STATE OF WISCONSIN
CONTINUING DISCLOSURE
ANNUAL REPORT

FILED PURSUANT TO UNDERTAKINGS PROVIDED TO PERMIT COMPLIANCE WITH
SECURITIES EXCHANGE COMMISSION RULE 15C2-12

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

MASTER LEASE CERTIFICATES OF PARTICIPATION
(Base CUSIP 977087)

TRANSPORTATION REVENUE OBLIGATIONS
(Base CUSIP 977123)

CLEAN WATER REVENUE BONDS
(Base CUSIP 977092)

PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS
(Base CUSIP 977109)

GENERAL FUND ANNUAL APPROPRIATION BONDS
(Base CUSIP 977100)

DECEMBER 23, 2005

JIM DOYLE
GOVERNOR

STEPHEN E. BABLITCH
SECRETARY

Division of Executive Budget and Finance
Capital Finance Office
Post Office Box 7864
Madison, WI 53707-7864

TTY (608) 261-6630
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WISCONSIN DEPARTMENT OF ADMINISTRATION

FRANK R. HOADLEY
CAPITAL FINANCE DIRECTOR
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December 23, 2005

Thank you for your interest in the State of Wisconsin.

This is the Continuing Disclosure Annual Report for the fiscal year ending June 30, 2005 (**Annual Report**).

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

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

Organization of the Annual Report

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

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

- **Part II** presents **general information about the State**, including its operations and financial results. This part includes the audited basic financial statements for the fiscal year ending June 30, 2005 and the State Auditor's report. This part also includes the results of the 2004-05 fiscal year and the budget for the 2005-06 and 2006-07 fiscal years.

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

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

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

Ratings on the State's Securities

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

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

(1) On March 29, 2005, Moody's changed the rating outlook on the State's general obligations, master lease certificates of participation, and general fund annual appropriation bonds from "negative" to "stable".

(2) On November 9, 2005, Standard & Poor's Ratings Services changed the rating outlook on the State's general obligation bonds, master lease certificates of participation, and general fund annual appropriation bonds from "stable" to "positive".

How to Get Additional Information

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

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

www.doa.wi.gov/capitalfinance

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

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

Sincerely,

Frank R. Hoadley
Capital Finance Director

SUMMARY OF OUTSTANDING STATE OF WISCONSIN OBLIGATIONS AS OF DECEMBER 15, 2005

GENERAL OBLIGATIONS[a]

	Principal Balance 12/1/2004	Principal Issued 12/1/2004 – 12/15/05	Principal Matured, Redeemed, or Defeased 12/1/2004 – 12/15/05	Statutory Adjustment[b]	Principal Balance 12/15/2005
Total	**$4,876,460,340**	**$1,050,505,000**	**$834,617,652**	**—**	**$5,092,347,689**
General Purpose Revenue (GPR)	3,225,307,815	583,524,170	202,506,967	250,000,000	3,856,325,018
Self-Amortizing: Veterans	369,940,000	5,000,000	41,125,000	—	333,815,000
Self-Amortizing: Other	1,281,212,525	211,980,830	340,985,684	(250,000,000)	902,207,671

	Principal Balance 12/1/2004	Principal Issued 12/1/2004 – 12/15/05	Principal Matured, Redeemed, or Defeased 12/1/2004 – 12/15/05	Principal Balance 12/15/2005
MASTER LEASE CERTIFICATES OF PARTICIPATION				
Total	**$ 82,102,804**	**$15,792,525**	**$22,710,720**	**$75,184,609**
TRANSPORTATION REVENUE OBLIGATIONS[a]				
Total	**$1,376,743,000**	**$393,985,000**	**$246,560,000**	**$1,524,168,000**
CLEAN WATER REVENUE BONDS				
Total	**$ 682,935,000**	**$107,025,000**	**$148,525,000**	**$641,435,000**
PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS[a][c]				
Total	**$ 348,455,000**	**—**	**$48,205,000**	**$300,250,000**
TAXABLE GENERAL FUND ANNUAL APPROPRIATION BONDS[a]				
Total	**$1,794,850,000**	**—**	**—**	**$1,794,850,000**

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

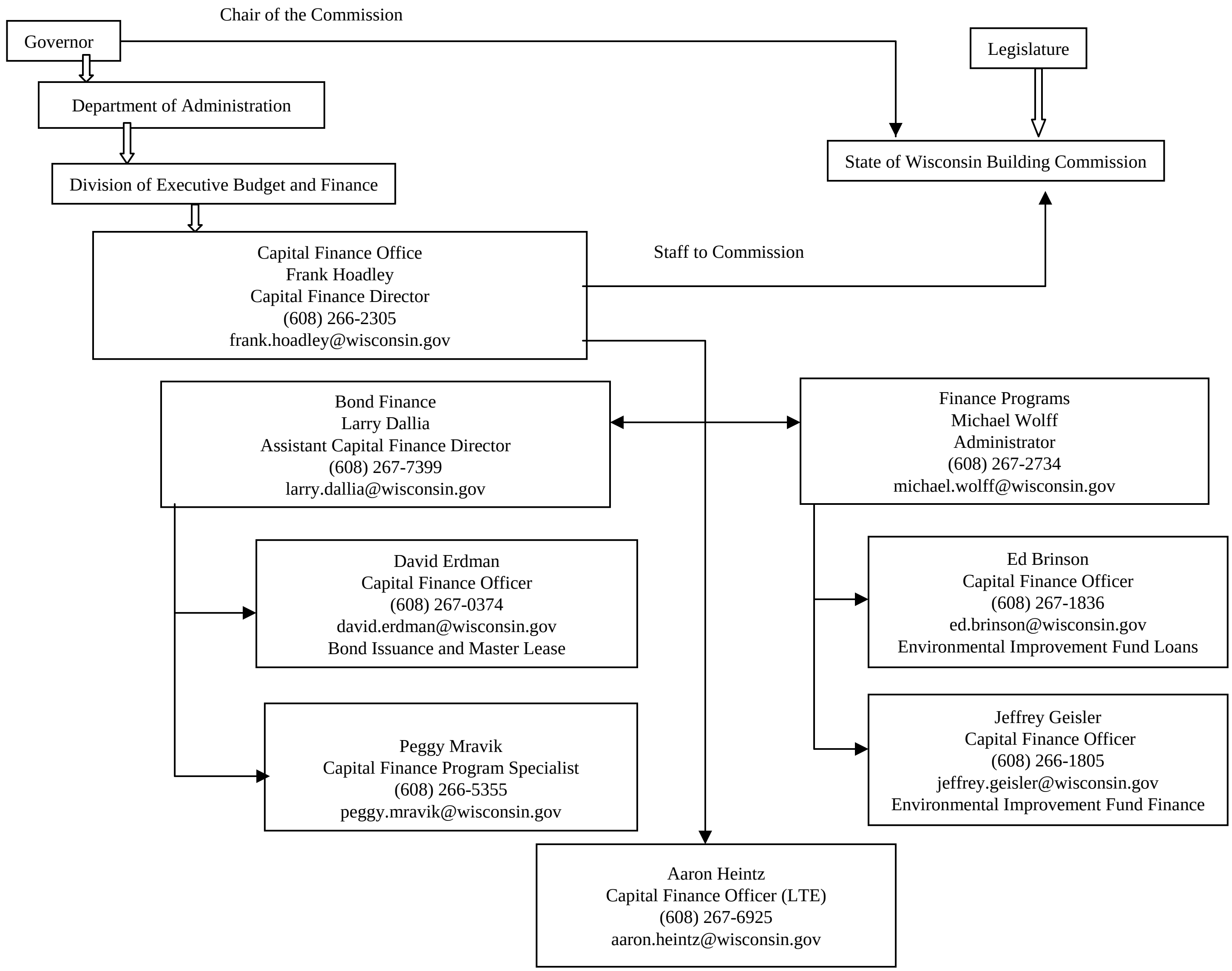
(b) Source of debt service payments on general obligations issued for highway rehabilitation projects changed from the Transportation Fund to the General Fund on July 1, 2005.

(c) As of December 16, 2005.

TABLE OF CONTENTS

TABLE OF TABLES

Capital Finance Office Staff (As of December 15, 2005)



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

BUILDING COMMISSION MEMBERS

Voting Members	**Term of Office Expires**
Governor Jim Doyle, Chairperson	January 8, 2007
Senator Fred A. Risser, Vice-Chairperson	January 5, 2009
Senator Carol Roessler	January 5, 2009
Senator David Zien	January 8, 2007
Representative Jeff Fitzgerald	January 8, 2007
Representative Jennifer Shilling	January 8, 2007
Representative Debi Towns	January 8, 2007
Mr. Terry McGuire, Citizen Member	At the pleasure of the Governor
Nonvoting, Advisory Members	
Mr. Adel Tabrizi, State Chief Engineer Department of Administration	——
Mr. Dave Haley, State Chief Architect Department of Administration	——
Building Commission Secretary	
Mr. Robert G. Cramer, Administrator Division of State Facilities Department of Administration	At the pleasure of the Building Commission and the Secretary of Administration

OTHER PARTICIPANTS

Ms. Peggy A. Lautenschlager State Attorney General	January 8, 2007
Mr. Stephen E. Bablitch, Secretary Department of Administration	At the pleasure of the Governor

DEBT MANAGEMENT AND DISCLOSURE

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(Note: New e-mail addresses effective November 2005)

PART II

GENERAL INFORMATION ABOUT THE STATE OF WISCONSIN

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

- Revenues and Expenditures
- Accounting and Financial Reporting
- Budgeting Process and Fiscal Controls
- Results of 2004-05 Fiscal Year
- State Budget
- General Fund Information
- State Government Organization
- State Obligations
- Statistical Information

APPENDIX A to this part includes the audited general purpose external financial statements for the fiscal year ending June 30, 2005 and the independent auditor's report that is provided by the State Auditor.

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

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

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

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

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

REVENUES

Revenue Structure

The State raises revenues from diverse sources:

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

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

Tax Structure

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

Individual Income Tax

The tax brackets and rates for the 2005 and 2006 tax years are as follows. The taxable income brackets have been indexed for changes in the consumer price index.

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

2006 Taxable Income Brackets		**2006 Marginal Tax Rate**
Single	**Married Filing Jointly**[(a)]	
$0 to 9,160	$0 to 12,210	4.60%
9,160 to 18,320	12,210 to 24,430	6.15
18,320 to 137,410	24,430 to 183,210	6.50
137,410+	183,210+	6.75

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

General Sales and Use Tax

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

Corporate Income and Franchise Taxes

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

Table II-1
REVENUES (ALL SOURCES)[a]
2000-01 TO 2004-05

	2004-05	2003-04	2002-03	2001-02	2000-01
State Collected Taxes					
Individual Income	$ 5,650,109,424	$ 5,277,119,228	$ 5,051,996,958	$ 4,979,661,843	$ 5,156,565,325
General Sales and Use	4,038,715,364	3,899,263,728	3,737,912,069	3,695,795,708	3,609,895,359
Corporate Franchise and Income	764,053,392	650,526,145	526,544,586	503,007,920	537,159,154
Public Utility	254,437,679	269,805,198	276,794,706	252,297,980	239,298,968
Excise	359,443,539	355,495,288	354,759,924	348,282,067	299,775,120
Inheritance and Gift	112,345,511	86,357,310	68,702,274	82,634,627	77,084,123
Insurance Companies	129,838,587	123,620,317	114,896,687	96,055,400	89,041,589
Motor Fuel	1,042,150,611	1,027,167,794	996,166,648	954,147,642	918,449,310
Forest	81,739,715	76,799,830	70,922,998	65,885,102	58,648,511
Miscellaneous	147,891,451	147,861,289	124,423,116	113,979,522	112,312,779
Subtotal	12,580,725,273	11,914,016,127	11,323,119,967	11,091,747,811	11,098,230,239
Federal Aid					
Medical Assistance	2,841,262,571	2,966,509,479	2,876,517,126	2,663,987,093	2,395,438,874
AFDC/W2	448,154,411	424,401,099	477,330,616	490,161,681	403,990,150
Transportation	755,659,339	740,140,823	726,594,153	769,221,794	671,344,340
Education	1,503,395,791	1,452,793,378	1,316,197,365	1,120,807,676	1,028,557,046
Other	1,642,411,725	1,718,620,059	2,121,671,098	2,158,980,902	1,727,232,553
Subtotal	7,190,883,836	7,302,464,838	7,518,310,358	7,203,159,146	6,226,562,962
Fees					
University of Wisconsin System[b]	960,481,330	880,582,998	775,395,525	84,006,675	2,155,613,345
Other	427,786,023	385,584,864	377,001,995	356,048,754	300,580,123
Subtotal	1,388,267,353	1,266,167,862	1,152,397,520	440,055,429	2,456,193,468
Licenses and Permits					
Vehicles and Drivers	352,220,463	353,943,546	319,449,151	340,205,268	324,531,760
Hunting and Fishing	95,320,908	92,307,370	81,846,434	81,747,187	78,929,285
Other	527,761,924	522,960,045	444,479,156	383,584,407	328,027,538
Subtotal	975,303,294	969,210,960	845,774,742	805,536,862	731,488,582
Miscellany					
Service Charges	679,698,283	756,319,038	711,017,199	625,265,992	524,635,878
Sales of Products	735,620,836	761,904,361	723,916,809	682,332,141	679,562,010
Investment Income	7,173,240,239	9,696,272,520	2,038,503,724	(3,541,516,552)	(4,003,889,358)
Gifts and Grants	375,899,897	341,902,613	343,153,253	337,321,976	373,700,027
Employee Benefit Contributions[c]	2,063,105,741	2,980,854,560	2,038,154,899	1,768,712,369	1,847,520,797
General Obligation Proceeds[d]	734,440,646	2,706,057,989	646,000,534	785,363,834	1,012,418,625
Other Revenues[e]	2,293,743,096	2,043,259,818	3,002,651,240	5,265,115,871	709,942,714
Subtotal	14,055,748,739	19,286,570,899	9,503,397,656	5,922,595,630	1,143,890,693
Summary					
TOTAL NET REVENUE	36,190,928,494	40,738,430,686	30,343,000,242	25,463,094,878	21,656,365,944
Transfers	828,212,783	847,006,075	939,405,913	1,307,219,152	620,137,706
Gross Revenue	$ 37,019,141,277	$ 41,585,436,761	$ 31,282,406,156	$ 26,770,314,030	$ 22,276,503,650

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

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

[c] Figures include all State and non-State employer and employee contributions. State contributions for State employees totaled $823,519,064.41 for 2004-2005, $1,727,453,191.76 for 2003-04, $975,778,982.77 for 2002-03, $824,268,843 for 2001-02; and $758,283,014 for 2000-01.

[d] The increase from 2002-03 to 2003-04 reflects receipt of general fund annual appropriation bond proceeds. Approximately $705 million of proceeds were deposited into the General Fund and subsequently used to pay-off the State's accrued prior service liability and $782 million of proceeds were deposited into the Fixed Retirement Investment Fund to pay-off the State's accrued liability for sick leave conversion credits. While included under the title of "general obligation proceeds", the general fund annual appropriation bonds are not a general obligation of the State, but are subject to annual appropriation.

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

Source: Wisconsin Department of Administration.

Public Utility Taxes

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

The gross receipts tax is 3.19% for electric cooperatives and municipal power companies. Private light, heat, and power companies pay a gross receipts license fee at the rates of 0.97% of revenues from gas services and 3.19% of revenues from electric services. Each year's fee is based on revenues collected in the previous year. Revenue received from utilities is deposited to the General Fund; however, revenue from railroads and airlines is deposited in the segregated Transportation Fund. Car line companies, which are businesses that furnish or lease car line equipment to a railroad but do not operate a railroad, are subject to a 3% gross receipts tax, which is also deposited into the Transportation Fund. Starting September 2005, the car line tax flat 3% rate was replaced with a rate equal to the state average net tax rate on property.

Excise Taxes

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

Estate, Inheritance, and Gift Taxes

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

Insurance Company Premium Tax

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

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

Motor Fuel Tax

Motor fuel is taxed at the rate of 29.9 cents per gallon. The motor fuel tax was previously indexed using an inflation-only factor based on the Consumer Price Index, however, Governor Doyle has signed into law a bill that ends the indexing of the motor fuel tax effective April 2007. The tax is collected from the wholesaler but is specifically passed through to the user. The revenues are deposited in the Transportation Fund, where they are used primarily for highway purposes.

Forest Tax

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

Miscellaneous Taxes

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

Tax Credits

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

Homestead Tax Credit

Property tax relief is provided to low-income homeowners and renters through a homestead tax credit on state individual income taxes. The maximum household income limit is $24,500. The maximum amount of aidable property taxes is $1,450, and the amount of farm acreage on which the property tax is based is 120 acres. For renters, the amount of rent allocated as property tax is 25%, or 20% if heat is included in rent. In the 2004-05 fiscal year, low-income homeowners and renters received $127 million in homestead tax credit relief.

Earned Income Tax Credit

The earned income tax credit provides assistance to lower-income workers. The credit supplements the wages and self-employment income of such families. It offsets the impact of the social security tax and increases the incentive to work. As of December 1, 2005, the State was one of seven states that offered an earned income credit. Four of those states, including the State, offered a refundable earned income credit.

The State's earned income tax credit is calculated as a percentage of the federal credit. The federal earned income tax credit varies by income and family size. In addition to the federal standards, the State's credit varies the percent of the federal credit by the number of children: 4% of the federal credit for one child, 14% for two, and 43% for three or more. The maximum State credit in tax year 2004 ranged from $104 for one child, $602 for two children, and $1,849 for three or more children. In the 20032-04 fiscal year, low-income wage earners received $77 million in earned income tax credits.

Farmland Preservation Tax Credit

The farmland preservation program provides property tax relief to farmland owners and encourages local governments to develop farmland preservation policies. The credit reduces income tax liability or is rebated if the credit exceeds income tax due. The credit formula is based on household income, the amount of property tax levied by all governments, and the type of land use provisions protecting the farmland (either a preservation agreement or exclusive agricultural zoning). Claimants may receive a credit on up to $6,000 of property taxes. The maximum potential credit is $4,200. In the 2004-05 fiscal year, farmland owners received $14 million in farmland preservation tax credits.

School Levy Tax Credit

The school levy tax credit is distributed based on each municipality's share of statewide levies for school purposes and is provided to all classes of taxpayers (residential, commercial, industrial, and others). For property taxes levied in December 2004, $469 million of school levy tax credits was distributed statewide, and the credit lowered school property taxes paid by taxpayers by 5.7% of the total gross school tax levy. The credits are paid to municipalities to reduce the amount due from all property taxpayers.

Lottery Property Tax Credit.

The net proceeds of the state lottery are reserved for property tax relief. The lottery credit is paid to municipalities to reduce the amount due from local taxpayers. The lottery credit is paid only for property taxes on primary residences. The total lottery credit was approximately $121 million in December 2005.

School Property Tax/Rent Credit

The school property tax/rent credit is equal to 12% of the first $2,500 in property taxes, or rent relating to allocable property taxes, for a maximum credit of $300. In the 2004-05 fiscal year, the school property tax/rent credit totaled $410 million.

Tax Collection Procedure (Delinquencies)

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

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

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

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

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

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

If it is unknown whether the taxpayer has any assets that may be garnished, a supplemental hearing may be called before the court commissioner in the taxpayer's county of residence, and the taxpayer's affairs could be placed in receivership. If the taxpayer is without any assets, proceedings may be stayed and the account periodically reviewed until such time that it is in the State's best interest to write-off the account.

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

EXPENDITURES

General

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

- *State Operations.* Direct payments by State agencies to carry-out State programs for expenses such as salaries, supplies, services, debt service, and permanent property.
- *Aids to Individuals and Organizations*. Payments from a State fund made directly to, or on behalf of, an individual or private organization (for example, Medicaid or student financial assistance).
- *Local Assistance*. Payments from a State fund to, or on behalf of, local units of government and school districts, including payments associated with State programs administered by local governments and school districts (for example, aid for families with dependent children and school aids).

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

General Fund Expenditures

Based on the budget and allocations for the 2005-06 fiscal year, about 57% of all general-fund taxes collected by the State are returned to local units of government. The remaining funds are used for aids to individuals and organizations (20%) and state operations and programs, including the University of Wisconsin System (23%).

ACCOUNTING AND FINANCIAL REPORTING

Statutory Basis

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

Table II-2

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

2000-01 TO 2004-05

	2004-05	2003-04	2002-03	2001-02	2000-01
Commerce					
State Operations	$ 177,270,715	$ 176,745,176	$ 176,083,715	$ 170,184,711	$ 171,267,613
Aids to Individuals and Organizations	134,274,721	172,583,246	187,477,215	174,212,058	215,454,938
Local Assistance	67,653,798	138,932,517	74,394,249	74,407,965	51,631,378
Subtotal	379,199,233	488,260,939	437,955,179	418,804,734	438,353,929
Education					
State Operations	3,680,666,682	3,475,747,413	3,303,821,334	3,115,399,765	3,075,483,311
Aids to Individuals and Organizations	569,282,647	512,024,280	485,812,841	427,268,613	391,871,206
Local Assistance	5,478,892,197	5,379,843,071	5,355,644,148	5,118,756,509	4,941,446,927
Subtotal	9,728,841,526	9,367,614,765	9,145,278,323	8,661,424,887	8,408,801,444
Environmental Resources					
State Operations	1,557,135,085	1,516,414,319	1,848,457,071	1,669,826,629	1,689,461,785
Aids to Individuals and Organizations	18,632,315	22,054,756	16,157,370	32,409,367	25,802,608
Local Assistance	1,111,255,497	1,033,697,144	1,115,024,574	1,009,292,244	1,011,992,606
Subtotal	2,687,022,898	2,572,166,219	2,979,639,014	2,711,528,240	2,727,256,998
Human Relations and Resources					
State Operations	2,338,807,640	2,270,811,372	2,407,000,030	2,201,627,675	1,972,235,028
Aids to Individuals and Organizations	7,236,447,598	7,076,266,703	7,214,104,334	7,002,052,675	5,711,855,259
Local Assistance	696,794,647	727,628,112	754,700,651	722,778,120	697,998,641
Subtotal	10,272,049,886	10,074,706,187	10,375,805,016	9,926,458,471	8,382,088,927
General Executive					
State Operations	5,156,121,321	7,172,782,711	4,534,745,855	4,507,929,098	3,870,708,222
Aids to Individuals and Organizations	374,960,654	384,804,781	375,249,497	326,682,917	357,195,805
Local Assistance	129,264,670	140,022,849	125,798,685	104,908,224	59,560,427
Subtotal	5,660,346,645	7,697,610,341	5,035,794,037	4,939,520,239	4,287,464,453
Judicial					
State Operations	90,426,703	87,121,028	85,979,874	84,149,092	85,292,057
Local Assistance	24,166,300	24,118,000	24,073,100	23,716,900	23,726,900
Subtotal	114,593,003	111,239,028	110,052,974	107,865,992	109,018,957
Legislative					
State Operations	58,234,658	59,302,088	61,219,698	62,114,318	62,220,008
Subtotal	58,234,658	59,302,088	61,219,698	62,114,318	62,220,008
General					
State Operations	663,012,446	758,203,351	850,238,866	1,320,960,416	564,306,377
Aids to Individuals and Organizations	242,099,193	234,367,276	836,426,667	1,179,940,690	837,938,682
Local Assistance	1,636,174,533	1,713,112,543	1,702,335,971	1,693,443,439	1,675,208,599
Subtotal	2,541,286,173	2,705,683,171	3,389,001,503	4,194,344,545	3,077,453,657
General Obligation Bond Program					
State Operations	818,835,725	817,151,948	447,479,707	622,061,731	675,100,374
Subtotal	818,835,725	817,151,948	447,479,707	622,061,731	675,100,374
Summary Totals					
State Operations	14,540,510,976	16,334,279,406	13,715,026,150	13,754,253,435	12,166,074,774
Aids to Individuals and Organizations	8,575,697,130	8,402,101,042	9,115,227,924	9,142,566,320	7,540,118,497
Local Assistance	9,144,201,642	9,157,354,236	9,151,971,378	8,747,303,402	8,461,565,478
GRAND TOTAL	$ 32,260,409,747	$ 33,893,734,685	$ 31,982,225,451	$31,644,123,157	$28,167,758,749

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

Source: Wisconsin Department of Administration.

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

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

Generally Accepted Accounting Principles

The State also accounts for and reports on its operations using generally accepted accounting principles (**GAAP**). For the fiscal year ended June 30, 2005 the State has prepared a Comprehensive Annual Financial Report (**CAFR**) in accordance with GAAP. The General Purpose External Financial Statements section of the CAFR for the fiscal year ended June 30, 2005 has been audited and is included as APPENDIX A to this Part II of the Annual Report.

Financial statements prepared in accordance with GAAP differ from those prepared in accordance with the Wisconsin Statutes. A notable difference pertains to the General Fund balance. The undesignated, unreserved balance for the fiscal year ended June 30, 2005 was $4 million on a budgetary basis. Under GAAP, the total fund balance for the fiscal year ended June 30, 2005 was a deficit of $2.122 billion. The difference results primarily because GAAP recognizes accrued liabilities that are not taken into account under the statutory basis. The single largest accrued liability for the fiscal year ended June 30, 2005 was $716 million and related to the State's individual income tax accruals.

Blended Component Unit—Badger Tobacco Asset Securitization Corporation

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

As a result of this accounting guidance from GASB, the State must incorporate the financial results of the Badger Tobacco Asset Securitization Corporation **(BTASC)**, starting with the audited external financial statements for the year ended June 30, 2004, as a blended component unit to the State and as a debt service fund. Such accounting treatment is not requested or condoned by BTASC and such accounting treatment does not create a liability of the State for the obligations of BTASC. Prior to this, BTASC was reported by the State as a discrete component unit. The Articles of Incorporation of BTASC requires that the corporation hold itself apart and separate from the State.

BUDGETING PROCESS AND FISCAL CONTROLS

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

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

Budget Requests from Agencies

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

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

Executive Budget

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

The Governor is required to deliver the biennial budget message and executive budget bill or bills to the Legislature on or before the last Tuesday in January of the odd-numbered year. However, upon request of the Governor, a later submission date may be allowed by the Legislature upon passage of a joint resolution. It is common for the Governor to request a later submission date. For the 2005-07 biennial budget, the Governor delivered the executive budget bill to the Legislature on February 8, 2005. Furthermore, each of the last ten executive budget bills had a late submission date.

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

Legislative Consideration

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

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

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

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

Governor's Partial Veto Power

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

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

Continuing Authority

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

Fiscal Controls

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

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

State law prohibits the enactment of legislation that would cause the estimated General Fund balance to be less than a specified amount or percentage of the general purpose revenue appropriations for that fiscal year. The specified amount for the 2004-05 fiscal year was $40 million. State law currently requires that the amount for both the 2005-06 and 2006-07 fiscal years should be $65 million. State law also requires that the statutory required reserve for both the 2007-08 and 2008-09 fiscal years should also be $65 million, and beginning with the 2009-10 fiscal year, the statutory required reserve should be 2.0% of the general purpose revenue appropriations for that fiscal year.

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

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

RESULTS OF 2004-05 FISCAL YEAR

The Annual Fiscal Report (Budgetary Basis) for the fiscal year ending June 30, 2005 was published October 15, 2005. It reports that the State's actual General Fund tax collections for the 2004-05 fiscal year, on a budgetary basis, were $52 million less than the LFB projection from May 2005, but about $658 million, or 6.1%, above collections in the 2003-04 fiscal year. It also reports that the State ended the 2004-05 fiscal year on a statutory and unaudited basis with an undesignated balance of $4 million.

The Annual Fiscal Report also outlined that, due to a change in the State's accounting for accrued tax revenues, the General Fund balance for the 2003-04 fiscal year, as reported in the Annual Fiscal Report (budgetary basis) for the 2003-04 fiscal year, has been adjusted downward by $27 million. As a result of (i) this adjustment to the General Fund ending balance for the 2003-04 fiscal year, and (ii) the lower-than-projected General Fund revenues for the 2004-05 fiscal year, the transfer of $75 million from the General Fund to the Medical Assistance Trust Fund, as directed by 2005 Wisconsin Act 15, was split between the 2004-05 and 2005-06 fiscal years. Given the ending balance of $4 million for the 2004-05 fiscal year, the transfer of the entire $75 million in that fiscal year would have resulted in a negative ending balance for the 2004-05 fiscal year.

The State did not issue any operating notes during the 2004-05 fiscal year.

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

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

Tables II-4 and II-5 in the section "STATE BUDGET" summarize the results from the 2004-05 fiscal year.

STATE BUDGET

Budget for 2004-05

See "RESULTS OF 2004-05 FISCAL YEAR" for information from the Annual Fiscal Report (Budgetary Basis) for the 2004-05 fiscal year, which was the last year of the 2003-05 biennial budget.

Budget for 2005-07

The State is in the first year of the 2005-07 biennial budget.

Impact from Results of 2004-05 Fiscal Year

As outlined in the Annual Fiscal Report (budgetary basis) for the 2004-05 fiscal year, the (i) restated beginning balance for the 2004-05 fiscal year, and (ii) lower-than-projected General Fund revenues, results in a $57 million reduction in the projected General Fund ending balances for both the 2005-06 and 2006-07 fiscal years. See "RESULTS OF 2004-05 FISCAL YEAR". The following are updated General Fund condition statements for these two fiscal years, as prepared by the Legislative Fiscal Bureau **(LFB)**.

Table II-3
General Fund Condition Statements
Reflects Modifications As Identified in the 2004-05 Annual Fiscal Report
2005-06 and 2006-07 Fiscal Years
(in Millions)

	2005 Wisconsin Act 25; Enacted Budget Bill		2005 Wisconsin Act 25; Modified by 2004-05 Annual Fiscal Report	
	2005-06	2006-07	2005-06	2006-07
Revenues				
Opening Balance	$ 5.8	$ 65.2	$ 4.1	$ 8.5
Taxes	11,957.1	12,506.8	11,957.1	12,506.8
Department Revenues				
Tribal Gaming	118.6	86.3	118.6	86.3
Other	674.8	513.6	674.8	513.6
Total Available	12,756.3	13,172.0	12,754.6	13,115.3
Appropriations				
Gross Appropriations	12,681.2	13,176.2	12,681.2	13,176.2
Compensation Reserves	90.1	178.3	90.1	178.3
Transfer to Medical Assistance Trust Fund				
Act 25	235.4	0.0	235.4	0.0
2004 -05 Annual Fiscal Report	0.0	0.0	55.0	0.0
Less: Lapses	(315.6)	(252.9)	(315.6)	(252.9)
Net Appropriations	12,691.1	13,101.6	12,746.1	13,101.6
Balances				
Gross Balance	65.2	70.4	8.5	13.7
Less: Required Statutory Balance	(65.0)	(65.0)	(65.0)	(65.0)
Net Balance, June 30	$ 0.2	$ 5.4	$ (56.5)	$ (51.3)

Impact of Supreme Court Decision Concerning Amendments to Gaming Compacts

In May 2004, the Wisconsin Supreme Court ruled that certain amendments to the gaming compacts with tribal governments were unconstitutional. In light of the decision, it was uncertain whether or to what extent the tribal governments would make the payments due under the amended gaming compacts. Subsequent to the decision, in the 2003-04 fiscal year, the State received the expected payments from all but one tribal government, which did not make its payment of about $30 million. In the 2004-05 fiscal year, the State received the expected payments from all but two tribal governments. One tribal government placed its payment of about $44 million in escrow for release to the State upon completion of a new amendment to its gaming compact. The other tribal government did not make its payment of about $30 million.

The budget for the 2005-06 fiscal year assumes that the State will receive approximately $146 million pursuant to the amended gaming compacts with tribal governments. This amount reflects (i) $73 million, which is the estimate of all payments due in this fiscal year, and (ii) $74 million, which is an estimate of payments due in previous fiscal years that are expected to be made in the 2005-06 fiscal year. It was announced on October 4, 2005 that an agreement had been reached between the State and the Forest County Potawatomi Community concerning an amendment to the tribal government's gaming compact. As a result of this agreement, the State expects to receive a lump sum payment of nearly $44 million during the 2005-06 fiscal year. This is a payment that was due in the 2004-05 fiscal year.

2005 Wisconsin Act 25

On July 25, 2005, Governor Doyle approved in part and vetoed in part, the budget bill for the 2005-07 biennium. A two-thirds vote in each house of the Legislature is required to override any veto. As of the date of this Annual Report, no veto has been overridden by the Legislature. Further information of the budget bill for the 2005-07 biennium may be obtained at the following address:

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

May 2005 General Fund Revenue Projections—LFB

On May 16, 2005, LFB released General Fund revenue estimates for use by the Wisconsin Legislature, and it included estimated tax projections for each year of the 2005-07 biennium. A copy of this May 2005 memorandum may be obtained at the above address.

Budget Tables

Tables II-4 and II-5 provide more detail on the General Fund and All-Funds budgets for the 2005-06 and 2006-07 fiscal years. The tables also reflect the results of the 2004-05 fiscal year.

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

		Actual 2004-2005[(b)]			Budget 2004-2005[(c)]		Budget 2005-2006			Budget 2006-2007
RECEIPTS										
Fund Balance from Prior Year	$	129,004,000		$	133,428,000	$	4,111,000	(d)	$	8,520,800
Tax Revenue										
State Taxes Deposited to General Fund										
Individual Income		5,650,109,000			5,556,590,000		6,144,500,000			6,502,757,200
General Sales and Use		4,038,715,000			4,094,750,000		4,181,600,000			4,358,100,000
Corporate Franchise and Income		764,053,000			627,050,000		683,320,000			670,252,800
Public Utility		254,443,000			271,000,000		267,465,000			281,065,000
Excise										
Cigarette/Tobacco Products		310,142,000			302,000,000		304,320,000			304,190,000
Liquor and Wine		39,532,000			40,000,000		40,800,000			41,600,000
Malt Beverage		9,770,000			9,800,000		9,600,000			9,600,000
Inheritance, Estate & Gift		112,346,000			90,000,000		105,000,000			110,000,000
Insurance Company		129,839,000			120,000,000		131,000,000			137,703,000
Other		107,496,000			78,000,000		89,500,000			91,500,000
Subtotal		11,416,445,000			11,189,190,000		11,957,105,000			12,506,768,000
Nontax Revenue										
Departmental Revenue										
Tribal Gaming Revenues		n/a	(e)		80,595,400		118,628,600	(f)		86,349,100
Other		237,384,000			329,151,800		674,768,700			513,641,700
Program Revenue-Federal		6,190,669,000			5,509,198,900		5,881,969,000			5,976,875,800
Program Revenue-Other		3,347,102,000			3,533,134,400		3,652,367,300			3,727,060,500
Subtotal		9,775,155,000			9,452,080,500		10,327,733,600			10,303,927,100
Total Available	$	21,320,604,000		$	20,774,698,500	$	22,288,949,600		$	22,819,215,900
DISBURSEMENTS AND RESERVES										
Commerce		253,520,000		$	274,448,400		288,639,300			280,863,700
Education		9,614,612,000			9,381,679,500		10,151,858,300			10,374,195,600
Environmental Resources		233,160,000			252,105,900		296,476,000			337,924,200
Human Relations and Resources		8,933,512,000			8,435,726,300		8,496,069,700			8,957,964,800
General Executive		626,194,000			636,573,200		890,108,400			876,584,600
Judicial		114,247,000			110,988,200		113,245,800			113,301,400
Legislative		58,234,000			62,479,800		63,707,200			63,637,700
General Appropriations		1,654,699,000			1,656,183,700		1,915,407,600			1,875,696,800
Subtotal		21,488,178,000			20,810,185,000		22,215,512,300			22,880,168,800
Less: (Lapses)		n/a			(215,125,400)		(315,586,600)			(252,906,900)
Compensation Reserves		n/a			163,019,600		90,054,100			178,302,800
Required Statutory Balance		n/a			40,000,000		65,000,000			65,000,000
Transfer to Medical Assistance Trust Fund		n/a			n/a		235,449,000			n/a
Adjustment 2004-05 Fiscal Report		n/a			n/a		55,000,000			n/a
Changes in Continuing Balance		(176,871,000)			n/a		n/a			n/a
Total Disbursements & Reserves	$	21,311,307,000		$	20,798,079,200	$	22,345,428,800		$	22,870,564,700
Fund Balance	$	9,297,000		$	(23,380,700)	$	(56,479,200)		$	(51,348,800)
Undesignated Balance	$	4,111,000		$	16,619,300	$	8,520,800		$	13,651,200

(a) The amounts shown are unaudited and rounded to the nearest thousand dollars.
(b) The amounts shown are based on statutorily required accounting and not on GAAP.
(c) The amounts shown incorporate all budget acts of the 2003 legislative session but do not reflect the provisions of 2005 Wisconsin Acts 2 and 15, which addressed projected shortfalls for Medical Assistance-related programs and utility fuel costs.
(d) The beginning balance is based on Legislative Fiscal Bureau memo, dated October 18, 2005, which reflects the Annual Fiscal Report (budgetary basis) for the 2004-05 fiscal year.
(e) Tribal gaming revenues are budgeted separately; however, when the payments are received by the State, they are not specifically reported but rather included within the category entitled "Nontax Revenue - Departmental Revenue".
(f) Assumes receipt of certain tribal gaming payments that were due in previous fiscal years.

Sources: Legislative Fiscal Bureau and Department of Administration.

