STATE OF WISCONSIN
CONTINUING DISCLOSURE
ANNUAL REPORT

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

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

MASTER LEASE CERTIFICATES OF PARTICIPATION
(Base CUSIP 977087)

TRANSPORTATION REVENUE OBLIGATIONS
(Base CUSIP 977123)

CLEAN WATER REVENUE BONDS
(Base CUSIP 977092)

PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS
(Base CUSIP 977109)

GENERAL FUND ANNUAL APPROPRIATION BONDS
(Base CUSIP 977100)

DECEMBER 22, 2006

JIM DOYLE
GOVERNOR

STEPHEN E. BABLITCH
SECRETARY

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

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WISCONSIN DEPARTMENT OF ADMINISTRATION

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CAPITAL FINANCE DIRECTOR
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December 22, 2006

Thank you for your interest in the State of Wisconsin.

This is the Continuing Disclosure Annual Report for the fiscal year ending June 30, 2006 (**Annual Report**).

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

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

Organization of the Annual Report

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

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

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

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

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

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

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

Security	Fitch Ratings	Moody's Investors Service, Inc.	Standard & Poor's Ratings Services
General Obligations	AA-	Aa3	AA–
Master Lease Certificates of Participation	A+	A1	A+
Transportation Revenue Bonds	AA	Aa3	AA+(1)
Clean Water Revenue Bonds	AA+	Aa1(2)	AA+
Petroleum Inspection Fee Revenue Bonds	AA–	Aa3	AA(3)
General Fund Annual Appropriation Bonds	A+	A1	A+

(1) On September 26, 2006, Standard & Poor's Ratings Services upgraded the rating on the State's transportation revenue bonds from "AA–" to "AA+"

(2) On October 11, 2006, Moody's Investors Service, Inc. upgraded the rating on the State's clean water revenue bonds from "Aa2" to "Aa1".

(3) On October 5, 2006, Standard & Poor's Ratings Services upgraded the rating on the State's petroleum inspection fee revenue bonds from "AA–" to "AA"

How to Get Additional Information

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

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

www.doa.wi.gov/capitalfinance

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

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

Sincerely,

Frank R. Hoadley
Capital Finance Director

SUMMARY OF OUTSTANDING STATE OF WISCONSIN OBLIGATIONS AS OF DECEMBER 1, 2006

	Principal Balance 12/15/2005	Principal Issued 12/15/2005 – 12/1/06	Principal Matured, Redeemed, or Defeased 12/15/2005 – 12/1/06	Principal Balance 12/1/2006
GENERAL OBLIGATIONS[a]				
Total	**$5,092,347,689**	**$1,176,515,915**	**$571,554,915**	**$5,697,308,689**
General Purpose Revenue (GPR)	3,856,325,018	660,761,902	436,568,078	4,080,518,842
Self-Amortizing: Veterans	333,815,000	132,890,000	86,485,000	380,220,000
Self-Amortizing: Other	902,207,671	382,864,013	48,501,837	1,236,569,846

	Principal Balance 12/15/2005	Principal Issued 12/15/2005 – 12/1/06	Principal Matured, Redeemed, or Defeased 12/15/2005 – 12/1/06	Principal Balance 12/1/2006
MASTER LEASE CERTIFICATES OF PARTICIPATION				
Total	**$ 75,184,609**	**$98,957,047**	**$89,924,883**	**$84,216,773**
TRANSPORTATION REVENUE OBLIGATIONS[a]				
Total	**$1,524,168,000**	**$91,290,000**	**$78,065,000**	**$1,537,393,000**
CLEAN WATER REVENUE BONDS				
Total	**$ 641,435,000**	**$180,000,000**	**$44,775,000**	**$776,660,000**
PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS[a]				
Total	**$ 300,250,000**	**—**	**$27,660,000**	**$272,590,000**
TAXABLE GENERAL FUND ANNUAL APPROPRIATION BONDS[a]				
Total	**$1,794,850,000**	**—**	**—**	**$1,794,850,000**

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

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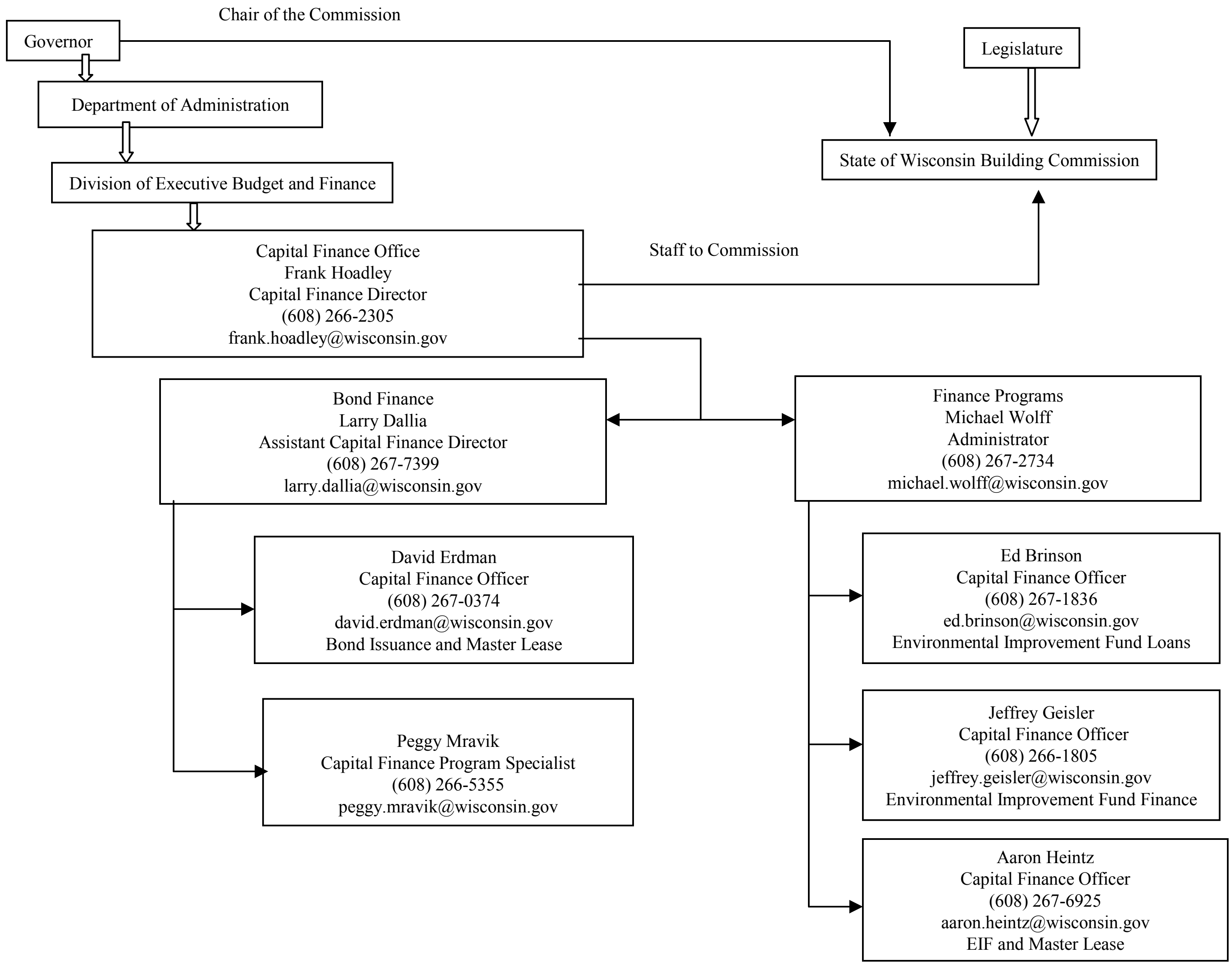
Capital Finance Office Staff (December 22, 2006)



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

BUILDING COMMISSION MEMBERS
(AS OF DECEMBER 22, 2006)

Voting Members	Term of Office Expires
Governor Jim Doyle, Chairperson	December 31, 2006
Senator Fred A. Risser, Vice-Chairperson	January 5, 2009
Senator Carol Roessler	January 5, 2009
Senator David Zien	January 2, 2007
Representative Jeff Fitzgerald	January 2, 2007
Representative Jennifer Shilling	January 2, 2007
Representative Debi Towns	January 2, 2007
Mr. Terry McGuire, Citizen Member	At the pleasure of the Governor
Nonvoting, Advisory Members	
Mr. Adel Tabrizi, State Chief Engineer Department of Administration	——
Mr. Dave Haley, State Chief Architect Department of Administration	——
Building Commission Secretary	
Mr. Robert G. Cramer, Administrator Division of State Facilities Department of Administration	At the pleasure of the Building Commission and the Secretary of Administration

OTHER PARTICIPANTS

Ms. Peggy A. Lautenschlager State Attorney General	December 31, 2006
Mr. J.B. Van Hollen State Attorney General-Elect	
Mr. Stephen E. Bablitch, Secretary Department of Administration	Resigning Effective December 31, 2006
Mr. Michael L. Morgan, Secretary-Designee Department of Administration	At the pleasure of the Governor

DEBT MANAGEMENT AND DISCLOSURE

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PART II

GENERAL INFORMATION ABOUT THE STATE OF WISCONSIN

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

- Revenues
- Expenditures
- Accounting and Financial Reporting
- Budgeting Process and Fiscal Controls
- Results of 2005-06 Fiscal Year
- State Budget
- General Fund Information
- State Government Organization
- State Obligations
- Statistical Information

APPENDIX A to this part of the Annual Report includes the audited general purpose external financial statements for the fiscal year ending June 30, 2006 and the independent auditor's report that is provided by the State Auditor.

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

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

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

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

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

REVENUES

Revenue Structure

The State raises revenues from diverse sources:

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

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

Tax Structure

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

Individual Income Tax

The tax brackets and rates for the 2006 and 2007 tax years are as follows. The taxable income brackets have been indexed for changes in the consumer price index.

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

2007 Taxable Income Brackets		**2007 Marginal Tax Rate**
Single	**Married Filing Jointly[a]**	
$0 to 9,510	$0 to 12,680	4.60%
9,510 to 19,020	12,680 to 25,360	6.15
19,020 to 142,650	25,360 to 190,210	6.50
142,650+	190,210+	6.75

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

General Sales and Use Tax

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

Corporate Income and Franchise Taxes

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

Table II-1

REVENUES (ALL SOURCES)[a]

2001-02 TO 2005-06

	2005-06	2004-05	2003-04	2002-03	2001-02
State Collected Taxes					
Individual Income	$ 6,144,298,451	$ 5,650,109,424	$ 5,277,119,228	$ 5,051,996,958	$ 4,979,661,843
General Sales and Use	4,127,584,502	4,038,715,364	3,899,263,728	3,737,912,069	3,695,795,708
Corporate Franchise and Income	780,320,708	764,053,392	650,526,145	526,544,586	503,007,920
Public Utility	275,104,369	254,437,679	269,805,198	276,794,706	252,297,980
Excise	368,693,206	359,443,539	355,495,288	354,759,924	348,282,067
Inheritance and Gift	108,570,770	112,345,511	86,357,310	68,702,274	82,634,627
Insurance Companies	134,665,536	129,838,587	123,620,317	114,896,687	96,055,400
Motor Fuel	1,045,437,021	1,042,150,611	1,027,167,794	996,166,648	954,147,642
Forest	84,001,009	81,739,715	76,799,830	70,922,998	65,885,102
Miscellaneous	159,449,623	147,891,451	147,861,289	124,423,116	113,979,522
Subtotal	13,228,125,195	12,580,725,273	11,914,016,127	11,323,119,967	11,091,747,811
Federal Aid					
Medical Assistance	2,885,996,975	2,841,262,571	2,966,509,479	2,876,517,126	2,663,987,093
AFDC/W2	411,227,833	448,154,411	424,401,099	477,330,616	490,161,681
Transportation	773,152,018	755,659,339	740,140,823	726,594,153	769,221,794
Education	1,574,934,049	1,503,395,791	1,452,793,378	1,316,197,365	1,120,807,676
Other	1,535,906,709	1,642,411,725	1,718,620,059	2,121,671,098	2,158,980,902
Subtotal	7,181,217,584	7,190,883,836	7,302,464,838	7,518,310,358	7,203,159,146
Fees					
University of Wisconsin System[b]	1,040,358,601	960,481,330	880,582,998	775,395,525	84,006,675
Other	427,060,300	427,786,023	385,584,864	377,001,995	356,048,754
Subtotal	1,467,418,901	1,388,267,353	1,266,167,862	1,152,397,520	440,055,429
Licenses and Permits					
Vehicles and Drivers	358,350,142	352,220,463	353,943,546	319,449,151	340,205,268
Hunting and Fishing	101,375,980	95,320,908	92,307,370	81,846,434	81,747,187
Other	561,072,535	527,761,924	522,960,045	444,479,156	383,584,407
Subtotal	1,020,798,657	975,303,294	969,210,960	845,774,742	805,536,862
Miscellany					
Service Charges	846,656,031	679,698,283	756,319,038	711,017,199	625,265,992
Sales of Products	799,739,375	735,620,836	761,904,361	723,916,809	682,332,141
Investment Income	8,542,093,790	7,173,240,239	9,696,272,520	2,038,503,724	(3,541,516,552)
Gifts and Grants	384,897,037	375,899,897	341,902,613	343,153,253	337,321,976
Employee Benefit Contributions [b]	2,672,969,933	2,063,105,741	2,980,854,560	2,038,154,899	1,768,712,369
General Obligation Proceeds [c]	1,197,760,905	734,440,646	2,706,057,989	646,000,534	785,363,834
Other Revenues	1,779,638,241	2,293,743,096	2,043,259,818	3,002,651,240	5,265,115,871
Subtotal	16,223,755,312	14,055,748,739	19,286,570,899	9,503,397,656	5,922,595,630
Summary					
TOTAL NET REVENUE	39,121,315,649	36,190,928,494	40,738,430,686	30,343,000,242	25,463,094,878
Transfers	812,004,157	828,212,783	847,006,075	939,405,913	1,307,219,152
Gross Revenue	$ 39,933,319,806	$ 37,019,141,277	$ 41,585,436,761	$ 31,282,406,156	$ 26,770,314,030

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

[b] Figures include all State and non-State employer and employee contributions. State contributions for State employees totaled $1,406,452,694 for 2005-06, $823,519,064 for 2004-2005, $1,727,453,192 for 2003-04, $975,778,983 for 2002-03, and $824,268,843 for 2001-02.

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

Source: Wisconsin Department of Administration.

Public Utility Taxes

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

The gross receipts tax is 3.19% for electric cooperatives and municipal power companies. Private light, heat, and power companies pay a gross receipts license fee at the rates of 0.97% of revenues from gas services, 3.19% of revenues from electric services, and 1.59% of revenues from wholesale electric. Each year's fee is based on revenues collected in the previous year. Revenue received from utilities is deposited to the General Fund; however, revenue from railroads and airlines is deposited in the segregated Transportation Fund. Car line companies, which are businesses that furnish or lease car line equipment to a railroad but do not operate a railroad, are subject to a tax at a rate equal to the State average net tax rate on property, which is deposited into the Transportation Fund.

Excise Taxes

Cigarettes are taxed at the rate of 77 cents per pack of 20. Tobacco products, other than cigarettes, are taxed at the rate of 25% of the manufacturer's list price. The cigarette and tobacco products taxes are collected from distributors and subjobbers. Wine is taxed at 25 cents or 45 cents per gallon (or 6 cents or 11 cents per liter), depending on its alcohol content. Liquor is taxed at $3.25 per gallon (or $0.86 per liter). The wine and liquor tax is collected from wholesalers. Beer is taxed at the rate of $2 per barrel, and the tax is paid monthly by brewers.

Estate, Inheritance, and Gift Taxes

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

Insurance Company Premium Tax

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

Domestic and nondomestic property and casualty insurance companies are taxed 2% on allocated fire insurance premiums received. The 2% tax levied on fire insurance premiums is redistributed to local governments as a "fire department dues" tax. Nondomestic casualty insurance companies are taxed an additional 2.375% on allocated fire insurance premiums received, 2% on all forms of casualty premiums, and 0.5% on ocean marine coverages.

Domestic mortgage guaranty insurance companies pay a tax of 2% of premiums received.

Nondomestic companies are also subject to retaliation and reciprocation. If a nondomestic company's state of domicile assesses a Wisconsin domestic company, in aggregate, a greater amount than these rates, then Wisconsin retaliates. If a nondomestic company's state of domicile assesses a Wisconsin domestic company, in aggregate, a lesser amount than these rates, then Wisconsin reciprocates, subject to a minimum of the 2% "fire department dues," 0.375% for ocean marine and allocated fire insurance premiums, 0% for all forms of casualty premiums, and 2% for life premiums.

Motor Vehicle Fuel Tax

Motor vehicle fuel is taxed at the rate of 30.9 cents per gallon. The motor vehicle fuel tax was previously subject to an indexed adjustment using an inflation-only factor based on the Consumer Price Index; however, the final adjustment occurred in April 2006 since recently enacted legislation curtailed future adjustments. The tax is collected from the wholesaler but is specifically passed through to the user. The revenues are deposited in the Transportation Fund, where they are used primarily for highway purposes.

Forest Tax

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

Miscellaneous Taxes

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

Tax Credits

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

Homestead Tax Credit

Property tax relief is provided to low-income homeowners and renters through a homestead tax credit. The maximum household income limit is $24,500. The maximum amount of aidable property taxes is $1,450, and the amount of farm acreage on which the property tax is based is 120 acres. For renters, the amount of rent allocated as property tax is 25%, or 20% if heat is included in rent. In the 2005-06 fiscal year, low-income homeowners and renters received $123 million in homestead tax credit relief.

Earned Income Tax Credit

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

The State's earned income tax credit is calculated as a percentage of the federal credit. The federal earned income tax credit varies by income and family size. In addition to the federal standards, the State's credit varies the percent of the federal credit by the number of children: 4% of the federal credit for one child, 14% for two, and 43% for three or more. The maximum State credit in tax year 2006 ranged from $110 for one child, $635 for two children, and $1,950 for three or more children. In the 2005-06 fiscal year, low-income wage earners received $82 million in earned income tax credits.

Farmland Preservation Tax Credit

The farmland preservation program provides property tax relief to farmland owners and encourages local governments to develop farmland preservation policies. The credit reduces income tax liability or is rebated if the credit exceeds income tax due. The credit formula is based on household income, the amount of property tax levied by all governments, and the type of land use provisions protecting the farmland (either a preservation agreement or exclusive agricultural zoning). Claimants may receive a credit on up to $6,000 of property taxes. The maximum potential credit is $4,200. In the 2005-06 fiscal year, farmland owners received $13 million in farmland preservation tax credits.

School Levy Tax Credit

The school levy tax credit is distributed based on each municipality's share of statewide levies for school purposes and is provided to all classes of taxpayers (residential, commercial, industrial, and others). For property taxes levied in December 2005, $469 million of school levy tax credits was distributed statewide, and the credit lowered school property taxes paid by taxpayers by 5.6% of the total gross school tax levy. The credits are paid to municipalities to reduce the amount due from all property taxpayers.

Lottery Property Tax Credit.

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

School Property Tax/Rent Credit

The school property tax/rent credit is equal to 12% of the first $2,500 in property taxes, or rent relating to allocable property taxes, for a maximum credit of $300. In the 2005-06 fiscal year, the school property tax/rent credit totaled $350 million.

Tax Collection Procedure (Delinquencies)

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

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

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

If voluntary payments cannot be arranged, the revenue agent may proceed to a variety of involuntary collection actions, such as attachment of wages, levy, or garnishment of assets. If the amount owed is greater than $25,000, the account will be posted on a DOR web site that identifies delinquent taxpayers. If the delinquent taxpayer has a refund coming from any tax program administered by DOR, the refund is applied to the delinquent balance. Federal tax refunds are also applied to the delinquent balance.

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

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

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

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

EXPENDITURES

General

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

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

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

General Fund Expenditures

In the 2005-06 fiscal year, about 59% of all general-fund taxes collected by the State were returned to local units of government. The remaining funds were used for aids to individuals and organizations (19%) and state operations and programs, including the University of Wisconsin System (23%). For the 2005-07 biennium, or the aggregate of the 2005-06 and 2006-07 fiscal years, these percentages are expected to be about 57% returned to local units of government, 20% for aids to individuals and organizations, and 24% for state operations and programs, including the University of Wisconsin System.

ACCOUNTING AND FINANCIAL REPORTING

Statutory Basis

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

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

- In all cases the date of the contract or order determines the fiscal year in which it is charged unless it is determined that the purpose of the contract or order is to prevent lapsing of appropriations or to otherwise circumvent budgeting intent.
- The current year records must remain open until July 31 to permit departments to certify for payment bills applicable to the year ended June 30 and to deposit revenues applicable to such year, with the following exceptions: (1) amounts withheld for income taxes prior to July 1, and (2) taxes imposed on sales prior to July 1 are deemed to be accrued tax receipts as of the close of the fiscal year, provided such revenue is deposited on or before August 15.

Table II-2

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

2001-02 TO 2005-06

	2005-06	2004-05	2003-04	2002-03	2001-02
Commerce					
State Operations	$ 295,051,390	$ 177,270,715	$ 176,745,176	$ 176,083,715	$ 170,184,711
Aids to Individuals and Organizations	118,049,619	134,274,721	172,583,246	187,477,215	174,212,058
Local Assistance	84,622,827	67,653,798	138,932,517	74,394,249	74,407,965
Subtotal	497,723,836	379,199,233	488,260,939	437,955,179	418,804,734
Education					
State Operations	3,783,691,755	3,680,666,682	3,475,747,413	3,303,821,334	3,115,399,765
Aids to Individuals and Organizations	601,027,490	569,282,647	512,024,280	485,812,841	427,268,613
Local Assistance	5,823,094,342	5,478,892,197	5,379,843,071	5,355,644,148	5,118,756,509
Subtotal	10,207,813,587	9,728,841,526	9,367,614,765	9,145,278,323	8,661,424,887
Environmental Resources					
State Operations	1,860,775,134	1,557,135,085	1,516,414,319	1,848,457,071	1,669,826,629
Aids to Individuals and Organizations	27,226,419	18,632,315	22,054,756	16,157,370	32,409,367
Local Assistance	1,092,290,371	1,111,255,497	1,033,697,144	1,115,024,574	1,009,292,244
Subtotal	2,980,291,924	2,687,022,898	2,572,166,219	2,979,639,014	2,711,528,240
Human Relations and Resources					
State Operations	2,211,919,381	2,338,807,640	2,270,811,372	2,407,000,030	2,201,627,675
Aids to Individuals and Organizations	7,324,304,971	7,236,447,598	7,076,266,703	7,214,104,334	7,002,052,675
Local Assistance	735,653,544	696,794,647	727,628,112	754,700,651	722,778,120
Subtotal	10,271,877,896	10,272,049,886	10,074,706,187	10,375,805,016	9,926,458,471
General Executive					
State Operations	5,394,516,734	5,156,121,321	7,172,782,711	4,534,745,855	4,507,929,098
Aids to Individuals and Organizations	429,604,138	374,960,654	384,804,781	375,249,497	326,682,917
Local Assistance	184,678,416	129,264,670	140,022,849	125,798,685	104,908,224
Subtotal	6,008,799,288	5,660,346,645	7,697,610,341	5,035,794,037	4,939,520,239
Judicial					
State Operations	91,336,070	90,426,703	87,121,028	85,979,874	84,149,092
Local Assistance	24,274,774	24,166,300	24,118,000	24,073,100	23,716,900
Subtotal	115,610,844	114,593,003	111,239,028	110,052,974	107,865,992
Legislative					
State Operations	61,342,707	58,234,658	59,302,088	61,219,698	62,114,318
Subtotal	61,342,707	58,234,658	59,302,088	61,219,698	62,114,318
General					
State Operations	871,018,049	663,012,446	758,203,351	850,238,866	1,320,960,416
Aids to Individuals and Organizations	244,294,326	242,099,193	234,367,276	836,426,667	1,179,940,690
Local Assistance	1,626,825,051	1,636,174,533	1,713,112,543	1,702,335,971	1,693,443,439
Subtotal	2,742,137,426	2,541,286,173	2,705,683,171	3,389,001,503	4,194,344,545
General Obligation Bond Program					
State Operations	898,483,799	818,835,725	817,151,948	447,479,707	622,061,731
Subtotal	898,483,799	818,835,725	817,151,948	447,479,707	622,061,731
Summary Totals					
State Operations	15,468,135,019	14,540,510,976	16,334,279,406	13,715,026,150	13,754,253,435
Aids to Individuals and Organizations	8,744,506,963	8,575,697,130	8,402,101,042	9,115,227,924	9,142,566,320
Local Assistance	9,571,439,325	9,144,201,642	9,157,354,236	9,151,971,378	8,747,303,402
GRAND TOTAL	$ 33,784,081,307	$ 32,260,409,747	$ 33,893,734,685	$ 31,982,225,451	$31,644,123,157

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

Source: Wisconsin Department of Administration.

- On July 31 all outstanding encumbrances entered for the previous year must be transferred to the new fiscal year and an equivalent prior year appropriation balance must also be forwarded to the new fiscal year.
- Revenues and expenditures are reported on a net basis. Overcollections refunded are deducted from revenues and current year overpayments made are deducted from expenditures.
- General Fund investments are carried at the lower of cost or par with discounts, premiums, and earnings recorded on an accrual basis.
- Encumbrances are treated as expenditures in the year of initiation.

Generally Accepted Accounting Principles

The State also accounts for and reports on its operations using generally accepted accounting principles (**GAAP**). For the fiscal year ended June 30, 2006 the State has prepared a Comprehensive Annual Financial Report (**CAFR**) in accordance with GAAP. The General Purpose External Financial Statements section of the CAFR for the fiscal year ended June 30, 2006 has been audited and is included as APPENDIX A to this Part II of the Annual Report.

Financial statements prepared in accordance with GAAP differ from those prepared in accordance with the Wisconsin Statutes. A notable difference pertains to the General Fund balance. The undesignated, unreserved balance for the fiscal year ended June 30, 2006 was $49 million on a budgetary basis. Under GAAP, the total fund balance for the fiscal year ended June 30, 2006 was a deficit of $2.150 billion. The difference results primarily because GAAP recognizes accrued liabilities that are not taken into account under the statutory basis. The single largest accrued liability for the fiscal year ended June 30, 2006 was $795 million and related to the State's individual income tax accruals.

Blended Component Unit—Badger Tobacco Asset Securitization Corporation

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

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

BUDGETING PROCESS AND FISCAL CONTROLS

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

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

Budget Requests from Agencies

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

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

Executive Budget

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

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

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

Legislative Consideration

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

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

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

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

Governor's Partial Veto Power

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

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

Continuing Authority

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

Fiscal Controls

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

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

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

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

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

RESULTS OF 2005-06 FISCAL YEAR

The Annual Fiscal Report (Budgetary Basis) for the fiscal year ending June 30, 2006 was published October 15, 2006. It reports that the State's actual General Fund tax collections for the 2005-06 fiscal year, on a budgetary basis, were $81 million more than LFB projections from January 2006 and about $633 million, or 5.6%, above collections in the 2004-05 fiscal year. It also reports that the State ended the 2005-06 fiscal year on a statutory and unaudited basis with an undesignated balance of $49 million.

The State did not issue any operating notes during the 2005-06 fiscal year.

The Annual Fiscal Report for the fiscal year ended June 30, 2006 is not part of this Annual Report. A complete copy of the Annual Fiscal Report may be obtained at the following address:

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

Tables II-3, II-4, and II-5 in the section "STATE BUDGET" summarize the results from the 2005-06 fiscal year.

STATE BUDGET

Budget for 2005-06 Fiscal Year

See "RESULTS OF 2005-06 FISCAL YEAR" for information from the Annual Fiscal Report (Budgetary Basis) for the 2005-06 fiscal year, which was the first year of the 2005-07 biennial budget.

Budget for 2006-07 Fiscal Year

The State's 2006-07 fiscal year is the second year of the 2005-07 biennial budget. See "BUDGETING PROCESS AND FISCAL CONTROLS".

Revenue Estimates for 2006-07 Fiscal Year

On November 20, 2006, DOR released estimates of General Fund tax revenues for the 2006-07 fiscal year. The total estimate of General Fund tax revenues for the 2006-07 fiscal year is $12.491 billion, which is approximately $461 million, or 3.8%, more than actual General Fund tax collections for the 2005-06 fiscal year but $69 million, or 0.5%, less than the amount previously estimated in January 2006 for the 2006-07 fiscal year by LFB. The new estimates from DOR show the following differences for the major tax reporting categories from the January 2006 LFB estimates:

- Individual income tax revenues are estimated to be $53 million greater at $6.458 billion.
- General sales and use tax revenues are estimated to be $145 million less at $4.213 billion.
- Corporate income and franchise tax revenues are estimated to be $72 million greater at $857 million.

A complete copy of the DOR revenues estimates is available from the following address:

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

Projected Net General Fund Budgetary Balance—June 30, 2007

On November 20, 2006, DOA released a report that contained a projected net General Fund budgetary balance (after taking into account the statutory required reserve of $65 million) for the end of the 2006-07 fiscal year. This projected balance is $5 million and further takes into account the undesignated balance available at the end of the 2005-06 fiscal year, estimates of General Fund tax revenues released by DOR on November 20, 2006, and other estimates of department revenues, sum sufficient appropriations and lapses that have been updated based on the latest available information. This projected net General Fund budgetary balance is approximately $60 million more than the net General Fund budgetary balance projected in June 2006 by LFB.

A complete copy of the DOA report may be obtained at the following address:

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

General Fund Condition Statement and Budget Tables

Table II-3 includes a summary of both the final budget and actual General Fund condition statement (budgetary basis) for the 2005-06 fiscal year, along with a summary of the projected General Fund condition statement for the 2006-07 fiscal year. This projected General Fund condition statement for the 2006-07 fiscal year reflects the DOR revenue estimates and DOA report released on November 20, 2006.

