent in lending the domestic and international securities for collateral of 102 percent and 105 percent, respectively, of the loaned securities' market value. The lending agent in accordance with contractual investment guidelines, which are designed to insure the safety of principal and obtain a moderate rate of return, reinvests the collateral. The investment guidelines include very high credit quality standards and also allow for a portion of the collateral investments to be invested with short-term securities. The Authority has the following types of securities on loan: U.S. agency securities, U.S. government securities and corporate notes. The Authority 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 $81.9 million as of June 30, 2006, and the fair value of the collateral received was $83.3 million. The Authority may request the bank to terminate any loan of securities for any reason at any time.

As of June 30, 2006, no credit risk exposure to borrowers existed because the amounts owed the borrowers exceeded the amounts the borrowers owed. The contract with the lending agent states that in the event that a borrower fails to return the lent security, the bank will indemnify the Authority for the following amounts: a) The difference between the closing market value of security on the date it should have been returned to the account and the cash collateral substituted for the lent securities, or b) In the case of collateral received in kind, the difference between the closing market value of the security on the date it should have been returned to the account and the closing market value of the collateral in kind on the same date.

The Authority assumes all risk of loss arising out of collateral investment loss and any resulting collateral deficiencies. The bank expressly assumes the risk of loss arising from negligent or fraudulent operations of its securities lending program. The bank operates the securities lending program as a business trust investment pool with open and matched components. In the matched portion of the investment pool, the maturities of the securities lent and collateral are the same. The open portions of the pool maintain a weighted average maturity of the portfolio at approximately 15 days, with a range from one day to 25 days. The open portions of the pool generally have a 15-day mismatch between the portfolio coverage maturity and the open loans. As of June 30, 2006 approximately 20 percent of the securities lent were in the matched portion and approximately 80 percent 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, 2006 the Authority received $47 thousand of income related to security lending transactions.

Other Component Units

Wisconsin Health Care Liability Insurance Plan (WHCLIP) – Aggregate investments of the WHCLIP were $70.2 million, of which $5.0 million are money market and other highly liquid debt instruments reported as cash equivalents.

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

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

The investments of the WHCLIP at December 31, 2005 were $65.2 million consisting of the following (in millions):

Investment Type	Amortized Cost	Estimated Fair Value
U.S. Treasury securities and obligations of the U.S. government corporations and agencies	$ 11.6	$ 12.3
Debt securities issued by foreign governments and corporations	1.1	1.0
Special revenue	7.1	7.4
Industrial and miscellaneous	25.1	25.5
Public utilities	1.5	1.4
Loan-backed securities	18.8	18.8
Total	$ 65.2	$ 66.4

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

The amortized cost and estimated fair value of bonds at December 31, 2005, by contractual maturity are presented in the table below (in millions):

	Amortized Cost	Estimated Fair Value
1 Year or Less	$ 6.0	$ 6.0
1 to 5 Years	27.0	26.3
6 to 10 Years	4.1	4.3
More Than 10 Years	9.3	11.0
	46.4	47.6
Loan-backed securities	18.8	18.8
Total	$ 65.2	$ 66.4

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

Pass-through securities:	
Guaranteed by GNMA	$ .1
Issued by FNMA and FHLMC	17.5
Privately issued	.5

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

As of December 31, 2005, the WHCLIP did not own any issues denominated in a foreign currency.

University of Wisconsin Foundation (the Foundation) - Aggregate investments of the Foundation's are $2,141.3 million.

The following table summarizes the types of investments of the Foundation at December 31, 2005 (in millions):

Investment Type	Fair Value
U.S. government and agency holdings	$ 157.1
Stocks	295.1
Corporate notes and bonds	178.7
Money market funds	.8
Mutual funds	1,143.5
International equities	212.0
Limited partnerships	154.1
Total	$ 2,141.3

The Foundation's interests in alternative investments, which consist of non-marketable limited partnerships, hedge funds, and real assets have a market value of $154.1 million, $258.6 million, and $64.5 million, respectively, at December 31, 2005. The market value of these interests represent 50 non-marketable limited partnerships, 39 hedge funds, and nine real assets at December 31, 2005.

Pooled funds and unitrusts carry investments in the University of Wisconsin Foundation Collective Bond Fund at cost on the date the units are purchased. Cost per unit is determined by the market value of the principal in the funds on the date of unit transactions. The cost and market value of University of Wisconsin Foundation Collective Bond Fund investments are as follow at December 31, 2005 (in millions):

	Cost	Market Value
Cash and Money Market Funds	$ .8	$ .8
Bonds and Debentures	9.7	9.6
Federal Agencies	4.1	4.0
U.S. Government Securities	3.9	4.0
Total	$ 18.5	$ 18.4

Custodial Credit Risk

At December 31, 2005, the reported amount of investments was $2,141.3 million. The Foundation had no custodial credit risk exposure for these investments.

3. State Investment Fund

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

Wis. Stat. Secs. 25.17(3)(b), (ba) and (bd) enumerate the various types of securities in which the SIF 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 (the Board) Board of Trustees. The Board of Trustees has given standing authority to the Board to invest in financial futures, forward contracts, options and swaps. This authority is subject to the review and approval of the Board’s Investment Committee and these investments are allowable only if the purpose is to hedge existing positions, to adjust portfolio duration within statutory guidelines or otherwise reduce the interest rate risk to which the Board is subjected in the normal course of business.

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. In addition, a bond issued by another State agency having a par value of $0.6 million is valued at par, which management believes approximates fair value. The fair value of investments is determined at the end of each month.

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

Custodial Credit Risk

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

At June 30, 2006, the reported amount of investments was $5,031.5 million. The SIF had no custodial credit risk exposure for these investments.

Interest Rate Risk

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of investments. The weighted average maturity method is used to analyze interest rate risk and investment guidelines mandate that the weighted average maturity for the entire portfolio will not exceed one year. At June 30, 2006, the following table shows the investments by investment type, amount and the weighted average maturities (in millions):

Investment	Fair Value	Weighted Average Maturity (Days)
Repurchase agreements	$ 2,789.0	3
Government and agency	1,217.8	17
Commercial paper	374.3	14
Certificates of deposit	650.0	109
Mortgage backed securities	0.4	911
Total	$ 5,031.5	
Portfolio weighted average maturity		21

Credit Quality Risk

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

The following table presents the SIF's ratings as of June 30, 2006 (in millions):

	Ratings	Fair Value	Percent
Repurchase agreements:			
U.S. government debt collateral	N/A	$ 2,234.3	44.4%
U.S. agency collateral	AAA/Aaa	554.8	11.0
Federal Home Loan Board (FHLB)	A-1+/P-1	499.3	9.9
Federal Home Loan Mortgage Corporation (FHLMC)	A-1+/P-1	256.2	5.1
Federal National Mortgage Association (FNMA)	A-1+/P-1	412.3	8.2
Federal Home Loan Board – note	AAA/Aaa	25.0	0.5
Federal Home Loan Mortgage Corporation -- note	AAA/Aaa	25.0	0.5
Commercial paper	A-1+/P-1	349.4	7.0
Commercial paper	A-1/P-1	24.9	0.5
Certificates of deposit:			
Nonnegotiable (Bankers Bank)	N/A	500.0	9.9
Negotiable	A-1+/P-1	150.0	3.0
Mortgage backed (Wisconsin Department of Veterans Affairs)	Not rated	0.4	0.0
Totals		$ 5,031.6	100.0%

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may occur due to the amount of investments in a single issuer (excluding investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds, or external investment pools) and can be defined as positions of five percent or more in the securities of a single issuer. The SIF's investment guidelines limit concentrations of credit risk by establishing numerous maximum issuer and/or issue exposure limits based on credit rating. These guidelines do not place a limit on maximum exposure for any U.S. agency. As of June 30, 2006 the SIF has more than five percent of its investments in FHLB (10.4 percent), FHLMC (5.6 percent), FNMA (8.2 percent), and repurchase agreement collateral consisting of various securities issued by these same three U.S. agencies (11.0 percent). Since the repurchase agreements mature each day, new collateral, consisting of a different blend of U.S. Treasury and agency securities, is assigned each night.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The SIF is permitted to invest in Canadian or Yankee/Euro denominated issues provided they are fully hedged against foreign currency risk. At June 30, 2006 the SIF did not own any issues denominated in foreign currency.

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

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

4. Lottery Investments and Related Future Prize Obligations

Investments of the State Lottery Fund totaling $103.7 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
2007	$ 16,806
2008	16,943
2009	16,935
2010	14,523
2011	9,705
Thereafter	64,300
Total future value	139,212
Less: Present value adjustment	(41,001)
Present value of payments	$ 98,211

NOTE 6. RECEIVABLES AND NET REVENUES

A. Receivables

Receivables at June 30, 2006 were as follows (in thousands):

	Taxes	Loans to Local Governments	Other Loans Receivable: Student Loans	Veterans Loans	Mortgage Loans	Other Loans	Other Receivables	Due From Other Governments	Due From Component Units	Total Receivables
Governmental Activities:										
General	$ 1,127,692	$ 11,408	$ -	$ -	$ -	$ 709	$ 165,164	$ 575,530	$ 2,075	$ 1,882,578
Transportation	97,950	-	-	-	-	24,013	10,723	195,718	-	328,405
Nonmajor Governmental	28,761	491,381	-	-	-	-	86,104	32,148	-	638,394
Total Governmental:	1,254,403	502,789	-	-	-	24,722	261,991	803,396	2,075	2,849,376
Government-wide Adjustments:										
Internal Service Funds	-	-	-	-	-	-	192	353	3	548
Accrual Adjustments	-	-	-	-	-	-	3,722	-	-	3,722
Fiduciary Receivables	-	-	-	-	-	-	37,543	-	-	37,543
Total – Governmental Activities	$ 1,254,403	$ 502,789	$ -	$ -	$ -	$ 24,722	$ 303,447	$ 803,749	$ 2,079	$ 2,891,189
Related revenue deferral because the receivable does not meet the availability criteria	$ 290,873	$ -	$ -	$ -	$ -	$ -	$ 87,391	$ -	$ -	$ 378,264
Business-type Activities:										
Current:										
Injured Patients and Families Compensation	$ -	$ -	$ -	$ -	$ -	$ -	$ 8,870	$ -	$ -	$ 8,870
Environmental Improvement	-	110,464	-	-	-	-	354	8,214	-	119,031
University of Wisconsin System	-	-	33,822	-	-	-	152,423	84,984	5,402	276,630
Unemployment Reserve	-	-	-	-	-	-	154,006	3,277	-	157,283
Nonmajor Enterprise	-	525	-	6,583	9,951	-	59,748	19,975	-	96,783
Total Current:	-	110,989	33,822	6,583	9,951	-	375,401	116,450	5,402	658,597
Noncurrent:										
Environmental Improvement	-	1,381,942	-	-	-	-	-	-	-	1,381,942
University of Wisconsin System	-	-	156,595	-	-	-	6,171	-	-	162,766
Unemployment Reserve	-	-	-	-	-	-	15,112	-	-	15,112
Nonmajor Enterprise	-	1,761	-	26,152	247,372	3,709	1,011	-	-	280,007
Total Noncurrent	-	1,383,703	156,595	26,152	247,372	3,709	22,295	-	-	1,839,827
Government-wide Adjustments:										
Fiduciary Receivables	-	-	-	-	-	-	72,113	-	-	72,113
Total – Business-type Activities	$ -	$ 1,494,692	$ 190,416	$ 32,735	$ 257,323	$ 3,709	$ 469,808	$ 116,450	$ 5,402	$ 2,570,537

B. Net Revenues

Certain revenues of the University of Wisconsin System are reported net of scholarship allowances. For Fiscal Year 2006, these scholarship allowances totaled as follows (in thousands):

Student Tuition and Fees	$ 74,987
Sales and Services of Auxiliary Enterprises	13,660
Total	$ 88,647

NOTE 7. CAPITAL ASSETS

Primary Government

Capital asset activity for the fiscal year ended June 30, 2006 was as follows (in thousands):

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and Land Improvements	$ 1,481,014	$ 118,644	$ (822)	$ 1,598,836
Buildings and Improvements	157,001	650	-	157,651
Library Holdings	77,827	1,056	(34)	78,850
Equipment	642	-	-	642
Construction in Progress	902,452	627,713	(536,710)	993,456
Infrastructure	10,333,500	483,848	(90,331)	10,727,018
Total capital assets, not being depreciated	12,952,437	1,231,912	(627,896)	13,556,452
Capital assets, being depreciated:				
Land Improvements	87,113	2,650	(3)	89,760
Buildings and Improvements	1,665,075	61,918	(677)	1,726,315
Equipment	562,350	60,096	(23,395)	599,050
Totals	2,314,538	124,663	(24,076)	2,415,126
Less accumulated depreciation for:				
Land Improvements	32,081	4,951	(3)	37,029
Buildings and Improvements	515,087	44,907	(246)	559,748
Equipment	341,719	46,768	(20,725)	367,762
Totals	888,887	96,626	(20,975)	964,538
Total Capital Assets, being depreciated, net	1,425,651	28,037	(3,101)	1,450,588
Governmental activities capital assets, net	$ 14,378,088	$ 1,259,949	$ (630,997)	$ 15,007,040
Business-type activities:				
Capital assets, not being depreciated:				
Land and Land Improvements	$ 111,312	$ 6,399	$ (25)	$ 117,686
Library Holdings	1,019,284	21,729	(4,376)	1,036,636
Construction in progress	154,366	257,998	(64,709)	347,656
Total Capital Assets, not being depreciated	1,284,961	286,126	(69,110)	1,501,978
Capital assets, being depreciated:				
Land Improvements	9,894	93	(51)	9,936
Buildings	3,590,517	146,667	(7,438)	3,729,746
Equipment	778,277	70,870	(32,469)	816,678
Totals	4,378,688	217,630	(39,958)	4,556,359
Less accumulated depreciation for:				
Land Improvements	6,773	525	(51)	7,248
Buildings	1,589,488	103,795	(5,701)	1,687,582
Equipment	521,177	63,384	(28,833)	555,729
Totals	2,117,438	167,705	(34,585)	2,250,559
Total Capital Assets, being depreciated, net	2,261,249	49,925	(5,374)	2,305,800
Business-type activities capital assets, net	$ 3,546,211	$ 336,051	$ (74,484)	$ 3,807,778

In addition to the capital assets reported by governmental and business-type activities, the fiduciary funds reported gross capital assets of $3,076 thousand at June 30, 2006, with accumulated depreciation totaling $3,055 thousand.

