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)

State of Wisconsin

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

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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

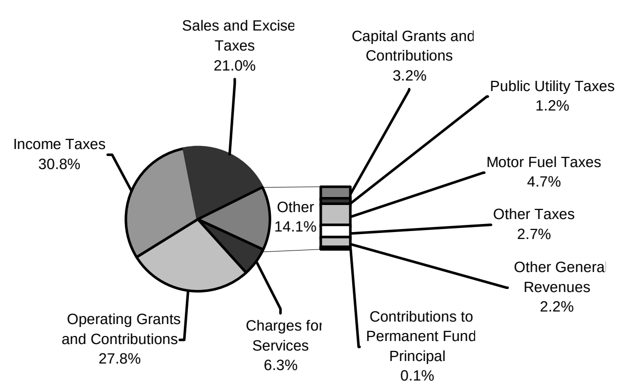
The net assets of governmental activities increased $0.3 billion in Fiscal Year 2005. Revenues for the governmental activities (including Contributions to Permanent Fund Principal) totaled $21.0 billion, while expenses and net transfers totaled $20.7 billion in 2005.

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.

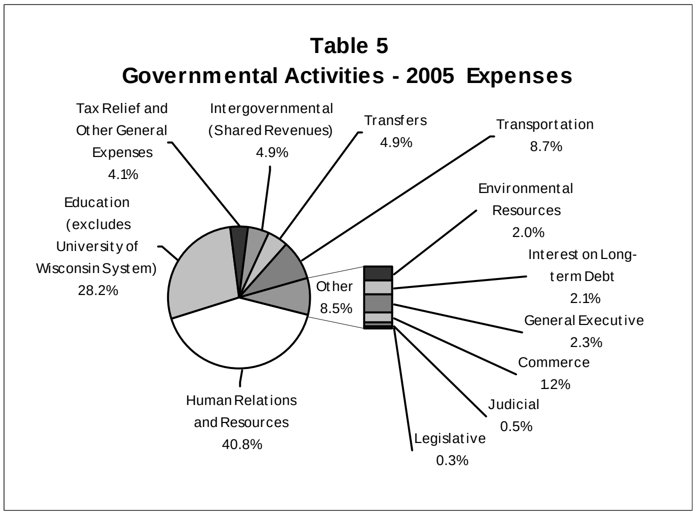
The State's governmental activities program expenses decreased $213.0 million during Fiscal Year 2005. The most significant factor in this decrease related to the one-time employee benefit liability expense of $782.4 million made in Fiscal Year 2004. Partially offsetting this decrease was the increase 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



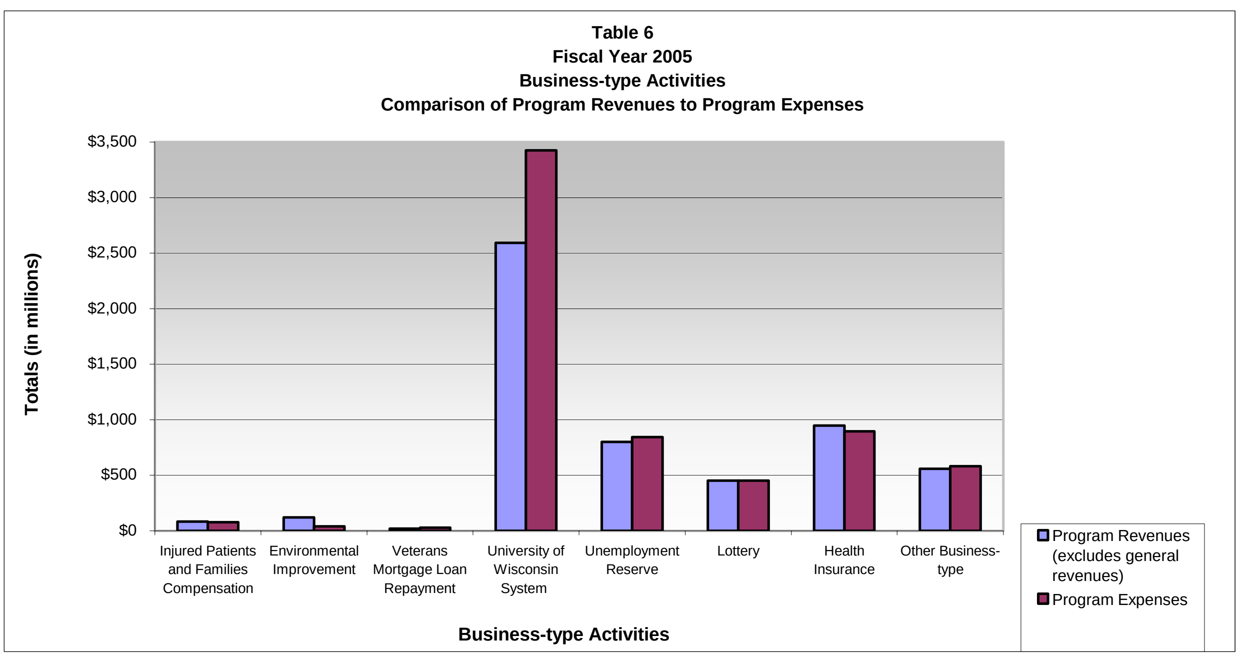
As shown in Table 5, below, expenses for Human Relations and Resources programs make up the largest portion – 40.8 percent – of total governmental expenses and transfers. Included in this function are various programs such as Medical Assistance, the prison system, and the temporary assistance for needy 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.

* * * *

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

State of Wisconsin

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			
Unemployment Reserve	**Nonmajor Enterprise**	**Totals**	**Governmental 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

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

State of Wisconsin

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)

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.

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Detailed Disclosures Regarding Liabilities and Expenses/Expenditures

Other Note Disclosures

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

B. Financial Reporting Entity

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

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

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

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

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

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

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

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

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

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

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

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

Blended Component Units

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

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

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

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

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

Discrete Component Units

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

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

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

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

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

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

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

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

Related Organizations

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

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

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

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

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

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

C. Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

The State reports the following major funds:

Major Governmental Funds

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

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

Major Enterprise Funds

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

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

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

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

In addition, the State reports the following fund types:

Governmental Funds

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

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

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

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

Proprietary Funds

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

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

Fiduciary Funds

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

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

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

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

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

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

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

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

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

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

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):

	Taxes	Loans to Local Governments	Other Loans Receivable				Other Receivables	Due From Other Governments	Due From Component Units	Total Receivables
			Student Loans	Veterans Loans	Mortgage Loans	Other Loans				
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		
Commerce	$	1,574
Education		2,989
Transportation		9,186
Environmental Resources		8,491
Human Relations and Resources		45,588
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

Business-type Activities		
University of Wisconsin System	$	147,926
Lottery		56
Veterans Mortgage Loan Repayment		34
Other Business-Type		10,822
Total depreciation expense - business-type activities	$	158,838

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

(Continued)

Series/ Issue	Date	Rates	Maturity Through	Outstanding
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

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