Table II-5
State Budget–All Funds(a)

	Actual 2004-2005 [b]	Budget 2004-2005 [c]	Budget 2005-2006	Budget 2006-2007
RECEIPTS				
Fund Balance from Prior Year	$ 129,004,000	$ 133,428,000	$ 4,111,000 [d]	$ 8,520,800
Tax Revenue				
Individual Income	5,650,109,000	5,556,590,000	6,144,500,000	6,502,757,200
General Sales and Use	4,038,715,000	4,094,750,000	4,181,600,000	4,358,100,000
Corporate Franchise and Income	764,053,000	627,050,000	683,320,000	670,252,800
Public Utility	254,443,000	271,000,000	267,465,000	281,065,000
Excise				
Cigarette/Tobacco Products	310,142,000	302,000,000	304,320,000	304,190,000
Liquor and Wine	39,532,000	40,000,000	40,800,000	41,600,000
Malt Beverage	9,770,000	9,800,000	9,600,000	9,600,000
Inheritance, Estate & Gift	112,346,000	90,000,000	105,000,000	110,000,000
Insurance Company	129,839,000	120,000,000	131,000,000	137,703,000
Other	1,271,777,000	78,000,000 [e]	89,500,000 [e]	91,500,000 [e]
Subtotal	12,580,726,000	11,189,190,000	11,957,105,000	12,506,768,000
Nontax Revenue				
Departmental Revenue				
Tribal Gaming Revenues	- [f]	80,595,400	118,628,600 [g]	86,349,100
Other	237,384,000	329,151,800	674,768,700	513,641,700
Total Federal Aids	6,190,669,000	6,172,387,600	6,666,435,700	6,765,443,900
Total Program Revenue	3,347,102,000	3,533,134,400	3,652,367,300	3,727,060,500
Total Segregated Funds	4,446,271,000	2,808,703,900	2,725,433,400	2,660,878,900
Bond Authority	734,441,000	485,000,000	544,797,000	622,735,000
Employee Benefit Contributions [h]	9,482,548,000	7,203,432,000	7,343,260,000	7,718,157,000
Subtotal	24,438,415,000	20,612,405,100	21,725,690,700	22,094,266,100
Total Available	$ 37,148,145,000	$ 31,935,023,100	$ 33,686,906,700	$ 34,609,554,900
DISBURSEMENTS AND RESERVES				
Commerce	$ 385,481,000	$ 473,052,600	$ 464,344,300	$ 453,856,500
Education	10,010,896,000	9,507,703,400	10,214,983,700	10,437,359,000
Environmental Resources	3,067,825,000	2,477,859,700	2,709,947,700	3,035,491,700
Human Relations and Resources	10,361,051,000	8,867,059,700	9,037,349,300	9,146,826,100
General Executive	5,671,189,000	791,644,300	1,047,117,300	1,034,964,700
Judicial	114,593,000	111,701,500	113,974,200	114,029,800
Legislative	58,234,000	62,479,800	63,707,200	63,637,700
General Appropriations	2,591,140,000	1,990,576,600	2,073,988,700	2,043,450,300
General Obligation Bond Program	730,513,000	485,000,000	544,797,000	622,735,000
Employee Benefit Payments [h]	4,587,874,000	4,428,317,000	4,844,548,000	5,324,309,000
Reserve for Employee Benefit Payments [h]	4,894,674,000	2,775,115,000	2,498,712,000	2,393,848,000
Subtotal	42,473,470,000	31,970,509,600	33,613,469,400	34,670,507,800
Less: (Lapses)	n/a	(215,125,400)	(315,586,600)	(252,906,900)
Compensation Reserves	n/a	163,019,600	90,054,100	178,302,800
Required Statutory Balance	n/a	40,000,000	65,000,000	65,000,000
Transfer to Medical Assistance Trust Fund	n/a	n/a	235,449,000	n/a
Adjustment 2004-2005 Fiscal Report	n/a	n/a	55,000,000	n/a
Change in Continuing Balance	(5,334,622,000)	n/a	n/a	n/a
Total Disbursements & Reserves	$ 37,138,848,000	$ 31,958,403,800	$ 33,743,385,900	$ 34,660,903,700
Fund Balance	$ 9,297,000	$ (23,380,700)	$ (56,479,200)	$ (51,348,800)
Undesignated Balance	$ 4,111,000	$ 16,619,300	$ 8,520,800	$ 13,651,200

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

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

(c) The amounts shown incorporate all budget acts of the 2003 legislative session but do not reflect the provisions of 2005 Wisconsin Acts 2 and 15, which addressed projected shortfalls for Medical Assistance-related programs and utility fuel costs.

(d) The beginning balance is based on Legislative Fiscal Bureau memo, dated October 18, 2005, which reflects the Annual Fiscal Report (budgetary basis) for the 2004-05 fiscal year.

(e) The budgeted amounts do not include taxes collected for segregated funds. The largest such tax is the motor fuel tax. The State collected $955 million of motor fuel taxes in the 2004-05 fiscal year.

(f) Tribal gaming revenues are budgeted separately; however, when the payments are received by State, they are not specifically reported but rather included within the category entitled “Nontax Revenue - Departemental Revenue”.

(g) Assumes receipt of certain tribal gaming payments that were due in previous fiscal years.

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

Sources: Legislative Fiscal Bureau and Department of Administration.

Sale of Tobacco Settlement Revenues

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

In May 2002, BTASC issued $1.591 billion principal amount of bonds to finance the purchase and to fund necessary reserves, operating costs, and costs of issuance. The State received $1.275 billion for selling its right to receive the tobacco settlement revenues. Of this amount, $681 million was transferred to the General Fund in 2001-02 fiscal year, and the balance was used in lieu of General Fund money to make shared revenue payments to local municipalities in the 2002-03 fiscal year. The bonds issued by BTASC are payable from the tobacco settlement revenues due the State, which have been sold and assigned to BTASC, and pledged accounts. The bonds issued by BTASC are not a debt or liability of the State or any political subdivision or agency of the State.

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

Potential Effect of Litigation

APPENDIX A to this part of the Annual Report includes the General Purpose External Financial Statements for the fiscal year ended June 30, 2005. The notes to the General Purpose External Financial Statements include a description of various legal proceedings, claims, and tax refunds that may have a potential budgetary effect. The potential budgetary impact of these legal proceedings and claims, and any updates to those proceedings subsequent to June 30, 2005, are outlined below. The following also includes a description of various other legal proceedings, claims, and tax refunds that were not included in the notes to the General Purpose External Financial Statements, but may have a potential budgetary effect.

Corporate Tax Measured by Interest from U.S. Securities

The State was involved in a corporate franchise tax case. Although the State Supreme Court ruled in favor of the State, certain taxpayers maintain the decision is not applicable to certain years. The State maintains the principles of the decision apply to those years. The 2005-06 budget does not provide for payment of any claim.

Federal Pension Income

The refunds resulting from this case are essentially complete. Subsequent litigation with other retirees on a variety of issues has occurred, with the Michigan Department of Treasury prevailing in all instances. Litigation is still in process on a limited number of cases. The 2005-06 budget does not provide for payment of refunds in the event that the State should fail to prevail on this matter.

Environmental Clean-Up Actions

The State is involved in the environmental clean-up of property owned by the State that has the potential to cause soil and groundwater contamination associated with underground storage tanks. The estimated remediation costs of these properties are $3 million. The 2005-06 budget does not specifically provide for payment of these costs; however, the payment would be made from certain funds already established by the State.

Sales Tax on Customized Computer Software

The State Tax Appeals Commission previously ruled that sales of certain customized computer software are not subject to the State's sale tax. The State appealed this decision, and on October 26, 2004, the Dane County Circuit Court reversed the decision of the State Tax Appeals Commission. The plaintiffs in this case have appealed this decision to the Wisconsin Court of Appeals and oral arguments on the case were held November 17, 2005. At this date, DOR has not established an estimate of the financial impact that could result from this case. The State previously estimated that it collects about $65 million annually in sales tax under circumstances similar to those in the case. The 2005-06 budget does not provide for payment of refunds or loss of tax revenue in the event that the State should fail to prevail on this matter.

Other

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

Employment Relations

Of the State's approximately 41,000 civil service employees, approximately 35,000 are employees whose wage rates, fringe benefits, hours, and conditions of employment are determined by collective bargaining agreements. All these classified employees are either assigned to a collective bargaining unit or are exempted from bargaining unit coverage due to their "confidential" or "management" designation. Covered employees are assigned to one of twenty-two bargaining units set up by occupational groupings based on their civil service classification. An exclusive bargaining agent represents nineteen of the bargaining units. Thirteen of the nineteen bargaining units have reached agreement on their 2003-05 contracts. Labor agreements for the remaining six bargaining units expired on June 30, 2003, but have been extended while the State continues to negotiate the agreements for the period ending June 30, 2005. Negotiations on the 2005-07 contracts are ongoing. Those bargaining units without a 2003-05 contract are negotiating their 2003-05 and 2005-07 contracts concurrently.

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

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

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

State Budget Assumptions

Tax revenues for the 2005-07 biennial budget were based on May 16, 2005 estimates from LFB. The estimates are based on the State tax structure and on assumptions about basic economic factors and their historical relationships to State tax receipts. Revenue sources other than taxes are estimated in the preparation of the budget. The all-funds budget establishes estimates of these nontax revenues and presumes that an equal amount of expenditures will be made. Any variation from that expected level of revenue will result in a corresponding increase or decrease in expenditures.

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

Economic Assumptions

The economic forecast underlying the revenue estimates provided by LFB on May 16, 2005 was based primarily on certain projections presented in the May, 2005 national economic forecast by Global Insight, Inc. **(Global Insight)**, which provides national economic forecasts, data base support, and consulting services. Table II-6 contains excerpts from Global Insight's May, 2005 national economic forecast and a summary of information from DOR's Wisconsin Econometric Model **(Model),** both of which were included in the Wisconsin Economic Outlook, published by DOR on May 31, 2005.

Wisconsin Econometric Model

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

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

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

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

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

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

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

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

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

Budget Format

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

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

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

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

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

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

Table II-6

ECONOMIC FORECASTS
U.S. ECONOMIC FORECAST

	Calendar Year				
	2005	**2006**	**2007**	**2008**	**2009**
Real GDP and its Components					
(Amounts in Billions of Chain Weighted 2000 Dollars)					
GDP	$11,213.5	$11,534.5	$11,866.4	$12,239.6	$12,610.6
Percent Change	3.4	2.9	2.9	3.1	3.0
Consumption	7,891.4	8,095.2	8,317.1	8,559.3	8,816.0
Investment (including inventory)	1,985.7	2,032.4	2,071.2	2,155.8	2,226.0
Nonresidential Structures	247.5	273.0	280.6	288.4	292.5
Business Equipment	1,111.7	1,187.5	1,250.8	1,330.7	1,413.0
Residential Fixed	586.4	558.9	534.5	530.3	531.8
Change in Inventory	50.3	33.3	36.8	49.4	43.9
Exports	1,190.7	1,281.7	1,411.7	1,547.3	1,676.5
Imports	1,836.3	1,901.5	1,988.3	2,097.7	2,204.0
Federal Government	744.2	759.4	765.2	771.0	777.0
State and Local Government	1,237.0	1,267.8	1,293.1	1,313.3	1,333.9
GDP (Current Dollars)	12,447.0	13,076.4	13,729.6	14,495.0	15,280.3
Money and Interest Rates					
Money Supply (M2) (billions)	$6,513.5	$6,650.2	$6,866.7	$7,185.7	$7,534.4
Percent Change	3.8	2.1	3.3	4.6	4.9
Prime Commercial Rate	6.2	7.0	7.2	7.5	7.9
3-Month Treasury Bills (rate)	3.2	4.0	4.1	4.4	4.7
10-Year Treasury Note Yield (rate)	4.7	5.2	5.4	5.7	6.1
G.O. AAA Municipals (rate)	4.6	5.1	5.2	5.5	5.7
30-Year Mortgage (rate)	6.3	6.8	6.9	7.1	7.5
Income, Profits and Savings					
(Amounts in Billions)					
Personal Income	$10,215.8	$10,800.8	$11,373.9	$12,046.5	$12,751.0
Percent Change	5.6	5.7	5.3	5.9	5.8
Personal Income ($ 2000)	9,257.2	9,591.3	9,903.8	10,256.8	10,600.5
Percent Change	3.2	3.6	3.3	3.6	3.4
Savings Rate (%)	0.3	0.8	1.0	1.5	1.4
Corporate Profits Before Tax	1,359.2	1,350.7	1,372.7	1,411.2	1,431.2

Source: Global Insight May 2005

Table II-6 - Continued

WISCONSIN EMPLOYMENT FORECAST

	Calendar Year				
	2005	**2006**	**2007**	**2008**	**2009**
Annual Industry Detail Average (Thousands of Workers)					
Manufacturing	503.6	506.9	512.4	516.6	518.5
Percent Change	0.3	0.7	1.1	0.8	0.4
Trade, Transportation & Utilities	545.8	550.8	550.2	549.6	549.7
Percent Change	1.1	0.9	-0.1	-0.1	0.0
Government	416.4	420.8	424.2	426.6	429.4
Percent Change	1.1	1.1	0.8	0.6	0.7
Total Nonfarm	2,828.1	2,860.2	2,889.4	2,919.3	2,945.0
Percent Change	0.9	1.1	1.0	1.0	0.9

Source: Department of Revenue, Economic Outlook, May 2005

WISCONSIN INCOME FORECAST

	Calendar Year				
	2005	**2006**	**2007**	**2008**	**2009**
Components of Personal Income (Amounts in Billions)					
Wages and Salaries	$103.854	$109.345	$115.277	$121.797	$128.314
Proprietor's Income	14.106	14.52	15.048	15.712	16.429
Rental Income	2.657	2.946	3.261	3.579	3.878
Personal Dividend Income	8.417	9.073	9.506	9.900	10.247
Personal Interest Income	18.134	18.856	19.632	21.274	23.205
Transfer Payments	26.163	27.848	29.539	31.189	32.886
Residence Adjustment	3.346	3.593	3.864	4.163	4.476
Contributions to Social Insurance	16.186	17.019	17.959	18.997	20.018
Total Personal Income	186.482	196.445	206.682	218.55	230.836
Personal Taxes and Nontax Pmts	20.778	22.56	24.262	25.889	27.878
Disposable Personal Income	165.704	173.886	182.420	192.661	202.958
Inflation Adjusted Income Measures (2000 Dollars)					
Real Personal Income (billions)	$168.984	$174.448	$179.969	$186.082	$191.906
Percent Change	2.9	3.2	3.2	3.4	3.1
Real Per Capita Income	30,346	31,122	31,895	32,761	33.562
Percent Change	2.2	2.6	2.5	2.7	2.4
Per Capita Income (current $)	33,489	35,046	36,630	38,478	40,370
Percent Change	4.6	4.7	4.5	5.0	4.9

Source: Department of Revenue, Wisconsin Economic Outlook, May 2005

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

Impact of Federal Programs

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

Supplemental Appropriations

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

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

GENERAL FUND INFORMATION

General Fund Cash Flow

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

The State has experienced and expects to continue to experience certain periods when the General Fund is in a negative cash position. The Wisconsin Statutes provide certain administrative remedies to deal with these periods. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. This amount is approximately $634 million for the 2005-06 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount of up to 3% of the general-purpose revenue appropriations then in effect (approximately $380 million for the 2005-06 fiscal year) for a period of up to 30 days. The Secretary of Administration may set priorities for payments from the General Fund as well as prorate certain payments.

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

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

Table II-7 is presented over two pages and includes the detailed actual cash flow for the 2004-05 fiscal year and the detailed actual cash flow (through November 30, 2005) and projected cash flow (December 1, 2005 through June 30, 2006) for the 2005-06 fiscal year. Table II-8 provides year-to-date receipts and disbursement on a cash basis along with a comparison to estimates for the same period and actual receipts and disbursements for the same period of the previous fiscal year. Table II-9 presents a monthly summary of the General Fund from July 1, 2003 through November 30, 2005 and the projected cash flow for December 1, 2005 through June 30, 2006. The amounts reported include the proceeds of the sale of operating notes in September 2003 and the payment of impoundments for February, March, April, and May of 2004. No operating notes were issued in the 2004-05 fiscal year and, as of this date, for the 2005-06 fiscal year. The tables should be read in conjunction with other information concerning the State budget set forth elsewhere in this part of the Annual Report, including "BUDGETING PROCESS AND FISCAL CONTROLS", "STATE BUDGET", and "STATE OBLIGATIONS; Operating Notes". As noted above, there has been and will continue to be differences in the amounts shown for the cash-flow basis and the budgetary basis presentations. For example, the cash-flow basis presentation in the following tables includes all tax receipts as revenues and tax refunds as disbursements, while the budgetary basis presentations in Tables II-4 through II-5 include tax revenues that are net of tax refunds.

Monthly projections of cash flow are based upon on the 2005-07 biennial budget, which used the revenue estimates released by LFB on May 16, 2005, and upon historical experience as adjusted to reflect economic conditions, statutory, and administrative changes and anticipated payment dates for debt service, payrolls, and State aid. The State's 2005-07 biennial budget assumes $146 million of payments in the 2005-06 fiscal year from all amended gaming compacts. This amount reflects (i) $73 million, which is the estimate of all payments due in the 2005-06 fiscal year, and (ii) $74 million, which is an estimate of payments due in previous fiscal years that are expected to be made in the 2005-06 fiscal year. It was announced on October 4, 2005 that an agreement had been reached between the State and the Forest County Potawatomi Community concerning an amendment to the tribal government's gaming compact. As a result of this agreement, the State expects to receive a lump sum payment of nearly $44 million during the 2005-06 fiscal year. This is a payment that was due in the 2004-05 fiscal year.

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

Table II-10 presents the actual cash balances available for interfund borrowings from July 31, 2003 through November 30, 2005 and the projected balances for December 31, 2005 through June 30, 2006.

Tables II-11 and II-12 present recorded revenues deposited into the General Fund and recorded expenditures made from the General Fund, as recorded by State agencies, for the period of July 1, 2005 to November 30, 2005 as compared to the period of July 1, 2004 to November 30, 2004. These tables present information that is based on the revenues and expenditures that are recorded in, or processed through, the State's central accounting system.

Table II-7
ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2004 TO JUNE 30, 2005[a]

(In Thousands of Dollars)

	July 2004	August 2004	September 2004	October 2004	November 2004	December 2004	January 2005	February 2005	March 2005	April 2005	May 2005	June 2005
BALANCES[b]												
Beginning Balance	($21,216)	($431,440)	$209,127	$536,311	$875,711	$912,695	$205,179	$1,173,280	$1,216,964	$371,940	$582,997	$1,003,050
Ending Balance [c]	($431,440)	$209,127	$536,311	$875,711	$912,695	$205,179	$1,173,280	$1,216,964	$371,940	$582,997	$1,003,050	($193,683)
Lowest Daily Balance [c]	($431,440)	($436,769)	$53,578	$403,787	$383,199	($351,824)	$205,179	$796,175	$295,070	$81,325	$480,441	($285,950)
RECEIPTS												
TAX RECEIPTS												
Individual Income	$533,817	$540,819	$571,670	$464,819	$526,873	$430,598	$962,378	$459,605	$496,915	$869,372	$570,200	$600,468
Sales & Use	380,702	389,894	384,632	378,842	371,408	334,261	408,819	309,549	309,647	344,001	346,925	380,569
Corporate Income	30,839	16,739	144,521	34,036	36,179	161,303	20,921	19,052	202,608	31,571	20,753	158,057
Public Utility	0	38	179	3,948	131,313	497	2,419	10	74	1,692	128,910	1,289
Excise	29,945	32,206	32,708	31,917	29,395	30,788	29,490	27,527	24,774	27,147	28,569	30,842
Insurance	295	2,305	27,417	229	1,496	58,508	910	17,530	26,784	27,272	1,300	28,774
Inheritance	8,654	7,954	14,003	10,329	9,156	5,230	6,824	12,383	10,523	7,543	7,804	13,485
Subtotal Tax Receipts	$984,252	$989,955	$1,175,130	$924,120	$1,105,820	$1,021,185	$1,431,761	$845,656	$1,071,325	$1,308,598	$1,104,461	$1,213,484
NON-TAX RECEIPTS												
Federal	$344,173	$535,363	$537,338	$462,100	$546,148	$456,585	$506,599	$559,541	$626,099	$440,758	$540,908	$524,516
Other & Transfers[d]	196,901	339,783	411,016	330,993	241,754	155,269	478,650	427,854	162,532	292,897	249,827	337,730
Note Proceeds	0	0	0	0	0	0	0	0	0	0	0	0
Subtotal Non-Tax Receipts	$541,074	$875,146	$948,354	$793,093	$787,902	$611,854	$985,249	$987,395	$788,631	$733,655	$790,735	$862,246
TOTAL RECEIPTS	$1,525,326	$1,865,101	$2,123,484	$1,717,213	$1,893,722	$1,633,039	$2,417,010	$1,833,051	$1,859,956	$2,042,253	$1,895,196	$2,075,730
DISBURSEMENTS												
Local Aids[e][f]	$835,926	$170,248	$670,948	$115,497	$774,303	$1,163,305	$196,800	$232,064	$1,176,452	$93,211	$249,705	$1,842,612
Income Maintenance	383,180	416,654	427,137	405,086	419,216	390,891	444,808	432,390	460,679	440,792	407,448	431,897
Payroll and Related	390,998	244,728	314,918	378,189	319,992	326,967	359,515	327,431	371,284	471,104	248,414	312,525
Tax Refunds	49,162	55,304	51,246	50,655	64,252	127,443	73,997	437,298	366,230	311,188	132,115	137,268
Debt Service	0	687	0	118,493	1,108	0	0	1,547	0	216,976	35,279	0
Miscellaneous[g]	276,284	336,913	332,051	309,893	277,867	331,949	373,789	358,637	330,335	297,925	402,182	548,161
Note Repayment	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL DISBURSEMENTS	$1,935,550	$1,224,534	$1,796,300	$1,377,813	$1,856,738	$2,340,555	$1,448,909	$1,789,367	$2,704,980	$1,831,196	$1,475,143	$3,272,463

(a) This table reflects the provisions of 2005 Wisconsin Act 2 and 2005 Wisconsin Act 15, which collectively address the shortfall in the Medical Assistance Trust Fund. This table also reflects that, for payments due from tribal governments called for under the gaming compacts, as amended and after giving effect to the Wisconsin Supreme Court's ruling in May 2004 that certain amendments to the gaming compacts were invalid, the State received the expected payments from all but two tribal governments. One tribal government placed its payment of about $44 million in escrow for release to the State upon completion of a new amendment to its gaming compact. The other tribal government did not make its payment of about $30 million. This table does not include interfund borrowings.

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

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

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

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

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

(g) Includes $50 million and $75 million that have been separately transferred from the General Fund to the Medicaid Trust Fund.

Table II-7 (Continued)
ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2005 TO NOVEMBER 30, 2005
PROJECTED GENERAL FUND CASH FLOW; DECEMBER 1, 2005 TO JUNE 30, 2006[(a)]

(In Thousands of Dollars)

	July 2005	August 2005	September 2005	October 2005	November 2005	December 2005	January 2006	February 2006	March 2006	April 2006	May 2006	June 2006
BALANCES[(b)]												
Beginning Balance	($193,683)	($417,079)	$136,628	$309,053	$818,545	$586,768	($243,446)	$889,377	$944,044	($68,980)	$334,808	$655,564
Ending Balance [(c)]	($417,079)	$136,628	$309,053	$818,545	$586,768	($243,446)	$889,377	$944,044	($68,980)	$334,808	$655,564	($227,598)
Lowest Daily Balance [(c)]	(522,613)	(589,150)	(264,889)	158,797	418,125	(803,147)	(281,306)	578,525	(80,577)	(388,318)	130,702	(699,938)
RECEIPTS												
TAX RECEIPTS												
Individual Income	$457,176	$546,087	$625,591	$566,601	$461,234	$406,434	$1,070,121	$487,181	$526,730	$921,534	$596,375	$663,136
Sales & Use	402,599	400,199	384,904	378,257	364,808	347,631	425,172	321,931	322,033	357,761	348,523	385,424
Corporate Income	31,786	24,880	170,441	34,258	31,377	153,238	19,875	18,099	192,478	29,992	19,205	137,180
Public Utility	24	0	196	2,667	125,226	507	2,467	10	75	1,726	131,488	1,632
Excise	36,572	30,625	36,942	32,048	32,403	30,788	29,490	27,527	24,774	27,147	28,567	31,000
Insurance	690	1,273	27,858	1,556	1,839	59,678	928	17,881	27,320	27,817	1,326	29,784
Inheritance	16,949	6,932	8,463	13,570	11,203	5,230	6,824	12,383	10,523	7,543	7,804	7,400
Subtotal Tax Receipts	$945,796	$1,009,996	$1,254,395	$1,028,957	$1,028,090	$1,003,506	$1,554,877	$885,012	$1,103,933	$1,373,521	$1,133,288	$1,255,556
NON-TAX RECEIPTS												
Federal	$524,946	$554,359	$554,537	$487,805	$539,678	$476,151	$511,665	$565,136	$632,360	$445,166	$546,317	$541,764
Other & Transfers [(d)]	355,748	298,506	470,126	316,093	283,115	171,822	498,437	447,133	179,157	310,826	287,453	518,139
Note Proceeds	0	0	0	0	0	0	0	0	0	0	0	0
Subtotal Non-Tax Receipts	$880,694	$852,865	$1,024,663	$803,898	$822,793	$647,973	$1,010,101	$1,012,269	$811,517	$755,992	$833,770	$1,059,903
TOTAL RECEIPTS	$1,826,490	$1,862,861	$2,279,058	$1,832,855	$1,850,883	$1,651,479	$2,564,978	$1,897,281	$1,915,450	$2,129,513	$1,967,058	$2,315,459
DISBURSEMENTS												
Local Aids	$884,042	$142,784	$757,441	$100,945	$958,939	$1,244,090	$207,173	$248,508	$1,237,245	$94,429	$267,285	$1,938,341
Income Maintenance	489,129	468,260	454,986	416,256	461,190	417,017	375,237	405,495	456,128	384,718	427,649	332,964
Payroll and Related	315,952	295,222	427,311	303,005	315,798	343,632	375,099	340,772	496,753	304,055	338,989	339,664
Tax Refunds	60,810	62,584	43,817	51,777	52,037	135,088	78,430	463,544	388,193	329,853	140,050	172,089
Debt Service	0	0	0	156,686	1,562	0	0	4,141	0	296,868	46,016	0
Miscellaneous	299,953	340,304	423,078	294,694	293,134	341,866	396,216	380,155	350,155	315,801	426,313	415,562
Note Repayment	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL DISBURSEMENTS	$2,049,886	$1,309,154	$2,106,633	$1,323,363	$2,082,660	$2,481,693	$1,432,155	$1,842,615	$2,928,474	$1,725,724	$1,646,302	$3,198,620

(a) This table reflects the biennial budget bill for the 2005-07 biennium (2005 Wisconsin Act 25) and the General Fund revenue estimates released by the Legislative Fiscal Bureau on May 16, 2005, which were incorporated into 2005 Wisconsin Act 25. Projections assume that the State will receive approximately $146 million pursuant to the amended gaming compacts with tribal governments. This amount reflects (i) $73 million, which is the estimate of all payments due in the 2005-06 fiscal year, and (ii) $74 million, which is an estimate of payments due in previous fiscal years that are expected to be made in the 2005-06 fiscal year. It was announced on October 4, 2005 that an agreement had been reached between the State and the Forest County Potawatomi Community concerning an amendment to the tribal government's gaming compact. As a result of this agreement, the State expects to receive a payment of nearly $44 million during the 2005-06 fiscal year. This table does not include interfund borrowings.

(b) The General Fund cash balances presented in this schedule are not based on Generally Accepted Accounting Principles (GAAP). The General Fund includes funds designated for operations and capital purposes of certain proprietary programs of the State's Universities. Receipts and disbursements of such funds for the designated programs and the disbursement of such funds for other purposes are reflected in the cash flow. A use of the designated funds for purposes other than the proprietary programs is, in effect, a borrowing of such funds. Therefore, at any time that the balance in the General Fund is less than the balance of such designated funds, the State is obligated to replenish the designated funds to the extent of the shortfall. The designated funds are expected to range from $150 to $300 million during the 2005-06 fiscal year. In addition, the General Fund is the depository for several escrow accounts pursuant to court orders or federal rulings. These funds are expected to average approximately $50 million during the 2005-06 fiscal year.

(c) The Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. This amount is approximately $634 million for the 2005-06 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect (approximately $380 million for the 2005-06 fiscal year) for a period of up to 30 days. If the amount of interfund borrowing available to the General Fund is not sufficient, the Secretary of Administration is authorized to prorate and defer certain payments.

(d) Includes $338 million to be transferred from the Transportation Fund to the General Fund, which is assumed to occur in June 2006.

Table II-8

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

(Cash Basis)

As of November 30, 2005

	FY05 through November 2004	FY06 through November 2005				
	Actual	Actual	Estimate[(b)]	Variance	Adjusted Variance[(c)]	Difference FY05 Actual to FY06 Actual
RECEIPTS						
Tax Receipts						
Individual Income	$ 2,637,998	$ 2,656,689	$ 2,796,277	$ (139,588)	$ (139,588)	$ 18,691
Sales	1,905,478	1,930,767	1,981,697	(50,930)	(50,930)	25,289
Corporate Income	262,314	292,742	249,198	43,544	43,544	30,428
Public Utility	135,478	128,113	138,187	(10,074)	(10,074)	(7,365)
Excise	156,171	168,590	156,171	12,419	12,419	12,419
Insurance	31,742	33,216	32,377	839	839	1,474
Inheritance	50,096	57,117	50,096	7,021	7,021	7,021
Total Tax Receipts	$ 5,179,277	$ 5,267,234	$ 5,404,003	$ (136,769)	$ (136,769)	$ 87,957
Non-Tax Receipts						
Federal	$ 2,425,122	$ 2,661,325	$ 2,541,373	$ 119,952	$ 119,952	$ 236,203
Other and Transfers	1,520,447	1,723,588	1,610,652	112,936	112,936	203,141
Note Proceeds [(d)]	-	-	-	-	-	-
Total Non-Tax Receipts	$ 3,945,569	$ 4,384,913	$ 4,152,025	$ 232,888	$ 232,888	$ 439,344
TOTAL RECEIPTS	$ 9,124,846	$ 9,652,147	$ 9,556,028	$ 96,119	$ 96,119	$ 527,301
DISBURSEMENTS						
Local Aids	$ 2,566,922	$ 2,844,151	$ 2,843,897	$ (254)	$ (254)	$ 277,229
Income Maintenance	2,062,118	2,289,821	2,185,915	(103,906)	(103,906)	227,703
Payroll & Related	1,648,825	1,657,288	1,746,456	89,168	89,168	8,463
Tax Refunds	270,619	271,025	286,829	15,804	15,804	406
Debt Service	120,288	158,248	173,230	14,982	14,982	37,960
Miscellaneous	1,522,163	1,651,163	1,514,989	(136,174)	(136,174)	129,000
Note Repayment [(d)]	-	-	-	-	-	-
TOTAL DISBURSEMENTS	$ 8,190,935	$ 8,871,696	$ 8,751,316	$ (120,380)	$ (120,380)	$ 680,761
VARIANCE FY06 YEAR-TO-DATE				$ (24,261)	$ (24,261)	

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

(b) Projections reflect the enacted budget bill for the 2005-07 biennium (2005 Wisconsin Act 25) and the General Fund revenue estimates released by the Legislative Fiscal Bureau on May 16, 2005. Projections assume that the State will receive approximately $146 million in the 2005-06 fiscal year pursuant to the amended gaming compacts with tribal governments. This amount reflects (i) $72 million, which is the estimate of all payments due this fiscal year, and (ii) $74 million, which is an estimate of payments due in previous fiscal years that are expected to be made in the 2005-06 fiscal year. It was announced on October 4, 2005 that an agreement had been reached between the State and the Forest County Potawatomi Community concerning an amendment to the tribal government's gaming compact. As a result of this agreement, the State expects to receive a lump sum payment of nearly $44 million during the 2005-06 fiscal year. This is a payment that was due in the 2004-05 fiscal year.

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

(d) Operating notes were not issued in the 2004-05 fiscal year, and no operating notes are planned for the 2005-06 fiscal year.

Table II-9

GENERAL FUND MONTHLY CASH POSITION
July 1, 2003 through November 30, 2005 — Actual
December 1, 2005 through June 30, 2006 — Estimated[(a)]
(Amounts in Thousands)

	Starting Date	Starting Balance		Receipts[(c)]	Disbursements[(c)]
2003	July	$ (301,120)	(d)	$ 1,676,451	$ 1,997,749
	August	(622,418)	(d)	1,461,025	1,239,109
	September	(400,502)	(d)	2,623,535	1,804,526
	October	418,507		1,829,971	1,340,667
	November	907,811		1,583,977	1,627,906
	December	863,882	(d)	2,427,680	2,277,800
2004	January	1,013,762		2,142,215	1,964,574
	February	1,191,403		1,668,211	1,820,788
	March	1,038,826	(d)	1,929,719	2,982,788
	April	(14,243)	(d)	2,105,306	1,538,546
	May	552,517		1,624,996	1,418,939
	June	758,574	(d)	2,286,899	3,066,689
	July	(21,216)	(d)	1,525,326	1,935,550
	August	(431,440)	(d)	1,865,101	1,224,534
	September	209,127		2,123,484	1,796,300
	October	536,311		1,717,213	1,377,813
	November	875,711		1,893,722	1,856,738
	December	912,695	(d)	1,633,039	2,340,555
2005	January	205,179		2,417,010	1,448,909
	February	1,173,280		1,833,051	1,789,367
	March	1,216,964		1,859,956	2,704,980
	April	371,940		2,042,253	1,831,196
	May	582,997		1,895,196	1,475,143
	June	1,003,050	(d)	2,075,730	3,272,463
	July	(193,683)	(d)	1,826,490	2,049,886
	August	(417,079)	(d)	1,862,861	1,309,154
	September	136,628	(d)	2,279,058	2,106,633
	October	309,053		1,832,855	1,323,363
	November	818,545		1,850,883	2,082,660
	December	586,768	(d)	1,651,479	2,481,693
2006	January	(243,446)	(d)	2,564,978	1,432,155
	February	889,377		1,897,281	1,842,615
	March	944,044	(d)	1,915,450	2,928,474
	April	(68,980)	(d)	2,129,513	1,725,724
	May	334,808		1,967,058	1,646,302
	June	655,564	(d)	2,315,459	3,198,620

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

(b) Projections reflect the enacted budget bill for the 2005-07 biennium (2005 Wisconsin Act 25) and the General Fund revenue estimates released by the Legislative Fiscal Bureau on May 16, 2005. Projections assume that the State will receive approximately $146 million in the 2005-06 fiscal year pursuant to the amended gaming compacts with tribal governments. This amount reflects (i) $72 million, which is the estimate of all payments due this fiscal year, and (ii) $74 million, which is an estimate of payments due in previous fiscal years that are expected to be made in the 2005-06 fiscal year. It was announced on October 4, 2005 that an agreement had been reached between the State and the Forest County Potawatomi Community concerning an amendment to the tribal government's gaming compact. As a result of this agreement, the State expects to receive a lump sum payment of nearly $44 million during the 2005-06 fiscal year. This is a payment that was due in the 2004-05 fiscal year.

(c) The amounts shown in September 2003 include receipts from the issuance of operating notes, and amounts shown in February through May 2004 include disbursements for impoundment payments required in connection with the issuance of operating notes. No operating notes were issued in the 2004-05 fiscal year, and no operating notes are planned for the 2005-06 fiscal year.

(d) The Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. This amount is approximately $634 million for the 2005-06 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect (approximately $380 million for the 2005-06 fiscal year) for a period of up to 30 days. If the amount of interfund borrowing available to the General Fund is not sufficient, the Secretary of Administration is authorized to prorate and defer certain payments.

Source: Wisconsin Department of Administration.

Table II-10
CASH BALANCES IN FUNDS AVAILABLE FOR INTERFUND BORROWING[a]
July 31, 2003 to November 30, 2005 — Actual
December 31, 2005 to June 30, 2006 — Estimated[b]
(Amounts in Millions)

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

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

Month (Last Day)	2003	2004	2005	2006
January		$ 1,027	$ 830	$ 830
February		1,126	960	960
March		1,179	1,043	1,043
April		1,157	964	963
May		1,163	1,045	1,045
June		1,054	1,182	1,117
July	$ 1,140	908	1,048	
August	1,242	1,003	1,100	
September	1,226	997	1,176	
October	1,187	954	1,115	
November	1,078	827	1,167	
December	1,130	892	892[b]	

The second table includes the balances in the LGIP. The average daily balances in the LGIP for the past five years have ranged from a low of $2.211 billion during November 2005 to a high of $4.402 billion during February 2002.

(Includes Balances in the Local Government Investment Pool)

Month (Last Day)	2003	2004	2005	2006
January		$ 4,673	$ 3,818	$ 3,818
February		4,852	3,984	3,984
March		5,197	4,101	4,101
April		4,707	3,749	3,749
May		4,417	3,627	3,626
June		4,274	3,905	4,329
July	$ 5,135	4,268	4,193	
August	4,580	3,904	3,823	
September	4,378	3,726	3,746	
October	3,922	3,233	3,361	
November	3,797	3,059	3,370	
December	4,090	3,392	3,392[b]	

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

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

Wisconsin Health Education Loan Repayment	Work Injury Supplemental Benefit
Health Insurance Risk Sharing Plan	Petroleum Storage Environmental Cleanup
Unemployment Comp.	Recycling

[b] Amounts for December 31, 2005 and subsequent months are projected.

Source: Department of Administration.

Table II-11

GENERAL FUND RECORDED REVENUES[(a)]
(Agency Recorded Basis)
July 1, 2005 to November 30, 2005 compared with previous year

	Annual Fiscal Report Revenues 2004-05 FY[(b)]	Projected Revenues 2005-06 FY[(c)]	Recorded Revenues July 1, 2004 to November 30, 2004[(d)]	Recorded Revenues July 1, 2005 to November 30, 2005[(e)]
Individual Income Tax	$ 5,650,109,000	$ 6,144,500,000	$ 2,049,058,939	$ 2,262,486,184
General Sales and Use Tax	4,038,715,000	4,181,600,000	1,379,713,867	1,426,895,943
Corporate Franchise and Income Tax	764,053,000	683,320,000	211,269,802	256,279,857
Public Utility Taxes	254,443,000	267,465,000	132,446,518	121,277,298
Excise Taxes	359,444,000	354,720,000	124,704,153	130,237,709
Inheritance Taxes	112,346,000	105,000,000	49,563,234	56,406,329
Insurance Company Taxes	129,839,000	131,000,000	29,374,493	30,513,534
Miscellaneous Taxes	87,701,000	89,500,000	45,650,546	48,086,244
SUBTOTAL..........................	$ 11,396,650,000	$ 11,957,105,000	4,021,781,552	4,332,183,100
Federal and Other Inter-Governmental Revenues[(f)]	$ 6,190,669,000	$ 5,881,969,000	2,437,100,036	2,629,516,108
Dedicated and Other Revenues[(g)]	3,584,486,000	4,445,764,600	1,594,208,127	1,614,630,248
TOTAL..............................	$ 21,171,805,000	$ 22,284,838,600	$ 8,053,089,715	$ 8,576,329,456

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

(b) The amounts are from the Annual Fiscal Report (budgetary basis) for the 2004-05 fiscal year, dated October 15, 2005.

(c) Projections reflect the General Fund revenue estimates released by the Legislative Fiscal Bureau on May 16, 2005, which were used in the enacted budget bill for the 2005-06 and 2006-07 fiscal years (2005 Wisconsin Act 25). Projections assume that the State will receive approximately $146 million in the 2005-06 fiscal year pursuant to the amended gaming compacts with tribal governments. This amount reflects (i) $72 million, which is the estimate of all payments due this fiscal year, and (ii) $74 million, which is an estimate of payments due in previous fiscal years that are expected to be made in the 2005-06 fiscal year. It was announced on October 4, 2005 that an agreement had been reached between the State and the Forest County Potawatomi Community concerning an amendment to the tribal government's gaming compact. As a result of this agreement, the State expects to receive a lump sum payment of nearly $44 million during the 2005-06 fiscal year. This is a payment that was due in the 2004-05 fiscal year.