Depreciation Expense

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

Governmental Activities

Commerce	$	1,349
Education		2,872
Transportation		8,308
Environmental Resources		8,168
Human Relations and Resources		45,565
General Executive		5,423
Judicial		3,104
Legislative		223
Depreciation on capital assets held by the internal service funds		21,616
Total depreciation expense - governmental activities	$	96,626

Business-type Activities

University of Wisconsin System	$	155,891
Lottery		50
Veterans Mortgage Loan Repayment		23
Other Business-Type		11,742
Total depreciation expense - business-type activities	$	167,705

Construction in Progress

Construction in progress of the primary government reported in the government-wide statement of net assets at June 30, 2006 included the following projects (in thousands):

	Allotments	Expended to June 30, 2006	Encumbrances Outstanding	Unencumbered Allotment Balance
Governmental Activities:				
Reported through capital projects funds:				
State Highway Rehabilitations and Marquette Interchange	$ 210,500	$ 133,118	$ --	$ 77,382
Madison Crime Lab Remodeling	11,159	10,436	--	723
Other projects with allotments totaling less than $10 million		185,614		
		329,168		
Other:				
Transportation-related funded through sources other than capital projects		633,991		
Other		30,296		
Total construction in progress – governmental activities		$ 993,456		
Business-type Activities:				
University of Wisconsin System:				
Interdisciplinary Center – Madison	143,920	$ 26,354	106,155	11,410
Microbiological Science Building – Madison	120,971	74,832	47,271	(1,132)
Mechanical Engineering Remodeling and Addition – Madison	50,640	26,360	10,918	13,362
Business and Economics Building – Whitewater	41,496	822	136	40,537
Grainger Hall Addition – Madison	41,091	1,604	1,122	38,366
Dayton Street Residence Hall – Madison	35,900	12,994	18,554	4,352
Student Center – River Falls	34,060	17,840	9,996	6,224
Phoenix Sports Center – Green Bay	32,825	10,551	23,065	(791)
Ullsvik Center Remodeling -- Platteville	25,670	1,285	339	24,046
Student Union Expansion – Parkside	25,191	883	842	23,466
University Center Upgrade -- Superior	24,322	2,399	20,727	1,196
Veterinarian Diagnostic Building – Madison	23,498	20,330	2,122	1,046
Student Recreation/Wellness Center – Oshkosh	21,000	5,165	10,380	5,455
Conner Center Addition – Whitewater	20,249	1,503	15,963	2,783
Southwest Hall Purchase – Platteville	20,000	18,357	--	1,643
Campus Utility Upgrade – Madison	19,962	18,107	1,675	180
Lot 76 Parking Ramp – Madison	18,000	14,071	122	3,808
Homes for Veterans:				
Home-skilled Nursing Facility – Southern Wisconsin Center	17,144	16,703	888	(447)
Other projects with allotments totaling less than $10 million:				
University of Wisconsin System		65,461		
Other		18,079		
Total construction in progress – business-type activities		$ 353,699		

Certain construction in progress of the University of Wisconsin System as listed above is reported in the applicable major capital assets categories. Construction in progress of the University of Wisconsin System and of the other business-type activities as reported in the financial statements totaled $312.9 million and $34.8 million as of June 30, 2006, respectively.

Component Units

Capital Assets balance of the Wisconsin Housing and Economic Development Authority at June 30, 2006, the University of Wisconsin Hospitals and Clinics Authority at June 30, 2006, the University of Wisconsin Foundation at December 31, 2005, and the State Fair Park Exposition Center, Inc. at December 31, 2005 were as follows (in thousands):

	Amount
Capital Assets, not being depreciated:	
Land and Land Improvements	$ 9,763
Construction in Progress	22,419
Total Capital Assets, not being depreciated	32,182
Capital Assets, being depreciated:	
Buildings	408,621
Equipment	180,583
Totals	589,204
Less accumulated depreciation for:	
Buildings	142,285
Equipment	103,161
Totals	245,446
Total Capital Assets, being depreciated, net	343,759
Component Units Capital Assets, net	$ 375,941

NOTE 8. ENDOWMENTS

Primary Government

University of Wisconsin System

The University of Wisconsin System invests its trust funds, principally gifts and bequests designated as endowments or quasi-endowments, in two of its own investment pools: the Long Term Fund and the Intermediate Term Fund. Benefiting University of Wisconsin System entities receive quarterly distributions from the Long Term Fund, principally endowed assets, based on an annual spending rate applied to a 12-quarter moving average market value of the fund. Effective since the final quarter of Fiscal Year 2005, a spending rate of 4.0 percent was applied. Prior to the final quarter of Fiscal Year 2005, a spending rate of 4.5 percent was applied. Distributions from the Intermediate Term Fund, principally quasi-endowments and unspent income distributions, consist of interest earnings distributed quarterly. Spending rate and interest distributions from both of these funds are transferred to the State Investment Fund, pending near-term expenditures. At June 30, 2006, net appreciation of $7.5 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 30 percent marketable equities, 14 percent fixed income, 31 percent alternatives, and 25 percent tactical strategies. Accordingly, the fund includes investments in domestic and non-U.S. stocks and bonds, and limited partnerships consisting of venture capital and other private equity investments. The approved asset allocation for the Intermediate Term Fund is 100 percent intermediate maturity, investment-grade fixed income.

The fair value of Endowments as of June 30, 2006 was $366.1 million including unrealized loss of $(9.2) million when fair values as of June 30, 2006 are compared to asset acquisition costs. This compares to a fair value as of June 30, 2005 of $344.2 million. The net increase in fund balance during 2005-06 was $21.9 million.

The book value of Endowments under control of the University of Wisconsin System was $344.2 million as of June 30, 2006 compared to a book value of $330.4 million as of June 30, 2005. 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, 2006, 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	$ 132.3
Realized Gains – Undistributed	211.9
Book Value	344.2
Unrealized Net Gains/Losses - Undistributed	21.9
Fair Value	$ 366.1

On June 30, 2006, the portfolio at market contained 45.7 percent in stocks, 12.7 percent in fixed income obligations, 12.4 percent in alternative assets, 17.2 percent in tactical allocation strategies, and 12.0 percent in short-term investments. The total return on the principal Long Term Fund including capital appreciation was 14.5 percent. The total return on the principal Intermediate Fund including capital appreciation was 0.1 percent. External investment counsel was furnished for funds representing 87.0 percent of market-value principal.

Component Unit

University of Wisconsin Foundation

At December 31, 2005 there were 3,322 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, 2005, the endowment fund accounts reported cash and money market funds of $91.9 million and investments with a fair value of $1,296.9 million. This compares to a fair value for investments as of December 31, 2004 of $992.2 million. The asset allocation for endowment assets at December 31, 2005 is 42.2 percent in domestic equities, 15.6 percent in international equities, 26.9 percent in alternative investment managers, 5.6 percent in fixed income, 7.4 percent in real assets and 2.3 percent in cash.

NOTE 9. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances as of or for the year ended June 30, 2006 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, 2006 were as follows (in thousands):

	Due to Other Funds: General	Transportation	Nonmajor Governmental	Injured Patients and Families Compensation
Due from Other Funds:				
General	$ -	$ 30,391	$ 75,266	$ 50
Transportation	12,706	-	47,160	-
Nonmajor Governmental	52,166	13,137	3,520	27
Environmental Improvement	148	-	3	-
University of Wisconsin System	22,893	1,192	2,369	-
Unemployment Reserve	343	-	-	-
Nonmajor Enterprise	6,694	-	21	-
Internal Service	12,053	3,031	8,245	3
Fiduciary	21,463	3,223	2,228	4
Total	$ 128,466	$ 50,975	$ 138,811	$ 85

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

Environmental Improvement	University of Wisconsin System	Unemployment Reserve	Nonmajor Enterprise	Internal Service	Fiduciary	Total
$ 118	$ 65,322	$ 8,535	$ 32,803	$ 6,781	$ 36,766	$ 256,033
-	220	-	2	7	-	60,095
793	36,106	-	4,092	673	-	110,514
-	-	-	-	-	-	151
2	-	-	1	33	-	26,489
-	-	-	-	-	-	343
-	3	-	568	16	72,113	79,416
1	1,072	-	525	259	577	25,766
11	23,228	-	3,728	565	3,565	58,015
$ 925	$ 125,952	$ 8,535	$ 41,718	$ 8,334	$ 113,021	$ 616,823

B. Due from/to Component Units

Receivables and payables between funds and component units at June 30, 2006 were as follows (in thousands);

	Due from Component Unit				Due from Primary Government			
	General	University of Wisconsin System	Internal Service	Fiduciary	University of Wisconsin Hospitals and Clinics Authority	State Fair Park Exposition Center, Inc.	Timing Differences	Total
Due to Primary Government:								
Wisconsin Housing and Economic Development Authority	$ -	$ -	$ 3	$ -	$ -	$ -	$ -	$ 3
University of Wisconsin Hospitals and Clinics Authority	2,075	5,402	-	2,774	-	-	-	10,251
State Fair Park Exposition, Center Inc.	-	-	-	-	-	-	70	70
Due to Component Unit:								
University of Wisconsin System	-	-	-	-	1,544	-	-	1,544
Timing Differences	-	-	-	-	-	170	-	170
Total	$ 2,075	$ 5,402	$ 3	$ 2,774	$ 1,544	$ 170	$ 70	$ 12,038

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

C. Interfund Receivables/Payables

Interfund Receivables/Payables represent short-term loans from one fund to another to cover cash overdrafts. Interfund receivables/payables at June 30, 2006 were as follows (in thousands):

	Interfund Receivables
	Fiduciary
Interfund Payables:	
General	$ 403,327
Nonmajor Governmental	300
Nonmajor Enterprise	23,523
Internal Service	23,066
Fiduciary	1,657,411
Total	$ 2,107,627

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, 2006 were as follows (in thousands):

	Advances to Other Funds (asset):		
	General	Internal Service	Total
Advances from Other Funds (liability):			
Nonmajor Governmental	$ -	$ 2,889	$ 2,889
Fiduciary	200	-	200
Total	$ 200	$ 2,889	$ 3,089

E. Interfund Transfers

Interfund Transfers in and out that occurred during Fiscal Year 2006 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	$ -	$ 2,487	$ 760,168	$ -	$ 916,143	$ 58,681	$ 5,988	$ 1,743,467
Transportation	345,145	-	23,916	-	10	-	-	369,071
Nonmajor Governmental	68,480	6,677	140,176	11,280	121,984	5,479	347	354,422
Injured Patients and Families Compensation	11	-	-	-	-	-	-	11
Environmental Improvement	106	-	6,000	-	-	-	-	6,106
University of Wisconsin System	42,878	-	5	-	-	-	-	42,883
Unemployment Reserve	1,660	-	-	-	-	-	-	1,660
Nonmajor Enterprise	38,378	-	966	-	-	230	236	39,809
Internal Service	17,186	-	326	-	-	-	4,319	21,832
Fiduciary	4	-	-	-	-	-	-	4
Noncurrent Assets Transferred Between Proprietary Funds and Governmental Funds	-	-	-	-	-	(442)	-	(442)
Total	$ 513,848	$ 9,164	$ 931,557	$ 11,280	$ 1,038,137	$ 63,949	$ 10,890	$ 2,578,824

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

Nonroutine and Other Transfers

In the fiscal year ended June 30, 2006, transfers considered non-routine or inconsistent with the fund making the transfer included the following (in thousands):

Funds Reporting the Transfer	Amount
Transfers to the General Fund from other funds to address revenue shortfalls:	
Transportation	$338,449
Environmental	4,200
Recycling	19,142
Utility Public Benefit	18,185
Petroleum Inspection	10,861
Technology Services	7,927
Facilities Operations and Maintenance	5,904
Badger State Industries	1,316
Transfers 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	4,164
Conservation	2,231
University of Wisconsin System	33,062
Other funds	5,955

Continued

Funds Reporting the Transfer	Amount
Transfers to the General Fund for the Accountability, Consolidation, Efficiency (ACE) initiative:	
Transportation	$ 1,661
Other	660
Transfers to the Medical Assistance Trust Fund from the General Fund	303,416
Transfers to the Conservation Fund (2005 Wisconsin Act 25):	
Environmental	1,000
Recycling	3,255
Transfer to the General Fund from sale of Institutional Farm Operations Fund land	9,137

NOTE 10. CHANGES IN LONG-TERM LIABILITIES

During the year ended June 30, 2006, the following changes occurred in long-term liabilities (in thousands):

Primary Government

Governmental Activities	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
Bonds Payable:					
General Obligation Bonds	$ 3,763,973	$ 646,619	$ 368,610	$ 4,041,982	$ 296,573
Annual Appropriation Bonds	1,792,290	198	-	1,792,488	-
Revenue Bonds	3,117,727	165,861	132,962	3,150,627	146,487
Total Bonds Payable	8,673,990	812,678	501,572	8,985,096	443,060
Other Liabilities:					
Future Benefits and Loss Liability	113,166	7,370	20,375	100,161	26,452
Capital Leases	22,856	16,635	2,650	36,840	11,586
Installment Contracts	1,571	2,457	3,362	666	642
Compensated Absences	118,584	61,411	50,674	129,322	55,002
Claims, Judgments and Commitments	12,237	1,192	-	13,429	-
Total Governmental Activities Long-term Liabilities	$ 8,942,404	$ 901,743	$ 578,633	$ 9,265,514	$ 536,741

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 2006. Repayment of the revenue bonds principal and interest is made from the appropriate debt service fund with payments secured by registration and inspection fees collected by the appropriate program. The compensated absences liability will be liquidated by the State's governmental and internal service funds. Long-term liabilities for claims, judgments and commitments are generally liquidated with resources of the governmental activities.

