STATE OF
WISCONSIN

General Purpose External Financial Statements

For the fiscal year ended June 30, 2011

Scott Walker, Governor

Department of Administration
Michael Huebsch, Secretary
Stephen J. Censky, State Controller

Prepared by the State Controller's Office

General Purpose External Financial Statements
For the Fiscal Year Ended June 30, 2011

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WISCONSIN DEPARTMENT OF ADMINISTRATION

SCOTT WALKER
GOVERNOR
MIKE HUEBSCH
SECRETARY
Division of Executive Budget and Finance
State Controller's Office
Post Office Box 7932
Madison, WI 53707-7932
Voice (608) 266-1694
Fax (608) 266-7734
www.doa.state.wi.us/debf/

December 21, 2011

The Honorable Scott Walker
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, 2011. They are part of the audited Comprehensive Annual Financial Report and present financial information in conformity with generally accepted accounting principles.

The General Purpose External Financial Statements include management's discussion and analysis (MD&A), the basic financial statements, and required supplementary information (RSI).

- MD&A presents a discussion and analysis of the State's financial performance during the fiscal year.
- The basic financial statements include an overview of the government as a whole (excluding the State's fiduciary activities) as well as detailed information on all governmental, proprietary, and fiduciary fund activity. Notes, which are considered part of the basic financial statements, provide additional information and should be used in conjunction with the financial statements.
- RSI includes information on post-employment health insurance benefits, infrastructure and the budgetary comparison schedule with accompanying notes.

The General Purpose External Financial Statements, as well as the Comprehensive Annual Financial Report, are on file at the office of the State Controller and will benefit users requiring summary information about our State's finances. The Comprehensive Annual Financial Report is available on the Department of Administration's website at: http://www.doa.state.wi.us/debf under the "financial reporting" category.

Sincerely,

Michael Huebsch
Secretary

Stephen J. Censky, CPA
State Controller

STATE OF WISCONSIN
Legislative Audit Bureau

22 East Mifflin Street, Suite 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410
www.legis.wisconsin.gov/lab
Toll-free hotline: 1-877-FRAUD-17

Joe Chrisman
State Auditor

INDEPENDENT AUDITOR'S REPORT

Honorable Members of the Legislature The Honorable Scott Walker, 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, 2011, 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 financial statements for the following: the Wisconsin Department of Transportation Revenue Bond Program and Commercial Paper Program, which represent 12 percent of the liabilities of the governmental activities and 3 percent of the liabilities of the aggregate remaining fund information; the Environmental Improvement Fund, which is a major fund and represents 21 percent of the assets and 16 percent of the liabilities of the business-type activities; or the College Savings Program Trust, which represents 3 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 is based upon the audit 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 following financial statements, which were audited by other auditors, were also audited in accordance with these standards: the Wisconsin Department of Transportation Revenue Bond Program and Commercial Paper Program, the Environmental Improvement Fund, the College Savings Program Trust, the Wisconsin Housing and Economic Development Authority, and the University of Wisconsin Hospitals and Clinics Authority. The financial statements of the University of Wisconsin Foundation, which were audited by other auditors, 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 position 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, 2011, 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.

For fiscal year 2010-11, the State implemented Governmental Accounting Standards Board Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement modifies governmental fund balance classifications and clarifies governmental fund type definitions, which are discussed in Notes 1E(14) and 1D, respectively, to the financial statements.

As discussed in Note 20A(3) to the financial statements, the Injured Patients and Families Compensation Fund's loss liabilities are estimates based on recommendations of a consulting actuary. The Fund's Board of Governors and management believe the estimated loss liabilities are reasonable and represent the most probable estimate of the losses the Fund will pay for the claims incurred to date. However, uncertainties inherent in projecting the frequency and severity of large medical malpractice claims because of the Fund's unlimited liability coverage and extended reporting and settlement periods make it likely that amounts paid will ultimately differ from the reported estimated loss liabilities. These differences cannot be quantified.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2011, on our consideration of the State's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report 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.

Management's discussion and analysis, the schedule of funding progress for the state retiree health insurance postemployment benefit plan, the infrastructure narrative, and the budgetary comparison schedule with related notes, as listed in the table of contents, are not required parts of the basic financial statements of the State of Wisconsin but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

LEGISLATIVE AUDIT BUREAU

December 21, 2011 by

Joe Chrisman
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, 2011. It should be read in conjunction with the transmittal letter located at the front of this CAFR, and the State's financial statements, including the note disclosures which are an integral part of the statements, that follow this part of the CAFR.

FINANCIAL HIGHLIGHTS -- PRIMARY GOVERNMENT

Government-wide (Tables 2 and 3 on Pages 8 and 9)

- *Net Assets.* The assets of the State of Wisconsin exceeded its liabilities at the close of Fiscal Year 2011 by $12.7 billion (reported as "net assets"). Of this amount, $(10.2) 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 $959.5 million in Fiscal Year 2011. Net assets of governmental activities increased by $301.9 million or 5.4 percent, while net assets of the business-type activities showed an increase of $657.6 million or 10.8 percent.
- *Excess of Revenues over (under) Expenses -- Governmental Activities.* During Fiscal Year 2011, the State's total revenues for governmental activities of $27.1 billion were $1.5 billion more than total expenses (excluding transfers) for governmental activities of $25.7 billion. Of these expenses, $12.7 billion were covered by program revenues. General revenues, generated primarily from various taxes, totaled $14.4 billion.

Fund

- *Governmental Funds -- Fund Balances.* As of the close of Fiscal Year 2011, the State's governmental funds reported combined ending fund balances of $(1,655.0) million, an increase of $153.0 million in comparison with the prior year. Of this total amount, $(4,042.4) million represents the unassigned fund balances.
- *General Fund -- Fund Balance*. At the end of the current fiscal year, total fund balance was $(2,994.8) million, a change of $(79.4) million from $(2,915.4) million reported in the prior year. The unassigned fund deficit for the General Fund was $(3,336.3) million, or (15.1) percent of total General Fund expenditures.

Additional information regarding individual funds begins on Page 13.

Long-term Debt

- The State's total long-term debt obligations (bonds and notes payable) increased by $866.4 million during the current fiscal year which represents the net difference between new issuances, payments and refundings of outstanding debt. The key factors contributing to this increase are the issuance during the fiscal year of $1,175.5 million of general obligation bonds and $353.1 million of revenue bond obligations, and the refunding of general obligation and revenue bonds. Additional detail regarding these activities begins on Page 18.

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 pages:

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 three 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 (a major fund)	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) -- 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) post-employment benefits - state health insurance program, (2) condition and maintenance data regarding the State's infrastructure, and (3) 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 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, 2011 were $35.7 billion, while total liabilities were $23.0 billion, resulting in combined net assets (government and business-type activities) of $12.7 billion. The largest component of the State's total net assets consists of $18.5 billion invested 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 $4.3 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 $(10.2) 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 $(3.0) 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 2011, the State issued $1,175.5 million of general obligation bonds, primarily for the acquisition or improvement of land, water, property, highways, buildings, and equipment. General obligation bonds outstanding at June 30, 2011 totaled $6.7 billion. Outstanding annual appropriation bonds were $3.3 billion at June 30, 2011. Outstanding revenue bonds, which are not considered general obligation debt of the State, totaled $2.9 billion at June 30, 2011.

Table 2
Net Assets
(in millions)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2011	2010*	2011	2010*	2011	2010*	2011-2010
Current and Other Assets	$ 4,848.9	$ 4,654.5	$ 7,150.8	$ 6,915.8	$ 11,999.7	$ 11,570.3	3.7 %
Capital Assets	18,309.8	17,481.8	5,409.6	4,991.4	23,719.4	22,473.2	5.5
Total Assets	23,158.6	22,136.3	12,560.4	11,907.3	35,719.1	34,043.5	4.9
Long-term Liabilities	11,062.7	10,382.8	3,669.0	3,475.9	14,731.8	13,858.7	6.3
Other Liabilities	6,172.1	6,131.6	2,122.0	2,319.6	8,294.1	8,451.1	(1.9)
Total Liabilities	17,234.8	16,514.4	5,791.0	5,795.5	23,025.8	22,309.9	3.2
Net Assets:							
Invested in Capital Assets Net of Related Debt	14,405.4	13,914.4	4,108.7	3,932.8	18,514.1	17,847.2	3.7
Restricted	1,269.7	1,125.0	3,078.1	2,668.6	4,347.8	3,793.6	14.6
Unrestricted (deficit)	(9,751.3)	(9,417.5)	(417.3)	(489.6)	(10,168.7)	(9,907.1)	2.6
Total Net Assets	$ 5,923.8	$ 5,621.9	$ 6,769.4	$ 6,111.8	$ 12,693.2	$ 11,733.7	8.2

* Amounts for the prior fiscal year include prior period adjustments.

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 $21.4 billion and general revenues of $14.4 billion for total revenues of $35.8 billion during Fiscal Year 2011. Expenses for the State during Fiscal Year 2011 were $34.9 billion. As a result of the excess of revenues over expenses, the total net assets of the State increased $959.5 million, net of contributions and transfers.

Table 3
Changes in Net Assets
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	2011	2010*	2011	2010*	2011	2010*	2011-2010
Program Revenues:							
Charges for Goods and Services	$ 2,270.0	$ 2,199.1	$ 6,726.5	$ 6,244.2	$ 8,996.5	$ 8,443.3	6.6 %
Operating Grants and Contributions	9,416.4	9,289.0	1,863.5	2,264.0	11,279.8	11,552.9	(2.4)
Capital Grants and Contributions	1,019.8	1,109.4	99.5	109.8	1,119.3	1,219.3	(8.2)
General Revenues:							
Income Taxes	7,478.1	6,798.7	-	-	7,478.1	6,798.7	10.0
Sales and Excise Taxes	4,820.9	4,700.3	-	-	4,820.9	4,700.3	2.6
Public Utility Taxes	324.5	310.0	-	-	324.5	310.0	4.7
Motor Fuel Taxes	1,029.9	1,008.0	-	-	1,029.9	1,008.0	2.2
Other Taxes	396.0	403.4	-	-	396.0	403.4	(1.8)
Other General Revenues	384.7	445.4	6.3	17.6	390.9	463.0	(15.6)
Total Revenues	27,140.2	26,263.2	8,695.8	8,635.6	35,835.9	34,898.8	2.7
Program Expenses:							
Commerce	411.3	330.0	-	-	411.3	330.0	24.7
Education	6,737.3	6,662.0	-	-	6,737.3	6,662.0	1.1
Transportation	2,264.5	2,281.6	-	-	2,264.5	2,281.6	(0.8)
Environmental Resources	506.2	486.1	-	-	506.2	486.1	4.1
Human Relations and Resources	11,970.7	11,541.0	-	-	11,970.7	11,541.0	3.7
General Executive	727.0	650.2	-	-	727.0	650.2	11.8
Judicial	132.9	129.8	-	-	132.9	129.8	2.5
Legislative	65.6	65.2	-	-	65.6	65.2	0.6
Tax Relief and Other General Expenditures	1,352.3	1,288.2	-	-	1,352.3	1,288.2	5.0
Intergovernmental - Shared Revenue	1,023.5	1,032.2	-	-	1,023.5	1,032.2	(0.8)
Interest on Long-term Debt	479.1	467.9	-	-	479.1	467.9	2.4
Injured Patients and Families Compensation	-	-	(42.6)	58.5	(42.6)	58.5	(172.8)
Environmental Improvement	-	-	90.0	148.6	90.0	148.6	(39.4)
University of Wisconsin System	-	-	4,393.9	4,195.4	4,393.9	4,195.4	4.7
Unemployment Reserve	-	-	2,513.1	3,416.9	2,513.1	3,416.9	(26.5)
Lottery	-	-	484.2	452.4	484.2	452.4	7.0
Health insurance	-	-	1,270.7	1,176.7	1,270.7	1,176.7	8.0
Care and Treatment Facilities	-	-	347.5	351.5	347.5	351.5	(1.2)
Other Business-type	-	0.4	171.3	158.2	171.3	158.6	8.1
Total Expenses	25,670.5	24,934.5	9,228.1	9,958.3	34,898.7	34,892.7	0.0
Excess (deficiency) before Contributions and Transfers	1,469.6	1,328.8	(532.4)	(1,322.7)	937.3	6.1	
Contributions to Term and Permanent Endowments	-	-	2.7	1.2	2.7	1.2	
Contributions to Permanent Fund Principal	19.6	18.5	-	-	19.6	18.5	
Transfers	(1,187.3)	(1,263.3)	1,187.3	1,262.7	-	(0.6)	
Increase (decrease) in Net Assets	301.9	84.0	657.6	(58.7)	959.5	25.2	
Net Assets - Beginning (Restated)	5,621.9	5,537.9	6,111.8	6,170.6	11,733.7	11,708.4	
Net Assets - Ending	$ 5,923.8	$ 5,621.9	$ 6,769.4	$ 6,111.8	$ 12,693.2	$ 11,733.7	8.2

* Amounts for the prior fiscal year include prior period adjustments.