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

(e) The amounts shown are fiscal year 2005-06 revenues as recorded by state agencies.

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

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

Source: Department of Administration.

Table II-12

GENERAL FUND RECORDED EXPENDITURES BY FUNCTION[a]
(Agency Recorded Basis)
July 1, 2005 to November 30, 2005 compared with previous year

	Annual Fiscal Report Expenditures 2004–05 FY[b]	Appropriations 2005–06 FY[c]	Recorded Expenditures July 1, 2004 to November 30, 2004[d]	Recorded Expenditures July 1, 2005 to November 30, 2005[e]
Commerce	$ 253,520,000	$ 288,639,300	$ 101,187,157	$ 95,257,291
Education	9,614,612,000	10,151,858,300	2,729,941,589	2,766,539,342
Environmental Resources	233,160,000	296,476,000	79,884,537	103,779,310
Human Relations & Resources	8,933,512,000	8,496,069,700	3,600,973,984	3,642,691,339
General Executive	626,194,000	890,108,400	255,406,848	303,791,726
Judicial	114,247,000	113,245,800	48,227,022	49,500,215
Legislative	58,234,000	63,707,200	19,630,803	21,719,948
General Appropriations	1,654,699,000	1,915,407,600	1,300,305,212	1,491,382,751
TOTAL	$ 21,488,178,000	$ 22,215,512,300	$ 8,135,557,152	$ 8,474,661,920

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

(b) The amounts are from the Annual Fiscal Report (budgetary basis) for the fiscal year 2004-05, dated October 15, 2005.

(c) Estimated appropriations based on the 2005-07 biennial budget (2005 Wisconsin Act 25).

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

(e) The amounts shown are fiscal year 2005-06 expenditures as recorded by state agencies.

Source: Department of Administration.

General Fund History

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

Table II-13

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

	2005	2004	2003	2002	2001
ASSETS					
Cash & Investment Pool Shares	$ (133,959)	$ (15,344)	$ (295,396)	$ (416,191)	$ 288,792
Contingent Fund Advances	3,080	3,521	3,533	3,539	3,514
Investments	255	445	445	445	446
Receivables					
Accounts Receivable	1,074,269	1,098,109	1,050,580	1,069,077	1,028,554
Due from Other Funds	22,014	79,682	60,087	333,205	39,165
Inventory	330	172			418
Prepayments	64,332	62,535	59,731	59,690	54,807
Other Assets	5				
TOTAL ASSETS	$ 1,030,326	$ 1,229,120	$ 878,980	$ 1,049,765	$ 1,415,696
LIABILITIES					
Accounts Payable	$ 541,033	$ 338,083	$ 413,162	$ 315,491	$ 343,261
Due to Other Funds	37,607	78,020	62,182	66,493	46,898
Tax and Other Deposits	33,908	39,332	33,539	33,900	41,925
Deferred Revenue	24,589	47,287	27,752	50,174	38,848
TOTAL LIABILITIES	$ 637,137	$ 502,722	$ 536,635	$ 466,058	$ 470,932
FUND BALANCE					
Reserves					
Encumbrances & GPR Balances	$ 102,211	$ 144,651	$ 98,324	$ 131,945	$ 106,438
Program Revenue Balances	422,653	454,378	407,629	407,293	392,327
Total Reserves	$ 524,864	$ 599,029	$ 505,953	$ 539,238	$ 498,765
Unreserved Balance-Undesignated	(131,675)	127,369	(163,608)	44,469	445,999
TOTAL FUND BALANCE	$ 393,189	$ 726,398	$ 342,345	$ 583,707	$ 944,764
TOTAL LIABILITIES AND FUND BALANCE	$ 1,030,326	$ 1,229,120	$ 878,980	$ 1,049,765	$ 1,415,696

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

Source: Department of Administration.

STATE GOVERNMENT ORGANIZATION

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

General Organization

Executive Branch

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

- *Lieutenant Governor*. The Governor and Lieutenant Governor are elected on the same ballot. The Lieutenant Governor serves as Acting Governor during the absence or incapacity of the Governor.
- *Attorney General*. The Attorney General heads the State of Wisconsin Department of Justice, which provides all State agencies with legal advice and counsel.

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

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

Legislative Branch

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

Judicial Branch

The judicial branch consists of:

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

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

Description of Services Provided by State Government

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

Commerce

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

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

Several State agencies participate in the field of commerce:

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

Education

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

- *Primary and Secondary Schools.* There are 426 school districts in the State, which administer the elementary and secondary schools within those districts. There were approximately 880,031 students attending public elementary and secondary schools in 2003-04; data for the 2004-05 school year is being collected with a new student enrollment system and is not yet available. Elementary and secondary schools are operated by district boards, with supervision of the system provided by the Department of Public Instruction.
- *Technical Colleges.* The State is divided into 16 technical college districts. In the 2004-05 academic year, 406,323 full- and part-time students were enrolled in the technical college system. The technical colleges are operated by district boards, with supervision of the system provided by the Technical College System Board.
- *University of Wisconsin System.* The University of Wisconsin System consists of its doctoral campuses in Madison (the largest campus in the State) and Milwaukee as well as 11 other four-

year degree-granting institutions and 13 two-year colleges. The system's total enrollment in 2004-05 was 160,797 students.

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

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

Environmental Resources

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

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

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

The State has an elaborate system of highways. It consists of interstate highways financed from federal and State funds and of State highways, county trunk highways, town roads, city and village streets, and park and forest roads. Closely connected with the highway building functions of the State government and the aid granted to local units for streets and highways are the objects for which these roads are built—the motor vehicle and its occupants. While the State is concerned with the building and maintenance of an adequate number of roads of certain standards to meet the traffic demands, it is also very much concerned with the safety and convenience of the people who are using those roads. Approximately 5.3 million vehicles are currently registered each year.

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

Human Relations and Resources

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

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

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

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

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

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

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

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

General Executive

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

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

- *State Elections Board* oversees the election processes of the State, monitoring campaign expenditures, and keeping election records.

Judicial

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

Legislative

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

General Appropriations

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

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

STATE OF WISCONSIN BUILDING COMMISSION

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

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

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

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

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

STATE OBLIGATIONS

General Obligations

The State, acting through the Commission, may issue general obligation bonds and notes or enter into loans that are secured by the State's full faith, credit, and taxing power. Payments of debt service on State general obligations are paramount to all other obligations of the State. As of December 15, 2005, the State had $5.092 billion of outstanding general obligations.

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

Operating Notes

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

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

The State did not issue any operating notes in the 2004-05 fiscal year, and as of this date, has not issued any operating notes for the 2005-06 fiscal year.

Master Lease Program

The State, acting by and through the Department of Administration, has entered into a master lease for the purpose of acquiring property (and in limited situations, prepaid service contracts) for state agencies through installment payments. The State’s obligation to make lease payments is subject to annual appropriation by the Legislature. The full faith and credit of the State are not pledged to the lease payments; the State is not obligated to levy or pledge any tax to pay the lease payments. The State’s obligation to make the lease payments does not constitute debt for purposes of the Wisconsin Constitutional debt limit, and there is no limit to the amount of such obligations that the State can incur. Although an effort is made to use the master lease program for all property acquired by the State through nonappropriation leases, it is possible that state agencies may separately incur such obligations. Certificates of participation have been issued that evidence a proportionate interest in certain lease payments to be made by the State. As of December 15, 2005, the outstanding principal amount of the State’s obligations under the master lease program was approximately $75 million. See Part IV of this Annual Report for additional information on master lease certificates of participation.

State Revenue Obligations

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

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

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

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

Three such programs have been authorized and are currently outstanding:

- *Transportation revenue bond program.* This program finances a portion of the costs of the State highways and related transportation facilities. The obligations are secured by motor vehicle registration fees and other registration-related fees. The Commission has issued twenty-one series of bonds (which includes refunding bond issues) and one series of commercial paper notes for this program, which were outstanding in the amount of $1.524 billion as of December 15, 2005. See Part V of this Annual Report for additional information on transportation revenue obligations.
- *Clean water fund program.* This program makes loans to municipalities in the State for the construction or improvement of their water pollution control facilities. The Commission has issued thirteen series of bonds for this program (which includes refunding bond issues), which were outstanding in the amount of $641 million as of December 15, 2005. See Part VI of this Annual Report for additional information on clean water revenue bonds.
- *Petroleum inspection fee revenue obligations program.* This program funds environmental remediation claims submitted under the Petroleum Environmental Cleanup Fund Award Program. Obligations issued for this program are secured by petroleum inspection fees. The Commission has issued four series of bonds (which includes refunding bond issues) and two series of extendible municipal commercial paper for this program, which were outstanding in the amount of $300 million as of December 16, 2005. See Part VII of this Annual Report for additional information on petroleum inspection fee revenue obligations.

General Fund Annual Appropriation Bonds

The State has issued general fund annual appropriation bonds to pay the State's unfunded accrued prior service (pension) liability, as of January 1, 2003, and the unfunded accrued liability for sick leave conversion credits, as of October 1, 2003. The general fund annual appropriation bonds are not a debt of the State, and the State's obligation to make debt service payments is subject to annual appropriation by the Legislature. The full faith and credit of the State are not pledged, and the State is not obligated to levy or pledge any tax, to make the debt service payments. The State has issued the general fund annual appropriation bonds in the form of taxable fixed rate bonds and taxable auction rate certificates, which in aggregate were outstanding in the amount of $1.795 billion as of December 15, 2005. The State has entered into interest rate exchange agreements (commonly called swap agreements) to provide a fixed interest rate on the general fund annual appropriation bonds issued in the form of taxable auction rate certificates. See Part VIII of this Annual Report for additional information on general fund annual appropriation bonds.

Independent Authorities

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

Wisconsin Housing and Economic Development Authority

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

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

- *General programs.* Borrowing authority of $325 million, excluding debt issued to refund other debt, of which $99 million of borrowing authority was available on November 30, 2005.
- *Housing rehabilitation programs.* Borrowing authority of $100 million, of which $100 million of borrowing authority was available on November 30, 2005.
- *Single-family home ownership mortgage loan program.* WHEDA has issued $5.879 billion in such bonds as of November 30, 2005. In the one-year period ending November 30, 2005, WHEDA sold three single-family issues totaling $480 million.
- *Residential facilities for the elderly and chronically disabled.* Borrowing authority of $99 million, and as of November 30, 2005, WHEDA had sold three bond issues totaling $5 million.
- *Economic development and agriculture loans.* Borrowing authority of $217 million of which, as of November 30, 2005, WHEDA had sold 142 series of bonds for economic development and agriculture totaling $83 million, which are not general obligations of WHEDA, and 56 series of bonds, totaling $92 million, which are general obligations of WHEDA.

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

Wisconsin Health and Educational Facilities Authority

The Wisconsin Health and Educational Facilities Authority (**WHEFA**) provides revenue bond financing for hospitals, nursing homes, other health-related organizations, and private educational facilities. It may finance any qualifying capital project and may refinance any qualifying outstanding indebtedness. As of November 30, 2005, WHEFA had outstanding 284 issues totaling approximately $6.356 billion. All bonds are limited obligations of WHEFA, payable only from revenues specified in the documents pertaining to each bond financing and are not State debt. There is no capital reserve fund or authorization for a moral obligation pledge. An annual program and financial report to the Legislature and the Governor is required. The State Auditor is empowered to investigate WHEFA's financial affairs and prescribe methods of accounting. The governance of WHEFA is by a seven-member, staggered-term board nominated by the Governor and confirmed by the Senate. The Governor annually appoints the chairperson. Financial reports may be obtained from Wisconsin Health and Educational Facilities Authority, 18000 West Sarah Lane, Suite 300, Brookfield, WI 53045-5841. The phone number is (262) 792-0466, the e-mail address is info@whefa.com, and the web site address is whefa.com.

University of Wisconsin Hospitals and Clinics Authority

The University of Wisconsin Hospitals and Clinics Authority (**UWHC**) operates the University of Wisconsin hospital and a number of clinics. It provides instruction for medical and other health related professions, students, and sponsors. It also supports medical research and assists health care programs and personnel throughout the State. As of November 30, 2005. UWHC had outstanding five issues totaling approximately $242 million.

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

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

Local Districts

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

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

Moral Obligations

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

- Payments required to be made by municipalities on loans from the Clean Water Fund, if so designated by the State. Currently no Clean Water Fund loan carries a moral obligation of the State.
- Payments to reserve funds securing certain obligations of WHEDA. Currently there are 9 issues outstanding in the aggregate amount of $410 million that carry a moral obligation of the State.

Name of WHEDA Issue	Maturity Date	Principal Issued	Outstanding Balance
Housing Revenue Bonds			
1992 Series A	11/1/2012	$ 72,450,000	$ 3,370,000
1993 Series A & B	11/1/2023	77,560,000	37,235,000
1993 Series C	11/1/2019	145,785,000	77,590,000
1995 Series A & B	11/1/2026	51,700,000	31,055,000
1998 Series A, B & C	11/1/2032	39,895,000	29,100,000
1999 Series A & B	11/1/2031	41,400,000	34,090,000
2000 Series A B	11/1/2032	10,785,000	10,120,000
2002 Series A-I	5/1/2034	169,160,000	147,000,000
2003 Series A-E	5/1/2044	41,975,000	40,880,000
Totals			$410,440,000

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

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

Employee Pension Funds

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

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

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

The Wisconsin Retirement System covers all full-time employees of the State. The total retirement contribution consists of a member (employee) contribution and an employer contribution. Member contributions for calendar year 2006 are set at the following rates:

- 5.0% of salary for general employees including teachers

- 2.9% for elected officials, judges, and certain other positions in State government
- 5.0% for protective occupation participants who are also covered by Social Security
- 3.3% for protective occupation participants not covered by Social Security

Employer pick-up of some or all of the member's required contribution is permitted by the Wisconsin Statutes. Currently the entire member contribution of 5% of each State employee's salary is assumed by the State. An additional 0.9% nonrefundable contribution is required from general employees, including teachers.

The employer contribution is actuarially determined each year by an independent actuarial firm. As of December 1, 2005, the calendar year 2006 employer contributions have been established at the following rates:

- 8.1% for protective participants with Social Security
- 10.7% for protective participants without Social Security
- 8.4% for elected officials and judges
- 4.5% for general employees

In addition, the State is also charged 3.9% of its protective payroll for special duty disability coverage.

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

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

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

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

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

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

Table II-14

WISCONSIN RETIREMENT SYSTEM
ACTUARIAL STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2004 (UNAUDITED)
(Amounts in Millions)

	12/31/2004	12/31/2003	Increase (Decrease)
Assets and Employer Obligations:			
Net Assets			
Cash, Investments & Receivables			
Less: Payables & Suspense Items			
Fixed Division	$60,034.4	$56,903.4	$3,131.0
Variable Division	6,175.0	5,781.9	393.1
Totals	66,622.3	62,685.3	3,524.1
Obligations of Employers			
Unfunded Accrued Liability	412.9	526.4	(113.5)
TOTAL ASSETS	$66,622.3	$63,211.7	$3,410.6
Reserves and Surplus:			
Reserves			
Actuarial Present Value of Projected Benefits Payable to Terminated Vested Participants and Active Members:			
Member Normal Contributions	$14,911.1	$14,363.9	547.2
Member Additional Contributions	139.2	139.2	0.0
Employer Contributions	20,742.1	20,000.8	741.3
Total Contributions	$35,792.4	$34,503.9	$1,288.5
Actuarial Present Value of Projected Benefits Payable to Current Retirees And Beneficiaries:			
Fixed Annuities	$26,232.2	$24,724.0	$1,508.2
Variable Annuities	3,654.5	2,892.2	762.3
TOTAL ANNUITIES	29,886.7	27,102.1	2,270.5
TOTAL RESERVES	$65,679.1	$62,120.1	$3,559.0
Surplus			
Fixed Annuity Reserve Surplus	$ 687.8	$ 347.9	$ 339.9
Variable Annuity Reserve Surplus	255.4	743.7	(488.3)
TOTAL SURPLUS	943.2	1,091.6	(148.4)
TOTAL RESERVES AND SURPLUS	$66,622.3	$63,211.7	$3,410.6

Notes to Wisconsin Retirement System

All eligible State of Wisconsin employees participate in the Wisconsin Retirement system **(System)**, a cost-sharing multiple-employer public employee retirement system **(PERS)**. The payroll for employees covered by the system for the year ended December 31, 2004 was $3.21 billion.

All permanent employees expected to work over 600 hours a year are eligible to participate in the System. Covered employees are required by statute to contribute 5.0% of their salary (2.9% for Executive and Elected Officials, 5.0% for Protective Occupations with Social Security, and 3.3% for Protective Occupations without Social Security), to the plan. Participants are also required to make a non-refundable Benefit Adjustment Contribution to the plan. Employers may make these contributions to the plan on behalf of the employees. Employers are required to contribute the remaining amounts necessary to pay the projected cost of future benefits. The total required contribution for the year ended December 31, 2004 was $325 million, which consisted of $151 million or 4.7% of payroll from the employer and $174 million or 5.4% of payroll from employees.

Employees who retire at or after age 65 (55 for protective occupation employees) are entitled to receive a retirement benefit. The benefit is calculated as 1.6% (2.0% for Executives, Elected Officials, and Protective Occupations with social security and 2.5% for protective occupations without social security) of final average earnings for each year of creditable service after December 31, 1999. Service earned before January 1, 2000 accrue benefits at a rate of 1.765% (2.165% for Executives, Elected Officials, and Protective Occupations with social security and 2.665% for protective occupations without social security). Final Average Earnings is the average of the employee" three highest years' earnings. Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefit. Benefits are fully vested upon entry into the System.

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

The System utilizes the "Entry Age Normal with Frozen Initial Liability" actuarial method in establishing employer contribution rates. Under this method, the Unfunded Accrued Actuarial Liability is affected only by the monthly amortization payments, compound interest, the added liability created by new employer units, and any added liabilities caused by changes in benefit provisions. All actuarial gains or losses arising from the difference between actual and assumed experience are reflected in the determination of the normal cost. The unfunded accrued actuarial liability is being amortized over a 40-year period beginning January 1, 1990. However, periodically, the Employe Trust Funds Board has reviewed and, when appropriate, adjusted the actuarial assumptions used to determine this liability. Changes in the assumptions affect the unfunded accrued actuarial liability, and the resulting actuarial gains or losses are credited or charged to employer's unfunded liability accounts. The State of Wisconsin, as of December 31, 2003, had no unfunded liability. The total system unfunded liability of $413 million, as of December 31, 2004, is attributable to local governments.

Ten-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's December 31, 2004 Comprehensive Annual Financial Report.

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

Table II-15

WISCONSIN RETIREMENT SYSTEM
FUNDING RATIO
(Amounts in Thousands)

Year	A Net Real Assets	B Unfunded Actuarial Liability	C Reserve Requirement (A+B)	D Funding Ratio (A÷C)
1995	$ 30,059,826	$ 2,055,718	$ 32,115,544	93.6
1996	33,962,600	2,134,400	36,097,000	94.1
1997	38,584,600	2,178,300	40,762,900	94.7
1998	43,390,500	2,226,600	45,617,100	95.1
1999	49,403,700	2,145,800	51,549,500	95.8
2000	51,824,600	2,169,000	53,993,600	96.0
2001	58,024,300	2,110,400	60,134,700	96.5
2002	57,861,900	1,756,900	59,618,800	97.1
2003	62,685,300	526,400	63,211,700	99.2
2004	66,209,400	412,900	66,622,300	99.4

Source: Department of Employee Trust Funds.

Table II-16

WISCONSIN RETIREMENT SYSTEM
COVERED EMPLOYEES
1995-2004

Year	Active State	Active Local	Retired
1995	63,977	172,297	88,998
1996	63,886	175,749	92,198
1997	64,381	179,531	95,128
1998	65,663	183,074	99,112
1999	66,716	186,582	102,817
2000	68,330	189,710	107,425
2001	70,512	193,371	112,142
2002	71,222	195,128	116,289
2003	71,031	194,119	121,582
2004	70,933	193,667	126,211

Source: Department of Employee Trust Funds.

Table II-17

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

	State		Local		Total	
Year	**Employee**	**Employer**	**Employee**	**Employer**	**Employee**	**Employer**
1995	$6,410	$270,770	$4,816	$683,840	$11,226	$ 954,610
1996	7,582	282,430	5,570	759,765	13,152	1,042,195
1997	6,006	294,834	8,336	761,116	14,342	1,055,950
1998	1,686	298,793	4,015	777,419	5,701	1,076,212
1999	886	294,436	3,564	863,003	4,450	1,157,439
2000	800	305,049	3,543	754,516	4,343	1,059,565
2001	739	283,567	3,467	765,541	4,206	1,049,108
2002	763	315,782	3,679	733,748	4,442	1,049,530
2003	860	304,740	3,871	758,829	4,731	1,063,569
2004	937	324,297	4,106	784,860	5,043	1,109,156

(a) Employer contributions include employer pick-up of employee contributions.

Source: Department of Employee Trust Funds.

Table II-18

WISCONSIN RETIREMENT SYSTEM
STATE EMPLOYER CONTRIBUTION RATES[(a)]

Employee Classification	Current Service	Prior Service	Total
Protective	8.1%	0.0%	8.1%
Elected	8.4	0.0	8.4
General.......................	4.5	0.0	4.5

(a) Effective January 1, 2006

Source: Department of Employee Trust Funds.

Table II-19

WISCONSIN RETIREMENT SYSTEM
REVENUES BY TYPE
(Amounts in Thousands)

	Contributions						
Year	**Required Employee**	**Required Employer[(a)]**	**Additional Employee**	**Investment Income**	**Supplemental**	**Misc.**	**Total**
1995	$380,993	$584,842	$ 8,977	$ 5,903,712	$ 407	$ 113	$ 6,879,044
1996	393,765	661,582	13,199	5,414,556	358	160	6,483,620
1997	410,567	659,725	6,422	7,241,025	216,590	179	8,534,508
1998	520,864	561,049	9,848	7,037,489	7,315	231	8,136,796
1999	505,411	656,478	8,802	9,235,371	6,272	205	10,412,539
2000	511,661	561,052	10,441	(1,032,185)	5,496	184	56,649
2001	496,012	557,303	5,086	(1,990,408)	4,517	211	(927,279)
2002	513,038	910,181	13,593	(5,880,598)	3,873	184	(4,439,279)
2003	564,754	1,737,816	6,329	12,043,429	3,301	3,563	14,359,192
2004	605,184	645,476	18,236	7,512,872	3,082	191	8,785,131

(a) The amount in 2003 reflects payment made by the State from proceeds of obligations issued to fund the State's unfunded accrued prior service liability. Employer contributions include current service and, for employers other than the State, amounts required to reduce their respective unfunded accrued liability over a 40–year amortization period beginning in 1990.

Source: Department of Employee Trust Funds.

Table II-20

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

Year	**Separations**	**Death**	**Annuities**	**Supplemental[(b)]**	**Misc.**	**Total**
1995	$30,180	$10,812	$1,080,227	$ 407	$25,593	$1,147,219
1996	36,883	15,359	1,254,044	358	24,586	1,331,230
1997	41,039	12,332	1,514,634	216,590	11,108	1,795,703
1998	41,931	13,939	1,624,293	7,315	10,978	1,698,456
1999	35,609	13,858	1,844,479	6,272	12,328	1,912,546
2000	49,814	25,724	2,237,824	5,496	183,350	2,502,208
2001	40,740	22,308	2,467,690	4,517	15,635	2,550,890
2002	38,470	27,551	2,603,193	3,873	18,667	2,691,754
2003	28,847	32,725	2,627,877	3,301	16,392	2,729,142
2004	24,967	28,028	2,797,263	3,082	13,496	2,866,836

(a) Amounts include payments from employee additional contributions.

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

Source: Department of Employee Trust Funds.

ACTUARIAL ASSUMPTIONS

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

Table II-21

WISCONSIN RETIREMENT SYSTEM
SEPARATION BEFORE AGE AND SERVICE RETIREMENT

Select and Ultimate Withdrawal

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

Disability Rates

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

Source: Department of Employee Trust Funds.

Table II-22

WISCONSIN RETIREMENT SYSTEM
RETIREMENT PATTERNS

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

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

Source: Department of Employee Trust Funds.

Table II-23

WISCONSIN RETIREMENT SYSTEM
OTHER ASSUMPTIONS

Mortality Rates

Active & Retired Life Mortality Rates

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

Salary Scale

% Increases in Salaries Next Year

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

Future Annual Investment Return

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

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

Source: Department of Employee Trust Funds.

STATE OF WISCONSIN INVESTMENT BOARD

The State of Wisconsin Investment Board (**SWIB**) invests the assets of the State Investment Fund, the Wisconsin Retirement System, and several smaller trust funds established by the State. Overall policy direction for SWIB is established by an independent, nine-member Board of Trustees (**Trustees**). The

Trustees establish long-term investment polices, set guidelines for each investment portfolio, and monitor investment performance.

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

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

- Safety of principal
- Liquidity
- Reasonable rate of return

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

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

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

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

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

The nine members of the Trustees include:

- The Secretary of Administration or a designee.
- Two members are participants in the Wisconsin Retirement System. One of these is a teacher who is appointed by the Teacher Retirement Board. The other represents non-teacher participants and is appointed by the Wisconsin Retirement Board.

- Six members, called public members, are appointed by the Governor. Of these public members, four are required to have at least ten years of investment experience and one is required to be a non-elected government official from a smaller LGIP participant, with at least ten years of financial experience.

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

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

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

Table II-24

STATE INVESTMENT FUND
AS OF SEPTEMBER 30, 2005 (UNAUDITED)
Holdings Detail Report

	Amortized Cost	Market Value	Portfolio Percentage at Amortized Cost
U.S. Government Repurchase Agreements...	$2,246,000,000	$2,246,000,000	42.5%
U.S. Government Agencies..........................	1,631,687,545	1,631,476,062	30.9
Corporate Commercial Paper	701,064,354	701,064,355	13.3
Certificates of Deposit	700,000,000	700,000,000	13.3
Mortgage-Backed Securities........................	536,882	536,882	0.0
	$5,279,288,780	$5,279,077,299	100.0%

Accrued Gross Income: $7,293,037

Average Maturity for the Last Six Months

Reporting Date	Average Maturity (Days)	Reporting Date	Average Maturity (Days)
9/30/2005	29	6/30/2005	28
8/31/2005	36	5/31/2005	31
7/31/2005	27	4/30/2005	26

Summary of Investment Fund Participants
As of September 30, 2005

	Par Amount (Amounts in Thousands)	Percent of Portfolio
Mandatory Participants		
State of Wisconsin and Agencies........................	$ 1,846,552	37.0%
State of Wisconsin Investment Board.................	572,671	11.5
Elective Participants		
Local Government Investment Pool....................	2,569,917	51.5
	$ 4,989,140	100.0%

NOTE: The difference between the total of the participants' share ($4,989,140,000) and the amortized cost ($5,279,288,700) is the result of check float (checks written and posted at the Department of Administration that have not cleared the bank) and a timing delay by the State in posting bank receipts that have already been invested by SWIB.

Source: State of Wisconsin Investment Board

STATISTICAL INFORMATION

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

Table II-25
STATE ASSESSMENT
(EQUALIZED VALUE)
OF TAXABLE PROPERTY
1996 TO 2005

Calendar Year	Value of Taxable Property	Rate of Increase (Decrease)
1996	$216,943,757,600	—
1997	233,074,233,400	7.4%
1998	248,994,915,200	6.8
1999	266,567,513,500	7.1
2000	286,321,491,800	7.4
2001	312,483,706,600	9.1
2002	335,326,478,700	7.3
2003	360,710,211,300	7.6
2004	391,187,814,700	8.4
2005	427,933,562,000	9.4

Source: Department of Revenue.

Table II-26
DELINQUENCY RATE:
INCOME, FRANCHISE, GIFT, SALES, AND USE TAXES
1995-96 TO 2004-05

Fiscal Year	Total Revenues Expected (Amounts in Thousands)	Delinquent Balance (Amounts in Thousands)	Delinquent Balance as a Percent of Total Revenues Expected
1995-96	$ 7,535,003	$497,220	6.60%
1996-97	8,059,345	503,470	6.25
1997-98	8,767,838	549,488	6.27
1998-99	9,011,610	478,883	5.31
1999-2000	10,144,899	515,487	5.08
2000-01	9,327,051	538,914	5.78
2001-02	9,255,488	615,933	6.65
2002-03	9,264,797	564,275	6.09
2003-04	9,775,264	585,170	5.99
2004-05	10,480,113	562,729	5.37

Source: Department of Revenue.

Table II-27
POPULATION TREND

	Wisconsin Total (Amounts in Thousands)	Rank	% Change Wisconsin	% Change U.S.	Population Per Sq. Mile Wisconsin	Population Per Sq. Mile U.S.
1910	2,334	13	12.8	21.0	42.2	26.0
1920	2,632	13	12.8	15.0	47.6	29.9
1930	2,939	13	11.7	16.2	53.7	34.7
1940	3,138	13	6.8	7.3	57.3	37.2
1950	3,435	14	9.5	14.5	62.8	42.6
1960	3,952	15	15.1	18.5	72.6	50.6
1970	4,418	16	11.8	13.3	81.1	57.5
1980	4,706	16	6.5	11.4	86.5	64.0
1990	4,892	16	4.0	9.8	90.1	70.3
2000	5,364	18	9.6	13.2	98.8	79.6
2001	5,406	18	0.8	1.3	99.5	80.6
2002	5,440	20	0.6	1.0	100.2	81.4
2003	5,474	20	0.6	1.0	100.8	82.2
2004	5,509	20	0.6	1.0	101.4	83.0

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

Table II-28
POPULATION CHARACTERISTICS
(April 2000)

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

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

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

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

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

Table II-29
POPULATION BY AGE GROUP
(July 2004)

	Wisconsin	U.S.
Under 5	6.1%	6.8%
5-17	17.6	18.1
18-64	63.3	62.7
65 +	13.0	12.4
Total	100.0	100.0

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

Table II-30
ESTIMATED PERSONAL INCOME

Year	Wisconsin Total (Amounts in Millions)	Per Capita Wisconsin	Per Capita U.S.	Percentage Wis. to U.S.
1994	$110,570	$21,538	$22,340	96.4%
1995	115,960	22,365	23,255	96.2
1996	121,864	23,301	24,270	96.0
1997	128,920	24,481	25,412	96.3
1998	137,759	26,004	26,893	96.7
1999	143,589	26,926	27,880	96.6
2000	153,548	28,570	29,845	95.7
2001	158,888	29,392	30,575	96.1
2002	163,273	30,011	30,814	97.4
2003	167,586	30,613	31,487	97.2
2004	176,630	32,063	33,041	97.0

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

Table II-31
MEDIAN INCOME FOR FOUR-PERSON FAMILY

Year	Wisconsin	U.S.	Percentage Wis. to U.S.
1994	$48,982	$47,012	104.2%
1995	50,628	49,687	101.9
1996	52,986	51,518	102.8
1997	57,270	53,350	107.3
1998	58,000	56,061	103.5
1999	63,436	59,981	105.8
2000	66,725	62,228	107.2
2001	65,441	63,278	103.4
2002	66,988	62,732	106.8
2003	69,010	65,093	106.0

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

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

	Wisconsin Distribution		U.S. Distribution	
	2004	**2003**	**2004**	**2003**
Farm	0.6%	0.6%	0.3%	0.3%
Nonfarm				
Private Nonfarm	80.9	80.8	83.2	83.1
Natural Resources & Mining	0.3	0.3	0.9	0.9
Construction	5.4	5.5	5.4	5.3
Manufacturing	23.8	24.0	13.7	14.2
Wholesale Trade	5.3	5.2	5.5	5.5
Retail Trade	6.6	6.8	6.8	6.9
Transportation, Warehousing & Utilities	4.4	4.4	4.1	4.1
Information	2.1	2.1	3.5	3.6
Financial Activities	7.1	7.0	9.1	8.9
Professional & Business Services	9.9	9.7	14.2	13.8
Educational & Health Services	12.5	12.3	10.9	10.8
Leisure & Hospitality	3.1	3.1	4.0	3.9
Other Services	2.7	2.7	2.9	2.9
Government	16.2	16.3	18.7	18.8
Total Earnings by Industry	100.0	100.0	100.0	100.0

Note: This table reflects the North American Industry Classification System (NAICS) and items may not total due to rounding.

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

Table II-33
ESTIMATED EMPLOYEES IN WISCONSIN ON NONAGRICULTURAL PAYROLLS[a]
2004 ANNUAL AVERAGE

	Wisconsin		U.S.	
	(Amounts in Thousands)	**%**	**(Amounts in Thousands)**	**%**
Natural Resources & Mining	3.8	0.1	591	0.4
Construction	126.3	4.5	6,964	5.3
Manufacturing	501.8	17.9	14,329	10.9
Transportation, Warehousing & Utilities	107.2	3.8	4,820	3.7
Wholesale Trade	113.8	4.1	5,655	4.3
Retail Trade	318.5	11.4	15,035	11.4
Information	49.9	1.8	3,138	2.4
Financial Activities	157.6	5.6	8,052	6.1
Professional & Business Services	249.9	9.0	16,414	12.5
Educational & Health Services	376.3	13.4	16,954	12.9
Leisure & Hospitality	249.9	8.9	12,479	9.4
Other Services	135.1	4.8	5,431	4.1
Government	412.1	14.7	21,618	16.3
Total	2,803.2	100.0	131,480	100.0

[a] Not seasonally adjusted.

Source: Department of Workforce Development

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

	1997	2002
New Capital Expenditures (millions)	$ 4,092.9	$ 3,279.4
Number of Employees (thousands)	562.5	503.6
Total Payroll (millions)	$ 18,766.4	$ 19,334.4
Number of Production Workers (thousands)	416.3	365.1
Value Added by Manufacturer (millions)	$ 54,947.1	$ 61,501.5
Value of Shipments (millions)	$117,383.0	$124,664.1

(a) Data for 1997 and 2002 is from census of manufacturers.

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

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

	Wisconsin			United States		
	1990	2004	% Change	1990	2003	% Change
Weekly Earnings	$459.77	$652.46	41.9	$436.16	$658.53	50.9
Weekly Hours	41.4	40.3	(2.7)	40.5	40.8	0.7
Hourly Earnings	$ 11.10	$ 16.19	45.9	$ 10.78	$ 16.14	49.7
Number of All Manufacturer Workers (Amounts in thousands)	523	502	(4.0)	17,241	14,329	(16.9)

Source: Department of Workforce Development.

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

		% Change	
Year	Wisconsin	Wisconsin	U.S.
1994	34,619	7.8	14.4
1995	32,403	(6.4)	(2.8)
1996	33,296	2.8	7.0
1997	31,925	(4.1)	1.1
1998	35,436	11.0	11.9
1999	35,570	0.4	3.2
2000	34,154	(4.0)	(4.3)
2001	37,773	10.6	2.8
2002	38,208	1.2	6.8
2003	40,884	7.0	8.1
2004	39,607	(3.1)	8.6

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

Table II-37
UNEMPLOYMENT RATE COMPARISON[a]
BY MONTH 2000 To 2005
BY QUARTER 1996 To 1999

	2005		2004		2003		2002		2001		2000	
	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.
January.......	5.4	5.7	5.9	6.3	6.2	6.5	5.9	6.3	4.2	4.7	3.5	4.5
February.....	5.8	5.8	6.1	6.0	6.7	6.4	6.3	6.1	4.8	4.6	4.0	4.4
March	5.5	5.4	6.2	6.0	6.6	6.2	6.4	6.1	5.0	4.5	4.1	4.3
April	4.7	4.9	5.2	5.4	6.0	5.8	5.7	5.7	4.5	4.2	3.3	3.7
May............	4.6	4.9	4.8	5.3	5.5	5.8	5.0	5.5	4.0	4.1	3.1	3.9
June............	4.8	5.2	5.2	5.8	6.2	6.5	5.5	6.0	4.6	4.7	3.8	4.2
July	4.6	5.2	4.8	5.7	5.7	6.3	5.2	5.9	4.2	4.7	3.5	4.2
August........	4.3	4.9	4.5	5.4	5.4	6.0	5.0	5.7	4.2	4.9	3.4	4.1
September..	4.1	4.8	4.1	5.1	4.9	5.8	4.4	5.4	3.8	4.7	2.9	3.8
October......	3.8	4.6	4.0	5.1	4.6	5.6	4.3	5.3	4.1	5.0	2.7	3.6
November ..	4.3	4.8	4.2	5.2	4.8	5.6	4.8	5.6	4.6	5.3	3.1	3.8
December...			4.3	5.1	4.9	5.4	5.0	5.7	4.8	5.4	3.3	3.7
Annual Average ...			4.9	5.5	5.6	6.0	5.3	5.8	4.4	4.7	3.4	4.0

1999 Quarters	Wis.	U.S.
I	3.9	4.6
II	3.0	4.2
III	2.6	4.3
IV	2.7	3.8
Annual Average...............	3.0	4.2

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

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

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

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

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

APPENDIX A

GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS

The following material is a reprint of the "General Purpose External Financial Statements" section of the audited CAFR for the fiscal year ended June 30, 2005. The entire CAFR is available from the State Controller's Office, Department of Administration, P.O. Box 7864, Madison, WI 53707-7864. The entire CAFR is also available on the internet at:

www.doa.wi.gov/capitalfinance

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

WISCONSIN

GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS

For the fiscal year ended June 30, 2005

STATE OF
WISCONSIN

GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS

For the fiscal year ended June 30, 2005

Jim Doyle, Governor

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

Prepared by the State Controller's Office DOA-6082AP (R12/05)

General Purpose External Financial Statements
For the Fiscal Year Ended June 30, 2005

Table of Contents

WISCONSIN DEPARTMENT OF
ADMINISTRATION

JIM DOYLE
GOVERNOR

STEPHEN E. BABLITCH
SECRETARY

Office of the Secretary
Post Office Box 7864
Madison, WI 53707-7864
Voice (608) 266-1741
Fax (608) 267-3842

December 14, 2005

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, 2005.

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

STATE OF WISCONSIN
Legislative Audit Bureau

22 E. Mifflin St., Ste. 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410
Leg.Audit.Info@legis.state.wi.us

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, 2005, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Wisconsin's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the following financial statements: the Wisconsin Department of Transportation Revenue Bond Program and Commercial Paper Program, which represent 11 percent of the liabilities of the governmental activities and 3 percent of the expenditures of the aggregate remaining fund information; the Badger Tobacco Asset Securitization Fund, which represents 11 percent of the liabilities of the governmental activities; the Environmental Improvement Fund, which is a major fund and represents 18 percent of the assets and 18 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, 2005, 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 21 to the financial statements, the State re-evaluated the accounting treatment for the Wisconsin Deferred Compensation Program under GASB Statement Number 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—a Rescission of GASB Statement No. 2 and an Amendment of GASB Statement No. 31*. It was determined that since the State does not hold the program's assets, the program should not be presented in the State's financial statements. The Deferred Compensation Program had previously been presented as a fiduciary fund in the State's financial statements.