Tables II-4 and II-5 present more detail on the General Fund and All-Funds budget (budgetary basis). Though the following Table II-3 reflects the DOR revenue estimates and DOA report released on November 20, 2006, the detailed budgets in Tables II-4 and II-5 *do not* reflect the most recent DOR revenue estimates and DOA report.

Table II-3
Summary of General Fund Condition Statement
2005-06 and 2006-07 Fiscal Years
(in Millions)

	Budget 2005-06[(a)]	Actual 2005-06[(b)]	Budget 2006-07[(c)]
Revenues			
Opening Balance	$ 4.1	$ 4.1	$ 49.2
Taxes	11,949.6	12,030.1	12,490.9
Department Revenues			
Tribal Gaming	118.6	88.9	92.7
Other	685.9	691.2	497.8
Total Available	$12,758.2	$12,814.3	$13,130.7
Appropriations			
Gross Appropriations	$12,634.1	$12,641.8	$13,217.6
Compensation Reserves	90.1	80.1	178.3
Transfers to Medical Assistance Trust Fund	341.8	341.8	25.4
Sum Sufficient Re-Estimates			6.8
Biennial Appropriation Spending Ahead		23.5	(23.5)
Less: Lapses	(318.9)	(322.0)	(344.0)
Net Appropriations	$12,747.0	$12,765.1	$13,060.6
Balances			
Gross Balance	$ 11.2	$ 49.2	$ 70.0
Less: Required Statutory Balance	(65.0)	(65.0)	(65.0)
Net Balance, June 30	$ (53.8)	$ (15.8)	$ 5.0

(a) Reflects all enrolled bills from the 2005 legislative session and the final budget schedule for the 2005-06 fiscal year included in Chapter 20, Wisconsin Statutes.

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

(c) Taxes reflect the revised General Fund tax revenue estimates released by DOR on November 20, 2006 and departmental revenues, sum sufficient appropriations, estimated lapses, and tribal gaming revenues reflect the latest available information as included in the report released by DOA on November 20, 2006. Opening balance reflects the undesignated balance available at the end of the 2005-06 fiscal year, all enrolled bills from the 2005 legislative session, and the final budget schedule for the 2006-07 fiscal year included in Chapter 20, Wisconsin Statutes.

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

	Actual 2005-2006[(a)]	Budget 2005-2006[(b)]	Budget 2006-2007[(b)]
RECEIPTS			
Fund Balance from Prior Year	$ 9,297,000	$ 4,111,000	$ 11,174,600
Tax Revenue			
State Taxes Deposited to General Fund			
Individual Income	6,144,299,000	6,025,000,000	6,405,000,000
General Sales and Use	4,127,585,000	4,181,600,000	4,358,100,000
Corporate Franchise and Income	780,320,000	770,000,000	785,000,000
Public Utility	275,147,000	257,900,000	283,400,000
Excise			
Cigarette/Tobacco Products	317,911,000	312,600,000	311,100,000
Liquor and Wine	41,023,000	42,400,000	43,500,000
Malt Beverage	9,759,000	9,900,000	10,000,000
Inheritance, Estate & Gift	108,571,000	124,000,000	130,000,000
Insurance Company	134,665,000	135,000,000	142,400,000
Other	112,180,000	91,200,000	91,500,000
Subtotal	12,051,460,000	11,949,600,000	12,560,000,000
Nontax Revenue			
Departmental Revenue			
Tribal Gaming Revenues	- [(c)]	118,628,600 [(d)]	86,349,100 [(d)]
Other	379,569,000	685,850,100	505,626,300
Program Revenue-Federal	6,320,576,000	5,883,730,800	5,991,573,300
Program Revenue-Other	3,570,265,000	3,640,963,700	3,716,521,700
Subtotal	10,270,410,000	10,329,173,200	10,300,070,400
Total Available	$ 22,331,167,000	$ 22,282,884,200	$ 22,871,245,000
DISBURSEMENTS AND RESERVES			
Commerce	$ 266,877,000	288,709,300	281,243,700
Education	10,146,322,000	10,152,254,600	10,387,854,300
Environmental Resources	291,548,000	296,476,000	337,924,200
Human Relations and Resources	8,712,564,000	8,423,076,400	8,970,947,600
General Executive	694,145,000	891,291,400	878,235,600
Judicial	115,262,000	113,259,300	113,448,700
Legislative	61,343,000	65,415,800	65,290,600
General Appropriations	1,859,988,000	1,928,284,100	1,890,759,800
Subtotal	22,148,049,000	22,158,766,900	22,925,704,500
Less: (Lapses)	n/a	(318,924,600)	(268,551,600)
Compensation Reserves	n/a	90,054,100	178,302,800
Required Statutory Balance	n/a	65,000,000	65,000,000
Transfer to Medical Assistance Trust Fund	n/a	341,813,200	25,383,900
Changes in Continuing Balance	90,722,000	n/a	n/a
Total Disbursements & Reserves	$ 22,238,771,000	$ 22,336,709,600	$ 22,925,839,600
Fund Balance	$ 92,396,000	$ (53,825,400)	$ (54,594,600)
Undesignated Balance	$ 49,217,000	$ 11,174,600	$ 10,405,400

(a) The amounts shown are unaudited, rounded to the nearest thousand dollars and are based on statutorily required accounting and not on GAAP.

(b) The amounts shown incorporate all acts of the 2005 legislative session and the January 16, 2006 LFB revenue estimtes.

(c) Tribal gaming revenues are budgeted separately; however, when the payments are received by the State, they are not specifically reported but rather included within the category entitled "Nontax Revenue - Departmental Revenue".
(d) Assumes receipt of certain tribal gaming payments that were due in previous fiscal years.

Sources: Legislative Fiscal Bureau and Department of Administration.

Table II-5

STATE BUDGET–ALL FUNDS[(A)]

	Actual 2005-2006 [(b)]	Budget 2005-2006[(c)]	Budget 2006-2007[(c)]
RECEIPTS			
Fund Balance from Prior Year	$ 9,297,000	$ 4,111,000	$ 11,174,600
Tax Revenue			
Individual Income	6,144,299,000	6,025,000,000	6,405,000,000
General Sales and Use	4,127,585,000	4,181,600,000	4,358,100,000
Corporate Franchise and Income	780,320,000	770,000,000	785,000,000
Public Utility	275,147,000	257,900,000	283,400,000
Excise			
Cigarette/Tobacco Products	317,911,000	312,600,000	311,100,000
Liquor and Wine	41,023,000	42,400,000	43,500,000
Malt Beverage	9,759,000	9,900,000	10,000,000
Inheritance, Estate & Gift	108,571,000	124,000,000	130,000,000
Insurance Company	134,665,000	135,000,000	142,400,000
Other	1,288,845,000	91,200,000 [(d)]	91,500,000 [(d)]
Subtotal	13,228,125,000	11,949,600,000	12,560,000,000
Nontax Revenue			
Departmental Revenue			
Tribal Gaming Revenues	- [(e)]	118,628,600 [(f)]	86,349,100 [(f)]
Other	379,569,000	685,850,100	505,626,300
Total Federal Aids	6,320,576,000	6,668,197,500	6,780,141,400
Total Program Revenue	3,570,265,000	3,640,963,700	3,716,521,700
Total Segregated Funds	4,327,638,000	2,828,396,400	2,675,805,100
Bond Authority	1,197,761,000	544,797,000	622,735,000
Employee Benefit Contributions [(g)]	10,909,386,000	7,343,260,000	7,718,157,000
Subtotal	26,705,195,000	21,830,093,300	22,105,335,600
Total Available	$ 39,942,617,000	$ 33,783,804,300	$ 34,676,510,200
DISBURSEMENTS AND RESERVES			
Commerce	$ 503,420,000	$ 464,313,500	$ 454,135,700
Education	10,574,557,000	10,215,380,000	10,451,017,700
Environmental Resources	3,391,109,000	2,709,959,600	3,035,595,200
Human Relations and Resources	10,322,183,000	9,061,407,900	9,174,582,400
General Executive	6,016,837,000	1,054,300,300	1,036,765,700
Judicial	115,611,000	113,987,700	114,177,100
Legislative	61,343,000	65,415,800	65,290,600
General Appropriations	2,799,020,000	2,086,865,200	2,058,513,300
General Obligation Bond Program	782,789,000	544,797,000	622,735,000
Employee Benefit Payments [(g)]	4,818,745,000	4,844,548,000	5,324,309,000
Reserve for Employee Benefit Payments [(g)]	6,090,641,000	2,498,712,000	2,393,848,000
Subtotal	45,476,255,000	33,659,687,000	34,730,969,700
Less: (Lapses)	n/a	(318,924,600)	(268,551,600)
Compensation Reserves	n/a	90,054,100	178,302,800
Required Statutory Balance	n/a	65,000,000	65,000,000
Transfer to Medical Assistance Trust Fund	n/a	341,813,200	25,383,900
Change in Continuing Balance	(5,626,034,000)	n/a	n/a
Total Disbursements & Reserves	$ 39,850,221,000	$ 33,837,629,700	$ 34,731,104,800
Fund Balance	$ 92,396,000	$ (53,825,400)	$ (54,594,600)
Undesignated Balance	$ 49,217,000	$ 11,174,600	$ 10,405,400

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

(b) The amounts shown are unaudited, rounded to the nearest thousand dollars and are based on statutorily required accounting and not on GAAP.

(c) The amounts shown incorporate all acts of the 2005 legislative session and the January 16, 2006 LFB revenue estimtes.

(d) The budgeted amounts do not include taxes collected for segregated funds. The largest such tax is the motor fuel tax. The State collected $974 million of motor fuel taxes in the 2005-06 fiscal year.

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

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

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

Sources: Legislative Fiscal Bureau and Department of Administration.

Budget for 2007-09 Biennium

The General Fund tax revenue estimates released by DOR on November 20, 2006 also include estimates of General Fund tax revenues for the 2007-09 biennium, namely, $12.941 billion for the 2007-08 fiscal year and $13.462 billion for the 2008-09 fiscal year, or annual increases of 3.6% and 4.0%, respectively.

The Governor is required to submit a proposed biennial budget to the Legislature on or before January 30, 2007; however, upon a request of the Governor, a later submission date may be allowed by the Legislature upon passage of a joint resolution.

Sale of Tobacco Settlement Revenues

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

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

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

Potential Effect of Litigation

APPENDIX A to this part of the Annual Report includes the General Purpose External Financial Statements for the fiscal year ended June 30, 2006. The notes to the General Purpose External Financial Statements include a description of various legal proceedings, claims, and tax refunds that may have a potential budgetary effect. The potential budgetary impact of these legal proceedings and claims, and any updates to those proceedings subsequent to June 30, 2006, are outlined below. The following also includes a description of various other legal proceedings, claims, and tax refunds that were not included in the notes to the General Purpose External Financial Statements, but may have a potential budgetary effect.

Environmental Clean-Up Actions

The State is involved in the environmental clean-up of property owned by the State that has the potential to cause soil and groundwater contamination associated with underground storage tanks. The estimated remediation costs of these properties are $3 million. The 2006-07 budget does not specifically provide for payment of these costs; however, the payment would be made from certain State funds.

Sales Tax on Customized Computer Software

The State Tax Appeals Commission previously ruled that sales of certain customized computer software are not subject to the State's sale tax. The State appealed this decision, and on October 26, 2004, the Dane County Circuit Court reversed the decision of the State Tax Appeals Commission. The plaintiffs in this case have appealed this decision to the Wisconsin Court of Appeals and oral arguments were completed on November 17, 2005. At this date, DOR has not established an estimate of the financial impact that could result from this case. The State previously estimated that it collects about $65 million annually in sales tax under circumstances similar to those in the case. The 2006-07 budget does not provide for payment of refunds or loss of tax revenue in the event that the State should fail to prevail on this matter.

Sales Tax on Telephone Services

The Dane County Circuit Court granted summary judgment to the defendants (which includes the Secretary of the State of Wisconsin Department of Revenue) and dismissed the action on the basis of primary jurisdiction. The court stated that this matter involving the sales and use tax collected by a telecommunications provider on 19 kinds of telephone service from all customers in the State should be heard either by the State Tax Appeals Commission or DOR in a declaratory ruling proceeding. The plaintiffs in this case appealed this decision to Wisconsin Court of Appeals, and oral arguments were held on September 20, 2006. The plaintiffs have submitted extensive post-argument supplemental authority to support their position that the State Court of Appeals should reinstate their monetary claim. At this date, DOR has not established an estimate of the financial impact that could result from this case, and the 2006-07 budget does not provide for payment of refunds or loss of tax revenue in the event that the State should fail to prevail on this matter.

Validity of Gaming Compacts

On July 14, 2006, the Wisconsin Supreme Court held that a 1993 amendment to the gambling provision of the Wisconsin Constitution did not invalidate or affect the extension, renewal, or amendment of compacts originally executed in 1991 and 1992 between the State and tribal governments. In addition, the Wisconsin Supreme Court overruled the portion of its earlier decision from 2004 that had invalidated compact amendments made in 2003 that allowed tribes to offer additional games beyond those agreed to in the original tribal compacts.

Other

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

Employment Relations

Of the State's approximately 44,300 civil service employees, approximately 38,000 are employees whose wage rates, fringe benefits, hours, and conditions of employment are determined by collective bargaining agreements. All these classified employees are either assigned to a collective bargaining unit or are exempted from bargaining unit coverage due to their "confidential" or "management" designation. Covered employees are assigned to one of twenty-two bargaining units set up by occupational groupings based on their civil service classification. An exclusive bargaining agent represents nineteen of the bargaining units. The nineteen represented bargaining units completed negotiations on their respective 2005-2007 collective bargaining agreements, and those contracts will remain in effect through June 30, 2007.

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

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

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

State Budget Assumptions

Tax revenues for the 2005-07 biennial budget were initially based on May 16, 2005 estimates from LFB. Estimates of tax revenues have changed twice since that time with the most recent revenue estimates for the 2006-07 fiscal year being provided by DOR on November 20, 2006. The estimates are based on the State tax structure and on assumptions about basic economic factors and their historical relationships to State tax receipts. Revenue sources other than taxes are estimated in the preparation of the budget. The all-funds budget establishes estimates of these nontax revenues and presumes that an equal amount of expenditures will be made. Any variation from that expected level of revenue will result in a corresponding increase or decrease in expenditures.

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

Economic Assumptions

The economic forecast underlying the revenue estimates provided by DOR on November 20, 2006 was based primarily on certain projections presented in the November 6, 2006 national economic forecast by Global Insight, Inc. **(Global Insight)**, which provides national economic forecasts, data base support, and consulting services. Table II-6 contains excerpts from Global Insight's November 2006 national economic forecast and a summary of information from DOR's Wisconsin Econometric Model **(Model),** both of which were included in the Wisconsin Economic Outlook, published by DOR on November 20, 2006.

Wisconsin Econometric Model

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

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

The Model is similar to many economic models in that the economy is described by a set of mathematical equations. There are equations for employment, wages, proprietary income, transfer payments, industrial production, housing permits, and taxes. The Model currently consists of 128 equations, 61 of which are simultaneous.

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

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

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

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

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

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

Table II-6

ECONOMIC FORECASTS
U.S. ECONOMIC FORECAST

	Calendar Year				
	2006	**2007**	**2008**	**2009**	**2010**
Real GDP and its Components					
(Amounts in Billions of Chain Weighted 2000 Dollars)					
GDP	$11,408.4	$11,678.1	$12,039.8	$12,441.3	$12,848.1
Percent Change	3.3	2.4	3.1	3.3	3.3
Consumption	8,088.8	8,312.8	8,550.2	8,830.7	9,138.8
Investment (including inventory)	1,955.8	1,928.7	1,994.2	2,088.3	2,177.3
Nonresidential Structures	274.9	299.1	301.5	304.9	312.7
Business Equipment	1,055.3	1,120.4	1,187.0	1,267.3	1,329.3
Residential Fixed	583.8	503.0	505.4	515.3	534.8
Change in Inventory	44.8	26.5	31.0	43.3	48.3
Exports	1,300.4	1,405.6	1,530.2	1,663.9	1,788.3
Imports	1,931.4	1,999.9	2,090.2	2,214.4	2,350.0
Federal Government	741.0	752.4	758.7	757.9	764.0
State and Local Government	1,256.0	1,282.2	1,305.7	1,331.5	1,353.5
GDP (Current Dollars)	13,236.0	13,850.2	14,551.2	15,323.5	16,131.2
Money and Interest Rates					
Money Supply (M2) (billions)	$6,901.6	$7,163.6	$7,478.0	$7,817.5	$8,184.8
Percent Change	3.9	3.8	4.4	4.5	4.7
Prime Commercial Rate	8.0	7.9	7.5	7.7	7.8
3-Month Treasury Bills (rate)	4.8	4.7	4.4	4.6	4.7
10-Year Treasury Note Yield (rate)	4.8	4.6	4.9	5.3	5.4
G.O. AAA Municipals (rate)	4.2	4.0	4.5	5.3	5.5
30-Year Mortgage (rate)	6.4	6.2	6.5	7.0	7.1
Income, Profits and Savings					
(Amounts in Billions)					
Personal Income	$10,973.9	$11,568.8	$12,186.3	$12,907.6	$13,672.3
Percent Change	7.26	5.4	5.3	5.9	5.9
Personal Income ($ 2000)	9,575.9	9,899.0	10,228.0	10,632.4	11,058.0
Percent Change	4.3	3.4	3.3	4.0	4.0
Savings Rate (%)	(0.3)	0.2	0.7	1.1	1.3
Corporate Profits Before Tax	1,571.8	1,633.4	1,712.9	1,737.0	1,760.3

Source: Global Insight November 2006

Table II-6—Continued
WISCONSIN EMPLOYMENT FORECAST

	Calendar Year				
	2006	**2007**	**2008**	**2009**	**2010**
Annual Industry Detail Average (Thousands of Workers)					
Manufacturing	507.6	507.3	506.8	507.0	507.4
Percent Change	0.2	(0.1)	(0.1)	0.0	0.1
Trade, Transportation & Utilities	538.6	538.0	544.5	549.7	553.6
Percent Change	(0.3)	(0.1)	1.2	1.0	0.7
Government	408.4	408.1	409.5	411.1	414.1
Percent Change	(1.0)	(0.1)	0.3	0.4	0.7
Total Nonfarm	2,868.0	2,885.7	2,917.7	2,951.5	2,981.6
Percent Change	1.0	0.6	1.1	1.2	1.0

Source: Department of Revenue, Economic Outlook, November 2006

WISCONSIN INCOME FORECAST

	Calendar Year				
	2006	**2007**	**2008**	**2009**	**2010**
Components of Personal Income (Amounts in Billions)					
Wages and Salaries	$108.012	$112.553	$117.705	$123.415	$129.296
Proprietor's Income	11.860	12.388	12.960	13.616	14.282
Rental Income	1.874	1.765	1.512	1.334	1.346
Personal Dividend Income	12.602	14.035	15.520	16.805	17.769
Personal Interest Income	18.372	19.223	20.137	21.821	23.754
Transfer Receipts	27.286	28.649	29.932	31.162	32.467
Residence Adjustment	3.457	3.669	3.910	4.175	4.453
Contributions to Social Insurance	16.780	17.554	18.301	19.143	20.030
Total Personal Income	194.003	203.287	212.942	223.845	235.214
Personal Taxes and Nontax Pmts	23.950	25.265	26.150	27.690	29.539
Disposable Personal Income	170.053	178.022	186.791	196.155	205.675
Related Income Measures (2000 Dollars)					
Personal Income (billions)	$169.290	$173.946	$178.724	$184.391	$190.241
Percent Change	2.5	2.8	2.7	3.2	3.2
Per Capita Income	30,776	31,488	32,224	33,125	34,049
Percent Change	2.1	2.3	2.3	2.8	2.8
Per Capita Income (current $)	35,269	36,799	38,394	40,213	42,098
Percent Change	4.9	4.3	4.3	4.7	4.7

Source: Department of Revenue, Wisconsin Economic Outlook, November 2006

Budget Format

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

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

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

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

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

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

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

Impact of Federal Programs

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

Supplemental Appropriations

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

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

GENERAL FUND INFORMATION

General Fund Cash Flow

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

The State has experienced and expects to continue to experience certain periods when the General Fund is in a negative cash position. The Wisconsin Statutes provide certain administrative remedies to deal with these periods. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. This amount is approximately $661 million for the 2006-07 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount of up to 3% of the general-purpose revenue appropriations then in effect (approximately $397 million for the 2006-07 fiscal year) for a period of up to 30 days. The Secretary of Administration may set priorities for payments from the General Fund as well as prorate certain payments.

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

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

Table II-7 is presented over two pages and includes the detailed actual cash flow for the 2005-06 fiscal year and the detailed actual cash flow (through November 30, 2006) and projected cash flow (December 1, 2006 through June 30, 2007) for the 2006-07 fiscal year. Table II-8 provides year-to-date receipts and disbursement on a cash basis along with a comparison to estimates for the same period and actual receipts and disbursements for the same period of the previous fiscal year. Table II-9 presents a monthly summary of the General Fund from July 1, 2004 through November 30, 2006 and the projected cash flow for December 1, 2006 through June 30, 2007. No operating notes were issued in the 2004-05 and 2005-06 fiscal years and are none are expected to be issued for the 2006-07 fiscal year. The tables should be read in conjunction with other information concerning the State budget set forth elsewhere in this part of the Annual Report, including "BUDGETING PROCESS AND FISCAL CONTROLS", "STATE BUDGET", and "STATE OBLIGATIONS; Operating Notes". As noted above, there has been and will continue to be differences in the amounts shown for the cash-flow basis and the budgetary basis presentations. For example, the cash-flow basis presentation in the following tables includes all tax receipts as revenues and tax refunds as disbursements, while the budgetary basis presentations in Tables II-3 through II-5 include tax revenues that are net of tax refunds.

Monthly projections of cash flow are based upon on the 2005-07 biennial budget, all bills from the 2005 legislative session, the revenue estimates released by DOR on November 20, 2006, and upon historical experience as adjusted to reflect economic conditions, statutory, and administrative changes and anticipated payment dates for debt service, payrolls, and State aid. The projections for the 2006-07 budget assume receipt of approximately $112 million of payments pursuant to the amended gaming compacts with tribal governments. This amount reflects estimates of (i) all payments due this fiscal year ($82 million), and (ii) a payment due in a previous biennium from a tribal government that is expected to be made in the 2006-07 fiscal year ($30 million).

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

Table II-10 presents the actual cash balances available for interfund borrowings from July 31, 2004 through November 30, 2006 and the projected balances for December 31, 2006 through June 30, 2007.

Tables II-11 and II-12 present recorded revenues deposited into the General Fund and recorded expenditures made from the General Fund, as recorded by State agencies, for the period of July 1, 2006 to November 30, 2006 as compared to the period of July 1, 2005 to November 30, 2005. These tables present information that is based on the revenues and expenditures that are recorded in, or processed through, the State's central accounting system.

Table II-7
ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2005 TO JUNE 30, 2006[a]

(In Thousands of Dollars)

	July 2005	August 2005	September 2005	October 2005	November 2005	December 2005	January 2006	February 2006	March 2006	April 2006	May 2006	June 2006
BALANCES[b]												
Beginning Balance	($193,683)	($417,079)	$136,628	$309,053	$818,545	$586,768	($118,926)	$882,782	$1,145,630	$115,031	$831,334	$1,369,935
Ending Balance [c]	(417,079)	136,628	309,053	818,545	586,768	(118,926)	882,782	1,145,630	115,031	831,334	1,369,935	4,563
Lowest Daily Balance [c]	(522,613)	(589,150)	(264,889)	158,797	418,125	(864,503)	(173,681)	686,665	100,921	(225,788)	611,737	(397,541)
RECEIPTS												
TAX RECEIPTS												
Individual Income	$457,176	$546,087	$625,591	$566,601	$461,234	$484,890	$966,768	$489,178	$522,941	$979,881	$555,643	$657,624
Sales & Use	402,599	400,199	384,904	378,257	364,808	356,213	411,358	319,356	309,399	340,820	342,919	375,380
Corporate Income	31,786	24,880	170,441	34,258	31,377	130,776	28,752	19,203	197,151	40,032	27,154	149,264
Public Utility	24	0	196	2,667	125,226	130	356	81	157	1,530	155,348	54
Excise	36,572	30,625	36,942	32,048	32,403	29,800	30,316	26,764	26,799	28,888	28,775	34,874
Insurance	690	1,273	27,858	1,556	1,839	33,661	2,840	22,490	22,319	26,422	1,037	31,382
Inheritance	16,949	6,932	8,463	13,570	11,203	7,341	7,020	7,236	12,159	6,428	7,829	9,601
Subtotal Tax Receipts	$945,796	$1,009,996	$1,254,395	$1,028,957	$1,028,090	$1,042,811	$1,447,410	$884,308	$1,090,925	$1,424,001	$1,118,705	$1,258,179
NON-TAX RECEIPTS												
Federal	$524,946	$554,359	$554,537	$487,805	$539,678	$499,963	$567,423	$508,860	$536,237	$470,205	$541,885	$460,998
Other & Transfers [d]	355,748	298,506	470,126	316,093	283,115	286,968	438,937	689,774	322,126	422,228	374,934	314,764
Note Proceeds	0	0	0	0	0	0	0	0	0	0	0	0
Subtotal Non-Tax Receipts	$880,694	$852,865	$1,024,663	$803,898	$822,793	$786,931	$1,006,360	$1,198,634	$858,363	$892,433	$916,819	$775,762
TOTAL RECEIPTS	$1,826,490	$1,862,861	$2,279,058	$1,832,855	$1,850,883	$1,829,742	$2,453,770	$2,082,942	$1,949,288	$2,316,434	$2,035,524	$2,033,941
DISBURSEMENTS												
Local Aids	$884,042	$142,784	$757,441	$100,945	$958,939	$1,280,054	$190,703	$251,483	$1,316,971	$109,499	$288,235	$1,919,099
Income Maintenance	489,129	468,260	454,986	416,256	461,190	448,737	380,248	413,072	467,013	283,779	328,572	260,110
Payroll and Related	315,952	295,222	427,311	303,005	315,798	335,548	362,573	335,005	487,027	304,889	321,666	352,584
Tax Refunds	60,810	62,584	43,817	51,777	52,037	120,021	112,785	466,205	381,505	316,659	154,121	158,392
Debt Service	0	0	0	156,686	1,562	0	0	2,082	0	295,695	28,097	0
Miscellaneous [d]	299,953	340,304	423,078	294,694	293,134	351,076	405,753	352,247	327,371	289,610	376,232	709,128
Note Repayment	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL DISBURSEMENTS	$2,049,886	$1,309,154	$2,106,633	$1,323,363	$2,082,660	$2,535,436	$1,452,062	$1,820,094	$2,979,887	$1,600,131	$1,496,923	$3,399,313

(a) Projections had assumed that the State would receive approximately $146 million pursuant to the amended gaming compacts with tribal governments. This included $73 million, which was an estimate of all payments due in the 2005-06 fiscal year. The amount of estimated payments due in the 2005-06 fiscal year was subsequently revised downward to $67 million to reflect provisions of the compacts with the tribal governments. The State received payments, totalling $44 million, from all but one tribal government. The State and this tribal government continue arbitration with respect to this tribal government's amended gaming compact. Also included was $74 million, which was an estimate of payments due in previous fiscal years that were expected to be made in the 2005-06 fiscal year by two tribal governments. The State has received the payments from the two tribal governments that equal this amount. This table does not include interfund borrowings.

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

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

(d) Includes $175 million transferred from the Transportation Fund to the General Fund on February 1, 2006, $100 million transferred from the Transportation Fund to the General Fund on April 18, 2006, $63 million transferred from the Transportation Fund to the General Fund on June 1, 2006, $235 million transferred from the General Fund to the Medical Assistance Trust Fund on June 16, 2006, and $51 million transferred from the General Fund to the Medical Assistance Trust Fund on June 30, 2006 (pursuant to provisions of 2005 Wisconsin Act 211).