Governmental Activities

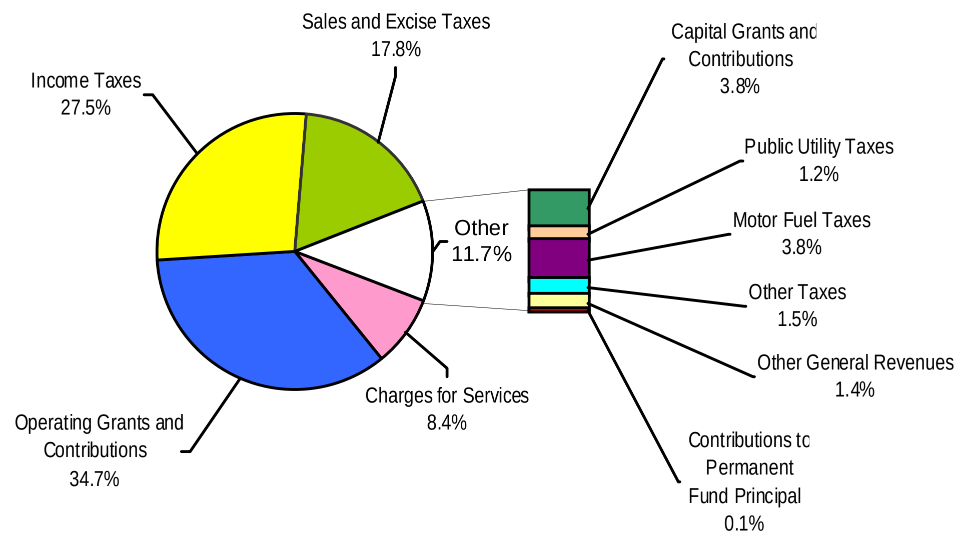
The net assets of governmental activities increased $0.3 billion in Fiscal Year 2011. Revenues for the governmental activities (including contributions to permanent fund principal) totaled $27.2 billion, while expenses and net transfers totaled $26.9 billion in Fiscal Year 2011.

General and program revenues of governmental activities increased $0.9 billion during this fiscal year. An increase in tax revenues of $0.8 billion accounted for the majority of the increase. Income tax revenues increased by $0.7 billion, while sales and use taxes increased by $0.1 billion. Operating grants and contributions also increased by $0.1 billion.

The State's governmental activities program expenses increased $736.0 million during Fiscal Year 2011. Human relations and resources expenses increased $429.7 million. Expense increases for the Medical Assistance program were a primary contributor to this rise. In addition, commerce, education, general executive and tax relief and other general expenses increased by $81.3 million, $75.3 million, $76.8 million, and $64.1 million respectively.

As shown in Table 4, below, approximately 51.6 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 represent amounts received from other governments/entities – primarily the federal government. Operating grants and contributions for non-capital purposes provided 34.7 percent of total revenues. Capital grants provided 3.8 percent, charges for services contributed 8.4 percent, and various other revenues provided 1.5 percent of the remaining governmental activity revenue sources.

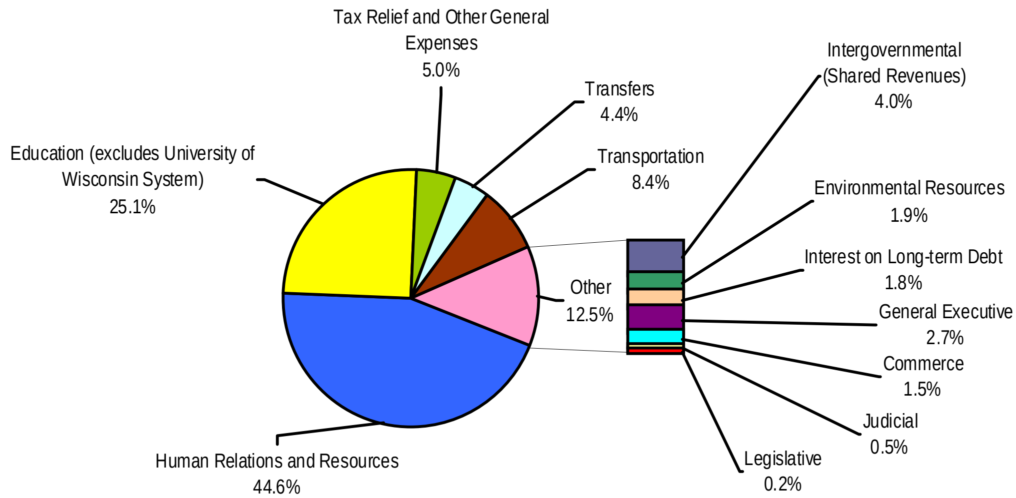
Table 4
Governmental Activities - 2011 Revenues



As shown in Table 5, below, expenses for human relations and resources programs make up the largest portion – 44.6 percent – of total governmental expenses and transfers. Included in this cost function are programs such as Medical Assistance and Temporary Assistance for Needy Families as well as costs for state correctional facilities and services.

Educational expenses, which include various school aids but exclude expenses of the University of Wisconsin System, make up 25.1 percent of total expenses. Tax relief and other general expenses and the municipal and county shared revenue program represent 9.0 percent of the total, while transportation expenses represent 8.4 percent. Net transfers to business-type activities, which include a general purpose revenue subsidy to the University of Wisconsin System, make up 4.4 percent of the total expenses and transfers. The interest on long-term debt and remaining functional expenses total 8.5 percent.

Table 5
Governmental Activities - 2011 Expenses



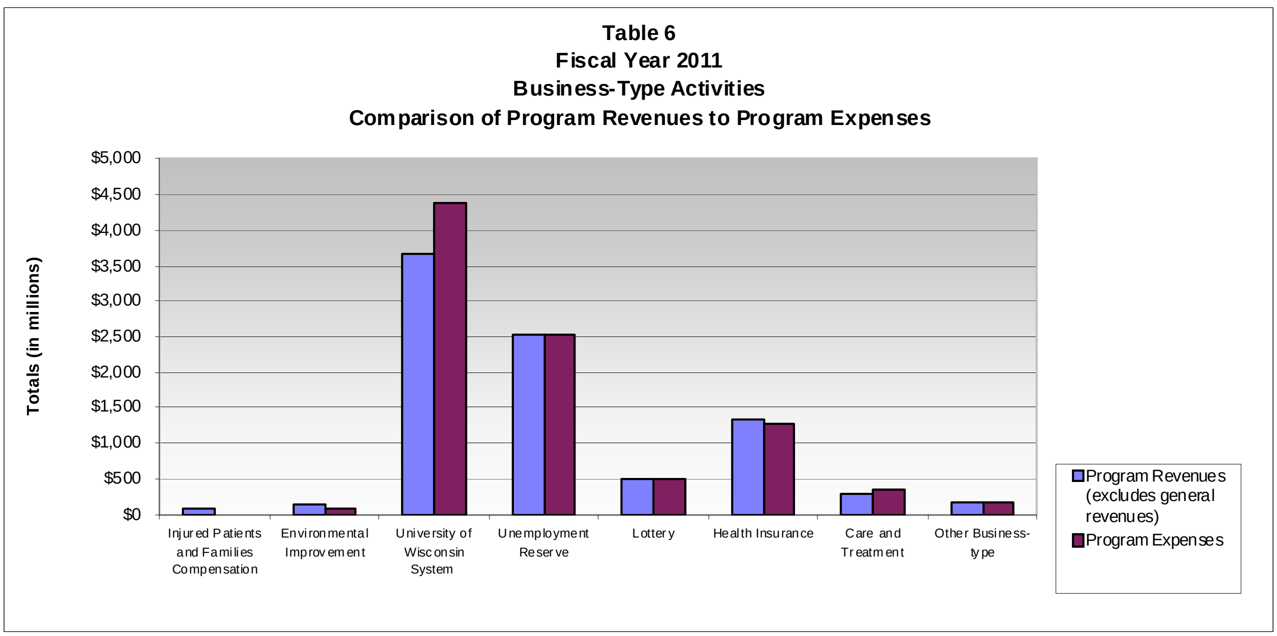
Business-Type Activities

Net assets of the State's business-type activities increased $657.6 million in Fiscal Year 2011. Total business-type program revenues increased $71.5 million. Two major funds account for most of the change. University of Wisconsin System operating revenues increased $203.4 million due primarily to increases in net student tuition and fees revenue (6.6 percent), federal grants and contracts (8.4 percent), and sales and services of educational activities (5.2 percent). Offsetting this increase were Unemployment Reserve Fund operating revenues which decreased $146.0 million.

Revenues of business-type activities totaled $8.7 billion for Fiscal Year 2011. Program revenues consisted of $6.7 billion of charges for services, $1.9 billion of operating grants and contributions, and $99.5 million of capital grants and contributions. General revenues, contributions to endowments and permanent fund principal and net transfers totaled $6.3 million, $2.7 million, and $1,187.3 million, respectively.

The total expenses for business-type activities were $9.2 billion. Program expenses decreased $730.1 million from Fiscal Year 2010 to 2011. The largest decrease in program expenses, $903.9 million, related to decreased benefit expenses for the Unemployment Reserve Fund. The Injured Patients and Families Compensation Fund also reported decreased expenses of $101.8 million. However, University of Wisconsin System program expenses increased by $179.8 million. Finally, non-major business-type activities reported an increase of $120.6 million.

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. (*Note*: The Injured Patients and Families Compensation Fund reported negative program expenses of $43.3 million for the year. Thus, there are no expenses depicted in the table below.)



FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

Governmental Funds

In Fiscal Year 2011, the State implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The statement, which applies to governmental funds, provides new fund balance classifications that comprise a hierarchy based primarily on the extent the State is bound to honor constraints on the specific purpose for which amounts can be spent. The previous reserved and unreserved classifications have been replaced with nonspendable, restricted, committed, and unassigned. Additional information on fund balance classifications is available in Note 1E 14.

At the end of Fiscal Year 2011, the State's governmental funds reported a negative combined fund balance of $(1,655.0) 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, 2011, the State's General Fund reported a total fund deficit of $(2,994.8) million. The net change in fund balance during Fiscal Year 2011 was $(79.4) million, in contrast to $(166.1) million in Fiscal Year 2010. Major revenue, expenditure and other sources/uses contributing to the change in fund balance are as follows:

Revenues

Revenues of the General Fund totaled $23,424.5 million in Fiscal Year 2011, an increase of $946.1 million from Fiscal Year 2010. Factors contributing to this change included the following:

- Revenues from taxes increased $791.7 million from Fiscal Year 2010 to Fiscal Year 2011. The most significant increase relates to income taxes, which increased $692.5 million or 10.2 percent from Fiscal Year 2010. Sales and use taxes increased 2.1 percent over Fiscal Year 2010 while public utility taxes increased approximately 4.7 percent. The largest component of individual income taxes is withholding from wages and salaries.
- Intergovernmental revenues (i.e., federal assistance) increased $78.9 million in Fiscal Year 2011, primarily due to an increase in costs that were eligible for federal reimbursement. The most significant increase occurred in human relations and resources programs (e.g., Medical Assistance), which increased $184.4 million partially because of the higher federal Medical Assistance (MA) reimbursement rate allowed under ARRA through Fiscal Year 2011. In addition, the general executive function reported increased revenues of $147.0 million. Offsetting these increases was a $200.0 million decrease in education and a $76.1 million decrease in shared revenue functions.
- License and permits revenue increased $48.2 million. The human relations and resources function reported a $54.0 million increase due primarily to the levying of higher hospital assessment fees and increased licensed bed assessments. This was partially offset by general executive decreases.

Expenditures

Expenditures of the General Fund totaled $22,145.8 million in Fiscal Year 2011, an increase of $777.0 million from Fiscal Year 2010. The factors contributing to the change included the following:

- Human relations and resources expenditures increased $446.5 million in Fiscal Year 2011. Family Care, a MA program, was the primary contributor due to an increase in the number of participants and additional counties participating in the program.
- The increase in the general executive expenditures of $96.6 million was largely attributable to an increase in expenditures to localities.
- Commerce expenditures increased $80.0 million due to increased aids to localities as well as grants and aids to individuals and organizations.
- Education expenditures increased $77.4 million due to increased aid payments to schools.
- Tax relief and other general expenditures of the General Fund increased $55.4 million in Fiscal Year 2011.