As discussed in Note 18C to the financial statements, the Injured Patients and Families Compensation Fund's projected ultimate loss liability is an estimate based on recommendations of a consulting actuary. The Injured Patients and Families Compensation Fund Board of Governors believes that the estimated loss liability is reasonable and adequate to cover the cost of claims incurred to date. However, uncertainties inherent in projecting the frequency and severity of large medical malpractice claims because of the Injured Patients and Families Compensation Fund's unlimited liability coverage, and extended reporting and settlement periods, make it likely that amounts paid will ultimately differ from the recorded estimated liabilities. These differences cannot be quantified.

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

In accordance with *Government Auditing Standards*, we have prepared a report dated December 14, 2005, 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 14, 2005 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, 2005. 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 2005 by $11.5 billion (reported as "net assets"). Of this amount, $(7.5) 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 $0.6 billion in Fiscal Year 2005. Net assets of governmental activities increased by $300.5 million or 7.4 percent, while net assets of the business-type activities showed an increase of $251.4 million or 4.1 percent.
- *Excess of Revenues over (under) Expenses -- Governmental Activities.* During Fiscal Year 2005, the State's total revenues for governmental activities of $20.95 billion were $1.3 billion more than total expenses (excluding transfers) for governmental activities of $19.65 billion. Of these expenses, $7.8 billion were covered by program revenues. General revenues, generated primarily from various taxes, totaled $13.1 billion.

Fund

- *Governmental Funds -- Fund Balances.* As of the close of Fiscal Year 2005, the State's governmental funds reported combined ending fund balances of $(835.4) million, a decrease of $158.4 million in comparison with the prior year. Of this total amount, $(2.7) 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 $164.2 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 $1,079.4 million of general obligation bonds and $438.6 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.

Government-wide Financial Statements

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

- The *statement of net assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the state's net assets are an indicator of whether its financial health is improving or weakening, respectively.

- The *statement of activities* presents a comparison between direct expenses and program revenues for each function of the State's governmental activities and for different identifiable business-type activities of the State.

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

- *Governmental Activities* – Most services generally associated with State government fall into this category, including commerce, education, transportation, environmental resources, human relations and resources, general executive, judicial and legislative.

- *Business-Type Activities* – Those operations for which a fee is charged to external users for goods and services are reported in this category.

- *Discretely Presented Component Units* – These are operations for which the State has financial accountability but that have certain independent qualities as well. The State's discretely presented component units (all business-type activities) are:
    - Wisconsin Housing and Economic Development Authority,
    - Wisconsin Health Care Liability Insurance Plan,
    - University of Wisconsin Hospitals and Clinics Authority,
    - State Fair Park Exposition Center, Inc., and
    - University of Wisconsin Foundation.

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

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

Fund Financial Statements

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

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

- *Governmental Funds* – Most of the basic services provided by the State are financed through governmental funds. Governmental funds report information using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State. Because this information does not encompass the long-term focus of the government-wide statements, reconciliations are provided on the subsequent page of the governmental fund statements. The State has two major governmental funds -- the General Fund and the Transportation Fund. Examples of non-major governmental funds include the Conservation Fund, the Bond Security and Redemption Fund, and the Capital Improvement Fund.

- *Proprietary Funds* – These funds are used to show activities that operate more like those of commercial enterprises. Fees are charged for services provided, both to outside customers and to other units of the State. Proprietary funds, like the government-wide statements, use the accrual basis of accounting. The State has four major proprietary funds -- the Injured Patients and Families Compensation Fund, the Environmental Improvement Fund, the University of Wisconsin System and the Unemployment Reserve Fund. Examples of the State's non-major proprietary funds include the Lottery and the Health Insurance Fund.

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

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

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

	GOVERNMENT-WIDE STATEMENTS	FUND STATEMENTS		
		Governmental Funds	**Proprietary Funds**	**Fiduciary Funds**
Scope	Entire State government (except fiduciary funds) and the State's component units	The activities of the State that are not proprietary or fiduciary. Governmental activities are primarily financed through taxes, intergovernmental revenues, and other nonexchange revenues. Examples of governmental funds include: • General • Transportation • Bond Security and Redemption • Capital Improvement • Common School	The activities the State operates similar to private business. Examples of proprietary funds include: • Enterprise funds: -- Injured Patients and Families Compensation -- Environmental Improvement -- University of Wisconsin System -- Lottery • Internal service funds: -- Technology Services -- Facilities Operations and Maintenance	Activities in which the State is the trustee or agent for someone else's resources. Examples of fiduciary funds include: • Wisconsin Retirement System • Local Government Pooled Investment • College Savings Program Trust
Required financial statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• Balance sheet • Statement of revenues, expenses and changes in fund equity • Statement of cash flows	• Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resource focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow-outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	• Revenues for which cash is received during or soon after the end of the year • Expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

Additional Required Supplementary Information

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

Other Supplementary Information

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

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

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

Net Assets

As presented in Table 2, total assets of the State on June 30, 2005 were $29.5 billion, while total liabilities were $18.0 billion, resulting in combined net assets (government and business-type activities) of $11.5 billion. The largest component of the State's total net assets, $14.5 billion or approximately 126.2 percent, reflects its investment in capital assets (i.e., land, buildings, equipment, infrastructure, and others), less any related debt outstanding that was needed to acquire or construct the assets. Approximately $4.5 billion of net assets were restricted by external sources or the State Constitution or Statutes, and were not available to finance the day-to-day operations of the State.

The unrestricted net assets, which, if positive, could be used at the State's discretion, showed a negative balance of $(7.5) 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 $(2.1) 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 2005, the State issued $1.1 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, 2005 totaled $4.7 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, 2005. Outstanding revenue bonds, which are not considered general obligation debt of the State, were $3.8 billion at June 30, 2005.

Table 2
Net Assets
(in millions)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2005	2004 (a)	2005	2004	2005	2004	2005-2004
Current and Other Assets	$ 5,020.9	$ 5,058.3	$ 6,561.3	$ 6,409.9	$ 11,582.2	$ 11,468.2	1.0 %
Capital Assets	14,378.6	13,793.5	3,530.7	3,322.5	17,909.4	17,116.1	4.6
Total Assets	19,399.6	18,851.8	10,092.0	9,732.4	29,491.6	28,584.2	3.2
Long-term Liabilities	8,942.4	8,752.7	2,997.2	2,910.8	11,939.6	11,663.5	2.4
Other Liabilities	5,366.0	5,358.3	695.8	674.0	6,061.8	6,032.3	0.5
Total Liabilities	14,308.4	14,111.0	3,693.0	3,584.9	18,001.4	17,695.8	1.7
Net Assets:							
Invested in Capital Assets Net of Related Debt	11,499.4	11,182.2	2,997.6	2,866.5	14,497.1	14,048.7	3.2
Restricted	1,314.9	1,321.4	3,222.6	2,852.4	4,537.6	4,173.8	8.7
Unrestricted (deficit)	(7,723.2)	(7,762.7)	178.7	428.6	(7,544.5)	(7,334.2)	2.9
Total Net Assets	$ 5,091.1	$ 4,740.8	$ 6,399.0	$ 6,147.5	$ 11,490.1	$ 10,888.4	5.5

(a) Activities of the Unclaimed Property program, previously reported as a private purpose trust fund, are included in the General Fund in Fiscal Year 2005. The net assets of this program totaled $49.8 million on June 30, 2004. The Fiscal Year 2004 statement, above, has not been restated for this activity.

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 $13.4 billion and general revenues of $13.2 billion for total revenues of $26.5 billion during Fiscal Year 2005. Expenses for the State during Fiscal Year 2005 were $26.0 billion. As a result of the excess of revenues over expenses, the total net assets of the State increased $0.6 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
	2005	2004	2005	2004	2005	2004	2005-2004
Program Revenues:							
Charges for Goods and Services	$ 1,313.6	$ 1,307.5	$ 5,186.1	$ 4,836.8	$ 6,499.7	$ 6,144.3	5.8 %
Operating Grants and Contributions	5,826.3	5,559.5	356.7	457.9	6,183.0	6,017.4	2.8
Capital Grants and Contributions	666.8	635.6	34.5	20.8	701.4	656.4	6.9
General Revenues:							
Income Taxes	6,467.4	5,928.9	-	-	6,467.4	5,928.9	9.1
Sales and Excise Taxes	4,395.3	4,249.7	-	-	4,395.3	4,249.7	3.4
Public Utility Taxes	255.7	254.2	-	-	255.7	254.2	0.6
Motor Fuel Taxes	989.6	950.5	-	-	989.6	950.5	4.1
Other Taxes	564.6	524.7	-	-	564.6	524.7	7.6
Other General Revenues	466.8	469.0	11.5	(4.7)	478.3	464.3	3.0
Total Revenues	20,946.1	19,879.7	5,588.9	5,310.8	26,535.0	25,190.4	5.3
Program Expenses:							
Commerce	257.1	281.8	-	-	257.1	281.7	(8.7)
Education	5,818.4	5,747.4	-	-	5,818.4	5,747.4	1.2
Transportation	1,801.6	1,794.2	-	-	1,801.6	1,794.2	0.4
Environmental Resources	418.6	444.6	-	-	418.6	444.6	(5.9)
Human Relations and Resources	8,441.1	7,997.1	-	-	8,441.1	7,997.1	5.6
General Executive	478.8	425.5	-	-	478.8	425.5	12.5
Judicial	111.7	109.8	-	-	111.7	109.8	1.7
Legislative	57.0	57.6	-	-	57.0	57.6	(1.0)
Tax Relief and Other General Expenditures:							
Employee Benefit Liability	-	782.4	-	-	-	782.4	n/a (a)
Other	838.0	789.7	-	-	838.0	789.7	6.1
Intergovernmental	1,011.1	1,058.2	-	-	1,011.1	1,058.2	(4.5)
Interest on Long-term Debt	424.2	382.2	-	-	424.2	382.2	11.0
Injured Patients and Families Compensation	-	-	77.6	36.1	77.6	36.1	115.1
Environmental Improvement	-	-	39.5	42.2	39.5	42.2	(6.5)
Veterans Mortgage Loan Repayment	-	-	29.1	32.7	29.1	32.7	(10.8)
University of Wisconsin System	-	-	3,425.0	3,278.4	3,425.0	3,278.4	4.5
Unemployment Insurance Reserve	-	-	844.9	1,068.6	844.9	1,068.6	(20.9)
Lottery	-	-	452.1	458.1	452.1	458.1	(1.3)
Health Insurance	-	-	896.6	854.0	896.6	854.0	5.0
Other Business-type	-	-	581.4	536.8	581.4	536.8	8.3
Total Expenses	19,657.5	19,870.5	6,346.3	6,306.9	26,003.8	26,177.5	(0.7)
Excess (deficiency) before Contributions and Transfers	1,288.6	9.1	(757.4)	(996.2)	531.2	(987.0)	153.8
Contributions to Term and Permanent Endowments	-	-	0.6	5.3	0.6	5.3	(88.1)
Contributions to Permanent Fund Principal	20.1	22.0	-	-	20.1	22.0	(8.5)
Transfers	(1,008.2)	(1,007.4)	1,008.2	1,007.4	-	-	
Increase (decrease) in Net Assets	300.5	(976.3)	251.4	16.6	552.0	(959.7)	157.5
Net Assets - Beginning (Restated) (b)	4,790.6	5,717.1	6,147.5	6,131.0	10,938.1	11,848.1	(7.7)
Net Assets - Ending	$ 5,091.1	$ 4,740.8	$ 6,399.0	$ 6,147.5	$ 11,490.1	$ 10,888.4	5.5

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

(b) Activities of the Unclaimed Property program, previously reported as a private purpose trust fund, are included in the General Fund in Fiscal Year 2005. The net assets of this program totaled $49.8 million on June 30, 2004. The Fiscal Year 2004 statement, above, has not been restated for this activity.

Governmental Activities

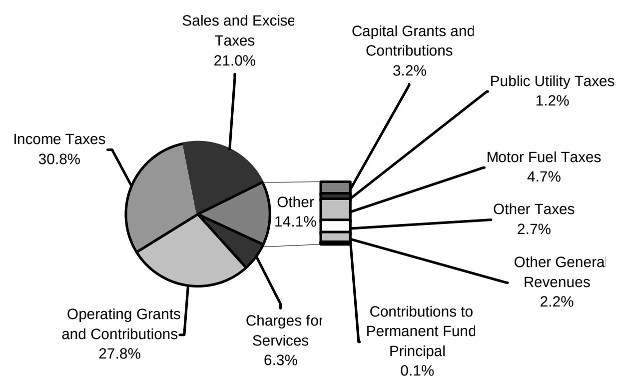
The net assets of governmental activities increased $0.3 billion in Fiscal Year 2005. Revenues for the governmental activities (including Contributions to Permanent Fund Principal) totaled $21.0 billion, while expenses and net transfers totaled $20.7 billion in 2005.

General and program revenues of governmental activities increased $1,066.4 million during this fiscal year, with the largest increases relating to tax revenues and operating grants and contributions. A $764.6 million increase in tax revenues was largely the result of an increase in income tax revenues due to the growth in employment and wages in the State. A $266.8 million increase in operating grants and contributions reflected increased federal assistance, including aid for Medical Assistance and Transportation programs.

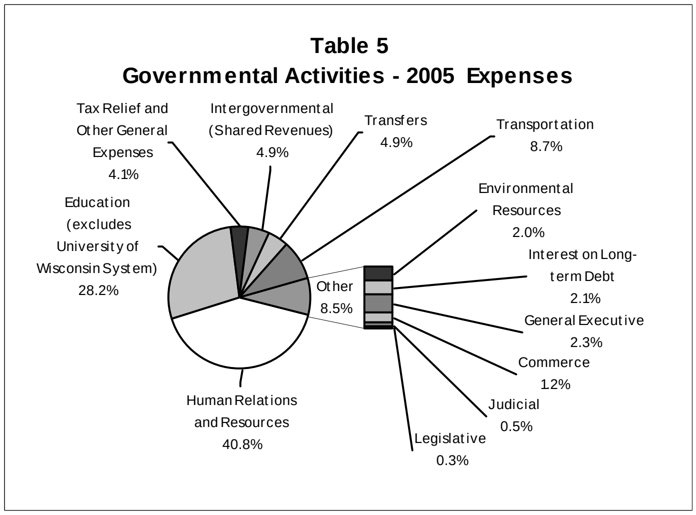
The State's governmental activities program expenses decreased $213.0 million during Fiscal Year 2005. The most significant factor in this decrease related to the one-time employee benefit liability expense of $782.4 million made in Fiscal Year 2004. Partially offsetting this decrease was the increase in Health and Human Resources activities of $444.0 million, which included increased Medical Assistance costs.

As shown in Table 4, below, approximately 60.4 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 27.8 percent of total revenues. Charges for services contributed 6.3 percent, and various other revenues provided 5.4 percent of the remaining governmental activity revenue sources.

Table 4
Governmental Activities - 2005 Revenues



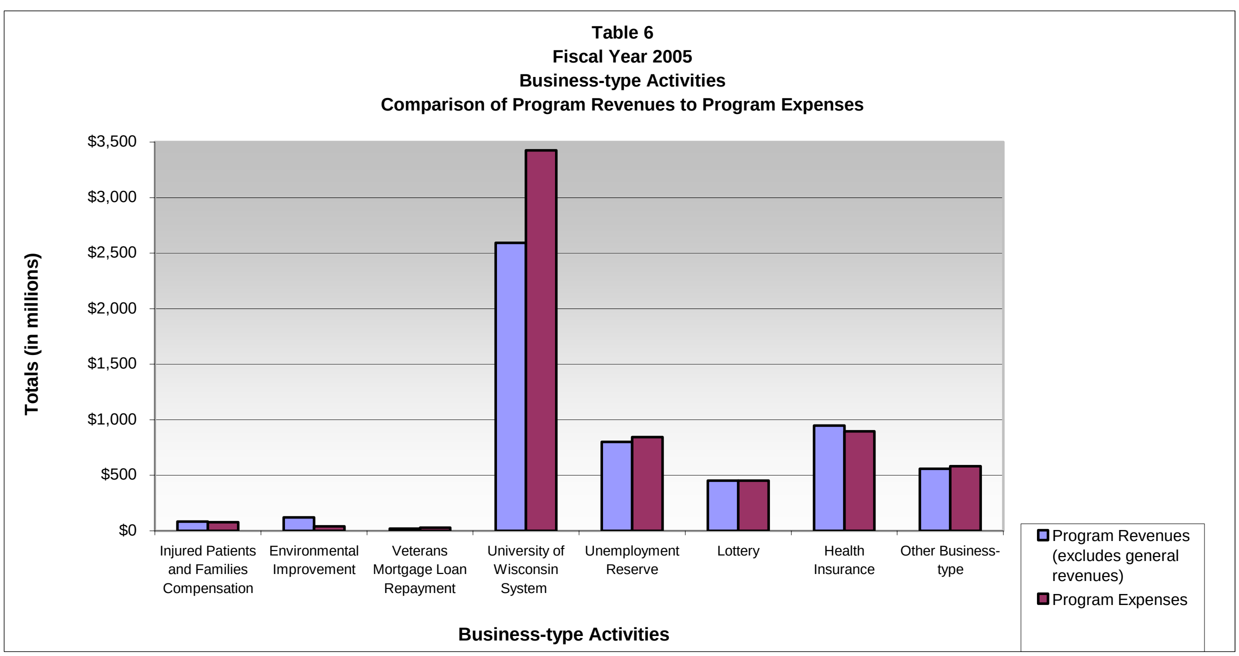
As shown in Table 5, below, expenses for Human Relations and Resources programs make up the largest portion – 40.8 percent – of total governmental expenses and transfers. Included in this function are various programs such as Medical Assistance, the prison system, and the temporary assistance for needy families "TANF" program. Educational expenses, which include various school aids but exclude expenses of the University of Wisconsin System, make up 28.2 percent. Tax Relief and Other General Expenses and the municipal and county shared revenue program represent 9.0 percent of the total, while Transportation expenses represent 8.7 percent. Net transfers to business-type activities, which include a general purpose revenue "GPR" subsidy to the University of Wisconsin System, make up 4.9 percent of the total expenses/transfers. The interest on long-term debt and remaining functional expenses total 8.5 percent.



Business-Type Activities

Net assets of the State's business-type activities increased $251.4 million in Fiscal Year 2005. Total business-type program revenues and expenses increased $261.9 million and $39.3 million, respectively. A 15 percent increase 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, $146.6 million, also related to University activity. In addition, program expenses of the Unemployment Compensation Fund decreased $223.8 million from the previous year, reflecting the improvement in the overall economy of the State.

Revenues of business-type activities totaled $5.6 billion for Fiscal Year 2005. The program revenues consisted of $5.2 billion of charges for services, $0.4 billion of operating grants and contributions, and $34.5 million of capital grants and contributions. General revenues, contributions to endowments and permanent fund principal, and net transfers totaled $11.5 million, $0.6 million, and $1,008.2 million, respectively. The total expenses for business-type activities were $6.3 billion. Table 6, below, compares the program revenues and program expenses of the various State business-type activities. This table does not include the transfer in (subsidy) from the General Fund to the University of Wisconsin System or other business-type activities.



FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

Governmental Funds

At the end of Fiscal Year 2005, the State's governmental funds reported a combined fund balance of $(835.4) 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 2005, the State's General Fund reported a total fund deficit of $(2,122.2) million. The net change in fund balance during Fiscal Year 2005 was $(223.1) million, in contrast to $290.0 million in Fiscal Year 2004. Major revenue, expenditure and other sources/uses contributing to the change in fund balance are as follows:

Revenues

Revenues of the General Fund totaled $17,639.1 million in Fiscal Year 2005, an increase of $871.9 million from Fiscal Year 2004. Factors contributing to the increase included the following:

- Revenues from taxes increased $722.6 million from Fiscal Year 2004 to Fiscal Year 2005. The most significant increase related to individual income tax withholdings, which increased $278.7 million or 5.3 percent. This increase was due to the growth in employment and wages in the State during that period. In addition, sales tax collections increased 3.6 percent, or approximately $139.5 million from Fiscal Year 2004 to Fiscal Year 2005.

- Intergovernmental revenues (e.g., federal assistance) increased $180.9 million in Fiscal Year 2005, primarily due to an increase in expenditures that were eligible for Federal reimbursement. These items included an increase related to Medical Assistance and the Waiver Program.

- Other revenues, such as charges for goods and services, and gifts and grants decreased $31.7 million.

Expenditures

Expenditures of the General Fund totaled $16,742.0 million in Fiscal Year 2005, a decrease of $400.9 million from Fiscal Year 2004. The factors contributing to the decrease included the following:

- A decrease in Tax Relief and Other General expenditures of $1,487.6 million, which related to the 2004 payment of employee benefits for the unfunded accrued prior service (pension) liability and the unfunded accrued liability for sick leave conversion credits. This was funded in Fiscal Year 2004 by the issuance of General Fund annual appropriation bonds discussed below.

- An increase in human relations and resources expenditures of $1,075.0 million, which primarily resulted from the shift back of a portion of medical assistance payments from the Medical Assistance Trust Fund to the General Fund. Wisconsin, along with other states, continues to struggle with increasing Medical Assistance costs.

- Other expenditures increased $11.6 million.

Other Financing Sources and Uses

Other financing sources/uses and increases/decreases totaled a net $(1,120.2) million in Fiscal Year 2005, a change of $1,785.9 million from the prior year. The components of this change included the following:

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

- The State transferred to the General Fund $170.0 million from the Transportation Fund and $20.0 million from the Utility Public Benefits Fund in Fiscal Year 2005. This was a reduction of $57.6 million from the amounts transferred in 2004 ($230.0 million from the Transportation Fund and $17.6 million from the Utility Public Benefits Fund). These moneys were used to fund a portion of the Fiscal Year 2005 shared revenue payments to local governments.

- Transfers out of the General Fund totaled $1,510.6 million, an increase of $163.1 million from the prior year. The majority of this change relates to an increase in transfers to the Bond Security and Redemption and Capital Improvement Funds of $128.2 million and $23.6 million, respectively.

- Other financing sources/uses and other increases/decreases resulted in a net decrease of $58.9 million from the prior fiscal year.

As of June 30, 2005, the General Fund reported a deficit of $(2,459.5) million in its "Unreserved" Fund Balance. This compares to a General Fund Unreserved Fund Deficit of $(2,296.8) million as of June 30, 2004. 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 $1.6 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	$ 50.7
UW-System General Program Operations – Doctoral Universities	130.1
UW-System General Program Operations – System Wide Accounts	(61.7)
UW-System Other Operating Receipts	64.0
UW-System Federal Aid – Special Projects	139.4
General Program Operations – Adult Correctional Services	54.7
Medical Assistance Program Benefits	95.4
Federal Aid, Medical Assistance	96.2
Food Stamps, Electronic Benefit Transfer	308.0 *
Transfer to Medical Assistance Trust Fund	125.0 *

Actual charges to appropriations (expenditures) were $1.4 billion below the final budgeted estimates. The most significant positive variance occurred in UW System Federal Aid – Special Projects ($86.9 million).

During the past fiscal year the budgetary-based fund balance decreased by $305.8 million for the General Fund, primarily due to an increase in medical assistance expenditures.

Transportation Fund

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. This was a reduction of $60.0 million from a similar transfer done in 2004. The reduction of this transfer was a contributing factor to the decrease in transfers out of $48.1 million from the preceding year. Also, total expenditures of the Transportation Fund increased by $97.6 million, from $1,748.7 million in Fiscal Year 2004 to $1,846.3 million in 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 ($5.6 million). Revenues in the fund decreased by $12.6 million, primarily due to the reduction of intergovernmental transfers received in this fund. Expenditures decreased by $666.0 million, due to the shift of the majority of Medical Assistance costs to the General Fund. The Fiscal Year 2004 deficit of $(176.3) million in the Medical Assistance Trust Fund has been partially alleviated through transfers from the General Fund.

Annual Appropriation Bonds Fund

In Fiscal Year 2004, the State issued $1,794.9 million of General Fund annual appropriation bonds to obtain proceeds to pay the State's unfunded accrued prior service (pension) liability and its unfunded accrued liability for sick leave conversion credits. The remaining portion of the proceeds ($285.7 million), was reported in the Annual Appropriation Bonds Fund, a debt service fund, to pay for future debt service requirements. In Fiscal Year 2005, the primary financial activity reported in this fund was interest expense of $86.9 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 2004 to Fiscal Year 2005 include the following:

- Although the Environmental Improvement Fund issued new revenue bonds of $107.0 million in Fiscal Year 2005, the fund's total liabilities decreased $39.8 million or approximately 6.0 percent over Fiscal Year 2004. Correspondingly, total assets increased $36.9 million or approximately 2.1 percent over Fiscal Year 2004, with loans receivable increasing $102.1 million or 7.9 percent.

- In Fiscal Year 2005, the University of Wisconsin System's Tuition and Fees revenue increased $68.3 million or 10.5 percent, due primarily to a 15.0 percent increase in tuition. Federal grants and contracts revenue increased $45.4 million or 6.6 percent, substantially due to numerous significant new project grants.

- The Unemployment Reserve Fund experienced a $223.8 million or 20.9 percent decrease in expenses in Fiscal Year 2005 in comparison to Fiscal Year 2004. Due to the improvement in the overall economy of the State and additional revenue generated by a change to a different tax rate schedule (an increase in employers' taxes), 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 $47.3 million in Fiscal Year 2005 compared to a $244.8 loss in Fiscal Year 2004). The fund equity of this fund was $923.7 million as of June 30, 2005.

- In Fiscal Year 2005, the revenues of the Health Insurance Fund, which accounts for group health insurance provided to State employees and employers of participating governments, increased to $947.5 million and expenses increased to $896.6 million, reflecting a $72.1 million and $42.6 million increase, respectively, due to the rising cost of health insurance premiums paid to health insurance providers and the rising cost of self-insured expenses of the program. Expenses rose slightly less as a result of pharmacy rebates and other cost containment initiatives by the State.

GOVERNMENT-WIDE CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the close of Fiscal Year 2005, the State had $17.9 billion invested in capital assets, net of accumulated depreciation of $3.0 billion. This represents an increase of $793.3 million, or 4.6 percent, from Fiscal Year 2004. Depreciation charges totaled $95.8 million and $159.2 million for governmental and business-type activities, respectively, in Fiscal Year 2005. 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	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Land and Land Improvements	$ 1,532	$ 1,382	$ 114	$ 114	$ 1,646	$ 1,496
Buildings and Improvements	1,304	1,288	2,001	1,967	3,305	3,255
Library Holdings	78	77	1,019	1,003	1,097	1,079
Machinery and Equipment	221	227	220	209	441	436
Infrastructure	10,325	9,877	-	-	10,325	9,877
Construction in Progress	919	942	176	30	1,094	972
Totals	$ 14,379	$ 13,794	$ 3,531	$ 3,323	$ 17,909	$ 17,116

The major capital asset additions completed during Fiscal Year 2005 included the:

- Camp Randall Stadium ($107 million), and
- Mechnical Engineering Addition/Remodeling – Madison ($58.4 million).

In addition to these completed projects, construction in progress as of June 30, 2005 for governmental and business type activities totaled $918.70 million and $282.2 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),
- Columbia Campus Acquisition (2005-2011) – Milwaukee (estimated budget of $112.1 million), and
- Park Street Development (2005-2007) – Madison (estimated budget of $46.8 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, 2005 was $4.7 billion, as shown in Table 8.

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.

During Fiscal Year 2005, $1,079.4 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 of veterans loan programs.

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, 2005, as shown in Table 8. These bonds included $1,386.5 million of Transportation Revenue Bonds, $210.4 million of Petroleum Inspection Revenue Bonds, $652.2 million of Environmental Improvement Revenue Bonds, and $1,520.8 million of Badger Tobacco Asset Securitization Corporation bonds.

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

Table 8
Outstanding Debt as of June 30, 2005 and 2004
(in millions)

	Governmental Activities		Business-Type Activities		Total	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
General obligation bonds	$ 3,764.0	$ 3,560.2	$ 893.2	$ 859.3	$ 4,657.2	$ 4,419.5
Annual appropriation bonds	1,792.3	1,792.1	--	--	1,792.3	1,792.1
Revenue bonds	3,117.7	3,151.5	652.2	692.1	3,769.9	3,843.6
Totals	$ 8,674.0	$ 8,503.8	$ 1,545.4	$ 1,551.4	$ 10,219.4	$ 10,055.2

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, 2005, 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 $10.3 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, 2005, 94.2 percent of the roads and 94.9 percent of bridges were in good or fair condition, consistent with State policies.

For the fiscal year ended June 30, 2005, actual maintenance and preservation costs for the State's road network were $372.3 million, or $106.4 million less than the estimated amount. On that same date, actual maintenance and preservation costs for the State's bridge network were $38.6 million, or $10.3 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 2004, the Wisconsin economy moved into a sustainable recovery. This recovery continued in 2005.

Employment increased 1.0 percent in 2004. Wisconsin's employment has been expanding since January 2004. Through September 2005, Wisconsin non-farm employment is up 0.6 percent compared to a year ago. Employment losses suffered in the 2000-01 recession have been nearly fully recovered. Unemployment has declined from 5.5 percent in 2003 to 4.9 percent in 2004 and to 4.6 percent by September 2005.

Personal income growth has improved with the gains in employment. Wisconsin personal income increased 2.6 percent in 2003 and 5.4 percent in 2004. Nationally, income growth was 3.2 percent in 2003 and 6.0 percent in 2004. On a per capita basis, Wisconsin income increased 2.0 percent in 2003 and 4.7 percent in 2004 compared to 2.2 percent and 4.9 percent nationally. Since 2000, Wisconsin's per capita income has moved closer to the national average from 95.7 percent in 2000 to 97.0 percent in 2004. By the end of the first half of 2005, Wisconsin income growth was 5.9 percent ahead of a year ago.

Wisconsin's property values reflect an expanding economy. Real property values increased significantly in 2004 and 2005, up 8.7 percent and 9.4 percent respectively. Commercial, manufacturing and residential real estate have all increased significantly in these years.

Inflation in Wisconsin has been modest. As measured by the Milwaukee-Racine CSA consumer price index, inflation in 2004 was only 1.4 percent. In the first half of 2005, inflation remains relatively subdued with prices advancing only a moderate 1.7 percent.

CONTACTING THE STATE'S FINANCIAL MANAGEMENT

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

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

* * * *

State of Wisconsin

Statement of Net Assets
June 30, 2005

(In Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Assets				
Cash and Cash Equivalents	$ 822,722	$ 2,433,640	$ 3,256,362	$ 202,482
Investments	131,642	1,436,860	1,568,503	1,195,677
Cash and Investments with Other Component Units	-	-	-	196,742
Receivables (net of allowance)	2,891,132	2,449,965	5,341,097	2,364,198
Internal Balances	38,982	(38,982)	-	-
Inventories	44,486	41,499	85,985	6,028
Prepaid Items	309,439	126,858	436,297	2,597
Capital Leases Receivable - Component Units	-	18,166	18,166	-
Restricted and Limited Use Assets:				
Cash and Cash Equivalents	317,994	72,700	390,694	85,354
Investments	303,552	-	303,552	1,256,282
Cash and Investments with Other Component Units	-	-	-	18,325
Other Restricted Assets	365	-	365	5,669
Deferred Charges	95,059	15,240	110,299	15,289
Capital Assets:				
Depreciable	1,420,478	2,224,478	3,644,956	309,453
Nondepreciable:				
Infrastructure	10,325,229	-	10,325,229	-
Other	2,632,938	1,306,247	3,939,185	28,303
Other Assets	65,535	5,328	70,863	43,865
Total Assets	19,399,553	10,092,001	29,491,553	5,730,263
Liabilities				
Accounts Payable and Other Accrued Liabilities	1,573,793	375,461	1,949,254	140,115
Due to Other Governments	1,654,734	28,930	1,683,664	1,769
Tax Refunds Payable	1,031,203	-	1,031,203	-
Tax and Other Deposits	43,079	18,109	61,187	93,050
Amounts Held in Trust by Component Unit for Other Component Units	-	-	-	178,918
Unearned Revenue	346,976	250,302	597,278	2,070
Interest Payable	125,098	10,505	135,603	25,180
Short-term Notes Payable	591,140	12,504	603,644	-
Long-term Liabilities:				
Current Portion	452,680	284,679	737,358	95,983
Noncurrent Portion	8,489,724	2,712,528	11,202,251	2,484,091
Total Liabilities	14,308,427	3,693,016	18,001,444	3,021,176
Net Assets				
Invested in Capital Assets, Net of Related Debt	11,499,433	2,997,647	14,497,080	95,665
Restricted for:				
Transportation Programs	11,256	-	11,256	-
Capital Projects	33,668	-	33,668	-
Debt Service	503,927	-	503,927	-
Unemployment Compensation	-	923,727	923,727	-
Environmental Improvement	-	1,156,713	1,156,713	-
Permanent Trusts:				
Expendable	11,045	215,168	226,213	24,121
Nonexpendable	628,645	126,336	754,981	1,035,587
Other Purposes	126,390	800,694	927,085	1,221,002
Unrestricted	(7,723,238)	178,697	(7,544,541)	332,712
Total Net Assets	$ 5,091,125	$ 6,398,984	$ 11,490,109	$ 2,709,087

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

Statement of Activities
For the Fiscal Year Ended June 30, 2005

(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	$ 257,112	$ 158,494	$ 65,864	$ -
Education	5,818,372	23,298	716,658	-
Transportation	1,801,595	486,406	143,724	648,310
Environmental Resources	418,616	184,416	70,006	9,541
Human Relations and Resources	8,441,099	175,584	4,585,731	8,991
General Executive	478,782	217,128	184,051	-
Judicial	111,690	61,377	719	-
Legislative	57,047	1,567	4	-
Tax Relief and Other General Expenses	837,970	5,329	59,532	-
Intergovernmental	1,011,052	-	-	-
Interest on Debt	424,217	-	-	-
Total Governmental Activities	19,657,549	1,313,598	5,826,288	666,843
Business-type Activities:				
Injured Patients and Families Compensation	77,624	84,719	-	-
Environmental Improvement	39,482	40,206	81,895	-
University of Wisconsin System	3,425,045	2,330,027	236,323	24,895
Unemployment Reserve	844,869	766,985	34,669	-
Lottery	452,060	452,022	-	-
Health Insurance	896,624	947,530	-	-
Veterans Mortgage Loan Repayment	29,126	18,758	-	-
Other Business-type	581,420	545,857	3,851	9,628
Total Business-type Activities	6,346,250	5,186,105	356,738	34,523
Total Primary Government	$ 26,003,799	$ 6,499,702	$ 6,183,026	$ 701,366
Component Units:				
Housing and Economic Development Authority	$ 254,564	$ 127,554	$ 133,267	$ -
Health Care Liability Insurance Plan	8,989	8,667	-	-
University Hospitals and Clinics Authority	640,792	673,617	779	13,056
University of Wisconsin Foundation	137,555	171,278	591,602	-
State Fair Park Exposition Center, Inc.	5,419	3,719	-	-
Total Component Units	$ 1,047,319	$ 984,835	$ 725,648	$ 13,056

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
$ (32,754)		$ (32,754)	
(5,078,417)		(5,078,417)	
(523,155)		(523,155)	
(154,653)		(154,653)	
(3,670,793)		(3,670,793)	
(77,603)		(77,603)	
(49,593)		(49,593)	
(55,476)		(55,476)	
(773,109)		(773,109)	
(1,011,052)		(1,011,052)	
(424,217)		(424,217)	
(11,850,821)		(11,850,821)	
	$ 7,095	7,095	
	82,619	82,619	
	(833,800)	(833,800)	
	(43,216)	(43,216)	
	(38)	(38)	
	50,906	50,906	
	(10,367)	(10,367)	
	(22,084)	(22,084)	
-	(768,885)	(768,885)	
(11,850,821)	(768,885)	(12,619,706)	
			$ 6,257
			(321)
			46,660
			625,324
			(1,700)
			676,220
6,467,377	-	6,467,377	-
4,395,292	-	4,395,292	-
255,727	-	255,727	-
351,078	-	351,078	-
989,638	-	989,638	-
213,505	-	213,505	-
42,710	11,484	54,194	30,556
424,047	44	424,091	-
-	634	634	-
20,137	-	20,137	-
(1,008,160)	1,008,160	-	-
12,151,349	1,020,323	13,171,672	30,556
300,528	251,438	551,966	706,776
4,790,597	6,147,546	10,938,143	2,002,311
$ 5,091,125	$ 6,398,984	$ 11,490,109	$ 2,709,087

Balance Sheet - Governmental Funds
June 30, 2005

(In Thousands)

	General	Transportation	Nonmajor Governmental	Total Governmental
Assets				
Cash and Cash Equivalents	$ 5,166	$ 325,226	$ 463,471	$ 793,863
Investments	903	-	130,739	131,642
Receivables (net of allowance):				
Taxes	1,138,009	100,133	25,353	1,263,494
Loans to Local Governments	13,212	-	431,672	444,884
Other Loans Receivable	-	24,867	-	24,867
Other Receivables	258,297	56,871	87,397	402,565
Due from Other Funds	148,810	54,836	98,957	302,603
Due from Component Units	2	-	-	2
Due from Other Governments	603,214	85,120	23,922	712,257
Inventories	12,508	21,145	2,398	36,051
Prepaid Items	286,044	2,955	15,486	304,486
Advances to Other Funds	27	-	358	385
Restricted and Limited Use Assets:				
Cash and Cash Equivalents	-	-	317,994	317,994
Investments	-	-	303,552	303,552
Other Restricted Assets	-	-	365	365
Other Assets	65,535	-	-	65,535
Total Assets	$ 2,531,726	$ 671,153	$ 1,901,664	$ 5,104,543
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable and Other Accrued Liabilities	$ 727,869	$ 141,727	$ 92,995	$ 962,591
Due to Other Funds	170,558	30,676	88,233	289,466
Due to Component Units	17	-	-	17
Interfund Payables	486,346	-	53,805	540,150
Due to Other Governments	1,544,546	92,113	16,487	1,653,146
Tax Refunds Payable	1,026,263	4,690	251	1,031,203
Tax and Other Deposits	36,106	571	6,402	43,079
Deferred Revenue	662,256	7,791	65,241	735,288
Interest Payable	-	-	36,262	36,262
Advances from Other Funds	-	-	3,272	3,272
Short-term Notes Payable	-	-	566,132	566,132
Revenue Bonds and Notes Payable	-	-	79,325	79,325
Total Liabilities	4,653,961	277,567	1,008,403	5,939,931
Fund Balances:				
Reserved for Encumbrances	140,845	590,250	192,172	923,267
Reserved for Inventories	12,508	21,145	2,398	36,051
Reserved for Prepaid Items	156,535	2,955	15,486	174,977
Reserved for Restricted Funds	27,330	-	272,033	299,363
Reserved for Long-term Receivables	-	-	403,677	403,677
Reserved for Advances to Other Funds	27	-	358	385
Unreserved, Reported In:				
General Fund	(2,459,480)	-	-	(2,459,480)
Special Revenue Funds	-	(220,764)	63,398	(157,366)
Debt Service Funds	-	-	231,994	231,994
Capital Projects Funds	-	-	(530,032)	(530,032)
Permanent Funds	-	-	241,776	241,776
Total Fund Balances	(2,122,235)	393,586	893,261	(835,388)
Total Liabilities and Fund Balances	$ 2,531,726	$ 671,153	$ 1,901,664	$ 5,104,543