Business-type Activities	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
Bonds Payable:					
General Obligation Bonds	$ 893,196	$ 53,309	$ 50,237	$ 896,268	$ 36,736
Revenue Bonds	652,213	84,951	46,291	690,873	47,085
Total Bonds Payable	1,545,409	138,260	96,528	1,587,141	83,821
Other Liabilities:					
Future Benefits and Loss Liability	1,302,560	151,539	145,349	1,308,751	178,230
Capital Leases	48,427	5,455	6,197	47,686	5,056
Compensated Absences	100,811	13,059	4,930	108,940	56,830
Total Business-type Activities Long-term Liabilities	$ 2,997,207	$ 308,314	$ 253,004	$ 3,052,518	$ 323,937

Component Units

The following table presents the changes in long-term liabilities of the Wisconsin Housing and Economic Development Authority at June 30, 2006, the Wisconsin Health Care Liability Insurance Plan at December 31, 2005, the University of Wisconsin Hospitals and Clinics Authority at June 30, 2006, the University of Wisconsin Foundation at December 31, 2005, and the State Fair Park Exposition Center, Inc. at December 31, 2005:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
Bonds and Notes Payable:					
Revenue Bonds and Notes	$ 2,443,386	$ 488,757	$ 78,251	$ 2,853,892	$ 67,430
Future Benefits and Loss Liability	33,901	--	1,734	32,167	10,825
Capital Leases	18,189	--	3,429	14,760	2,788
Compensated Absences	5,065	5,425	4,608	5,882	5,386
Pension Related	79,534	--	1,203	78,331	4,157
Total Component Units Long-term Liabilities	$ 2,580,074	$ 494,182	$ 89,225	$ 2,985,032	$ 90,586

NOTE 11. BONDS, NOTES AND OTHER DEBT OBLIGATIONS

The following schedule summarizes outstanding long-term bonds and notes payable at June 30, 2006 (in thousands):

Primary Government	
Governmental Activities:	
General Obligation Bonds	$ 4,041,981
Annual Appropriation Bonds	1,792,488
Revenue Bonds:	
Transportation	1,485,558
Petroleum Inspection	190,985
Badger Tobacco Asset Securitization Corporation	1,474,084
Total Governmental Activities	8,985,096
Business-type Activities:	
General Obligation Bonds:	
University of Wisconsin System	537,309
Other Business-type	358,958
Revenue Bonds:	
Environmental Improvement	690,872
Total Business-type Activities	1,587,139
Total Primary Government	10,572,235
Component Units:	
Wisconsin Housing and Economic Development Authority Revenue Bonds	2,566,970
University of Wisconsin Hospitals And Clinics Authority Revenue Bonds	234,014
State Fair Park Exposition Center, Inc. Revenue Bonds and Notes Payable	40,795
University of Wisconsin Foundation Note Payable	12,113
Total Component Units	2,853,892
Total at June 30, 2006	$13,426,127

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, 2006, $3,019.1 million of general obligation bonds were authorized but unissued.

General obligation bonds issued and outstanding as of June 30, 2006 were as follows (in thousands):

Fiscal Year Issued	Series	Dates	Interest Rates	Maturity Through	Amount Issued	Amount Outstanding
1990	1990 Series D	5/90	7.0	5/10	$ 65,859	$ 15,001
1991	1991 Series B	5/91	6.75 to 6.85	5/11	117,136	30,399
1992	1992 Refunding Issue	3/92	6.25	5/15	448,935	85,160
1993	1992 2;	10/92	4.9 to 6.5	5/15	423,565	189,905
	1993 1, 2	1/93; 3/93				
1994	1993 Refunding Issues 3, 5, 6;	8/93; 12/93;	4.85 to 6.2	5/24	515,830	187,765
	1994 Refunding Issue 2	10/93; 3/94;				
1995	1994 Series 3 and C;	9/94; 9/94;	5.7 to 6.65	5/25	100,400	5,610
	1995 Series B and 1	2/95, 2/95				
1996	1995 Series 2;	10/95;	5.75 to 6.2	11/24	87,850	8,720
	1996 Series B	5/96				
1997	1996 C and D;	9/96; 10/96;	5.75 to 6.0	5/27	190,230	11,955
	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	71,175
	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	267,105
	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	56,610
2001	2000 Series B & E;	7/00;11/00	4.5 to 8.05	11/31	259,030	74,130
	2001 Series A, B, C and D	2/01; 4/01; 6/01; 6/01				
2002	2001 Series 1, E, F;	10/01; 10/01; 10/01	4.0 to 6.96	5/33	819,545	513,820
	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 5.25	5/33	415,190	356,220
	2003 Series 1, 2, and A	4/03; 4/03; 5/03				
2004	2003 B, C, and 3;	7/03; 10/03;10/03;	0 to 19.088	5/34	1,305,096	1,225,931
	2004 1, 2, A, 3 and CWGBC	1/04; 1/04, 3/04; 6/04; 4/04				
2005	2004 Series 4, B, C, D & E	7/04; 8/04; 8/04; 8/04; 10/04;	3.0 to 5.65	5/35	1,079,440	1,037,535
	2005 Series 1, A, B and C	2/05; 2/05; 4/05; 4/05				
2006	2005 Series D & E:	8/05; 12/05;	4.0 to 5.25	5/26	662,910	662,910
	2006 Series 1 & A	1/06; 3/06				
Total					7,808,456	4,799,951
Premiums/Discounts					--	203,109
Deferred Amount on Refunding					--	(64,812)
Total General Obligation Bonds					$ 7,808,456	$ 4,938,249

As of June 30, 2006, 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
2007	$ 279,129	$ 210,346	$ 35,106	$ 45,283
2008	281,226	192,768	37,702	43,405
2009	285,184	179,229	38,043	41,569
2010	287,999	150,655	38,410	39,679
2011	282,238	132,650	37,870	37,727
2012-2016	1,247,009	472,424	212,019	157,949
2017-2021	873,051	208,672	212,323	103,164
2022-2026	381,007	42,885	181,522	50,157
2027-2031	--	--	65,705	15,019
2032-2036	--	--	24,410	2,242
Total	3,916,843	1,589,629	883,110	536,194
Premiums/Discounts	178,549	--	24,560	--
Deferred Amount on Refunding	(53,410)	--	(11,402)	--
Total	$ 4,041,982	$ 1,589,629	$ 896,268	$ 536,194

Zero Coupon Bonds

The general obligation bonds of 1990, Series D (Higher Education Series), are zero coupon bonds recorded in the amount of $15.0 million which is the accreted value at June 30, 2006. 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 $30.4 million. The bonds mature on May 1 through the year 2011.

B. Annual Appropriation Bonds

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

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

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

The General Fund Annual Appropriation Bonds, Series B (Taxable Auction Rate Certificates), in the amount of $944.9 million, are multimodal bonds issued in multiple subseries, as taxable Auction Rate Certificates ("Series B Bonds" or "ARCs"). 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, 2006, the debt service requirements for principal and interest on these bonds are as follows (in thousands):

Fiscal Year Ended June 30	Principal	Interest
2007	$ --	$ 94,471
2008	--	94,471
2009	6,100	94,424
2010	10,850	94,105
2011	16,050	93,561
2012 - 2016	362,445	416,784
2017 - 2021	230,340	357,657
2022 - 2026	639,665	260,190
2027 - 2031	479,350	86,353
2032	50,050	2,281
Total	1,794,850	1,594,297
Unamortized Premium/Discount	(2,362)	--
Total, net	$ 1,792,488	$ 1,594,297

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. In June 2005, the State entered into four additional interest rate exchange agreements with three counterparties in order to reduce the interest rate risk on the balance of the ARCs ($349.7 million).

Terms – All of the ARCs are subject to the interest rate exchange agreements. The ARCs mature and a related notional amount of the related interest rate exchange agreements decline from May 1, 2009 through 2032. Based on the interest rate exchange agreements, the State owes interest calculated at fixed rates ranging from 4.523 percent to 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, 2006, the aggregate fair value of the interest exchange agreements was $54.8 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 five counterparties -- JP Morgan Chase, Citibank N.A. New York, UBS AG, Bear Stearns Financial Products, and Morgan Stanley Bank. Based on those parameters, and swap market conditions prevailing on the June 30, 2006 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, 2006, 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
2007	$ --	$ 51,213	$ (2,442)	$ 48,771
2008	--	51,354	(2,582)	48,772
2009	6,100	51,159	(2,435)	54,824
2010	10,850	50,786	(2,381)	59,255
2011	16,050	50,152	(2,290)	63,912
2012 - 2016	64,850	236,706	(9,644)	291,912
2017 - 2021	60,050	226,426	(8,040)	278,436
2022 - 2026	257,550	185,091	(2,163)	440,478
2027 - 2031	479,350	85,686	666	565,702
2032	50,050	2,274	7	52,331
	$ 944,850	$ 990,847	$ (31,304)	$ 1,904,393

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, 2006, 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 eight interest rate agreements with five different counterparties. The lowest rating assigned to these counterparties is, as of June 30, 2006, Aa3 by Moody's, A+ by Standard & Poor's, and AA- by Fitch Ratings (which only assigns a rating for four of the five counterparties). Under the interest rate exchange agreements and to mitigate the potential for credit risk, if any of the counterparties' credit quality falls below A3 by Moody's Investors Service or A- by either Standard & Poor's or Fitch Ratings, the fair value of the interest rate exchange agreement for that respective counterparty will be fully collateralized by that counterparty. In addition, an event of termination occurs if any of the counterparties' credit quality falls below Baa2 by Moody's investors service of BBB by either Standard & Poor's or Fitch Ratings.

Basis Risk – The interest rate exchange agreements expose the State to basis risk (i.e., a shortfall or surplus between the variable interest rate received on the interest rate exchange agreements and the interest rate paid on the ARCs) as the relationship between the one-month LIBOR and the ARCs vary, which changes the synthetic rate on the bonds. As of June 30, 2006, the one-month LIBOR was 5.35 percent and the interest rate on the ARCs was 5.25 percent. This current positive variance effectively reduces the nominal synthetic fixed interest rate paid by the State on the interest rate exchange agreements. The relationship between the one-month LIBOR and ARCs will vary over time and any variation will result in a de facto adjustment to the intended synthetic interest rates.

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 six of the eight 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 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 $2,324.4 million of revenue bonds. Presently, there are twelve issues of Transportation Revenue Bonds totaling $1,485.6 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, 2006 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2005B	9/05	4.0 to 5.0	7/25	$ 158,400	$ 158,400
2005A	3/05	3.0 to 5.25	7/25	235,585	235,585
2004 1	9/04	5.0 to 5.25	7/17	95,905	92,805
2003A	11/03	3.0 to 5.0	7/24	211,175	203,615
2002A	10/02	3.0 to 5.0	7/23	168,945	156,545
2002 1& 2	4/02	3.375 to 5.75	7/19 & 7/22	254,375	205,525
2001A	11/01	4.0 to 5.0	7/22	140,000	118,860
1998A&B	8&10/98	4.25 to 5.5	7/19 & 7/16	199,815	164,630
1996A	5/96	6.0	7/06	43,205	5,290
1993A	9/93	4.5 to 5.0	7/12	116,450	69,020
				1,623,855	1,410,275
Unamortized Premium				--	75,283
Total				$1,623,855	$1,485,558

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 $190.9 million. Debt service payments are secured by petroleum inspection fees.

The PIF revenue bonds issued and outstanding as of June 30, 2006 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	40,290
2001A	12/01	5.0	7/08	30,000	30,000
2000A	3/00	5.25 to 6.0	7/12	170,250	22,190
				340,720	187,950
Deferred amount on refunding				--	(3,121)
Unamortized Premium				--	6,156
Total				$ 340,720	$ 190,985

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, 2006, there were twelve issues of Revenue Bonds outstanding totaling $690.9 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, 2006 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2006-1	3/06	3.5 to 5.0	6/27	$ 80,000	$ 80,000
2004-2	1/05	3.25 to 5.25	6/20	107,025	107,025
2004-1	3/04	4.0 to 5.0	6/24	116,795	113,275
2002-2	8/02	3.0 to 5.5	6/16	85,575	69,575
2002-1	5/02	4.0 to 5.25	6/23	100,000	62,725
2001-1	4/01	4.5 to 5.25	6/21	70,000	38,870
1999-1	9/99	5.0 to 5.75	6/20	80,000	10,135
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	27,520
1997-1	2/97	4.5 to 6.0	6/17	80,000	3,845
1993-2	9/93	2.75 to 6.125	6/08	81,950	15,845
1991-1	4/91	5.4 to 6.9	6/11	225,000	57,445
				1,220,705	676,660
Unamortized Premium				--	26,030
Less: Unamortized discount and charge				--	(11,818)
Total, net of discount, charge and premium				$1,220,705	$ 690,872

As of June 30, 2006, revenue bond debt service requirements for principal and interest for governmental activities and business-type activities are as follows (in thousands):