- Other expenditures, including intergovernmental and the environmental resources and judicial functions, increased by $14.2 million in Fiscal Year 2011, while capital outlay expenditures increased by $6.8 million.

Other Financing Sources and Uses

Other financing sources/uses and increases/decreases totaled a net $(1,358.2) million in Fiscal Year 2011, a change of $(82.4) million from the prior year. The components of this change included the following:

- Transfers in to the General Fund decreased by $118.6 million (from $328.6 million in Fiscal Year 2010 to $210.0 million in Fiscal Year 2011). This was a result of fewer lapses occurring from the other funds.
- Transfers out of the General Fund totaled $1,579.0 million, a decrease of $33.4 million from the prior year. The general purpose revenue supplement increased by $55.4 million and the transfers out to the nonmajor governmental funds increased by $50.4 million, however, this was offset by a decrease in the transfer out to the Injured Patients and Families Compensation Fund of $171.4 million.

Note 9E provides additional information on transfers in and out of the General Fund.

As of June 30, 2011, the General Fund reported an unassigned fund balance deficit of $(3,336.3) million. This compares to a General Fund unreserved fund balance deficit of $(3,453.4) million as of June 30, 2010. A deficit unassigned fund balance represents the excess of the liabilities of the General Fund over its assets and nonspendable, restricted, and committed fund balance accounts.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were significant and included a $6.3 billion increase in appropriations. The receipt of funds under ARRA was a significant factor that contributed to some appropriation changes during the fiscal year. Also contributing to the variance is the fact that several of the State's programs and various transfers (including Food Stamps - see the item 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 occurred in the following appropriations (in millions):

Program	Variance
Food Stamps, Electronic Benefit Transfer*	$ 1,104.9
Federal Aid Medical Assistance	975.1
UW-System Federal Aid Direct Student Loans (part of Statutory General Fund)	625.0
Administration Federal Aid; Local Assistance	164.1
UW System, Academic Student Fees (part of Statutory General Fund)	163.3
Commerce, Federal Aids; Individual and Organizations	156.9

Actual charges to appropriations (expenditures) were $3.8 billion below the final budgeted estimates. Large positive expenditure variances were reported in the Administration, Federal Aids; Individuals & Organizations ($189.8 million) and the Administration, Federal Aids ($153.0 million) appropriations.

During the past fiscal year, the budgetary-based fund balance increased by $197.9 million for the statutory General Fund, in part, because of increased tax revenues, the receipt of additional federal grant reimbursements, and continued transfers/lapses of monies from other funds. Net transfers from other funds totaled $166.6 million in Fiscal Year 2011 compared to $220.2 million in the prior fiscal year.

Transportation Fund

In Fiscal Year 2011, the Transportation Fund reported a net increase in fund balance of $118.2 million. This compares to a $143.4 million increase in fund balance in Fiscal Year 2010. This increase resulted primarily from the following factors:

- Revenues of this fund decreased $81.1 million, to a total of $2,674.3 million, primarily relating to the ARRA decrease in federal funding from the U.S. Department of Transportation and Federal Aviation Administration. For Fiscal Year 2010 and 2011, ARRA provided a total of $488.4 million in federal funding for highway projects. ARRA-funded expenditures for highway projects totaled $176.0 million in Fiscal Year 2011 and $312.4 million in Fiscal Year 2010. Expenditures of the fund totaled $2,500.1 million in Fiscal Year 2011 compared to $2,472.2 million in Fiscal Year 2010 (an increase of $27.9 million).

- Transfers out of the Transportation Fund decreased $29.9 million from Fiscal Year 2010 to 2011. Under 2009 Wisconsin Act 28, $43.0 million was transferred to the General Fund in Fiscal Year 2011. In the prior year, transfers out to the General Fund totaled $84.8 million, a decrease of $41.8 million. At the same time, transfers in to the fund more than doubled in Fiscal Year 2011 to $35.4 million, primarily because of a legislatively mandated transfer of $24.1 million from the Petroleum Inspection Fund.

Capital outlay expenditures funded with general obligation bonds and reported in the Capital Improvement Fund (a capital projects fund) rather than the Transportation Fund, totaled $305.1 million in Fiscal Year 2011, an increase of $95.0 million from Fiscal Year 2010. In addition, capital outlay expenditures of $421.2 million were reported in the Transportation Fund in Fiscal Year 2011, an increase of $53.8 million from Fiscal Year 2010.

Common School Fund

The Common School Fund, a permanent fund, provides low cost loans to municipalities and school districts for public purposes. Investment and interest earnings of the fund are primarily distributed to local school districts as library aids. This fund reported a net increase of $26.0 million in fund balance for the year. This compares to a $34.3 million increase in fund balance in Fiscal Year 2010. Significant changes to the accounts of this fund include:

- Outstanding loans to local governments showed a decrease of $96.9 million in Fiscal Year 2011 (from $653.8 million in Fiscal Year 2010 to $556.9 million in the current year). This represents a 14.8 percent decrease in loans over the prior year and is the result of loan prepayments being made by local governments.

- Investments of the fund increased $78.6 million in Fiscal Year 2011, from $48.1 million in Fiscal Year 2010 to $126.7 million in Fiscal Year 2011. Due to the prepayment of loans, additional cash has been available for investment in bonds.

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 major proprietary funds from Fiscal Year 2010 to Fiscal Year 2011 include the following:

Environmental Improvement

The Environmental Improvement Fund issued revenue bonds of $153.1 million in Fiscal Year 2011, of which $39.5 million was used to refund previous bond issues. The new revenue bonds contributed to a net increase of the fund’s liabilities of $53.0 million or approximately 6.0 percent over Fiscal Year 2010. A primary purpose of this fund is to provide loans to local governments for environmental purposes (e.g., clean water projects), therefore loans receivable reported a corresponding increase of $80.4 million or 4.4 percent. Additional Clean Water ARRA funds of $28.7 million were disbursed to municipalities during Fiscal Year 2011. Safe Drinking Water ARRA funds of $10.6 million were also disbursed during the fiscal year.

Injured Patients and Families Compensation

Fund equity of the Injured Patients and Families Compensation Fund increased by $161.6 million from $132.8 million to $294.4 million at June 30, 2011. The increase is the result of a reduction in benefit expenses, increased assessment revenue, decreased investment revenue, and an accrued transfer in of $31.1 million from the General Fund. During Fiscal Year 2011, the Wisconsin Supreme Court ruled that a $200 million transfer out from the Fund to the General Fund pursuant to 2007 Wisconsin Act 20 was unconstitutional. As a result, the $200 million transfer out plus accumulated interest and lost earnings of $33.7 million must be returned to the Fund.

The Fund reported benefits expense of negative $44.3 million for Fiscal Year 2011. In comparison, benefits expense from the prior year was $57.7 million. The $102.0 million decrease is the result of an actuarial reduction to prior years' estimated liabilities netted with the increase from the addition of another benefit year. As a result of this actuarial estimate, the total liability for future benefit and loss liabilities also decreased $84.6 million to $636.5 million.

Total assets of the Fund increased $79.4 million to $934.5 million. Besides reporting cash and investments of $693.1 million, the Fund also reported an advance to other funds of $233.7 million. The advance represents the total amount owed to the Fund from the General Fund as a result of the Supreme Court decision.

Investment and interest income decreased by $13.7 million to $54.3 million primarily due to market factors and changes in the investments held. Assessment income increased by $3.9 million to $33.6 million for Fiscal Year 2011 as a result of an 8.5 percent increase in assessment rates and increases in the number of providers participating in the Fund.

Unemployment Reserve

Fund equity of the Unemployment Reserve Fund decreased by $5.8 million during Fiscal Year 2011 from $(920.3) million at June 30, 2010 to $(926.1) million at June 30, 2011. Benefit expenses decreased from $3,416.9 million in Fiscal Year 2010 to $2,513.0 million in Fiscal Year 2011, a decrease of $903.9 million (26.5 percent). The decrease in benefits is the result of the average unemployment rate falling from 8.9 percent during Fiscal Year 2010 to 7.7 percent during Fiscal Year 2011. In addition, benefit periods were reduced from a possible 99 weeks to a possible 86 weeks.

Total operating revenues decreased by $146.0 million from $2,659.8 million in Fiscal Year 2010 to $2,513.8 million in Fiscal Year 2011. Federal aids for the unemployment program decreased by $402.7 million to $1,308.8 million in Fiscal Year 2011. Employer contributions increased from $828.6 million in Fiscal Year 2010 to $1,087.3 in Fiscal Year 2011, an increase of $258.7 million. The increase in employer contributions is primarily due to the higher taxable wage base that took effect in calendar year 2011.

The advance from the federal government decreased by $101.8 million during Fiscal Year 2011 going from $1,424.8 million at June 30, 2010 to $1,323.0 million at June 30, 2011. Starting in January 2011 the Fund began incurring approximately 4.0 percent annual interest on the amount borrowed and owed $29.7 million in interest as of June 30, 2011. Because the Fund has had a loan balance outstanding on both January 1, 2010 and January 1, 2011, the federal government will begin recovering the loan from employers by incrementally reducing the employers' federal unemployment tax credit by an additional 0.3 percent each year beginning with the tax due for Calendar Year 2011.

University of Wisconsin System

In Fiscal Year 2011, operating revenues of the University of Wisconsin System increased $203.4 million or approximately 6.6 percent. Revenue was enhanced by an increase in federal grants and contracts of $77.0 million (8.4 percent) and sales and services of educational activities which increased by $14.7 million (5.2 percent). Increased student tuition and fees of $67.0 million (6.6 percent) were also reported due primarily to an increase in tuition rates approved by the Board of Regents. Other revenues increased by $44.6 million.

Fiscal Year 2011 operating expenses increased $179.8 million or 4.3 percent from Fiscal Year 2010. The increase is due primarily to an increase of personal services, supplies and services, depreciation, and scholarship and fellowships expenses of $104.8 million, $36.1 million, $23.9 million, and $12.3 million respectively.

GOVERNMENT-WIDE CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the close of Fiscal Year 2011, the State had $23.7 billion invested in capital assets, net of accumulated depreciation of $4.5 billion. This represents an increase of $1,231.5 million, or 5.5 percent, from Fiscal Year 2010. Depreciation charges totaled $118.0 million and $237.7 million for governmental and business-type activities, respectively, in Fiscal Year 2011. 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	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Land and Land Improvements	$ 2,310	$ 2,183	$ 157	$ 137	$ 2,467	$ 2,321
Buildings and Improvements	1,345	1,369	3,273	2,974	4,618	4,342
Library Holdings	84	83	1,124	1,107	1,208	1,189
Machinery and Equipment	328	318	367	277	696	595
Infrastructure	12,789	12,375	-	-	12,789	12,375
Construction in Progress	1,454	1,170	488	497	1,943	1,667
Totals	$ 18,310	$ 17,497	$ 5,410	$ 4,991	$ 23,719	$ 22,488

The major capital asset additions completed or acquired during Fiscal Year 2011 included the:

- Union South Replacement – UW-Madison ($93.2 million),
- Institute for Discovery – UW-Madison ($50.3 million),
- New Academic Building – UW-Oshkosh ($37.0 million),
- New Residence Hall – UW-Whitewater ($34.5 million),
- New Academic Building – UW-La Crosse ($33.9 million),
- Education Building Renovation – UW-Madison ($32.0 million),
- Sterling Hall Renovation – UW-Madison ($18.0 million),
- Chadbourne and Barnard Hall – UW-Madison ($13.8 million),
- Hovlid Hall Renovation – UW-Stout ($13.7 million), and
- Multi-Building Energy Conservation – UW-Milwaukee ($10.1 million).

In addition to these completed projects, construction in progress as of June 30, 2011 for governmental and business-type activities totaled $1,454.1 million and $488.4 million, respectively. A list of construction in progress projects is provided in Note 7. The State's continuing or proposed major capital projects for Fiscal Year 2011 through 2019 include:

- I-94 North South Freeway Project (completion in 2016) $1.9 billion,
- US 41 Winnebago and Brown Counties (completion in 2018) $1.5 billion,
- Highway 26 Janesville to Watertown (completion in 2014) $469 million,
- Highway 12 Lake Delton to Sauk City (completion in 2018) $225 million,
- Renovation and Remodeling of the Charter Street Heating Plant (estimated cost $251 million),
- Wisconsin Institutes for Medical Research – Center Tower – UW-Madison (estimated cost $135 million),
- Wisconsin Energy Institute – UW-Madison (estimated cost $100 million),
- UW-Milwaukee Facilities Master Plan ($240 million for various projects),
- Joint Historical and Veterans Museum (estimated budget of $75 million), and
- UW-Madison Athlete Performance Center (estimated budget of $76.8 million).