(Continued)

Balance Sheet - Governmental Funds
June 30, 2005

(Continued)

		Total Governmental
Reconciliation to the Statement of Net Assets:		
Total Fund Balances from previous page	$	(835,388)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Infrastructure		10,325,229
Other Capital Assets		4,456,555
Accumulated Depreciation		(701,461)
Other long-term assets that are not available to pay for current period expenditures and, therefore, are deferred in the funds.		98,930
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.		390,318
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.		22,485
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		(3,038,403)
Appropriation Bonds Payable		(1,792,290)
General Obligation Bonds Payable		(3,596,453)
Accrued Interest on Bonds		(88,836)
Capital Leases		(20,748)
Installment Contracts		(1,099)
Compensated Absences		(115,478)
Claims and Judgments		(12,237)
Net Assets of Governmental Activities as reported on the Statement of Net Assets (See page 21)	$	5,091,125

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

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Fiscal Year Ended June 30, 2005

(In Thousands)

	General	Transportation	Nonmajor Governmental	Total Governmental
Revenues:				
Taxes	$ 11,444,127	$ 989,745	$ 213,600	$ 12,647,472
Intergovernmental	5,511,363	792,255	96,155	6,399,774
Licenses and Permits	240,382	342,810	460,549	1,043,742
Charges for Goods and Services	198,216	18,987	13,276	230,479
Investment and Interest Income	12,031	7,272	50,844	70,148
Fines and Forfeitures	35,373	526	30,865	66,764
Gifts and Donations	6,875	-	10,594	17,469
Other Revenues:				
Intergovernmental Transfer	-	-	87,300	87,300
Tobacco Settlement	-	-	132,055	132,055
Other	190,755	17,400	7,961	216,117
Total Revenues	17,639,122	2,168,995	1,103,201	20,911,318
Expenditures:				
Current Operating:				
Commerce	218,554	-	41,523	260,077
Education	5,758,828	-	33,279	5,792,108
Transportation	4,437	1,524,609	155,503	1,684,549
Environmental Resources	100,575	-	311,746	412,322
Human Relations and Resources	8,236,011	-	134,097	8,370,108
General Executive	380,501	-	105,849	486,351
Judicial	107,841	-	343	108,184
Legislative	57,174	-	-	57,174
Tax Relief and Other General Expenditures	831,769	-	5,812	837,581
Intergovernmental	1,011,052	-	-	1,011,052
Debt Service:				
Principal	-	-	337,196	337,196
Interest	-	-	417,204	417,204
Other Expenditures	-	-	8,145	8,145
Capital Outlay	35,276	321,720	421,514	778,510
Total Expenditures	16,742,019	1,846,330	1,972,211	20,560,559
Excess of Revenues Over (Under) Expenditures	897,104	322,665	(869,010)	350,759
Other Financing Sources (Uses):				
Long-term Debt Issued	-	-	455,845	455,845
Long-term Debt Issued - Refunding Bonds	-	-	719,779	719,779
Payments to Refunding Bond Escrow Agent	-	-	(780,044)	(780,044)
Premium on Bonds	-	-	96,993	96,993
Transfers In	385,157	8,853	634,309	1,028,319
Transfers Out	(1,510,646)	(315,225)	(212,517)	(2,038,387)
Capital Lease Acquisitions	5,875	-	-	5,875
Installment Purchase Acquisitions	-	-	1,068	1,068
Total Other Financing Sources (Uses)	(1,119,613)	(306,371)	915,432	(510,553)
Net Change in Fund Balances	(222,510)	16,294	46,422	(159,794)
Fund Balances, Beginning of Year	(1,899,127)	375,447	846,726	(676,954)
Increase (Decrease) in Reserve for Inventories	(598)	1,845	113	1,360
Fund Balances, End of Year	$ (2,122,235)	$ 393,586	$ 893,261	$ (835,388)

(Continued)

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Fiscal Year Ended June 30, 2005

(Continued)

		Total Governmental
Reconciliation to the Statement of Activities:		
Net Change in Fund Balances from previous page	$	(159,794)
Inventories, which are recorded under the purchases method for governmental fund reporting, are reported under the consumption approach on the Statement of Activities. As a result of this change, the Increase (Decrease) in Reserve for Inventories on the fund statement has been reclassified as functional expenses on the government-wide statement.		1,360
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.		337,196
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		777,523
Depreciation Expense		(77,052)
Grants and Contributions (Donated Assets)		1,871
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.		80
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.		(113,026)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		24,637
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.		
Bonds Issued		(1,175,624)
Payments to Refunding Bond Escrow Agent		780,044
Bond Premium		(95,355)
Bond Issuance Costs		5,601
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		2,834
Decrease (increase) in Capital Leases		(965)
Decrease (increase) in Installment Contracts		1,199
Decrease (increase) in Compensated Absences		(8,792)
Decrease (increase) in Claims and Judgments		(10,200)
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.		8,989
Changes in Net Assets of Governmental Activities as reported on the Statement of Activities (See page 23)	$	300,528

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

State of Wisconsin

Balance Sheet
Proprietary Funds
June 30, 2005

	Business-type Activities		
	Injured Patients and Families Compensation	Environmental Improvement	University of Wisconsin System
Assets			
Current Assets:			
Cash and Cash Equivalents	$ 22,103	$ 190,956	$ 562,906
Investments	49,490	23,387	-
Loans to Local Governments (net of allowance)	-	99,830	-
Other Loans Receivable (net of allowance)	-	-	32,854
Other Receivables (net of allowance)	12,326	330	134,109
Due from Other Funds	-	202	40,551
Due from Component Units	-	-	912
Due from Other Governments	-	7,800	73,762
Inventories	2	-	34,419
Prepaid Items	7	21	27,400
Capital Leases Receivable - Component Units	-	-	3,345
Deferred Charges	-	-	7,815
Other Assets	-	-	-
Total Current Assets	83,928	322,525	918,074
Noncurrent Assets:			
Investments	674,750	145,896	331,878
Loans to Local Governments (net of allowance)	-	1,300,881	-
Other Loans Receivable (net of allowance)	-	-	157,266
Other Receivables	-	-	-
Prepaid Items	-	303	-
Advances to Other Funds	-	-	-
Capital Leases Receivable - Component Units	-	-	14,821
Restricted and Limited Use Assets:			
Cash and Cash Equivalents	-	72,700	-
Deferred Charges	-	2,827	-
Depreciable Capital Assets (net of accumulated depreciation)	3	-	2,088,409
Nondepreciable Capital Assets	-	-	1,261,978
Other Assets	-	-	-
Total Noncurrent Assets	674,753	1,522,607	3,854,353
Total Assets	$ 758,681	$ 1,845,132	$ 4,772,427
Liabilities and Fund Equity			
Current Liabilities:			
Accounts Payable and Other Accrued Liabilities	$ 409	$ 146	$ 175,417
Due to Other Funds	174	1,886	57,121
Due to Component Units	-	-	1,689
Interfund Payables	-	-	-
Due to Other Governments	-	473	21,285
Tax and Other Deposits	-	-	1,580
Deferred Revenue	5,429	-	148,489
Interest Payable	-	2,775	4,354
Short-term Notes Payable	-	-	11,102
Current Portion of Long-term Liabilities:			
Future Benefits and Loss Liabilities	55,250	-	-
Capital Leases	-	-	4,782
Installment Contracts Payable	-	-	-
Compensated Absences	15	46	50,167
General Obligation Bonds Payable	-	-	24,416
Revenue Bonds and Notes Payable	-	44,775	-
Total Current Liabilities	61,277	50,101	500,403
Noncurrent Liabilities:			
Accounts Payable and Other Accrued Liabilities	-	-	-
Due to Other Governments	-	997	-
Deferred Revenue	-	-	-
Noncurrent Portion of Long-term Liabilities:			
Future Benefits and Loss Liabilities	665,673	-	-
Capital Leases	-	-	40,994
Installment Contracts Payable	-	-	-
Compensated Absences	25	31	40,927
General Obligation Bonds Payable	-	-	488,975
Revenue Bonds and Notes Payable	-	607,438	-
Total Noncurrent Liabilities	665,698	608,465	570,897
Total Liabilities	726,975	658,566	1,071,300
Fund Equity:			
Invested in Capital Assets, Net of Related Debt	3	-	2,865,244
Restricted for Unemployment Compensation	-	-	-
Restricted for Environmental Improvement	-	1,156,713	-
Restricted for Expendable Trusts	-	-	215,168
Restricted for Nonexpendable Trusts	-	-	126,336
Restricted for Future Benefits	31,703	-	-
Restricted for Other Purposes	-	-	317,130
Unrestricted	-	29,852	177,248
Total Fund Equity	31,706	1,186,566	3,701,127
Total Liabilities and Fund Equity	$ 758,681	$ 1,845,132	$ 4,772,427

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

Business-type Activities			Governmental
Unemployment Reserve	Nonmajor Enterprise	Totals	Activities - Internal Service Funds
$ 762,825	$ 894,850	$ 2,433,640	$ 28,859
-	16,422	89,298	-
-	514	100,344	-
-	18,591	51,446	-
169,872	65,905	382,542	266
428	44,157	85,338	45,376
-	27	939	12
3,170	4,129	88,861	281
-	7,078	41,499	6,661
-	99,128	126,556	4,953
-	-	3,345	-
-	101	7,916	156
-	758	758	-
936,295	1,151,660	3,412,482	86,564
-	195,038	1,347,562	-
-	1,746	1,302,627	-
-	309,390	466,657	-
21,588	-	21,588	-
-	-	303	-
-	-	-	2,914
-	-	14,821	-
-	-	72,700	-
-	4,497	7,324	813
-	136,066	2,224,478	269,873
-	44,268	1,306,247	28,450
-	4,570	4,570	-
21,588	695,576	6,768,876	302,050
$ 957,883	$ 1,847,235	$ 10,181,358	$ 388,614
$ 18,704	$ 53,819	$ 248,495	$ 14,539
9,423	38,528	107,132	3,834
-	84	1,773	-
-	16,518	16,518	30,803
6,029	146	27,933	86
-	16,529	18,109	-
-	96,373	250,291	3,594
-	3,376	10,505	1,460
-	1,401	12,504	25,009
-	90,099	145,349	24,584
-	332	5,115	534
-	-	-	236
-	4,869	55,097	1,194
-	9,927	34,343	8,205
-	-	44,775	-
34,156	332,001	977,938	114,076
-	91,334	91,334	-
-	-	997	-
-	11	11	-
-	491,538	1,157,211	88,582
-	2,318	43,313	1,574
-	-	-	236
-	4,731	45,713	1,913
-	369,877	858,853	159,315
-	-	607,438	-
-	959,809	2,804,869	251,620
34,156	1,291,810	3,782,807	365,696
-	132,401	2,997,647	103,674
923,727	-	923,727	-
-	-	1,156,713	-
-	-	215,168	-
-	-	126,336	-
-	386,526	418,229	-
-	65,325	382,455	-
-	(28,826)	178,275	(80,756)
923,727	555,425	6,398,551	22,918
$ 957,883	$ 1,847,235	$ 10,181,358	$ 388,614

Total Fund Equity Reported Above	$ 6,398,551
Adjustment to Reflect the Consolidation of Internal Service Activities Related to Enterprise Funds	433
Net Assets of Business-type Activities	$ 6,398,984

State of Wisconsin

Statement of Revenues, Expenses, and Changes in Fund Equity - Proprietary Funds For the Fiscal Year Ended June 30, 2005

	Business-type Activities		
	Injured Patients and Families Compensation	Environmental Improvement	University of Wisconsin System
Operating Revenues:			
Charges for Goods and Services	$ 26,572	$ -	$ -
Participant and Employer Contributions	-	-	-
Tuition and Fees	-	-	721,579
Federal Grants and Contracts	-	-	731,042
Local and Private Grants and Contracts	-	-	157,457
Sales and Services of Educational Activities	-	-	216,480
Sales and Services of Auxiliary Enterprises	-	-	263,256
Sales and Services to UW Hospital Authority	-	-	42,925
Interest Income Used as Security for Revenue Bonds	-	17,675	-
Investment and Other Interest Income	58,102	22,485	-
Other Income:			
Federal Aid for Unemployment Insurance Program	-	-	-
Reimbursing Financing Revenue	-	-	-
Other	-	47	190,480
Total Operating Revenues	84,675	40,206	2,323,221
Operating Expenses:			
Personal Services	498	3,598	2,306,581
Supplies and Services	494	1,349	850,444
Lottery Prize Awards	-	-	-
Scholarships and Fellowships	-	-	80,719
Depreciation	-	-	147,926
Benefit Expense	76,626	-	-
Interest Expense	-	33,677	-
Other Expenses	-	-	1,770
Total Operating Expenses	77,618	38,624	3,387,440
Operating Income (Loss)	7,057	1,583	(1,064,220)
Nonoperating Revenues (Expenses):			
Operating Grants	-	61,713	-
Investment Income Used as Security for Revenue Bonds	-	16,404	-
Other Investment and Interest Income	-	3,914	37,668
Gain (Loss) on Disposal of Capital Assets	-	-	(11,381)
Interest Expense	-	-	(22,993)
Gifts and Donations	-	-	203,036
Other Revenues	44	-	6,807
Other Expenses:			
Property Tax Credits	-	-	-
Grants Disbursed	-	(859)	-
Federal Settlement	-	-	-
Other	-	-	-
Total Nonoperating Revenues (Expenses)	44	81,173	213,137
Income (Loss) Before Contributions and Transfers	7,101	82,756	(851,082)
Capital Contributions	-	-	24,895
Additions to Endowments	-	-	634
Transfers In	-	-	1,037,904
Transfers Out	(11)	(6,066)	(53,846)
Net Change in Fund Equity	7,090	76,690	158,505
Total Fund Equity, Beginning of Year	24,616	1,109,876	3,542,622
Total Fund Equity, End of Year	$ 31,706	$ 1,186,566	$ 3,701,127

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	
$ -	$ 867,997	$ 894,569	$ 249,279
671,850	997,937	1,669,787	-
-	-	721,579	-
-	-	731,042	-
-	-	157,457	-
-	-	216,480	-
-	-	263,256	-
-	-	42,925	-
-	-	17,675	-
42,642	94,683	217,913	-
34,669	-	34,669	-
47,961	-	47,961	-
4,532	340	195,399	248
801,654	1,960,957	5,210,713	249,527
-	246,101	2,556,778	44,380
-	162,465	1,014,752	136,721
-	262,184	262,184	-
-	-	80,719	-
-	10,912	158,838	18,971
844,869	1,103,614	2,025,109	25,250
-	23,265	56,942	-
-	8,791	10,561	-
844,869	1,817,332	6,165,883	225,321
(43,216)	143,625	(955,171)	24,206
-	3,851	65,564	-
-	-	16,404	-
-	6,958	48,541	107
-	(232)	(11,613)	(435)
-	(1,869)	(24,863)	(8,638)
-	-	203,036	-
-	3,218	10,069	574
-	(128,966)	(128,966)	-
-	(8,999)	(9,857)	-
-	-	-	(13,899)
-	(35)	(35)	-
-	(126,074)	168,281	(22,291)
(43,216)	17,552	(786,890)	1,915
-	9,628	34,523	-
-	-	634	-
-	63,263	1,101,168	8,259
(4,079)	(29,005)	(93,007)	(6,175)
(47,295)	61,438	256,428	3,999
971,022	493,987	6,142,123	18,918
$ 923,727	$ 555,425	$ 6,398,551	$ 22,918

Total Net Change in Fund Equity Reported Above	$ 256,428
Consolidation Adjustment of Internal Services Activities Related to Enterprise Funds	(4,990)
Change in Net Assets of Business-Type Activities	$ 251,438

Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2005

	Business-type Activities		
	Injured Patients and Families Compensation	Environmental Improvement	University of Wisconsin System
Cash Flows from Operating Activities:			
Cash Receipts from Customers	$ 29,349	$ -	$ -
Cash Payments to Suppliers for Goods and Services	(253)	(1,691)	(874,269)
Cash Payments to Employees for Services	(494)	(3,202)	(2,281,302)
Tuition and Fees	-	-	729,089
Grants and Contracts	-	-	876,928
Cash Payments for Lottery Prizes	-	-	-
Cash Payments for Loans Originated	-	-	(45,624)
Collection of Loans	-	-	36,261
Interest Income	-	-	-
Cash Payments for Benefits	(24,188)	-	-
Sales and Services of Educational Activities	-	-	234,572
Sales and Services of Auxiliary Enterprises	-	-	264,302
Sales and Services of Hospitals	-	-	41,317
Scholarships and Fellowships	-	-	(80,719)
Other Operating Revenues	-	47	191,764
Other Operating Expenses	-	-	-
Other Sources of Cash	44	-	-
Other Uses of Cash	-	-	-
Net Cash Provided (Used) by Operating Activities	4,458	(4,847)	(907,682)
Cash Flows from Noncapital Financing Activities:			
Operating Grants Receipts	-	62,490	-
Grants for Loans to Governments	-	-	-
Grants Disbursed	-	(859)	-
Proceeds from Issuance of Long-term Debt	-	117,510	-
Retirement of Long-term Debt	-	(39,340)	-
Escrow Deposit	-	(117,380)	-
Interest Payments	-	(34,574)	-
Property Tax Credits	-	-	-
Noncapital Gifts and Grants	-	-	203,670
Interfund Loans Received	-	-	-
Interfund Loans Repaid	-	-	-
Interfund Advances Collected	-	-	-
Transfers In	-	-	996,491
Transfers Out	(11)	(6,066)	(29,521)
Student Direct Lending Receipts	-	-	153,152
Student Direct Lending Disbursements	-	-	(149,685)
Other Cash Inflows from Noncapital Financing Activities	-	-	4,372
Other Cash Outflows from Noncapital Financing Activities	-	-	(6)
Net Cash Provided (Used) by Noncapital Financing Activities	(11)	(18,219)	1,178,472
Cash Flows from Capital and Related Financing Activities:			
Proceeds from Issuance of Long-term Debt	-	-	220,501
Capital Contributions	-	-	30,365
Repayment of Long-term Debt	-	-	(86,592)
Interest Payments	-	-	(59,520)
Capital Lease Obligations	-	-	-
Proceeds from Sale of Capital Assets	-	-	-
Payments for Purchase of Capital Assets	-	-	(336,832)
Other Cash Inflows from Capital Financing Activities	-	-	-
Other Cash Outflows from Capital Financing Activities	-	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	-	-	(232,078)
Cash Flows from Investing Activities:			
Proceeds from Sale and Maturities of Investment Securities	143,392	46,773	454,623
Purchase of Investment Securities	(182,771)	(46,774)	(434,629)
Cash Payments for Loans Originated	-	(190,746)	-
Collection of Loans	-	88,621	-
Investment and Interest Receipts	32,525	49,129	10,801
Net Cash Provided (Used) by Investing Activities	(6,855)	(52,997)	30,795
Net Increase (Decrease) in Cash and Cash Equivalents	(2,408)	(76,063)	69,508
Cash and Cash Equivalents, Beginning of Year	24,511	339,719	493,398
Cash and Cash Equivalents, End of Year	$ 22,103	$ 263,656	$ 562,906

Unemployment Reserve	Nonmajor Enterprise	Totals	Governmental Activities - Internal Service Funds
$ 655,608	$ 1,814,575	$ 2,499,532	$ 238,982
-	(148,025)	(1,024,239)	(131,404)
-	(257,390)	(2,542,388)	(44,293)
-	-	729,089	-
-	-	876,928	-
-	(276,678)	(276,678)	-
-	(33,637)	(79,261)	-
-	71,123	107,384	-
-	23,009	23,009	-
(834,591)	(1,070,930)	(1,929,709)	(22,939)
-	-	234,572	-
-	-	264,302	-
-	-	41,317	-
-	-	(80,719)	-
83,599	1,595	277,006	248
-	(34,389)	(34,389)	-
-	9,508	9,552	851
-	(54)	(54)	(13,899)
(95,383)	98,708	(904,746)	27,544
-	945	63,435	-
-	15	15	-
-	(8,288)	(9,147)	-
-	27,000	144,510	-
-	(83,470)	(122,810)	-
-	-	(117,380)	-
-	(21,971)	(56,545)	-
-	(131,703)	(131,703)	-
-	-	203,670	-
-	8,584	8,584	4,727
-	(1,128)	(1,128)	(6,587)
-	-	-	50
-	63,112	1,059,602	8,700
(3,595)	(25,510)	(64,704)	(6,184)
-	-	153,152	-
-	-	(149,685)	-
-	254	4,627	-
-	-	(6)	-
(3,595)	(172,161)	984,486	707
-	8,972	229,473	3,731
-	9,628	39,993	-
-	(6,268)	(92,860)	(10,091)
-	(1,846)	(61,366)	(8,223)
-	(333)	(333)	(506)
-	30	30	2,187
-	(16,710)	(353,542)	(16,388)
-	85	85	-
-	(50)	(50)	-
-	(6,492)	(238,570)	(29,290)
-	27,354	672,142	-
-	(13,156)	(677,330)	-
-	(165)	(190,911)	-
-	189	88,810	-
42,642	70,812	205,908	106
42,642	85,034	98,620	106
(56,337)	5,089	(60,210)	(933)
819,162	889,761	2,566,551	29,791
$ 762,825	$ 894,850	$ 2,506,341	$ 28,859

(Continued)

Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2005

	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)	$ 7,057	$ 1,583	$ (1,064,220)
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation	-	-	147,926
Amortization	-	(647)	-
Provision for Uncollectible Accounts	-	-	-
Operating Income (Investment Income) Classified as Investing Activity	(58,102)	(40,160)	-
Operating Expense (Interest Expense) Classified as Noncapital Financing Activity	-	34,507	-
Miscellaneous Nonoperating Income (Expense)	44	-	(3,088)
Changes in Assets and Liabilities:			
Decrease (Increase) in Receivables	40	-	(41,763)
Decrease (Increase) in Due from Other Funds	-	73	(13,381)
Decrease (Increase) in Due from Component Units	14	-	-
Decrease (Increase) in Due from Other Governments	-	-	19,025
Decrease (Increase) in Inventories	-	-	(4,767)
Decrease (Increase) in Prepaid Items	-	(320)	(1,149)
Decrease (Increase) in Other Assets	-	-	-
Decrease (Increase) in Deferred Charges	-	(151)	(557)
Increase (Decrease) in Accounts Payable and Other Accrued Liabilities	155	(43)	13,857
Increase (Decrease) in Compensated Absences	9	(6)	8,331
Increase (Decrease) in Due to Other Funds	81	531	5,147
Increase (Decrease) in Due to Component Units	-	-	-
Increase (Decrease) in Due to Other Governments	-	(31)	1,255
Increase (Decrease) in Tax and Other Deposits	-	-	-
Increase (Decrease) in Deferred Revenue	2,722	-	25,702
Increase (Decrease) in Interest Payable	-	(183)	-
Increase (Decrease) in Future Benefits and Loss Liabilities	52,438	-	-
Total Adjustments	(2,599)	(6,430)	156,538
Net Cash Provided (Used) by Operating Activities	$ 4,458	$ (4,847)	$ (907,682)
Noncash Investing, Capital and Financing Activities:			
Capital Leases (Initial Year):			
Fair Market Value	$ -	$ -	$ 4,549
Current Year Cash Receipts (Payments)	-	-	(92)
Contributions/Transfer In (Out) of Noncash Assets and Liabilities from/to Other Funds	-	-	-
Net Change in Unrealized Gains and Losses	(44,514)	-	13,811
Other	-	-	1,717

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

	Unemployment Reserve	Nonmajor Enterprise	Totals	Governmental Activities - Internal Service Funds
	$ (43,216)	$ 143,625	$ (955,171)	$ 24,206
	-	10,912	158,838	18,971
	-	-	(647)	-
	3,695	(451)	3,244	-
	(42,642)	(72,550)	(213,454)	-
	-	23,251	57,758	-
	-	4,879	1,835	(13,048)
	(15,696)	17,121	(40,298)	(187)
	(35)	(35,324)	(48,668)	(10,163)
	-	(27)	(13)	205
	644	(4,620)	15,049	(13)
	-	78	(4,689)	502
	-	(4,708)	(6,177)	14,051
	-	1,070	1,070	-
	-	116	(593)	-
	3,273	(14,770)	2,472	(6,527)
	-	772	9,106	310
	(187)	(1,818)	3,754	(402)
	-	84	84	-
	(1,219)	(5)	-	9
	-	861	861	-
	-	(737)	27,687	(2,680)
	-	-	(183)	-
	-	30,951	83,389	2,310
	(52,167)	(44,917)	50,424	3,338
	$ (95,383)	$ 98,708	$ (904,746)	$ 27,544
	$ -	$ 712	$ 5,262	$ -
	-	(51)	(143)	-
	-	(33)	(33)	-
	-	8,513	(22,190)	-
	-	(4)	1,714	(21)

State of Wisconsin

Statement of Fiduciary Net Assets
June 30, 2005

(In Thousands)

	Pension and Other Employee Benefit Trust	Investment Trust	Private-Purpose Trust	Agency
Assets				
Cash and Cash Equivalents	$ 947,193	$ 2,197,278	$ 5,739	$ 79,090
Securities Lending Collateral	6,831,377	-	-	-
Prepaid Items	2,687	-	1	-
Receivables (net of allowance):				
Loans Receivable	-	-	27	-
Prior Service Contributions Receivable	367,869	-	-	-
Benefits Overpayment Receivable	1,922	-	-	-
Due from Other Funds	42,405	-	-	666
Due from Component Units	2,485	-	-	-
Interfund Receivables	845,764	587,472	-	-
Due from Other Governments	103,441	-	-	-
Financial Futures Contracts	327	-	-	-
Interest and Dividends Receivable	174,968	-	-	-
Investment Sales Receivable	149,280	-	-	-
Other Receivables	3,170	-	201	2,775
Total Receivables	1,691,630	587,472	228	3,441
Investments:				
Fixed Income	17,749,034	-	-	-
Stocks	46,329,605	-	-	-
Limited Partnerships	2,553,144	-	-	-
Preferred Securities	316,454	-	-	-
Convertible Securities	37,296	-	-	-
Mortgages	369,286	-	-	-
Real Estate	377,208	-	-	-
Investments of Private Purpose Funds	-	-	1,452,505	-
Investments of Agency Funds	-	-	-	731
Multi-asset Investments	689,378	-	-	-
Total Investments	68,421,405	-	1,452,505	731
Inventories	107	-	-	-
Capital Assets	23	-	-	-
Other Assets	-	-	-	293,207
Total Assets	77,894,422	2,784,750	1,458,473	$ 376,470
Liabilities				
Accounts Payable and Other Accrued Liabilities	55,218	-	45	$ 65,822
Securities Lending Collateral Liability	6,831,377	-	-	-
Annuities Payable	212,031	-	-	-
Advance Contributions	270	-	-	-
Due to Other Funds	70,383	169	3	5,401
Interfund Payables	845,764	-	-	-
Due to Other Governments	26,082	-	-	-
Tax and Other Deposits	-	-	-	305,247
Investment Payable	304,498	-	-	-
Deferred Revenue	2,293	-	-	-
Advances from Other Funds	-	-	27	-
Compensated Absences Payable	1,741,922	-	-	-
Total Liabilities	10,089,838	169	75	$ 376,470
Net Assets				
Held in Trust for Pension Benefits, Pool Participants and Other Purposes	$ 67,804,584	$ 2,784,581	$ 1,458,398	

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, 2005

(In Thousands)

	Pension and Other Employee Benefit Trust	Investment Trust	Private-Purpose Trust
Additions			
Contributions:			
Employer Contributions	$ 580,895	$ -	$ -
Employee Contributions	677,252	-	-
Other	-	-	11
Total Contributions	1,258,147	-	11
Deposits	-	9,978,893	288,506
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	5,672,237	-	-
Interest	575,724	-	-
Dividends	568,306	-	-
Securities Lending Income	130,110	-	-
Other	87,367	-	-
Investment Income of Investment, Private Purpose, and Other Employee Benefit Trust Funds	175,238	68,371	85,077
Less:		-	
Investment Expense	(156,780)	(2,193)	(7,225)
Securities Lending Rebates and Fees	(116,626)	-	-
Investment Income Distributed to Other Funds	(241,257)	-	-
Net Investment Income	6,694,319	66,178	77,852
Interest on Prior Service Receivable	28,053	-	-
Miscellaneous Income			
Other	579	-	-
Total Miscellaneous Income	579	-	-
Total Additions	7,981,098	10,045,071	366,369
Deductions			
Retirement Benefits and Refunds:			
Retirement, Disability, and Beneficiary	2,963,385	-	-
Separations	27,300	-	-
Total Retirement Benefits and Refunds	2,990,685	-	-
Distributions	22,112	10,461,290	106,988
Other Benefit Expense	227,925	-	-
Unusual Write-off of Receivable	18	-	-
Administrative Expense	17,588	210	3,754
Transfers Out	243	-	14
Total Deductions	3,258,570	10,461,500	110,756
Net Increase (Decrease)	4,722,528	(416,429)	255,613
Net Assets - Beginning of Year	63,082,056	3,201,010	1,202,785
Net Assets - End of Year	$ 67,804,584	$ 2,784,581	$ 1,458,398

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

Notes To The Financial Statements

Index

Page

Detailed Disclosures Regarding Liabilities and Expenses/Expenditures

Other Note Disclosures

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

B. Financial Reporting Entity

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

The decision to include a potential component unit in the State's reporting entity is based on the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity,* and GASB Statement No. 39*, Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14* (effective beginning with Fiscal Year 2004). GASB Statement No. 14 criteria include the ability to appoint a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State. GASB Statement No. 39 provisions relate to separately legal, tax-exempt organizations and include: (1) the economic resources received or held are entirely or almost entirely for the direct benefit of the State, (2) the State is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and (3) the economic resources received or held by an individual organization that the State is entitled to, or has the ability to otherwise access, are significant to the State.

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

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

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

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

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

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

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

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

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

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

Blended Component Units

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

Wisconsin Public Broadcasting Foundation, Inc. - The Wisconsin Public Broadcasting Foundation, Inc. (Foundation), created in 1983 by the Wisconsin Legislature, is a private, nonstock, nonprofit Wisconsin Corporation, wholly owned by the Wisconsin Educational Communications Board (ECB), a unit of the State. The Foundation solicits funds in the name of, and with the approval of, the ECB. The Foundation's funds are managed by a five-member board of trustees consisting of the executive director of the ECB and four members of the ECB board. In addition to accountability for fiscal matters, the State has the ability to significantly influence operations of the Foundation through legislation. The Foundation is reported as a special revenue fund.

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

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

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

Discrete Component Units

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

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

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

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

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

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

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

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

Related Organizations

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

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

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

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

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

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

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

During Fiscal Year 2005, the State implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement 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.

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.

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 - 27 years

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

8. Restricted and Limited Use Assets

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

9. Local Assistance Aids

Municipal and County Shared Revenue Program

Through the Municipal and County Shared Revenue Program, the State distributes general revenues collected from general State tax sources to municipal and county governments to be used for providing local government services. State statutes require that payment to local governments be made during July and November. Through Wis. Stat. Sec. 20.835(1)(t) and (u), the State transferred moneys from the Transportation Fund and the Utility Public Benefits Fund in the amounts of $170.0 million and $20.0 million, respectively, in order to fund the Fiscal Year 2005 payment to the local governments.

At June 30, 2005, 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 $473.9 million representing one-half of the total appropriated amount is reported at June 30, 2005 as Due To Other Governments.

State Property Tax Credit Program

At June 30, 2005, 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, 2005.

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, 2005.

The aggregated State Property Tax Credit Program liability of $355.6 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 2005 property tax bills, the State made this payment in March 2005.

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 2005, while the remaining portion represents a prepaid item. The resulting Prepaid Item reported within the Lottery Fund totals $31.9 million at June 30, 2005.

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 2005, while the remaining portion represents a prepaid item. The resulting Prepaid Item within the General Fund totals $20.0 million at June 30, 2005.

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. That portion of the total health insurance obligation for which the State has already accumulated resources is presented in the Accumulated Sick Leave Fund, a pension and other employee benefit trust fund.

12. Deferred Revenue

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

Deferred revenues of the University of Wisconsin System consist of payments received but not earned at June 30, 2005, 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, 2005, 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	$ 793,863	$ -	$ 28,859	$ -	$ 822,722
Investments	131,642	-	-	-	131,642
Receivables (net of allowance):					
Taxes	1,263,494	-	-	(1,263,494)	-
Loans to Local Governments	444,884	-	-	(444,884)	-
Other Loans Receivable	24,867	-	-	(24,867)	-
Other Receivables	402,565	3,068	559	2,484,941	2,891,132
Due from Other Funds	302,603	-	48,290	(350,893)	-
Due from Component Units	2	-	-	(2)	-
Due from Other Governments	712,257	-	-	(712,257)	-
Internal Balances	-	-	(433)	39,415	38,982
Inventories	36,051	1,774	6,661	-	44,486
Prepaid Items	304,486	-	4,953	-	309,439
Advances to Other Funds	385	-	-	(385)	-
Restricted Assets:					
Cash and Cash Equivalents	317,994	-	-	-	317,994
Investments	303,552	-	-	-	303,552
Other Restricted Assets	365	-	-	-	365
Deferred Charges	-	94,089	970	-	95,059
Depreciable Capital Assets	-	1,150,605	269,873	-	1,420,478
Infrastructure	-	10,325,229	-	-	10,325,229
Other Non-depreciable Capital Assets	-	2,604,489	28,450	-	2,632,938
Other Assets	65,535	-	-	-	65,535
Total Assets	$ 5,104,543	$ 14,179,254	$ 388,181	$ (272,425)	$ 19,399,553
Liabilities:					
Accounts Payable and Other Accrued Liabilities	$ 962,591	$ -	$ 16,085	$ 595,118	$ 1,573,793
Due to Other Funds	289,466	-	34,637	(324,104)	-
Due to Component Units	17	-	-	(17)	-
Interfund Payables	540,150	-	-	(540,150)	-
Due to Other Governments	1,653,146	1,588	-	-	1,654,734
Tax Refunds Payable	1,031,203	-	-	-	1,031,203
Tax and Other Deposits	43,079	-	-	-	43,079
Deferred Revenue/Unearned Revenue	735,288	(391,906)	3,594	-	346,976
Interest Payable	36,262	88,836	-	-	125,098
Advances from Other Funds	3,272	-	-	(3,272)	-
Short-term Notes Payable	566,132	-	25,009	-	591,140
Long-term Liabilities:					
Current Portion	79,325	338,603	34,752	-	452,680
Noncurrent Portion	-	8,238,104	251,620	-	8,489,724
Total Liabilities	5,939,931	8,275,225	365,696	(272,425)	14,308,427
Fund Balances/Net Assets	(835,388)	5,904,029	22,485	-	5,091,125
Total Liabilities and Fund Balances/Net Assets	$ 5,104,543	$ 14,179,254	$ 388,181	$ (272,425)	$ 19,399,553

(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, 2005, 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	$ 12,647,472	$ -	$ -
Income Taxes	-	27,347	-
Sales & Excise Taxes	-	(2,107)	-
Public Utility Taxes	-	-	-
Other Taxes	-	107	-
Motor Fuel (Transportation) Taxes	-	(107)	-
Other Dedicated Taxes	-	(96)	-
Intergovernmental	6,399,774	-	-
Operating Grants	-	-	475
Capital Grants	-	-	9,541
Licenses and Permits	1,043,742	-	-
Charges for Goods and Services	230,479	1,819	-
Investment and Interest Income	70,148	-	-
Fines and Forfeitures/Contributions to Permanent Fund	66,764	-	-
Gifts and Donations	17,469	-	-
Other Revenues:		(2,327)	(9,355)
Intergovernmental Transfer	87,300	-	-
Tobacco Settlement	132,055	-	-
Other	216,117	-	-
Total Revenues	20,911,318	24,637	662
Expenditures/Expenses:			
Current Operating:			
Commerce	260,077	307	1,605
Education	5,792,108	344	2,975
Transportation	1,684,549	648	119,838
Environmental Resources	412,322	(1,041)	8,904
Human Relations and Resources	8,370,108	1,010	47,413
General Executive	486,351	(669)	5,439
Judicial	108,184	2	3,401
Legislative	57,174	(264)	283
Tax Relief and Other General Expenditures	837,581	-	-
Intergovernmental	1,011,052	-	-
Debt Service:			
Principal	337,196	-	-
Interest and Other Charges	425,349	1,069	-
Capital Outlay	778,510	-	(778,510)
Total Expenditures/Expenses	20,560,559	1,405	(588,654)
Excess of Revenues Over (Under) Expenditures/Expenses	350,759	23,232	589,316
Other Financing Sources (Uses):			
Net Transfers	(1,010,068)	-	80
Long-term Debt Issued	1,175,624	-	-
Premium/Discount on Bonds	96,993	-	-
Payments to Refunding Bond Escrow Agent	(780,044)	-	-
Capital Lease Acquisitions	5,875	(5,875)	-
Installment Purchase Acquisitions	1,068	(1,068)	-
Total Other Financing Sources (Uses)	(510,553)	(6,943)	80
Net Change in Fund Balance	(159,794)	$ 16,289	$ 589,396
Change in Reserve for Inventories	1,360		
Net Change for the Year	$ (158,434)		

(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
$ -	$ -	$ -	$ (12,647,472)	$ -
-	-	-	6,440,029	6,467,377
-	-	-	4,397,399	4,395,292
-	-	-	255,727	255,727
-	-	-	350,971	351,078
-	-	-	989,745	989,638
-	-	-	213,600	213,505
-	-	-	(6,399,774)	-
-	-	38,327	5,787,486	5,826,288
-	-	-	657,301	666,843
-	-	-	(1,043,742)	-
22,879	-	(31,949)	1,090,369	1,313,598
107	-	-	(27,545)	42,710
-	-	-	(46,628)	20,137
-	-	-	(17,469)	-
-	-	-	435,728	424,047
-	-	-	(87,300)	-
-	-	-	(132,055)	-
-	-	-	(216,117)	-
22,986	-	6,378	257	20,966,238
(659)	-	(4,098)	(120)	257,112
(626)	-	23,524	47	5,818,372
(1,803)	218	-	(1,855)	1,801,595
(935)	311	(662)	(283)	418,616
(3,095)	10,200	14,776	687	8,441,099
14,816	-	(27,162)	9	478,782
(151)	253	-	-	111,690
(101)	(45)	-	-	57,047
(4)	1,087	-	(695)	837,970
-	-	-	-	1,011,052
-	(337,196)	-	-	-
8,638	(11,689)	-	850	424,217
-	-	-	-	-
16,081	(336,860)	6,378	(1,360)	19,657,549
6,905	336,860	-	1,616	1,308,689
2,084	-	-	(257)	(1,008,160)
-	(1,175,624)	-	-	-
-	(96,993)	-	-	-
-	780,044	-	-	-
-	-	-	-	-
-	-	-	-	-
2,084	(492,572)	-	(257)	(1,008,160)
$ 8,989	$ (155,712)	$ 0	1,360	300,528
			(1,360)	-
			$ 0	$ 300,528

(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, 2005 are (in thousands):

Special Revenue:		
Medical Assistance Trust	$	5,594
Petroleum Inspection		131,019
VendorNet		2,914
Capital Projects:		
Capital Improvement		308,472
Transportation Revenue Bonds		116,539
Enterprise:		
Duty Disability		148,440
Internal Service:		
Fleet Services		610
Risk Management		109,869

B. Restricted Net Assets

During Fiscal Year 2005, the State implemented Governmental Accounting Standards Board (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*. GASB Statement No. 46 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, 2005 (in thousands):

Governmental Activities:		
Net Assets Restricted by External Parties or for Consitutional Purposes	$	1,265,539
Net Assets Restricted by Enabling Legislation		49,392
Business-type Activities:		
Net Assets Restricted by External Parties or for Consitutional Purposes		2,821,447
Net Assets Restricted by Enabling Legislation		401,192

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, 2005, $284.9 million of the primary government's bank balance of $294.0 million (excluding a bank overdraft of $77.7 million in two bank accounts that are covered by compensating balances in other accounts) was exposed to custodial credit risk as follows (in millions):

Uninsured and uncollateralized	$	284.9

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, 2005 are immaterial. The primary government does not have a formal policy specifically related to foreign currency risk.