Table II-7—(Continued)
ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2006 TO NOVEMBER 30, 2006
PROJECTED GENERAL FUND CASH FLOW; DECEMBER 1, 2006 TO JUNE 30, 2007[(a)]

(In Thousands of Dollars)

	July 2006	August 2006	September 2006	October 2006	November 2006	December 2006	January 2007	February 2007	March 2007	April 2007	May 2007	June 2007
BALANCES[(b)]												
Beginning Balance	$4,563	($195,929)	$108,161	$355,567	$1,112,712	$882,489	$144,687	$1,287,838	$1,344,230	$265,976	$735,022	$1,271,260
Ending Balance [(c)]	($195,929)	$108,161	$355,567	$1,112,712	$882,489	$144,687	$1,287,838	$1,344,230	$265,976	$735,022	$1,271,260	$242,818
Lowest Daily Balance [(c)]	($451,652)	($488,713)	($100,789)	$355,566	$628,474	($644,942)	$126,675	$942,586	$247,468	($148,548)	$592,123	($200,357)
RECEIPTS												
TAX RECEIPTS												
Individual Income	565,897	474,676	605,681	680,238	502,370	505,170	1,158,498	531,440	503,458	1,077,372	555,797	678,189
Sales & Use	402,145	401,109	397,579	396,789	378,295	346,362	417,163	319,667	305,642	350,425	357,775	380,022
Corporate Income	37,496	28,116	185,473	34,815	23,319	184,902	28,191	20,795	229,708	34,408	22,188	164,215
Public Utility	50	11	99	1,468	143,824	1,936	0	1,258	97	3,194	133,565	968
Excise	34,911	32,778	34,592	28,986	30,956	30,432	29,620	31,243	26,273	29,012	32,258	31,954
Insurance	316	938	30,876	592	820	37,829	2,091	18,616	27,774	28,571	1,692	29,168
Inheritance	7,193	9,971	8,044	9,665	10,691	5,899	9,977	6,773	7,574	12,599	7,720	6,918
Subtotal Tax Receipts	$1,048,008	$947,599	$1,262,344	$1,152,553	$1,090,275	$1,112,530	$1,645,540	$929,792	$1,100,526	$1,535,581	$1,110,995	$1,291,434
NON-TAX RECEIPTS												
Federal	$502,417	$581,763	$513,024	$546,768	$477,516	$519,962	$590,120	$529,214	$557,686	$489,013	$563,560	$563,435
Other & Transfers [(d)]	370,205	166,183	513,130	431,228	288,729	270,200	502,700	504,700	355,432	379,900	457,100	430,100
Note Proceeds	0	0	0	0	0	0	0	0	0	0	0	0
Subtotal Non-Tax Receipts	$872,622	$747,946	$1,026,154	$977,996	$766,245	$790,162	$1,092,820	$1,033,914	$913,118	$868,913	$1,020,660	$993,535
TOTAL RECEIPTS	$1,920,630	$1,695,545	$2,288,498	$2,130,549	$1,856,520	$1,902,692	$2,738,360	$1,963,706	$2,013,644	$2,404,494	$2,131,655	$2,284,969
DISBURSEMENTS												
Local Aids	$896,807	$130,871	$824,354	$131,610	$911,622	$1,324,475	$244,452	$249,671	$1,306,572	$134,143	$197,844	$1,958,030
Income Maintenance	509,527	436,928	399,100	442,531	442,391	435,965	449,715	424,823	446,385	372,613	423,613	322,256
Payroll and Related	295,693	358,565	411,764	307,885	336,493	353,568	385,111	350,009	501,427	313,274	337,438	409,290
Tax Refunds	64,862	80,941	45,628	52,478	33,584	128,500	73,200	465,900	480,600	422,800	177,300	133,600
Debt Service	58,612	2,473	0	160,015	0	0	0	5,001	0	330,700	5,001	0
Miscellaneous[(d)]	295,621	381,677	360,246	278,885	362,653	397,986	442,730	411,911	356,914	361,919	454,221	490,234
Note Repayment	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL DISBURSEMENTS	$2,121,122	$1,391,455	$2,041,092	$1,373,404	$2,086,743	$2,640,494	$1,595,208	$1,907,315	$3,091,898	$1,935,449	$1,595,417	$3,313,410

(a) This table reflects the biennial budget bill for the 2005-07 biennium (2005 Wisconsin Act 25), all bills from the 2005 legislative session, and the General Fund revenue estimates released by the Department of Revenue (DOR) on November 20, 2006. Projections assume that the State will receive approximately $112 million pursuant to the amended gaming compacts with tribal governments. Included in this amount is $82 million, which is the estimate of all payments due in the 2006-07 fiscal year, and $30 million, which is an estimate of a payment due in the previous biennium that is expected to be made in the 2006-07 fiscal year by a tribal government. This table does not include interfund borrowings.

(b) The General Fund cash balances presented in this schedule are not based on generally accepted accounting principles (GAAP). The General Fund includes funds designated for operations and capital purposes of certain proprietary programs of the State's universities. Receipts and disbursements of such funds for the designated programs and the disbursement of such funds for other purposes are reflected in the cash flow. A use of the designated funds for purposes other than the proprietary programs is, in effect, a borrowing of such funds. Therefore, at any time that the balance in the General Fund is less than the balance of such designated funds, the State is obligated to replenish the designated funds to the extent of the shortfall. The designated funds are expected to range from $160 to $300 million during the 2006-07 fiscal year. In addition, the General Fund is the depository for several escrow accounts pursuant to court orders or federal rulings. These funds are expected to average approximately $30 million during the 2006-07 fiscal year.

(c) The Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. This amount is approximately $661 million for the 2006-07 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect (approximately $397 million for the 2006-07 fiscal year) for a period of up to 30 days. If the amount of interfund borrowing available to the General Fund is not sufficient, the Secretary of Administration is authorized to prorate and defer certain payments.

(d) Includes $20 million that was transferred from the Petroleum Inspection Fund to the General Fund on September 1, 2006, $88 million that was transferred from the Transportation Fund to the General Fund on October 12, 2006, and $25 million that is expected to be transferred from the General Fund to the Medical Assistance Trust Fund on June 30, 2007.

Table II-8

GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS YEAR-TO-DATE COMPARED TO ESTIMATES AND PREVIOUS FISCAL YEAR[(a)]
(Cash Basis)
As of November 30, 2006

	FY06 through November 2005	FY07 through November 2006				
	Actual	Actual	Estimate[(b)]	Variance	Adjusted Variance[(c)]	Difference FY05 Actual to FY06 Actual
RECEIPTS						
Tax Receipts						
Individual Income	$ 2,656,689	$ 2,828,862	$ 2,743,243	$ 85,619	$ 85,619	$ 172,173
Sales	1,930,767	1,975,917	1,998,744	(22,827)	(22,827)	45,150
Corporate Income	292,742	309,218	253,326	55,892	55,892	16,476
Public Utility	128,113	145,452	144,949	503	503	17,339
Excise	168,590	162,223	165,441	(3,218)	(3,218)	(6,367)
Insurance	33,216	33,542	32,093	1,449	1,449	326
Inheritance	57,117	45,564	64,174	(18,610)	(18,610)	(11,553)
Total Tax Receipts	$ 5,267,234	$ 5,500,778	$ 5,401,970	$ 98,808	$ 98,808	$ 233,544
Non-Tax Receipts						
Federal	$ 2,661,325	$ 2,621,488	$ 2,767,777	$ (146,289)	$ (146,289)	$ (39,837)
Other and Transfers	1,723,588	1,772,478	1,775,900	(3,422)	(3,422)	48,890
Note Proceeds [(d)]	-	-	-	-	-	-
Total Non-Tax Receipts	$ 4,384,913	$ 4,393,966	$ 4,543,677	$ (149,711)	$ (149,711)	$ 9,053
TOTAL RECEIPTS	$ 9,652,147	$ 9,894,744	$ 9,945,647	$ (50,903)	$ (50,903)	$ 242,597
DISBURSEMENTS						
Local Aids	$ 2,844,151	$ 2,895,264	$ 2,959,301	$ 64,037	$ 64,037	$ 51,113
Income Maintenance	2,289,821	2,230,475	2,322,378	91,903	91,903	(59,346)
Payroll & Related	1,657,288	1,710,400	1,706,788	(3,612)	(3,612)	53,112
Tax Refunds	271,025	277,493	254,600	(22,893)	(22,893)	6,468
Debt Service	158,248	221,100	238,571	17,471	17,471	62,852
Miscellaneous	1,651,163	1,679,084	1,844,371	165,287	165,287	27,921
Note Repayment [(d)]	-	-	-	-	-	-
TOTAL DISBURSEMENTS	$ 8,871,696	$ 9,013,816	$ 9,326,009	$ 312,193	$ 312,193	$ 142,120
VARIANCE FY07 YEAR-TO-DATE				$ 261,290	$ 261,290	

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

(b) This table reflects the biennial budget for the 2005-07 biennium (2005 Wisconsin Act 25), all enrolled bills from the 2005 legislative session, and the General Fund revenue estimates released by DOR on November 20, 2006. Projections assume that the State will receive approximately $112 million in the 2006-07 fiscal year pursuant to the amended gaming compacts with tribal governments. This amount reflects estimates of (i) all payments due this fiscal year ($82 million), and (ii) a payment due in the previous biennium from a tribal government that is expected to be made in the 2006-07 fiscal year ($30 million).

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

(d) Operating notes were not issued for the 2005-06 fiscal year and are not currently expected to be issued for the 2006-07 fiscal year.

Table II-9

GENERAL FUND MONTHLY CASH POSITION
July 1, 2004 through November 30, 2006 — Actual
December 1, 2006 through June 30, 2007 — Estimated[a]
(Amounts in Thousands)

	Starting Date	Starting Balance		Receipts[c]	Disbursements[c]
2004	July..................	$ (21,216)	[d]	$ 1,525,326	$ 1,935,550
	August................	(431,440)	[d]	1,865,101	1,224,534
	September..........	209,127		2,123,484	1,796,300
	October...............	536,311		1,717,213	1,377,813
	November...........	875,711		1,893,722	1,856,738
	December...........	912,695	[d]	1,633,039	2,340,555
2005	January...............	205,179		2,417,010	1,448,909
	February.............	1,173,280		1,833,051	1,789,367
	March.................	1,216,964		1,859,956	2,704,980
	April...................	371,940		2,042,253	1,831,196
	May....................	582,997		1,895,196	1,475,143
	June....................	1,003,050	[d]	2,075,730	3,272,463
	July..................	(193,683)	[d]	1,826,490	2,049,886
	August................	(417,079)	[d]	1,862,861	1,309,154
	September..........	136,628	[d]	2,279,058	2,106,633
	October...............	309,053		1,832,855	1,323,363
	November...........	818,545		1,850,883	2,082,660
	December...........	586,768	[d]	1,829,742	2,535,436
2006	January...............	(118,926)	[d]	2,453,770	1,452,062
	February.............	882,782		2,082,942	1,820,094
	March.................	1,145,630		1,949,288	2,979,887
	April...................	115,031	[d]	2,316,434	1,600,131
	May....................	831,334		2,035,524	1,496,923
	June....................	1,369,935	[d]	2,033,941	3,399,313
	July..................	4,563	[d]	1,920,630	2,121,122
	August................	(195,929)	[d]	1,695,545	1,391,455
	September..........	108,161	[d]	2,288,498	2,041,092
	October...............	355,567		2,130,549	1,373,404
	November...........	1,112,712		1,856,520	2,086,743
	December...........	882,489	[d]	1,902,692	2,640,494
2007	January...............	144,687	[d]	2,738,360	1,595,208
	February.............	1,287,838		1,963,706	1,907,315
	March.................	1,344,230	[d]	2,013,644	3,091,898
	April...................	265,976	[d]	2,404,494	1,935,449
	May....................	735,022		2,131,655	1,595,417
	June....................	1,271,260	[d]	2,284,969	3,313,410

[a] The General Fund balances presented in this table are not based on generally accepted accounting principles (GAAP).

[b] This table reflects the biennial budget for the 2005-07 biennium (2005 Wisconsin Act 25), all enrolled bills from the 2005 legislative session, and the General Fund tax revenue estimates released by DOR on November 20, 2006. Projections assume that the State will receive approximately $112 million in the 2006-07 fiscal year pursuant to the amended gaming compacts with tribal governments. This amount reflects estimates of (i) all payments due this fiscal year ($82 million) and (ii) a payment due in the previous biennium from a tribal government that is expected to be made in the 2006-07 fiscal year ($30 million).

[c] Operating notes were not issued for the 2004-05 and 2005-06 fiscal years and are not currently expected to be issued for the 2006-07 fiscal year.

[d] The Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. This amount is approximately $661 million for the 2006-07 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect (approximately $397 million for the 2006-07 fiscal year) for a period of up to 30 days. If the amount of interfund borrowing available to the General Fund is not sufficient, then the Secretary of Administration is authorized to prorate and defer certain payments.

Source: Wisconsin Department of Administration.

Table II-10
CASH BALANCES IN FUNDS AVAILABLE FOR INTERFUND BORROWING[a]
July 31, 2004 to November 30, 2006 — Actual
December 31, 2006 to June 30, 2007 — Estimated[b]
(Amounts in Millions)

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

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

Month (Last Day)	2004	2005	2006	2007
January		$ 830	$ 1,118	$ 1,118
February		960	1,041	1,041
March		1,043	1,188	1,188
April		964	957	957
May		1,045	912	912
June		1,182	1,074	1,074
July	$ 908	1,048	932	
August	1,003	1,100	1,052	
September	997	1,176	1,067	
October	954	1,115	925	
November	827	1,167	966	
December	892	1,135	1,135	

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

(Includes Balances in the Local Government Investment Pool)

Month (Last Day)	2004	2005	2006	2007
January		$ 3,818	$ 4,232	$ 4,232
February		3,984	4,237	4,237
March		4,101	4,476	4,476
April		3,749	3,981	3,981
May		3,627	3,708	3,708
June		3,905	3,940	3,940
July	$ 4,268	4,193	4,218	
August	3,904	3,823	3,978	
September	3,726	3,746	3,845	
October	3,233	3,361	3,361	
November	3,059	3,370	3,477	
December	3,392	3,692	3,692	

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

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

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

[b] Amounts for December 31, 2006 and subsequent months are projected.

Source: Department of Administration.

Table II-11

GENERAL FUND RECORDED REVENUES[a]
(Agency Recorded Basis)
July 1, 2006 to November 30, 2006 compared with previous year

	Annual Fiscal Report Revenues 2005-06 FY[b]	Projected Revenues 2006-07 FY[c]	Recorded Revenues July 1, 2005 to November 30, 2005[d]	Recorded Revenues July 1, 2006 to November 30, 2006[e]
Individual Income Tax	$ 6,144,299,000	$ 6,405,000,000	$ 2,262,486,184	$ 2,389,116,743
General Sales and Use Tax	4,127,585,000	4,358,100,000	1,426,895,943	1,452,760,629
Corporate Franchise and Income Tax	780,320,000	785,000,000	256,279,857	280,450,783
Public Utility Taxes	275,147,000	283,400,000	121,277,298	141,001,234
Excise Taxes	368,693,000	364,600,000	130,237,709	129,512,717
Inheritance Taxes	108,571,000	130,000,000	56,406,329	43,675,680
Insurance Company Taxes	134,665,000	142,400,000	30,513,534	31,922,433
Miscellaneous Taxes	90,806,000	91,500,000	48,086,244	45,875,898
SUBTOTAL..........................	$ 12,030,086,000	$ 12,560,000,000	4,332,183,100	4,514,316,117
Federal and Other Inter-Governmental Revenues[f]	$ 6,320,576,000	$ 5,976,875,800	2,629,516,108	2,634,221,228
Dedicated and Other Revenues[g]	3,971,208,000	4,323,194,600	1,614,630,248	1,837,676,640
TOTAL..............................	$ 22,321,870,000	$ 22,860,070,400	$ 8,576,329,456	$ 8,986,213,985

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

(b) The amounts are from the Annual Fiscal Report (budgetary basis) for the 2005-06 fiscal year, dated October 15, 2006.

(c) This table reflects the biennial budget for the 2005-07 biennium (2005 Wisconsin Act 25), all enrolled bills from the 2005 legislative session, and the General Fund revenue estimates released by DOR on November 20, 2006. Projections assume that the State will receive approximately $112 million in the 2006-07 fiscal year pursuant to the amended gaming compacts with tribal governments. This amount reflects estimates of (i) all payments due this fiscal year ($82 million) and (ii) a payment due in the previous biennium from a tribal government that is expected to be made in the 2006-07 fiscal year ($30 million).

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

(e) The amounts shown are fiscal year 2006-07 revenues as recorded by state agencies.

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

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

Source: Wisconsin Department of Administration.

Table II-12

GENERAL FUND RECORDED EXPENDITURES BY FUNCTION[a]
(Agency Recorded Basis)
July 1, 2006 to November 30, 2006 compared with previous year

	Annual Fiscal Report Expenditures 2005–06 FY[b]	Appropriations 2006–07 FY[c]	Recorded Expenditures July 1, 2005 to November 30, 2005[d]	Recorded Expenditures July 1, 2006 to November 30, 2006[e]
Commerce	$ 266,877,000	$ 281,243,700	$ 95,257,291	$ 107,019,183
Education	10,146,322,000	10,387,854,300	2,766,539,342	3,048,986,534
Environmental Resources	291,548,000	337,924,200	103,779,310	107,427,491
Human Relations & Resources	8,712,564,000	8,970,947,600	3,642,691,339	3,823,012,594
General Executive	694,145,000	878,235,600	303,791,726	360,401,613
Judicial	115,262,000	113,448,700	49,500,215	52,481,598
Legislative	61,343,000	65,290,600	21,719,948	21,305,269
General Appropriations	1,859,988,000	1,890,759,800	1,491,382,751	1,515,159,852
TOTAL	$ 22,148,049,000	$ 22,925,704,500	$ 8,474,661,920	$ 9,035,794,134

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

(b) The amounts are from the Annual Fiscal Report (budgetary basis) for the 2005-06 fiscal year, dated October 15, 2006.

(c) Estimated appropriations based on the biennial budget for the 2005-07 biennium (2005 Wisconsin Act 25) and all enrolled bills from the 2005 legislative session.

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

(e) The amounts shown are fiscal year 2006-07 expenditures as recorded by state agencies.

Source: Wisconsin Department of Administration.

General Fund History

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

Table II-13

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

	2006	2005	2004	2003	2002
ASSETS					
Cash & Investment Pool Shares	$ 9,240	$ (133,959)	$ (15,344)	$ (295,396)	$ (416,191)
Contingent Fund Advances	3,077	3,080	3,521	3,533	3,539
Investments	255	255	445	445	445
Receivables					
Accounts Receivable	992,426	1,074,269	1,098,109	1,050,580	1,069,077
Due from Other Funds	143,541	22,014	79,682	60,087	333,205
Inventory	404	330	172		
Prepayments	80,028	64,332	62,535	59,731	59,690
Other Assets	(2)	5			
TOTAL ASSETS	$ 1,228,969	$ 1,030,326	$ 1,229,120	$ 878,980	$ 1,049,765
LIABILITIES					
Accounts Payable	$ 437,990	$ 541,033	$ 338,083	$ 413,162	$ 315,491
Due to Other Funds	121,883	37,607	78,020	62,182	66,493
Tax and Other Deposits	29,128	33,908	39,332	33,539	33,900
Deferred Revenue	41,493	24,589	47,287	27,752	50,174
TOTAL LIABILITIES	$ 630,494	$ 637,137	$ 502,722	$ 536,635	$ 466,058
FUND BALANCE					
Reserves					
Encumbrances & GPR Balances	$ 132,679	$ 102,211	$ 144,651	$ 98,324	$ 131,945
Program Revenue Balances	430,782	422,653	454,378	407,629	407,293
Total Reserves	$ 563,461	$ 524,864	$ 599,029	$ 505,953	$ 539,238
Unreserved Balance-Undesignated	35,014	(131,675)	127,369	(163,608)	44,469
TOTAL FUND BALANCE	$ 598,475	$ 393,189	$ 726,398	$ 342,345	$ 583,707
TOTAL LIABILITIES AND FUND BALANCE	$ 1,228,969	$ 1,030,326	$ 1,229,120	$ 878,980	$ 1,049,765

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

Source: Department of Administration.

STATE GOVERNMENT ORGANIZATION

The State is located in the Midwest. The State ranks 20th among the states in population and 26th in land area. Wisconsin attained statehood in 1848, its capital is Madison, and its largest city is Milwaukee. The following is a summary of the general organization of, and services provided by, State government.

General Organization

Executive Branch

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

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

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

The executive branch consists of 17 departments (including two headed by other constitutional officers) and 12 independent agencies.

Legislative Branch

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

Judicial Branch

The judicial branch consists of:

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

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

Description of Services Provided by State Government

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

Commerce

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

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

Several State agencies participate in the field of commerce:

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

Education

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

- *Primary and Secondary Schools.* There were 426 school districts in the State for the 2005-06 school year, which administer the elementary and secondary schools within those districts. There were approximately 875,174 students attending public elementary and secondary schools in the 2005-06 school year. Elementary and secondary schools are operated by district boards, with supervision of the system provided by the Department of Public Instruction.
- *Technical Colleges.* The State is divided into 16 technical college districts. In the 2005-06 academic year, 409,280 full- and part-time students were enrolled in the technical college system. The technical colleges are operated by district boards, with supervision of the system provided by the Technical College System Board.

- *University of Wisconsin System.* The University of Wisconsin System consists of its doctoral campuses in Madison (the largest campus in the State) and Milwaukee as well as 11 other four-year degree-granting institutions and 13 two-year colleges. The system's total enrollment in 2005-06 was 162,933 students.

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

- *Educational Communications Board*, which operates the State public radio network, the State public television network, and the State educational television network.
- *The State Historical Society,* which maintains the State historical library, museum, and various historical sites.
- *Arts Board,* which encourages and assists artistic and cultural activities within the State.
- *Higher Educational Aids Board,* which is responsible for management and oversight of the State's student financial aid system for residents attending institutions of higher education.

Environmental Resources

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

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

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

The State has an elaborate system of highways. It consists of interstate highways financed from federal and State funds and of State highways, county trunk highways, town roads, city and village streets, and park and forest roads. Closely connected with the highway building functions of the State government and the aid granted to local units for streets and highways are the objects for which these roads are built—the motor vehicle and its occupants. While the State is concerned with the building and maintenance of an adequate number of roads of certain standards to meet the traffic demands, it is also very much concerned with the safety and convenience of the people who are using those roads. Approximately 5.4 million vehicles are currently registered each year.

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

Human Relations and Resources

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

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

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

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

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

The State's agent in protecting and assisting the worker is the Department of Workforce Development, which is also responsible for the State's employment and training services, including Wisconsin Works (W-2). The State also mediates or arbitrates labor disputes between workers and their employers, which is the task of the Employment Relations Commission.

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

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

General Executive

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

- *Department of Administration* duties include budgeting, information technology, data processing, accounting, payroll, financial reporting, processing the receipt and disbursement of monies received or expended by the State, engineering, and facilities management and planning.
- *Office of State Employment Relations* supervises State personnel practices.
- *Ethics Board* administers a code of ethics for State public officials.
- *Department of Revenue* collects the taxes imposed by State law, distributes that part of the revenue that is to be returned to the local units of government, and calculates the equalized value of the property that has been assessed by local government.

- *Department of Employee Trust Funds* manages the State's public employee retirement system.
- *Office of the State Treasurer* serves as custodian of unclaimed property and administers the EdVest Program, which is a Section 529 college savings program.
- *Office of the Secretary of State* keeps various state records and affixes the state seal on certain records to authenticate them.
- *Department of Financial Institutions* is responsible for chartering corporations.
- *State Elections Board* oversees the election processes of the State, monitoring campaign expenditures, and keeping election records.

Judicial

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

Legislative

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

General Appropriations

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

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

STATE OF WISCONSIN BUILDING COMMISSION

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

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

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

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

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

STATE OBLIGATIONS

General Obligations

The State, acting through the Commission, may issue general obligation bonds and notes or enter into loans that are secured by the State's full faith, credit, and taxing power. Payments of debt service on State general obligations are paramount to all other obligations of the State. As of December 1, 2006, the State had $5.697 billion of outstanding general obligations.

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

Operating Notes

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

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

The State did not issue any operating notes in the 2005-06 fiscal year and, as of this date, is not expected to issue any operating notes for the 2006-07 fiscal year.

Master Lease Program

The State, acting by and through the Department of Administration, has entered into a master lease for the purpose of acquiring property (and in limited situations, prepaid service contracts) for state agencies through installment payments. The State's obligation to make lease payments is subject to annual appropriation by the Legislature. The full faith and credit of the State are not pledged to the lease payments; the State is not obligated to levy or pledge any tax to pay the lease payments. The State's obligation to make the lease payments does not constitute debt for purposes of the Wisconsin Constitutional debt limit, and there is no limit to the amount of such obligations that the State can incur. Although an effort is made to use the master lease program for all property acquired by the State through nonappropriation leases, it is possible that state agencies may separately incur such obligations through other lease arrangements. Certificates of participation have been issued that evidence a proportionate interest in certain lease payments to be made by the State. As of December 1, 2006, the outstanding principal amount of the State's obligations under the master lease program was approximately $84 million. See Part IV of this Annual Report for additional information on master lease certificates of participation.

State Revenue Obligations

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

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

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

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

Three such programs have been authorized and are currently outstanding:

- *Transportation revenue bond program.* This program finances a portion of the costs of the State highways and related transportation facilities. The obligations are secured by motor vehicle registration fees and other registration-related fees. The Commission has issued twenty-one series of bonds (which includes refunding bond issues) and two series of commercial paper notes for this program, which were outstanding in the aggregate amount of $1.537 billion as of December 1, 2006. See Part V of this Annual Report for additional information on transportation revenue obligations.
- *Clean water fund program.* This program makes loans to municipalities in the State for the construction or improvement of their water pollution control facilities. The Commission has issued thirteen series of bonds for this program (which includes refunding bond issues), which were outstanding in the amount of $777 million as of December 1, 2006. See Part VI of this Annual Report for additional information on clean water revenue bonds.
- *Petroleum inspection fee revenue obligations program.* This program funds environmental remediation claims submitted under the Petroleum Environmental Cleanup Fund Award Program. Obligations issued for this program are secured by petroleum inspection fees. The Commission has issued four series of bonds (which includes refunding bond issues) and two series of extendible municipal commercial paper for this program, which were outstanding in the aggregate amount of $273 million as of December 1, 2006. See Part VII of this Annual Report for additional information on petroleum inspection fee revenue obligations.

General Fund Annual Appropriation Bonds

The State issued general fund annual appropriation bonds in 2003 to pay the State's unfunded accrued prior service (pension) liability, determined as of January 1, 2003, and the State's unfunded accrued liability for sick leave conversion credits, determined as of October 1, 2003. See "STATE OBLIGATIONS; Prior Service Pension Liabilities and Other Post Employment Benefits". The general fund annual appropriation bonds are not a debt of the State, and the State's obligation to make debt service payments is subject to annual appropriation by the Legislature. The full faith and credit of the State are not pledged, and the State is not obligated to levy or pledge any tax, to make the debt service payments. The State has issued the general fund annual appropriation bonds in the form of taxable fixed rate bonds and taxable auction rate certificates, which in aggregate were outstanding in the amount of $1.795 billion as of December 1, 2006. With respect to the general fund annual appropriation bonds issued in the form of taxable auction rate certificates, the State has entered into interest rate exchange agreements (commonly called swap agreements), so that the result is the State paying interest on based on a fixed interest rate.

See Part VIII of this Annual Report for additional information on general fund annual appropriation bonds.

Independent Authorities

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

Wisconsin Housing and Economic Development Authority

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

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

- *Programs secured by capital reserve fund.* Borrowing authority of $600 million, excluding debt issued to refund other debt, of which $409 million of borrowing authority was available on November 30, 2006.
- *Housing rehabilitation programs.* Borrowing authority of $100 million, of which $100 million of borrowing authority was available on November 30, 2006.
- *Single-family home ownership mortgage loan program.* WHEDA has issued $6.506 billion in such bonds as of November 30, 2006. In the one-year period ending November 30, 2006, WHEDA sold three single-family issues totaling $628 million.
- *Residential facilities for the elderly and chronically disabled.* Borrowing authority of $99 million, and as of November 30, 2006, WHEDA had sold three bond issues totaling $5 million.
- *Economic development and agriculture loans.* Borrowing authority of $217 million of which, as of November 30, 2006, WHEDA had sold 142 series of bonds for economic development and agriculture totaling $83 million, which are not general obligations of WHEDA, and 56 series of bonds, totaling $92 million, which are general obligations of WHEDA.
- *General programs not secured by capital reserve fund.* Approximately $41 million of obligations issued for this purpose remain outstanding as of November 30, 2006.

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

Wisconsin Health and Educational Facilities Authority

The Wisconsin Health and Educational Facilities Authority (**WHEFA**) provides revenue bond financing for hospitals, nursing homes, other health-related organizations, and private educational facilities. It may finance any qualifying capital project and may refinance any qualifying outstanding indebtedness. As of November 30, 2006, WHEFA had outstanding 291 issues totaling approximately $7.191 billion. All bonds are limited obligations of WHEFA, payable only from revenues specified in the documents pertaining to each bond financing and are not State debt. There is no capital reserve fund or authorization for a moral obligation pledge. An annual program and financial report to the Legislature and the Governor is required. The State Auditor is empowered to investigate WHEFA's financial affairs and prescribe methods of accounting. The governance of WHEFA is by a seven-member, staggered-term board nominated by the Governor and confirmed by the Senate. The Governor annually appoints the chairperson. Financial reports may be obtained from Wisconsin Health and Educational Facilities Authority, 18000 West Sarah Lane, Suite 300, Brookfield, WI 53045-5841. The phone number is (262) 792-0466, the e-mail address is info@whefa.com, and the web site address is www.whefa.com.

University of Wisconsin Hospitals and Clinics Authority

The University of Wisconsin Hospitals and Clinics Authority (**UWHC**) operates the University of Wisconsin hospital and a number of clinics. It provides instruction for medical and other health related professions, students, and sponsors. It also supports medical research and assists health care programs and personnel throughout the State. As of November 30, 2006, UWHC had outstanding five issues totaling approximately $242 million.

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

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

Local Districts

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

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

to pay debt service. To date, one such district has been created (the Southeast Wisconsin Professional Baseball Park District).

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

Moral Obligations

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

- Payments required to be made by municipalities on loans from the Clean Water Fund Program, if so designated by the State. Currently no Clean Water Fund Program loan carries a moral obligation of the State.
- Payments to reserve funds securing certain obligations of WHEDA. Currently there are 7 issues outstanding in the aggregate amount of $417 million that carry a moral obligation of the State.

Name of WHEDA Issue	Maturity Date	Principal Issued	Outstanding Balance
Housing Revenue Bonds			
1992 Series A	11/1/2012	$ 72,450,000	$ 2,910,000
1998 Series A, B & C	11/1/2032	39,895,000	24,725,000
1999 Series A & B	11/1/2031	41,400,000	32,790,000
2000 Series A & B	11/1/2032	10,785,000	9,950,000
2002 Series A-I	5/1/2034	169,160,000	130,090,000
2003 Series A-E	5/1/2044	41,975,000	40,410,000
2005 Series A-F	11/1/2045	179,535,000	176,495,000
Totals			$417,370,000

- Payments to reserve funds securing certain obligations of different types of local districts, subject to the Secretary of Administration's determination that certain conditions have been met. Currently there is one issue from a local district (Wisconsin Center District) that is outstanding in the amount of $126 million that carries a moral obligation of the State. Two other local districts (the Southeast Wisconsin Professional Baseball Park District and the Green Bay-Brown County Professional Football Stadium District) each have authority to issue $160 million of revenue obligations that, subject to the Secretary of Administration's determination that certain conditions have been met, could carry a moral obligation of the State. Both districts have issued revenue obligations that do not carry the moral obligation of the State.
- Payments to reserve funds securing obligations issued by certain redevelopment authorities, subject to the Secretary of Administration's determination that certain conditions have been met. Currently there are two issues from a redevelopment authority (Redevelopment Authority of the City of Milwaukee) for the Milwaukee Public Schools Neighborhood Schools Initiative that are outstanding in the total amount of $112 million that both carry a moral obligation of the State.