	Governmental Activities				Business-Type Activities	
	Transportation Revenue Bonds		Petroleum Inspection Fee Revenue Bonds		Clean Water Revenue Bonds	
Fiscal Year Ended June 30	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 71,640	$ 66,953	$ 57,660	$ 7,665	$ 47,085	$ 33,467
2008	81,790	64,890	20,270	5,671	51,960	31,027
2009	80,395	61,032	21,280	4,686	54,560	28,352
2010	79,395	57,198	22,350	3,622	57,425	25,289
2011	71,600	53,475	23,470	2,507	60,810	22,072
2012-2016	399,475	207,232	42,920	1,757	188,530	76,782
2017-2021	379,390	106,633	--	--	147,005	33,680
2022-2026	246,590	22,640	--	--	63,170	7,283
2027-2031	--	--	--	--	6,115	153
Total	1,410,275	640,053	187,950	25,908	676,660	258,105
Unamortized Premium	75,283	--	6,156	--	26,030	--
Unamortized Discount/Charge	--	--	(3,121)	--	(11,818)	--
Total, net	$ 1,485,558	$ 640,053	$ 190,985	$ 25,908	$ 690,872	$ 258,105

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, 2006 were as follows (in thousands):

Fiscal Year Ended	Principal	Interest
2007	$ 12,315	$ 91,710
2008	12,485	91,044
2009	31,220	89,936
2010	33,565	88,316
2011	35,070	86,512
2012-2016	185,055	401,996
2017-2021	232,190	338,811
2022-2026	338,875	254,333
2027-2031	436,795	139,089
2032-2033	180,945	9,032
Total	1,498,515	1,590,779
Unamortized Premium/Discount	(24,431)	--
Total	$ 1,474,084	$ 1,590,779

Component Units – Discrete Presentation

Wisconsin Housing and Economic Development Authority

Bonds and notes payable at June 30, 2006 of the Wisconsin Housing and Economic Development Authority (Authority) consisted of the following (in thousands):

Revenue bonds and notes	$ 2,525,619
Special obligation and subordinated Special obligation	47,541
Total	2,573,160
Less: Deferred amount on refunding	(6,190)
Total, net	$ 2,566,970

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, 2006 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
1998 A,B&C	2/98	4.75 to 6.88	2032	28,940
1999 A&B	10/99	5.0 to 6.18	2031	34,090
2000 A&B	9/00	Variable	2032	10,120
2002 A,B&C	5/02	3.9 to 5.6	2033	79,055
2002 D,E,F,G&I	5/02	Variable	2034	31,760
2002 H	5/02	Variable	2033	24,200
2003 A&B	12/03	Variable	2034	6,280
2003 C	12/03	2.35 to 5.25	2043	14,010
2003 D&E	12/03	Variable	2044	20,365
2005 A,B&C	12/05	3.2	2035	9,885
2005 D&E	12/05	3.2 to 5.15	2035	42,150
2005 F	12/05	4.31	2030	126,075
				430,300
Home Ownership Revenue Bonds:				
1996 A&B	3/96	5.5 to 6.0	2015	4,955
1996 E&F	11/96	5.3 to 5.9	2016	5,180
1997 A,B&C	4/97	5.4 to 5.7	2010	6,725
1997 D&E	6/97	5.15 to 5.8	2017	14,885
1997 G,H&I	11/97	5.05 to 5.35	2017	6,390
1998 A,B&C	4/98	4.75 to 5.5	2027	44,780
1998 D&E	6/98	4.75 to 5.35	2028	22,355
1999 C,D&E	4/99	4.3 to 6.17	2029	15,320
1999 F,G&H	7/99	5.25 to 7.07	2027	16,180
2000 A,B&C	3/00	5.4 to 7.78	2030	8,085
2000 D,E&F	6/00	5.75 to 7.91	2029	10,875
2000 F	7/00	Variable	2015	4,010
2000 G&H	11/00	7.21	2031	5,665
2000 H	11/00	Variable	2024	9,735
2001 A,B&C	5/01	4.85 to 6.4	2032	17,505
2002 A&C	2/02	3.15 to 5.5	2032	48,280
2002 B	2/02	Variable	2032	12,650
2002 C	2/02	Variable	2016	14,945
2002 D	2/02	Variable	2022	195
2002 E,G&H	3/03	3.0 to 5.25	2022	49,700
2002 I	10/02	2.75 to 4.85	2032	29,075
2002 E & F	7/02	Variable	2032	52,785
2002 I&J	10/02	Variable	2032	43,715

(Continued)

Series/ Issue	Date	Rates	Maturity Through	Outstanding
2003 A	4/03	2.15 to 4.95	2024	19,305
2003 A	4/03	Variable	2033	73,290
2003 B	7/03	Variable	2034	95,150
2003 C	11/03	2.05 to 4.85	2024	20,010
2003 C	11/03	Variable	2034	59,830
2003 D	11/03	Variable	2028	18,920
2004 A	4/04	Variable	2035	101,410
2004 A	4/04	2.3 to 4.35	2014	20,185
2004 B	4/04	Variable	2035	6,255
2004 C&D	7/04	2.5 to 5.1	2024	30,885
2004 D	7/04	Variable	2035	110,765
2004 E	11/04	Variable	2035	96,685
2005 A	4/05	2.5 to 4.95	2025	27,425
2005 A	4/05	Variable	2036	91,125
2005 B	4/05	Variable	2035	11,130
2005 C	6/05	Variable	2033	164,730
2005 C	6/05	4.875	2036	34,510
2005 D&E	9/05	2.83 to 4.875	2036	148,325
2006 A&B	1/06	3.07 to 4.32	2037	200,000
2006 C&D	5/06	4.85 to 6.0	2037	247,585
				2,021,510
Business Development Bonds:				
1989 3	Various	7.75	2014	835
1991 4	Various	6.1	2006	200
1995 1-2,4-9	Various	Variable	2015	5,100
				6,135
Notes Payable	Various	Variable	2021	67,674
Authority's Total Revenue Bonds and Notes				**$ 2,525,619**

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, 2006 consist of the following (in thousands):

Series/ Issue	Date	Rates	Maturity Through	Outstanding
Home Ownership Revenue Bonds:				
1998 F&G	10/98	4.4 to 5.51	2029	$ 18,205
Single Family Drawdown Revenue Bonds:				
2006-1	4/06	Variable	2011	29,336
Total Special Obligation Bonds				$ 47,541

Debt service requirements for principal and interest for the Authority at June 30, 2006 are as follows (in thousands):

Fiscal Year Ended	Principal	Interest
2007	$ 65,185	$ 112,322
2008	56,335	113,026
2009	107,174	110,114
2010	58,595	107,636
2011	88,181	104,622
2012-2016	300,055	474,883
2017-2021	372,215	395,445
2022-2026	476,020	296,942
2027-2031	542,700	178,469
2032-2036	461,100	61,007
Thereafter	45,600	3,758
Total	2,573,160	1,958,224
Deferred Amount on Refunding	(6,190)	--
Total	$ 2,566,970	$ 1,958,224

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, 2006, the Authority had issued 142 series of such bonds in an aggregate principal amount of $82.6 million for economic projects in Wisconsin.

The commercial paper obligations are issued for terms of one to 270 days. These obligations bear interest at various rates, which ranged from 3.4 percent to 3.8 percent and 2.1 percent to 3.1 percent at June 30, 2006 and June 30, 2005 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 4.216 percent, 4.25 percent and 4.57 percent at June 30, 2006.

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. The Authority does not intend to terminate these agreements prior to their maturity.

Using rates as of June 30, 2006, debt service requirements of the Authority outstanding variable rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows (in thousands). As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year Ended	Principal	Interest	Interest Rate Swaps, Net	Total
2007	$ 25,285	$ 52,730	$ 2,693	$ 80,708
2008	27,635	51,498	2,913	82,046
2009	25,040	50,330	3,059	78,429
2010	25,160	50,257	2,349	77,766
2011	26,900	48,166	3,329	78,395
2012 - 2045	1,157,705	692,399	63,362	1,913,466
Totals	$1,287,725	$ 945,380	$ 77,705	$2,310,810

The following table outlines information related to agreements in place as of June 30, 2006 (in thousands):

Program and Bond Issue	Notional Value at 6/30/06	Effective Date	Swap Terminatio Date	Counterparty Credit Rating	Percent Fixed Rate Paid	Variable Rate/Index Received	Swap Termination Market Value at 6/30/06
Housing Revenue Bonds							
2002 Series H	$ 24,200	5/21/2002	11/1/2033	AAA	4.68	70% of one month London Interbank Offered Rate (LIBOR)	$ (184)
2003 Series D	8,670	1/5/2005	5/1/2044	AAA	4.21	65% of one month LIBOR + 25 basis points	96
2003 Series E	11,695	1/5/2005	5/1/2043	AAA	4.05	63.5% of one month LIBOR + 20 basis points	132
2005 Series F	84,610	1/17/2006	11/1/2030	AAA	5.21	One month LIBOR	3,446
							3,490
1987 Home Ownership Revenue Bonds							
2002 Series B	12,650	2/6/2002	3/1/2020	AAA	5.88	One month LIBOR + 35 basis points	76
2002 Series C	14,945	2/6/2002	9/1/2012	AAA	3.69	67 percent of one month LIBOR	(3)
2002 Series D	195	2/6/2002	9/1/2006	AAA	2.91	70 percent of one month LIBOR	-
2002 Series I	7,040	10/17/2002	3/1/2008	AA+	2.33	70 percent of one month LIBOR	134
2002 Series I	35,020	10/17/2002	9/1/2032	AA+	4.07	70 percent of one month LIBOR	1,203
2002 Series J	1,655	10/17/2002	9/1/2006	AA+	3.13	One month LIBOR + 40 basis points	11
2003 Series B	95,150	7/29/2003	9/1/2034	AAA	3.94	65 percent of one month LIBOR +25 basis points	1,530
2004 Series A	31,020	4/29/2004	9/1/2022	AAA	4.47	BMA + 8 basis points	109
2004 Series A	28,355	4/29/2004	9/1/2012	AAA	2.87	65 percent of one month LIBOR + 25 basis points	718
2004 Series A	42,035	4/29/2004	3/1/2035	AAA	4.27	65 percent of one month LIBOR + 25 basis points	517
2005 Series A	91,125	4/12/2005	3/1/2036	AAA	4.03	65 percent of one month LIBOR + 25 basis points	1,178
2005 Series D	81,275	9/29/2005	9/1/2036	AAA	3.9	65 percent of one month LIBOR + 25 basis points	2,143
							7,616
1988 Home Ownership Revenue Bonds							
2002 Series E	14,530	7/11/2002	3/1/2011	AAA	3.24	70 percent of one month LIBOR	179
2002 Series E	23,890	7/11/2002	9/1/2032	AAA	4.67	70 percent of one month LIBOR	148
2002 Series F	14,365	7/11/2002	9/1/2014	AAA	5.20	Three months LIBOR + 40 basis points	318
2003 Series A	23,995	4/3/2003	9/1/2014	AAA	2.98	65 percent one month LIBOR + 25 basis points	827
2003 Series A	31,375	4/3/2003	9/1/2030	AAA	4.26	65 percent one month LIBOR + 25 basis points	885
2003 Series A	17,920	4/3/2003	9/1/2033	AAA	4.17	65 percent one month LIBOR + 25 basis points	684
2003 Series C	21,225	11/4/2003	3/1/2019	AAA	3.32	65 percent one month LIBOR + 25 basis points	661
2003 Series C	38,605	11/4/2003	3/1/2034	AAA	4.3	65 percent one month LIBOR + 25 basis points	493
2004 Series D	110,765	7/27/2004	9/1/2035	AAA	4.04	65 percent one month LIBOR + 25 basis points	1,225
2004 Series E	96,685	7/27/2004	9/1/2035	AAA	3.99	65 percent one month LIBOR + 25 basis points	1,399
2005 Series C	102,040	8/3/2005	3/1/2024	AAA	3.34	BMA + 8 basis points until 3/1/06, then 65 percent one month LIBOR + 25 basis points	3,664
2003 Series C	62,690	8/3/2005	9/1/2033	AAA	4.07	BMA + 8 basis points until 3/1/06, then 65 percent one month LIBOR + 25 basis points	2,043
2006 Series A	100,980	1/9/2006	3/1/2029	AAA	3.65	65 percent of one month LIBOR + 25 basis points	2,745
2006 Series A	59,020	1/9/2006	3/1/2037	AAA	4.27	65 percent of one month LIBOR + 25 basis points	1,078
							16,349
							$ 27,455

Swap Valuation -- The swap termination market values presented above were estimated by the Authority's counterparties to the swap agreements using proprietary valuation models based on standard valuation methodology. The market values in the table above represent the termination payments that would have been due had the swaps terminated on June 30, 2006. A positive value represents money due to the Authority by the counterparty upon termination while a negative value represents money payable by the Authority.

Termination Risk -- Counterparties to the Authority's swap agreements have ordinary termination rights that require a settlement payment by the Authority or the counterparty based on the market value of the swap agreement at the time of termination. As of June 30, 2006, no termination events have occurred.

Credit Risk -- The Authority is exposed to credit risk, the risk that the counterparty fails to perform according to its contractual obligations, on all swap agreements. To mitigate this risk, the Authority has entered into swap agreements with highly rated counterparties. As of June 30, 2006, the counterparties in 91 percent of the outstanding swaps were rated AAA/Aaa and the remaining counterparty was rated AA+/Aa2 by Standard and Poor's and Moody's Financial Services, respectively.

Basis and Interest Rate Risk -- This risk arises because the interest paid to the Authority is based on a taxable index (LIBOR) and the interest paid by the Authority is based on the individual tax-exempt bond issue. Based on market conditions, there may be a difference between these two rates. To minimize this risk, the Authority has chosen to use the formula that best represents the relationship between the taxable index and the Authority's historical bond rates.

Rollover Risk -- The Authority is exposed to rollover risk only on swaps that mature or may be terminated at the counterparty's option prior to the maturity of the associated bond. The Authority's swap agreements have limited rollover risk. The swap agreements contain scheduled reductions to the notional amounts that are expected to follow the scheduled and anticipated reductions in the associated bonds under a wide range of mortgage prepayment speeds.