The State’s Unemployment Reserve Fund had $773.7 million on deposit with the U.S. Treasury. This amount is presented as Cash and Cash Equivalents and is not included in the carrying amount of deposits nor is it categorized according to risk because it is neither a deposit with a financial institution nor an investment.

2. Component Units

The bank balance of deposits of the Wisconsin Housing and Economic Development Authority at June 30, 2005, the Wisconsin Health Care Liability Insurance Plan at December 31, 2004, the University of Wisconsin Hospitals and Clinics Authority at June 30, 2005, the University of Wisconsin Foundation at December 31, 2004, and the State Fair Park Exposition Center, Inc. at December 31, 2004 was $35.8 million.

As of their fiscal year end, $34.2 million of the component units' bank balance of $35.8 million was exposed to custodial credit risk as follows (in millions):

Uninsured and uncollateralized	$	34.2

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:

- Various funds (collectively known as the "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 *(except for the various funds (Various Funds) managed by the State of Wisconsin Investment Board, 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 (Various Funds) managed by the State of Wisconsin Investment Board, the University of Wisconsin System (UWS), the Wisconsin Retirement System (WRS), and the State Investment Fund (SIF), which are discussed separately below), 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.

Various Funds

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 fixed retirement trust fund and the variable retirement trust fund.

The investments of the fixed 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. The primary government does not have a formal policy for custodial credit risk.

Primary Government *(except for the various funds (Various Funds) managed by the State of Wisconsin Investment Board, the University of Wisconsin System (UWS), the Wisconsin Retirement System (WRS), and the State Investment Fund (SIF))*

At June 30, 2005, the reported amount of investments of the primary government, except for the Various Funds, the UWS, the WRS and the SIF, was $2,818.1 million, of which $303.2 million is reported as cash equivalents and $357.8 million is reported as "Other Assets". The State had no custodial credit risk exposure for these investments.

Various Funds

At June 30, 2005, the reported amount of investments for the Various Funds was $836.3 million. The Various Funds do not have an investment policy specifically for custodial credit risk, however, at June 30, 2005, the Various Funds did not have any investment securities exposed to custodial credit risk.

University of Wisconsin System (UWS)

At June 30, 2005, the UWS reported investments of $349.6 million, of which $17.7 million is reported as cash equivalents. No custodial credit risk exposure existed for these investments.

Wisconsin Retirement System (WRS)

At June 30, 2005, the WRS investments were $68,421.4 million. The WRS does not have a formal policy for custodial credit risk. The WRS had no custodial credit risk exposure on these investments.

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 *(except for the various funds (Various Funds) managed by the State of Wisconsin Investment Board, 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, the UWS, the WRS and the SIF, 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 UWS, the WRS and the SIF. The investments include certain short-term cash equivalents, and various long-term items. At June 30, 2005, the primary government's investments were (in millions):

Primary Government (except for the Various Funds, UWS, WRS and SIF)

Investment Type	Investment Maturities: 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	$ 155.9	$ 185.4	$ 61.0	$ 48.9	$ 451.2
State and municipal bonds and notes	1.7	7.6	12.0	93.3	114.6
Corporate notes and bonds	1.3	11.2	--	--	12.5
Asset backed securities	--	1.9	.2	2.4	4.5
Repurchase agreements	7.6	--	--	--	7.6
Forward delivery agreements	160.5	--	--	--	160.5
Guaranteed investment contracts	28.1	--	--	--	28.1
Mortgage backed securities	.1	.2	1.6	9.5	11.4
Money market funds	279.0	--	--	--	279.0
Mutual funds – open ended	19.8	117.3	165.8	68.7	371.6
Total	$ 654.0	$ 323.6	$ 240.6	$ 222.8	$ 1,441.0

Various Funds

The Various Funds 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, 2005, 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	$ 7.0	0.99	$ 36.8	11.41	$ 231.6	5.37	$ --	--	$ 9.3	5.60
Corporate	--	--	45.9	10.21	366.1	5.82	--	--	2.1	4.11
Bond Funds	--	--	--	--	--	--	3.0	5.21	--	--
Total/Average	$ 7.0	0.99	$ 82.7	10.75	$ 597.7	5.65	$ 3.0	5.21	$11.4	5.33

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, 2005, all investment managers were in compliance with the effective modified duration guideline.

As of June 30, 2005, 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	$ 34.4	4.02
U.S. Government mortgages	27.7	2.34
Government	22.4	5.18
Other	7.7	0.08
Commercial mortgage backed securities	6.1	3.22
Collateralized mortgage obligations: U. S. Agencies	5.6	2.32
U.S. private placements	5.6	5.01
U.S. Agencies	5.6	0.04
Asset backed securities	5.5	1.16
Treasury	4.1	0.08
Collateralized mortgage obligations: Corporate	2.0	2.99
Treasury inflation protected securities	.7	3.82
Total	$ 127.4	

As of June 30, 2005, all investment managers were in compliance with the effective modified duration guideline. As of June 30, 2005, the University of Wisconsin System's Long Term Fund had an aggregated modified duration of 4.49 while the Lehman Aggregate benchmark had an aggregated modified duration of 4.32. As of June 30, 2005, the University of Wisconsin System's Intermediate Term Fund had an aggregated modified duration of 2.97 while the Lehman Government/Credit Intermediate benchmark had an aggregated modified duration of 3.65.

Wisconsin Retirement System (WRS)

A number of different methods are used to analyze interest rate risk of investments of the WRS. Generally, long or intermediate term portfolios' interest rate risk is determined using the duration method. On the other hand, short term portfolios use the weighted average maturity to analyze interest rate risk. 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, 2005, stated in terms of weighted average maturities, is presented below (in millions):

WRS

Investment Type	Fair Value	Weighted Average Maturity (Years)
Asset backed securities	$ 115.0	4.04
Certificates of deposit	1,400.5	0.56
Commercial mortgage backed securities	2.8	7.54
Commercial paper	2,061.5	0.11
Convertible securities	22.4	6.22
Corporate bonds	2,656.9	6.45
Funds	9,115.8	6.59
Government agency	559.5	3.64
Mortgages	369.3	4.13
Private placements	663.8	6.55
Repurchase agreements	1,770.4	0.01
Sovereign debt	3,038.2	7.73
U.S. Treasury securities	3,559.2	9.37
Yankee bonds	335.2	5.51
Total	$25,670.5	
Combined weighted average maturity		5.67

Credit Quality Risk

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

Primary Government *(except for the various funds (Various Funds) managed by the State of Wisconsin Investment Board, 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, the UWS, the WRS and the SIF, 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.

As of June 30, 2005, the above mentioned investments for the primary government, except for the Various Funds, the UWS, the WRS and the SIF, 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 (except for the Various Funds, UWS, WRS and SIF)

		Credit Quality Ratings					
Investment Type	**Fair Value**	**AAA**	**AA**	**A**	**BBB**	**BB**	**Unrated**
U.S. Government and U.S. agency holdings	$ 20.1	$ 4.1	$ --	$ --	$ --	$ --	$ 16.0
State and municipal bonds and notes	260.5	--	260.5	--	--	--	--
Corporate notes and bonds	12.5	.7	.5	4.6	6.2	.5	--
Repurchase agreements	7.6	--	--	--	--	--	7.6
Forward delivery agreements	160.5	--	--	--	--	--	160.5
Guaranteed investment contracts	28.1	6.3	21.8	--	--	--	--
Mortgage backed securities	10.7	9.9	--	.3	--	--	.5
Money market funds	276.2	--	--	135.2	--	--	141.0
Mutual funds – open ended	372.2	250.1	52.8	--	68.7	--	.6
Asset backed securities	4.5	2.9	.9	.7	--	--	--

Various Funds

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, 2005, these credit ratings were as follows (in millions):

Various Funds
Credit Quality Distribution for Fixed Income Securities

	Fair Value				
Ratings	**LGPIF**	**SLF**	**IPFCF**	**Historical Society**	**Tuition Trust**
U.S. Treasury	$ 2.0	$ 35.7	$ 192.8	$ --	$ .5
AAA	5.0	5.0	77.6	--	9.0
AA	--	7.2	60.4	3.0	.3
A	--	23.0	173.3	--	1.0
BBB	--	7.6	73.0	--	.5
BB	--	1.2	16.2	--	--
B	--	.9	4.4	--	.1
Not Rated	--	2.1	--	--	--
Total	$ 7.0	$ 82.7	$ 597.7	$ 3.0	$ 11.4

University of Wisconsin System (UWS)

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

At June 30, 2005, the UWS had securities with quality ratings as shown below (in millions). U.S. Government issues and U.S. Government explicitly guaranteed issues are not considered to have credit risk and, therefore, are not included.

UWS

	Fair Value	
Ratings	**Standard & Poor's**	**Moody's**
AAA/Aaa	$ 47.2	$ 9.5
AA+/Aa1	.4	.5
AA/Aa2	2.8	2.9
AA-/Aa3	1.1	5.8
A+/A1	12.0	3.1
A/A2	5.5	3.9
A-/A3	4.2	6.1
BB+/Ba1	1.3	.9
BB/Ba2	.6	.1
BBB+/Baa1	6.2	3.8
BBB/Baa2	6.7	7.5
BBB-/Baa3	4.2	5.7
No rating	3.2	2.7
Agency	--	42.9
Unrated Pooled Cash	8.0	8.0
Total	$ 103.4	$ 103.4

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, 2005 (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	$ 4,959.3
AAA	9,475.0
AA	2,943.0
A	5,079.0
BBB	680.5
BB	1,042.1
B	599.6
CCC	96.2
CC	6.7
C	.4
D	1.1
Not rated	787.7
Total	$ 25,670.6

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 *(except for the various funds (Various Funds) managed by the State of Wisconsin Investment Board, 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, the UWS, the WRS and the SIF, 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 (Various Funds) managed by the State of Wisconsin Investment Board, the University of Wisconsin System (UWS), the Wisconsin Retirement System (WRS), and the State Investment Fund (SIF)) largest concentration by a single issuer is the State of Wisconsin Global Certificates with 5.2 percent of investments.

Various Funds

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, 2005, 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 1.3 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 *(except for the various funds (Various Funds) managed by the State of Wisconsin Investment Board, 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, the UWS, the WRS and the SIF, 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, 2005, the primary government, except for the Various Funds, the UWS, the WRS and the SIF, did not own any issues denominated in a foreign currency.

Various Funds

The Various Fund 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, 2005, the Various Funds did not own any issues denominated in a foreign currency.

University of Wisconsin System (UWS)

As of June 30, 2005, the UWS held equity securities denominated in foreign currencies within pooled investment vehicles only, with market values totaling $66.8 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, 2005, 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	Private Equity	Mortgage	Real Estate	Multi Asset	Total Exposure by Currency
Argentina Peso	0.4	--	--	11.5	--	--	--	--	--	11.9
Australian Dollar	2.4	--	166.0	108.0	--	--	--	--	--	276.4
Brazil Real	0.7	--	2.9	3.6	29.6	--	--	--	--	36.8
British Pound Sterling	9.4	--	1,266.9	166.0	--	88.1	--	--	--	1,530.4
Canadian Dollar	45.1	--	328.5	83.6	--	31.5	--	--	--	488.7
Columbian Peso	--	--	--	1.9	--	--	--	--	--	1.9
Danish Krone	0.6	--	37.7	80.8	--	--	--	--	--	119.1
Euro Currency Unit	97.2	--	1,731.1	1,444.5	36.5	117.0	--	--	--	3,426.3
Hong Kong Dollar	4.5	--	83.9	--	--	--	--	--	--	88.4
Hungarian Forint	0.1	--	7.0	--	--	--	--	--	--	7.1
Indian Rupee	4.3	--	6.0	--	--	--	--	--	--	10.3
Indonesian Rupian	--	--	5.0	--	--	--	--	--	--	5.0
Israeli Shekel	0.4	--	7.3	--	--	--	--	--	--	7.7
Japanese Yen	13.3	--	1,172.2	611.1	--	1.6	--	--	--	1,798.2
Malaysian Ringgit	0.1	--	9.2	3.0	--	--	--	--	--	12.3
Mexican New Peso	0.8	--	2.9	46.9	--	--	--	--	--	50.6
Taiwan Dollar	4.7	--	72.4	--	--	--	--	--	--	77.1
Turkish Lira	0.8	--	20.5	4.8	--	--	--	--	--	26.1
New Zealand Dollar	--	--	17.3	36.1	--	--	--	--	--	53.4
Norwegian Krone	0.5	--	32.8	6.1	--	--	--	--	--	39.4
Pakistan Rupee	--	--	0.1	--	--	--	--	--	--	0.1
Philippines Peso	0.1	--	8.6	--	--	--	--	--	--	8.7
Polish Zloty	0.5	--	8.0	40.2	--	--	--	--	--	48.7
South African Rand	1.7	--	22.5	--	--	--	--	--	--	24.2
Singapore Dollar	1.7	--	60.7	34.2	--	--	--	--	--	96.6
South Korean Won	(0.2)	--	75.2	--	--	--	--	--	--	75.0
Swedish Krona	12.3	--	125.5	46.0	--	--	--	--	--	183.8
Swiss Franc	2.3	--	318.5	--	--	--	--	--	--	320.8
Thailand Baht	0.3	--	4.1	5.0	--	--	--	--	--	9.4
Uruguayan Peso	--	--	--	1.7	--	--	--	--	--	1.7
Total Foreign Currency Exposure	204.0	--	5,592.8	2,735.0	66.1	238.2	--	--	--	8,836.1
United States Dollar	1,376.3	37.3	40,736.8	15,014.0	250.4	2,314.9	369.3	420.4	689.4	61,208.8
Total Investments by Currency Exposure	1,580.3	37.3	46,329.6	17,749.0	316.5	2,553.1	369.3	420.4	689.4	70,044.9

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, 2005 the Tuition Trust Fund held interest only strips valued at $8.8 million representing approximately 77.3 percent of portfolio investments.

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 27 days for investments made with the U.S. dollar cash collateral and the weighted average maturity of 36 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.

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 2005, 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, 2005, the fair value of foreign currency forward contract assets totaled $1.8 billion, while the liabilities totaled $1.8 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, 2005, the Board was invested in exchange-traded interest rate futures contracts with a net exposure of a positive $1.1 billion at June 30, 2005.

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 2005. 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 2005, 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, 2005, mortgage backed securities with a fair value totaling $10.0 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. Credit-linked trust agreements were purchased during Fiscal Year 2004 but were subsequently sold during Fiscal Year 2005.

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 assets. In addition, most fixed income portfolios are permitted to enter into option contracts to manage interest rate exposure.

Unfunded Capital Commitments

University of Wisconsin System (UWS)

The UWS has unfunded limited partnership commitments of $27.5 million as of June 30, 2005.

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, 2005 totaled $1.6 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, 2005 were $610.7 million of which $160.5 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, 2005 were $285.5 million of which $215.0 million (invested with the University of Wisconsin Foundation, see subsequent investment disclosure discussion for the University Wisconsin Foundation) are reported as "Cash and Investments with Other Component Units." The board of directors has authorized management to invest in debt and equity securities.

State Fair Park Exposition Center, Inc. – Investments, consisting of $3.1 million of money market funds, 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 $684.1 million. Of this amount, $189.3 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 Type	Investment Maturities: 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	$ 3.2	$ 89.6	$ 19.8	$ 4.1	$ 116.7
Corporate notes and bonds	21.1	7.2	--	--	28.3
Money market funds	186.9	--	--	--	186.9
Repurchase agreements	47.0	--	--	--	47.0
Noncollateralized investment contracts	189.3	--	--	--	189.3
Collateralized investment contracts	115.8	--	--	--	115.8
Total	$ 563.3	$ 96.8	$ 19.8	$ 4.1	$ 684.0

Credit Quality Risk

The component units have established different investment polices 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):

Investment Type	Fair Value	Credit Quality Ratings: AAA	AA	A	Unrated
Corporate notes and bonds	$ 28.3	$ --	$ 7.6	$ 1.1	$ 19.6
Money market funds	186.8	160.5	3.1	--	23.2
Investment contracts	305.1	--	--	--	305.1

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 no more than $3.0 million can be invested with any issuer, and no more than 10 percent of a portfolio's market value will be invested in any municipal or industry sector. At fiscal year end, no investments in a single issuer exceeded five percent.

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, 2005 the Authority had $67.8 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 $67.8 million as of June 30, 2005, and the fair value of the collateral received was $68.6 million. The Authority may request the bank to terminate any loan of securities for any reason at any time.

As of June 30, 2005, 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, 2005, approximately 55 percent of the securities lent were in the matched portion and approximately 45 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, 2005 the Authority received $56 thousand of income related to security lending transactions.

Other Component Units

Wisconsin Health Care Liability Insurance Plan (WHCLIP) – Aggregate investments of the WHCLIP were $79.3 million, of which $8.2 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, 2004 were $71.1 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	$ 13.2	$ 14.0
Debt securities issued by foreign governments and corporations	1.1	1.1
Special revenue	9.2	9.4
Industrial and miscellaneous	27.8	28.9
Public utilities	1.0	1.0
Loan-backed securities	18.8	19.3
Total	$ 71.1	$ 73.7

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.

At December 31, 2004, the investments of the WHCLIP in Federal National Mortgage Association was rated Aaa by Moody's Investors Service and AAA by Standard and Poor's. Other debt and fixed income securities were rated A or better.

The amortized cost and estimated fair value of bonds at December 31, 2004, by contractual maturity are presented in the table below (in millions):

	Amortized Cost	Estimated Fair Value
1 Year or Less	$ 5.2	$ 5.2
1 to 5 Years	28.8	28.9
6 to 10 Years	9.9	10.2
More Than 10 Years	8.4	10.2
	52.3	54.5
Loan-backed securities	18.8	19.3
Total	$ 71.1	$ 73.8

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

Pass-through securities:	
Guaranteed by GNMA	$ .3
Issued by FNMA and FHLMC	11.7
Privately issued	.5
CMOs and REMICs:	
Issued by FNMA and FHLMC	8.5
All other privately issued	.8

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

University of Wisconsin Foundation (the Foundation) - Aggregate investments of the Foundation's are $1,860.3 million.

The following table summarizes the types of investments of the Foundation at December 31, 2004 (in millions):

Investment Type	Fair Value
U.S. government and agency holdings	$ 139.0
Stocks	329.0
Corporate notes and bonds	160.1
Money market funds	.5
Mutual funds	896.6
International equities	183.7
Limited partnerships	151.4
Total	$ 1,860.3

The Foundation's interests in alternative investments, which consist of non-marketable limited partnerships and marketable hedge funds, have a book value of $163.9 million and $126.8 million, respectively, at December 31, 2004. The market value of these interests is $151.4 million and $149.8 million, respectively, at December 31, 2004. These amounts represent the book value and market value of fifty-nine non-marketable and thirty-nine marketable alternative hedge investment interests.

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, 2004 (in millions):

	Cost	Market Value
Cash and Money Market Funds	$ .5	$ .5
Bonds and Debentures	10.1	10.1
Federal Agencies	2.3	2.3
U.S. Government Securities	4.0	4.2
Total	$ 16.9	$ 17.1

Custodial Credit Risk

At December 31, 2004, the reported amount of investments was $1,860.3 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 contracts, options and swaps.

Investments are valued at fair value for financial statement purposes and amortized cost for purposes of calculating income to participants. The custodial bank has compiled fair value information for all securities by utilizing third party pricing services. Government and agency securities and commercial paper are priced using matrix pricing. This method estimates a security's fair value by using quoted market prices for securities with similar interest rates, maturities, and credit ratings. Repurchase agreements and certificates of deposit are valued at cost because they are nonparticipating contracts that do not capture interest rate changes in their value. Swaps are valued at the net present value of estimated expected future cash flows using discount rates commensurate with the risk involved. In addition, a bond issued by 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, 2005, the reported amount of investments was $5,184.9 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, 2005, 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	$ 2,071.0	1
Government and agency	1,890.0	29
Commercial paper	523.3	10
Certificates of deposit	700.0	119
Mortgage backed securities	0.6	757
Total	$ 5,184.9	
Portfolio weighted average maturity		28

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, 2005 (in millions):

	Ratings	Fair Value	Percent
Repurchase agreements:			
U.S. government debt collateral	N/A	$ 1,609.5	31.0%
U.S. agency collateral	AAA/Aaa	461.5	8.9
Federal Home Loan Board (FHLB)	A-1+/P-1	653.6	12.6
Federal Home Loan Mortgage Corporation (FHLMC)	A-1+/P-1	634.9	12.3
Federal National Mortgage Association (FNMA)	A-1+/P-1	576.6	11.1
Federal Home Loan Board – note	AAA/Aaa	24.9	0.5
Commercial paper	A-1+/P-1	498.3	9.6
Commercial paper	A-1/P-1	25.0	0.5
Certificates of deposit:			
Nonnegotiable (Bankers Bank)	N/A	500.0	9.6
Negotiable	A-1+/P-1	150.0	2.9
Negotiable	A-1/P-1	50.0	1.0
Mortgage backed (Wisconsin Department of Veterans Affairs)	Not rated	0.6	0.0
Totals		$ 5,184.9	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, 2005 the SIF has more than five percent of its investments in FHLB (13.1 percent), FHLMC (12.3 percent), FNMA (11.1 percent), and repurchase agreement collateral consisting of various securities issued by these same three U.S. agencies (8.9 percent). Since the repurchase agreements mature each day, new collateral, consisting of a different blend of U.S. Treasury and agency securities, is assigned each night.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The SIF is permitted to invest in Canadian or Yankee/Euro denominated issues provided they are fully hedged against foreign currency risk. At June 30, 2005 the SIF did not own any issues denominated in foreign currency.

Restructured Investments

During Fiscal Year 1995, the Board became aware of the existence of market exposure in certain swap agreements and structured bonds which could impair the earnings of the fund.

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

As of June 30, 2005, all restructured investments had matured and the SIF did not hold any derivative instruments.

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 $121.8 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
2006	$ 16,674
2007	16,806
2008	16,942
2009	16,935
2010	14,523
Thereafter	74,006
Total future value	155,886
Less: Present value adjustment	(48,276)
Present value of payments	$ 107,610

NOTE 6. RECEIVABLES AND NET REVENUES

A. Receivables

Receivables at June 30, 2005 were as follows (in thousands):

		Loans to	Other Loans Receivable					Due From	Due From	
	Taxes	Local Governments	Student Loans	Veterans Loans	Mortgage Loans	Other Loans	Other Receivables	Other Governments	Component Units	Total Receivables
Governmental Activities:										
General	$ 1,138,009	$ 13,212	$ -	$ -	$ -	$ -	$ 258,297	$ 603,214	$ 2	$ 2,012,733
Transportation	100,133	-	-	-	-	24,867	56,871	85,120	-	266,991
Nonmajor Governmental	25,353	431,672	-	-	-	-	87,397	23,922	-	568,344
Total Governmental:	1,263,494	444,884	-	-	-	24,867	402,565	712,257	2	2,848,068
Government-wide Adjustments:										
Internal Service Funds	-	-	-	-	-	-	266	281	12	559
Accrual Adjustments	-	-	-	-	-	-	3,068	-	-	3,068
Fiduciary Receivables	-	-	-	-	-	-	39,437	-	-	39,437
Total – Governmental Activities	$ 1,263,494	$ 444,884	$ -	$ -	$ -	$ 24,867	$ 445,336	$ 712,537	$ 14	$ 2,891,132
Related revenue deferral because the receivable does not meet the availability criteria	$ 300,359	$ -	$ -	$ -	$ -	$ -	$ 93,320	$ -	$ -	$ 393,679
Business-type Activities:										
Current:										
Injured Patients and Families Compensation	$ -	$ -	$ -	$ -	$ -	$ -	$ 12,326	$ -	$ -	$ 12,326
Environmental Improvement	-	99,830	-	-	-	-	330	7,800	-	107,960
University of Wisconsin System	-	-	32,854	-	-	-	134,109	73,762	912	241,637
Unemployment Reserve	-	-	-	-	-	-	169,872	3,170	-	173,042
Nonmajor Enterprise	-	514	777	6,579	11,236	-	65,905	4,129	27	89,166
Total Current:	-	100,344	33,631	6,579	11,236	-	382,542	88,861	939	624,131
Noncurrent:										
Environmental Improvement	-	1,300,881	-	-	-	-	-	-	-	1,300,881
University of Wisconsin System	-	-	157,266	-	-	-	-	-	-	157,266
Unemployment Reserve	-	-	-	-	-	-	21,588	-	-	21,588
Nonmajor Enterprise	-	1,746	-	31,618	274,109	3,663	-	-	-	311,136
Total Noncurrent	-	1,302,627	157,266	31,618	274,109	3,663	21,588	-	-	1,790,871
Government-wide Adjustments:										
Fiduciary Receivables	-	-	-	-	-	-	34,963	-	-	34,963
Total – Business-type Activities	$ -	$ 1,402,971	$ 190,897	$ 38,197	$ 285,345	$ 3,663	$ 439,092	$ 88,861	$ 939	$ 2,449,965

B. Net Revenues

Certain revenues of the University of Wisconsin System are reported net of scholarship allowances. For Fiscal Year 2005, these scholarship allowances totaled as follows (in thousands):

Student Tuition and Fees	$ 74,057
Sales and Services of Auxiliary Enterprises	13,128
Total	$ 87,185

NOTE 7. CAPITAL ASSETS

Primary Government

Capital asset activity for the fiscal year ended June 30, 2005 was as follows (in thousands):

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and Land Improvements	$ 1,327,769	$ 151,164	$ (177)	$ 1,478,757
Buildings and Improvements	156,078	923	-	157,001
Library Holdings	76,795	1,039	(6)	77,827
Equipment	642	-	-	642
Construction in Progress	942,027	613,801	(637,117)	918,711
Infrastructure	9,876,944	565,512	(117,227)	10,325,229
Total capital assets, not being depreciated	12,380,255	1,332,439	(754,526)	12,958,168
Capital assets, being depreciated:				
Land Improvements	83,523	3,357	-	86,879
Buildings and Improvements	1,604,088	59,004	(822)	1,662,270
Equipment	550,865	47,004	(34,130)	563,739
Totals	2,238,475	109,365	(34,952)	2,312,888
Less accumulated depreciation for:				
Land Improvements	29,082	4,986	-	34,067
Buildings and Improvements	472,017	43,845	(720)	515,141
Equipment	324,082	46,926	(27,807)	343,201
Totals	825,180	95,757	(28,527)	892,410
Total Capital Assets, being depreciated, net	1,413,294	13,608	(6,425)	1,420,478
Governmental activities capital assets, net	$ 13,793,549	$ 1,346,047	$ (760,951)	$ 14,378,646
Business-type activities:				
Capital assets, not being depreciated:				
Land and Land Improvements	$ 110,977	$ 335	$ -	$ 111,312
Library Holdings	1,002,592	21,143	(4,451)	1,019,284
Construction in progress	30,192	152,315	(6,857)	175,651
Total Capital Assets, not being depreciated	1,143,761	173,794	(11,308)	1,306,247
Capital assets, being depreciated:				
Land Improvements	9,157	797	(61)	9,894
Buildings	3,459,717	138,684	(9,288)	3,589,113
Equipment	703,082	72,741	(34,350)	741,474
Totals	4,171,956	212,222	(43,699)	4,340,480
Less accumulated depreciation for:				
Land Improvements	6,355	479	(61)	6,773
Buildings	1,492,750	102,120	(6,818)	1,588,052
Equipment	494,095	56,239	(29,157)	521,177
Totals	1,993,200	158,838	(36,036)	2,116,002
Total Capital Assets, being depreciated, net	2,178,756	53,385	(7,663)	2,224,478
Business-type activities capital assets, net	$ 3,322,517	$ 227,178	$ (18,971)	$ 3,530,725

In addition to the capital assets reported by governmental and business-type activities, the fiduciary funds reported gross capital assets of $3,094 thousand at June 30, 2005, with accumulated depreciation totaling $3,071 thousand.

Depreciation Expense

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

Governmental Activities			Business-type Activities		
Commerce	$	1,574	University of Wisconsin System	$	147,926
Education		2,989	Lottery		56
Transportation		9,186	Veterans Mortgage Loan Repayment		34
Environmental Resources		8,491	Other Business-Type		10,822
Human Relations and Resources		45,588	Total depreciation expense - business-type activities	$	158,838
General Executive		5,296			
Judicial		3,401			
Legislative		262			
Depreciation on capital assets held by the internal service funds		18,971			
Total depreciation expense - governmental activities	$	95,757			

Construction in Progress

Construction in progress of the primary government reported in the government-wide statement of net assets at June 30, 2005 included the following projects (in thousands):

	Allotments	Expended to June 30, 2005	Encumbrances Outstanding	Unencumbered Allotment Balance
Governmental Activities:				
Reported through capital projects funds:				
State Highway and Southeast Wisconsin Freeway Rehabilitations	$ 135,823	$ 120,246	$ --	$ 15,577
Camp Douglas US Property and Fiscal	13,717	9,189	1,972	2,556
Madison Crime Lab Remodeling	11,159	10,245	65	849
Other projects with allotments totaling less than $10 million		58,308		
		197,988		
Other:				
Transportation-related funded through sources other than capital projects		707,132		
Other		13,591		
Total construction in progress – governmental activities		$ 918,711		
Business-type Activities:				
University of Wisconsin System:				
Microbiological Science Building – Madison	120,552	$ 20,449	90,409	9,695
Madison Cogeneration Facility	90,227	86,639	3,632	(45)
Grainger Hall Addition – Madison	41,091	434	157	40,500
Dayton Street Residence Hall – Madison	35,900	1,566	840	33,495
Veterinarian Diagnostic Building – Madison	24,998	7,846	12,920	4,232
Residence Hall – La Crosse	22,359	4,822	15,708	1,829
Student Recreation/Wellness Center – Oshkosh	21,000	757	951	19,292
Campus Utility Upgrade – Madison	19,819	3,484	16,805	(470)
Lot 76 Parking Ramp – Madison	18,000	12,368	1,647	3,985
Upham Hall Addition – Whitewater	17,011	8,041	6,258	2,712
North Campus Resident Hall – Stout	16,694	14,843	2,005	(154)
Taylor Hall Renovation – Oshkosh	12,261	8,960	2,104	1,197
Homes for Veterans:				
Home-skilled Nursing Facility – Southern Wisconsin Center	17,076	11,402	4,793	881
State Fair Park:				
Grandstand Replacement	20,500	20,805	--	(305)
Other projects with allotments totaling less than $10 million:				
University of Wisconsin System		71,167		
Other		8,587		
Total construction in progress – business-type activities		$ 282,169		

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 $134.8 million and $40.8 million as of June 30, 2005, respectively.

Component Units

Capital Assets balance of the Wisconsin Housing and Economic Development Authority at June 30, 2005, the University of Wisconsin Hospitals and Clinics Authority at June 30, 2005, the University of Wisconsin Foundation at December 31, 2004, and the State Fair Park Exposition Center, Inc. at December 31, 2004 were as follows (in thousands):

	Amount
Capital Assets, not being depreciated:	
Land and Land Improvements	$ 6,353
Construction in Progress	21,950
Total Capital Assets, not being depreciated	28,303
Capital Assets, being depreciated:	
Buildings	370,989
Equipment	175,163
Totals	546,152
Less accumulated depreciation for:	
Buildings	133,799
Equipment	102,899
Totals	236,698
Total Capital Assets, being depreciated, net	309,454
Component Units Capital Assets, net	$ 337,757

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 in 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, 2005, net appreciation of $8.9 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, 2005 was $344.2 million including unrealized gains of $13.8 million when fair values as of June 30, 2005 are compared to asset acquisition costs. This compares to a fair value as of June 30, 2004 of $336.3 million. The net increase in fund balance during 2004-05 was $7.9 million.

The book value of Endowments under control of the University of Wisconsin System was $330.4 million as of June 30, 2005 compared to a book value of $318.9 million as of June 30, 2004. 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, 2005, the book value and fair value of principal funds under control of the University of Wisconsin System was (in millions):

Original Contributions and Distributed Net Gains	$ 133.5
Realized Gains – Undistributed	196.9
Book Value	330.4
Unrealized Net Gains/Losses - Undistributed	13.8
Fair Value	$ 344.2

On June 30, 2005, the portfolio at market contained 75.3 percent in stocks, 18.2 percent in fixed income obligations, 2.5 percent in alternative assets, and 4.0 percent in short-term investments. The total return on the principal Long Term Fund including capital appreciation was 12.3 percent. The total return on the principal Intermediate Fund including capital appreciation was 5.5 percent. External investment counsel was furnished for funds representing 97.0 percent of market-value principal.

Component Unit

University of Wisconsin Foundation

At December 31, 2004 there were 3,182 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, 2004, the endowment fund accounts reported cash and money market funds of $82.9 million and investments with a fair value of $992.2 million. This compares to a fair value for investments as of December 31, 2003 of $754.3 million. The asset allocation for endowment assets at December 31, 2004 is 49.4 percent in domestic equities, 16.5 percent in international equities, 29.2 percent in alternative investment managers, 1.2 percent in fixed income, 0.7 percent in real assets and 3.0 percent in cash.

NOTE 9. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances as of or for the year ended June 30, 2005 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, 2005 were as follows (in thousands):

	Due to Other Funds:			
	General	Transportation	Nonmajor Governmental	Injured Patients and Families Compensation
Due from Other Funds:				
General	$ -	$ 12,985	$ 12,706	$ 7
Transportation	1,179	-	52,893	-
Nonmajor Governmental	79,639	10,650	5,057	156
Environmental Improvement	192	-	10	-
University of Wisconsin System	38,029	783	1,662	-
Unemployment Reserve	428	-	-	-
Nonmajor Enterprise	7,740	42	22	-
Internal Service	24,511	3,345	13,950	4
Fiduciary	18,841	2,872	1,933	8
Total	$ 170,558	$ 30,676	$ 88,233	$ 174

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
$ 167	$ 40,701	$ 9,423	$ 32,817	$ 1,706	$ 38,297	$ 148,810
-	275	-	-	488	-	54,836
1,693	228	-	789	746	-	98,957
-	-	-	-	-	-	202
15	-	-	7	55		40,551
-	-	-	-	-	-	428
-	3	-	1,365	21	34,963	44,157
1	1,069	-	1,068	315	1,113	45,376
10	14,844	-	2,481	502	1,583	43,071
$ 1,886	$ 57,121	$ 9,423	$ 38,528	$ 3,834	$ 75,956	$ 476,388

B. Due from/to Component Units

Receivables and payables between funds and component units at June 30, 2005 were as follows (in thousands);

	Due from Component Unit					Due from Primary Government			
	General	University of Wisconsin System	Nonmajor Enterprise	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	$ -	$ -	$ -	$ 4	$ -	$ -	$ -	$ -	$ 4
Wisconsin Health Care Liability Insurance Plan	-	-	-	-	-	-	-	-	-
University of Wisconsin Hospitals and Clinics Authority	2	912	-	8	2,485	-	-	-	3,407
State Fair Park Exposition, Center Inc.	-	-	27	-	-	-	-	31	58
Due to Component Unit:									
General	-	-	-	-	-	17	-	-	17
University of Wisconsin System	-	-	-	-	-	1,689	-	-	1,689
Nonmajor Enterprise	-	-	-	-	-	-	84	-	84
Timing Differences	-	-	-	-	-	-	13	-	13
Total	$ 2	$ 912	$ 27	$ 12	$ 2,485	$ 1,707	$ 97	$ 31	$ 5,273

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, 2005 were as follows (in thousands):

	Interfund Receivables
	Fiduciary
Interfund Payables:	
General	$ 486,346
Nonmajor Governmental	53,805
Nonmajor Enterprise	16,518
Internal Service	30,803
Fiduciary	845,764
Total	$ 1,433,236

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, 2005 were as follows (in thousands):

	Advances to Other Funds (asset):			
	General	Nonmajor Governmental	Internal Service	Total
Advances from Other Funds (liability):				
Nonmajor Governmental	$ -	$ 358	$ 2,914	$ 3,272
Fiduciary	27	-	-	27
Total	$ 27	$ 358	$ 2,914	$ 3,299

E. Interfund Transfers

Interfund Transfers in and out that occurred during Fiscal Year 2005 were as follows (in thousands):

	Transfers in:						
	General	Transportation	Nonmajor Governmental	University of Wisconsin System	Nonmajor Enterprise	Internal Service	Total
Transfers out:							
General	$ -	$ 2,519	$ 533,003	$ 916,261	$ 53,157	$ 5,705	$ 1,510,646
Transportation	252,871	-	62,324	-	-	30	315,225
Nonmajor Governmental	43,069	6,322	32,599	121,632	7,477	1,418	212,517
Injured Patients and Families Compensation	11	-	-	-	-	-	11
Environmental Improvement	66	-	6,000	-	-	-	6,066
University of Wisconsin System	53,651	-	31	-	-	164	53,846
Unemployment Reserve	4,079	-	-	-	-	-	4,079
Nonmajor Enterprise	25,912	-	196	-	2,644	254	29,005
Internal Service	5,307	13	90	-	76	689	6,175
Fiduciary	191	-	66	-	-	-	257
Capital Assets Transferred Between Proprietary Funds and Governmental Funds	-	-	-	11	(91)	-	(80)
Total	$ 385,157	$ 8,853	$ 634,309	$ 1,037,904	$ 63,263	$ 8,259	$ 2,137,746

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, 2005, 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 (including 2003 Wisconsin Act 33 transfer of $75 million (Fiscal Year 2005 portion))	$ 78,900
Environmental	3,636
Recycling	6,893
University of Wisconsin System	5,317
Other funds	4,358
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	3,224
Conservation	1,708
University of Wisconsin System	29,521
Other funds	4,862

Continued

Funds Reporting the Transfer	Amount
Transfers to the General Fund to fund a portion of the shared revenue program:	
Transportation	170,000
Utility Public Benefits	20,000
Transfers to the Medical Assistance Trust Fund from the General Fund:	
2005 Wisconsin Act 2	50,000
2005 Wisconsin Act 15 *	75,000
Intergovernmental Revenue (IGT) transfers	50,933

* Of the $75.0 million transfer, $20.0 million was paid in Fiscal Year 2005 and the remainder has been accrued as a liability of June 30, 2005.