Employee Pension Funds

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

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

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

WRS covers all full-time employees of the State. The total retirement contribution consists of a member (employee) contribution and an employer contribution. Member contributions for calendar year 2007 are set at the following rates:

- 5.0% of salary for general employees including teachers
- 3.0% for elected officials, judges, and certain other positions in State government
- 5.1% for protective occupation participants who are also covered by Social Security
- 3.4% for protective occupation participants not covered by Social Security

Employer pick-up of some or all of the member's required contribution is permitted by the Wisconsin Statutes. Currently the entire member contribution of 5% of each State employee's salary is assumed by the State. An additional 1.0% nonrefundable contribution is required from general employees, including teachers.

The employer contribution is actuarially determined each year by an independent actuarial firm. As of December 1, 2006, the calendar year 2007 employer contributions have been established at the following rates:

- 8.2% for protective participants with Social Security
- 10.8% for protective participants without Social Security
- 8.5% for elected officials and judges
- 4.6% for general employees

In addition, the State is also charged 3.8% of its protective payroll for special duty disability coverage.

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

Contributions into the Wisconsin Retirement System are invested by the State of Wisconsin Investment Board as provided by law, and are maintained in two separate funds: the Fixed Retirement Investment

Trust and the Variable Retirement Investment Trust. Investments are recorded pursuant to the Wisconsin Statutes as follows:

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

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

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

Prior Service Pension Liabilities and Other Post Employment Benefits.

Pension Liabilities in Accompanying Financial Statements

Liabilities of WRS are reported in the accompanying financial statements. While WRS covers most public employers and employees in the State of Wisconsin, including local governments, the State and its participants account for 28% of the all participants in the system. WRS tracks unfunded prior service liabilities in separate accounts for each employer. The unfunded prior service liabilities reported in the accompanying financial statements are entirely attributable to other units of government and not to the State of Wisconsin.

Pension and Sick Leave Conversion Benefits

Prior to 2004, the State of Wisconsin recognized for accounting and disclosure purposes an unfunded prior service liability for the State's account within WRS. The State also recognized for accounting and disclosure purposes an unfunded prior service liability for a compensated absence benefit known as the Sick Leave Conversion Benefit, which permits employees, at retirement, to use the value of unused sick leave to pay for health insurance premiums. Proceeds from the State's issuance of General Fund Annual Appropriation Bonds in calendar year 2003 fully funded both of these prior service liabilities, and the State currently has no prior service liabilities associated with these benefits.

Implied Subsidy of Group Health Insurance

GASB Statement 45 establishes accounting requirements for prior service Other Post Employment Benefits (OPEB). The State permits its retirees to participate, at their own expense, in the State's group health insurance plans at the same risk premiums as active employees. Retirees, as a group, have significantly higher health care costs than active employees. Their inclusion in the same risk pool as active employees results in a higher premium for active employees than the premium would be if retirees were not included in the same risk pool. The additional cost for active employee group health insurance is referred to as an implied subsidy of each retiree's group health insurance premiums. Group health insurance for active employees and retirees converts to Medicare at age 65.

Under GASB Statement 45, the State will be required to estimate and disclose any unfunded prior service liability for the implied subsidy. The State has not yet undertaken an actuarial study of the cost of the implied subsidy of retirees' group health insurance premiums.

Implied Subsidy of Retiree Life Insurance Program

A Retiree Life Insurance Program may also have an implied subsidy component. Again, no actuarial study to estimate the cost of this benefit has been conducted. It is anticipated the implied subsidy of this benefit will not be material.

Table II-14

WISCONSIN RETIREMENT SYSTEM
ACTUARIAL STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2005 (UNAUDITED)
(Amounts in Millions)

	12/31/2005	12/31/2004	Increase (Decrease)
Assets and Employer Obligations:			
Net Assets			
Cash, Investments & Receivables			
Less: Payables & Suspense Items			
Fixed Division	$62,230.4	$60,034.4	$2,196.0
Variable Division	6,384.7	6,175.0	209.7
Totals	68,615.1	66,622.3	2,405.7
Obligations of Employers			
Unfunded Accrued Liability	372.4	412.9	(40.5)
TOTAL ASSETS	$68,987.5	$66,622.3	$2,365.2
Reserves and Surplus:			
Reserves			
Actuarial Present Value of Projected Benefits Payable to Terminated Vested Participants and Active Members:			
Member Normal Contributions	$15,010.6	$14,911.1	$ 99.5
Member Additional Contributions	144.7	139.2	5.5
Employer Contributions	21,164.2	20,742.1	422.1
Total Contributions	$36,319.5	$35,792.4	$527.1
Actuarial Present Value of Projected Benefits Payable to Current Retirees And Beneficiaries:			
Fixed Annuities	$28,359.7	$26,232.2	$2,127.5
Variable Annuities	3,970.7	3,654.5	316.2
TOTAL ANNUITIES	32,330.4	29,886.7	2,443.7
TOTAL RESERVES	$68,649.9	$65,679.1	$2,970.8
Surplus			
Fixed Annuity Reserve Surplus	$ 215.6	$ 687.8	($ 472.2)
Variable Annuity Reserve Surplus	122.0	255.4	(133.4)
TOTAL SURPLUS	337.6	943.2	(605.6)
TOTAL RESERVES AND SURPLUS	$68,987.5	$66,622.3	$2,365.2

Notes to Wisconsin Retirement System

All eligible State of Wisconsin employees participate in the Wisconsin Retirement system **(System)**, a cost-sharing multiple-employer public employee retirement system **(PERS)**. The payroll for employees covered by the system for the year ended December 31, 2005 was $3.26 billion.

All permanent employees expected to work over 600 hours a year are eligible to participate in the System. Covered employees are required by statute to contribute 5.0% of their salary (3.0% for Executive and Elected Officials, 5.1% for Protective Occupations with Social Security, and 3.4% for Protective Occupations without Social Security), to the plan. Participants are also required to make a non-refundable Benefit Adjustment Contribution to the plan. Employers may make these contributions to the plan on behalf of the employees. Employers are required to contribute the remaining amounts necessary to pay the projected cost of future benefits. The total required contribution for the year ended December 31, 2005 was $346 million, which consisted of $162 million or 5.0% of payroll from the employer and $184 million or 5.6% of payroll from employees.

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

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

The System utilizes the "Entry Age Normal with Frozen Initial Liability" actuarial method in establishing employer contribution rates. Under this method, the Unfunded Accrued Actuarial Liability is affected only by the monthly amortization payments, compound interest, the added liability created by new employer units, and any added liabilities caused by changes in benefit provisions. All actuarial gains or losses arising from the difference between actual and assumed experience are reflected in the determination of the normal cost. The unfunded accrued actuarial liability is being amortized over a 40-year period beginning January 1, 1990. However, periodically, the Employe Trust Funds Board has reviewed and, when appropriate, adjusted the actuarial assumptions used to determine this liability. Changes in the assumptions affect the unfunded accrued actuarial liability, and the resulting actuarial gains or losses are credited or charged to employer's unfunded liability accounts. The State of Wisconsin, as of December 31, 2005, had no unfunded liability. The total system unfunded liability of $373 million, as of December 31, 2005, is attributable to local governments.

Ten-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's December 31, 2005 Comprehensive Annual Financial Report.

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

Table II-15

WISCONSIN RETIREMENT SYSTEM
FUNDING RATIO
(Amounts in Thousands)

Year	A Net Real Assets	B Unfunded Actuarial Liability	C Reserve Requirement (A+B)	D Funding Ratio (A÷C)
1996	$ 33,962,600	$ 2,134,400	$ 36,097,000	94.1
1997	38,584,600	2,178,300	40,762,900	94.7
1998	43,390,500	2,226,600	45,617,100	95.1
1999	49,403,700	2,145,800	51,549,500	95.8
2000	51,824,600	2,169,000	53,993,600	96.0
2001	58,024,300	2,110,400	60,134,700	96.5
2002	57,861,900	1,756,900	59,618,800	97.1
2003	62,685,300	526,400	63,211,700	99.2
2004	66,209,400	412,900	66,622,300	99.4
2005	68,615,100	372,500	68,987,500	99.5

Source: Department of Employee Trust Funds.

Table II-16

WISCONSIN RETIREMENT SYSTEM
COVERED EMPLOYEES
1996-2005

Year	Active State	Active Local	Retired
1996	63,886	175,749	92,198
1997	64,381	179,531	95,128
1998	65,663	183,074	99,112
1999	66,716	186,582	102,817
2000	68,330	189,710	107,425
2001	70,512	193,371	112,142
2002	71,222	195,128	116,289
2003	71,031	194,119	121,582
2004	70,933	193,667	126,211
2005	70,006	193,116	131,674

Source: Department of Employee Trust Funds.

Table II-17

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

	State		Local		Total	
Year	**Employee**	**Employer**	**Employee**	**Employer**	**Employee**	**Employer**
1996	$7,582	$282,430	$5,570	$759,765	$13,152	$1,042,195
1997	6,006	294,834	8,336	761,116	14,342	1,055,950
1998	1,686	298,793	4,015	777,419	5,701	1,076,212
1999	886	294,436	3,564	863,003	4,450	1,157,439
2000	800	305,049	3,543	754,516	4,343	1,059,565
2001	739	283,567	3,467	765,541	4,206	1,049,108
2002	763	315,782	3,679	733,748	4,442	1,049,530
2003	860	304,740	3,871	758,829	4,731	1,063,569
2004	937	324,297	4,106	784,860	5,043	1,109,156
2005	1,038	344,760	4,339	829,156	5,377	1,173,916

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

Source: Department of Employee Trust Funds.

Table II-18

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

Employee Classification	**Current Service**	**Prior Service**	**Total**
Protective	8.2%	0.0%	8.2%
Elected	8.5	0.0	8.5
General.......................	4.6	0.0	4.6

(a) Effective January 1, 2007

Source: Department of Employee Trust Funds.

Table II-19

WISCONSIN RETIREMENT SYSTEM
REVENUES BY TYPE
(Amounts in Thousands)

	Contributions						
Year	**Required Employee**	**Required Employer[(a)]**	**Additional Employee**	**Investment Income**	**Supplemental**	**Misc.**	**Total**
1996	$393,765	$ 661,582	$13,199	$ 5,414,556	$ 358	$ 160	$ 6,483,620
1997	410,567	659,725	6,422	7,241,025	216,590	179	8,534,508
1998	520,864	561,049	9,848	7,037,489	7,315	231	8,136,796
1999	505,411	656,478	8,802	9,235,371	6,272	205	10,412,539
2000	511,661	561,052	10,441	(1,032,185)	5,496	184	56,649
2001	496,012	557,303	5,086	(1,990,408)	4,517	211	(927,279)
2002	513,038	910,181	13,593	(5,880,598)	3,873	184	(4,439,279)
2003	564,754	1,737,816	6,329	12,043,429	3,301	3,563	14,359,192
2004	605,184	645,476	18,236	7,512,872	3,082	191	8,785,131
2005	623,250	603,012	17,468	5,492,548	3,039	173	6,739,490

(a) The amount in 2003 reflects payment made by the State from proceeds of obligations issued to fund the State's unfunded accrued prior service liability, as of January 1, 2003. Employer contributions include current service and, for employers other than the State, amounts required to reduce their respective unfunded accrued liability over a 40–year amortization period beginning in 1990.

Source: Department of Employee Trust Funds.

Table II-20

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

Year	**Separations**	**Death**	**Annuities**	**Supplemental[(b)]**	**Misc.**	**Total**
1996...............	$36,883	$15,359	$1,254,044	$ 358	$ 24,586	$1,331,230
1997...............	41,039	12,332	1,514,634	216,590	11,108	1,795,703
1998...............	41,931	13,939	1,624,293	7,315	10,978	1,698,456
1999...............	35,609	13,858	1,844,479	6,272	12,328	1,912,546
2000...............	49,814	25,724	2,237,824	5,496	183,350	2,502,208
2001...............	40,740	22,308	2,467,690	4,517	15,635	2,550,890
2002...............	38,470	27,551	2,603,193	3,873	18,667	2,691,754
2003...............	28,847	32,725	2,627,877	3,301	16,392	2,729,142
2004...............	24,967	28,028	2,797,263	3,082	13,496	2,866,836
2005...............	25,221	26,633	3,041,029	3,039	17,859	3,113,781

(a) Amounts include payments from employee additional contributions.

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

Source: Department of Employee Trust Funds.

ACTUARIAL ASSUMPTIONS

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

Table II-21

WISCONSIN RETIREMENT SYSTEM
SEPARATION BEFORE AGE AND SERVICE RETIREMENT

Select and Ultimate Withdrawal

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

Disability Rates

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

Source: Department of Employee Trust Funds.

Table II-22

WISCONSIN RETIREMENT SYSTEM
RETIREMENT PATTERNS

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

% Retiring Next Year

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

Source: Department of Employee Trust Funds.

Table II-23

WISCONSIN RETIREMENT SYSTEM
OTHER ASSUMPTIONS

Mortality Rates

Active & Retired Life Mortality Rates

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

Salary Scale

% Increases in Salaries Next Year

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

Future Annual Investment Return

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

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

Source: Department of Employee Trust Funds.

STATE OF WISCONSIN INVESTMENT BOARD

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

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

Pursuant to Wisconsin Statutes, the State Investment Fund consists of cash balances of the General Fund, State agencies and departments, and Wisconsin Retirement System reserves. In addition, the State Investment Fund also includes investment deposits from elective participants consisting of over 1,000 municipalities and other public entities, which are accounted for in a subset of the State Investment Fund called the Local Government Investment Pool (**LGIP**). The LGIP portion of the State Investment Fund is additionally insured as to most credit risks by an independent insurer.

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

- Safety of principal
- Liquidity
- Reasonable rate of return

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

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

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

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

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

The nine members of the Board of Trustees include:

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

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

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

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

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

Table II-24

STATE INVESTMENT FUND
AS OF OCTOBER 31, 2006 (UNAUDITED)
Holdings Detail Report

	Amortized Cost	Market Value	Portfolio Percentage at Amortized Cost
U.S. Government and Agencies	$3,835,000,000	$3,835,000,000	66.9%
Corporate Commercial Paper	1,248,830,175	1,248,830,175	21.8
Certificates of Deposit	550,000,000	550,000,000	9.6
Mortgage-Backed	309,573	309,573	0.0
Yankee/Euro (Fully Hedged)	100,000,591	100,000,591	1.7
	$5,734,140,339	$5,734,140,339	100.0%

Accrued Gross Income: $10,260,748

Average Maturity for the Last Six Months

Reporting Date	Average Maturity (Days)	Reporting Date	Average Maturity (Days)
10/31/2006	17	7/31/2006	18
9/30/2006	19	6/30/2006	21
8/31/2006	19	5/31/2006	18

Summary of Investment Fund Participants
As of October 31, 2006

	Par Amount	Percent of Portfolio
Mandatory Participants		
State of Wisconsin and Agencies	$ 2,644,769,000	47.9%
State of Wisconsin Investment Board	443,977,000	8.0
Elective Participants		
Local Government Investment Pool	2,436,474,000	44.1
	$ 5,525,220,000	100.0%

NOTE: The difference between the total of the participants' share ($5,525,220,000) and the amortized cost ($5,734,140,339) is the result of check float (checks written and posted at the Department of Administration that have not cleared the bank) and a timing delay by the State in posting bank receipts that have already been invested by SWIB.

Source: State of Wisconsin Investment Board

STATISTICAL INFORMATION

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

Table II-25
STATE ASSESSMENT
(EQUALIZED VALUE)
OF TAXABLE PROPERTY
1997 TO 2006

Calendar Year	Value of Taxable Property	Rate of Increase (Decrease)
1997	$233,074,233,400	—
1998	248,994,915,200	6.8%
1999	266,567,513,500	7.1
2000	286,321,491,800	7.4
2001	312,483,706,600	9.1
2002	335,326,478,700	7.3
2003	360,710,211,300	7.6
2004	391,187,814,700	8.4
2005	427,933,562,000	9.4
2006	468,983,199,800	9.6

Source: Department of Revenue.

Table II-26
DELINQUENCY RATE:
INCOME, FRANCHISE, GIFT, SALES, AND USE TAXES
1996-97 TO 2005-06

Fiscal Year	Total Revenues Expected (Amounts in Thousands)	Delinquent Balance[a] (Amounts in Thousands)	Delinquent Balance as a Percent of Total Revenues Expected
1996-97	$ 8,059,345	$503,470	6.25%
1997-98	8,767,838	549,488	6.27
1998-99	9,011,610	478,883	5.31
1999-2000	10,144,899	515,487	5.08
2000-01	9,327,051	538,914	5.78
2001-02	9,255,488	615,933	6.65
2002-03	9,264,797	564,275	6.09
2003-04	9,775,264	585,170	5.99
2004-05	10,480,113	562,729	5.37
2005-06	11,049,893	585,246	5.30

[a] The collectible delinquent tax balance is generally less than shown. The collectible delinquent tax balance is determined by decreasing the delinquent tax balance by the amounts that are most likely not collectible. For example, to determine the collectible delinquent tax for the 2005-06 fiscal year, the delinquent balance is decreased by 95% of amounts owed by taxpayers in bankruptcy, by 99% of the amounts owed by deceased taxpayers, by 100% of the amounts owed by defunct corporations, and by 20% of the amounts owed by accounts assigned to field revenue agents.

Source: Department of Revenue.

Table II-27
POPULATION TREND

	Wisconsin Total (Amounts in Thousands)	Rank	% Change Wisconsin	% Change U.S.	Population Per Sq. Mile Wisconsin	Population Per Sq. Mile U.S.
1910	2,334	13	12.8	21.0	42.2	26.0
1920	2,632	13	12.8	15.0	47.6	29.9
1930	2,939	13	11.7	16.2	53.7	34.7
1940	3,138	13	6.8	7.3	57.3	37.2
1950	3,435	14	9.5	14.5	62.8	42.6
1960	3,952	15	15.1	18.5	72.6	50.6
1970	4,418	16	11.8	13.3	81.1	57.5
1980	4,706	16	6.5	11.4	86.5	64.0
1990	4,892	16	4.0	9.8	90.1	70.3
2000	5,364	18	9.6	13.2	98.8	79.6
2001	5,404	18	0.8	1.3	99.5	80.6
2002	5,439	20	0.6	1.0	100.2	81.4
2003	5,472	20	0.6	1.0	100.8	82.2
2004	5,504	20	0.6	1.0	101.4	83.0
2005	5,536	20	0.6	1.0	101.9	84.0

Source: Decennial census and land area statistics—2000 Census of Population and Housing, and U.S. Bureau of the Census World Wide Web Site; Tables GCT-T1-R and TM-M2.

Table II-28
POPULATION CHARACTERISTICS
(April 2000)

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

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

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

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

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

Table II-29
POPULATION BY AGE GROUP
(2005)

	Wisconsin	U.S.
Under 5	6.3%	6.8%
5-14	13.2	14.0
15-44	41.6	41.9
45-59	21.7	20.5
60 and over	17.1	16.6
Total	100.0	100.0

Source: 2005 American Community Survey Table B01001.

Table II-30
ESTIMATED PERSONAL INCOME

Year	Wisconsin Total (Amounts in Millions)	Per Capita Wisconsin	Per Capita U.S.	Percentage Wis. to U.S.
1996	$121,864	$23,301	$24,270	96.0%
1997	128,920	24,481	25,412	96.3
1998	137,759	26,004	26,893	96.7
1999	143,589	26,926	27,880	96.6
2000	153,548	28,570	29,845	95.7
2001	158,888	29,392	30,575	96.1
2002	163,273	30,011	30,814	97.4
2003	167,586	30,613	31,487	97.2
2004	176,630	32,063	33,041	97.0
2005	185,821	33,511	34,586	96.8

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

Table II-31
MEDIAN INCOME FOR FOUR-PERSON FAMILY

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

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

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

	Wisconsin Distribution		U.S. Distribution	
	2005	**2004**	**2005**	**2004**
Farm	0.6%	0.6%	0.4%	0.3%
Nonfarm				
Private Nonfarm	84.7	80.9	82.6	83.2
Natural Resources & Mining	0.3	0.3	1.0	0.9
Construction	5.6	5.4	5.6	5.4
Manufacturing	22.2	23.8	12.5	13.7
Wholesale Trade	5.7	5.3	5.7	5.5
Retail Trade	6.8	6.6	7.0	6.8
Transportation, Warehousing & Utilities	4.3	4.4	3.9	4.1
Information	2.2	2.1	3.4	3.5
Financial Activities	7.4	7.1	9.5	9.1
Professional & Business Services	10.8	9.9	15.3	14.2
Educational & Health Services	13.4	12.5	11.5	10.9
Leisure & Hospitality	3.3	3.1	4.2	4.0
Other Services	2.9	2.7	3.1	2.9
Government	14.7	16.2	17.0	18.7
Total Earnings by Industry	100.0	100.0	100.0	100.0

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

Source: Bureau of Economic Analysis, U.S. Department of Commerce Table SA07, World Wide Web Site.

Table II-33
ESTIMATED EMPLOYEES IN WISCONSIN ON NONAGRICULTURAL PAYROLLS[(a)]
2005 ANNUAL AVERAGE

	Wisconsin		U.S.	
	(Amounts in Thousands)	**%**	**(Amounts in Thousands)**	**%**
Natural Resources & Mining	3.9	0.1	625	0.5
Construction	129.3	4.6	7,277	5.5
Manufacturing	506.5	17.8	14,232	10.7
Transportation, Warehousing & Utilities	106.5	3.8	4,904	3.7
Wholesale Trade	117.6	4.1	5,749	4.3
Retail Trade	315.9	11.1	15,255	11.4
Information	49.5	1.7	3,066	2.3
Financial Activities	158.6	5.6	8,141	6.1
Professional & Business Services	261.0	9.2	16,882	12.6
Educational & Health Services	385.6	13.6	17,342	13.0
Leisure & Hospitality	257.2	9.1	12,802	9.6
Other Services	135.3	4.8	5,386	4.0
Government	412.7	14.5	21,803	16.3
Total	2,839.6	100.0	133,463	100.0

[(a)] Not seasonally adjusted.

Table II-34
GENERAL STATISTICS OF MANUFACTURING[a]

	2000	**2005**
New Capital Expenditures (millions)	$ 4,363.4	$ 3,902.8
Number of Employees (thousands)	574.9	473.0
Total Payroll (millions)	$ 21,012.9	$ 19,334.4
Number of Production Workers (thousands)................................	425.6	342.1
Value Added by Manufacturer (millions).........	$ 63,684.4	$ 66,964.9
Value of Shipments (millions)..........................	$131,754.9	$144,243.8

[a] Data for 2000 and 2005 is from census of manufacturers.

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

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

	Wisconsin			**United States**		
	1990	**2005**	**% Change**	**1990**	**2005**	**% Change**
Weekly Earnings	$459.77	$658.12	43.1	$436.16	$673.61	54.4
Weekly Hours........................	41.4	40.4	(2.4)	40.5	40.7	0.5
Hourly Earnings	$ 11.10	$ 16.29	46.8	$ 10.78	$ 16.56	53.6
Number of All Manufacturer Workers (Amounts in thousands).........	523	507	(3.0)	17,695	14,232	(19.6)

Source: Department of Workforce Development.

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

		% Change	
Year	**Wisconsin**	**Wisconsin**	**U.S.**
1995	32,403	(6.4)	(2.8)
1996	33,296	2.8	7.0
1997	31,925	(4.1)	1.1
1998	35,436	11.0	11.9
1999	35,570	0.4	3.2
2000	34,154	(4.0)	(4.3)
2001	37,773	10.6	2.8
2002	38,208	1.2	6.8
2003	40,884	7.0	8.1
2004	39,992	(2.2)	8.6
2005	35,334	(11.6)	4.1

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

Table II-37
UNEMPLOYMENT RATE COMPARISON[a]
BY MONTH 2001 To 2006
BY QUARTER 1997 To 2000

	2006		2005		2004		2003		2002		2001	
	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.
January.......	5.0	5.1	5.5	5.7	5.9	6.3	6.2	6.5	5.9	6.3	4.2	4.7
February.....	5.7	5.1	5.9	5.8	6.2	6.0	6.7	6.4	6.3	6.1	4.8	4.6
March	5.5	4.8	5.6	5.4	6.3	6.0	6.6	6.2	6.4	6.1	5.0	4.5
April	5.0	4.5	4.9	4.9	5.3	5.4	6.0	5.8	5.7	5.7	4.5	4.2
May............	4.5	4.4	4.6	4.9	4.9	5.3	5.5	5.8	5.0	5.5	4.0	4.1
June............	4.9	4.8	4.9	5.2	5.3	5.8	6.2	6.5	5.5	6.0	4.6	4.7
July	4.9	5.0	4.6	5.2	4.9	5.7	5.7	6.3	5.2	5.9	4.2	4.7
August........	4.2	4.6	4.3	4.9	4.6	5.4	5.4	6.0	5.0	5.7	4.2	4.9
September..	4.1	4.4	4.0	4.8	4.2	5.1	4.9	5.8	4.4	5.4	3.8	4.7
October......	3.9	4.1	3.8	4.6	4.1	5.1	4.6	5.6	4.3	5.3	4.1	5.0
November ..			4.3	4.8	4.3	5.2	4.8	5.6	4.8	5.6	4.6	5.3
December...			4.4	4.6	4.5	5.1	4.9	5.4	5.0	5.7	4.8	5.4
Annual Average ...			4.7	5.1	5.0	5.5	5.6	6.0	5.3	5.8	4.4	4.7

2000 Quarters	Wis.	U.S.
I	3.9	4.4
II	3.4	3.9
III	3.3	4.0
IV	3.0	3.7
Annual Average...............	3.4	4.0

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

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

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

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

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

APPENDIX A

GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS

The following material is a reprint of the "General Purpose External Financial Statements" section of the audited CAFR for the fiscal year ended June 30, 2006. The entire CAFR is available from the State Controller's Office, Department of Administration, P.O. Box 7864, Madison, WI 53707-7864. The entire CAFR is also available on the internet at:

www.doa.wi.gov/capitalfinance

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

WISCONSIN

GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS

For the fiscal year ended June 30, 2006

STATE OF
WISCONSIN

GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS

For the fiscal year ended June 30, 2006

Jim Doyle, Governor

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

Prepared by the State Controller's Office

DOA-6082AP (R12/06)

State of Wisconsin

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

Table of Contents

WISCONSIN DEPARTMENT OF
ADMINISTRATION

JIM DOYLE
GOVERNOR
STEPHEN E. BABLITCH
SECRETARY
Office of the Secretary
Post Office Box 7864
Madison, WI 53707-7864
Voice (608) 266-1741
Fax (608) 267-3842

December 15, 2006

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

We are pleased to submit the General Purpose External Financial Statements of the State of Wisconsin for the fiscal year ended June 30, 2006.

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

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

Sincerely,

Stephen E. Bablitch
Secretary

William J. Raftery, CPA
State Controller

STATE OF WISCONSIN
Legislative Audit Bureau

22 E. Mifflin St., Ste. 500
Madison, Wisconsin 53703
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Janice Mueller
State Auditor

INDEPENDENT AUDITOR'S REPORT

Honorable Members of the Legislature The Honorable James Doyle, Governor

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Wisconsin as of and for the year ended June 30, 2006, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Wisconsin's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the following financial statements: the Wisconsin Department of Transportation Revenue Bond Program and Commercial Paper Program, which represent 11 percent of the liabilities of the governmental activities and 2 percent of the expenditures of the aggregate remaining fund information; the Badger Tobacco Asset Securitization Fund, which represents 10 percent of the liabilities of the governmental activities; the Environmental Improvement Fund, which is a major fund and represents 18 percent of the assets and 19 percent of the liabilities of the business-type activities; or the College Savings Program Trust, which represents 2 percent of the assets of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts audited by others, are based solely upon their reports. In addition, we did not audit the financial statements of the discretely presented component units. Those financial statements were audited by other auditors. Our opinion on the aggregate discretely presented component units, insofar as it relates to the amounts audited by others, is based upon the reports of the Wisconsin Housing and Economic Development Authority, the University of Wisconsin Hospitals and Clinics Authority, and the University of Wisconsin Foundation.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Wisconsin Housing and Economic Development Authority, which were audited by other auditors, were also audited in accordance with these standards. The financial statements of the other funds and component units that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *Government Auditing Standards*. Auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial positions of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Wisconsin as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have prepared a report dated December 15, 2006, on our consideration of the State of Wisconsin's internal control over financial reporting; tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report on internal control and compliance is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

LEGISLATIVE AUDIT BUREAU

December 15, 2006 by Janice Mueller

Janice Mueller
State Auditor

MANAGEMENT'S DISCUSSION AND ANALYSIS

The *Management's Discussion and Analysis* of the State of Wisconsin's Comprehensive Annual Financial Report (CAFR) presents a discussion and analysis of the State's financial performance during the fiscal year that ended June 30, 2006. It should be read in conjunction with the transmittal letter located at the front of this CAFR, and the State's financial statements, which follow this part of the CAFR.

FINANCIAL HIGHLIGHTS -- PRIMARY GOVERNMENT

Government-wide (Tables 2 and 3 on Pages 9 and 10)

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

Fund

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

Long-term Debt

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

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

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

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

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

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

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

(Table 1, continued)

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

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

Additional Required Supplementary Information

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

Other Supplementary Information

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

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

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

Net Assets

As presented in Table 2, total assets of the State on June 30, 2006 were $30.5 billion, while total liabilities were $18.5 billion, resulting in combined net assets (government and business-type activities) of $12.0 billion. The largest component of the State's total net assets, $15.5 billion or approximately 129.6 percent, reflects its investment in capital assets (i.e., land, buildings, equipment, infrastructure, and others), less any related debt outstanding that was needed to acquire or construct the assets. Approximately $4.6 billion of net assets were restricted by external sources or the State Constitution or Statutes, and were not available to finance the day-to-day operations of the State.