The following swaps expose the Authority to rollover risk:

Associated Debt Issuance	Bond Maturity Date	Swap Termination Date
1987 HORB (a) 2002 Series B	9/1/2032	3/1/2020
1987 HORB 2002 Series C	9/1/2016	9/1/2012
1987 HORB 2002 Series D	9/1/2022	9/1/2006
1987 HORB 2002 Series I	3/1/2025	3/1/2008
1987 HORB 2002 Series J	9/1/2032	9/1/2006
1987 HORB 2004 Series A	9/1/2028	9/1/2012
1988 HORB 2002 Series E	3/1/2028	3/1/2011
1988 HORB 2002 Series F	9/1/2032	9/1/2014
1988 HORB 2003 Series A	3/1/2029	9/1/2014
1988 HORB 2003 Series C	9/1/2033	3/1/2019
1988 HORB 2005 Series C	3/1/2028	3/1/2024
1988 HORB 2006 Series A	9/1/2030	3/1/2029

(a) Home ownership revenue bonds

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. 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 3.0 percent in 2006.

In March 2000, the Hospital issued $56.5 million of Hospital Revenue Bonds Series 2000. Principal payments are due annually commencing in April 2007 through April 2010. Interest rates range from 5.35 percent to 5.5 percent and interest is payable semiannually on April 1 and October 1 each year beginning October 1, 2000. The effective annual interest rate was 5.9 percent in 2006.

The Series 1997 Bonds, Series 2000 Bonds, Series 2002 Bonds, Series 2004 Bonds and Series 2005 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 3.1 percent in 2006. The effective annual interest rate of the Series 2002B Bonds was 5.6 percent in 2006.

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, 2006 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, 2006 the interest rate received by the Hospital was 3.0 percent. The Hospital will be exposed to variable rates if the counterparty to the swap defaults or if the swap is terminated. The swap exposes the Hospital to basis risk should the relationship between LIBOR and auction rate converge, changing the synthetic rate on the bonds. The Hospital does not intend to terminate this agreement. The fair value of the swap is $173,429 at June 30, 2006.

In November 2004, the Hospital issued $60.0 million of Hospital Revenue Bonds, Series 2004 consisting of Short-term Adjustable Rate Securities, Series 2004 (“Series 2004 Bonds”). The bond proceeds are designated to finance qualified capital projects. Principal payments on the Series 2004 Bonds range from $9.7 million to $15.1 million due annually commencing in April 2030 through 2034. The interest rates an the interest payment date for the Series 2004 Bonds vary depending on if the bonds are in auction mode, daily mode, weekly mode, or in flexible mode. The effective annual interest rate of the Series 2004 Bonds was 3.0 percent in 2006.

In November 2004, the Hospital entered into an interest rate swap in order to convert a portion of the Series 1997 Variable Rate Demand Bonds to fixed rates. The notional amount of this swap agreement was $26.8 million at June 30, 2006, which matures on April 1, 2021. The terms of the swap agreement are for the Hospital to pay the counterparty a fixed rate of 3.45 percent per annum, payable semiannually, and the Hospital to receive a floating rate of 70 percent of one-month LIBOR per annum, payable monthly. In 2006, the effective interest rate received by the Hospital was 3.0 percent. The Hospital will be exposed to variable rates if the counterparty to the swap defaults or if the swap is terminated. The swap exposes the Hospital to basis risk should the relationship between LIBOR and auction rate converge, changing the synthetic rate on the bonds. The Hospital does not intend to terminate this agreement. The fair value of the swap was $981,481 at June 30, 2006.

In September 2005, the Hospital issued $59.8 million of Variable Rate Demand Hospital Revenue Bonds, Series 2005 (“Series 2005 Bonds”). The bond proceeds were designated to refund a portion of the Series 2000 Bonds. Principal payments on the Series 2005 Bonds, ranging from $460,000 to $8.1 million are due annually in April 2007 through April 2029. Series 2005 Bonds bear interest at a weekly rate determined by a remarketing agent. Interest is payable monthly. The effective interest rate was 3.20 percent in 2006.

In September 2005, the Hospital entered into an interest rate swap in order to convert the Series 2005 Variable Rate Demand Hospital Revenue Bonds to fixed rates. The notional amount of the swap agreement was $59.5 million at June 30, 2006, which matures on April 1, 2029. The terms of the swap agreement are for the Hospital to pay the counterparty a fixed rate of 3.313 percent per annum, payable monthly, and the Hospital will receive a floating rate of 58.3 percent of one-month LIBOR per annum plus 0.36 percent payable monthly. The effective interest rate received by the Hospital was 3.0 percent in 2006. The Hospital will be exposed to variable rates in the counterparty to the swap defaults or if the swap is terminated. The swap exposes the Hospital to basis risk should the relationship between LIBOR and auction rate converge, changing the synthetic rate of the bonds. The Hospital does not intend to terminate this agreement. The fair value of the 2005 swap agreement of $2.0 million at June 30, 2006.

The Series 1997 Revenue Bonds and Series 2005 Revenue Bonds with variable interest rates are subject to remarketing provisions that require the Hospital to repurchase the bonds if they cannot be sold to a third party. The Hospital has entered into standby bond purchase agreements (the “Agreements”) with a commercial bank, which expire in 2008 and 2010, to provide the funding for such repurchases as necessary. In the absence of the Agreements, the Hospital would be required to replace them with similar credit arrangements, convert the related debt from variable to fixed rate debt, or fund required repurchases from available funds. As of and for the year ended June 30, 2006 there were no borrowings under the Agreements.

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
2007	$ 5,283	$ 10,292	$ (13)	$ 15,562
2008	5,214	10,023	(13)	15,224
2009	5,357	9,748	(12)	15,093
2010	5,638	9,462	(12)	15,088
2011	5,926	9,186	(11)	15,101
2012-2016	36,040	41,444	(41)	77,443
2017-2021	41,302	33,957	(33)	75,226
2022-2026	49,085	25,267	(33)	74,319
2027-2031	61,425	14,870	(6)	76,289
2032-2034	40,175	3,192	--	43,367
Deferred loss on refunding	(7,105)	--	--	(7,105)
Premium on 2002B Bonds	434	--	--	434
	$248,774	$ 167,441	$ (174)	$416,041

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, 2006 are as follows (in thousands):

Fiscal Year Ended	Principal	Interest
2007	$ 2,495	$ 9,547
2008	2,960	9,414
2009	3,310	9,256
2010	3,835	9,081
2011	4,215	8,901
2012-2016	32,070	41,008
2017-2021	41,150	33,892
2022-2026	49,050	25,233
2027-2031	61,425	14,863
2032-2034	40,175	3,192
Total	240,685	164,387
Deferred loss on refunding	(7,105)	--
Premium/Discount	434	--
Total	$ 234,014	$ 164,387

State Fair Park Exposition Center, Inc.

In August 2001, the State Fair Park Exposition Center, Inc. (the Center) issued $44.9 million of City of West Allis, Wisconsin, Variable Rate Demand Revenue Bonds, Series 2001, which were issued to finance the construction of the exposition center. The bonds call for monthly interest-only payments until date of maturity. The bonds have a final maturity date of August 1, 2028, with no set schedule for principal repayment. However, the bonds require mandatory redemption to the extent of unused bond proceeds. Repayment of the bonds is guaranteed by a ground lease and license agreement, and letter of credit issued by US Bank which expired on April 15, 2005. The letter of credit was renewed effective April 15, 2005 through April 15, 2006. 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, 2005. The outstanding balance on these bonds was $40.8 million as of December 31, 2005.

Debt service requirements for interest for the Center, at December 31, 2005 are as follows (in thousands):

Fiscal Year Ended	Interest
2006	$ 2,531
2007	2,531
2008	2,531
2009	2,531
2010	2,531
2011-2015	12,657
2016-2020	12,657
2021-2025	12,657
2026-2028	6,542
Total	$ 57,168

University of Wisconsin Foundation

Long-term debt of the University of Wisconsin Foundation consists of two notes payable to U.S. Bank, N.A. One of the notes is payable in accreting monthly principal installments with a final balloon payment due February 2010. The note is collateralized by certain investments equal to the outstanding loan balance. The outstanding balance as of December 31, 2005 was $2.5 million.

The second note is a mortgage that was assumed in April 2004. The note is payable in monthly installments, including interest, with a final balloon payment due September 2009. The outstanding balance as of December 31, 2005, is $9.6 million.

Future maturities of long-term debt as of December 31, 2005 are as follows (in thousands):

Year ended December 31	Total Principal
2006	$ 625
2007	661
2008	699
2009	8,273
2010	1,855
Total	$ 12,113

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 January 2006, the State issued $96.8 million of general obligation refunding bonds (2006 Series 1), the proceeds of which were deposited in an escrow account to provide for future debt service payments and redemption of $102.0 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 $5.3 million and an economic gain of $5.2 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, 2006, approximately $987.1 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, 2006, revenue bonds outstanding of $305.5 million have been defeased.

- Transportation revenue bonds – At June 30, 2006, revenue bonds outstanding of $375.8 million have been defeased.

Refundings -- Component Units

Wisconsin Housing and Economic Development Authority

The Wisconsin Housing and Economic Development Authority (the Authority) defeased Insured Mortgage Revenue Bonds payable aggregating $48.4 million and sold the related Insured Mortgage Loan portfolio on March 1, 1990. As of June 30, 2006, the remaining outstanding defeased debt was $27.7 million.

University of Wisconsin Hospitals and Clinics Authority

In September 2005, the University of Wisconsin Hospitals and Clinics Authority (Hospital) issued $59.8 million in Variable Rate Demand Revenue Refunding Bonds, Series 2005 with an initial interest rate of 2.69 percent per annum at the time of issuance to advance refund $52.5 million of outstanding Bond Issue Series 2000 with an interest rate range of 5.6 percent to 5.86 percent. The net proceeds of $58.2 million (after payment of $1.6 million in issuance costs) were used to purchase state and local government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the Fixed Rate Serial and Term Hospital Revenue Bonds, Series 2000 with maturity dates on or after April 1, 2011. As a result the refunded portion of the Bond Issues Series 2000 are considered to be defeased and the liability for those bonds has been removed from the balance sheet.

Although the advance refunding resulted in the recognition of a deferred loss of $7.3 million, the Hospital in effect reduced its aggregate debt service payments over the next 24 years by over $14.0 million and obtained an economic gain (difference between the present values of the debt service payments on the old and the new debt) of approximately $9.0 million. The Hospital is amortizing the deferred loss to interest expenses over the term of the debt using the straight-line method.

Early Extinguishments/Redemptions

Component Units

Badger Tobacco Asset Securitization Corporation

On December 2005 and June 2006, the trustee in aggregate redeemed $27.1 million of the 6.125 percent turbo term bonds due June 2027.

Wisconsin Housing and Economic Development Authority

During 2006, the Wisconsin Housing and Economic Development Authority (the Authority) redeemed early various outstanding bonds according to the redemption provisions in the bond resolutions. None of these redemptions resulted in extraordinary losses due to the write-off of remaining unamortized deferred debt financing costs. A summary of these early redemptions follows (in thousands):

Bond Issue	**Redemptions 2006**
Home Ownership Revenue	
Bond Resolutions:	
1987	$ 51,355
1988	74,085
All Other	203,724
Housing Revenue Bonds	155,160
General funds	1,265

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. 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, 2006, the amount of general obligation commercial paper notes outstanding was $100.1 million which had interest rates ranging from 3.4 percent to 3.55 percent and maturities ranging from July 6, 2006 to August 15, 2006.

Short-term debt activity for the year ended June 30, 2006 for the general obligation commercial paper notes was as follows (in millions):

Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006
$ 59.7	$ 100.4	$ 60.0	$ 100.1

General Obligation Extendible Municipal Commercial Paper

The State has authorized general obligation extendible municipal commercial paper for the acquisition, construction, development, extension, enlargement, or improvement of land, waters, property, highway, buildings, equipment or facilities. Periodically, additional extendible municipal commercial papers are issued to pay for maturing extendible municipal commercial paper. The State intends to make annual May 1 payments on the outstanding extendible commercial paper that reflect principal amortization of the paper. The State also intends to make regular payments to the issuing and paying agent that will be equal to the upcoming interest due on maturing notes. At June 30, 2006, the amount of the general obligation extendible municipal commercial paper outstanding was $468.7 million which had interest rates ranging from 3.38 percent to 3.70 percent and maturities ranging from July 5, 2006, to October 3, 2006.

Short-term debt activity for the year ended June 30, 2006 for the general obligation extendible municipal commercial paper was as follows (in millions):

Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006
$ 281.7	$ 222.9	$ 35.9	$ 468.7

Petroleum Inspection Fee Revenue Extendible Municipal Commercial Paper

The State has authorized petroleum inspection fee revenue extendible municipal commercial paper to pay the costs of claims under the Petroleum Environmental Cleanup Fund Award (PECFA) Program. Periodically, additional extendible municipal commercial paper is issued to pay for maturing paper. The State may periodically deposit money into the Junior Subordinate Principal Account, which represents principal payments to be made on the extendible municipal commercial paper. The State also intends to make regular payments to the issuing and paying agent that will be equal to the upcoming interest due on maturing paper. At June 30, 2006, the amount of petroleum inspection fee revenue extendible commercial paper outstanding was $142.3 million which had interest rates ranging from 3.45 percent to 3.7 percent and maturities ranging from July 25, 2006 to September 7, 2006.

Short-term debt activity for the year ended June 30, 2006 for the petroleum inspection fee revenue extendible municipal commercial paper was as follows (in millions):

Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006
$ 142.3	$ --	$ --	$ 142.3

Transportation Revenue Commercial Paper Notes

The State authorized transportation revenue commercial paper notes to pay the costs of major highway projects and certain State transportation facilities. Periodically, additional commercial paper notes are issued to pay for maturing commercial paper notes. The State intends to make annual July 1 payments on the commercial paper notes that reflect principal amortization of the notes. The State also intends to make regular payments to the issuing and paying agent that will be equal to the upcoming interest due on maturing notes. At June 30, 2006, the amount of transportation revenue commercial paper notes outstanding was $113.9 million which had interest rates ranging from 3.64 percent to 3.75 percent and maturities ranging from July 6, 2006 to October 2, 2006.