Debt Administration

The State of Wisconsin Building Commission, an agency of the State, is empowered by law to consider, act upon, authorize, issue and sell all debt obligations of the State. The total general obligation debt outstanding for the State as of June 30, 2011 was $6.7 billion, as shown in Table 8. During Fiscal Year 2011, $1,175.5 million of general obligation bonds were issued to provide for the acquisition or improvement of land, water, property, highways, buildings, equipment, or facilities for public purposes or to refund outstanding bonds. Of the bonds issued in the current year, $304.2 million was to be used for University of Wisconsin System academic and self-amortizing facilities; $306.4 million for transportation projects, $68.0 million for the Stewardship Program, $48.8 for environmental programs, and $136.4 million for various other projects. In addition, bond proceeds of $311.7 million were used to refund outstanding general obligation bonds.

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. In Fiscal Year 2009, the State issued $1.5 billion of annual appropriation bonds to purchase the future right, title, and interest in the Tobacco Settlement Revenues (TSRs) from Badger Tobacco Asset Securitization Corporation (BTASC) as well as pay any issuance expenses. As of June 30, 2011, $3.3 billion of these bonds were outstanding.

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 $2.9 billion outstanding at June 30, 2011, as shown in Table 8. These bonds included $1,796.5 million of Transportation Revenue Bonds, $127.1 million of Petroleum Inspection Revenue Bonds, and $937.0 million of Environmental Improvement Revenue Bonds.

Table 8
Outstanding Debt as of June 30, 2011 and 2010
(in millions)

	Governmental Activities		Business-Type Activities		Total	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
General obligation bonds	$5,337.9	$4,779.7	$1,392.4	$1,235.4	$ 6,730.3	$ 6,015.1
Annual appropriation bonds	3,331.6	3,357.7	--	--	3,331.6	3,357.7
Revenue bonds	1,923.6	1,801.1	937.0	882.2	2,860.6	2,683.3
Totals	$10,593.1	$9,938.5	$2,329.4	$2,117.6	$12,922.5	$12,056.1

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, 2011, State of Wisconsin general obligation fixed rate bonds had a rating of Aa2 from Moody's Investors Services, AA from Standard and Poor's Rating Services, and AA from Fitch Ratings. General obligation variable notes had a rating of P-1 from Moody’s, A-1+ from Standard and Poor’s Corporation, and F1+ 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 5,100 bridges with a combined value of $12.8 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, 2011, 88.0 percent of the roads and 96.4 percent of bridges were in good or fair condition, consistent with State policies.

For the fiscal year ended June 30, 2011, actual maintenance and preservation costs for the State's road network were $705.7 million or $99.0 million more than the estimated amount. On that same date, actual maintenance and preservation costs for the State's bridge network were $64.2 million or $21.8 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

During calendar year 2010, the Wisconsin economy continued its slow recovery from the 2007-09 worldwide recession. Wisconsin employment expanded beginning in March 2010. By the end of December 2010, employment was up 0.4 percent over the December 2009 figures. However, for the year as a whole, employment was down 0.6 percent as the year-end gains were not enough to fully offset early year losses. Wisconsin employment decreased in each of the past three years, down 0.2 percent in 2008, down 4.4 percent in 2009, and down 0.6 percent in 2010. Wisconsin's employment changes have been comparable to the nation's employment declines. Nationally, employment decreased 0.6 percent in 2008, decreased 4.4 percent in 2009, and 0.7 percent in 2010.

Wisconsin and the nation continue to gradually recover from the recession. Between December 2010 and October 2011, Wisconsin employment has increased 0.4 percent. Nationally, employment is up 1.0 percent over the same period. Wisconsin's seasonally adjusted unemployment rate in October was 7.7 percent compared to 9.0 percent nationally.

Reflecting the mid-year recovery, Wisconsin's state gross domestic product increased 3.6 percent in 2010. This was a significant improvement over the 0.8 percent growth in 2008 and 0.2 percent growth in 2009. It compares to a 50-state total for gross domestic product growth of 2.2 percent for 2008, a 1.8 percent decline in 2009, and growth of 3.8 percent in 2010. Since 2007, Wisconsin's gross domestic product increased 4.7 percent compared to a 4.2 percent increase nationally.

The changes in economic performance affected income growth. Wisconsin personal income increased 4.1 percent in 2008, fell 2.7 percent in 2009, and increased 3.8 percent in 2010. Nationally, personal income increased 4.6 percent in 2008, fell 4.3 percent in 2009, and increased 3.7 percent in 2010. On a per capita basis, Wisconsin's income performance is somewhat better than the nation's. Per capita income in Wisconsin increased 3.6 percent in 2008, fell 3.2 percent in 2009, and increased 3.4 percent in 2009. This compares to an increase of 3.6 percent in 2008, a drop of 5.1 percent in 2009, and an increase of 2.8 percent in 2010 for the nation. Relative to the national average, Wisconsin per capita income increased consistently over the past three years, from 93.2 percent in 2008, to 95.1 percent in 2009, and to 95.6 percent in 2010.

Wisconsin's property values reflect the continuing weakness in housing and commercial real estate markets. In 2010, real property values declined 3.2 percent with residential real estate values falling 3.5 percent. Commercial real estate values decreased 2.4 percent in 2010. In 2011, real property values declined 1.8 percent, primarily due to a reduction of 1.6 percent in residential real estate values and a reduction of 2.3 percent in commercial real estate values.

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 or by email to: DOAWebMaster@wi.gov.

Some state agencies, such as Department of Employee Trust Funds, issue stand-alone audited financial statements for certain state funds. The information contained in those statements may vary from this document due to scope and application of generally accepted accounting principles. Questions about how to obtain the separately issued financial statements should be directed to individual agencies or to the State Controller's Office.

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

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Statement of Net Assets
June 30, 2011

(In Thousands)

	Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Totals	Component Units
Assets and Deferred Outflows				
Cash and Cash Equivalents	$ 1,139,529	$ 1,627,205	$ 2,766,734	$ 833,425
Investments	150,026	1,432,788	1,582,813	474,048
Cash and Investments with Other Component Units	-	-	-	265,012
Receivables (net of allowance)	3,372,332	3,100,167	6,472,499	2,539,771
Internal Balances	(662,710)	662,710	-	-
Inventories	32,673	51,522	84,194	8,483
Prepaid Items	323,446	93,583	417,029	6,298
Capital Leases Receivable - Component Units	-	4,151	4,151	-
Restricted and Limited Use Assets:				
Cash and Cash Equivalents	168,777	153,496	322,273	82,938
Investments	121,844	-	121,844	2,395,340
Deferred Charges	72,075	18,081	90,156	7,994
Other Assets	26,911	7,120	34,031	79,681
Capital Assets:				
Depreciable	1,581,050	3,645,422	5,226,472	380,132
Nondepreciable:				
Infrastructure	12,788,813	-	12,788,813	-
Other	3,939,890	1,764,200	5,704,090	27,609
Deferred Outflows of Resources	103,955	-	103,955	91,245
Total Assets and Deferred Outflows	23,158,611	12,560,442	35,719,053	7,191,976
Liabilities				
Accounts Payable and Other Accrued Liabilities	916,935	363,025	1,279,960	145,473
Due to Other Governments	2,273,338	48,403	2,321,741	19,117
Tax Refunds Payable	1,466,127	-	1,466,127	-
Tax and Other Deposits	37,127	21,019	58,146	72,099
Amounts Held in Trust by Component Unit for Other Component Units	-	-	-	251,702
Amounts Held in Trust by Component Unit for Others	-	-	-	24,698
Unearned Revenue	512,287	291,064	803,350	1,224
Interest Payable	112,209	15,207	127,416	27,477
Short-term Notes Payable	750,128	60,277	810,405	-
Other Liabilities	103,955	-	103,955	101,546
Advance from Federal Government	-	1,322,974	1,322,974	-
Long-term Liabilities:				
Current Portion	645,983	340,195	986,178	102,872
Noncurrent Portion	10,416,731	3,328,846	13,745,577	2,852,178
Total Liabilities	17,234,819	5,791,009	23,025,829	3,598,386
Net Assets				
Invested in Capital Assets, Net of Related Debt	14,405,385	4,108,668	18,514,054	162,923
Restricted for:				
Human Relations and Resources	52,462	-	52,462	-
Conservation Related	55,088	-	55,088	-
General Executive	70,537	-	70,537	-
Commerce	30,496	-	30,496	-
Debt Service	114,526	-	114,526	-
Environmental Improvement	-	1,609,417	1,609,417	-
Permanent Trusts:				
Expendable	11,038	302,837	313,875	8,924
Nonexpendable	871,627	155,642	1,027,268	1,923
Future Benefits	-	592,740	592,740	33,498
Other Purposes	63,972	417,450	481,421	2,691,021
Unrestricted	(9,751,338)	(417,321)	(10,168,659)	695,301
Total Net Assets	$ 5,923,792	$ 6,769,433	$ 12,693,225	$ 3,593,590

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

Statement of Activities
For the Fiscal Year Ended June 30, 2011

(In Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants, Contributions and Restricted Interest	Program Revenues: Capital Grants, Contributions and Restricted Interest
Primary Government:				
Governmental Activities:				
Commerce	$ 411,297	$ 245,893	$ 193,973	$ -
Education	6,737,282	21,594	1,036,065	-
Transportation	2,264,460	678,493	127,608	1,011,402
Environmental Resources	506,235	231,990	98,606	3,929
Human Relations and Resources	11,970,708	701,312	7,543,276	4,462
General Executive	727,015	271,082	371,771	-
Judicial	132,940	63,623	842	-
Legislative	65,641	1,831	-	-
Tax Relief and Other General Expenses	1,352,293	-	44,230	-
Intergovernmental - Shared Revenue	1,023,532	54,199	-	-
Interest on Debt	479,142	-	-	-
Total Governmental Activities	25,670,547	2,270,017	9,416,373	1,019,793
Business-type Activities:				
Injured Patients and Families Compensation	(42,589)	33,648	54,250	-
Environmental Improvement	90,037	50,614	101,224	-
University of Wisconsin System	4,393,866	3,284,047	278,709	96,343
Unemployment Reserve	2,513,060	1,205,063	1,308,783	-
Lottery	484,229	502,960	(1,067)	-
Health Insurance	1,270,704	1,288,426	39,092	-
Care and Treatment Facilities	347,500	276,273	696	3,168
Other Business-type	171,335	85,482	81,766	10
Total Business-type Activities	9,228,143	6,726,514	1,863,453	99,521
Total Primary Government	$ 34,898,690	$ 8,996,531	$ 11,279,825	$ 1,119,314
Component Units:				
Housing and Economic Development Authority	$ 316,338	$ 151,525	$ 176,271	$ -
Health Care Liability Insurance Plan	1,117	4,220	3,038	-
University Hospitals and Clinics Authority	1,012,554	1,080,022	-	3,286
University of Wisconsin Foundation	237,271	278,427	165,668	-
State Fair Park Exposition Center, Inc.	-	-	-	-
Total Component Units	$ 1,567,280	$ 1,514,193	$ 344,976	$ 3,286

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
$ 28,569		$ 28,569	
(5,679,624)		(5,679,624)	
(446,957)		(446,957)	
(171,710)		(171,710)	
(3,721,658)		(3,721,658)	
(84,162)		(84,162)	
(68,474)		(68,474)	
(63,810)		(63,810)	
(1,308,063)		(1,308,063)	
(969,333)		(969,333)	
(479,142)		(479,142)	
(12,964,364)		(12,964,364)	
	$ 130,487	130,487	
	61,801	61,801	
	(734,767)	(734,767)	
	786	786	
	17,664	17,664	
	56,815	56,815	
	(67,364)	(67,364)	
	(4,077)	(4,077)	
-	(538,655)	(538,655)	
(12,964,364)	(538,655)	(13,503,019)	
			$ 11,458
			6,140
			70,754
			206,824
			-
			295,176
7,478,058	-	7,478,058	-
4,820,894	-	4,820,894	-
324,480	-	324,480	-
202,317	-	202,317	-
1,029,857	-	1,029,857	-
193,723	-	193,723	-
2,072	6,286	8,358	32,543
382,580	11	382,591	-
-	2,698	2,698	644
19,592	-	19,592	-
(1,187,273)	1,187,273	-	-
13,266,301	1,196,268	14,462,568	33,187
301,937	657,612	959,549	328,363
5,621,855	6,111,821	11,733,676	3,265,227
$ 5,923,792	$ 6,769,433	$ 12,693,225	$ 3,593,590

Balance Sheet - Governmental Funds
June 30, 2011

(In Thousands)