The unrestricted net assets, which, if positive, could be used at the State's discretion, showed a negative balance of $(8.1) billion. Therefore, based on this measurement, no funds were available for discretionary purposes. A contributing factor to the negative balance is that governments recognize a liability on the government-wide statement of net assets as soon as an obligation is incurred. While financing focuses on when a liability will be paid, accounting is primarily concerned with when a liability is incurred. Accordingly, the State recognizes long-term liabilities (such as general obligation debt, compensated absences, and future benefits and loss liabilities – listed in Note 10 to the financial statements) on the statement of net assets. In addition to the effect of reporting long-term liabilities when incurred, the General Fund's total deficit fund balance of $(2.2) billion at year-end, as discussed on Page 13, also contributed to the deficit unrestricted net assets reported in the statement of net assets.

During Fiscal Year 2006, the State issued $0.7 billion of general obligation bonds, primarily for the acquisition or improvement of land, water, property, highways, buildings, and equipment, the refunding of certain outstanding bonds, and the funding of veterans loan programs. General obligation bonds outstanding at June 30, 2006 totaled $4.9 billion. Outstanding appropriation bonds, issued in Fiscal Year 2004 to pay the State's unfunded accrued prior service (pension) liability and its unfunded accrued liability for sick leave conversion credits, were $1.8 billion at June 30, 2006. Outstanding revenue bonds, which are not considered general obligation debt of the State, were $3.8 billion at June 30, 2006.

Table 2
Net Assets
(in millions)

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

Changes in Net Assets

The revenues and expenses information, as shown in Table 3, was derived from the government-wide statement of activities and reflects how the State's net assets changed during the fiscal year. The State earned program revenues of $13.5 billion and general revenues of $13.7 billion for total revenues of $27.2 billion during Fiscal Year 2006. Expenses for the State during Fiscal Year 2006 were $26.7 billion. As a result of the excess of revenues over expenses, the total net assets of the State increased $0.5 billion, net of contributions and transfers.

Table 3
Changes in Net Assets
(in millions)

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

Governmental Activities

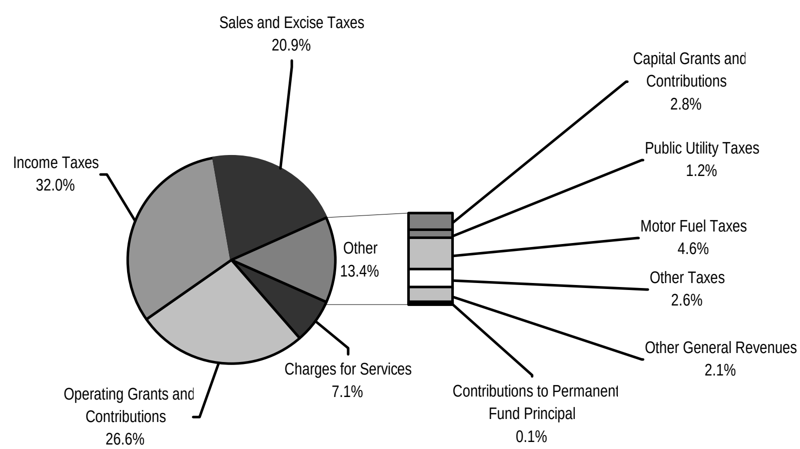
The net assets of governmental activities increased $0.2 billion in Fiscal Year 2006. Revenues for the governmental activities (including Contributions to Permanent Fund Principal) totaled $21.5 billion, while expenses and net transfers totaled $21.3 billion in 2006.

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

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

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

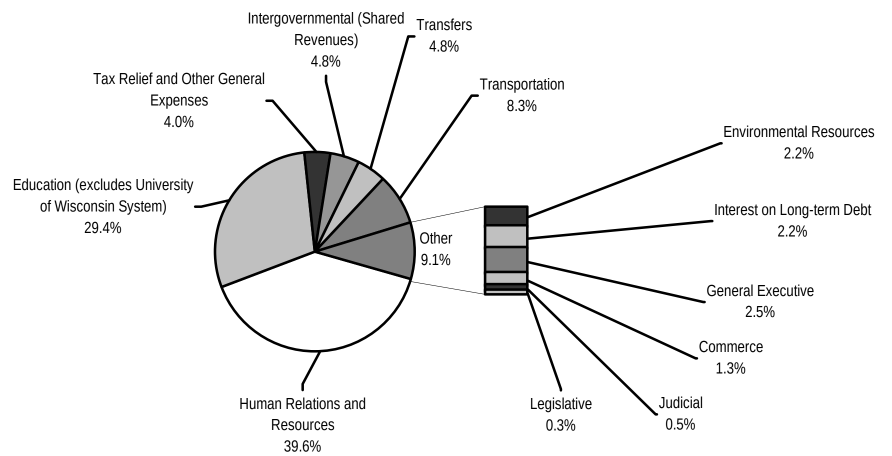
Table 4
Governmental Activities - 2006 Revenues



As shown in Table 5, below, expenses for Human Relations and Resources programs make up the largest portion – 39.6 percent – of total governmental expenses and transfers. Included in this function are various programs such as Medical Assistance, the prison system, and the temporary assistance for needy families "TANF" program.

Educational expenses, which include various school aids but exclude expenses of the University of Wisconsin System, make up 29.4 percent. Tax Relief and Other General Expenses and the municipal and county shared revenue program represent 8.8 percent of the total, while Transportation expenses represent 8.3 percent. Net transfers to business-type activities, which include a general purpose revenue "GPR" subsidy to the University of Wisconsin System, make up 4.8 percent of the total expenses/transfers. The interest on long-term debt and remaining functional expenses total 9.1 percent.

Table 5
Governmental Activities - 2006 Expenses



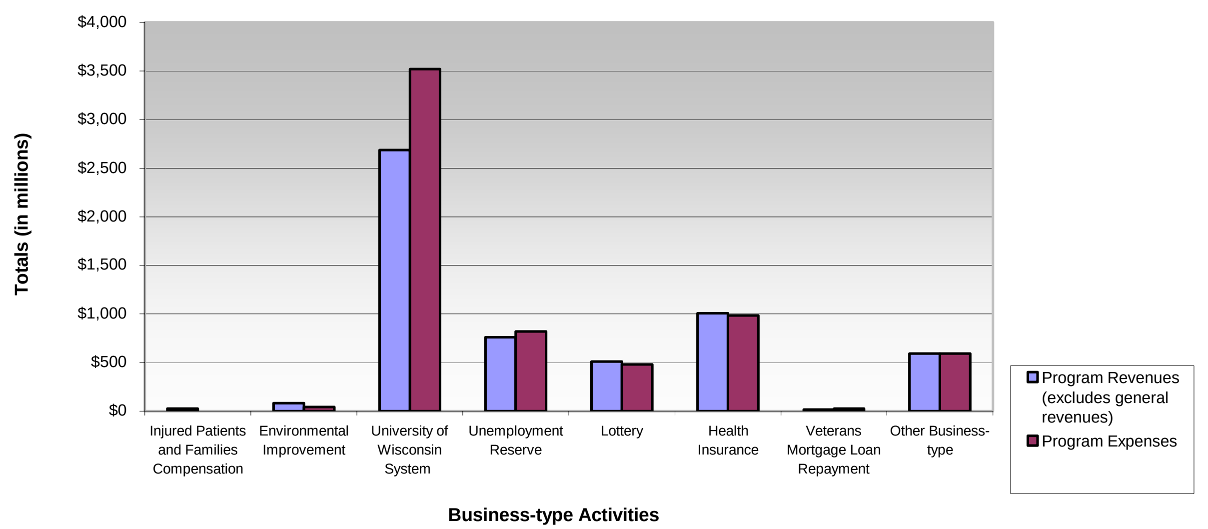
Business-Type Activities

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

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

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

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



FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

Governmental Funds

At the end of Fiscal Year 2006, the State's governmental funds reported a negative combined fund balance of $(968.9) million. Funds with significant changes in fund balance are discussed below:

General Fund

The General Fund is the chief operating fund of the State. At June 30 2006, the State's General Fund reported a total fund deficit of $(2,150.5) million. The net change in fund balance during Fiscal Year 2006 was $(8.5) million, in contrast to $(223.1) million in Fiscal Year 2005. Major revenue, expenditure and other sources/uses contributing to the change in fund balance are as follows:

Revenues

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

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

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

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

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

Expenditures

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

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

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

- Other expenditures increased $66.5 million.

Other Financing Sources and Uses

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

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

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

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

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

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

As of June 30, 2006, the General Fund reported a deficit of $(2,506.9) million in its “Unreserved” Fund Balance. This compares to a General Fund Unreserved Fund Deficit of $(2,459.5) million as of June 30, 2005. A deficit unreserved fund balance represents the excess of the liabilities of the General Fund over its assets and reserved fund balance accounts. Reservations of fund balances of governmental funds represent amounts that are not available for appropriation. Examples of fund balance reservations reported in the General Fund include reserves for encumbrances, inventories and prepaid items.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were significant (a $1.2 billion increase in appropriations). This was due primarily to the fact that several of the State’s programs and various transfers (including the transfer to the Medical Assistance Trust Fund and Food Stamps - see the items denoted with *, below) are not included in the original budget. In addition, numerous adjustments to spending estimates were needed as the year progressed because of changing circumstances (spending needs can change dramatically over a one-year period). The largest variances incurred in the following appropriations (in millions):

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

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

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

Transportation Fund

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

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

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

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

Medical Assistance Trust Fund

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

Proprietary Funds

The State's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail. Significant changes to balances of proprietary funds from Fiscal Year 2005 to Fiscal Year 2006 include the following:

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

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

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

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

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

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

GOVERNMENT-WIDE CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the close of Fiscal Year 2006, the State had $18.8 billion invested in capital assets, net of accumulated depreciation of $3.2 billion. This represents an increase of $890.0 million, or 5.0 percent, from Fiscal Year 2005. Depreciation charges totaled $96.6 million and $167.7 million for governmental and business-type activities, respectively, in Fiscal Year 2006. The details of these assets are presented in Table 7, below. Additional information about the State's capital assets is presented in Note 7 to the financial statements.

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

	Governmental Activities		Business Type Activities		Total Primary Government	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Land and Land Improvements	$ 1,652	$ 1,532	$ 120	$ 114	$ 1,772	$ 1,646
Buildings and Improvements	1,324	1,304	2,042	2,001	3,366	3,305
Library Holdings	79	78	1,037	1,019	1,115	1,097
Machinery and Equipment	232	221	261	257	493	478
Infrastructure	10,727	10,325	-	-	10,727	10,325
Construction in Progress	993	919	348	154	1,341	1,073
Totals	$ 15,007	$ 14,379	$ 3,808	$ 3,546	$ 18,815	$ 17,925

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

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

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

Debt Administration

The State of Wisconsin Building Commission, an agency of the State, is empowered by law to consider, act upon, authorize, issue and sell all debt obligations of the State. The total general obligation debt outstanding for the State as of June 30, 2006 was $4.9 billion, as shown in Table 8.

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

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

Chapter 18 of the Wisconsin Statutes authorizes the State to issue revenue obligations. These obligations, which are not general obligation debt of the State, are secured by a pledge of revenues or property derived from the operations of a program funded by the issuance of the obligations. Revenue bonds of the primary government totaled $3.8 billion outstanding at June 30, 2006, as shown in Table 8. These bonds included $1,485.6 million of Transportation Revenue Bonds, $190.9 million of Petroleum Inspection Revenue Bonds, $690.9 million of Environmental Improvement Revenue Bonds, and $1,474.1 million of Badger Tobacco Asset Securitization Corporation bonds.

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

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

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

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

At June 30, 2006, State of Wisconsin fixed bonds had a rating of Aa3 from Moody's Investors Services, AA- from Standard and Poor's Corporation, and AA- from Fitch Investors Service, L.P. Variable notes had a rating of P-1 from Moody's, A-1+ from Standard and Poor's Corporation, and F-1+ from Fitch Investors Services, L.P.

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

INFRASTRUCTURE -- MODIFIED APPROACH

The State reports infrastructure (i.e., roads, bridges, and buildings considered an ancillary part of roads) as capital assets. The State has elected to report its infrastructure assets (11,200 centerline miles of roads and 4,900 bridges with a combined value of $10.7 billion), using the modified approach. Under this method, infrastructure assets are not required to be depreciated if the State manages its eligible infrastructure assets using an asset management system designed to maintain and preserve these assets at a condition level established and disclosed by the State.

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

In order to adequately serve the traveling public and support the State economy, it is the State's policy to ensure at least 85 percent of the state-owned roads and bridges are in good or fair condition. As of June 30, 2006, 94.6 percent of the roads and 95.7 percent of bridges were in good or fair condition, consistent with State policies.

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

ECONOMIC FACTORS

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

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

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

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

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

CONTACTING THE STATE'S FINANCIAL MANAGEMENT

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

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

* * * *

State of Wisconsin

Statement of Net Assets
June 30, 2006

(In Thousands)

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

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

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

(In Thousands)

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

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

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

Total General Revenues, Contributions, and Transfers

Change in Net Assets
Net Assets - Beginning

Net Assets - Ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (11,157)		$ (11,157)	
(5,474,647)		(5,474,647)	
(459,048)		(459,048)	
(182,628)		(182,628)	
(3,845,680)		(3,845,680)	
(64,678)		(64,678)	
(53,595)		(53,595)	
(58,602)		(58,602)	
(797,355)		(797,355)	
(1,016,718)		(1,016,718)	
(477,465)		(477,465)	
(12,441,573)		(12,441,573)	
	$ 28,163	28,163	
	39,085	39,085	
	(832,808)	(832,808)	
	(62,247)	(62,247)	
	27,970	27,970	
	25,314	25,314	
	(9,680)	(9,680)	
	(624)	(624)	
-	(784,827)	(784,827)	
(12,441,573)	(784,827)	(13,226,400)	
			$ 7,362
			9,606
			49,102
			200,781
			(659)
			266,193
6,867,020	-	6,867,020	-
4,489,663	-	4,489,663	-
250,088	-	250,088	-
355,724	-	355,724	-
990,688	-	990,688	-
209,528	-	209,528	-
72,643	49,660	122,303	32,802
383,710	9,153	392,862	-
-	235	235	136
21,646	-	21,646	-
(1,022,896)	1,022,896	-	-
12,617,813	1,081,945	13,699,757	32,938
176,239	297,117	473,357	299,131
5,094,616	6,423,349	11,517,965	2,709,087
$ 5,270,855	$ 6,720,467	$ 11,991,322	$ 3,008,217

State of Wisconsin

Balance Sheet - Governmental Funds
June 30, 2006

(In Thousands)

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

(Continued)

Balance Sheet - Governmental Funds
June 30, 2006

(Continued)

		Total Governmental
Reconciliation to the Statement of Net Assets:		
Total Fund Balances from previous page	$	(968,897)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Infrastructure		10,727,018
Other Capital Assets		4,728,688
Accumulated Depreciation		(755,452)
Other long-term assets that are not available to pay for current period expenditures and, therefore, are deferred in the funds.		96,578
Some of the State's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.		374,583
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		14,926
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Revenue Bonds Payable		(3,021,326)
Appropriation Bonds Payable		(1,792,488)
General Obligation Bonds Payable		(3,879,823)
Accrued Interest on Bonds		(88,977)
Capital Leases		(24,580)
Installment Contracts		(430)
Compensated Absences		(125,537)
Claims and Judgments		(13,429)
Net Assets of Governmental Activities as reported on the Statement of Net Assets (See page 21)	$	5,270,855

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

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

(In Thousands)

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

(Continued)

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

(Continued)

		Total Governmental
Reconciliation to the Statement of Activities:		
Net Change in Fund Balances from previous page	$	(133,253)
Inventories, which are recorded under the purchases method for governmental fund reporting, are reported under the consumption approach on the Statement of Activities. As a result of this change, the Increase (Decrease) in Reserve for Inventories on the fund statement has been reclassified as functional expenses on the government-wide statement.		(4,187)
Repayment of bond principal is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Net Assets.		426,357
Governmental funds report the acquisition or construction of capital assets as expenditures, while governmental activities report depreciation expense to allocate the cost of these assets over their estimated useful life. Donated assets are set up at fair value with a corresponding amount of revenue recognized. In the current period, these amounts are:		
Capital Outlay/Functional Expenditures		786,759
Depreciation Expense		(74,984)
Grants and Contributions (Donated Assets)		3,764
Transfers of capital assets between governmental and business-type activities results in the movement of those assets on the Statement of Net Assets and corresponding recognition of the related transfer in/out on the Statement of Activities.		66
In the Statement of Activities, only the gain/(loss) on the sale/disposal of capital assets is reported, while in the governmental funds, any proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold/disposed.		(95,249)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(13,174)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.		
Bonds Issued		(761,326)
Payments to Refunding Bond Escrow Agent		93,592
Bond Premium		(44,896)
Bond Issuance Costs		908
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Net decrease (increase) in accrued interest		17,346
Interest Accreted on Capital Appreciation Debt		(3,524)
Decrease (increase) in Capital Leases		(3,832)
Decrease (increase) in Installment Contracts		669
Decrease (increase) in Compensated Absences		(10,059)
Decrease (increase) in Claims and Judgments		(1,192)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.		(7,543)
Changes in Net Assets of Governmental Activities as reported on the Statement of Activities (See page 23)	$	176,239

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

State of Wisconsin

Balance Sheet
Proprietary Funds
June 30, 2006

(In Thousands)

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

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

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

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

State of Wisconsin

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

(In Thousands)

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

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

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

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

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

(In Thousands)

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

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

(Continued)

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

(Continued)

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

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

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

State of Wisconsin

Statement of Fiduciary Net Assets
June 30, 2006

(In Thousands)

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

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

State of Wisconsin

Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended June 30, 2006

(In Thousands)

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

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

Notes To The Financial Statements

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Detailed Disclosures Regarding Liabilities and Expenses/Expenditures

Other Note Disclosures

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

B. Financial Reporting Entity

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

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

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

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

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

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

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

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

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

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

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

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

Blended Component Units

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

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

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

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

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

Discretely Presented Component Units

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

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

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

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

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

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

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

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

Related Organizations

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

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

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

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

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

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

C. Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

The State reports the following major funds:

Major Governmental Funds

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

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

Major Enterprise Funds

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

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

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

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

In addition, the State reports the following fund types:

Governmental Funds

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

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

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

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

Proprietary Funds

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

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

Fiduciary Funds

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

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

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

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

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

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

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

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

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

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

1. Cash and Cash Equivalents

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

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

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

2. Investments

Primary Government

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

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

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

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

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

Component Units

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

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

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

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

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

3. Mortgage and Other Loans

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

Mortgage loans of the Veterans Mortgage Loan Repayment Fund and the Veterans Trust Fund programs, business-type activities, are stated at the outstanding loan balance with origination fees and associated costs deferred and recognized over a fifteen year period using the straight-line method.

4. Forestation State Tax

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

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

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

5. Interfund Assets/Liabilities

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

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

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

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

6. Inventories and Prepaid Items

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

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

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

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

7. Capital Assets

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

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

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

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

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

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

8. Restricted and Limited Use Assets

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

9. Local Assistance Aids

Municipal and County Shared Revenue Program

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

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

State Property Tax Credit Program

At June 30, 2006, the State was liable to various taxing jurisdictions for property tax credits paid through the State Property Tax Credit Program. Under the program, payments to local taxing jurisdictions provide property tax relief directly to taxpayers in the form of State credits on individual property tax bills. State statutes require that payment to local taxing jurisdictions be made during July. Although the property tax credit is calculated on the property tax levy for school purposes, the State's July payment is paid to an administering municipality who treats the payment the same as other tax collections and distributes the collections to the various tax levying jurisdictions (e.g., cities; towns; villages; school districts; technical colleges).

The school portion of the property tax credit liability represents the amount of the July payment earned over the school districts' previous fiscal year ended June 30. Since the entire school districts' portion of the July payment occurs within the State's fiscal year, 100 percent of the July payment relating to the school taxing jurisdictions' levy is reported as a liability at June 30, 2006.

The general government portion of the property tax credit liability represents the amount of the July payment prorated over the portion of the local governments' calendar year which is within the State's fiscal year. The result is that 50 percent of the July payment based on the general government taxing jurisdictions' levy is reported as a liability at June 30, 2006.

The aggregated State Property Tax Credit Program liability of $353.4 million is reported in the General Fund as Due to Other Governments.

Lottery Property Tax Credit Program

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

The State pays municipal treasurers for lottery credits who distribute the moneys to the various taxing jurisdictions. For credits reducing the calendar year 2006 property tax bills, the State made this payment in March 2006.

The Lottery Tax Credit Program is accounted for in the Lottery Fund, an enterprise fund, that records revenues and expenses on the accrual basis. A portion of the State's March payment distributed to the general government taxing jurisdictions applies to their fiscal year that ends on December 31. Therefore, part of the March distribution represents an expense of the State in Fiscal Year 2006, while the remaining portion represents a prepaid item. The resulting Prepaid Item reported within the Lottery Fund totals $29.6 million at June 30, 2006.

State Aid for Exempt Computers

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

A portion of the May payment distributed to the general government taxing jurisdictions, Tax Incremental Districts, and special districts applies to their fiscal period ending December 31. Therefore, part of the May distribution represents an expense to the State in Fiscal Year 2006, while the remaining portion represents a prepaid item. The resulting Prepaid Item within the General Fund totals $19.4 million at June 30, 2006.

10. Long-term Debt Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt is reported as a liability. Bond premiums and discounts, as well as issuance costs, are deferred and amortized using the effective interest rate method on a prospective basis beginning in Fiscal Year 2002, except for the annual appropriation bonds that are amortized ratably over the life of the obligations to which they relate. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges.

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

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

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

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

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

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

11. Compensated Absences

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

Annual Leave

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

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

Sick Leave

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

12. Deferred Revenue

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

Deferred revenues of the University of Wisconsin System consist of payments received but not earned at June 30, 2006, primarily for summer session tuition, tuition and room deposits for the next fall term, advance ticket sales for upcoming intercollegiate athletic events, and amounts received from grant and contract sponsors that have not yet been earned under the terms of the agreement.

13. Self-Insurance

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

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

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

Fund Balance Reserves

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

Restricted Net Assets/Fund Equity

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

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

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

During the year ended June 30, 2006, the following adjustments and reclassifications were necessary to reconcile the information from the fund-based Balance Sheet – Governmental Funds to the amounts presented in the governmental section of the Statement of Net Assets (in thousands). The differences result primarily from the long-term economic focus of the Statement of Net Assets compared to the current financial focus of the Balance Sheet – Governmental Funds.

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

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

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

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

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

During the year ended June 30, 2006, the following adjustments and reclassifications were necessary to reconcile the information from the fund-based Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the amounts presented in the governmental section of the Statement of Activities (in thousands). The differences result primarily from the long-term economic focus of the Statement of Activities compared to the current financial focus of the Statement of Revenues, Expenditures, Changes in Fund Balance – Governmental Funds.

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

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

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

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

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

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

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

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

NOTE 3. BUDGETARY CONTROL

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

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

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

A. Deficit Fund Balance/Fund Equity

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

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

B. Restricted Net Assets

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

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

NOTE 5. DEPOSITS AND INVESTMENTS

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

A. Deposits

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

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

1. Primary Government

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

Uninsured and uncollateralized	$ 327.8

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

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

2. Component Units

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

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

Uninsured and uncollateralized	$ 68.0

B. Investments

1. Primary Government

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

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

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

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

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

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

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

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

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

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

University of Wisconsin System (UWS)

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

Wisconsin Retirement System (WRS)

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

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

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

Custodial Credit Risk

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

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

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

University of Wisconsin System (UWS)

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

Wisconsin Retirement System (WRS)

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

Interest Rate Risk

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

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

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

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

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

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

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

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

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

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

Various Funds
Duration for Fixed Income Securities (in years)

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

University of Wisconsin System (UWS)

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

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

UWS

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

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

Wisconsin Retirement System (WRS)

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

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

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

WRS

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

*** Breakdown of Pooled Investment**

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

Credit Quality Risk

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

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

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

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

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

Primary Government
(excluding the UWS, WRS and SIF)

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

University of Wisconsin System (UWS)

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

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

UWS

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

Wisconsin Retirement System (WRS)

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

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

WRS

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

Concentration of Credit Risk

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

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

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

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

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

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

University of Wisconsin System (UWS)

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

Wisconsin Retirement System (WRS)

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

Foreign Currency Risk

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

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

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

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

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

University of Wisconsin System (UWS)

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

Wisconsin Retirement System (WRS)

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

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

Currency Exposure by Investment Type

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

Securities Lending Transactions

Wisconsin Retirement System (WRS)

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

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

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

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

Derivative Financial Instruments

Various Funds

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

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

Wisconsin Retirement System (WRS)

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

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

During Fiscal Year 2006, currency exposure management involved foreign currency spot and forward contracts only. Generally, these contracts are entered into to hedge foreign exchange risk. At June 30, 2006, the fair value of foreign currency forward contract assets totaled $2.2 billion, while the liabilities totaled $2.2 billion.

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

Investment guidelines allow external fixed income portfolio managers to manage interest rate exposure only through the use of exchange-traded interest rate instruments. As of June 30, 2006, the Board was invested in exchange-traded interest rate futures contracts with a net exposure of a positive $777.5 million at June 30, 2006.

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

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

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

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

Credit-linked Trust Certificates – Investment guidelines have allowed certain fixed income managers to manage credit exposure through the use of credit-linked trust certificates. Credit-linked trust certificates are exchange-traded securities, created through a special purpose company, or trust. Proceeds from the sale of the certificates are invested in AAA rated securities, then lent out under a securities lending agreement. The trust also enters into a credit default swap that references 100 high yield corporate bonds. The trust pays a variable coupon and receives a fixed coupon on the notional value during the life of the note. If the issuer of one or more of the 100 high yield corporate bonds defaults, the trust will receive the current market value of the defaulted asset and the notional value will be reduced, lessening future interest earnings.

By investing in credit-linked trust certificates, the Board gains immediate, diversified exposure to the high yield fixed income market. For taking on the risk associated with the 100 high yield corporate bonds, the Board earns a premium rate of return. Investment in these certificates involves risk of loss from credit downgrades, illiquidity and counterparty risk. Valuation of this security is calculated by the party marketing the security. For Fiscal Year 2006, credit linked trust agreements were not in use.

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

Unfunded Capital Commitments

University of Wisconsin System (UWS)

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

Wisconsin Retirement System (WRS)

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

2. Component Units

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

Wisconsin Housing and Economic Development Authority (Authority) – The Authority is required by statute to invest at least fifty percent of its General Fund funds in obligations of the State, of the United States, or of agencies or instrumentalities of the United States, or obligations, the principal and interest of which are guaranteed by the United States, or agencies or instrumentalities of the United States. Each bond resolution specifies what constitutes a permitted investment and such investments may include obligations of the U.S. Treasury, agencies and instrumentalities; commercial paper; bankers acceptances; and repurchase agreements and investment agreements.

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

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

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

The Authority's aggregate investments at June 30, 2006 were $648.2 million of which $193.9 million are reported as cash equivalents.

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

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

Custodial Credit Risk

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

Interest Rate Risk

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

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

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

Credit Quality Risk

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

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

Concentration of Credit Risk

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

Foreign Currency Risk

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

Securities Lending

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

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

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

The Authority assumes all risk of loss arising out of collateral investment loss and any resulting collateral deficiencies. The bank expressly assumes the risk of loss arising from negligent or fraudulent operations of its securities lending program. The bank operates the securities lending program as a business trust investment pool with open and matched components. In the matched portion of the investment pool, the maturities of the securities lent and collateral are the same. The open portions of the pool maintain a weighted average maturity of the portfolio at approximately 15 days, with a range from one day to 25 days. The open portions of the pool generally have a 15-day mismatch between the portfolio coverage maturity and the open loans. As of June 30, 2006 approximately 20 percent of the securities lent were in the matched portion and approximately 80 percent in the open portion of the investment pool. No restrictions on the amount of the loans exist or can be made. The earnings generated from the securities lending program is reported as other income. During the year ended June 30, 2006 the Authority received $47 thousand of income related to security lending transactions.

Other Component Units

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Custodial Credit Risk

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

3. State Investment Fund

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

Wis. Stat. Secs. 25.17(3)(b), (ba) and (bd) enumerate the various types of securities in which the SIF can invest, which include direct obligations of the United States and Canada, securities guaranteed by the United States, securities of federally chartered corporations such as the African Development Bank, unsecured notes of financial and industrial issuers, Yankee/Euro issues, certificates of deposit issued by banks in the United States and solvent financial institutions in this State, and bankers acceptances. Other prudent investments may be approved by the State of Wisconsin Investment Board's (the Board) Board of Trustees. The Board of Trustees has given standing authority to the Board to invest in financial futures, forward contracts, options and swaps. This authority is subject to the review and approval of the Board's Investment Committee and these investments are allowable only if the purpose is to hedge existing positions, to adjust portfolio duration within statutory guidelines or otherwise reduce the interest rate risk to which the Board is subjected in the normal course of business.

Investments are valued at fair value for financial statement purposes and amortized cost for purposes of calculating income to participants. The custodial bank has compiled fair value information for all securities by utilizing third party pricing services. Government and agency securities and commercial paper are priced using matrix pricing. This method estimates a security's fair value by using quoted market prices for securities with similar interest rates, maturities, and credit ratings. Repurchase agreements and certificates of deposit are valued at cost because they are nonparticipating contracts that do not capture interest rate changes in their value. In addition, a bond issued by another State agency having a par value of $0.6 million is valued at par, which management believes approximates fair value. The fair value of investments is determined at the end of each month.