Short-term debt activity for the year ended June 30, 2006 for the transportation revenue commercial paper notes was as follows (in millions):

Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006
$ 120.0	$ --	$ 6.1	$ 113.9

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, 2006, the following parity Master Lease certificates were outstanding:

- Master Lease Certificates of Participation of 2000, Series A, in the amount of $4.0 million. This series of Master Lease certificates have interest rates ranging from 4.6 percent to 4.75 percent and mature semi-annually through September 1, 2007.

- Master Lease Certificates of Participation of 2002, Series A, in the amount of $15.3 million. This series of Master Lease certificates have interest rates ranging from 3.5 percent to 3.75 percent and mature semi-annually through September 1, 2007.

- Master Lease Certificates of Participation of 2002, Series C, Master Lease Certificates of Participation of 2003, Series B, and Master Lease Certificates of Participation of 2004, Series A, and Master Lease Certificates of Participation of 2005 (Revolving Credit Agreement Tax Exempt) in the amount of $27.5 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 and mature on the dates in the Revolving Credit Agreement. 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 $16.7 million. This series of Master Lease Certificates have interest rates ranging from 4.0 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) in the amount of $26.8 million. 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 scheduled termination date under the Revolving Credit Agreement is June 30, 2007. This Master Lease certificate shall bear interest at the rates and mature on the dates provided for in the Revolving Credit Agreement. The balance of this 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, 2006, the State has deposited with the Trustee amounts, that when invested, will terminate lease schedules having an aggregate outstanding amount of $3.2 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, 2006, no material arbitrage rebate liabilities existed.

H. Moral Obligation Debt

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

Through legislation enacted in 1999, the State authorized the issuance of up to $170.0 million principal amount of bonds to finance the development or redevelopment of sites and facilities to be used for public schools. If certain conditions are satisfied, and if a special debt service reserve fund is created for the bonds, the State will provide a moral obligation pledge, which would restore the special debt reserve fund established for the bonds to an amount not to exceed the maximum annual debt service on the bonds. 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, 2006, $50.0 million was unused and available.

The State has entered into a credit agreement to provide a line of credit for liquidity support for up to $104.0 million of general obligation commercial paper notes. The line of credit expires in March, 2013, but is subject to renewal as provided for in the credit agreement. The cost of this line of credit is 0.095 percent per year. Effective August 2, 2006, the line of credit for liquidity support will increase to $233.0 million.

Also, the State has entered into a credit agreement to provide a line of credit for liquidity support for its transportation revenue commercial paper program. The amount of the line of credit is $116.0 million. This line of credit expires in April, 2013, but is subject to termination and renewal as provided for in the credit agreement. The cost of this line of credit is 0.100 percent per year. Effective October 2, 2006, the line of credit for liquidity support will increase to $207.0 million.

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, 2006 for capital leases (in thousands):

Fiscal Year	Governmental Activities	Business-type Activities
2007	$ 13,202	$ 7,255
2008	13,797	27,395
2009	8,623	3,142
2010	2,209	2,900
2011	1,158	2,667
2012 - 2016	1,508	11,447
2017 - 2021	-	317
Total minimum future payments	40,498	55,124
Less: Interest	(3,658)	(7,438)
Present value of net minimum lease payments	$ 36,840	$ 47,686

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, 2006 (in thousands):

Fiscal Year	Governmental Activities	Business-type Activities
Land and Land Improvements	$ 376	$ 209
Buildings and Improvements	6,157	60,209
Machinery and Improvements	76,619	9,163
Less: Accumulated Depreciation	(13,608)	(18,981)
Carrying Amount	$ 69,544	$ 50,601

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, 2006 was as follows:

Balance Due	Average Life (Weighted Term)
$89,763,305	3.3543 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. The balance at June 30, 2006 for amounts related to this agreement was $14.8 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 2006 were $65.2 million. Of this amount, $64.9 million relates to minimum rental payments stipulated in lease agreements, $283 thousand relates to contingent rentals, and $376 thousand relates to sublease rental payments received. Component unit rental expenses under operating leases were $7.4 million, of which $7.4 million relates to minimum rental payments stipulated in lease agreements.

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

Fiscal Year	Governmental Activities	Business-type Activities	Fiduciary Funds	Component Units
2007	$ 43,123	$ 19,343	$ 67	$ 7,002
2008	39,070	12,580	31	4,958
2009	30,794	10,816	6	3,578
2010	25,554	8,138	3	2,142
2011	21,493	7,052	-	1,879
2012 - 2016	49,261	20,778	-	1,186
2017 - 2021	21,737	21,543	-	-
2022 - 2026	1,510	22,727	-	-
2027 - 2031	148	26,594	-	-
2032 - 2036	75	4,030	-	-
2037 - 2041	83	-	-	-
Thereafter	292	-	-	-
Minimum lease payments	$ 233,140	$ 153,599	$ 107	$ 20,745

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, 2006 for installment purchases (in thousands):

Fiscal Year	Governmental Activities
2007	$ 651
2008	24
Total minimum future payments	675
Less: Interest	(9)
Present value of net minimum installment payments	$ 666

NOTE 13. RETIREMENT PLAN

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

The WRS is considered part of the State of Wisconsin's financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information for the year ending December 31, 2004, 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, 2005 will be available at a later date.

Plan Description

The WRS, governed by Chapter 40 of the Wisconsin Statutes, is a cost-sharing multiple-employer defined benefit pension plan. It provides coverage to all eligible State of Wisconsin, local government and other public employees. Any employee of a participating employer who is expected to work at least 600 hours per year (440 hours per year for teachers) for at least one year must be covered by the WRS. As of December 31, 2005, the number of participating employers was:

State Agencies	58
Cities	152
Counties	71
4^{th} Class Cities	34
Villages	236
Towns	218
School Districts	426
Wisconsin Technical College System Board Districts	16
Cooperative Educational Service Agencies	12
Other	189
Total Employers	1,412

For employees beginning participation on or after January 1, 1990 and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 are immediately vested. Employees who retire at or after age 65 (55 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

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

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

Accounting Policies and Plan Asset Matters

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

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

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

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

State Contributions Required and Contributions Made

Covered State employees in the General/Teacher category are required by statute to contribute 5.0 percent of their salary (2.9 percent for Executives and Elected Officials, 5.0 percent for Protective Occupations with Social Security, and 3.3 percent for Protective Occupations without Social Security) to the plan as of June 30, 2006. Employers may make these contributions to the plan on behalf of employees.

Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits. State contributions made for the years ended December 31, 2005, 2004, and 2003 were as follows (in millions):

	2005	2004	2003
Employer current service	$ 159.2	$ 149.2	$ 140.4
Percent of payroll	4.9%	4.7%	4.5%
Employer prior service	$ 2.2	$ 2.0	$ 706.8
Percent of payroll	0.1%	0.1%	22.4%
Employee required	$ 161.6	$ 157.2	$ 154.1
Percent of payroll	5.0%	4.9%	4.9%
Benefit adjustment contrib.	$ 22.8	$ 16.8	$ 11.1
Percent of payroll	0.7%	0.5%	0.4%
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, 2006 and 2005, the WRS's unfunded actuarial accrued liability was $0.3 billion and $0.4 billion, respectively. These amounts are presented as Prior Service Contributions Receivable on the financial statements. New prior service liabilities resulting from employers entering the WRS or increasing their prior service coverage are recognized as contributions in the year service is granted and are added to the Prior Service Contributions Receivable. Employer contributions for prior service reduce the receivable. The receivable is increased as of calendar year end with interest at the assumed interest rate of 7.8 percent.

NOTE 14. MILWAUKEE RETIREMENT SYSTEM

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

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

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

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

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

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

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

NOTE 15. 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 a sick leave termination benefit program that results in accounts from which employees may purchase post retirement health insurance. The State provides these 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 13,720 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 a termination payment of unused sick leave compensated absences, in the form of an account the employee may use to purchase health insurance through the State retiree health program. This termination payment is also available at the time of employee death or layoff. The rate of conversion of unused hours to the termination account is defined in the State's various employment contracts with employees and depends on years of service, employment category, and the employees' current rate of pay. The resulting account may be used for the benefit of the employee or his/her surviving dependents. Approximately 9,620 annuitants are currently buying health insurance from these accounts. These account benefits are 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 6.5 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 benefit liability at December 31, 2005, determined through an actuarial valuation performed on that date, was $1,822.8 million. The program's assets on that date were $1,805.7 million. The unfunded liability was $17.1 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 $5.4 million during the calendar year ended December 31, 2005.

For that same time period, the State paid required contributions totaling $47.3 million to fund sick leave termination payment benefits.

NOTE 16. PUBLIC ENTITY RISK POOLS ADMINISTERED BY THE DEPARTMENT OF EMPLOYEE TRUST FUNDS

The Department of Employee Trust Funds operates five public entity risk pools: group health insurance, group income continuation insurance, protective occupation duty disability insurance, long-term disability insurance, and pharmacy benefits. The information provided in this note applies to the period ending December 31, 2005.

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 325 local employers plus the State currently participate. The State and local government portions of the fund are accounted for separately and have separate contribution rates, benefits, and actuarial valuations. The fund includes both a self-insured, fee-for-service plan as well as various prepaid plans, primarily Health Maintenance Organizations (HMO's) and a self-insured plan that provides for pharmacy benefits of covered members.

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

The 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 486 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 core retirement investment trust. Investments are valued at fair value.

Unpaid Claims Liabilities - Claims liabilities are based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The estimate includes the effects of inflation and other societal and economic factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. Unpaid claims liability is presented at face value and is not discounted for health insurance. It is discounted using an interest rate of 7.8 percent for income continuation, 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 ten year period beginning January 1, 2007. 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 2005 (in millions):

	Health Insurance		Income Continuation Insurance		Duty Disability		Long-term Disability Insurance		Pharmacy Benefits	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Unpaid claims at beginning of the calendar year	$ 9.6	$ 8.3	$ 60.7	$ 56.9	$ 347.6	$339.2	$ 71.3	$ 54.0	$ (4.3)	$ --
Incurred claims:										
Provision for insured events of the current calendar year	73.6	74.7	31.6	29.2	34.4	44.6	30.6	19.4	160.6	158.1
Changes in provision for insured events of prior calendar years	(2.3)	0.1	(11.3)	(12.5)	4.6	(13.0)	(0.1)	6.7	1.7	--
Total incurred claims	71.3	74.8	20.3	16.7	39.0	31.6	30.5	26.1	162.3	158.1
Payments:										
Claims and claim adjustment expenses attributable to insured events of the current calendar year	65.8	65.2	5.1	4.5	0.3	0.3	0.7	0.1	168.8	162.4
Claims and claim adjustment expenses attributable to insured events of prior calendar years	7.3	8.3	8.8	8.4	24.0	22.9	10.8	8.7	(2.6)	--
Total payments	73.1	73.5	13.9	12.9	24.3	23.2	11.5	8.8	166.2	162.4
Total unpaid claims expenses at end of the calendar year	$ 7.8	$ 9.6	$ 67.1	$ 60.7	$ 362.3	$347.6	$ 90.3	$ 71.3	$ (8.2)*	$ (4.3)*

* Total unpaid claims at the end of 2005 is the net of $10.0 million in unpaid claims and $18.2 million in rebates due from pharmaceutical companies; total unpaid claims at the end of 2004 is the net of $9.3 million in unpaid claims and $13.6 million in rebates due from pharmaceutical companies.

D. Trend Information

Historical trend information showing revenue and claims development information is presented in the Department of Employee Trust Funds audited financial statements. The separately issued financial report for the year ended December 31, 2004 is available at www.etf.wi.gov and on request from:

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

The December 31, 2005 financial report will be available at a later date.

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 2006, 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, 2006 are estimated to total $1.9 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 2006 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, 2006 are estimated to total $37.0 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, 2006 are estimated to total $61.2 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):

	2006	2005
Beginning of fiscal year liability	$ 113,165	$ 110,856
Current year claims and changes in estimates	7,370	25,307
Claim payments	(20,374)	(22,998)
Balance at fiscal year-end	$ 100,161	$ 113,165

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

Annuity Contracts

The Risk Management Fund purchased annuity contracts in various claimants' names to satisfy claim liabilities. The likelihood that the fund will be required to make future payments on those claims is remote and, therefore, the fund is considered to have satisfied its primary liability to the claimants. Accordingly, the annuity contracts are not reported in, and the related liabilities are removed from, the fund's balance sheet. The aggregate outstanding amount of liabilities removed from the financial statements at June 30, 2006 is $3.9 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, 2006, the Local Government Property Insurance Fund insured 1,156 local governmental units. The total amount of insurance in force as of June 30, 2006 was $39.9 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, 2006, the fund had $49.1 million of shares in the State Investment Fund which are considered cash equivalents and $4.0 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 the unpaid claim liability titled future benefits and loss liabilities on the financial statements based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Claims liabilities are recomputed periodically to produce current estimates that reflect recent settlements, claim frequency, and other economic factors. Adjustments to future benefits and loss liabilities are charged or credited to expense in the periods in which they are made.

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

Reinsurance - The Local Government Property Insurance Fund uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the fund as direct insurer of the risks reinsured. The fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. As of June 30, 2006 the fund had $325.0 million of per occurrence excess of loss reinsurance in force with a $2.0 million combined single limit retention for each occurrence, and an annual aggregate reinsurance contract with a $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. Premiums ceded to reinsurers, which is netted against premium revenue (charges for sales and services in the financial statements), amounted to $3.8 million during the fiscal year. Reinsurance loss and adjusting expense recoveries earned, which reduces claims paid (benefit expense on the financial statements), amounted to $1.0 million during the fiscal year.