	General	Transportation	Common School	Nonmajor Governmental	Total Governmental
Assets					
Cash and Cash Equivalents	$ 10,416	$ 730,941	$ 154,163	$ 231,365	$ 1,126,885
Investments	777	-	126,709	22,540	150,026
Receivables (net of allowance):					
Taxes	1,106,644	96,916	-	30,810	1,234,370
Loans to Local Governments	1,122	-	556,870	23,543	581,535
Other Loans Receivable	24,515	22,375	-	-	46,890
Other Receivables	420,465	8,003	1,051	57,204	486,723
Due from Other Funds	197,523	61,942	776	90,777	351,018
Due from Component Units	225	-	-	-	225
Due from Other Governments	681,501	236,117	8,326	17,904	943,849
Inventories	11,579	12,937	-	2,702	27,218
Prepaid Items	305,925	4,003	-	12,803	322,731
Advances to Other Funds	-	-	-	-	-
Restricted and Limited Use Assets:					
Cash and Cash Equivalents	-	-	-	168,777	168,777
Investments	-	-	-	121,844	121,844
Other Assets	26,911	-	-	-	26,911
Total Assets	$ 2,787,604	$ 1,173,234	$ 847,895	$ 780,270	$ 5,589,003
Liabilities and Fund Balances					
Liabilities:					
Accounts Payable and Other Accrued Liabilities	$ 624,553	$ 203,301	$ -	$ 39,386	$ 867,240
Due to Other Funds	151,810	38,692	1,490	109,254	301,247
Interfund Payables	376,002	-	-	18,124	394,126
Due to Other Governments	2,158,406	104,064	-	10,867	2,273,338
Tax Refunds Payable	1,459,971	5,995	-	162	1,466,127
Tax and Other Deposits	26,073	489	-	10,565	37,127
Unearned Revenue	480,099	25,855	-	5,618	511,572
Deferred Revenue	270,745	646	-	9,024	280,415
Interest Payable	-	-	-	46,617	46,617
Advances from Other Funds	234,749	-	-	3,451	238,200
Short-term Notes Payable	-	-	-	746,757	746,757
Revenue Bonds and Notes Payable	-	-	-	81,200	81,200
Total Liabilities	5,782,409	379,043	1,490	1,081,025	7,243,967
Fund Balances:					
Nonspendable	158,629	16,940	835,367	52,020	1,062,955
Restricted	166,256	-	11,038	220,571	397,864
Committed	16,586	781,294	-	128,679	926,559
Assigned	-	-	-	-	-
Unassigned	(3,336,276)	(4,043)	-	(702,023)	(4,042,342)
Total Fund Balances	(2,994,806)	794,192	846,405	(300,754)	(1,654,964)
Total Liabilities and Fund Balances	$ 2,787,604	$ 1,173,234	$ 847,895	$ 780,270	$ 5,589,003

(Continued)

Balance Sheet - Governmental Funds
June 30, 2011

(Continued)

			Total Governmental
Reconciliation to the Statement of Net Assets:			
Total Fund Balances - Governmental Funds (from previous page)		$	(1,654,964)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:			
Infrastructure	12,788,813		
Other Capital Assets	6,326,028		
Accumulated Depreciation	(1,102,396)		
			18,012,445
Other long-term assets that are not available to pay for current period expenditures and, therefore, are deferred in the funds.			74,656
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.			279,701
Internal service funds are used by management to charge the costs of certain activities, such as telecommunications and insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.			4,353
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the fund statements. These liabilities, however, are included in the Statement of Net Assets.			
Revenue Bonds Payable	(1,842,455)		
Appropriation Bonds Payable	(3,331,570)		
General Obligation Bonds Payable	(5,182,769)		
Accrued Interest on Bonds	(65,592)		
Capital Leases	(39,939)		
Installment Contracts	(265)		
Compensated Absences	(146,272)		
Pollution Remediation	(11,100)		
Claims and Judgments	(2,355)		
Other Postemployment Benefits Liability	(170,081)		
			(10,792,398)
Net Assets of Governmental Activities as reported on the Statement of Net Assets (See page 23)		$	5,923,792

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, 2011

(In Thousands)

	General	Transportation	Common School	Nonmajor Governmental	Total Governmental
Revenues:					
Taxes	$ 12,822,887	$ 1,029,734	$ -	$ 193,974	$ 14,046,595
Intergovernmental	9,071,207	1,132,544	-	96,889	10,300,640
Licenses and Permits	800,044	475,871	-	600,410	1,876,325
Charges for Goods and Services	308,272	19,715	26	22,149	350,162
Investment and Interest Income	(1,037)	167	31,625	5,214	35,969
Fines and Forfeitures	37,845	346	19,591	3,933	61,716
Gifts and Donations	4,814	4	-	12,061	16,878
Miscellaneous:					
Tobacco Settlement	128,592	-	-	-	128,592
Other	251,908	15,886	15	3,849	271,657
Total Revenues	23,424,531	2,674,268	51,257	938,478	27,088,534
Expenditures:					
Current Operating:					
Commerce	360,015	-	-	56,186	416,201
Education	6,661,197	-	33,600	8,125	6,702,922
Transportation	7,662	2,078,911	-	123,585	2,210,158
Environmental Resources	107,256	-	-	391,363	498,620
Human Relations and Resources	11,824,579	-	-	26,603	11,851,182
General Executive	635,595	-	-	88,443	724,037
Judicial	129,100	-	-	287	129,386
Legislative	64,777	-	-	-	64,777
Tax Relief and Other General Expenditures	1,340,633	-	-	10,160	1,350,793
Intergovernmental - Shared Revenue	970,340	-	-	53,192	1,023,532
Capital Outlay	44,601	421,223	-	497,948	963,772
Debt Service:					
Principal	-	-	-	187,136	187,136
Interest	-	-	-	501,341	501,341
Other Expenditures	-	-	-	6,089	6,089
Total Expenditures	22,145,755	2,500,134	33,600	1,950,458	26,629,947
Excess of Revenues Over (Under) Expenditures	1,278,777	174,133	17,657	(1,011,981)	458,587
Other Financing Sources (Uses):					
Long-term Debt Issued	-	-	-	825,903	825,903
Long-term Debt Issued - Refunding Bonds	-	-	-	256,481	256,481
Payments for Refunded Bonds	-	-	-	(224,373)	(224,373)
Payments to Refunding Bond Escrow Agent	-	-	-	(69,960)	(69,960)
Discount on Bonds	-	-	-	(144)	(144)
Premium on Bonds	-	-	-	91,246	91,246
Transfers In	210,045	35,382	10,000	1,025,527	1,280,954
Transfers Out	(1,579,044)	(95,653)	(1,732)	(806,509)	(2,482,937)
Capital Lease Acquisitions	9,588	4,766	-	2,128	16,483
Installment Purchase Acquisitions	-	-	-	308	308
Total Other Financing Sources (Uses)	(1,359,411)	(55,505)	8,268	1,100,609	(306,039)
Net Change in Fund Balances	(80,635)	118,629	25,926	88,628	152,548
Fund Balances, Beginning of Year	(2,915,377)	675,956	820,479	(389,013)	(1,807,955)
Increase (Decrease) in Inventories	1,206	(393)	-	(369)	443
Fund Balances, End of Year	$ (2,994,806)	$ 794,192	$ 846,405	$ (300,754)	$ (1,654,964)

(Continued)

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Fiscal Year Ended June 30, 2011

(Continued)

			Total Governmental
Reconciliation to the Statement of Activities:			
Net Change in Fund Balances (from previous page)		$	152,548
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.			(775)
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	962,896		
Depreciation Expense	(99,416)		
Grants and Contributions (Donated Assets)	4,306		
			867,787
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.			61
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.			(51,543)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.			(9,950)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.			
Bonds Issued	(1,082,385)		
Payments for Refunded Bonds	294,333		
Repayment of Bond Principal	187,136		
Bond Premium	(91,246)		
Bonds Discount	144		
Bond Issuance Costs (Amortization)	3,494		
			(688,524)
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	32,157		
Decrease (increase) in Capital Leases	(9,388)		
Decrease (increase) in Installment Contracts	465		
Decrease (increase) in Compensated Absences	9,815		
Decrease (increase) in Pollution Remediation Liabilities	2,891		
Decrease (increase) in Claims and Judgments	865		
Decrease (increase) in Postemployment Benefit Liabilities	(33,344)		
			3,462
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.			28,873
Changes in Net Assets of Governmental Activities as reported on the Statement of Activities (See page 25)		$	301,937

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

Balance Sheet
Proprietary Funds
June 30, 2011

(In Thousands)

	Business-type Activities - Enterprise Funds			
	Injured Patients and Families Compensation	Environmental Improvement	University of Wisconsin System	Unemployment Reserve
Assets				
Current Assets:				
Cash and Cash Equivalents	$ 9,738	$ 337,569	$ 546,744	$ -
Investments	30,807	47,733	-	-
Loans to Local Governments (net of allowance)	-	149,186	-	-
Other Loans Receivable (net of allowance)	-	-	31,493	-
Other Receivables (net of allowance)	7,319	231	134,875	318,775
Due from Other Funds	-	222	18,064	832
Due from Component Units	-	-	1,124	-
Interfund Receivables	-	-	530,586	-
Due from Other Governments	-	8,428	90,135	97,530
Inventories	3	-	42,460	-
Prepaid Items	8	23	56,704	-
Advances to Other Funds	233,747	-	-	-
Capital Leases Receivable - Component Units	-	-	1,641	-
Deferred Charges	-	-	12,481	-
Other Assets	-	-	-	-
Total Current Assets	281,622	543,393	1,466,306	417,137
Noncurrent Assets:				
Investments	615,283	172,884	396,030	-
Loans to Local Governments (net of allowance)	-	1,750,678	-	-
Other Loans Receivable (net of allowance)	-	-	159,995	-
Other Receivables	-	-	4,313	81,711
Prepaid Items	-	201	-	-
Advances to Other Funds	-	3,451	-	-
Capital Leases Receivable - Component Units	-	-	2,510	-
Restricted and Limited Use Assets:				
Cash and Cash Equivalents	37,190	99,785	-	16,521
Deferred Charges	-	3,935	-	-
Other Assets	-	-	-	-
Depreciable Capital Assets (net of accumulated depreciation)	378	5	3,455,697	-
Nondepreciable Capital Assets	-	-	1,742,952	-
Total Noncurrent Assets	652,851	2,030,939	5,761,497	98,232
Total Assets	$ 934,473	$ 2,574,331	$ 7,227,804	$ 515,368
Liabilities and Fund Equity				
Current Liabilities:				
Accounts Payable and Other Accrued Liabilities	$ 748	$ 143	$ 158,766	$ 68,724
Due to Other Funds	210	865	69,227	4,880
Due to Component Units	-	-	2,003	-
Interfund Payables	-	-	-	-
Due to Other Governments	-	210	2,340	44,901
Advance from Federal Government	-	-	-	351,412
Tax and Other Deposits	-	-	2,205	-
Unearned Revenue	2,466	-	167,078	-
Interest Payable	-	3,691	9,591	-
Short-term Notes Payable	-	-	59,193	-
Current Portion of Long-term Liabilities:				
Future Benefits and Loss Liabilities	79,817	-	-	-
Capital Leases	-	-	6,196	-
Compensated Absences	24	46	69,317	-
General Obligation Bonds Payable	-	-	46,667	-
Revenue Bonds and Notes Payable	-	58,170	-	-
Total Current Liabilities	83,264	63,124	592,583	469,917
Noncurrent Liabilities:				
Accounts Payable and Other Accrued Liabilities	-	-	-	-
Due to Other Governments	-	518	-	-
Advance from Federal Government	-	-	-	971,562
Noncurrent Portion of Long-term Liabilities:				
Future Benefits and Loss Liabilities	556,686	-	-	-
Capital Leases	-	-	23,713	-
Compensated Absences	44	40	62,630	-
Other Postemployment Benefits	39	28	167,393	-
General Obligation Bonds Payable	-	-	1,111,572	-
Revenue Bonds and Notes Payable	-	878,781	-	-
Total Noncurrent Liabilities	556,769	879,368	1,365,307	971,562
Total Liabilities	640,033	942,492	1,957,890	1,441,479
Fund Equity:				
Invested in Capital Assets, Net of Related Debt	378	-	3,951,309	-
Restricted for Environmental Improvement	-	1,609,417	-	-
Restricted for Expendable Trusts	-	-	302,837	-
Restricted for Nonexpendable Trusts	-	-	155,642	-
Restricted for Future Benefits	294,062	-	-	-
Restricted for Other Purposes	-	-	354,012	-
Unrestricted	-	22,422	506,115	(926,111)
Total Fund Equity	294,439	1,631,839	5,269,914	(926,111)
Total Liabilities and Fund Equity	$ 934,473	$ 2,574,331	$ 7,227,804	$ 515,368