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

Custodial Credit Risk

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

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

Interest Rate Risk

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

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

Credit Quality Risk

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

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

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

Concentration of Credit Risk

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

Foreign Currency Risk

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

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

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

4. Lottery Investments and Related Future Prize Obligations

Investments of the State Lottery Fund totaling $103.7 million are held to finance grand prizes payable over a 20-year or 25-year period. The investments in prize annuities are debt obligations of the U.S. government and backed by its full faith and credit as to both principal and interest. Liabilities related to the future prize obligations are presented at their present value and included as Accounts Payable and Other Accrued Liabilities. The following is a schedule of future prize obligations (in thousands):

Fiscal Year	Amount
2007	$ 16,806
2008	16,943
2009	16,935
2010	14,523
2011	9,705
Thereafter	64,300
Total future value	139,212
Less: Present value adjustment	(41,001)
Present value of payments	$ 98,211

NOTE 6. RECEIVABLES AND NET REVENUES

A. Receivables

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

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

B. Net Revenues

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

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

NOTE 7. CAPITAL ASSETS

Primary Government

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

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

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

Depreciation Expense

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

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

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

Construction in Progress

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

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

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

Component Units

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

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

NOTE 8. ENDOWMENTS

Primary Government

University of Wisconsin System

The University of Wisconsin System invests its trust funds, principally gifts and bequests designated as endowments or quasi-endowments, in two of its own investment pools: the Long Term Fund and the Intermediate Term Fund. Benefiting University of Wisconsin System entities receive quarterly distributions from the Long Term Fund, principally endowed assets, based on an annual spending rate applied to a 12-quarter moving average market value of the fund. Effective since the final quarter of Fiscal Year 2005, a spending rate of 4.0 percent was applied. Prior to the final quarter of Fiscal Year 2005, a spending rate of 4.5 percent was applied. Distributions from the Intermediate Term Fund, principally quasi-endowments and unspent income distributions, consist of interest earnings distributed quarterly. Spending rate and interest distributions from both of these funds are transferred to the State Investment Fund, pending near-term expenditures. At June 30, 2006, net appreciation of $7.5 million was available to be spent.

University of Wisconsin System investment policies and guidelines for the Long Term Fund and Intermediate Term Fund are governed and authorized by the Board of Regents. The approved asset allocation policy for the Long Term Fund sets a general target of 30 percent marketable equities, 14 percent fixed income, 31 percent alternatives, and 25 percent tactical strategies. Accordingly, the fund includes investments in domestic and non-U.S. stocks and bonds, and limited partnerships consisting of venture capital and other private equity investments. The approved asset allocation for the Intermediate Term Fund is 100 percent intermediate maturity, investment-grade fixed income.

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

The book value of Endowments under control of the University of Wisconsin System was $344.2 million as of June 30, 2006 compared to a book value of $330.4 million as of June 30, 2005. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments since realized gains and losses are based on the difference between the selling price and the acquisition cost of the asset. Therefore, when assets are reported at fair value much of the realized gain or loss may have already been included in prior years as part of the overall change in the fair value of investments.

At June 30, 2006, the book value and fair value of principal funds under control of the University of Wisconsin System was (in millions):

Original Contributions and Distributed Net Gains	$ 132.3
Realized Gains – Undistributed	211.9
Book Value	344.2
Unrealized Net Gains/Losses - Undistributed	21.9
Fair Value	$ 366.1

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

Component Unit

University of Wisconsin Foundation

At December 31, 2005 there were 3,322 funds pooled in an endowment fund for investment purposes. Generally, principal of the funds is to be kept intact with income from investments being distributed according to the wishes of the donor. For certain funds, principal is also available for distribution.

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

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

NOTE 9. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

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

A. Due from/to Other Funds:

Due from Other Funds and the Due to Other Funds represent short-term interfund accounts receivable and payable. The balances in these accounts at June 30, 2006 were as follows (in thousands):

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

The balances in the Due from Other Funds and Due to Other Funds accounts typically result from the time lag between the dates that

(1) interfund goods and services were provided and when the payments occurred, and

(2) interfund transfers were accrued and when the liquidations occurred.

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

B. Due from/to Component Units

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

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

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

C. Interfund Receivables/Payables

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

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

D. Advances to/from Other Funds

Advances to/from Other Funds represent long-term loans to one fund from another fund. Advances at June 30, 2006 were as follows (in thousands):

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

E. Interfund Transfers

Interfund Transfers in and out that occurred during Fiscal Year 2006 were as follows (in thousands):

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

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

Nonroutine and Other Transfers

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

Funds Reporting the Transfer	Amount
Transfers to the General Fund from other funds to address revenue shortfalls:	
Transportation	$338,449
Environmental	4,200
Recycling	19,142
Utility Public Benefit	18,185
Petroleum Inspection	10,861
Technology Services	7,927
Facilities Operations and Maintenance	5,904
Badger State Industries	1,316
Transfers to the General Fund from other funds in lieu of payments for the annual appropriation bonds, which were issued to pay the unfunded pension liability and unfunded accumulated unused sick leave:	
Transportation	4,164
Conservation	2,231
University of Wisconsin System	33,062
Other funds	5,955

Continued

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

NOTE 10. CHANGES IN LONG-TERM LIABILITIES

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

Primary Government

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

Repayment of the general obligation bonds is made from the Bond Security and Redemption Fund. The amount presented in this fund represents the liability to be paid from resources accumulated to provide debt service payments in Fiscal Year 2006. Repayment of the revenue bonds principal and interest is made from the appropriate debt service fund with payments secured by registration and inspection fees collected by the appropriate program. The compensated absences liability will be liquidated by the State's governmental and internal service funds. Long-term liabilities for claims, judgments and commitments are generally liquidated with resources of the governmental activities.

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

Component Units

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

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

NOTE 11. BONDS, NOTES AND OTHER DEBT OBLIGATIONS

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

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

A. General Obligation Bonds

Primary Government

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

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

At June 30, 2006, $3,019.1 million of general obligation bonds were authorized but unissued.

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

Fiscal Year Issued	Series	Dates	Interest Rates	Maturity Through	Amount Issued	Amount Outstanding
1990	1990 Series D	5/90	7.0	5/10	$ 65,859	$ 15,001
1991	1991 Series B	5/91	6.75 to 6.85	5/11	117,136	30,399
1992	1992 Refunding Issue	3/92	6.25	5/15	448,935	85,160
1993	1992 2;	10/92	4.9 to 6.5	5/15	423,565	189,905
	1993 1, 2	1/93; 3/93				
1994	1993 Refunding Issues 3, 5, 6;	8/93; 12/93;	4.85 to 6.2	5/24	515,830	187,765
	1994 Refunding Issue 2	10/93; 3/94;				
1995	1994 Series 3 and C;	9/94; 9/94;	5.7 to 6.65	5/25	100,400	5,610
	1995 Series B and 1	2/95, 2/95				
1996	1995 Series 2;	10/95;	5.75 to 6.2	11/24	87,850	8,720
	1996 Series B	5/96				
1997	1996 C and D;	9/96; 10/96;	5.75 to 6.0	5/27	190,230	11,955
	1997 1 and A	3/97; 3/97				
1998	1997 B, C and D;	7/97; 9/97	4.5 to 7.25	11/28	411,765	71,175
	1998 A, B and C	9/97; 3/98; 5/98; 5/98				
1999	1998 Series 1, 2, D, E and F;	8/98; 9/98; 9/98; 10/98	4.0 to 7.25	11/30	590,675	267,105
	1999 Series 1, A and B	10/98; 5/99; 2/99; 5/99				
2000	1999 C and D; 2000 A;	10/99; 11/99; 3/00	5.0 to 7.7	11/30	315,000	56,610
2001	2000 Series B & E;	7/00;11/00	4.5 to 8.05	11/31	259,030	74,130
	2001 Series A, B, C and D	2/01; 4/01; 6/01; 6/01				
2002	2001 Series 1, E, F;	10/01; 10/01; 10/01	4.0 to 6.96	5/33	819,545	513,820
	2002 Series 1, A, B, C, D	3/02; 3/02; 3/02; 6/02; 6/02				
2003	2002 Series E, F, G and H;	9/02; 9/02; 10/02; 12/02	2.45 to 5.25	5/33	415,190	356,220
	2003 Series 1, 2, and A	4/03; 4/03; 5/03				
2004	2003 B, C, and 3;	7/03; 10/03;10/03;	0 to 19.088	5/34	1,305,096	1,225,931
	2004 1, 2, A, 3 and CWGBC	1/04; 1/04, 3/04; 6/04; 4/04				
2005	2004 Series 4, B, C, D & E	7/04; 8/04; 8/04; 8/04; 10/04;	3.0 to 5.65	5/35	1,079,440	1,037,535
	2005 Series 1, A, B and C	2/05; 2/05; 4/05; 4/05				
2006	2005 Series D & E:	8/05; 12/05;	4.0 to 5.25	5/26	662,910	662,910
	2006 Series 1 & A	1/06; 3/06				
Total					7,808,456	4,799,951
Premiums/Discounts					--	203,109
Deferred Amount on Refunding					--	(64,812)
Total General Obligation Bonds					$ 7,808,456	$ 4,938,249

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

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

Zero Coupon Bonds

The general obligation bonds of 1990, Series D (Higher Education Series), are zero coupon bonds recorded in the amount of $15.0 million which is the accreted value at June 30, 2006. The bonds mature on May 1 through the year 2010.

The general obligation bonds of 1991, Series B, are zero coupon bonds recorded in the amount of $30.4 million. The bonds mature on May 1 through the year 2011.

B. Annual Appropriation Bonds

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

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

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

The General Fund Annual Appropriation Bonds, Series B (Taxable Auction Rate Certificates), in the amount of $944.9 million, are multimodal bonds issued in multiple subseries, as taxable Auction Rate Certificates ("Series B Bonds" or "ARCs"). Interest on the Series B Bonds is variable and is computed on the basis of a 360-day year and for the number of days actually elapsed.

As of June 30, 2006, the debt service requirements for principal and interest on these bonds are as follows (in thousands):

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

Interest Rate Swaps

The State has entered into interest rate exchange agreements, or swap agreements, to modify interest rates on its outstanding annual appropriation bonds. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

Objective – In December 2003, the State issued annual appropriation bonds in the amount of $1.8 billion. Of this amount, $944.9 million was issued as taxable auction rate certificates (ARCs) in nine sub-series and having variable interest rates set every respective 28 days at an auction. The State entered into four interest rate exchange agreements with four different counterparties in order to reduce the interest rate risk in connection with $595.2 million of ARCs. In June 2005, the State entered into four additional interest rate exchange agreements with three counterparties in order to reduce the interest rate risk on the balance of the ARCs ($349.7 million).

Terms – All of the ARCs are subject to the interest rate exchange agreements. The ARCs mature and a related notional amount of the related interest rate exchange agreements decline from May 1, 2009 through 2032. Based on the interest rate exchange agreements, the State owes interest calculated at fixed rates ranging from 4.523 percent to 5.47 percent to the counterparties and the counterparties owe the State interest an amount based on a variable rate, which is the one-month LIBOR. The net amount is paid monthly.

Fair Value – As of June 30, 2006, the aggregate fair value of the interest exchange agreements was $54.8 million. The fair value was valued by a third party consultant based on information contained in the broker Interest Rate Swap Confirmations supplied by the five counterparties -- JP Morgan Chase, Citibank N.A. New York, UBS AG, Bear Stearns Financial Products, and Morgan Stanley Bank. Based on those parameters, and swap market conditions prevailing on the June 30, 2006 valuation date, the third party consultant calculated the estimated market value.

The valuations of derivative transactions provided by the third party consultant are indicative values based on mid-market levels as of the close of business on the date for which they are provided. The fair value may vary throughout the life of the swap agreements due to changes in fixed swap interest rates and swap market conditions.

Associated Debt – Using rates as of June 30, 2006, debt service requirements are presented for the ARCs that are subject to the interest rate exchange agreements and the net swap payments assuming that interest rates remain the same for their term. As rates vary, interest payments on the ARCs and net swap payments will vary.

(in thousands)

Fiscal Year Ended June 30	Principal	Interest	Interest Rate Swaps, Net	Totals
2007	$ --	$ 51,213	$ (2,442)	$ 48,771
2008	--	51,354	(2,582)	48,772
2009	6,100	51,159	(2,435)	54,824
2010	10,850	50,786	(2,381)	59,255
2011	16,050	50,152	(2,290)	63,912
2012 - 2016	64,850	236,706	(9,644)	291,912
2017 - 2021	60,050	226,426	(8,040)	278,436
2022 - 2026	257,550	185,091	(2,163)	440,478
2027 - 2031	479,350	85,686	666	565,702
2032	50,050	2,274	7	52,331
	$ 944,850	$ 990,847	$ (31,304)	$ 1,904,393

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

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

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

Termination Risk – The interest rate exchange agreements may be terminated by the State, upon two business days written notice, designating to the counterparty the termination date. The State or the counterparties may terminate the interest rate exchange agreements if the other party fails to perform under the terms of the interest rate exchange agreements or if other various events occur. If any interest rate exchange agreement is terminated, the State would be unhedged and exposed to additional interest rate risk on the related ARCs. In addition, if the interest rate exchange agreement has a negative fair value at the time of termination, the State would incur a loss and would be required to make a settlement payment to the related counterparty. Actual termination payments, if required to be made, can be made, at the State's discretion, from the Stabilization Fund, or delayed until funds are available in the Subordinated Payment Obligations Fund or until the next biennium when appropriations can be made in the biennial budget for the termination payments. To further mitigate the risk of an involuntary termination event, the State has also purchased a swap insurance policy from a financial guaranty insurance company that was rated Aaa by Moody's and AAA by Standard & Poor's and Fitch. The State's regularly scheduled net payment obligations under six of the eight interest rate exchange agreements are insured subject to the terms and conditions of the policy.

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

C. Revenue Bonds

Primary Government

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

Transportation Revenue Bonds

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

The Department of Transportation is authorized to issue a total of $2,324.4 million of revenue bonds. Presently, there are twelve issues of Transportation Revenue Bonds totaling $1,485.6 million. Debt service payments are secured by driver and vehicle registration fees and also a reserve fund, which will be used in the event that a deficiency exists in the redemption fund.

The Transportation Revenue Bonds issued and outstanding as of June 30, 2006 were as follows (in thousands):

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

Petroleum Inspection Fee Revenue Bonds

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

Presently, there are four issues of PIF Bonds outstanding totaling $190.9 million. Debt service payments are secured by petroleum inspection fees.

The PIF revenue bonds issued and outstanding as of June 30, 2006 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2004-1	5/04	3.0 to 5.0	7/12	$ 95,470	$ 95,470
2004A	2/04	3.0 to 5.0	7/12	45,000	40,290
2001A	12/01	5.0	7/08	30,000	30,000
2000A	3/00	5.25 to 6.0	7/12	170,250	22,190
				340,720	187,950
Deferred amount on refunding				--	(3,121)
Unamortized Premium				--	6,156
Total				$ 340,720	$ 190,985

Clean Water Revenue Bonds

The Environmental Improvement Fund (the Fund) provides loans and grants to local municipalities to finance wastewater treatment planning and construction. The Fund is authorized to issue up to $1,616.0 million in Revenue Bonds. At June 30, 2006, there were twelve issues of Revenue Bonds outstanding totaling $690.9 million. These bonds are secured by payments on program loans and earnings of investments.

Bonds issued and outstanding for the Fund as of June 30, 2006 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2006-1	3/06	3.5 to 5.0	6/27	$ 80,000	$ 80,000
2004-2	1/05	3.25 to 5.25	6/20	107,025	107,025
2004-1	3/04	4.0 to 5.0	6/24	116,795	113,275
2002-2	8/02	3.0 to 5.5	6/16	85,575	69,575
2002-1	5/02	4.0 to 5.25	6/23	100,000	62,725
2001-1	4/01	4.5 to 5.25	6/21	70,000	38,870
1999-1	9/99	5.0 to 5.75	6/20	80,000	10,135
1998-2	8/99	4.0 to 5.5	6/17	104,360	90,400
1998-1	1/98	4.0 to 5.0	6/18	90,000	27,520
1997-1	2/97	4.5 to 6.0	6/17	80,000	3,845
1993-2	9/93	2.75 to 6.125	6/08	81,950	15,845
1991-1	4/91	5.4 to 6.9	6/11	225,000	57,445
				1,220,705	676,660
Unamortized Premium				--	26,030
Less: Unamortized discount and charge				--	(11,818)
Total, net of discount, charge and premium				$1,220,705	$ 690,872

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

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

Component Units – Blended Presentation

Badger Tobacco Asset Securitization Corporation

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

Debt service requirements for principal and interest for the BTASC at May 31, 2006 were as follows (in thousands):

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

Component Units – Discrete Presentation

Wisconsin Housing and Economic Development Authority

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

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

Authority's Revenue Bonds and Notes

The Authority's revenue bonds and notes are collateralized by the revenues and assets of the Authority, subject to the provisions of resolutions and note agreements which pledge particular revenues or assets to specific bonds or notes. The bonds are subject to mandatory sinking fund requirements and may be redeemed at the Authority's option at various dates and at prices ranging from 100 percent to 103 percent of par value. Any particular series contains both term bonds and serial bonds which mature at various dates.

The Authority's revenue bonds and notes outstanding at June 30, 2006 consisted of the following (in thousands):

Series/ Issue	Date	Rates	Maturity Through	Outstanding
Housing Revenue Bonds:				
1992 A	1/92	6.85	2012	$ 3,370
1998 A,B&C	2/98	4.75 to 6.88	2032	28,940
1999 A&B	10/99	5.0 to 6.18	2031	34,090
2000 A&B	9/00	Variable	2032	10,120
2002 A,B&C	5/02	3.9 to 5.6	2033	79,055
2002 D,E,F,G&I	5/02	Variable	2034	31,760
2002 H	5/02	Variable	2033	24,200
2003 A&B	12/03	Variable	2034	6,280
2003 C	12/03	2.35 to 5.25	2043	14,010
2003 D&E	12/03	Variable	2044	20,365
2005 A,B&C	12/05	3.2	2035	9,885
2005 D&E	12/05	3.2 to 5.15	2035	42,150
2005 F	12/05	4.31	2030	126,075
				430,300
Home Ownership Revenue Bonds:				
1996 A&B	3/96	5.5 to 6.0	2015	4,955
1996 E&F	11/96	5.3 to 5.9	2016	5,180
1997 A,B&C	4/97	5.4 to 5.7	2010	6,725
1997 D&E	6/97	5.15 to 5.8	2017	14,885
1997 G,H&I	11/97	5.05 to 5.35	2017	6,390
1998 A,B&C	4/98	4.75 to 5.5	2027	44,780
1998 D&E	6/98	4.75 to 5.35	2028	22,355
1999 C,D&E	4/99	4.3 to 6.17	2029	15,320
1999 F,G&H	7/99	5.25 to 7.07	2027	16,180
2000 A,B&C	3/00	5.4 to 7.78	2030	8,085
2000 D,E&F	6/00	5.75 to 7.91	2029	10,875
2000 F	7/00	Variable	2015	4,010
2000 G&H	11/00	7.21	2031	5,665
2000 H	11/00	Variable	2024	9,735
2001 A,B&C	5/01	4.85 to 6.4	2032	17,505
2002 A&C	2/02	3.15 to 5.5	2032	48,280
2002 B	2/02	Variable	2032	12,650
2002 C	2/02	Variable	2016	14,945
2002 D	2/02	Variable	2022	195
2002 E,G&H	3/03	3.0 to 5.25	2022	49,700
2002 I	10/02	2.75 to 4.85	2032	29,075
2002 E & F	7/02	Variable	2032	52,785
2002 I&J	10/02	Variable	2032	43,715

(Continued)

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

Authority's Special Obligation Bonds

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

Special obligation bonds at June 30, 2006 consist of the following (in thousands):

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

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

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

Under a Business Development Program and a Beginning Farmer Program, revenue bonds are issued which do not constitute indebtedness of the Authority within the meaning of any provision or limitation of the Constitution or Statutes of the State of Wisconsin. They do not constitute or give rise to a pecuniary liability of the Authority or a charge against its general credit. They are payable solely out of the revenues derived pursuant to the loan agreement, or in the event of default of the loan agreement, out of any revenues derived from the sale, releasing or other disposition of the mortgaged property. Therefore, the bonds are not reflected in the financial statements. As of June 30, 2006, the Authority had issued 142 series of such bonds in an aggregate principal amount of $82.6 million for economic projects in Wisconsin.

The commercial paper obligations are issued for terms of one to 270 days. These obligations bear interest at various rates, which ranged from 3.4 percent to 3.8 percent and 2.1 percent to 3.1 percent at June 30, 2006 and June 30, 2005 respectively. The obligations are backed by a line of credit agreement which is renewable annually and bears interest at variable rates, based on an index defined in the agreement. The line of credit agreements used for temporary mortgage financing, one of which is renewable annually, bear interest based on the 30 day LIBOR rate. The three agreements bear interest at the rates of 4.216 percent, 4.25 percent and 4.57 percent at June 30, 2006.

The Authority has entered into various interest rate swap agreements. The agreements provide the Authority with synthetic fixed interest rates on a portion of its debt. During the term of the swap agreements, the Authority expects to effectively pay a fixed rate on the debt. In return, the counterparty pays interest based on a contractually agreed upon variable rate. The Authority will be exposed to variable rates on the outstanding bonds if the counterparty to the swap defaults, the swap is terminated or the effective interest rate, determined by the Remarketing Agent used for Bond Holder payments, increases over the variable rate index used for calculating the interest received from the counterparty. The Authority does not intend to terminate these agreements prior to their maturity.

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

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

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

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

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

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

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

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

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

The following swaps expose the Authority to rollover risk:

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

(a) Home ownership revenue bonds

University of Wisconsin Hospitals and Clinics Authority

In April 1997, the University of Wisconsin Hospitals and Clinics Authority (the Hospital) issued $50.0 million of Variable Rate Demand Hospital Revenue Bonds, Series 1997. Principal payments on the Series 1997 Bonds are due annually commencing in April 2010 through April 2026. Interest is payable monthly. The effective annual estimated interest rate was 3.0 percent in 2006.

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

The Series 1997 Bonds, Series 2000 Bonds, Series 2002 Bonds, Series 2004 Bonds and Series 2005 Bonds are collateralized by a security interest in substantially all of the Hospital's revenue. The borrowing agreements contain various covenants and restrictions including compliance with the terms and conditions of the lease agreement (Note 1-B) and provisions limiting the amount of additional indebtedness which may be incurred. The borrowing agreements also require the establishment and maintenance of certain funds under the control of a trustee.

In October 2002, the Hospital issued $68.5 million of Hospital Revenue Bonds, Series 2002 (Series 2002 Bonds) consisting of $55.6 million Series 2002A Short-term Adjustable Securities and $12.9 million Series 2002B Fixed Interest Rate Bonds. The bond proceeds are designated to finance qualified capital projects. Principal payments on the Series 2002A Bonds range from $500 thousand to $3.9 million due annually commencing in April 2013 through 2032. The interest rates and the interest payment dates for the Series 2002A Bonds vary depending on if the bonds are in auction mode, daily mode, weekly mode, or in flexible mode beginning November 29, 2002. Principal payments on the Series 2002B Bonds range from $1.4 million to $1.9 million due annually commencing in April 2006 through April 2013. Interest rates for the Series 2002B Bonds range from 5.25 percent to 5.50 percent and interest is payable semiannually on April 1 and October 1 of each year beginning April 1, 2003. The effective annual interest rate of the Series 2002 A Bonds was 3.1 percent in 2006. The effective annual interest rate of the Series 2002B Bonds was 5.6 percent in 2006.

In October 2002, the Hospital entered into an interest rate swap in order to convert a portion of the Series 2002A Short-term Adjustable Rate Securities to fixed rates. The notional amount of this swap agreement was $21.4 million at June 30, 2006 which matures on April 1, 2022. The terms of the swap agreement are for the Hospital to pay the counterparty a fixed rate of 3.85 percent per annum, payable semiannually, and the Hospital to receive a floating rate of 70 percent of one-month LIBOR per annum, payable monthly. As of June 30, 2006 the interest rate received by the Hospital was 3.0 percent. The Hospital will be exposed to variable rates if the counterparty to the swap defaults or if the swap is terminated. The swap exposes the Hospital to basis risk should the relationship between LIBOR and auction rate converge, changing the synthetic rate on the bonds. The Hospital does not intend to terminate this agreement. The fair value of the swap is $173,429 at June 30, 2006.

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

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

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

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

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

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

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

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

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

Debt service requirements for principal and interest for the Hospital's revenue bonds at June 30, 2006 are as follows (in thousands):

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

State Fair Park Exposition Center, Inc.

In August 2001, the State Fair Park Exposition Center, Inc. (the Center) issued $44.9 million of City of West Allis, Wisconsin, Variable Rate Demand Revenue Bonds, Series 2001, which were issued to finance the construction of the exposition center. The bonds call for monthly interest-only payments until date of maturity. The bonds have a final maturity date of August 1, 2028, with no set schedule for principal repayment. However, the bonds require mandatory redemption to the extent of unused bond proceeds. Repayment of the bonds is guaranteed by a ground lease and license agreement, and letter of credit issued by US Bank which expired on April 15, 2005. The letter of credit was renewed effective April 15, 2005 through April 15, 2006. The Center has not been notified of any event of default with respect to the industrial revenue bonds payable restrictive covenants as of December 31, 2005. The outstanding balance on these bonds was $40.8 million as of December 31, 2005.

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

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

University of Wisconsin Foundation

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

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

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

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

D. Refundings, Exchanges and Early Extinguishments

Refunding Provisions of GASB Statement No. 23

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

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

Current Year Refundings/General Obligation Bonds

In January 2006, the State issued $96.8 million of general obligation refunding bonds (2006 Series 1), the proceeds of which were deposited in an escrow account to provide for future debt service payments and redemption of $102.0 million of various general obligation bonds outstanding at the time of the refunding. As a result of the refunding, the bonds are considered defeased and the associated liability removed from the financial statements. The refunding resulted in a decrease in total debt service payments by $5.3 million and an economic gain of $5.2 million.

Prior Year Refundings/General Obligation Bonds

Government Accounting Standards Board Statement No. 7 *Advance Refundings Resulting in Defeasance of Debt*, provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. At June 30, 2006, approximately $987.1 million of general obligation bond principal have been defeased.

Prior Year Refundings/Revenue Bonds

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

- Environmental Improvement Fund revenue bonds – At June 30, 2006, revenue bonds outstanding of $305.5 million have been defeased.
- Transportation revenue bonds – At June 30, 2006, revenue bonds outstanding of $375.8 million have been defeased.

Refundings -- Component Units

Wisconsin Housing and Economic Development Authority

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

University of Wisconsin Hospitals and Clinics Authority

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

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

Early Extinguishments/Redemptions

Component Units

Badger Tobacco Asset Securitization Corporation

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

Wisconsin Housing and Economic Development Authority

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

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

E. Short-term Financing

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

General Obligation Commercial Paper Notes

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

The State intends to make annual May 1 payments on the outstanding commercial paper notes that reflect principal amortization of the notes. The State also intends to make regular payments to the issuing and paying agent that will be equal to the interest due on maturing notes. At June 30, 2006, the amount of general obligation commercial paper notes outstanding was $100.1 million which had interest rates ranging from 3.4 percent to 3.55 percent and maturities ranging from July 6, 2006 to August 15, 2006.

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

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

General Obligation Extendible Municipal Commercial Paper

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

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

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

Petroleum Inspection Fee Revenue Extendible Municipal Commercial Paper

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

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

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

Transportation Revenue Commercial Paper Notes

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

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

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

F. Certificates of Participation

The State established a facility in 1992 that provides lease purchase financing for property and certain service items acquired by State agencies. This facility is the Third Amended and Restated Master Lease 1992-1. Pursuant to the terms and conditions of this agreement, the trustee for the facility issues parity Master Lease certificates of participation that evidence proportionate interest of the owners thereof in lease payments. A common pool of collateral ratably secures all Master Lease certificates. Title in the property and service items purchased under the facility remains with the State and the State grants to the Trustee, for the benefit of all Master Lease certificate holders, a first security interest in the leased items. At June 30, 2006, the following parity Master Lease certificates were outstanding:

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

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

- Master Lease Certificates of Participation of 2002, Series C, Master Lease Certificates of Participation of 2003, Series B, and Master Lease Certificates of Participation of 2004, Series A, and Master Lease Certificates of Participation of 2005 (Revolving Credit Agreement Tax Exempt) in the amount of $27.5 million. These Master Lease certificates evidence the State's obligation to repay tax-exempt revolving loans under a Revolving Credit Agreement, dated July 1, 2002, as amended, between U.S. Bank National Association (Trustee) and the Bank of America Leasing & Capital LLC. These Master Lease certificates shall bear interest at the rates provided and mature on the dates in the Revolving Credit Agreement. The balance of these certificates of participation may include some accrued interest that will be payable at the next semi-annual interest payment date.

- Master Lease Certificates of Participation of 2002, Series D, in the amount of $16.7 million. This series of Master Lease Certificates have interest rates ranging from 4.0 percent to 5.0 percent and mature semi-annually through September 1, 2007.

- Master Lease Certificates of Participation of 2003, Series A (Revolving Credit Agreement – Taxable) in the amount of $26.8 million. This Master Lease certificate evidences the State's obligation to repay revolving loans under a Revolving Credit Agreement, dated July 1, 2002, as amended, between U.S. Bank National Association (Trustee) and the Bank of America Leasing & Capital LLC. The scheduled termination date under the Revolving Credit Agreement is June 30, 2007. This Master Lease certificate shall bear interest at the rates and mature on the dates provided for in the Revolving Credit Agreement. The balance of this certificate of participation may include some accrued interest that will be payable at the next semi-annual interest payment date.

The Third Amended and Restated Master Lease 1992-1 provides that certain lease schedules to the facility can be terminated if the State deposits with the Trustee an amount that is equal to the outstanding amount of the lease schedule, or in amounts that are sufficient to purchase investments that mature on dates and in amounts to make the lease payments when due. At June 30, 2006, the State has deposited with the Trustee amounts, that when invested, will terminate lease schedules having an aggregate outstanding amount of $3.2 million. As a result of terminating these lease schedules, the associated liability is removed from the financial statements.