Unpaid Claims Liabilities

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

	2006	2005
Unpaid claims and claim adjustment expenses at beginning of the year	$4,077	$8,006
Less: Reinsurance recoverable	(265)	(3,652)
Net unpaid loss liability at beginning of year	3,812	4,354
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	15,652	9,623
Increase (decrease) in provision for insured events of prior years	1,741	400
Total incurred claims and claim adjustment expenses	17,393	10,023
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	8,790	6,071
Claims and claim adjustment expenses attributable to insured events prior years	3,708	4,494
Total payments	12,498	10,565
Net unpaid claims and claim adjustment expenses at end of year	8,707	3,812
Reinsurance recoverable	912	265
Total unpaid claims and claim adjustment expenses	$9,619	$4,077

Trend Information

Historical trend information showing revenue and claims development information is presented in the Office of the Commissioner of Insurance June 30, 2006 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	$ 11,893	$ 8,332
1967-1976	35,976	16,265
1977-1985	81,275	21,887
1986-1994	53,792	7,280
1995+	38,140	3,623
	$ 221,076	$ 57,387

Bases of Assumptions

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

* Age Next Birthday

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

The statutory assets at December 31, 2005 were $83.0 million and the statutory capital and surplus were $3.8 million, and the capital and surplus at June 30, 2006 was $5.5 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, 2006 as follows (in thousands):

Projected ultimate loss liability	$ 1,361,409
Less: Net loss paid from inception	(612,971)
Less: Liability for reported losses	(80,206)
Liability for incurred but not reported losses	$ 668,232

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, 2006 are estimated at 20.0 percent of the projected ultimate loss liabilities. The loss reserves are actuarially determined. The loss adjustment expenses paid from the inception of the Injured Patients and Families Compensation Fund are deducted from the projected ultimate loss adjustment expenses provision to determine the liability for loss adjustment expenses as of June 30, 2006 as follows (in thousands):

Projected ultimate loss adjustment expense liability	$ 202,715
Less: Loss adjustment expense paid from inception	(49,578)
Liability for loss adjustment expense	$ 153,137

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, 2006 (in thousands):

Estimated liability for Incurred But Not Reported (IBNR)	$ 668,232
Estimated liability for reported losses	80,206
Estimated unpaid loss adjustment expense	153,137
Total estimated loss liabilities	901,575
Less: Amount representing interest	(223,142)
Discounted loss liabilities	$ 678,433

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 contracted for an actuarial audit of the Injured Patients and Families Compensation Fund, which included 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 actuarial audit, which was completed, on July 7, 2005, concluded that the Fiscal Year 2005 estimate of the Fund's loss liability was reasonable but conservative. The audit recommended adjusting the methodology to incorporate a specific risk margin. This was implemented in the Fiscal Year 2006 analysis. The Fund's Board approved a 5 percent risk margin for Fiscal Year 2006. This compares with an implied risk margin of about 33 percent that the actuaries had built into the Fiscal Year 2005 estimate of the Fund's loss liability.

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):

	2006	2005
Balance, beginning of year	$ 22,040	$ 17,599
Incurred related to:		
Current year	138,050	134,979
Prior years	(5,468)	(1,091)
Total Incurred	132,582	133,887
Paid related to:		
Current year	123,970	113,955
Prior years	15,220	15,491
Total Paid	139,190	129,446
Balance, end of year	$ 15,432	$ 22,040

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, 2005.

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, 2004 and December 31, 2005, are as follows (in thousands):

	2005	2004
Balance at January 1	$ 33,901	$ 43,760
Incurred related to:		
Current year	10,900	7,534
Prior years	(12,319)	(15,931)
Total Incurred	(1,419)	(8,397)
Paid related to:		
Current year	75	30
Prior years	240	1,432
Total paid	315	1,462
Balance at December 31	$ 32,167	$ 33,901

There is inherent uncertainty in medical malpractice claims when establishing the estimates of unpaid losses and unpaid loss adjustment expenses. In 2004 and 2005, 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, 2006 is presented below (in thousands):

Condensed Balance Sheet

Assets:		
Current Assets	$	100,360
Other Assets		752,143
Total Assets	$	852,503
Liabilities:		
Due to Other Funds	$	2,258
Other Current Liabilities (Including Current Portion of Long-term Debt)		50,795
Noncurrent Liabilities		645,243
Total Liabilities		698,296
Fund Equity:		
Restricted		154,207
Total Fund Equity		154,207
Total Liabilities and Fund Equity	$	852,503

Condensed Statement of Revenues, Expenses and Changes in Fund Equity

Operating Revenues (Expenses):		
Loan Interest	$	17,412
Interest Expense		(33,197)
Other Operating Expenses		(2,348)
Operating Income (Loss)		(18,133)
Nonoperating Revenues (Expenses):		
Investment Income		4,050
Change in Fund Equity		(14,083)
Beginning Fund Equity		168,290
Ending Fund Equity	$	154,207

Condensed Statement of Cash Flows

Net Cash Provided (Used) by :		
Operating Activities	$	(2,401)
Noncapital Financing Activities		6,724
Investing Activities		11,760
Net Increase (Decrease)		16,083
Beginning Cash and Cash Equivalents		82,491
Ending Cash and Cash Equivalents	$	98,574

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, 2005 or June 30, 2006 is presented below (in thousands):

	Wisconsin Housing and Economic Development Authority	Wisconsin Health Care Liability Insurance Plan	University of Wisconsin Hospitals and Clinics Authority	University of Wisconsin Foundation	State Fair Park Exposition Center	Total
Condensed Balance Sheet						
Assets:						
Cash, Investments and Other Assets	$ 3,124,797	$ 71,278	$ 213,410	$ 2,395,788	$ 5,421	$ 5,810,694
Due from Primary Governments	-	-	1,544	-	170	1,714
Cash and Investments with Other Component Units	-	-	268,689	-	-	268,689
Capital Assets, net	18,002	-	315,444	7,518	34,977	375,941
Total Assets	$ 3,142,799	$ 71,278	$ 799,087	$ 2,403,306	$ 40,568	$ 6,457,037
Liabilities:						
Accounts Payable and Other Current Liabilities	$ 133,738	$ 20,281	$ 68,416	$ 33,946	$ 961	$ 257,341
Due to Primary Government	3	-	10,251	-	70	10,324
Amounts Held for Other Component Units	-	-	-	196,122	-	196,122
Long-term Liabilities (Current and Noncurrent portions)	2,567,466	32,167	332,434	12,113	40,853	2,985,032
Total Liabilities	2,701,207	52,448	411,100	242,181	41,884	3,448,820
Fund Equity:						
Invested in Capital Assets, Net of Related Debt	2,587	-	103,245	7,518	(5,399)	107,950
Restricted	431,255	18,830	34,304	2,034,724	-	2,519,113
Unrestricted	7,750	-	250,438	118,883	4,083	381,154
Total Fund Equity	441,592	18,830	387,987	2,161,125	(1,316)	3,008,217
Total Liabilities and Fund Equity	$ 3,142,799	$ 71,278	$ 799,087	$ 2,403,306	$ 40,568	$ 6,457,037
Condensed Statement of Revenues, Expenses and Changes in Fund Equity						
Program Expenses:						
Depreciation	$ 5,467	$ -	$ 30,950	$ 277	$ 1,033	$ 37,726
Payments to Primary Government	-	-	2,325	114,714	-	117,039
Other	275,828	(93)	676,222	30,989	4,158	987,105
Total Program Expenses:	281,295	(93)	709,497	145,980	5,191	1,141,870
Program Revenues:						
Charges for Goods and Services	4,077	6,167	734,388	-	4,178	748,810
Investment and Interest Income	130,354	3,308	-	206,760	-	340,421
Operating Grants and Contributions	137,564	-	827	139,892	-	278,283
Capital Grants and Contributions	-	-	9,757	-	57	9,814
Other	16,662	39	13,627	109	297	30,734
Total Program Revenues	288,657	9,514	758,599	346,760	4,532	1,408,062
Net Program Revenue/(Expense)	7,362	9,606	49,102	200,781	(659)	266,193
General Revenues:						
Interest and Investment Earnings	19,980	-	12,832	-	(10)	32,802
Contributions to Endowments	-	-	136	-	-	136
Change in Fund Equity	27,342	9,606	62,070	200,781	(669)	299,131
Fund Equity, Beginning of Year	414,250	9,223	325,917	1,960,344	(647)	2,709,087
Fund Equity, End of Year	$ 441,592	$ 18,830	$ 387,987	$ 2,161,125	$ (1,316)	$ 3,008,217

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 2005 Comprehensive Annual Financial Report to the beginning-of-year fund balances/fund equity/net assets reported for Fiscal Year 2006 (in thousands):

A. Fund Statements – Governmental Funds

	Major Funds			
	General	Transportation	Nonmajor Funds	Total Governmental
Fund Balances June 30, 2005 as reported in the 2005 Comprehensive Annual Financial Report	$ (2,122,235)	$ 393,586	$ 893,261	$ (835,388)
Unclaimed Property Program recognition of additional liability	(19,900)	-	-	(19,900)
Restatement of accounts payable	-	23,676	-	23,676
Other adjustments of assets and liabilities as of June 30, 2005	149	-	6	155
Fund Balances July 1, 2005 as restated	$ (2,141,986)	$ 417,262	$ 893,267	$ (831,457)
Effect of prior period adjustments on the amount of excess revenues and other sources over expenditures and other uses of Fiscal Year 2005	$ 149	$ 11,128	$ 6	$ 11,284

B. Fund Statements – Proprietary Funds

	Major Funds						
	Injured Patients and Families Compensation	Environmental Improvement	University of Wisconsin System	Unemployment Reserve	Nonmajor Funds	Total Enterprise	Internal Service Funds
Fund Equity June 30, 2005 as reported in the 2005 Comprehensive Annual Financial Report	$ 31,706	$ 1,186,566	$ 3,701,127	$ 923,727	$ 555,425	$ 6,398,551	$ 22,918
University of Wisconsin System restatement of of buildings and equipment	-	-	16,592	-	-	16,592	-
Other adjustments of assets and liabilities as of June 30, 2005	-	-	8,900	-	(1,127)	7,773	(16)
Fund Equity July 1, 2005 as restated	$ 31,706	$ 1,186,566	$ 3,726,619	$ 923,727	$ 554,299	$ 6,422,917	$ 22,902
Effect of prior period adjustments on the amount of net change in fund equity of Fiscal Year 2005	$ -	$ -	$ -	$ -	$ (402)	$ (402)	$ (16)

C. Fund Statements – Fiduciary Funds

	Pension and Other Employee Benefit Trust	Investment Trust	Private Purpose Trust	Total Fiduciary
Net Assets June 30, 2005 as reported in the 2005 Comprehensive Annual Financial Report	$ 67,804,584	$ 2,784,581	$ 1,458,398	$ 72,047,563
Adjustments of assets and liabilities as of June 30, 2005	-	-	158	158
Net Assets July 1, 2005 as restated	$ 67,804,584	$ 2,784,581	$ 1,458,556	$ 72,047,721
Effect of prior period adjustments on the amount of net increase in net assets of Fiscal Year 2005	$ -	$ -	$ 3	$ 3

D. Government-wide Statements

	Primary Government			
	Governmental Activities	Business-type Activities	Totals	Component Units
Net Assets June 30, 2005 as reported in the 2005 Comprehensive Annual Financial Report	$ 5,091,125	$ 6,398,984	$ 11,490,109	$ 2,709,087
Unclaimed Property Program recognition of additional liability	(19,900)	-	(19,900)	-
Restatement of accounts payable	23,676	-	23,676	-
University of Wisconsin System restatement of buildings and equipment	-	16,592	16,592	-
Other adjustments of assets and liabilities as of June 30, 2005	(286)	7,773	7,487	-
Net Assets July 1, 2005 as restated	$ 5,094,616	$ 6,423,349	$ 11,517,965	$ 2,709,087
Effect of prior period adjustments on the amount of net increase in net assets of Fiscal Year 2005	$ 17,359	$ (402)	$ 16,957	$ -

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 $13.4 million on June 30, 2006 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 $0.2 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 $1.4 million at June 30, 2006.

In addition, the U. S. Department of Health and Human Services (U.S. DHHS) determined that the Department of Workforce Development should refund the federal share of recovered AFDC overpayments. However, the State of Wisconsin has appealed the decision of the U.S. DHHS. A liability for $11.8 million is reported at June 30, 2006.

Other Claims, Judgments, and Contingencies

The State is also named as a party in other legal proceedings where the ultimate disposition and consequence are not presently determinable. The potential liability amount relating to an unfavorable outcome for certain of these proceedings could not be reasonably determined at this time. However, the ultimate dispositions and consequences of any single legal proceeding or all legal proceedings collectively should not have a material adverse effect on the State's financial position.

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. Seven sites have soil and/or groundwater contamination associated with underground storage tank releases with an estimated remediation cost of $0.8 million.

The State is also involved in environmental remediations on nine properties that do not involve releases from underground storage tanks, with an estimated cost of $3.2 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, 2006 reported as Fund Balance - Reserved for Encumbrances, additional obligations at June 30, 2006 representing multi-year, long-term commitments included (in thousands):

Transportation Fund	$ 353,363
Transportation Revenue Bonds Capital Projects Fund	40,220
Wireless 911 Fund	46,633
General Fund – Department of Commerce programs, including economic and community development programs	21,433

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 $191.6 million as of June 30, 2006. These loan commitments are expected to be met through additional federal grants and proceeds from issuance of revenue obligations.

In addition, the revenue obligation bonds of the Leveraged Loan Program in the Fund are collateralized by a security interest in all the assets of the Leveraged Loan Program. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the Fund’s revenue obligation bonds. However, as the loans granted to local units of government are at an interest rate less than the revenue bond rate, the State is obligated by the Fund’s General Resolution to fund, at the time each loan is made, a reserve which subsidizes the Leveraged Loan Program in an amount which offsets this interest disparity.