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

Business-type Activities - Enterprise Funds		Governmental Activities -
Nonmajor Enterprise	Totals	Internal Service Funds
$ 733,154	$ 1,627,205	$ 12,644
17,828	96,369	-
382	149,568	-
8,042	39,535	-
68,368	529,567	1,277
15,856	34,974	53,773
-	1,124	101
-	530,586	-
7,071	203,164	313
9,058	51,522	4,740
36,647	93,382	714
416	234,163	-
-	1,641	-
94	12,575	102
1,115	1,115	-
898,032	3,606,489	73,665
152,223	1,336,419	-
1,275	1,751,953	-
179,161	339,156	-
50	86,074	-
-	201	-
586	4,037	-
-	2,510	-
-	153,496	-
1,571	5,506	443
6,005	6,005	-
189,342	3,645,422	258,607
21,247	1,764,200	38,702
551,460	9,094,978	297,751
$ 1,449,492	$ 12,701,467	$ 371,416

$ 57,696	$ 286,078	$ 8,649
40,876	116,057	13,850
-	2,003	-
60,823	60,823	75,637
433	47,884	7,628
-	351,412	
18,814	21,019	-
121,520	291,064	-
1,925	15,207	1,243
1,084	60,277	3,370
63,731	143,547	32,936
412	6,608	249
4,752	74,138	1,366
11,057	57,724	12,711
9	58,179	-
383,131	1,592,019	157,640
41,066	41,066	-
-	518	-
-	971,562	
271,403	828,089	58,739
1,287	24,999	531
6,551	69,264	2,490
25,617	193,077	3,252
223,063	1,334,635	142,434
-	878,781	-
568,986	4,341,992	207,446
952,117	5,934,012	365,086
156,982	4,108,668	137,474
-	1,609,417	-
-	302,837	-
-	155,642	-
298,678	592,740	-
63,438	417,450	-
(21,724)	(419,298)	(131,144)
497,374	6,767,456	6,330
$ 1,449,492	$ 12,701,467	$ 371,416

Total Fund Equity Reported Above	$ 6,767,456
Adjustment to Reflect the Consolidation of Internal Service Activities Related to Enterprise Funds	1,977
Net Assets of Business-type Activities	$ 6,769,433

Statement of Revenues, Expenses, and Changes in Fund Equity - Proprietary Funds
For the Fiscal Year Ended June 30, 2011

(In Thousands)

	Business-type Activities - Enterprise Funds			
	Injured Patients and Families Compensation	**Environmental Improvement**	**University of Wisconsin System**	**Unemployment Reserve**
Operating Revenues:				
Charges for Goods and Services	$ 33,646	$ -	$ -	$ -
Participant and Employer Contributions	-	-	-	1,087,271
Tuition and Fees	-	-	1,074,876	-
Federal Grants and Contracts	-	-	989,148	-
Local and Private Grants and Contracts	-	-	232,201	-
Sales and Services of Educational Activities	-	-	299,962	-
Sales and Services of Auxiliary Enterprises	-	-	350,338	-
Sales and Services to UW Hospital Authority	-	-	53,681	-
Investment and Interest Income	-	29,350	-	-
Interest Income Used as Security for Revenue Bonds	-	21,220	-	-
Miscellaneous:				
Federal Aid for Unemployment Insurance Program	-	-	-	1,308,783
Reimbursing Financing Revenue	-	-	-	108,660
Other	-	45	283,841	9,132
Total Operating Revenues	33,646	50,614	3,284,047	2,513,846
Operating Expenses:				
Personal Services	542	4,578	2,898,392	-
Supplies and Services	396	1,929	1,043,012	-
Lottery Prize Awards	-	-	-	-
Scholarships and Fellowships	-	-	152,779	-
Depreciation	27	4	224,073	-
Benefit Expense	(44,282)	-	-	2,513,060
Interest Expense	-	41,783	-	-
Other Expenses	1	-	7,805	-
Total Operating Expenses	(43,317)	48,293	4,326,061	2,513,060
Operating Income (Loss)	76,962	2,321	(1,042,014)	786
Nonoperating Revenues (Expenses):				
Operating Grants	-	77,619	-	-
Investment and Interest Income	54,250	1,227	67,514	-
Investment Income Used as Security for Revenue Bonds	-	22,419	-	-
Gain (Loss) on Disposal of Capital Assets	-	-	(10,765)	-
Interest Expense	(26)	-	(47,057)	-
Gifts and Donations	-	-	212,888	-
Miscellaneous Revenues	2	-	-	-
Other Expenses:				
Property Tax Credits	-	-	-	-
Grants Disbursed	-	-	-	-
Federal Settlement	-	-	-	-
Other	(691)	(41,744)	(8,579)	-
Total Nonoperating Revenues (Expenses)	53,535	59,521	214,000	-
Income (Loss) Before Contributions and Transfers	130,497	61,842	(828,014)	786
Capital Contributions	-	-	96,343	-
Additions to Endowments	-	-	2,698	-
Transfers In	31,159	23,119	1,209,986	-
Transfers Out	(15)	(9,119)	(105,116)	(6,545)
Net Change in Fund Equity	161,641	75,841	375,898	(5,759)
Total Fund Equity, Beginning of Year	132,798	1,555,998	4,894,016	(920,352)
Total Fund Equity, End of Year	$ 294,439	$ 1,631,839	$ 5,269,914	$ (926,111)

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

Business-type Activities - Enterprise Funds		
Nonmajor Enterprise	Totals	Governmental Activities - Internal Service Funds
$ 828,439	$ 862,085	$ 261,940
1,304,218	2,391,489	-
-	1,074,876	-
-	989,148	-
-	232,201	-
-	299,962	-
-	350,338	-
-	53,681	-
13,067	42,417	-
-	21,220	-
-	1,308,783	-
-	108,660	-
760	293,778	12
2,146,484	8,028,637	261,952
298,344	3,201,855	50,409
164,317	1,209,655	143,224
290,459	290,459	-
-	152,779	-
13,589	237,692	18,688
1,349,665	3,818,442	24,064
13,172	54,955	-
12,281	20,087	-
2,141,826	8,985,924	236,385
4,658	(957,287)	25,566
14,847	92,466	189
109,455	232,445	25
-	22,419	-
(56)	(10,821)	(49)
(2,213)	(49,296)	(7,375)
423	213,311	-
6,972	6,974	1,721
(125,441)	(125,441)	-
(3,256)	(3,256)	-
-	0	(8,578)
(81)	(51,095)	-
650	327,706	(14,066)
5,308	(629,581)	11,500
3,178	99,521	-
-	2,698	-
80,413	1,344,676	19,118
(36,534)	(157,329)	(4,119)
52,365	659,986	26,499
445,010	6,107,470	(20,169)
$ 497,374	$ 6,767,456	$ 6,330

Total Net Change in Fund Equity Reported Above	$ 659,986
Consolidation Adjustment of Internal Services Activities Related to Enterprise Funds	(2,373)
Change in Net Assets of Business-Type Activities	$ 657,612

Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2011

(In Thousands)

	Business-type Activities - Enterprise Funds			
	Injured Patients and Families Compensation	**Environmental Improvement**	**University of Wisconsin System**	**Unemployment Reserve**
Cash Flows from Operating Activities:				
Cash Receipts from Customers	$ 35,413	$ -	$ -	$ 1,014,096
Cash Payments to Suppliers for Goods and Services	(582)	(3,069)	(1,063,750)	-
Cash Payments to Employees for Services	(517)	(5,553)	(2,973,734)	-
Tuition and Fees	-	-	1,072,374	-
Grants and Contracts	-	-	1,229,077	-
Cash Payments for Lottery Prizes	-	-	-	-
Cash Payments for Loans Originated	-	-	(25,787)	-
Collection of Loans	-	-	25,952	-
Interest Income	-	-	-	-
Cash Payments for Benefits	(40,286)	-	-	(2,529,206)
Sales and Services of Educational Activities	-	-	304,163	-
Sales and Services of Auxiliary Enterprises	-	-	348,830	-
Sales and Services to UW Hospital Authority	-	-	56,575	-
Scholarships and Fellowships	-	-	(152,779)	-
Other Operating Revenues	-	45	292,777	1,420,519
Other Operating Expenses	-	-	-	-
Other Sources of Cash	-	-	-	-
Other Uses of Cash	-	-	-	-
Net Cash Provided (Used) by Operating Activities	(5,972)	(8,577)	(886,302)	(94,591)
Cash Flows from Noncapital Financing Activities:				
Operating Grants Receipts	-	78,488	-	-
Grants Disbursed	-	(41,744)	-	-
Proceeds from Issuance of Debt	-	172,424	-	-
Repayment of Bonds and Notes	-	(110,200)	-	-
Interest Payments	-	(48,413)	-	-
Property Tax Credit Payments	-	-	-	-
Noncapital Gifts and Grants	-	-	215,586	-
Interfund Loans Received	-	-	-	-
Interfund Loans Repaid	-	-	-	-
Interfund Borrowings to Other Funds	-	-	(138,630)	-
Repayment of Interfund Borrowings	-	-	-	-
Interfund Advances Collected	-	-	-	-
Transfers In	-	23,119	1,149,006	-
Transfers Out	-	(9,119)	(99,637)	(6,980)
Student Direct Lending Receipts	-	-	796,692	-
Student Direct Lending Disbursements	-	-	(800,000)	-
Other Cash Inflows from Noncapital Financing Activities	-	-	381	664,510
Other Cash Outflows from Noncapital Financing Activities	-	(973)	(14,928)	(752,377)
Net Cash Provided (Used) by Noncapital Financing Activities	-	63,582	1,108,471	(94,847)
Cash Flows from Capital and Related Financing Activities:				
Proceeds from Issuance of Debt	-	-	273,299	-
Capital Contributions	-	-	126,092	-
Repayment of Bonds and Notes	-	-	(57,306)	-
Interest Payments	-	-	(109,986)	-
Transfers In	-	-	-	-
Capital Lease Obligations	-	-	-	-
Proceeds from Sale of Capital Assets	-	-	-	-
Payments for Purchase of Capital Assets	(77)	-	(631,393)	-
Other Cash Inflows from Capital Financing Activities	-	-	97,814	-
Other Cash Outflows from Capital Financing Activities	-	-	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(77)	-	(301,479)	-
Cash Flows from Investing Activities:				
Proceeds from Sale and Maturities of Investment Securities	78,358	159,247	114,611	-
Purchase of Investment Securities	(106,871)	(155,056)	(109,741)	-
Cash Payments for Loans Originated	-	(251,908)	-	-
Collection of Loans	-	171,510	-	-
Investment and Interest Receipts	28,066	60,241	8,069	-
Net Cash Provided (Used) by Investing Activities	(447)	(15,966)	12,939	-
Net Increase (Decrease) in Cash and Cash Equivalents	(6,496)	39,040	(66,371)	(189,437)
Cash and Cash Equivalents, Beginning of Year	53,424	398,314	613,115	205,958
Cash and Cash Equivalents, End of Year	$ 46,928	$ 437,354	$ 546,744	$ 16,521

Business-type Activities - Enterprise Funds		
Nonmajor Enterprise	Totals	Governmental Activities - Internal Service Funds
$ 2,121,119	$ 3,170,628	$ 267,573
(138,554)	(1,205,954)	(145,590)
(299,856)	(3,279,660)	(49,917)
-	1,072,374	-
-	1,229,077	-
(295,556)	(295,556)	-
(2,578)	(28,365)	-
60,445	86,397	-
13,879	13,879	-
(1,321,134)	(3,890,627)	(27,236)
-	304,163	-
-	348,830	-
-	56,575	-
-	(152,779)	-
4,052	1,717,394	12
(11,367)	(11,367)	-
7,354	7,354	1,662
(34,559)	(34,559)	(1,449)
103,244	(892,197)	45,055
14,546	93,034	189
(3,235)	(44,978)	-
-	172,424	-
(79,045)	(189,245)	-
(12,791)	(61,204)	(4)
(129,130)	(129,130)	-
-	215,586	-
19,294	19,294	12,845
(16,574)	(16,574)	(15,948)
-	(138,630)	-
-	-	-
-	-	-
81,211	1,253,336	6,307
(32,409)	(148,145)	(4,119)
-	796,692	-
-	(800,000)	-
1,728	666,620	-
-	(768,278)	-
(156,404)	920,802	(730)
15,997	289,296	13,695
3,304	129,397	-
(2,936)	(60,242)	(13,529)
(2,173)	(112,159)	(7,767)
403	403	-
(342)	(342)	(242)
3	3	831
(13,080)	(644,550)	(31,151)
3,011	100,824	-
(13,940)	(13,940)	-
(9,754)	(311,311)	(38,162)
19,534	371,750	-
(7,955)	(379,623)	-
(179)	(252,087)	-
230	171,740	-
112,321	208,698	-
123,952	120,479	-
61,038	(162,227)	6,163
672,116	1,942,927	6,481
$ 733,154	$ 1,780,701	$ 12,644