G. Arbitrage Rebate

The Tax Reform Act of 1986 requires that governmental entities issuing tax-exempt debt subsequent to August 1986, calculate and rebate arbitrage earnings to the federal government. Specifically, the excess of the aggregated amount earned on investments purchased with bond proceeds over the amount that would have been earned if the proceeds were invested at a rate equal to the bond yield, is to be rebated to the federal government. As of June 30, 2006, no material arbitrage rebate liabilities existed.

H. Moral Obligation Debt

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

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

I. Credit Agreements

Primary Government

The State has, as part of the working bank contract, a letter of credit agreement with the US Bank National Association under which the Bank has agreed to provide to the State an open line of credit in the amount of $50.0 million. The agreement provides for advances in anticipation of bond issuance proceeds. As of June 30, 2006, $50.0 million was unused and available.

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

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

NOTE 12. LEASE COMMITMENTS AND INSTALLMENT PURCHASES

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

A. Capital Leases

Primary Government

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

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

The following is an analysis of the gross minimum lease payments along with the present value of the minimum lease payments as of June 30, 2006 for capital leases (in thousands):

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

Assets acquired through capital leases are valued at the lower of fair market value or the present value of minimum lease payments at the inception of the lease. The following is an analysis of capital assets recorded under capital leases as of June 30, 2006 (in thousands):

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

Master Lease Program

The State established a facility in 1992 that provides lease purchase financing for property and certain service items acquired by state agencies. This facility is the Third Amended and Restated Master Lease between the State acting by and through the Department of Administration and U.S. Bank National Association. Lease purchase obligations under the Master Lease are not general obligations of the State, but are payable from appropriations of State agencies participating in the Master Lease Program, subject to annual appropriation. The interest component of each lease/purchase payment is subject to a separate determination. Pursuant to terms of the Master Lease, the Trustee for the facility issues parity Master Lease Certificates of Participation that evidence proportionate interest of the owners thereof in lease payments. The outstanding balance as of June 30, 2006 was as follows:

Balance Due	Average Life (Weighted Term)
$89,763,305	3.3543 Years

Component Unit

Under the terms of a lease agreement, the University of Wisconsin Hospitals and Clinics Authority (the Hospital) leases facilities which were occupied by the Hospital as of June, 1996 (see Note 1B to the financial statements). The initial term of the lease is 30 years to be renewed annually with automatic extensions of one additional year on each July 1 until action is taken to stop the extensions. Included in the consideration for the lease is an amount equal to the debt service during the term of the lease agreement on all outstanding bonds issued by the State for the purpose of financing the acquisition, construction or improvement of the leased facilities. The balance at June 30, 2006 for amounts related to this agreement was $14.8 million.

B. Operating Leases

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

Governmental and business-type activities and fiduciary funds rental expenses under operating leases for Fiscal Year 2006 were $65.2 million. Of this amount, $64.9 million relates to minimum rental payments stipulated in lease agreements, $283 thousand relates to contingent rentals, and $376 thousand relates to sublease rental payments received. Component unit rental expenses under operating leases were $7.4 million, of which $7.4 million relates to minimum rental payments stipulated in lease agreements.

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

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

C. Installment Purchases

The State has entered into installment purchase agreements. The following is an analysis of the gross minimum installment payments, along with the present value of the minimum installment payments, as of June 30, 2006 for installment purchases (in thousands):

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

NOTE 13. RETIREMENT PLAN

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

The WRS is considered part of the State of Wisconsin's financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information for the year ending December 31, 2004, may be obtained by writing to:

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

The separately issued financial reports for the year ended December 31, 2005 will be available at a later date.

Plan Description

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

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

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

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

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

Accounting Policies and Plan Asset Matters

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

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

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

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

State Contributions Required and Contributions Made

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

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

	2005	2004	2003
Employer current service	$ 159.2	$ 149.2	$ 140.4
Percent of payroll	4.9%	4.7%	4.5%
Employer prior service	$ 2.2	$ 2.0	$ 706.8
Percent of payroll	0.1%	0.1%	22.4%
Employee required	$ 161.6	$ 157.2	$ 154.1
Percent of payroll	5.0%	4.9%	4.9%
Benefit adjustment contrib.	$ 22.8	$ 16.8	$ 11.1
Percent of payroll	0.7%	0.5%	0.4%
Percent of Required Contributions	100%	100%	100%

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

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

As of June 30, 2006 and 2005, the WRS's unfunded actuarial accrued liability was $0.3 billion and $0.4 billion, respectively. These amounts are presented as Prior Service Contributions Receivable on the financial statements. New prior service liabilities resulting from employers entering the WRS or increasing their prior service coverage are recognized as contributions in the year service is granted and are added to the Prior Service Contributions Receivable. Employer contributions for prior service reduce the receivable. The receivable is increased as of calendar year end with interest at the assumed interest rate of 7.8 percent.

NOTE 14. MILWAUKEE RETIREMENT SYSTEM

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

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

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

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

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

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

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

NOTE 15. OTHER EMPLOYMENT BENEFITS

In addition to providing pension benefits, the State participates in the Department of Employee Trust Funds administered post retirement life insurance and a sick leave termination benefit program that results in accounts from which employees may purchase post retirement health insurance. The State provides these benefits for retired employees in accordance with Chapter 40 of the Wisconsin Statutes.

Post retirement life insurance is provided to employees retiring before age 65 if they (1) have 20 years of creditable service, and (2) are eligible for a retirement annuity. This coverage is at the employee's expense (employee must pay the full premium) until age 65 when reduced coverage is provided at no cost. Employees retiring at or after age 65 are immediately eligible for reduced coverage at no cost. Beginning in the month in which an insured annuitant reaches age 65, premiums are no longer collected and coverage is continued for life. Approximately 13,720 State annuitants currently qualify for coverage without premium. Post retirement life insurance is fully insured by an independent insurance carrier. Premiums are prefunded with employer paid premiums during the employee's active career. The amount of premiums is determined by the insurer. The accrued liability and assets specifically related to post employment benefits could not be determined.

In accordance with Chapter 40, Wisconsin Statutes, the State also provides that employees retiring and beginning an immediate annuity are eligible for a termination payment of unused sick leave compensated absences, in the form of an account the employee may use to purchase health insurance through the State retiree health program. This termination payment is also available at the time of employee death or layoff. The rate of conversion of unused hours to the termination account is defined in the State’s various employment contracts with employees and depends on years of service, employment category, and the employees' current rate of pay. The resulting account may be used for the benefit of the employee or his/her surviving dependents. Approximately 9,620 annuitants are currently buying health insurance from these accounts. These account benefits are prefunded based on an actuarially determined percentage of payroll. The actuarial valuation is based on the frozen initial liability cost method.

Significant actuarial assumptions include an 7.8 percent assumed interest rate, 4.1 percent assumed annual salary growth, and an average sick leave accumulation of 6.5 days per year for non-University employees and 7.4 days per year for University employees. The assets and reserves of the sick leave conversion program are accounted for in a fiduciary fund. The accrued benefit liability at December 31, 2005, determined through an actuarial valuation performed on that date, was $1,822.8 million. The program's assets on that date were $1,805.7 million. The unfunded liability was $17.1 million.

Assets of the life insurance and health insurance benefit programs are valued at fair value.

The State's postemployment life insurance required and actual contributions totaled $5.4 million during the calendar year ended December 31, 2005.

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

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

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

A. Description of Funds

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

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

The Duty Disability Fund offers special disability insurance for State and local Wisconsin Retirement System participants in protective occupations. Participation in the program is mandatory for all Wisconsin Retirement System employers with protective occupation employees. Approximately 486 local employers plus the State currently participate. The plan is self-insured and risk is shared between the State and local portions of the plan.

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

B. Accounting Policies for Risk Pools

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

Valuation of Investments - Assets of the Health Insurance Fund are invested in the State Investment Fund. Assets of the Income Continuation Insurance, Duty Disability and Long-term Disability Insurance funds are invested in the core retirement investment trust. Investments are valued at fair value.

Unpaid Claims Liabilities - Claims liabilities are based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The estimate includes the effects of inflation and other societal and economic factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. Unpaid claims liability is presented at face value and is not discounted for health insurance. It is discounted using an interest rate of 7.8 percent for income continuation, long-term disability, and duty disability insurance. The liabilities for income continuation, long-term disability, health insurance and duty disability insurance were determined by actuarial methods. The Duty Disability Fund's accounting deficit is being amortized over a ten year period beginning January 1, 2007. Face values are not available.

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

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

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

Premium Setting - Premiums are established by the Group Insurance Board (Health, Income Continuation Insurance and Long-term Disability Insurance) and the Employee Trust Funds Board (Duty Disability) in consultation with actuaries.

C. Unpaid Claims Liabilities

As discussed in Section B of this Note, each fund establishes a liability for both reported and unreported insured events, which is an estimate of future payments of losses. The following represents changes in those aggregate liabilities for the nonreinsured portion of each fund during Calendar Year 2005 (in millions):

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

* Total unpaid claims at the end of 2005 is the net of $10.0 million in unpaid claims and $18.2 million in rebates due from pharmaceutical companies; total unpaid claims at the end of 2004 is the net of $9.3 million in unpaid claims and $13.6 million in rebates due from pharmaceutical companies.

D. Trend Information

Historical trend information showing revenue and claims development information is presented in the Department of Employee Trust Funds audited financial statements. The separately issued financial report for the year ended December 31, 2004 is available at www.etf.wi.gov and on request from:

The Department of Employee Trust Funds
801 West Badger Road
P.O. Box 7931
Madison, Wisconsin 53707-7931

The December 31, 2005 financial report will be available at a later date.

NOTE 17. SELF-INSURANCE

It is the general policy of the State not to purchase commercial insurance for the risks of losses to which it is exposed. Instead, the State believes it is more economical to manage its risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The fund services most claims for risk of loss to which the State is exposed, including damage to State owned property, liability for property damages and injuries to third parties, and worker's compensation. All funds and agencies of the State participate in the Risk Management Fund.

State Property Damage

Property damages to State-owned properties are covered by the State's self-funded property program up to $2.5 million per occurrence and $2.7 million annual aggregate. When claims, which exceed $25,000 per occurrence, total $2.7 million, the State's private insurance becomes available. Losses to property occurring after the threshold are first subject to a $25,000 deductible. The amount of loss in excess of $25,000 is covered by the State's private insurance company. During Fiscal Year 2006, the excess insurance limits were written to $300 million.

The liabilities for State property damage are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. The estimate for future benefits and loss liabilities is based on the reserves on open claims and paid claims. Losses incurred but not reported are expected to be immaterial. Claims incurred but not paid as of June 30, 2006 are estimated to total $1.9 million.

Property Damages and Bodily Injuries to Third Parties

The State is self-funded for third party liability to a level of $3 million per occurrence and purchases insurance in excess of this self-funded retention. The policy limit during Fiscal Year 2006 was $50 million.

The liabilities for property damages and injuries to third parties are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. The estimate for future benefits and loss liabilities for the prior fiscal year was the reserves on open claims. The estimate for future benefits and loss liabilities is calculated by an actuary based on the reserves on open claims and prior experience. No liability is reported for environmental impairment liability claims either incurred or incurred but not reported because existing case law makes it unlikely the State would be held liable for material amounts. Because actual claims liabilities depend upon complex factors such as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims incurred but not paid as of June 30, 2006 are estimated to total $37.0 million.

Worker's Compensation

The Worker's Compensation Program was created by Wisconsin Statutes Chapter 102 to provide benefits to workers injured on the job. All employees of the State are included in the program. An injury is covered under worker's compensation if it is caused by an accident that arose out of and in the course of employment.

The responsibility for claiming compensation is on the employee. A claim must be filed with the program within two years from the date of injury, otherwise the claim is not allowable.

The worker's compensation liability has been determined by an actuary using paid claims and current claims reserves. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities are affected by external factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims incurred but not paid as of June 30, 2006 are estimated to total $61.2 million.

Changes in the balances of claims liability for the Risk Management Fund during the current and prior fiscal years are as follows (in thousands):

	2006	2005
Beginning of fiscal year liability	$ 113,165	$ 110,856
Current year claims and changes in estimates	7,370	25,307
Claim payments	(20,374)	(22,998)
Balance at fiscal year-end	$ 100,161	$ 113,165

Settlements have not exceeded coverages for each of the past three fiscal years.

Annuity Contracts

The Risk Management Fund purchased annuity contracts in various claimants' names to satisfy claim liabilities. The likelihood that the fund will be required to make future payments on those claims is remote and, therefore, the fund is considered to have satisfied its primary liability to the claimants. Accordingly, the annuity contracts are not reported in, and the related liabilities are removed from, the fund's balance sheet. The aggregate outstanding amount of liabilities removed from the financial statements at June 30, 2006 is $3.9 million.

NOTE 18. INSURANCE FUNDS

Primary Government

A. Local Government Property Insurance Fund

Created by the Legislature in 1911, the purpose of the Local Government Property Insurance Fund is to provide property insurance coverage to tax-supported local government units such as counties, towns, villages, cities, school districts and library boards. Property insured includes government buildings, schools, libraries and motor vehicles. Coverage is available on an optional basis. As of June 30, 2006, the Local Government Property Insurance Fund insured 1,156 local governmental units. The total amount of insurance in force as of June 30, 2006 was $39.9 billion.

Valuation of Cash Equivalents and Investments - All investments of the Local Government Property Insurance Fund are managed by the State of Wisconsin Investment Board, as discussed in Note 5-B to the financial statements. At June 30, 2006, the fund had $49.1 million of shares in the State Investment Fund which are considered cash equivalents and $4.0 million of high grade, long-term, fixed income obligations.

Premium - Unearned premium reported as deferred revenue represents the daily pro rata portion of premium written which is applicable to the unexpired terms of the insurance policies in force. Policies are generally written for annual terms.

Unpaid Claims Liabilities - The Local Government Property Insurance Fund establishes the unpaid claim liability titled future benefits and loss liabilities on the financial statements based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Claims liabilities are recomputed periodically to produce current estimates that reflect recent settlements, claim frequency, and other economic factors. Adjustments to future benefits and loss liabilities are charged or credited to expense in the periods in which they are made.

Policy Acquisition Costs - Since the Local Government Property Insurance Fund has no marketing staff and incurs no sales commissions, acquisition costs are minimal and charged to operations as incurred.

Reinsurance - The Local Government Property Insurance Fund uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the fund as direct insurer of the risks reinsured. The fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. As of June 30, 2006 the fund had $325.0 million of per occurrence excess of loss reinsurance in force with a $2.0 million combined single limit retention for each occurrence, and an annual aggregate reinsurance contract with a $18.0 million annual aggregate retention plus a per claim retention of $5 thousand once the aggregate is met, as respects occurrences for the term of the agreement. Premiums ceded to reinsurers, which is netted against premium revenue (charges for sales and services in the financial statements), amounted to $3.8 million during the fiscal year. Reinsurance loss and adjusting expense recoveries earned, which reduces claims paid (benefit expense on the financial statements), amounted to $1.0 million during the fiscal year.

Unpaid Claims Liabilities

As discussed above, the Local Government Property Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities for the fund during the past two fiscal years (in thousands):

	2006	2005
Unpaid claims and claim adjustment expenses at beginning of the year	$4,077	$8,006
Less: Reinsurance recoverable	(265)	(3,652)
Net unpaid loss liability at beginning of year	3,812	4,354
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	15,652	9,623
Increase (decrease) in provision for insured events of prior years	1,741	400
Total incurred claims and claim adjustment expenses	17,393	10,023
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	8,790	6,071
Claims and claim adjustment expenses attributable to insured events prior years	3,708	4,494
Total payments	12,498	10,565
Net unpaid claims and claim adjustment expenses at end of year	8,707	3,812
Reinsurance recoverable	912	265
Total unpaid claims and claim adjustment expenses	$9,619	$4,077

Trend Information

Historical trend information showing revenue and claims development information is presented in the Office of the Commissioner of Insurance June 30, 2006 financial statements. Copies of these statements may be requested from:

Office of the Commissioner of Insurance
125 South Webster Street
Madison, Wisconsin 53702

B. State Life Insurance Fund

The State Life Insurance Fund was created under Chapter 607, Wisconsin Statutes, to offer life insurance to residents of Wisconsin in a manner similar to private insurers. This fund functions much like a mutual life insurance company and is subject to the same regulatory requirements as any life insurance company licensed to operate in Wisconsin.

Premiums are reported as earned when due. Benefits and expenses are associated with earned premiums so as to result in recognition of profits over the life of the contracts. This association is accomplished by means of the provision for liabilities for future benefits and the amortization of acquisition costs.

The costs of policy issuance and underwriting, all of which vary with, and are primarily related to, the production of new business, have been deferred. These deferred acquisition costs are amortized over a forty year period, considered representative of the life of the contract. The amortization is in proportion to the ratio of annual in-force business to the amount of business issued. Such anticipated in-force business was estimated using similar assumptions to those used for computing liabilities for future policy benefits.

Deferred Acquisition Cost Assumptions

Issue Years	Interest Rate	Lapse Rate	Mortality
1913-1966	3.0%	2.0%	None
1967-1976	3.0	2.0	None
1977-1985	4.0	2.0	None
1986-1994	5.0	2.0	None
1995+	4.0	2.0	None

The State Life Insurance Fund does not pay commissions nor does it incur agent expenses.

Future benefits and loss liabilities have been computed by the net level premium method based upon estimated future investment yield and mortality. The composition of liabilities and the more material assumptions pertinent thereto are presented below (in thousands):

Issue Year	Ordinary Life Insurance in Force	Amount of Policy Liability
1913-1966	$ 11,893	$ 8,332
1967-1976	35,976	16,265
1977-1985	81,275	21,887
1986-1994	53,792	7,280
1995+	38,140	3,623
	$ 221,076	$ 57,387

Bases of Assumptions

Issue Year	Interest Rate	Mortality
1913-1966	3.0%	American Experience, ANB*
1967-1976	3.0	1958 CSO, ALB, Unisex
1977-1985	4.0	1958 CSO, ALB, Female Setback 3 years
1986-1994	5.0	1980 CSO, ALB, Aggregate
1995+	4.0	1980 CSO, ALB, Aggregate

* Age Next Birthday

All of the State Life Insurance Fund's ordinary life insurance in force is participating. This fund is required by statute to maintain surplus at a level between 7 percent and 10 percent of statutory admitted assets as far as practicably possible. All excess surplus is to be returned to the policyholders in the form of policyholder dividends. Policyholder dividends are declared each year in order to achieve the required level of surplus.

The statutory assets at December 31, 2005 were $83.0 million and the statutory capital and surplus were $3.8 million, and the capital and surplus at June 30, 2006 was $5.5 million.

C. Injured Patients and Families Compensation Fund

The Injured Patients and Families Compensation Fund was created in 1975 for the purpose of providing excess medical malpractice insurance for health care providers in the state. The Injured Patients and Families Compensation Fund pays that portion of a medical malpractice claim which is in excess of the legal primary insurance limit prescribed under law, or the maximum liability limit for which the health provider is insured, whichever limit is greater. Most health care providers permanently practicing or operating in the State of Wisconsin are required to pay Injured Patients and Families Compensation Fund operating fees. Risk of loss is retained by the fund.

The Future Benefits and Loss Liability account includes individual case estimates for reported losses and estimates for incurred but not reported losses based upon the projected ultimate losses. Individual case estimates of the liability for reported losses and net losses paid from inception of the Injured Patients and Families Compensation Fund are deducted from the projected ultimate loss liabilities to determine the liability for incurred but not reported losses as of June 30, 2006 as follows (in thousands):

Projected ultimate loss liability	$ 1,361,409
Less: Net loss paid from inception	(612,971)
Less: Liability for reported losses	(80,206)
Liability for incurred but not reported losses	$ 668,232

The Future Benefits and Loss Liability account also includes a provision for the estimated future payment of the costs to settle claims. These ultimate loss adjustment expenses as of June 30, 2006 are estimated at 20.0 percent of the projected ultimate loss liabilities. The loss reserves are actuarially determined. The loss adjustment expenses paid from the inception of the Injured Patients and Families Compensation Fund are deducted from the projected ultimate loss adjustment expenses provision to determine the liability for loss adjustment expenses as of June 30, 2006 as follows (in thousands):

Projected ultimate loss adjustment expense liability	$ 202,715
Less: Loss adjustment expense paid from inception	(49,578)
Liability for loss adjustment expense	$ 153,137

The uncertainties inherent in projecting the frequency and severity of large claims because of the Injured Patients and Families Compensation Fund's unlimited liability coverage, and extended reporting and settlement periods, makes it likely that the amounts ultimately paid will differ from the recorded estimated liabilities. These differences cannot be quantified.

The liability for reported losses, liability for incurred but not reported losses, and liability for loss adjustment expense are maintained on a present value basis with the difference from full value being reported as a contra account to the loss reserve liabilities. The loss reserve liabilities are discounted only to the extent that they are matched by cash and invested assets. If all loss liabilities are discounted, the discounted loss liability would be as follows as of June 30, 2006 (in thousands):

Estimated liability for Incurred But Not Reported (IBNR)	$ 668,232
Estimated liability for reported losses	80,206
Estimated unpaid loss adjustment expense	153,137
Total estimated loss liabilities	901,575
Less: Amount representing interest	(223,142)
Discounted loss liabilities	$ 678,433

The future benefits and loss liabilities are continually reviewed as adjustments to these liabilities become necessary. Such adjustments are reflected in current operations. Because of the changes in these estimates, the benefit expense for the fiscal year is not necessarily indicative of the loss experience for the year.

On behalf of the Fund's Board, the Office of the Commissioner of Insurance contracted for an actuarial audit of the Injured Patients and Families Compensation Fund, which included a review by another actuary of the reasonableness of the actuarial methodology and assumptions used in developing estimates of the Fund's loss liabilities. The actuarial audit, which was completed, on July 7, 2005, concluded that the Fiscal Year 2005 estimate of the Fund's loss liability was reasonable but conservative. The audit recommended adjusting the methodology to incorporate a specific risk margin. This was implemented in the Fiscal Year 2006 analysis. The Fund's Board approved a 5 percent risk margin for Fiscal Year 2006. This compares with an implied risk margin of about 33 percent that the actuaries had built into the Fiscal Year 2005 estimate of the Fund's loss liability.

D. Health Insurance Risk Sharing Plan

The Health Insurance Risk Sharing Plan Fund was established in 1980 to provide major medical and Medicare supplemental insurance for persons unable to obtain this insurance in the private market or who otherwise qualify for eligibility under Section 149.12, Wis. Stats. The Health Insurance Risk Sharing Plan is funded primarily by premiums paid by insureds of the plan, assessments made to participating insurers and reduction of provider payments rates.

The financial statements of the Health Insurance Risk Sharing Plan fund are prepared in conformity with generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board. Premiums are recognized as revenues over the terms of the insurance policies, and a liability for unearned premiums is established to reflect premiums received applicable to subsequent accounting periods. Participating insurers are assessed every six months, and revenue is recognized in the period covered by the assessments.

The future benefits and loss liabilities include loss reserves reflecting the accumulation of losses reported but not paid prior to the close of the accounting period and estimates of incurred but unreported losses. Loss reserves are actuarially determined and are based on historical patterns of claim payments and represent the estimated ultimate cost of settling claims incurred prior to June 30. Due to the inherent uncertainties in the reserving process, loss reserves as computed may not reflect the actual payments ultimately to be made. The methods for making such estimates and for establishing the resulting reserves are continually reviewed, and any adjustments are reflected in earnings currently.

The following represents changes in the Future Benefits and Loss Liabilities account balances for the prior two fiscal years (in thousands):

	2006	2005
Balance, beginning of year	$ 22,040	$ 17,599
Incurred related to:		
Current year	138,050	134,979
Prior years	(5,468)	(1,091)
Total Incurred	132,582	133,887
Paid related to:		
Current year	123,970	113,955
Prior years	15,220	15,491
Total Paid	139,190	129,446
Balance, end of year	$ 15,432	$ 22,040

The Future Benefits and Loss Liabilities account also includes a reserve for loss adjustment costs to be incurred in settlement of the claims provided for in the loss reserves.

Component Units

E. Wisconsin Health Care Liability Insurance Plan

The Wisconsin Health Care Liability Insurance Plan (the Plan) is a statutory unincorporated association established by rule of the Commissioner of Insurance of the State of Wisconsin as mandated by the State of Wisconsin legislature. The Plan provides health care liability insurance and liability coverages normally incidental to health care liability insurance to eligible health care providers in the State of Wisconsin calling for payment of premium prior to the effective date of the policy. All insurers authorized to write personal injury liability insurance in the State of Wisconsin, with certain minor exceptions, are required to be members of the Plan.

The Plan generates its premium written revenue by selling medical malpractice insurance. Rates are calculated in accordance with generally accepted actuarial principles. The rates are set so that the Plan will be self-supporting. Profit is not the intent of the Plan.

Since the inception of the Plan in 1975, the health care liability coverage limits have increased from $200 thousand per occurrence and $600 thousand annual aggregate to the current limits of $1.0 million per occurrence and $3.0 million annual aggregate. A general liability coverage is also available to participating health care providers with limits of $1.0 million per occurrence and $3.0 million annual aggregate. The Plan is not covered under any reinsurance contracts.

In the event that sufficient funds are not available for the sound financial operation of the Plan, all members shall, on a temporary basis, contribute to the financial needs of the Plan. Members shall participate in the contributions in the proportion of their respective premiums to the aggregate premiums written by all members of the Plan. Such assessments shall be recouped by rate increases applied prospectively. There were no assessments for the year ended December 31, 2005.

The future benefits and loss liability includes amounts determined from individual reported losses (case reserves) and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on estimates and, while management believes that the amounts are adequate, the ultimate liability will differ from the amounts provided. The methods for making such estimates and for establishing the resulting liability are annually reviewed, and any adjustments are reflected in income currently. Specific account balances as of December 31, 2004 and December 31, 2005, are as follows (in thousands):

	2005	2004
Balance at January 1	$ 33,901	$ 43,760
Incurred related to:		
Current year	10,900	7,534
Prior years	(12,319)	(15,931)
Total Incurred	(1,419)	(8,397)
Paid related to:		
Current year	75	30
Prior years	240	1,432
Total paid	315	1,462
Balance at December 31	$ 32,167	$ 33,901

There is inherent uncertainty in medical malpractice claims when establishing the estimates of unpaid losses and unpaid loss adjustment expenses. In 2004 and 2005, the Plan decreased its estimates of unpaid losses and unpaid loss adjustment expenses related to insured events of prior years. These decreases were greater than the estimated losses incurred for the current year, causing negative incurred losses and loss adjustment expenses.