NOTE 10. CHANGES IN LONG-TERM LIABILITIES

During the year ended June 30, 2005, the following changes occurred in long-term liabilities (in thousands):

Primary Government

Governmental Activities	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Amounts Due Within One Year
Bonds Payable:					
General Obligation Bonds	$ 3,560,219	$ 937,099	$ 733,345	$ 3,763,973	$ 273,810
Annual Appropriation Bonds	1,792,092	198	-	1,792,290	-
Revenue Bonds	3,151,500	364,788	398,561	3,117,727	96,192
Total Bonds Payable	8,503,811	1,302,085	1,131,906	8,673,990	370,002
Other Liabilities:					
Future Benefits and Loss Liability	110,856	25,307	22,997	113,166	24,584
Capital Leases	22,397	5,875	5,417	22,856	6,535
Installment Contracts	2,770	1,068	2,267	1,571	885
Compensated Absences	109,164	54,053	44,633	118,584	50,674
Claims, Judgments and Commitments	2,037	10,711	512	12,237	-
Total Governmental Activities Long-term Liabilities	$ 8,751,036	$ 1,399,099	$ 1,207,731	$ 8,942,404	$ 452,680

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 2005. 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, 2004	Additions	Reductions	Balance June 30, 2005	Amounts Due Within One Year
Bonds Payable:					
General Obligation Bonds	$ 859,262	$ 198,497	$ 164,563	$ 893,196	$ 34,343
Revenue Bonds	692,111	111,158	151,057	652,213	44,775
Total Bonds Payable	1,551,373	309,655	315,620	1,545,409	79,118
Other Liabilities:					
Future Benefits and Loss Liability	1,219,171	225,108	141,719	1,302,560	145,349
Capital Leases	48,577	5,262	5,412	48,427	5,115
Compensated Absences	91,692	12,917	3,798	100,811	55,097
Total Business-type Activities Long-term Liabilities	$ 2,910,814	$ 552,942	$ 466,549	$ 2,997,207	$ 284,679

Component Units

The following table presents the changes in long-term liabilities of the Wisconsin Housing and Economic Development Authority at June 30, 2005, the Wisconsin Health Care Liability Insurance Plan at December 31, 2004, the University of Wisconsin Hospitals and Clinics Authority at June 30, 2005, the University of Wisconsin Foundation at December 31, 2004, and the State Fair Park Exposition Center, Inc. at December 31, 2004:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Amounts Due Within One Year
Bonds and Notes Payable:					
Revenue Bonds and Notes	$ 2,178,105	$ 990,776	$ 725,496	$ 2,443,386	$ 78,251
Future Benefits and Loss Liability	43,760	--	9,859	33,901	7,504
Capital Leases	20,157	--	1,968	18,189	3,369
Compensated Absences	4,458	607	--	5,065	4,608
Pension Related	84,500	--	4,966	79,534	2,251
Total Component Units Long-term Liabilities	$ 2,330,981	$ 991,382	$ 742,289	$ 2,580,074	$ 95,983

NOTE 11. BONDS, NOTES AND OTHER DEBT OBLIGATIONS

The following schedule summarizes outstanding long-term bonds and notes payable at June 30, 2005 (in thousands):

Primary Government	
Governmental Activities:	
General Obligation Bonds	$ 3,763,973
Annual Appropriation Bonds	1,792,290
Revenue Bonds:	
Transportation	1,386,493
Petroleum Inspection	210,446
Badger Tobacco Asset Securitization Corporation	1,520,788
Total Governmental Activities	8,673,990
Business-type Activities:	
General Obligation Bonds:	
University of Wisconsin System	513,391
Other Business-type	379,804
Revenue Bonds:	
Environmental Improvement	652,213
Total Business-type Activities	1,545,408
Total Primary Government	10,219,398
Component Units:	
Wisconsin Housing and Economic Development Authority Revenue Bonds	2,154,351
University of Wisconsin Hospitals And Clinics Authority Revenue Bonds	235,498
State Fair Park Exposition Center, Inc. Revenue Bonds and Notes Payable	40,840
University of Wisconsin Foundation Note Payable	12,696
Total Component Units	2,443,385
Total at June 30, 2005	$12,662,783

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, 2005, $2,042.2 million of general obligation bonds were authorized but unissued.

General obligation bonds issued and outstanding as of June 30, 2005 were as follows (in thousands):

Fiscal Year Issued	Series	Dates	Interest Rates	Maturity Through	Amount Issued	Amount Outstanding
1990	1990 Series D	5/90	6.95 to 7.0	5/10	$ 65,859	$ 18,151
1991	1991 Series B	5/91	6.7 to 6.85	5/11	117,136	35,360
1992	1992 Refunding Issue	3/92	6.20 to 6.25	5/15	448,935	106,150
1993	1992 2;	10/92	6.2 to 6.5	5/15	423,565	234,965
	1993 1, 2	1/93; 3/93				
1994	1993 Refunding Issues 3, 5, 6;	8/93; 12/93;	4.75 to 6.2	5/24	515,830	210,510
	1994 Refunding Issue 2	10/93; 3/94;				
1995	1994 Series 3 and C;	9/94; 9/94;	5.6 to 6.65	5/25	100,400	6,730
	1995 Series B and 1	2/95, 2/95				
1996	1995 Series 2 and C;	10/95; 9/95;	4.5 to 6.2	11/25	448,175	125,145
	1996 Series 1, A, B	2/96; 1/96; 5/96				
1997	1996 C and D;	9/96; 10/96;	5.75 to 6.25	5/28	190,230	19,380
	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	87,805
	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	295,795
	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	67,530
2001	2000 Series B & E;	7/00;11/00	4.5 to 8.05	11/31	259,030	84,975
	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	535,245
	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	371,240
	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	1,274,331
	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	1,065,940
	2005 Series 1, A, B and C	2/05; 2/05; 4/05; 4/05				
Total					7,505,871	4,539,252
Premiums/Discounts					--	186,499
Deferred Amount on Refunding					--	(68,583)
Total General Obligation Bonds					$ 7,505,871	$ 4,657,168

As of June 30, 2005, 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
2006	$ 258,653	$ 200,160	$ 32,178	$ 46,185
2007	263,590	183,875	34,350	43,719
2008	264,905	168,301	36,943	41,986
2009	268,043	155,512	37,238	40,179
2010	271,844	127,759	37,609	38,321
2011-2015	1,219,815	430,097	201,043	162,023
2016-2020	780,901	181,962	203,965	109,199
2021-2025	329,889	33,975	184,160	58,887
2026-2030	--	--	79,140	19,762
2031-2035	--	--	34,985	3,978
Total	3,657,640	1,481,641	881,611	564,239
Premiums/Discounts	162,331	--	24,168	--
Deferred Amount on Refunding	(55,998)	--	(12,585)	--
Total	$ 3,763,973	$ 1,481,641	$ 893,195	$ 564,239

Zero Coupon Bonds

The general obligation bonds of 1990, Series D (Higher Education Series), are zero coupon bonds recorded in the amount of $18.2 million which is the accreted value at June 30, 2005. 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 $35.4 million. The bonds mature on May 1 through the year 2011.

B. Annual Appropriation Bonds

Wisconsin Acts 33 and 84 were enacted and authorized the issuance of appropriation obligations to obtain proceeds to pay the State's anticipated unfunded accrued prior service (pension) liability under Wis. Stat. Section 40.05(2)(b) and its unfunded accrued liability for sick leave conversion credits under Wis. Stat. Section 40.05(4)(b), (bc), and (bw) and Subchapter IX of Chapter 40. The bonds are not general obligations of the State, and do not constitute "public debt" of the State as that term is used in the Constitution and in the State Statutes. The payment of the principal of, and premium, if any, and interest on the Bonds is subject to annual appropriation; that is, payments due in any fiscal year of the State will be made only to the extent sufficient amounts are appropriated by the Legislature. The State is not legally obligated to appropriate any amounts for payment of debt service on the Bonds. The Legislature, recognizing its moral obligation to make timely appropriations from the General Fund sufficient to pay debt service on obligations such as the Bonds, expresses in Wis. Stat. Section 16.527(10) its expectation and aspiration that it will do so. The Legislature's recognition of a moral obligation, however, does not create a legally enforceable obligation.

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

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

As of June 30, 2005, the debt service requirements for principal and interest on these bonds are as follows (in thousands):

Fiscal Year Ended June 30	Principal	Interest
2006	$ --	$ 94,471
2007	--	94,471
2008	--	94,471
2009	6,100	94,424
2010	10,850	94,105
2011 - 2015	357,250	433,848
2016 - 2020	184,025	367,808
2021 - 2025	534,005	288,454
2026 - 2030	550,320	117,035
2031 - 2032	152,300	9,680
Total	1,794,850	1,688,767
Unamortized Premium/Discount	(2,560)	--
Total, net	$ 1,792,290	$ 1,688,767

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, 2005, the aggregate fair value of the interest exchange agreements was a negative $86.1 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 Bank N.A., Citibank N.A. New York, UBS AG, Bear Stearns Financial Products, Inc., and Morgan Stanley Bank. Based on those parameters, and swap market conditions prevailing on the June 30, 2005 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, 2005, 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
2006	$ --	$ 31,996	$ 16,775	$ 48,771
2007	--	31,996	16,775	48,771
2008	--	32,084	16,687	48,771
2009	6,100	31,962	16,762	54,824
2010	10,850	31,729	16,675	59,255
2011 - 2015	75,900	150,316	80,181	306,397
2016 - 2020	25,000	142,584	77,232	244,816
2021 - 2025	231,850	123,633	70,336	425,819
2026 - 2030	442,850	68,734	42,175	553,759
2031 - 2032	152,300	6,009	3,671	161,980
	$ 944,850	$ 651,043	$ 357,269	$ 1,953,162

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, 2005, the State was not exposed to credit risk as the aggregate fair value of the interest rate exchange agreements was negative. The State could have exposure in the future should values change. 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, 2005, Aa3 by Moody's, A+ by Standard & Poor's, and A+ by Fitch Ratings (which only assigns a rating for five of the eight counterparties). Under the interest rate exchange agreements and to mitigate the potential for credit risk, if any of the counterparties' credit quality falls below A3 by Moody's Investors Service or A- by either Standard & Poor's or Fitch Ratings, the fair value of the interest rate exchange agreement for that respective counterparty will be fully collateralized by that counterparty. In addition, an event of termination occurs if any of the counterparties' credit quality falls below Baa2 by Moody's investors service of BBB by either Standard & Poor's or Fitch Ratings.

Basis Risk – The interest rate exchange agreements expose the State to basis risk as the relationship between the one-month LIBOR and the ARCs vary, which changes the synthetic rate on the bonds. As of June 30, 2005, the one-month LIBOR was 3.34 percent and the interest rate on the ARCs was 3.34 percent. The relationship between the one-month LIBOR and ARCs will vary over time and any variation will result in an 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 $2,095.6 million of revenue bonds. Presently, there are twelve issues of Transportation Revenue Bonds totaling $1,386.5 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, 2005 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2005A	3/05	3.0 to 5.25	7/25	$ 235,585	$ 235,585
2004 1	9/04	5.0 to 6.0	7/17	95,905	95,905
2003A	11/03	2.5 to 5.0	7/24	211,175	211,175
2002A	10/02	3.0 to 5.0	7/23	168,945	162,895
2002 1& 2	4/02	3.125 to 5.75	7/19 & 7/22	254,375	218,710
2001A	11/01	3.0 to 5.0	7/22	140,000	124,875
1998A&B	8&10/98	4.25 to 5.5	7/19 & 7/16	199,815	174,160
1996A	5/96	6.0	7/06	43,205	10,325
1995A	9/95	4.8	7/05	38,010	3,700
1993A	9/93	4.5 to 5.0	7/12	116,450	75,665
				1,503,465	1,312,995
Unamortized Premium				--	73,498
Total				$1,503,465	$1,386,493

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 $210.4 million. Debt service payments are secured by petroleum inspection fees.

The PIF revenue bonds issued and outstanding as of June 30, 2005 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2004-1	5/04	3.0 to 5.0	7/12	$ 95,470	$ 95,470
2004A	2/04	3.0 to 5.0	7/12	45,000	45,000
2001A	12/01	5.0	7/08	30,000	30,000
2000A	3/00	5.25 to 6.0	7/12	170,250	35,685
				340,720	206,155
Deferred amount on refunding				--	(4,198)
Unamortized Premium				--	8,489
Total				$ 340,720	$ 210,446

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, 2005, there were eleven issues of Revenue Bonds outstanding totaling $652.2 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, 2005 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
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	116,795
2002-2	8/02	3.0 to 5.5	6/26	85,575	79,400
2002-1	5/01	4.0 to 5.25	6/23	100,000	65,980
2001-1	4/01	4.5 to 5.25	6/21	70,000	41,535
1999-1	9/99	5.0 to 5.75	6/20	80,000	13,220
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	31,385
1997-1	2/97	4.5 to 6.0	6/17	80,000	7,470
1993-2	9/93	2.75 to 6.125	6/08	81,950	30,780
1991-1	4/91	5.4 to 6.9	6/11	225,000	57,445
				1,140,705	641,435
Unamortized Premium				--	25,488
Less: Unamortized discount and charge				--	(14,710)
Total, net of discount, charge and premium				$1,140,705	$ 652,213

As of June 30, 2005, 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**
2006	$ 61,120	$ 59,583	$ 18,205	$ 9,582	$ 44,775	$ 33,301
2007	71,640	59,642	19,775	8,596	47,085	30,907
2008	74,750	57,755	35,270	7,230	49,540	28,406
2009	73,000	54,220	36,280	5,495	52,020	26,111
2010	71,635	50,710	22,350	4,056	54,760	23,230
2011-2015	344,595	201,666	74,275	5,348	199,790	76,587
2016-2020	328,180	112,001	--	--	138,080	32,757
2021-2025	272,875	33,911	--	--	55,385	5,902
2026-2030	15,200	380	--	--	--	--
Total	1,312,995	629,868	206,155	40,307	641,435	257,201
Unamortized Premium	73,498	--	8,489	--	25,488	--
Unamortized Discount/Charge	--	--	(4,198)	--	(14,710)	--
Total, net	$ 1,386,493	$ 629,868	$ 210,446	$ 40,307	$ 652,213	$ 257,201

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, 2005 were as follows (in thousands):

Fiscal Year Ended	Principal	Interest
2006	$ 12,210	$ 94,491
2007	12,315	93,817
2008	12,485	93,151
2009	31,220	92,042
2010	33,565	90,423
2011-2015	178,645	423,186
2016-2020	222,840	363,140
2021-2025	309,215	284,714
2026-2030	430,865	171,182
2031-2033	301,760	24,419
Total	1,545,120	1,730,564
Unamortized Premium/Discount	(24,332)	--
Total	$ 1,520,788	$ 1,730,564

Component Units – Discrete Presentation

Wisconsin Housing and Economic Development Authority

Bonds and notes payable at June 30, 2005 of the Wisconsin Housing and Economic Development Authority (Authority) consisted of the following (in thousands):

Revenue bonds and notes	$ 2,048,188
Special obligation and subordinated Special obligation	111,748
Total	2,159,936
Less: Deferred amount on refunding	(5,585)
Total, net	$ 2,154,351

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, 2005 consisted of the following (in thousands):

Series/ Issue	Date	Rates	Maturity Through	Outstanding
Housing Revenue Bonds:				
1992 A	1/92	6.85	2012	$ 3,370
1993 A&B	10/93	5.1 to 5.65	2023	40,315
1993 C	12/93	5.3 to 5.875	2019	84,640
1995 A&B	7/95	5.45 to 6.5	2026	32,945
1998 A,B&C	2/98	4.4 to 6.88	2032	30,215
1999 A&B	10/99	4.9 to 6.18	2031	35,250
2000 A&B	9/00	Variable	2032	10,285
2002 A, B&C	5/02	3.6 to 5.6	2033	93,110
2002 D,E,F,G&I	5/02	Variable	2034	32,290
2002 H	5/02	Variable	2033	25,060
2003 A&B	12/03	Variable	2034	6,370
2003 C	12/03	2.1 to 5.25	2043	14,185
2003 D& E	12/03	Variable	2044	20,515
				428,550
Home Ownership Revenue Bonds:				
1995 F,G&H	9/95	5.5 to 6.2	2017	805
1996 A&B	3/96	5.4 to 6.0	2015	12,018
1996 C&D	7/96	5.6 to 6.35	2017	7,705
1996 E&F	11/96	5.2 to 5.9	2026	8,085
1997 A,B&C	4/97	5.3 to 6.0	2017	10,160
1997 D&E	6/97	5.05 to 5.8	2026	19,660
1997 G,H&I	11/97	4.95 to 5.5	2017	11,210
1998 A,B&C	4/98	4.75 to 5.5	2027	55,160
1998 D&E	6/98	4.65 to 5.5	2028	27,735
1999 C,D&E	4/99	4.3 to 6.17	2029	21,120
1999 F,G&H	7/99	5.25 to 7.07	2027	20,805
2000 A,B&C	3/00	5.3 to 7.78	2030	13,105
2000 D,E&F	6/00	5.75 to 7.91	2029	13,965
2000 F	7/00	Variable	2015	5,045
2000 G & H	11/00	7.21	2031	7,800
2000 H	11/00	Variable	2024	10,105
2001 A,B&C	5/01	4.55 to 6.4	2032	22,935
2002 A&C	2/02	3.15 to 5.5	2032	58,785
2002 B	2/02	Variable	2032	14,980
2002 C	2/02	Variable	2016	14,945
2002 D	2/02	Variable	2022	3,475
2002 E,G&H	3/03	2.75 to 5.25	2022	55,760
2002 I	10/02	2.35 to 4.85	2032	35,285
2002 E & F	7/02	Variable	2032	59,395
2002 I&J	10/02	Variable	2032	48,480
2003 A	4/03	1.7 to 4.95	2024	29,000
2003 A	4/03	Variable	2033	74,035
2003 B	7/03	Variable	2034	104,480
2003 C	11/03	1.7 to 4.95	2024	26,160
2003 C	11/03	Variable	2034	60,075
2003 D	11/03	Variable	2028	19,385
2004 A	4/04	Variable	2035	103,570
2004 A	4/04	1.75 to 4.5	2014	26,430
2004 B	4/04	Variable	2035	6,295
2004 C&D	7/04	1.95 to 5.1	2024	37,540
2004 D	7/07	Variable	2035	110,975
2004 E	11/04	Variable	2035	99,790
2005 A	4/05	2.6 to 4.95	2025	28,875
2005 A	4/05	Variable	2036	91,125
2005 B	4/05	Variable	2035	11,200
2005 C	6/05	Variable	2033	165,000
2005 C	6/05	4.875	2036	35,000
				1,587,458
Business Development Bonds:				
1989 3	Various	7.75	2014	895
1991 4	Various	6.1	2006	385
1995 1-2,4-9	Various	Variable	2015	8,485
				9,765
Notes Payable	Various	Variable	2021	22,415
Authority's Total Revenue Bonds and Notes				$ 2,048,188

(Continued)

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, 2005 consist of the following (in thousands):

Series/ Issue	Date	Rates	Maturity Through	Outstanding
Home Ownership Revenue Bonds:				
1994 C&D	8/94	5.85 to 6.15	2008	$ 2,690
1998 F&G	10/98	4.3 to 5.51	2029	26,120
				28,810
Single Family Drawdown Revenue Bonds:				
2003-1	4/03	Variable	2007	82,938
				82,938
Total Special Obligation Bonds				$ 111,748

Debt service requirements for principal and interest for the Authority at June 30, 2005 are as follows (in thousands):

Fiscal Year Ended	Principal	Interest
2006	$ 77,005	$ 76,374
2007	60,675	75,375
2008	62,929	72,847
2009	67,895	69,890
2010	66,725	66,981
2011-2015	303,185	293,592
2016-2020	319,325	228,380
2021-2025	358,795	161,108
2026-2030	378,480	95,514
2031-2035	344,240	43,343
Thereafter	120,682	7,274
Total	2,159,936	1,190,678
Deferred Amount on Refunding	(5,585)	--
Total	$ 2,154,351	$ 1,190,678

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, 2005, 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 2.1 percent to 3.1 percent and 1.15 percent to 1.25 percent at June 30, 2005 and June 30, 2004 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 3.64 percent, 3.625 percent and 4.0 percent at June 30, 2005.

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, 2005, 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
2006	$ 26,265	$ 23,072	$ 15,378	$ 64,715
2007	27,720	22,365	15,246	65,331
2008	33,480	21,594	14,988	70,062
2009	31,610	20,747	14,705	67,062
2010	31,705	20,176	14,234	66,115
2011 - 2044	845,120	274,670	214,572	1,334,362
Totals	$ 995,900	$ 382,624	$ 289,123	$1,667,647

The following table outlines information related to agreements in place as of June 30, 2005 (in thousands):

Program and Bond Issue	Notional Value at 6/30/05	Effective Date	Swap Termination Date	Counterparty Credit Rating	Percent Fixed Rate Paid	Variable Rate/Index Received	Swap Termination Market Value at 6/30/05
Housing Revenue Bonds							
2002 Series H	$ 25,060	5/21/2002	11/1/2033	AAA	4.68	70% of one month London Interbank Offered Rate (LIBOR)	$ (1,950)
2003 Series D	8,710	1/5/2005	5/1/2044	AAA	4.21	65% of one month LIBOR + 25 basis points	(560)
2003 Series E	11,805	1/5/2005	5/1/2043	AAA	4.05	63.5% of one month LIBOR + 20 points	(727)
							(3,237)
1987 Home Ownership Revenue Bonds							
2002 Series B	14,980	2/6/2002	3/1/2020	AAA	5.88	One month LIBOR + 35 basis points	(763)
2002 Series C	14,945	2/6/2002	9/1/2012	AAA	3.69	67 percent of one month LIBOR	(501)
2002 Series D	3,475	2/6/2002	9/1/2006	AAA	2.91	70 percent of one month LIBOR	(5)
2002 Series I	7,950	10/17/2002	3/1/2008	AA+	2.33	70 percent of one month LIBOR	54
2002 Series I	35,020	10/17/2002	9/1/2032	AA+	4.07	70 percent of one month LIBOR	(1,780)
2002 Series J	5,510	10/17/2002	9/1/2006	AA+	3.13	One month LIBOR + 40 basis points	40
2003 Series B	104,480	7/29/2003	9/1/2034	AAA	3.94	65 percent of one month LIBOR + 25 basis points	(2,842)
2004 Series A	31,020	4/29/2004	9/1/2022	AAA	4.47	BMA + 8 basis points	(1,691)
2004 Series A	30,515	4/29/2004	9/1/2012	AAA	2.87	65 percent of one month LIBOR + 25 basis points	(2)
2004 Series A	42,035	4/29/2004	3/1/2035	AAA	4.27	65 percent of one month LIBOR + 25 basis points	(2,506)
2005 Series H	91,125	4/12/2005	3/1/2036	AAA	4.03	65 percent of one month LIBOR + 25 basis points	(3,923)
							(13,919)
1988 Home Ownership Revenue Bonds							
2002 Series E	17,720	7/11/2002	3/1/2011	AAA	3.24	70 percent of one month LIBOR	(204)
2002 Series E	23,890	7/11/2002	9/1/2032	AAA	4.67	70 percent of one month LIBOR	(810)
2002 Series F	17,785	7/11/2002	9/1/2014	AAA	5.20	Three months LIBOR + 40 basis	(350)
2003 Series A	24,740	4/3/2003	9/1/2014	AAA	2.98	65 percent one month LIBOR + 25 basis points	(5)
2003 Series A	31,375	4/3/2003	9/1/2030	AAA	4.26	65 percent one month LIBOR + 25 basis points	(239)
2003 Series A	17,920	4/3/2003	9/1/2033	AAA	4.17	65 percent one month LIBOR + 25 basis points	(322)
2003 Series C	21,470	11/4/2003	3/1/2019	AAA	3.32	65 percent one month LIBOR + 25 basis points	(318)
2003 Series C	38,605	11/4/2003	3/1/2034	AAA	4.3	65 percent one month LIBOR + 25 basis points	(1,569)
2004 Series D	110,975	7/27/2004	9/1/2035	AAA	4.04	65 percent one month LIBOR + 25 basis points	(5,164)
2004 Series E	99,790	7/27/2004	9/1/2035	AAA	3.99	65 percent one month LIBOR + 25 basis points	(2,665)
2005 Series C	102,310	8/3/2005	3/1/2024	AAA	3.34	BMA + 8 basis points until 3/1/06, 65 percent one month LIBOR + 25 basis points	(1,533)
2003 Series C	62,690	8/3/2005	3/1/2033	AAA	4.07	BMA + 8 basis points until 3/1/06, 65 percent one month LIBOR + 25 basis points	(2,216)
							(15,395)
							$ (32,551)

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, 2005. 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, 2005, 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, 2005, the counterparties in 95 percent of the outstanding swaps were rated AAA/Aaa and the remaining counterparty was rated AA+/Aa2 by Moody's Financial Services and Standard and Poor's, 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.

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 1.9 percent in 2005.

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 2029. Interest rates range from 5.35 percent to 6.20 percent and interest is payable semiannually on April 1 and October 1 each year beginning October 1, 2000. The effective annual interest rate was 6.1 percent in 2005.

The Series 1997 Bonds, Series 2000 Bonds and Series 2002 Bonds are collateralized by a security interest in substantially all of the Hospital's revenue. The borrowing agreements contain various covenants and restrictions including compliance with the terms and conditions of the lease agreement (Note 1-B) and provisions limiting the amount of additional indebtedness which may be incurred. The borrowing agreements also require the establishment and maintenance of certain funds under the control of a trustee.

In October 2002, the Hospital issued $68.5 million of Hospital Revenue Bonds, Series 2002 (Series 2002 Bonds) consisting of $55.6 million Series 2002A Short-term Adjustable Securities and $12.9 million Series 2002B Fixed Interest Rate Bonds. The bond proceeds are designated to finance qualified capital projects. Principal payments on the Series 2002A Bonds range from $500 thousand to $3.9 million due annually commencing in April 2013 through 2032. The interest rates and the interest payment dates for the Series 2002A Bonds vary depending on if the bonds are in auction mode, daily mode, weekly mode, or in flexible mode beginning November 29, 2002. Principal payments on the Series 2002B Bonds range from $1.4 million to $1.9 million due annually commencing in April 2006 through April 2013. Interest rates for the Series 2002B Bonds range from 5.25 percent to 5.50 percent and interest is payable semiannually on April 1 and October 1 of each year beginning April 1, 2003. The effective annual interest rate of the Series 2002 A Bonds was 2.0 percent in 2005. The effective annual interest rate of the Series 2002B Bonds was 5.4 percent in 2005

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, 2005 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, 2005 the interest rate received by the Hospital was 3.9 percent. The Hospital will be exposed to variable rates if the counterparty to the swap defaults or if the swap is terminated. The swap exposes the Hospital to basis risk should the relationship between LIBOR and auction rate converge, changing the synthetic rate on the bonds. The Hospital does not intend to terminate this agreement. As of June 30, 2005, the Hospital was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Hospital would be exposed to credit risk in the amount of the swap's fair value. The fair value of the swap is $(1,677,192) at June 30, ,2005.

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, 2005, 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 2005, the effective interest rate received by the Hospital was 3.40 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 $(1,117,281) at June 30, 2005. As of June 30, 2005, the Hospital was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the Hospital would be exposed to credit risk in the amount of the swap's fair value.

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
2006	$ 4,754	$ 9,737	$ 734	$ 15,225
2007	4,825	9,516	734	15,075
2008	4,736	9,272	734	14,742
2009	4,864	9,020	733	14,617
2010	5,125	8,756	733	14,614
2011-2015	32,136	39,570	3,484	75,190
2016-2020	37,770	33,013	1,974	72,757
2021-2025	46,329	25,816	162	72,307
2026-2030	58,450	15,970	--	74,420
2031-2034	54,200	4,180	--	58,380
Premium on 2002B Bonds	498	--	--	498
	$253,687	$ 164,850	$ 9,288	$427,825

The Hospital has commenced plans to issue variable rate demand revenue refunding bonds, Series 2005, in September 2005. The proceeds of the sale of Series 2005 bonds will be used to refund the Hospital's Series 2000 fixed rate bonds.

In anticipation of the issuance of the Series 2005 bonds, the Hospital executed a fixed-forward payer swap agreement with a counter-party in April 2005 in order to hedge its variable rate debt exposure and the interest rate risk. The effective date of the fixed-forward swap coincides with the expected issuance date of the Series 2005 bonds.

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, 2005 are as follows (in thousands):

Fiscal Year Ended	Principal	Interest
2006	$ 1,385	$ 9,590
2007	2,035	9,517
2008	2,480	9,409
2009	2,815	9,274
2010	3,320	9,120
2011-2015	26,505	42,397
2016-2020	37,550	34,943
2021-2025	46,260	25,974
2026-2030	58,450	15,971
2031-2035	54,200	4,180
Total	235,000	170,375
Unamortized Premium/Discount	498	--
Total	$ 235,498	$ 170,375

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, 2004. The letter of credit was renewed effective April 15, 2004 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, 2004. The outstanding balance on these bonds was $40.8 million as of December 31, 2004.

Debt service requirements for interest for the Center, at December 31, 2004 are as follows (in thousands):

Fiscal Year Ended	Interest
2005	$ 2,531
2006	2,531
2007	2,531
2008	2,531
2009	2,531
2010-2014	12,657
2015-2019	12,657
2020-2024	12,657
2025-2028	12,657
Total	$ 63,283

In addition, the Center had notes payable of $45 thousand outstanding at December 31, 2004.

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, 2004 was $2.7 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, 2004, is $10.0 million.

Future maturities of long-term debt as of December 31, 2004 are as follows (in thousands):

Year ended December 31	Total Principal
2005	$ 592
2006	625
2007	661
2008	699
2009	8,265
Later years	1,854
Total	$ 12,696

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 July 2004, the State issued $117.2 million of general obligation refunding bonds (2004 Series 4), the proceeds of which were deposited in an escrow account to provide for future debt service payments and redemption of $113.2 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 $3.5 million and an economic gain of $3.4 million.

In February 2005, the State issued $430.2 million of general obligation refunding bonds (2005 series 1), the proceeds of which were deposited in an escrow account to provide for future debt service payments and redemption of $434.3 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 $18.0 million and an economic gain of $8.1 million.

Current Year Refundings/Revenue Bonds

In January 2005, the Environmental Improvement Fund issued $107.0 million in revenue bonds with an average interest rate of 5.11 percent to advance refund $109.2 million of its 1998 Series 1, 1999 Series 1, 2001 Series 1, and 2002 Series 1 bonds with an average interest rate of 5.24 percent. The net proceeds of $117.4 million (after payment of $1.1 million in underwriting fees, insurance and other issuance costs) were used to purchase U.S. 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 bonds. As a result, this portion of the bonds is considered to be defeased and the liability for those bonds has been removed from these financial statements.

The cash flow requirements on the refunded bonds and notes prior to the advance refunding was $166.1 million from 2005 through 2020. The cash flow requirements on the 2005 refunding bonds are $160.7 million from 2005 through 2020. The advance refunding resulted in an economic gain of $4.3 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, 2005, approximately $1.1 billion 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, 2005, revenue bonds outstanding of $220.5 million have been defeased.
- Transportation revenue bonds – At June 30, 2005, revenue bonds outstanding of $447.1 million have been defeased.
- Petroleum Inspection Fee revenue bonds – At June 30, 2005, revenue bonds outstanding of $96.6 million have been defeased.

In addition, the Wisconsin Housing and Economic Development Authority (the Authority), a proprietary component unit, defeased Insured Mortgage Revenue Bonds payable aggregating $48.4 million and sold the related Insured Mortgage Loan portfolio on March 1, 1990. As of June 30, 2005, the remaining outstanding defeased debt was $29.3 million.

Early Extinguishments/Redemptions

Component Units

Badger Tobacco Asset Securitization Corporation

On December 2004 and June 2005, the trustee in aggregate redeemed $34.2 million of the 6.125 percent turbo term bonds due June 2027.

Wisconsin Housing and Economic Development Authority

During 2005, 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 2005
Home Ownership Revenue	
Bond Resolutions:	
1987	$ 63,355
1988	80,945
All Other	203,921
Housing Revenue Bonds	39,740
General funds	740

E. Short-term Financing

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

General Obligation Commercial Paper Notes

The State has authorized General Obligation Commercial Paper Notes for the acquisition, construction, development, extension, enlargement, or improvement of land, waters, property, highway, buildings, equipment or facilities. As of June 30, 2005, the State issued $166.7 million of general obligation commercial paper notes. Periodically, additional commercial paper notes are issued to pay for maturing commercial paper notes.

The State intends to make annual May 1 payments on the outstanding commercial paper notes that reflect principal amortization of the notes. The State also intends to make regular payments to the issuing and paying agent that will be equal to the interest due on maturing notes. At June 30, 2005, the amount of commercial paper notes outstanding was $59.7 million which had interest rates ranging from 2.07 percent to 2.75 percent and maturities ranging from July 1, 2005 to October 12, 2005.

Short-term debt activity for the year ended June 30, 2005 for the general obligation commercial paper notes was as follows (in millions):

Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005
$ 68.6	$ --	$ 8.9	$ 59.7

General Obligation Extendible Municipal Commercial Paper

The State has authorized general obligation extendible municipal commercial paper for the acquisition, construction, development, extension, enlargement, or improvement of land, waters, property, highway, buildings, equipment or facilities. As of June 30, 2005, the State issued $440.5 million of general obligation extendible municipal commercial paper. Periodically, additional extendible municipal commercial papers are issued to pay for maturing extendible municipal commercial paper. The State intends to make annual May 1 payments on the outstanding extendible commercial paper that reflect principal amortization of the paper. The State also intends to make regular payments to the issuing and paying agent that will be equal to the upcoming interest due on maturing notes. At June 30, 2005, the amount of extendible municipal commercial paper outstanding was $281.7 million which had interest rates ranging from 2.40 percent to 2.95 percent and maturities ranging from July 7, 2005, to August 19, 2005.

Short-term debt activity for the year ended June 30, 2005 for the general obligation extendible municipal commercial paper was as follows (in millions):

Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005
$ 313.9	$ --	$ 32.2	$ 281.7

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. As of June 30, 2005, the State issued $142.3 million of petroleum inspection fee revenue extendible municipal commercial paper. Periodically, additional extendible municipal commercial paper is issued to pay for maturing paper. The State may periodically deposit money into the Junior Subordinate Principal Account, which represents principal payments to be made on the extendible municipal commercial paper. The State also intends to make regular payments to the issuing and paying agent that will be equal to the upcoming interest due on maturing paper. At June 30, 2005, the amount of extendible commercial paper outstanding was $142.3 million which had interest rates ranging from 2.48 percent to 2.95 percent and maturities ranging from July 7, 2005 to August 10, 2005.

Short-term debt activity for the year ended June 30, 2005 for the petroleum inspection fee revenue extendible municipal commercial paper was as follows (in millions):

Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005
$ 142.3	$ --	$ --	$ 142.3

Transportation Revenue Commercial Paper Notes

The State authorized transportation revenue commercial paper notes to pay the costs of major highway projects and certain State transportation facilities. As of June 30, 2005, the State issued $157.8 million of transportation revenue commercial paper notes. Periodically, additional commercial paper notes are issued to pay for maturing commercial paper notes. The State intends to make annual July 1 payments on the commercial paper notes that reflect principal amortization of the notes. The State also intends to make regular payments to the issuing and paying agent that will be equal to the upcoming interest due on maturing notes. At June 30, 2005, the amount of commercial paper notes outstanding was $120.0 million which had interest rates ranging from 2.50 percent to 2.60 percent and maturities ranging from July 15, 2005 to October 7, 2005.

Short-term debt activity for the year ended June 30, 2005 for the transportation revenue commercial paper notes was as follows (in millions):

Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005
$ 125.8	$ --	$ 5.8	$ 120.0

F. Certificates of Participation

The State established a facility in 1992 that provides lease purchase financing for property and certain service items acquired by State agencies. This facility is the Third Amended and Restated Master Lease 1992-1. Pursuant to the terms and conditions of this agreement, the trustee for the facility issues parity Master Lease certificates of participation that evidence proportionate interest of the owners thereof in lease payments. A common pool of collateral ratably secures all Master Lease certificates. Title in the property and service items purchased under the facility remains with the State and the State grants to the Trustee, for the benefit of all Master Lease certificate holders, a first security interest in the leased items. At June 30, 2005, the following parity Master Lease certificates were outstanding:

- Master Lease Certificates of Participation of 1999, Series B (Taxable), in the amount of $1.2 million. This series of Master Lease certificates have interest rates of 5.6 percent and mature semi-annually through September 1, 2005.

- Master Lease Certificates of Participation of 2000, Series A, in the amount of $5.1 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 2000, Series B (Taxable), in the amount of $1.3 million. This series of Master Lease certificates have interest rates of 7.0 percent and mature semi-annually through September 1, 2005.

- Master Lease Certificates of Participation of 2002, Series A, in the amount of $20.0 million. This series of Master Lease certificates have interest rates ranging from 3.25 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 (Revolving Credit Agreement – Tax Exempt), and Master Lease Certificates of Participation of 2004, Series A in the amount of $21.0 million. These Master Lease certificates evidence the State’s obligation to repay tax-exempt revolving loans under a Revolving Credit Agreement, dated July 1, 2002, as amended, between U.S. Bank National Association (Trustee) and the Bank of America Leasing & Capital LLC. These Master Lease certificates shall bear interest at the rates provided for in the Revolving Credit Agreement and both mature on March 1, 2013 or September 1, 2014. 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 $19.6 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). 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, 2006. This Master Lease certificate shall bear interest at the rates provided for in the Revolving Credit Agreement and matures on March 1, 2022. The balance of this certificate of participation may include some accrued interest that will be payable at the next semi-annual interest payment date.