(Continued)

Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2011

(Continued)

	Business-type Activities - Enterprise Funds			
	Injured Patients and Families Compensation	**Environmental Improvement**	**University of Wisconsin System**	**Unemployment Reserve**
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operations:				
Operating Income (Loss)	$ 76,962	$ 2,321	$ (1,042,014)	$ 786
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	27	4	224,073	-
Provision for Uncollectible Accounts	-	-	-	19,081
Operating Income (Investment Income) Classified as Investing Activity	-	(50,570)	-	-
Operating Expense (Interest Expense) Classified as Noncapital Financing Activity	-	41,643	-	-
Miscellaneous Nonoperating Income (Expense)	-	-	-	-
Changes in Assets and Liabilities:				
Decrease (Increase) in Receivables	20	164	11,150	(116,869)
Decrease (Increase) in Due from Other Funds	-	(570)	27,588	(314)
Decrease (Increase) in Due from Component Units	-	-	2,894	-
Decrease (Increase) in Due from Other Governments	-	-	1,286	2,077
Decrease (Increase) in Inventories	-	-	(1,528)	-
Decrease (Increase) in Prepaid Items	-	16	(9,493)	-
Decrease (Increase) in Other Assets	-	-	-	-
Decrease (Increase) in Deferred Charges	-	(1,084)	(4,234)	-
Increase (Decrease) in Accounts Payable and Other Accrued Liabilities	(374)	(34)	(117,462)	(20,707)
Increase (Decrease) in Due to Other Funds	189	(655)	5,933	(2,629)
Increase (Decrease) in Due to Component Units	-	-	583	-
Increase (Decrease) in Due to Other Governments	-	41	(1,900)	23,983
Increase (Decrease) in Tax and Other Deposits	-	-	-	-
Increase (Decrease) in Unearned Revenue	1,747	-	(18,506)	-
Increase (Decrease) in Interest Payable	-	140	-	-
Increase (Decrease) in Compensated Absences	18	-	(761)	-
Increase (Decrease) in Postemployment Benefits	7	6	36,090	-
Increase (Decrease) in Future Benefits and Loss Liabilities	(84,568)	-	-	-
Total Adjustments	(82,934)	(10,897)	155,712	(95,377)
Net Cash Provided (Used) by Operating Activities	$ (5,972)	$ (8,577)	$ (886,302)	$ (94,591)
Noncash Investing, Capital and Financing Activities:				
Assets Acquired through Capital Leases	$ -	$ -	$ 2,475	$ -
Contributions/Transfer In (Out) of Noncash Assets and Liabilities from/to Other Funds	-	-	-	-
Lottery Prize Annuity Investment Liability	-	-	-	-
Net Change in Unrealized Gains and Losses	26,551	-	50,261	-
Other	(641)	-	9,863	-

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

Business-type Activities - Enterprise Funds		Governmental Activities -
Nonmajor Enterprise	Totals	Internal Service Funds
$ 4,658	$ (957,287)	$ 25,566
13,589	237,692	18,688
1,904	20,985	-
(276)	(50,846)	-
13,172	54,815	-
5,315	5,315	(90)
49,164	(56,371)	100
(643)	26,062	5,093
-	2,894	(4)
(2,528)	834	73
287	(1,240)	441
(309)	(9,786)	(91)
(731)	(731)	-
29	(5,289)	-
(13,273)	(151,848)	(3,436)
(1,649)	1,189	1,013
-	583	-
162	22,286	759
(4,243)	(4,243)	-
4,767	(11,992)	-
-	140	-
(290)	(1,033)	(435)
5,389	41,493	549
28,751	(55,817)	(3,172)
98,587	65,090	19,488
$ 103,244	$ (892,197)	$ 45,055
$ 706	$ 3,181	$ -
(73)	(73)	-
3,309	3,309	-
(2,414)	74,399	-
620	9,842	(70)

Statement of Fiduciary Net Assets
June 30, 2011

(In Thousands)

	Pension and Other Employee Benefit Trust	Investment Trust	Private-Purpose Trust	Agency
Assets				
Cash and Cash Equivalents	$ 1,773,711	$ 2,473,595	$ 252,333	$ 23,931
Securities Lending Collateral	3,083,019	-	-	-
Prepaid Items	19,395	-	524	-
Receivables (net of allowance):				
Loans Receivable	-	-	-	-
Prior Service Contributions Receivable	118,776	-	-	-
Benefits Overpayment Receivable	4,186	-	-	-
Due from Other Funds	64,816	-	-	1,316
Due from Component Units	6,028	-	-	-
Interfund Receivables	782,426	-	-	-
Due from Other Governments	146,319	-	5,252	-
Due from Employers	-	-	-	3,788
Interest and Dividends Receivable	241,351	-	-	-
Investment Sales Receivable	353,326	-	-	-
Other Receivables	16,439	-	4,208	5,861
Total Receivables	1,733,667	-	9,460	10,965
Investments:				
Fixed Income	22,327,022	-	-	-
Stocks	47,408,539	-	-	-
Options	(162)	-	-	-
Limited Partnerships	8,195,684	-	-	-
Preferred Securities	215,887	-	-	-
Convertible Securities	79,171	-	-	-
Mortgages	22,541	-	-	-
Real Estate	390,778	-	-	-
Investments of Private Purpose Trust Funds	-	-	2,593,142	-
Investments of Agency Funds	-	-	-	646
Multi-asset Investments	1,215,190	-	-	-
External Investment Pool	592,218	-	-	-
Total Investments	80,446,868	-	2,593,142	646
Inventories	104	-	-	-
Capital Assets	2,156	-	2	-
Other Assets	-	-	-	315,964
Total Assets	87,058,920	2,473,595	2,855,461	$ 351,507
Liabilities				
Accounts Payable and Other Accrued Liabilities	180,480	-	64	$ 15,064
Securities Lending Collateral Liability	3,083,019	-	-	-
Annuities Payable	281,605	-	-	-
Advance Contributions	146	-	-	-
Due to Other Funds	74,514	224	5	-
Interfund Payables	782,426	-	-	-
Due to Other Governments	35,301	-	-	-
Tax and Other Deposits	-	-	-	336,443
Future Benefits and Loss Liabilities	-	-	5,365	-
Financial Futures Contracts	(44,001)	-	-	-
Investment Payable	401,800	-	-	-
Unearned Revenue	412	-	15,922	-
Advances from Other Funds	-	-	-	-
Compensated Absences Payable	2,214,681	-	-	-
Other Postemployment Benefits	1,068	-	-	-
Total Liabilities	7,011,451	224	21,357	$ 351,507
Net Assets				
Held in Trust for Pension Benefits, Pool Participants and Other Purposes	$ 80,047,469	$ 2,473,372	$ 2,834,104	

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

Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended June 30, 2011

(In Thousands)

	Pension and Other Employee Benefit Trust	Investment Trust	Private-Purpose Trust
Additions			
Contributions:			
Employer Contributions	$ 817,926	$ -	$ -
Employee Contributions	866,277	-	-
Other	-	-	175
Total Contributions	1,684,203	-	175
Deposits	-	10,261,698	307,615
Premiums			193,977
Federal Subsidy			11,598
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	14,274,364	-	-
Interest	657,325	-	-
Dividends	958,942	-	-
Securities Lending Income	14,579	-	-
Other	98,871	-	-
Investment Income of Investment, Private Purpose, and Other Employee Benefit Trust Funds	506,311	36,385	503,730
Less:			
Investment Expense	(253,705)	(561)	(5,885)
Securities Lending Rebates and Fees	(1,990)	-	-
Investment Income Distributed to Other Funds	(616,710)	-	-
Net Investment Income	15,637,987	35,824	497,845
Interest on Prior Service Receivable	9,546	-	-
Miscellaneous Income	502	-	793
Total Additions	17,332,239	10,297,522	1,012,003
Deductions			
Retirement Benefits and Refunds:			
Retirement, Disability, and Beneficiary	3,960,524	-	-
Separations	22,595	-	-
Total Retirement Benefits and Refunds	3,983,119	-	-
Distributions	24,278	10,430,324	229,657
Other Benefit Expense	191,424	-	201,269
Administrative Expense	22,483	224	12,650
Miscellaneous Expense	-	-	-
Transfers Out	359	-	4
Total Deductions	4,221,662	10,430,548	443,580
Net Increase (Decrease)	13,110,577	(133,026)	568,423
Net Assets - Beginning of Year	66,936,893	2,606,398	2,265,681
Net Assets - End of Year	$ 80,047,469	$ 2,473,372	$ 2,834,104

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

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Detailed Disclosures Regarding Liabilities and Expenses/Expenditures

Other Note Disclosures

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

B. Financial Reporting Entity

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

The decision to include a potential component unit in the State's reporting entity is based on the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity,* and GASB Statement No. 39*, Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14*. 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 (BTASC) 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., Celebrate Children 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, and the University of Wisconsin Foundation 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

Celebrate Children Foundation, Inc.
110 East Main Street, Suite 614
Madison, WI 53703

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

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.

Celebrate Children Foundation, Inc. (CCF) – The Celebrate Children Foundation, Inc., was organized as a nonstock, nonprofit corporation for the exclusive purposes of soliciting and accepting contributions, grants, gifts and bequests for the State's Children's Trust Fund or for deposit into a fund maintained by the CCF. The Child Abuse and Neglect Prevention Board administer the Children's Trust Fund, a statutory fund included in the State's CAFR as a special revenue fund. In addition to the State appointing a voting majority of the CCF, the State is able to impose its will on the CCF and a financial benefit/burden relationship exists. The CCF 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.

In April, 2009, BTASC legally defeased its outstanding bonds as a result of a sale of its TSRs to the State. BTASC will remain active to pay remaining costs associated with the defeased bonds held until 2012 when the bonds are scheduled to be paid in full by the trust.

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, and the University of Wisconsin Foundation 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.

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.

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.

Health Insurance Risk-Sharing Plan Authority – created under 2005 Wisconsin Act 74, Chapter 149, to assume all responsibilities for administration of the health insurance risk-sharing plan.

Wisconsin Quality Home Care Authority – created under Wis. Stat. Section 52.05(1) as a public body corporate and politic to establish and maintain one or more registries of home care providers, and provide referral and matching services for consumers in need of home care.

C. Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

The University of Wisconsin Foundation, and Wisconsin Health Care Liability Insurance Plan (Plan) 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.

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 except for tobacco settlement revenues for which just one-half of revenues expected to be received within one year are recognized. 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* – a special revenue 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.

- *Common School Fund* – a permanent fund, accounts for revenues received from the sale of federally granted land, fines and forfeitures from penal law branches, and the disposal of escheated property. These moneys are used for public purpose loans to municipalities and school districts. Earnings of this fund are distributed to local school districts and to cover administrative costs incurred by the Public Lands Commission.

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 and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Examples include the Conservation Fund and the Petroleum Inspection Fund.

- *Debt Service Funds* – account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Financial resources that are being accumulated for future principal and interest are also reported in debt service funds.

- *Capital Projects Funds* – account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those financed by proprietary funds or that will be held in trust for individuals, private organizations, or other governments).

- *Permanent Funds* – account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the State's programs – that is, for the benefit of the State or its citizenry.

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, duty disability, employee reimbursement accounts, life insurance, and retiree 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 the assets of liquidated insurance companies to insure payments to claimants, transactions of the retiree health insurance program, assets held by the State for inmates and residents of state facilities, deposits of bank and insurance companies doing business in the state, 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; including interest earnings from various loan funds/ component units, (b) program-specific operating grants, contributions, and restricted interest, and (c) program-specific capital grants, contributions, and restricted interest. 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 is recorded under charges for goods and services. In the case of the State's loan program 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.

Deferred outflow of resources is a consumption of net assets that is applicable to a future reporting period, while a deferred inflow of resources is an acquisition of net assets that is applicable to a future reporting period. Deferred outflows and inflows are reported on the government-wide statement of net assets and the balance sheet of proprietary funds, as applicable, but are not considered either assets or liabilities.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires that all derivative instruments be measured at fair value and reported on the State's financial statements. The change in the fair value of derivative instruments classified as effective hedges are presented as a deferred outflow or inflow of resources with an off-setting asset or liability, as applicable, on the government-wide statement of net assets or balance sheet of proprietary funds. If an effective hedge is subsequently classified as ineffective, it is considered an investment derivative instrument. At that time, the change in fair value is no longer deferred but rather is reported as investment revenue in the government-wide statement of activities or as non-operating investment revenue in proprietary statements.