NOTE 19. SEGMENT INFORMATION AND CONDENSED FINANCIAL DATA

Primary Government

The State issues revenue bonds to finance the Leveraged Loan Program, which is accounted for as part of the Environmental Improvement Fund. Investors in those bonds rely solely on the revenue generated within the Leveraged Loan Program. Assets of this program are used primarily for loans for Wisconsin municipal waste water projects. Condensed financial statement information of the Leveraged Loan Program as of and for the year ended June 30, 2006 is presented below (in thousands):

Condensed Balance Sheet

Assets:		
Current Assets	$	100,360
Other Assets		752,143
Total Assets	$	852,503
Liabilities:		
Due to Other Funds	$	2,258
Other Current Liabilities (Including Current Portion of Long-term Debt)		50,795
Noncurrent Liabilities		645,243
Total Liabilities		698,296
Fund Equity:		
Restricted		154,207
Total Fund Equity		154,207
Total Liabilities and Fund Equity	$	852,503

Condensed Statement of Revenues, Expenses and Changes in Fund Equity

Operating Revenues (Expenses):		
Loan Interest	$	17,412
Interest Expense		(33,197)
Other Operating Expenses		(2,348)
Operating Income (Loss)		(18,133)
Nonoperating Revenues (Expenses):		
Investment Income		4,050
Change in Fund Equity		(14,083)
Beginning Fund Equity		168,290
Ending Fund Equity	$	154,207

Condensed Statement of Cash Flows

Net Cash Provided (Used) by :		
Operating Activities	$	(2,401)
Noncapital Financing Activities		6,724
Investing Activities		11,760
Net Increase (Decrease)		16,083
Beginning Cash and Cash Equivalents		82,491
Ending Cash and Cash Equivalents	$	98,574

NOTE 20. COMPONENT UNITS – CONDENSED FINANCIAL INFORMATION

Significant financial data for the State's five discretely presented component units for the year ended December 31, 2005 or June 30, 2006 is presented below (in thousands):

	Wisconsin Housing and Economic Development Authority	Wisconsin Health Care Liability Insurance Plan	University of Wisconsin Hospitals and Clinics Authority	University of Wisconsin Foundation	State Fair Park Exposition Center	Total
Condensed Balance Sheet						
Assets:						
Cash, Investments and Other Assets	$ 3,124,797	$ 71,278	$ 213,410	$ 2,395,788	$ 5,421	$ 5,810,694
Due from Primary Governments	-	-	1,544	-	170	1,714
Cash and Investments with Other Component Units	-	-	268,689	-	-	268,689
Capital Assets, net	18,002	-	315,444	7,518	34,977	375,941
Total Assets	$ 3,142,799	$ 71,278	$ 799,087	$ 2,403,306	$ 40,568	$ 6,457,037
Liabilities:						
Accounts Payable and Other Current Liabilities	$ 133,738	$ 20,281	$ 68,416	$ 33,946	$ 961	$ 257,341
Due to Primary Government	3	-	10,251	-	70	10,324
Amounts Held for Other Component Units	-	-	-	196,122	-	196,122
Long-term Liabilities (Current and Noncurrent portions)	2,567,466	32,167	332,434	12,113	40,853	2,985,032
Total Liabilities	2,701,207	52,448	411,100	242,181	41,884	3,448,820
Fund Equity:						
Invested in Capital Assets, Net of Related Debt	2,587	-	103,245	7,518	(5,399)	107,950
Restricted	431,255	18,830	34,304	2,034,724	-	2,519,113
Unrestricted	7,750	-	250,438	118,883	4,083	381,154
Total Fund Equity	441,592	18,830	387,987	2,161,125	(1,316)	3,008,217
Total Liabilities and Fund Equity	$ 3,142,799	$ 71,278	$ 799,087	$ 2,403,306	$ 40,568	$ 6,457,037
Condensed Statement of Revenues, Expenses and Changes in Fund Equity						
Program Expenses:						
Depreciation	$ 5,467	$ -	$ 30,950	$ 277	$ 1,033	$ 37,726
Payments to Primary Government	-	-	2,325	114,714	-	117,039
Other	275,828	(93)	676,222	30,989	4,158	987,105
Total Program Expenses:	281,295	(93)	709,497	145,980	5,191	1,141,870
Program Revenues:						
Charges for Goods and Services	4,077	6,167	734,388	-	4,178	748,810
Investment and Interest Income	130,354	3,308	-	206,760	-	340,421
Operating Grants and Contributions	137,564	-	827	139,892	-	278,283
Capital Grants and Contributions	-	-	9,757	-	57	9,814
Other	16,662	39	13,627	109	297	30,734
Total Program Revenues	288,657	9,514	758,599	346,760	4,532	1,408,062
Net Program Revenue/(Expense)	7,362	9,606	49,102	200,781	(659)	266,193
General Revenues:						
Interest and Investment Earnings	19,980	-	12,832	-	(10)	32,802
Contributions to Endowments	-	-	136	-	-	136
Change in Fund Equity	27,342	9,606	62,070	200,781	(669)	299,131
Fund Equity, Beginning of Year	414,250	9,223	325,917	1,960,344	(647)	2,709,087
Fund Equity, End of Year	$ 441,592	$ 18,830	$ 387,987	$ 2,161,125	$ (1,316)	$ 3,008,217

NOTE 21. RESTATEMENTS OF BEGINNING FUND BALANCES/FUND EQUITY/NET ASSETS AND OTHER CHANGES

The reconciliations that follow summarize restatements of the end-of-year fund balance/fund equity/net assets as reported in the 2005 Comprehensive Annual Financial Report to the beginning-of-year fund balances/fund equity/net assets reported for Fiscal Year 2006 (in thousands):

A. Fund Statements – Governmental Funds

	Major Funds			
	General	Transportation	Nonmajor Funds	Total Governmental
Fund Balances June 30, 2005 as reported in the 2005 Comprehensive Annual Financial Report	$ (2,122,235)	$ 393,586	$ 893,261	$ (835,388)
Unclaimed Property Program recognition of additional liability	(19,900)	-	-	(19,900)
Restatement of accounts payable	-	23,676	-	23,676
Other adjustments of assets and liabilities as of June 30, 2005	149	-	6	155
Fund Balances July 1, 2005 as restated	$ (2,141,986)	$ 417,262	$ 893,267	$ (831,457)
Effect of prior period adjustments on the amount of excess revenues and other sources over expenditures and other uses of Fiscal Year 2005	$ 149	$ 11,128	$ 6	$ 11,284

B. Fund Statements – Proprietary Funds

	Major Funds						
	Injured Patients and Families Compensation	Environmental Improvement	University of Wisconsin System	Unemployment Reserve	Nonmajor Funds	Total Enterprise	Internal Service Funds
Fund Equity June 30, 2005 as reported in the 2005 Comprehensive Annual Financial Report	$ 31,706	$ 1,186,566	$ 3,701,127	$ 923,727	$ 555,425	$ 6,398,551	$ 22,918
University of Wisconsin System restatement of of buildings and equipment	-	-	16,592	-	-	16,592	-
Other adjustments of assets and liabilities as of June 30, 2005	-	-	8,900	-	(1,127)	7,773	(16)
Fund Equity July 1, 2005 as restated	$ 31,706	$ 1,186,566	$ 3,726,619	$ 923,727	$ 554,299	$ 6,422,917	$ 22,902
Effect of prior period adjustments on the amount of net change in fund equity of Fiscal Year 2005	$ -	$ -	$ -	$ -	$ (402)	$ (402)	$ (16)

C. Fund Statements – Fiduciary Funds

	Pension and Other Employee Benefit Trust	Investment Trust	Private Purpose Trust	Total Fiduciary
Net Assets June 30, 2005 as reported in the 2005 Comprehensive Annual Financial Report	$ 67,804,584	$ 2,784,581	$ 1,458,398	$ 72,047,563
Adjustments of assets and liabilities as of June 30, 2005	-	-	158	158
Net Assets July 1, 2005 as restated	$ 67,804,584	$ 2,784,581	$ 1,458,556	$ 72,047,721
Effect of prior period adjustments on the amount of net increase in net assets of Fiscal Year 2005	$ -	$ -	$ 3	$ 3

D. Government-wide Statements

	Primary Government			
	Governmental Activities	Business-type Activities	Totals	Component Units
Net Assets June 30, 2005 as reported in the 2005 Comprehensive Annual Financial Report	$ 5,091,125	$ 6,398,984	$ 11,490,109	$ 2,709,087
Unclaimed Property Program recognition of additional liability	(19,900)	-	(19,900)	-
Restatement of accounts payable	23,676	-	23,676	-
University of Wisconsin System restatement of buildings and equipment	-	16,592	16,592	-
Other adjustments of assets and liabilities as of June 30, 2005	(286)	7,773	7,487	-
Net Assets July 1, 2005 as restated	$ 5,094,616	$ 6,423,349	$ 11,517,965	$ 2,709,087
Effect of prior period adjustments on the amount of net increase in net assets of Fiscal Year 2005	$ 17,359	$ (402)	$ 16,957	$ -

NOTE 22. LITIGATION, CONTINGENCIES AND COMMITMENTS

A. Litigation and Contingencies

The State is a defendant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations.

Claims and Judgments Reported in Governmental Activities

The State accrues liabilities related to legal proceedings, if a loss is probable and reasonably estimable. Such losses, totaling $13.4 million on June 30, 2006 reported in the governmental activities, are discussed below:

Litigation - The Department of Health and Family Services is involved in various legal proceedings where the ultimate disposition is estimated at $0.2 million.

Other Claims - Work Injury Supplemental Benefits - The Work Injury Supplemental Benefit Fund, administered by the Department of Workforce Development, provides compensatory payments to survivors of fatally injured employees or disabled employees with work-related injuries. The liability for annuities to be paid to the above individuals totaled $1.4 million at June 30, 2006.

In addition, the U. S. Department of Health and Human Services (U.S. DHHS) determined that the Department of Workforce Development should refund the federal share of recovered AFDC overpayments. However, the State of Wisconsin has appealed the decision of the U.S. DHHS. A liability for $11.8 million is reported at June 30, 2006.

Other Claims, Judgments, and Contingencies

The State is also named as a party in other legal proceedings where the ultimate disposition and consequence are not presently determinable. The potential liability amount relating to an unfavorable outcome for certain of these proceedings could not be reasonably determined at this time. However, the ultimate dispositions and consequences of any single legal proceeding or all legal proceedings collectively should not have a material adverse effect on the State's financial position.

Environmental Clean-up Actions - The State is involved in environmental clean-up of property owned by the State that has the potential to cause soil and groundwater contamination. Seven sites have soil and/or groundwater contamination associated with underground storage tank releases with an estimated remediation cost of $0.8 million.

The State is also involved in environmental remediations on nine properties that do not involve releases from underground storage tanks, with an estimated cost of $3.2 million.

B. Commitments

Primary Government

In addition to legal proceedings, the State is party to commitments which normally occur in governmental operations.

In addition to the amount of encumbrances outstanding at June 30, 2006 reported as Fund Balance - Reserved for Encumbrances, additional obligations at June 30, 2006 representing multi-year, long-term commitments included (in thousands):

Transportation Fund	$ 353,363
Transportation Revenue Bonds Capital Projects Fund	40,220
Wireless 911 Fund	46,633
General Fund – Department of Commerce programs, including economic and community development programs	21,433

The Environmental Improvement Fund (the Fund) was established to administer the Clean Water Fund Loan Program. Loans are made to local units of government for wastewater treatment projects for terms of up to 20 years. These loans are made at a number of prescribed interest rates based on environmental priority. The loans contractually are revenue obligations or general obligations of the local governmental unit. Additionally, various statutory provisions exist which provide further security for payment. The fund has made financial assistance commitments of $191.6 million as of June 30, 2006. These loan commitments are expected to be met through additional federal grants and proceeds from issuance of revenue obligations.

In addition, the revenue obligation bonds of the Leveraged Loan Program in the Fund are collateralized by a security interest in all the assets of the Leveraged Loan Program. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the Fund's revenue obligation bonds. However, as the loans granted to local units of government are at an interest rate less than the revenue bond rate, the State is obligated by the Fund's General Resolution to fund, at the time each loan is made, a reserve which subsidizes the Leveraged Loan Program in an amount which offsets this interest disparity.

The *Injured Patients and Families Compensation Fund* may be required to purchase an annuity as a result of a claim settlement. Under specific annuity arrangements, the fund may have ultimate responsibility for annuity payments if the annuity company and the reassignment company default on annuity payments. One of the fund's annuity providers defaulted on $93 thousand in annuity payments through June 30, 2006, which the fund subsequently paid. The annuity provider is currently making the majority of these annuity payments, but the fund continues to make monthly annuity payments to cover defaulted payments. The fund has received reimbursement for these payments, including interest of $60 thousand through June 30, 2006. It is unclear when the annuity provider will be able to make the remaining annuity payments and whether the fund will be able to recover the remaining annuity payments made on the behalf of the annuity provider. The total estimated replacement value of the fund's annuities as of June 30, 2006 was $145.6 million. The fund reserves the right to pursue collection from State guarantee funds.

State Public Deposit Guarantee - As required by Wis. Stat. Sec. 34.08, the State is to make payments to public depositors for proofs of loss (e.g., loss resulting from a bank failure) up to $400 thousand per depositor above the amount of federal insurance. This statutory requirement guarantees that the State will make payments in favor of the public depositor that has submitted a proof of loss. Payments would be made in the order in which satisfactory proofs of loss are received by the State's Department of Financial Institutions, until the designated appropriation is exhausted. At June 30, 2006, the appropriation available totaled $35.2 million. Losses become fixed as of the date of the loss. A public depositor experiencing a loss must assign its interest in the deposit, to the extent of the amount paid, to the Department of Financial Institutions. Any recovery made by the Department of Financial Institutions under the assignment is to be repaid to the appropriation. The possibility of a material loss resulting from payments to and recovery from public depositors is remote.

The *Veterans Mortgage Loan Repayment Fund* accounts for the issuance and administration of veterans' first mortgage loans. The loans are made to veterans for the purchase of homes to terms up to 30 years. The loan interest rates are set by the Board of Veterans Affairs. The loans are secured by real estate mortgages. The fund has commitments for loans of $1.3 million as of June 30, 2006. The loan commitments are expected to be met from current fund assets.

Component Units

The Wisconsin Housing and Economic Development Authority's mission was expanded since its creation to include administration of the Agricultural and Business Programs. These programs administer funds that are legislatively appropriated to subsidize interest and provide guarantees of principal balances of qualifying loans. At June 30, 2006, outstanding loan guarantees totaled $31.2 million.

NOTE 23. SUBSEQUENT EVENTS

Primary Government

Short-term Debt

General Obligation – In August 2006, the State issued $123.5 million of 2006 Series A general obligation commercial paper notes to be used to acquire, construct, develop, extend, enlarge, or improve land, waters, property, highways, buildings, equipment, or facilities for public purposes.

In December 2006, the State issued $91.7 million of 2006 Series B general obligation extendible municipal commercial paper notes to be used to acquire, construct, develop, extend, enlarge, or improve land, waters, property, highways, buildings, equipment or facilities for public purposes.

In December 2006, the State issued $4.4 million of 2006 Series C general obligation extendible municipal commercial paper notes to be used to fund veterans housing loans.

Revenue Obligation – In October 2006, the State issued $91.3 million of 2006 Series A transportation revenue commercial paper notes to pay the costs of major highway projects and certain State transportation facilities and costs of issuance. The payment of the commercial paper notes is subordinated to the senior bonds.

Certificates of Participation – In August 2006, $71.4 million of master lease certificates of participation were issued.

Long-term Debt

General Obligation Bonds – In July 2006, the State issued a $2.0 million general obligation term bond 2006, Series B to be used to fund veterans home improvement loans. The interest rate is 5.65 percent which is payable semiannually beginning May 1, 2007 with mandatory sinking fund payments beginning November 1, 2007 to the stated maturity date November 1, 2021.

In August 2006, the State issued $61.7 million general obligation bonds 2006, Series C to be used to fund veterans primary mortgage home loans. The interest rates range from 4.00 percent to 5.00 percent and are payable semiannually, beginning May 1, 2007. The bonds mature May 1 of the years 2008 through 2037.

In September 2006, the State issued $176.5 million of 2006 Series D general obligation bonds to be used for the acquisition, construction, development, extension, enlargement, or improvement of land, water, property, highways, buildings, equipment, or facilities for public purposes. The interest rates range from 4.50 percent to 5.00 percent and are payable semiannually on May 1 and November 1, beginning May 1, 2007. The bonds mature May 1 of the years 2018 through 2027.

Revenue Bonds – In November 2006, the State issued $100.0 million of 2006, Series 2 clean water revenue bonds to be used to make loans to municipalities primarily for construction or improvement of their wastewater treatment facilities, make a deposit into the Loan Credit Reserve Funds, and pay for costs of issuance. The interest rates range from 4.00 percent to 5.00 percent and are payable semiannually beginning June 1, 2007. The bonds mature June 1 of the years 2008 through 2027.

In July 2006, the State called for early redemption the 2001 Series A Petroleum Inspection Fee Revenue Bonds each in the par amount of $15.0 million, having a 5.0 percent coupon, and due on July 1, 2007 and July 1, 2008. On August 1, 2006, the State called for early redemption the last remaining maturity of the 2000 Series A of Petroleum Inspection Fee Revenue Bonds, in the par amount of $7.9 million, having a 5.5 percent coupon, and due July 1, 2012.

Future Benefits and Loss Liabilities

In July 2006, the State of Wisconsin Supreme Court issued a ruling in the Bartholomew v Patients Compensation Fund case. The court reversed in part the Maurin decision in that they allowed for the stacking of caps, but upheld the wrongful death cap. The decision was a split decision and exactly how it will affect future cases is not clear. However, based solely on the portion of that decision that would allow for the stacking of caps, the fund's actuary determined that the decision would result in an increase to the fund's outstanding discounted loss liabilities of about $10.5 million.

Federal Share of Billings in Excess of Costs

In September 2006, the State was notified by the Federal Department of Health and Human Services (DHHS) that it has determined that the federal share of billings in excess of costs provided by the Department of Administration is $23.1 million. DHHS proposes to collect this amount through several alternative methods. The Department of Administration intends to appeal this decision.

Component Units

Wisconsin Housing and Economic Development Authority – In July 2006, the Authority issued $7.5 million of variable rate demand home ownership revenue bonds, 2006 A & B. The bonds, issued under the multifamily housing bond general resolution, are general obligations of the Authority. The Series bonds are rated Aa3 and VMIG-1 by Moody's Investor Service.

In July 2006, the Authority redeemed the following bonds (in thousands):

Program/Bond Resolution	Amount Redeeme
Home Ownership Revenue Bonds, 1999 Series F, G, H & I	$ 545
Home Ownership Revenue Bonds, 1998 Series F & G	495
House Revenue Bonds, 1998 Series A, B & C	3,440
House Revenue Bonds, 2002 Series A, B, C, D, E, F, G,H & I	710

The Authority retired early the following bonds (in thousands):

Program/Bond Resolution	2007 Redemptions
Home Ownership Revenue Bond Resolutions:	
1987	$ 18,670
1988	23,395
All Other	1,040
Housing Revenue Bonds	4,150
Single Family Drawdown Revenue Bonds	167
General Funds:	
Line of Credit – Mortgage Financing	4,950
Business Development Bonds (various)	150

Program/Bond Resolution	2007 Issuances
Home Ownership Revenue Bond Resolutions:	
1988	180,000 (a)
Housing Revenue Bonds	7,500
Single Family Drawdown Revenue Bonds 1991-1	27,576
General Funds:	
Line of Credit – Mortgage Financing	34,957
Commercial Paper – Building	34,522 (b)

(a) Bonds were sold on 10-25-06
(b) Replaces scheduled maturities

Required Supplementary Information

Infrastructure Assets Reported Using the Modified Approach

The State has adopted the modified approach for reporting infrastructure assets. Under the modified approach, infrastructure assets are not depreciated as long as the State can demonstrate that these assets are properly managed and are being preserved at or above an established condition level. Instead of depreciation, the costs to maintain and preserve infrastructure assets are expensed, while additions and improvements are capitalized. The State owns approximately 11,200 centerline miles of roads and 4,900 bridges.

Road Network

Condition assessments are completed on a two-year cycle with the most current results reported for each State road. Numerous measures are used to assess the condition of the State's road network. The State has adopted the International Roughness Index (IRI), as defined by the Federal Highway Administration, as its primary condition measure. IRI is measured on a scale of 0 to 5, with an IRI of 2.69 or greater being defined as a "poor" ride. Roads with a "poor" IRI assessment cause negative impacts for the traveling public by decreasing driver comfort and increasing the damage to vehicles and goods. It is the State's policy to ensure no more than 15 percent of its roads receive a "poor" IRI assessment.

Recent condition assessment results are as follows:

Year Ended June 30	Miles of Road	Percent Rated "Poor"	Established Percent	Variance Favorable/ (Unfavorable)
2006	11.200	5.4	15.0	9.6
2005	11.200	5.8	15.0	9.2
2004	11.200	6.1	15.0	8.9
2003	11,200	4.3	15.0	10.7
2002	11,200	4.6	15.0	10.4

Each year the State estimates the costs to maintain and preserve the road network at, or above, the established condition level. Actual maintenance/preservation costs compare to estimates as follows:

Year Ended June 30	Estimated Costs (In millions)	Actual Costs (In millions)	Variance (In millions) Favorable/ (Unfavorable)
2006	$ 495.7	$ 425.9	$ 69.8
2005	478.6	372.3	106.4
2004	450.8	341.1	109.7
2003	420.9	336.7	84.2
2002	470.7	437.6	33.1

Estimated costs are developed at the beginning of the fiscal year based on projects planned for the current and future years. The types of projects ultimately contracted and incurring costs during the year are often very different. In addition, the State of Wisconsin, Department of Transportation's multi-year contracting process, allowing encumbrances to carry forward, makes a comparison of actual to estimated amounts difficult since expenditures for the current year may have been budgeted and committed to a project in prior years.

Bridge Network

Condition assessments are completed on a two-year cycle, with more frequent inspections completed if warranted. The most current assessment results are reported for each State bridge, making the overall assessment a blend of measures completed in the current fiscal year and those completed in the prior year. The State has adopted the National Bridge Inventory (NBI) 10-point rating scale as its primary condition measure. Using the Federal Highway Administration's definition, a bridge is considered "structurally deficient" if it has an NBI score of 4 or less on its deck, superstructure, or substructure. "Structurally deficient" bridges cause negative impacts for the public by increasing the likelihood that heavy loads will need to be rerouted to less efficient routes, thus increasing logistic costs for State businesses. It is the State's policy to ensure no more than 15 percent of its bridges are "structurally deficient".

Recent condition assessment results are as follows:

Year Ended June 30	Number of Bridges	Percent Structurally Deficient	Established Percent	Variance Favorable/ (Unfavorabl
2006	4.900	4.3	15.0	10.7
2005	4.900	5.1	15.0	9.9
2004	4.900	5.4	15.0	9.6
2003	4,900	6.2	15.0	8.8
2002	4,900	7.6	15.0	7.4

Each year the State estimates the costs to maintain and preserve the bridge network at, or above, the established condition level. Actual maintenance/preservation costs compare to estimates as follows:

Year Ended June 30	Estimated Costs (In millions)	Actual Costs (In millions)	Variance (In millions) Favorable/ (Unfavorable)
2006	$ 42.4	$ 31.3	$ 11.1
2005	28.3	38.6	(10.3)
2004	47.8	52.3	(4.5)
2003	46.4	45.7	0.7
2002	33.6	38.4	(4.8)

Estimated costs are developed at the beginning of the fiscal year based on projects planned for the current and future years. The types of projects ultimately contracted and incurring costs during the year are often very different. The State of Wisconsin, Department of Transportation's multi-year contracting process, allowing encumbrances to carry forward, makes a comparison of actual to estimated amounts difficult since expenditures for the current year may have been budgeted and committed to a project in prior years.

Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2006

(In Thousands)

	Original Budget	Final Budget	Actual Amounts
Unexpended Budgetary Fund Balances, Beginning of Year			$ 393,191
Revenues and Transfers (Inflows):			
Taxes	$ 11,974,979	$ 11,970,974	12,051,460
Departmental:			
Tribal Gaming	74,554	118,629	88,862
Other	10,203,390 (A)	10,565,996 (A)	10,181,547
Transfers from:			
Transportation Fund	(A)	(A)	338,449
Nonmajor Funds	(A)	(A)	34,225
Total Revenues and Transfers (Inflows)	22,252,923	22,655,598	22,694,544
Amounts Available for Appropriation			23,087,734
Appropriations (Outflows):			
Commerce	349,018	354,939	262,183
Education	10,310,590	10,563,986	10,148,528
Environmental Resources	307,659	322,280	293,414
Human Relations and Resources	8,729,353	9,321,237	8,718,439
General Executive	951,329	1,038,836	688,288
Judicial	113,247	116,290	115,263
Legislative	63,707	61,907	61,343
Tax Relief and Other General	1,915,472	1,864,956	1,859,988
Transfers to:			
Nonmajor Funds	-	341,813	341,813
Total Appropriations (Outflows)	$ 22,740,376	$ 23,986,246	22,489,259
Fund Balances, End of Year			598,475
Less Encumbrances Outstanding at June 30, 2006			(520,282)
Fund Balances, End of Year Budgetary Basis			$ 78,193

Reconciliation of the End of Year, Budgetary Basis, Fund Balance to the Detail Reported in the Annual Fiscal Report:	
General Purpose:	
Designated	$ 43,179
Undesignated	49,217
Total General Purpose	92,396
Program Revenue	(14,203)
Fund Balances, End of Year Budgetary Basis	$ 78,193

(A) Interfund transfers to the General Fund were budgeted under departmental revenue during Fiscal Year 2006.

State of Wisconsin

Budgetary Comparison Schedule
Transportation Fund
For the Fiscal Year Ended June 30, 2006

(In Thousands)

	Original Budget	Final Budget	Actual Amounts
Unexpended Budgetary Fund Balances, Beginning of Year			$ 350,169
Prior Period Adjustment			(636)
Restated Unexpended Budgetary Fund Balances, Beginning of Year			349,532
Revenues (Inflows):			
Taxes	$ 1,001,808	$ 1,001,808	1,001,808
Departmental	1,354,956	1,354,956	1,354,956
Total Revenues (Inflows)	2,356,764	2,356,764	2,356,764
Amounts Available for Appropriation			2,706,296
Appropriations and Transfers (Outflows):			
Commerce	101	101	46
Environmental Resources	3,218,276	3,399,922	2,039,667
General Executive	2,941	2,074	1,916
Tax Relief and Other General	20,022	20,228	21,093
Transfers to:			
General Fund	338,449	338,449	338,449
Total Appropriations and Transfers (Outflows)	$ 3,579,789	$ 3,760,774	2,401,170
Fund Balances, End of Year			305,126
Less Encumbrances Outstanding at June 30, 2006			(1,232,655)
Fund Balances, End of Year Budgetary Basis			$ (927,530)


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NOTE 1. BUDGETARY INFORMATION

A. Budgetary – GAAP Reporting Reconciliation

The accompanying Budgetary Comparison Schedule compares the legally adopted budget (more fully described in RSI Note 1-B) with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on the budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of basis and perspective differences as of June 30, 2006 is presented below (in thousands):

	General Fund	Transportation Fund
Fund balance June 30, 2006 (budgetary basis – budgetary fund structure):		
General Purpose Revenue – fund balance per budgetary basis *Annual Fiscal Report*		
Undesignated fund balance	$ 49,217	
Designated fund balance	43,179	
Total General Purpose Revenue fund balance	92,396	
Program Revenue – fund balance per budgetary basis *Annual Fiscal Report*	(14,203)	
Fund balance June 30, 2006 (budgetary basis – budgetary fund structure) As reported on the budgetary comparison schedule	78,193	$ (927,530)
Reclassifications:		
To eliminate the effect of encumbrances that were reported as expenditures under budgetary reporting (basis difference)	520,282	1,232,655
To reclassify activities reported in another GAAP fund type (perspective differences):		
Enterprise funds (except for the University of Wisconsin System)	14,369	--
University of Wisconsin System	(320,310)	--
Internal service funds	(2,277)	--
Fiduciary funds	(18,821)	--
Transportation Revenue Bonds debt service fund	--	2,875
Fund balance June 30, 2006 (GAAP fund structure – budgetary basis, excluding encumbrances treated as expenditures at year end)	271,436	308,001
Adjustments (basis differences):		
To accrue receivables and establish payables for individual income taxes (net)	(795,180)	--
To defer revenues for gross receipts public utility taxes	(193,932)	--
To adjust revenues and expenditures for tax-related items and other tax credit/aid programs (net)	(307,859)	9,745
To adjust expenditures for the municipal and county shared revenue program	(456,951)	--
To adjust expenditures for State property tax credit program	(353,412)	--
To accrue unpaid Medicaid payments to providers (net of receivable from federal government)	(162,908)	--
To adjust revenues and expenditures for certain major Health and Family Services and Workforce Development human services payments to local governments	(81,073)	
To accrue State educational aids payments deferred until the subsequent year	(75,000)	--
To adjust revenues and expenditures for other items (net)	4,406	69,481
Fund balance June 30, 2006 (GAAP fund structure – GAAP basis) as reported on the governmental fund statements	$(2,150,474)	$ 387,227

B. Budgetary Basis of Accounting

The State's biennial budget is prepared using a modified cash basis of accounting. The final budget is primarily a general purpose revenue and expenditure budget. General purpose revenues consist of general taxes and miscellaneous receipts which are paid into the General Fund, lose their identity, and are then available for appropriation by the Legislature. The remaining revenues consist of program revenues, which are credited by law to an appropriation to finance a specified program or State agency, and segregated revenues which are paid into separate identifiable funds.

While State departments and agencies are required to submit estimates of expected revenues for program revenue and segregated revenue categories, these estimates are not formally incorporated into the adopted budget except for revenue estimates of the Lottery Fund. As a result, legally budgeted revenues for these categories are not available and, consequently, actual amounts are reported in the budget column of the Budgetary Comparison Schedules.

Expenditure budgeting differs for the various types of appropriations. For most appropriations, budgeted expenditures equal the amount from the adopted budget plus any subsequent legislative or administrative revisions. Various supplemental appropriations were approved during the year and have been incorporated into the budget figures.

While State statutes prohibit spending beyond budgetary authority, a provision is made to include the value of accounts receivable, inventories and work in process in identifying available revenues. The State also utilizes nonbudget accounts for which no budget is established but expenditures may be incurred. As a result, actual expenditures may exceed budgeted amounts in certain categories.

The budgetary basis of accounting required by State law differs materially from the basis used to report revenues and expenditures in accordance with GAAP. Other variances arise because the State's biennial budget is developed according to the statutory required fund structure which differs extensively from the fund structure used in the GAAP basis financial statements. This difference is primarily caused by the elimination of the University of Wisconsin System, and various fiduciary, proprietary and other governmental fund activity from the statutory General and Transportation funds. Consequently, a reconciliation between budgetary basis and GAAP basis is provided in Note 1-A of the notes to the required supplementary information.

The Budgetary Comparison Schedules for the General and the Transportation Fund present both the original and final appropriated budgets, as well as the actual inflows, outflows, and fund balance on the budgetary basis. The supplementary budget comparison schedule provides this same information (with the exception of the original budget data) for the nonmajor governmental funds with annual budgets. The capital project and debt service funds are excluded from this schedule because no comprehensive budget is approved for these funds. A special revenue fund, the Wisconsin Public Broadcasting Foundation, has also been excluded from reporting because it is a blended component unit that is neither budgeted nor included under statutory reporting. Of the permanent funds, only the Historical Society Fund and a portion of the Common School Fund are budgeted.

The State's biennial budget was passed in July 2005. This legislation is recognized by State officials as the original budget and is treated as such on the Budgetary Comparison Schedules.

While the legal level of budgetary control for the reported funds is maintained at the appropriation line as specified by the Legislature in Chapter 20 of the Wisconsin Statutes, this level of detail is impractical for inclusion in the Comprehensive Annual Financial Report. Accordingly, a supplementary report is available upon request which provides budgetary comparisons at the legal level of control.

Appropriation unexpended balances lapse at year-end or forward to the subsequent fiscal year depending on the type of appropriation involved:

- *Continuing* - unexpended balances automatically forward to ensuing years until fully depleted or repealed by subsequent action of the Legislature.
- *Annual*:
  - *General Purpose Revenue* - unencumbered balances lapse at year end.
  - *Program Revenue* - unexpended cash balances may be forwarded to the next fiscal year.
- *Biennial* - unexpended balances or deficits automatically forward to the second year. At the end of the second year all unencumbered general purpose revenue balances lapse.
- *Sum sufficient* - moneys are appropriated and expended in the amounts necessary to accomplish the purpose specified.

Encumbrances may be carried over to the next fiscal year as a revision to the budgetary appropriation with Department of Administration approval. Under budgetary reporting, encumbrances are treated like expenditures and are shown as a reduction of fund balance. Under GAAP reporting, encumbrances outstanding at year end for purchase orders and contracts expected to be honored in the following year are reported as reservations of fund balance since they do not constitute expenditures or liabilities.

C. Excess of Expenditures over Appropriations

In the Agricultural Producer Security Fund, expenditures exceeded appropriations for the following program (in thousands):

Dairy, Grain and Vegetable Security	$ 112.2


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