The Third Amended and Restated Master Lease 1992-1 provides that certain lease schedules to the facility can be terminated if the State deposits with the Trustee an amount that is equal to the outstanding amount of the lease schedule, or in amounts that are sufficient to purchase investments that mature on dates and in amounts to make the lease payments when due. At June 30, 2005, the State has deposited with the Trustee amounts, that when invested, will terminate lease schedules having an aggregate outstanding amount of $7.2 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, 2005, no material arbitrage rebate liabilities existed.

H. Moral Obligation Debt

Through legislation enacted in 1994, the State authorized the creation of local exposition districts. These districts (Wisconsin Center District, Southeast Wisconsin Professional Baseball Park District, and the Green Bay/Brown County Professional Football Stadium District) are authorized to issue bonds for costs related to an exposition center, and if the State determines that certain conditions are satisfied, the State may have a moral obligation to appropriate moneys to make up deficiencies in the districts' reserve funds that secure up to $200 million principal amount of bonds. To date, the Wisconsin Center District has issued $125.8 million of bonds that are subject to the moral obligation. The two other local exposition districts each have authority to issue $160.0 million of revenue obligations that, subject to the Secretary of Administration’s determination that certain conditions have been met, could carry a moral obligation of the State. Each of these districts have issued revenue obligations that do not carry the moral obligation of the State.

Through legislation enacted in 1999, the State authorized the issuance of up to $170.0 million principal amount of bonds to finance the development or redevelopment of sites and facilities to be used for public schools. If certain conditions are satisfied, and if a special debt service reserve fund is created for the bonds, the State will provide a moral obligation pledge, which would restore the special debt reserve fund established for the bonds to an amount not to exceed the maximum annual debt service on the bonds. Two bond issues of $112.0 million have been issued that have a special debt service reserve fund secured by the State’s moral obligation.

I. Credit Agreements

Primary Government

The State has, as part of the working bank contract, a letter of credit agreement with the US Bank National Association under which the Bank has agreed to provide to the State an open line of credit in the amount of $50.0 million. The agreement provides for advances in anticipation of bond issuance proceeds. As of June 30, 2005, $50.0 million was unused and available.

The State has previously entered into a credit agreement to provide a line of credit for liquidity support for up to $70.0 million of general obligation commercial paper notes. The line of credit expires in March, 2006, but is subject to annual renewal as provided for in the credit agreement. The cost of this line of credit is 0.125 percent per year. Effective December 14, 2005, the line of credit for liquidity support will increase to $104.0 million.

Also, the State has entered into a credit agreement with two banks to provide a line of credit for liquidity support for its transportation revenue commercial paper program. The amount of the line of credit is $130.0 million. This line of credit expires in December, 2015, but is subject to termination and renewal as provided for in the credit agreement. The cost of this line of credit is 0.170 percent per year.

NOTE 12. LEASE COMMITMENTS AND INSTALLMENT PURCHASES

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

A. Capital Leases

Primary Government

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

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

The following is an analysis of the gross minimum lease payments along with the present value of the minimum lease payments as of June 30, 2005 for capital leases (in thousands):

Fiscal Year	Governmental Activities	Business-type Activities
2006	$ 7,555	$ 7,386
2007	6,411	6,828
2008	6,807	26,738
2009	2,608	2,508
2010	1,219	2,319
2011 - 2015	790	10,293
2016 - 2020	-	946
Total minimum future payments	25,388	57,017
Less: Executory costs	(2)	-
Less: Interest	(2,531)	(8,590)
Present value of net minimum lease payments	$ 22,856	$ 48,427

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, 2005 (in thousands):

Fiscal Year	Governmental Activities	Business-type Activities
Land and Land Improvements	$ 376	$ 209
Buildings and Improvements	1,000	62,083
Machinery and Improvements	61,156	11,147
Less: Accumulated Depreciation	(16,229)	(15,930)
Carrying Amount	$ 46,302	$ 57,510

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, 2005 was as follows:

Balance Due	Average Life (Weighted Term)
$75,545,066	3.6093 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, 2005 for amounts related to this agreement was $18.2 million.

B. Operating Leases

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

Governmental and business-type activities and fiduciary funds rental expenses under operating leases for Fiscal Year 2005 were $61.6 million. Of this amount, $61.4 million relates to minimum rental payments stipulated in lease agreements, $176 thousand relates to contingent rentals, and $436 thousand relates to sublease rental payments received. Component unit rental expenses under operating leases were $8.4 million, of which $8.4 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
2006	$ 40,127	$ 13,630	$ 97	$ 7,460
2007	32,230	11,693	63	6,842
2008	27,371	5,514	27	4,948
2009	19,571	4,590	-	3,578
2010	14,909	1,990	-	2,142
2011 - 2015	22,765	5,898	-	3,065
2016 - 2020	4,261	4,373	-	-
2021 - 2025	1,513	3,497	-	-
2026 - 2030	256	1,186	-	-
2031 - 2035	163	504	-	-
2036 - 2040	68	-	-	-
Thereafter	331	-	-	-
Minimum lease payments	$ 163,565	$ 52,875	$ 187	$ 28,036

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, 2005 for installment purchases (in thousands):

Fiscal Year	Governmental Activities
2006	$ 919
2007	538
2008	162
Total minimum future payments	1,619
Less: Interest	(48)
Present value of net minimum installment payments	$ 1,571

NOTE 13. RETIREMENT PLAN

The Wisconsin Retirement System (WRS) was established and is administered by the State of Wisconsin to provide pension benefits for State and local government public employees. The WRS consists of the fixed retirement investment trust, the variable retirement investment trust, and the police and firefighters trust. Although separated for accounting purposes, the assets of these trust funds can be used to pay benefits for any member of the WRS, and are reported as one pension plan.

The WRS is considered part of the State of Wisconsin's financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information for the year ending December 31, 2003, 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, 2004 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 for at least one year must be covered by the WRS. As of December 31, 2004, the number of participating employers was:

State Agencies	57
Cities	152
Counties	71
4th Class Cities	34
Villages	230
Towns	213
School Districts	426
Wisconsin Technical College System Board Districts	16
Cooperative Educational Service Agencies	12
Other	186
Total Employers	1,397

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

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

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

Accounting Policies and Plan Asset Matters

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

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

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

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

State Contributions Required and Contributions Made

Covered State employees in the General/Teacher category are required by statute to contribute 5.0 percent of their salary (2.8 percent for Executives and Elected Officials, 4.9 percent for Protective Occupations with Social Security, and 3.3 percent for Protective Occupations without Social Security) to the plan as of June 30, 2005. Employers may make these contributions to the plan on behalf of employees.

Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits; however, State legislation in 1999 prescribed a $200 million contribution holiday for employers for the first time in the plan's history. State contributions made for the years ended December 31, 2004, 2003, and 2002 were as follows (in millions):

	2004	2003	2002
Employer current service	$ 149.2	$ 140.4	$ 127.2
Percent of payroll	4.7%	4.5%	4.3%
Employer prior service	$ 2.0	$ 706.8	$ 38.3
Percent of payroll	0.1%	22.4%	1.3%
Employee required	$ 157.2	$ 154.1	$ 145.7
Percent of payroll	4.9%	4.9%	4.9%
Benefit adjustment contrib.	$ 16.8	$ 11.1	$ 5.3
Percent of payroll	0.5%	0.4%	0.2%
Percent of Required Contributions	100%	100%	100%

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

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

As of June 30, 2005 and 2004, the WRS’s unfunded actuarial accrued liability was $0.4 billion and $0.5 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 Fixed Retirement Investment Trust (FRIT) and the Variable Retirement Investment Trust (VRIT), funds of the Wisconsin Retirement System (WRS). Participation of the MRS in the FRIT and VRIT is described in the DETF Administrative Code, Chapter 10.12. The State of Wisconsin Investment Board (SWIB) manages the FRIT and VRIT with oversight by a Board of Trustees as authorized in Wis. Stat. 25.14 and 25.17. SWIB is not registered with the Securities and Exchange Commission as an investment company.

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

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

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

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

Copies of the separately issued financial report that includes financial statements along with the accompanying footnote disclosures and supplementary information for the FRIT 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 13,392 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. 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 9,240 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, 2004, determined through an actuarial valuation performed on that date, was $1,742.0 million. The program's assets on that date were $1,724.6 million. The unfunded liability was $17.4 million.

Assets of the life insurance and health insurance benefit programs are valued at fair value.

The State's postemployment life insurance required and actual contributions totaled $4.9 million during the calendar year ended December 31, 2004.

For that same time period, the State paid required and excess contributions totaling $64.8 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, 2004.

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 310 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 158 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 482 local employers plus the State currently participate. The plan is self-insured and risk is shared between the State and local portions of the plan.

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

B. Accounting Policies for Risk Pools

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

Valuation of Investments - Assets of the Health Insurance Fund are invested in the State Investment Fund. Assets of the Income Continuation Insurance, Duty Disability and Long-term Disability Insurance funds are invested in the fixed retirement investment trust. Investments are valued at fair value.

Unpaid Claims Liabilities - Claims liabilities are based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The estimate includes the effects of inflation and other societal and economic factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. Unpaid claims liability is presented at face value and is not discounted for health insurance. It is discounted using an interest rate of 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 twenty-three year period beginning January 1, 2000. Face values are not available.

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

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

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

Premium Setting - Premiums are established by the Group Insurance Board (Health, Income Continuation Insurance and Long-term Disability Insurance) and the Employee Trust Funds Board (Duty Disability) in consultation with actuaries.

C. Unpaid Claims Liabilities

As discussed in Section B of this Note, each fund establishes a liability for both reported and unreported insured events, which is an estimate of future payments of losses. The following represents changes in those aggregate liabilities for the nonreinsured portion of each fund during Calendar Year 2004 (in millions):

	Health Insurance		Income Continuation Insurance		Duty Disability		Long-term Disability Insurance		Pharmacy Benefits	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Unpaid claims at beginning of the calendar year	$ 8.3	$ 8.1	$56.9	$58.2	$339.2	$320.8	$54.0	$43.8	$ --	$ --
Incurred claims:										
Provision for insured events of the current calendar year	74.7	73.2	29.2	23.4	44.6	41.0	19.4	15.9	158.1	--
Changes in provision for insured events of prior calendar years	0.1	(1.1)	(12.5)	(13.2)	(13.0)	0.4	6.7	1.3	--	--
Total incurred claims	74.8	72.1	16.7	10.2	31.6	41.4	26.1	17.2	158.1	--
Payments:										
Claims and claim adjustment expenses attributable to insured events of the current calendar year	65.2	65.1	4.5	4.5	0.3	0.3	0.1	0.3	162.4	--
Claims and claim adjustment expenses attributable to insured events of prior calendar years	8.3	6.8	8.4	7.0	22.9	22.7	8.7	6.7	--	--
Total payments	73.5	71.9	12.9	11.5	23.2	23.0	8.8	7.0	162.4	--
Total unpaid claims expenses at end of the calendar year	$ 9.6	$ 8.3	$60.7	$56.9	$347.6	$339.2	$71.3	$54.0	$ (4.3)	$ 0.0

D. Trend Information

Historical trend information showing revenue and claims development information is presented in the Department of Employee Trust Funds audited financial statements. The separately issued financial report for the year ended December 31, 2003 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, 2004 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 2005, 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, 2005 are estimated to total $2.1 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 2005 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, 2005 are estimated to total $47.9 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, 2005 are estimated to total $61.4 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):

	2005	2004
Beginning of fiscal year liability	$ 110,856	$ 118,265
Current year claims and changes in estimates	25,307	14,819
Claim payments	(22,998)	(22,228)
Balance at fiscal year-end	$ 113,165	$ 110,856

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, 2005 is $4.2 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, 2005, the Local Government Property Insurance Fund insured 1,160 local governmental units. The total amount of insurance in force as of June 30, 2005 was $37.2 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, 2005, the fund had $36.3 million of shares in the State Investment Fund which are considered cash equivalents and $7.0 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 future benefits and loss liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Claims liabilities are recomputed periodically to produce current estimates that reflect recent settlements, claim frequency, and other economic factors. Adjustments to future benefits and loss liabilities are charged or credited to expense in the periods in which they are made.

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

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, 2005 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. Premium ceded to reinsurers during the fiscal year amounted to $4.5 million. Reinsurance loss and adjusting expense recoveries earned for the year amounted to $234 thousand.

Unpaid Claims Liabilities

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

	2005	2004
Unpaid claims and claim adjustment expenses at beginning of the year	$8,006	$12,178
Less: Reinsurance recoverable	(3,652)	(6,468)
Net unpaid loss liability at beginning of year	4,354	5,710
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	9,623	11,118
Increase (decrease) in provision for insured events of prior years	400	(595)
Total incurred claims and claim adjustment expenses	10,023	10,523
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	6,071	7,139
Claims and claim adjustment expenses attributable to insured events prior years	4,494	4,740
Total payments	10,565	11,879
Net unpaid claims and claim adjustment expenses at end of year	3,812	4,354
Reinsurance recoverable	265	3,652
Total unpaid claims and claim adjustment expenses	$4,077	$8,006

Trend Information

Historical trend information showing revenue and claims development information is presented in the Office of the Commissioner of Insurance June 30, 2005 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	$ 12,448	$ 8,524
1967-1976	36,973	15,989
1977-1985	82,803	21,417
1986-1994	54,609	6,910
1995+	36,101	3,230
	$ 222,934	$ 56,070

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, 2004 were $81.2 million and the statutory capital and surplus were $2.2 million, and the capital and surplus at June 30, 2005 was $13.8 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, 2005 as follows (in thousands):

Projected ultimate loss liability	$ 1,416,928
Less: Net loss paid from inception	(579,997)
Less: Liability for reported losses	(21,614)
Liability for incurred but not reported losses	$ 815,317

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, 2005 are estimated at 6.25 percent of the projected ultimate loss liabilities. The loss reserves are actuarially determined. The loss adjustment expenses paid from the inception of the Injured Patients and Families Compensation Fund are deducted from the projected ultimate loss adjustment expenses provision to determine the liability for loss adjustment expenses as of June 30, 2005 as follows (in thousands):

Projected ultimate loss adjustment expense liability	$ 88,558
Less: Loss adjustment expense paid from inception	(45,793)
Liability for loss adjustment expense	$ 42,765

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, 2005 (in thousands):

Estimated unpaid loss liabilities	$ 815,317
Estimated unpaid loss adjustment expense	42,765
Total estimated loss liabilities	858,082
Less: Amount representing interest	(160,984)
Discounted loss liabilities	$ 697,098

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 has been completed, concluded that the current estimate of the Fund's loss liability is reasonable but conservative.

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):

	2005	2004
Balance, beginning of year	$ 17,599	$ 15,547
Incurred related to:		
Current year	134,979	106,787
Prior years	(1,091)	(2,746)
Total Incurred	133,887	104,041
Paid related to:		
Current year	113,955	90,088
Prior years	15,491	11,901
Total Paid	129,446	101,989
Balance, end of year	$ 22,040	$ 17,599

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, 2004.

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, 2003 and December 31, 2004, are as follows (in thousands):

	2004	2003
Balance at January 1	$ 43,760	$ 51,680
Incurred related to:		
Current year	7,534	6,739
Prior years	(15,931)	(12,895)
Total Incurred	(8,397)	(6,156)
Paid related to:		
Current year	30	40
Prior years	1,432	1,724
Total paid	1,462	1,764
Balance at December 31	$ 33,901	$ 43,760

There is inherent uncertainty in medical malpractice claims when establishing the estimates of unpaid losses and unpaid loss adjustment expenses. In 2004 and 2003, 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, 2005 is presented below (in thousands):

Condensed Balance Sheet

Assets:		
Current Assets	$	79,849
Other Assets		747,120
Total Assets	$	826,969
Liabilities:		
Due to Other Funds	$	2,222
Other Current Liabilities (Including Current Portion of Long-term Debt)		48,023
Noncurrent Liabilities		608,435
Total Liabilities		658,679
Fund Equity:		
Restricted		168,290
Total Fund Equity		168,290
Total Liabilities and Fund Equity	$	826,969

Condensed Statement of Revenues, Expenses and Changes in Fund Equity

Operating Revenues (Expenses):		
Loan Interest	$	17,675
Interest Expense		(33,677)
Other Operating Expenses		(2,292)
Operating Income (Loss)		(18,294)
Nonoperating Revenues (Expenses):		
Investment Income		16,404
Change in Fund Equity		(1,890)
Beginning Fund Equity		170,180
Ending Fund Equity	$	168,290

Condensed Statement of Cash Flows

Net Cash Provided (Used) by :		
Operating Activities	$	(2,569)
Noncapital Financing Activities		(73,784)
Investing Activities		13,152
Net Increase (Decrease)		(63,201)
Beginning Cash and Cash Equivalents		145,692
Ending Cash and Cash Equivalents	$	82,491

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, 2004 or June 30, 2005 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	$ 2,685,215	$ 80,302	$ 240,374	$ 2,164,543	$ 5,203	$ 5,175,636
Due from Primary Governments	-	-	1,707	-	97	1,804
Cash and Investments with Other Component Units	-	-	215,067	-	-	215,067
Capital Assets, net	18,779	-	275,426	7,583	35,968	337,756
Total Assets	$ 2,703,994	$ 80,302	$ 732,574	$ 2,172,126	$ 41,267	5,730,263
Liabilities:						
Accounts Payable and Other Current Liabilities	$ 134,932	$ 37,177	$ 65,456	$ 20,168	$ 981	$ 258,714
Due to Primary Government	5	-	3,407	-	58	3,470
Amounts Held for Other Component Units	-	-	-	178,918	-	178,918
Long-term Liabilities (Current and Noncurrent portions)	2,154,807	33,901	337,794	12,696	40,876	2,580,074
Total Liabilities	2,289,744	71,079	406,657	211,782	41,915	3,021,176
Fund Equity:						
Invested in Capital Assets, Net of Related Debt	364	-	92,145	7,583	(4,427)	95,665
Restricted	405,797	9,223	24,936	1,840,754	-	2,280,710
Unrestricted	8,089	-	208,836	112,006	3,780	332,712
Total Fund Equity	414,250	9,223	325,917	1,960,344	(647)	2,709,087
Total Liabilities and Fund Equity	$ 2,703,994	$ 80,302	$ 732,574	$ 2,172,126	$ 41,267	$ 5,730,263
Condensed Statement of Revenues, Expenses and Changes in Fund Equity						
Program Expenses:						
Depreciation	$ 5,982	$ -	$ 27,555	$ 282	$ 1,027	$ 34,846
Payments to Primary Government	-	-	100	108,531	-	108,631
Other	248,582	8,989	613,137	28,742	4,392	903,842
Total Program Expenses:	254,564	8,989	640,792	137,555	5,419	1,047,319
Program Revenues:						
Charges for Goods and Services	3,850	3,480	664,148	-	3,507	674,985
Investment and Interest Income	113,321	5,142	-	171,124	-	289,587
Operating Grants and Contributions	133,267	-	779	591,602	-	725,648
Capital Grants and Contributions	-	-	13,056	-	-	13,056
Other	10,383	45	9,469	153	213	20,263
Total Program Revenues	260,821	8,667	687,452	762,879	3,719	1,723,539
Net Program Revenue/(Expense)	6,257	(321)	46,660	625,324	(1,700)	676,220
General Revenues:						
Interest and Investment Earnings	18,448	-	12,108	-	-	30,556
Change in Fund Equity	24,705	(321)	58,768	625,324	(1,700)	706,776
Fund Equity, Beginning of Year	389,545	9,544	267,149	1,335,019	1,053	2,002,311
Fund Equity, End of Year	$ 414,250	$ 9,223	$ 325,917	$ 1,960,344	$ (647)	$ 2,709,087

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 2004 Comprehensive Annual Financial Report to the beginning-of-year fund balances/fund equity/net assets reported for Fiscal Year 2005 (in thousands):

A. Fund Statements – Governmental Funds

	Major Funds			
	General	Transportation	Nonmajor Funds	Total Governmental
Fund Balances June 30, 2004 as reported in the 2004 Comprehensive Annual Financial Report	$ (1,931,108)	$ 348,006	$ 841,810	$ (741,292)
Unclaimed Property Fund reclassified from Private Purpose Trust Fund	49,734	-	-	49,734
Change in the State's income tax revenue accounting methodology	(27,390)	-	-	(27,390)
Transportation Fund's freight rail loan balances reported	-	27,441	-	27,441
Other adjustments of assets and liabilities as of June 30, 2004	9,637	-	4,916	14,553
Fund Balances July 1, 2004 as restated	$ (1,899,127)	$ 375,447	$ 846,726	$ (676,954)
Effect of prior period adjustments on the amount of excess revenues and other sources over expenditures and other uses of Fiscal Year 2004	$ (17,753)	$ 1,443	$ 4,941	$ (11,369)

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, 2004 as reported in the 2004 Comprehensive Annual Financial Report	$ 24,616	$ 1,109,876	$ 3,556,522	$ 971,022	$ 494,699	$ 6,156,736	$ 18,038
University of Wisconsin System change in deferred revenue	-	-	(12,100)	-	-	(12,100)	-
Other adjustments of assets and liabilities as of June 30, 2004	-	-	(1,800)	-	(712)	(2,512)	881
Fund Equity July 1, 2004 as restated	$ 24,616	$ 1,109,876	$ 3,542,622	$ 971,022	$ 493,987	$ 6,142,123	$ 18,918
Effect of prior period adjustments on the amount of net change in fund equity of Fiscal Year 2004	$ -	$ -	$ (13,900)	$ -	$ (320)	$ (14,220)	$ 345

The Veterans Mortgage Loan Repayment Fund, considered a major fund in Fiscal Year 2004, is included in nonmajor funds in Fiscal Year 2005. At June 30, 2004, the total fund equity of this fund was $56.0 million.

C. Fund Statements – Fiduciary Funds

	Pension and Other Employee Benefit Trust	Investment Trust	Private Purpose Trust	Total Fiduciary
Net Assets June 30, 2004 as reported in the 2004 Comprehensive Annual Financial Report	$ 64,514,436	$ 3,201,010	$ 1,268,198	$ 68,983,644
Fund structure reclassifications/re-evaluations based on further analysis:				
Deferred Compensation program excluded from the reporting entity resulting from the re-evaluation of the State's relationship with the program based on the application of GASB Statement No. 32, *Accounting and Financial Reporting of Internal Revenue Code Section 457 Deferred Compensation Plans*	(1,432,380)	-	-	(1,432,380)
Unclaimed Property reclassified to General Fund	-	-	(65,413)	(65,413)
Net Assets July 1, 2004 as restated	$ 63,082,056	$ 3,201,010	$ 1,202,785	$ 67,485,851
Effect of prior period adjustments on the amount of net increase in net assets of Fiscal Year 2004	$ -	$ -	$ -	$ -

D. Government-wide Statements

	Primary Government			
	Governmental Activities	Business-type Activities	Totals	Component Units
Net Assets June 30, 2004 as reported in the 2004 Comprehensive Annual Financial Report	$ 4,691,753	$ 6,162,158	$ 10,853,911	$ 1,995,259
Unclaimed Property Fund reclassified from Private Purpose Trust Fund	49,734	-	49,734	-
Change in the State's income tax revenue accounting methodology	(27,390)	-	(27,390)	-
Transportation Fund's freight rail loan balances reported	27,441	-	27,441	-
Transportation Fund's additional capital assets reported	35,545	-	35,545	-
University of Wisconsin System change to deferred revenue	-	(12,100)	(12,100)	-
Other adjustments of assets and liabilities of June 30, 2004	13,515	(2,512)	11,003	7,052
Net Assets July 1, 2004 as restated	$ 4,790,597	$ 6,147,546	$ 10,938,143	$ 2,002,311
Effect of prior period adjustments on the amount of net increase in net assets of Fiscal Year 2004	$ (13,941)	$ (14,220)	$ (28,161)	$ -

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 $12.2 million on June 30, 2005 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 $0.1 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, 2005.

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 $10.7 million is reported at June 30, 2005.

Other Claims, Judgments, and Contingencies

The State is also named as a party in other legal proceedings where the ultimate disposition and consequence are not presently determinable. The potential liability amount relating to an unfavorable outcome for certain of these proceedings could impact the State by approximately $13.7 million. However, the ultimate dispositions and consequences of any single legal proceeding or all legal proceedings collectively should not have a material adverse effect on the State's financial position, except as noted below.

Corporate Tax Measured by Interest from U.S. Securities - In this corporate franchise tax case, American Family Mutual Insurance Company and American Standard Insurance Company sought refunds of taxes paid that were measured by U.S. interest.

Federal law prohibits an income tax on U.S. interest, but allows a non-discriminatory franchise tax measured on U.S. interest. The insurance companies argued that because bonds authorized by the State for housing and development were exempt from State taxes, that the franchise tax was discriminatory. The State had heretofore held that the exemption applied only to direct State taxes and had uniformly included interest on the State authorized bonds in the franchise tax measure. The Wisconsin Tax Appeals Commission and the County Circuit Court upheld the State.

The Court of Appeals, District IV, reversed the decisions. The Supreme Court reversed the Court of Appeals. The taxpayers maintain that the decision is not applicable to 1993 and 1994. The State maintains the principles of the decision are applicable to the subsequent years.

Due to the uncertainty in predicting the outcome, a liability has not been recorded as of June 30, 2005.

Federal Pension Income – The 1984-1988 period settlements with approximately 3,200 military retirees and 14,000 civilian retirees, triggered by the United States Supreme Court ruling in Davis v. Michigan Department of the Treasury are essentially completed. The Davis case had held that a state government violates the intergovernmental tax immunity clause when it provided for taxation of federal pension benefits. Subsequent litigation with other retirees on a variety of issues has occurred, with the Department prevailing in all instances. Litigation is still in progress on a limited number of issues. The Department of Revenue is confident that it will continue to prevail on this issue. Because a fiscal impact cannot be readily determined if the State were not to prevail, and due to the uncertainty in predicting the outcome, a liability has not been recorded.

Environmental Clean-up Actions - The State is involved in environmental clean-up of property owned by the State that has the potential to cause soil and groundwater contamination. Six 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 six properties that do not involve releases from underground storage tanks, with an estimated cost of $2.8 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, 2005 reported as Fund Balance - Reserved for Encumbrances, additional obligations at June 30, 2005 representing multi-year, long-term commitments included (in thousands):

Transportation Fund	$ 299,437
Transportation Revenue Bonds Capital Projects Fund	37,233
General Fund – Department of Commerce programs, including economic and community development programs	29,632

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 $147.9 million as of June 30, 2005. These loan commitments are expected to be met through additional federal grants and proceeds from issuance of revenue obligations.

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

The *Injured Patients and Families Compensation Fund* may be required to purchase an annuity as a result of a claim settlement. Under specific annuity arrangements, the fund may have ultimate responsibility for annuity payments if the annuity company and the reassignment company default on annuity payments. One of the fund's annuity providers has defaulted on $600 thousand in annuity payments. The total estimated replacement value of the fund's annuities as of June 30, 2005 was $145.7 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, 2005, the appropriation available totaled $33.5 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 $2.5 million as of June 30, 2005. The loan commitments are expected to be met from current fund assets.

In February 2005, the State entered into an agreement to issue $96.8 million of general obligation refunding bonds (2006 Series 1) on January 31, 2006, the proceeds will be used to current refund on May 1, 2006 various outstanding general obligation bonds in the principal amount of $102.0 million.

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, 2005, outstanding loan guarantees totaled $39.9 million.

NOTE 23. SUBSEQUENT EVENTS

Primary Government

Short-term Debt

In December 2005, the State sold $100.4 million of 2005 Series A general obligation commercial paper notes. The proceeds are to be used to acquire, construct, develop, extend, enlarge, or improve land, waters, property, highways, buildings, equipment, or facilities. The notes will mature no later than 270 days from the date of issuance.

Long-term Debt

State of Wisconsin General Obligation Bonds – In August 2005, the State issued $186.6 million of 2005 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. Interest is payable on May 1 and November 1, beginning May 1, 2006, with bonds maturing May 1 of the years 2007 through 2025.

In December 2005, the State issued $48.3 million of 2005 Series E general obligation bonds to be used to fund outstanding general obligation commercial paper notes. Interest is payable on May 1 and November 1, beginning May 1, 2006, with bonds maturing May 1 of the years 2007 through 2011.

Revenue Bonds – On June 1, 2005, Badger Tobacco Asset Securitization Corporation (BTASC) redeemed $28.5 million of the 6.125 percent term bonds due June 1, 2027. Pursuant to the indenture, the bonds were redeemed with collections that had been deposited into the Turbo Redemption Account. Subject to conditions outlined in the indenture, turbo term bonds shall be redeemed in whole or in part prior to their stated maturity and on any distribution date from amounts on deposit in the Redemption Account.

In September 2005, the State issued 2005 Series B Transportation Revenue Bonds in the amount of $158.4 million. Interest rates are fixed and range from 4.0 percent to 5.0 percent depending on the maturity, interest is payable semiannually. The bonds are due in various maturities beginning in 2007, with final maturity in 2025. The bond proceeds are being used to finance certain State highway projects and to pay for costs of issuance.

Future Benefits and Loss Liabilities

In July 2005, the State of Wisconsin Supreme Court issued a decision that the current caps on non-economic damages awarded to claims brought by medical malpractice victims is unconstitutional. As a result of this Wisconsin Supreme Court decision, the Injured Patients and Families Compensation Fund's actuary has determined that the future benefits and loss liabilities of this Fund would increase approximately $140.0 million, thereby decreasing this Fund's surplus to a negative balance.

Component Units

Wisconsin Housing and Economic Development Authority – In September 2005, the Authority issued $148.5 of variable rate demand home ownership revenue bonds, 2005 D & E. The bonds issued under the 1987 Home Ownership Revenue Bond Resolution, are general obligations of the Authority. Bonds issued under the general resolution are rated AA2 by Moody's Investor Services and AA by Standard & Poor's. The Series D & E bonds are rated VMIg1 by Moody's Investor Service and A1+ by Standard and Poor's.

In July 2005, the Authority redeemed the following bonds (in thousands):

Program/Bond Resolution	Amount Redeemed
Home Ownership Revenue Bonds, 1999 Series F, G, H & I	$ 2,120
Home Ownership Revenue Bonds, 1994 Series C & D	670
Home Ownership Revenue Bonds, 1998 Series F & G	1,165
Single Family Drawdown Revenue Bonds, 2003 Series1	30,000

In August 2005, the Authority redeemed the following bonds (in thousands):

Program/Bond Resolution	Amount Redeemed
Housing Revenue Bonds, 1998 Series A, B &C	$ 660

In addition, the Authority retired early the following bonds (in thousands):

Program/Bond Resolution	Amount Retired
Home Ownership Revenue Bond Resolutions:	
1987	$ 18.2
1988	24.0
All Other	4.0
Single Family Drawdown Revenue Bonds	6.8
Business Development Bonds (various)	.1

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)
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)
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/ (Unfavorable)
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)
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, 2005

(In Thousands)

	Original Budget	Final Budget	Actual Amounts
Unexpended Budgetary Fund Balances,			
Beginning of Year			$ 726,398
Prior Period Adjustment			(27,389)
Restated Unexpended Budgetary Fund Balances,			
Beginning of Year			699,009
Revenues and Transfers (Inflows):			
Taxes	$ 11,208,985	$ 11,339,895	11,416,445
Departmental:			
Tribal Gaming	80,595	48,651	3,806
Other	9,857,243 (A)	9,857,773 (A)	9,771,349
Transfers from:			
Transportation Fund	(A)	(A)	78,901
Injured Patients and Families Compensation Fund	(A)	(A)	2
Nonmajor Funds	(A)	(A)	11,839
Total Revenues and Transfers (Inflows)	21,146,823	21,246,319	21,282,342
Amounts Available for Appropriation			21,981,351
Appropriations (Outflows):			
Commerce	340,358	411,338	256,011
Education	9,531,512	10,001,321	9,604,702
Environmental Resources	262,714	259,766	232,042
Human Relations and Resources	8,753,100	9,594,427	8,980,293
General Executive	691,731	765,177	616,098
Judicial	111,010	115,461	114,249
Legislative	62,480	58,275	58,235
Tax Relief and Other General	1,658,763	1,669,137	1,654,704
Transfers to:			
Nonmajor Funds	-	126,746	71,825
Total Appropriations (Outflows)	$ 21,411,667	$ 23,001,647	21,588,160
Fund Balances, End of Year			393,191
Less Encumbrances Outstanding at June 30, 2005			(519,678)
Fund Balances, End of Year			
Budgetary Basis			$ (126,487)

Reconciliation of the End of Year,	
Budgetary Basis, Fund Balance to the Detail	
Reported in the Annual Fiscal Report:	
General Purpose:	
Designated	$ 5,186
Undesignated	4,111
Total General Purpose	9,297
Program Revenue	(135,784)
Fund Balances, End of Year	
Budgetary Basis	$ (126,487)

(A) Interfund transfers to the General Fund were budgeted under departmental revenue during Fiscal Year 2005.

Budgetary Comparison Schedule
Transportation Fund
For the Fiscal Year Ended June 30, 2005

(In Thousands)

	Original Budget	Final Budget	Actual Amounts
Unexpended Budgetary Fund Balances, Beginning of Year			$ 373,591
Revenues (Inflows):			
Taxes	$ 982,690	$ 982,690	982,690
Departmental	1,357,027	1,357,027	1,357,027
Total Revenues (Inflows)	2,339,717	2,339,717	2,339,717
Amounts Available for Appropriation			2,713,307
Appropriations and Transfers (Outflows):			
Commerce	91	99	92
Education	60,000	60,000	60,000
Environmental Resources	3,082,878	3,345,653	2,031,629
General Executive	3,476	3,490	2,100
Tax Relief and Other General	189,750	189,619	190,418
Transfers to:			
General Fund	78,901	78,901	78,901
Total Appropriations and Transfers (Outflows)	$ 3,415,097	$ 3,677,761	2,363,139
Fund Balances, End of Year			350,169
Less Encumbrances Outstanding at June 30, 2005			(1,064,482)
Fund Balances, End of Year Budgetary Basis			$ (714,314)

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, 2005 is presented below (in thousands):

	General Fund	Transportation Fund
Fund balance June 30, 2005 (budgetary basis – budgetary fund structure):		
General Purpose Revenue – fund balance per budgetary basis *Annual Fiscal Report*		
Undesignated fund balance	$ 4,111	
Designated fund balance	5,186	
Total General Purpose Revenue fund balance	9,297	
Program Revenue – fund balance per budgetary basis *Annual Fiscal Report*	(135,784)	
Fund balance June 30, 2005 (budgetary basis – budgetary fund structure) As reported on the budgetary comparison schedule	(126,487)	$ (714,314)
Reclassifications:		
To eliminate the effect of encumbrances that were reported as expenditures under budgetary reporting (basis difference)	519,678	1,064,482
To reclassify activities reported in another GAAP fund type (perspective differences):		
Enterprise funds (except for the University of Wisconsin System)	29,456	--
University of Wisconsin System	(270,899)	--
Internal service funds	(17,916)	--
Fiduciary funds	(18,061)	--
Transportation Revenue Bonds debt service fund	--	4,865
Fund balance June 30, 2005 (GAAP fund structure – budgetary basis, excluding encumbrances treated as expenditures at year end)	115,771	355,034
Adjustments (basis differences):		
To adjust expenditures for the municipal and county shared revenue program	(453,945)	--
To adjust expenditures for State property tax credit program	(355,609)	--
To accrue receivables and establish payables for individual income taxes (net)	(716,050)	--
To defer revenues for gross receipts public utility taxes	(168,873)	--
To adjust revenues and expenditures for tax-related items and other tax credit/aid programs (net)	(309,687)	(2,559)
To accrue unpaid Medicaid payments to providers (net of receivable from federal government)	(171,466)	--
To accrue State educational aids payments deferred until the subsequent year	(75,000)	--
To adjust revenues and expenditures for other items (net)	12,624	41,111
Fund balance June 30, 2005 (GAAP fund structure – GAAP basis) as reported on the governmental fund statements	$(2,122,235)	$ 393,586

B. Budgetary Basis of Accounting

The State's biennial budget is prepared using a modified cash basis of accounting. The final budget is primarily a general purpose revenue and expenditure budget. General purpose revenues consist of general taxes and miscellaneous receipts which are paid into the General Fund, lose their identity, and are then available for appropriation by the Legislature. The remaining revenues consist of program revenues, which are credited by law to an appropriation to finance a specified program or State agency, and segregated revenues which are paid into separate identifiable funds.

While State departments and agencies are required to submit estimates of expected revenues for program revenue and segregated revenue categories, these estimates are not formally incorporated into the adopted budget except for revenue estimates of the Lottery Fund. As a result, legally budgeted revenues for these categories are not available and, consequently, actual amounts are reported in the budget column of the Budgetary Comparison Schedules.

Expenditure budgeting differs for the various types of appropriations. For most appropriations, budgeted expenditures equal the amount from the adopted budget plus any subsequent legislative or administrative revisions. Various supplemental appropriations were approved during the year and have been incorporated into the budget figures.

While State statutes prohibit spending beyond budgetary authority, a provision is made to include the value of accounts receivable, inventories and work in process in identifying available revenues. The State also utilizes nonbudget accounts for which no budget is established but expenditures may be incurred. As a result, actual expenditures may exceed budgeted amounts in certain categories.

The budgetary basis of accounting required by State law differs materially from the basis used to report revenues and expenditures in accordance with GAAP. Other variances arise because the State's biennial budget is developed according to the statutory required fund structure which differs extensively from the fund structure used in the GAAP basis financial statements. This difference is primarily caused by the elimination of the University of Wisconsin System, and various fiduciary, proprietary and other governmental fund activity from the statutory General and Transportation funds. Consequently, a reconciliation between budgetary basis and GAAP basis is provided in Note 1-A of the notes to the required supplementary information.

The Budgetary Comparison Schedules for the General and the Transportation Fund present both the original and final appropriated budgets, as well as the actual inflows, outflows, and fund balance on the budgetary basis. The supplementary budget comparison schedule provides this same information (with the exception of the original budget data) for the nonmajor governmental funds with annual budgets. The capital project and debt service funds are excluded from this schedule because no comprehensive budget is approved for these funds. A special revenue fund, the Wisconsin Public Broadcasting Foundation, has also been excluded from reporting because it is a blended component unit that is neither budgeted nor included under statutory reporting. Of the permanent funds, only the Historical Society Fund and a portion of the Common School Fund are budgeted.

The State's biennial budget was passed in July 2003. This legislation, with modification for spending authority carried over from the first year of the biennium, 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.


FORWARD