The *Injured Patients and Families Compensation Fund* may be required to purchase an annuity as a result of a claim settlement. Under specific annuity arrangements, the fund may have ultimate responsibility for annuity payments if the annuity company and the reassignment company default on annuity payments. One of the fund's annuity providers defaulted on $93 thousand in annuity payments through June 30, 2006, which the fund subsequently paid. The annuity provider is currently making the majority of these annuity payments, but the fund continues to make monthly annuity payments to cover defaulted payments. The fund has received reimbursement for these payments, including interest of $60 thousand through June 30, 2006. It is unclear when the annuity provider will be able to make the remaining annuity payments and whether the fund will be able to recover the remaining annuity payments made on the behalf of the annuity provider. The total estimated replacement value of the fund's annuities as of June 30, 2006 was $145.6 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, 2006, the appropriation available totaled $35.2 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 $1.3 million as of June 30, 2006. 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, 2006, outstanding loan guarantees totaled $31.2 million.

NOTE 23. SUBSEQUENT EVENTS

Primary Government

Short-term Debt

General Obligation – In August 2006, the State issued $123.5 million of 2006 Series A general obligation commercial paper notes to be used to acquire, construct, develop, extend, enlarge, or improve land, waters, property, highways, buildings, equipment, or facilities for public purposes.

In December 2006, the State issued $91.7 million of 2006 Series B general obligation extendible municipal commercial paper notes to be used to acquire, construct, develop, extend, enlarge, or improve land, waters, property, highways, buildings, equipment or facilities for public purposes.

In December 2006, the State issued $4.4 million of 2006 Series C general obligation extendible municipal commercial paper notes to be used to fund veterans housing loans.

Revenue Obligation – In October 2006, the State issued $91.3 million of 2006 Series A transportation revenue commercial paper notes to pay the costs of major highway projects and certain State transportation facilities and costs of issuance. The payment of the commercial paper notes is subordinated to the senior bonds.

Certificates of Participation – In August 2006, $71.4 million of master lease certificates of participation were issued.

Long-term Debt

General Obligation Bonds – In July 2006, the State issued a $2.0 million general obligation term bond 2006, Series B to be used to fund veterans home improvement loans. The interest rate is 5.65 percent which is payable semiannually beginning May 1, 2007 with mandatory sinking fund payments beginning November 1, 2007 to the stated maturity date November 1, 2021.

In August 2006, the State issued $61.7 million general obligation bonds 2006, Series C to be used to fund veterans primary mortgage home loans. The interest rates range from 4.00 percent to 5.00 percent and are payable semiannually, beginning May 1, 2007. The bonds mature May 1 of the years 2008 through 2037.

In September 2006, the State issued $176.5 million of 2006 Series D 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. The interest rates range from 4.50 percent to 5.00 percent and are payable semiannually on May 1 and November 1, beginning May 1, 2007. The bonds mature May 1 of the years 2018 through 2027.

Revenue Bonds – In November 2006, the State issued $100.0 million of 2006, Series 2 clean water revenue bonds to be used to make loans to municipalities primarily for construction or improvement of their wastewater treatment facilities, make a deposit into the Loan Credit Reserve Funds, and pay for costs of issuance. The interest rates range from 4.00 percent to 5.00 percent and are payable semiannually beginning June 1, 2007. The bonds mature June 1 of the years 2008 through 2027.

In July 2006, the State called for early redemption the 2001 Series A Petroleum Inspection Fee Revenue Bonds each in the par amount of $15.0 million, having a 5.0 percent coupon, and due on July 1, 2007 and July 1, 2008. On August 1, 2006, the State called for early redemption the last remaining maturity of the 2000 Series A of Petroleum Inspection Fee Revenue Bonds, in the par amount of $7.9 million, having a 5.5 percent coupon, and due July 1, 2012.

Future Benefits and Loss Liabilities

In July 2006, the State of Wisconsin Supreme Court issued a ruling in the Bartholomew v Patients Compensation Fund case. The court reversed in part the Maurin decision in that they allowed for the stacking of caps, but upheld the wrongful death cap. The decision was a split decision and exactly how it will affect future cases is not clear. However, based solely on the portion of that decision that would allow for the stacking of caps, the fund's actuary determined that the decision would result in an increase to the fund's outstanding discounted loss liabilities of about $10.5 million.

Federal Share of Billings in Excess of Costs

In September 2006, the State was notified by the Federal Department of Health and Human Services (DHHS) that it has determined that the federal share of billings in excess of costs provided by the Department of Administration is $23.1 million. DHHS proposes to collect this amount through several alternative methods. The Department of Administration intends to appeal this decision.

Component Units

Wisconsin Housing and Economic Development Authority – In July 2006, the Authority issued $7.5 million of variable rate demand home ownership revenue bonds, 2006 A & B. The bonds, issued under the multifamily housing bond general resolution, are general obligations of the Authority. The Series bonds are rated Aa3 and VMIG-1 by Moody's Investor Service.

In July 2006, the Authority redeemed the following bonds (in thousands):

Program/Bond Resolution	Amount Redeeme
Home Ownership Revenue Bonds,	
1999 Series F, G, H & I	$ 545
Home Ownership Revenue Bonds,	
1998 Series F & G	495
House Revenue Bonds, 1998 Series A, B & C	3,440
House Revenue Bonds,	
2002 Series A, B, C, D, E, F, G,H & I	710

The Authority retired early the following bonds (in thousands):

Program/Bond Resolution	2007 Redemptions
Home Ownership Revenue Bond Resolutions:	
1987	$ 18,670
1988	23,395
All Other	1,040
Housing Revenue Bonds	4,150
Single Family Drawdown Revenue Bonds	167
General Funds:	
Line of Credit – Mortgage Financing	4,950
Business Development Bonds (various)	150

Program/Bond Resolution	2007 Issuances
Home Ownership Revenue Bond Resolutions:	
1988	180,000 (a)
Housing Revenue Bonds	7,500
Single Family Drawdown Revenue Bonds 1991-1	27,576
General Funds:	
Line of Credit – Mortgage Financing	34,957
Commercial Paper – Building	34,522 (b)

(a) Bonds were sold on 10-25-06
(b) Replaces scheduled maturities

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)
2006	11.200	5.4	15.0	9.6
2005	11.200	5.8	15.0	9.2
2004	11.200	6.1	15.0	8.9
2003	11,200	4.3	15.0	10.7
2002	11,200	4.6	15.0	10.4

Each year the State estimates the costs to maintain and preserve the road network at, or above, the established condition level. Actual maintenance/preservation costs compare to estimates as follows:

Year Ended June 30	Estimated Costs (In millions)	Actual Costs (In millions)	Variance (In millions) Favorable/ (Unfavorable)
2006	$ 495.7	$ 425.9	$ 69.8
2005	478.6	372.3	106.4
2004	450.8	341.1	109.7
2003	420.9	336.7	84.2
2002	470.7	437.6	33.1

Estimated costs are developed at the beginning of the fiscal year based on projects planned for the current and future years. The types of projects ultimately contracted and incurring costs during the year are often very different. In addition, the State of Wisconsin, Department of Transportation's multi-year contracting process, allowing encumbrances to carry forward, makes a comparison of actual to estimated amounts difficult since expenditures for the current year may have been budgeted and committed to a project in prior years.

Bridge Network

Condition assessments are completed on a two-year cycle, with more frequent inspections completed if warranted. The most current assessment results are reported for each State bridge, making the overall assessment a blend of measures completed in the current fiscal year and those completed in the prior year. The 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/ (Unfavorabl
2006	4.900	4.3	15.0	10.7
2005	4.900	5.1	15.0	9.9
2004	4.900	5.4	15.0	9.6
2003	4,900	6.2	15.0	8.8
2002	4,900	7.6	15.0	7.4

Each year the State estimates the costs to maintain and preserve the bridge network at, or above, the established condition level. Actual maintenance/preservation costs compare to estimates as follows:

Year Ended June 30	Estimated Costs (In millions)	Actual Costs (In millions)	Variance (In millions) Favorable/ (Unfavorable)
2006	$ 42.4	$ 31.3	$ 11.1
2005	28.3	38.6	(10.3)
2004	47.8	52.3	(4.5)
2003	46.4	45.7	0.7
2002	33.6	38.4	(4.8)

Estimated costs are developed at the beginning of the fiscal year based on projects planned for the current and future years. The types of projects ultimately contracted and incurring costs during the year are often very different. The State of Wisconsin, Department of Transportation's multi-year contracting process, allowing encumbrances to carry forward, makes a comparison of actual to estimated amounts difficult since expenditures for the current year may have been budgeted and committed to a project in prior years.

Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2006

(In Thousands)

	Original Budget	Final Budget	Actual Amounts
Unexpended Budgetary Fund Balances, Beginning of Year			$ 393,191
Revenues and Transfers (Inflows):			
Taxes	$ 11,974,979	$ 11,970,974	12,051,460
Departmental:			
Tribal Gaming	74,554	118,629	88,862
Other	10,203,390 (A)	10,565,996 (A)	10,181,547
Transfers from:			
Transportation Fund	(A)	(A)	338,449
Nonmajor Funds	(A)	(A)	34,225
Total Revenues and Transfers (Inflows)	22,252,923	22,655,598	22,694,544
Amounts Available for Appropriation			23,087,734
Appropriations (Outflows):			
Commerce	349,018	354,939	262,183
Education	10,310,590	10,563,986	10,148,528
Environmental Resources	307,659	322,280	293,414
Human Relations and Resources	8,729,353	9,321,237	8,718,439
General Executive	951,329	1,038,836	688,288
Judicial	113,247	116,290	115,263
Legislative	63,707	61,907	61,343
Tax Relief and Other General	1,915,472	1,864,956	1,859,988
Transfers to:			
Nonmajor Funds	-	341,813	341,813
Total Appropriations (Outflows)	$ 22,740,376	$ 23,986,246	22,489,259
Fund Balances, End of Year			598,475
Less Encumbrances Outstanding at June 30, 2006			(520,282)
Fund Balances, End of Year Budgetary Basis			$ 78,193

Reconciliation of the End of Year, Budgetary Basis, Fund Balance to the Detail Reported in the Annual Fiscal Report:	
General Purpose:	
Designated	$ 43,179
Undesignated	49,217
Total General Purpose	92,396
Program Revenue	(14,203)
Fund Balances, End of Year Budgetary Basis	$ 78,193

(A) Interfund transfers to the General Fund were budgeted under departmental revenue during Fiscal Year 2006.

Budgetary Comparison Schedule
Transportation Fund
For the Fiscal Year Ended June 30, 2006

(In Thousands)

	Original Budget	Final Budget	Actual Amounts
Unexpended Budgetary Fund Balances, Beginning of Year			$ 350,169
Prior Period Adjustment			(636)
Restated Unexpended Budgetary Fund Balances, Beginning of Year			349,532
Revenues (Inflows):			
Taxes	$ 1,001,808	$ 1,001,808	1,001,808
Departmental	1,354,956	1,354,956	1,354,956
Total Revenues (Inflows)	2,356,764	2,356,764	2,356,764
Amounts Available for Appropriation			2,706,296
Appropriations and Transfers (Outflows):			
Commerce	101	101	46
Environmental Resources	3,218,276	3,399,922	2,039,667
General Executive	2,941	2,074	1,916
Tax Relief and Other General	20,022	20,228	21,093
Transfers to:			
General Fund	338,449	338,449	338,449
Total Appropriations and Transfers (Outflows)	$ 3,579,789	$ 3,760,774	2,401,170
Fund Balances, End of Year			305,126
Less Encumbrances Outstanding at June 30, 2006			(1,232,655)
Fund Balances, End of Year Budgetary Basis			$ (927,530)

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, 2006 is presented below (in thousands):

	General Fund	Transportation Fund
Fund balance June 30, 2006 (budgetary basis – budgetary fund structure):		
General Purpose Revenue – fund balance per budgetary basis *Annual Fiscal Report*		
Undesignated fund balance	$ 49,217	
Designated fund balance	43,179	
Total General Purpose Revenue fund balance	92,396	
Program Revenue – fund balance per budgetary basis *Annual Fiscal Report*	(14,203)	
Fund balance June 30, 2006 (budgetary basis – budgetary fund structure) As reported on the budgetary comparison schedule	78,193	$ (927,530)
Reclassifications:		
To eliminate the effect of encumbrances that were reported as expenditures under budgetary reporting (basis difference)	520,282	1,232,655
To reclassify activities reported in another GAAP fund type (perspective differences):		
Enterprise funds (except for the University of Wisconsin System)	14,369	--
University of Wisconsin System	(320,310)	--
Internal service funds	(2,277)	--
Fiduciary funds	(18,821)	--
Transportation Revenue Bonds debt service fund	--	2,875
Fund balance June 30, 2006 (GAAP fund structure – budgetary basis, excluding encumbrances treated as expenditures at year end)	271,436	308,001
Adjustments (basis differences):		
To accrue receivables and establish payables for individual income taxes (net)	(795,180)	--
To defer revenues for gross receipts public utility taxes	(193,932)	--
To adjust revenues and expenditures for tax-related items and other tax credit/aid programs (net)	(307,859)	9,745
To adjust expenditures for the municipal and county shared revenue program	(456,951)	--
To adjust expenditures for State property tax credit program	(353,412)	--
To accrue unpaid Medicaid payments to providers (net of receivable from federal government)	(162,908)	--
To adjust revenues and expenditures for certain major Health and Family Services and Workforce Development human services payments to local governments	(81,073)	
To accrue State educational aids payments deferred until the subsequent year	(75,000)	--
To adjust revenues and expenditures for other items (net)	4,406	69,481
Fund balance June 30, 2006 (GAAP fund structure – GAAP basis) as reported on the governmental fund statements	$(2,150,474)	$ 387,227

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 2005. 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.

C. Excess of Expenditures over Appropriations

In the Agricultural Producer Security Fund, expenditures exceeded appropriations for the following program (in thousands):

Dairy, Grain and Vegetable Security	$ 112.2


FORWARD