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 stocks 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 and University of Wisconsin System
University	University of Wisconsin System
Benevolent	General

Component Units

Investments (reported as cash equivalents) of the Badger Tobacco Asset Securitization Corporation, a blended component unit, are reported at fair value.

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 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 less an allowance for doubtful accounts.

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 reported as nonspendable for inventories and prepaid items, except in cases where prepaid items are offset by unearned revenues, to indicate that these accounts do not represent expendable available financial resources.

7. Capital Assets

Capital assets, which include property, plant, equipment, intangibles, 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. In addition, internally generated intangible assets are capitalized only if costs equal to or are greater than $1.0 million. 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.

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 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 certain other capital assets including the State Capitol and Executive Residence and associated furnishings, 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, 2011, 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 $475.4 million representing one-half of the total appropriated amount is reported at June 30, 2011 as Due to Other Governments.

State Property Tax Credit Program

At June 30, 2011, the State was liable to various taxing jurisdictions for the school levy, the first dollar, and the lottery property tax credits paid through the State Property Tax Credit Program.

The school levy tax credit provides property tax relief in the form of State credits on individual property tax bills.

The first dollar tax credit was first established for property taxes levied in 2008, and payable in 2009. This credit is allowed on every taxable real estate parcel containing an improvement in the state.

Under the lottery property tax credit, 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.

State statutes require that payment to local taxing jurisdictions for the school levy and first dollar tax credits be made during July. Although the state 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, and school districts).

The portion of the liability payable to school districts for the school levy and first dollar tax credits 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, 2011.

The portion of the liability payable to general government for the school levy and first dollar tax credits 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, 2011.

The aggregated State Property Tax Credit Program liability of $682.8 million is reported in the General Fund as Due to Other Governments. Of that amount, $570.2 million relates to the school levy tax credit and $112.6 million relates to the first dollar tax credit. Beginning with the State's fiscal year 2010, a portion of the school tax credit is funded by the Lottery Fund. For FY 2011, the Lottery funded $14.9 million of the credit.

The lottery tax credit is accounted for in the Lottery Fund, an enterprise fund that records revenues and expenses on the accrual basis. The State pays municipal treasurers for lottery credits who distribute the moneys to the various taxing jurisdictions. For credits reducing the calendar year 2011 property tax bills, the State made this payment in March 2011. 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 2011, while the remaining portion represents a prepaid item. The resulting prepaid item reported within the Lottery Fund totals $30.6 million at June 30, 2011.

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 fourth Monday in July.

At June 30, 2011, the State was liable to various local governments and other taxing jurisdictions for unpaid exempt computer aid payments of $58.5 million.

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 2004, 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 using the effective interest method. 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.

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 in general at a minimum of 15 or 13 days per year, depending on Fair Labor Standards Act (FLSA) status. 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. Generally, compensatory time accumulates for eligible employees for hours worked in excess of forty hours per week. In general, 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. Unearned and Deferred Revenue

In both the government-wide and fund financial statements unearned revenue represents amounts for which asset recognition criteria have been met, but not revenue recognition criteria. Unearned revenue arises 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 unearned revenue is removed and revenue is recognized.

Unearned revenue of the University of Wisconsin System consists of payments received but not earned at June 30, 2011, 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.

Deferred revenue, reported in the governmental fund statements, represents revenues that are unavailable and consequently not susceptible to accrual. Primarily, this relates to items like long-term receivables, which represent amounts owed to the State that will not be collectible for many years. That is, under modified accrual accounting, revenue is not recognized until it is both measurable and available to finance expenditures of the current period.

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 Classification and Restricted Net Assets/Fund Equity

Fund Balance Classification

In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the state is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balance is reported as restricted when constraints placed on the use of the resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or, imposed by law through constitutional provisions or enabling legislation. Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the state legislature are reported as committed fund balance. Those committed amounts cannot be used for any other purpose unless the state legislature removes or changes the specified use by taking the same type of action it employed to commit those amounts. Amounts that are constrained by the state's intent to be used for specific purposes, but are neither restricted nor committed, are classified as assigned fund balances. Intent is expressed by state officials to whom the state has delegated the authority to assign amounts to be used for specific purposes. Unassigned fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. Nonspendable fund balances include amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

When both restricted and unrestricted resources are available for use it is the State's policy to use restricted resources first, and then unrestricted as they are needed. The state has not established a policy for use of unrestricted fund balance. Under the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, if a government does not establish a policy for its use of unrestricted fund balance amounts, committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts.

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 may 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, 2011, 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	$ 1,126,885	$ -	$ 12,644	$ -	$ 1,139,529
Investments	150,026	-	-	-	150,026
Receivables (net of allowance):					
Taxes	1,234,370	-	-	(1,234,370)	-
Loans to Local Governments	581,535	-	-	(581,535)	-
Other Loans Receivable	46,890	-	-	(46,890)	-
Other Receivables	486,723	2,411	1,691	2,881,507	3,372,332
Due from Other Funds	351,018	-	53,773	(404,791)	-
Due from Component Units	225	-	-	(225)	-
Due from Other Governments	943,849	-	-	(943,849)	-
Internal Balances	-	-	(1,977)	(660,733)	(662,710)
Inventories	27,218	714	4,740	-	32,673
Prepaid Items	322,731	-	714	-	323,446
Advances to Other Funds	-	-	-	-	-
Restricted Assets:					
Cash and Cash Equivalents	168,777	-	-	-	168,777
Investments	121,844	-	-	-	121,844
Deferred Charges	-	71,530	545	-	72,075
Other Assets	26,911	-	-	-	26,911
Depreciable Capital Assets	-	1,322,444	258,607	-	1,581,050
Infrastructure	-	12,788,813	-	-	12,788,813
Other Non-depreciable Capital Assets	-	3,901,188	38,702	-	3,939,890
Other Deferred Outflows	-	103,955	-	-	103,955
Total Assets	$ 5,589,003	$ 18,191,055	$ 369,439	$ (990,885)	$ 23,158,611
Liabilities:					
Accounts Payable and Other Accrued Liabilities	$ 867,240	$ -	$ 17,520	$ 32,174	$ 916,935
Due to Other Funds	301,247	-	89,487	(390,734)	-
Interfund Payables	394,126	-	-	(394,126)	-
Due to Other Governments	2,273,338	-	-	-	2,273,338
Tax Refunds Payable	1,466,127	-	-	-	1,466,127
Tax and Other Deposits	37,127	-	-	-	37,127
Unearned Revenue/Deferred Revenue	791,988	(279,701)	-	-	512,287
Interest Payable	46,617	65,592	-	-	112,209
Advances from Other Funds	238,200	-	-	(238,200)	-
Short-term Notes Payable	746,757	-	3,370	-	750,128
Other Liabilities	-	103,955	-	-	103,955
Long-term Liabilities:					
Current Portion	81,200	517,521	47,262	-	645,983
Noncurrent Portion	-	10,209,284	207,446	-	10,416,731
Total Liabilities	7,243,967	10,616,652	365,086	(990,885)	17,234,819
Fund Balances/Net Assets	(1,654,964)	7,574,403	4,353	-	5,923,792
Total Liabilities and Fund Balances/Net Assets	$ 5,589,003	$ 18,191,055	$ 369,439	$ (990,885)	$ 23,158,611

(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, 2011, 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	$ 14,046,595	$ -	$ -
Income Taxes	-	7,995	-
Sales & Excise Taxes	-	(5,283)	-
Public Utility Taxes	-	-	-
Other Taxes	-	149	-
Motor Fuel (Transportation) Taxes	-	123	-
Other Dedicated Taxes	-	(251)	-
Intergovernmental	10,300,640	-	-
Operating Grants	-	-	750
Capital Grants	-	-	3,943
Licenses and Permits	1,876,325	-	-
Charges for Goods and Services	350,162	3,346	-
Investment and Interest Income	35,969	-	-
Fines and Forfeitures/Contributions to Permanent Fund	61,716	-	-
Gifts and Donations	16,878	-	-
Miscellaneous:		(16,047)	(1,985)
Tobacco Settlement	128,592	-	-
Other	271,657	-	-
Total Revenues	27,088,534	(9,967)	2,708
Expenditures/Expenses:			
Current Operating:			
Commerce	416,201	90	573
Education	6,702,922	641	3,334
Transportation	2,210,158	1,349	55,322
Environmental Resources	498,620	(719)	11,631
Human Relations and Resources	11,851,182	13,333	68,028
General Executive	724,037	(2,429)	8,622
Judicial	129,386	1,190	2,363
Legislative	64,777	711	363
Tax Relief and Other General Expenditures	1,350,793	-	-
Intergovernmental - Shared Revenue	1,023,532	-	-
Capital Outlay	963,772	-	(963,772)
Debt Service:			
Principal	187,136	-	-
Interest and Other Charges	507,430	1,573	-
Total Expenditures/Expenses	26,629,947	15,740	(813,535)
Excess of Revenues Over (Under) Expenditures/Expenses	458,587	(25,707)	816,243
Other Financing Sources (Uses):			
Net Transfers	(1,201,984)	13	61
Long-term Debt Issued	1,082,385	-	-
Premium/Discount on Bonds	91,103	-	-
Payments for Refunded Bonds	(224,373)	-	-
Payments to Refunding Bond Escrow Agent	(69,960)	-	-
Capital Lease Acquisitions	16,483	(16,483)	-
Installment Purchase Acquisitions	308	(308)	-
Total Other Financing Sources (Uses)	(306,039)	(16,778)	61
Net Change in Fund Balance	152,548	$ (42,484)	$ 816,304
Change in Inventories	443		
Net Change for the Year	$ 152,991		

(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
$ -	$ -	$ -	$ (14,046,595)	$ -
-	-	-	7,470,063	7,478,058
-	-	-	4,826,177	4,820,894
-	-	-	324,480	324,480
-	-	-	202,167	202,317
-	-	-	1,029,734	1,029,857
-	-	-	193,974	193,723
-	-	-	(10,300,640)	-
-	-	80,034	9,335,589	9,416,373
-	-	-	1,015,850	1,019,793
-	-	-	(1,876,325)	-
11,964	-	(13,904)	1,918,449	2,270,017
25	-	-	(33,921)	2,072
-	-	-	(42,124)	19,592
-	-	-	(16,878)	-
-	-	-	400,612	382,580
-	-	-	(128,592)	-
-	-	-	(271,657)	-
11,989	-	66,130	362	27,159,757
(149)	-	(5,659)	241	411,297
(2,707)	-	33,365	(273)	6,737,282
(2,948)	231	-	349	2,264,460
(1,025)	(2,785)	(32)	546	506,235
(7,256)	(865)	46,669	(383)	11,970,708
4,954	-	(8,213)	45	727,015
-	-	-	-	132,940
(128)	(83)	-	-	65,641
-	2,259	-	(759)	1,352,293
-	-	-	-	1,023,532
-	-	-	-	-
-	(187,136)	-	-	(0)
7,375	(38,246)	-	1,010	479,142
(1,884)	(226,626)	66,130	775	25,670,547
13,873	226,626	-	(413)	1,489,210
14,999	-	-	(362)	(1,187,273)
-	(1,082,385)	-	-	-
-	(91,103)	-	-	-
-	224,373	-	-	-
-	69,960	-	-	-
-	-	-	-	-
-	-	-	-	-
14,999	(879,154)	-	(362)	(1,187,273)
$ 28,873	$ (652,528)	$ 0	(775)	301,937
			775	-
			$ 0	$ 301,937

(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, RESTRICTED NET ASSETS, BUDGET STABILIZATION ARRANGEMENT, MINIMUM FUND BALANCE POLICY and FUND BALANCE OF GOVERNMENTAL FUNDS.

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, 2011 are (in thousands):

Special Revenue:		
Petroleum Inspection	$	65,709
Dry Cleaner Environmental Response		3,260
Capital Projects:		
Capital Improvement		545,560
Transportation Revenue Bonds		87,300
Enterprise:		
Unemployment Reserve		926,111
Northern Developmental Disabilities Center		19,207
Southern Developmental Disabilities Center		20,085
Life Insurance		295
Internal Service:		
Technology Services		9,718
Risk Management		83,435
Pension and Other Employee Benefit Trust:		
Accumulated Sick Leave		85,251

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 by enabling legislation were as follows on June 30, 2011 (in thousands):

Governmental Activities:	
Net Assets Restricted by Enabling Legislation	33,839
Business-type Activities:	
Net Assets Restricted by Enabling Legislation	258,498

C. Budget Stabilization Arrangement

Wisconsin Statutes 25.60 establishes a stabilization arrangement for monies to be set aside for use if General Fund revenues are less than projected and expenditures exceed budgeted amounts. Wisconsin Statues 16.518 provides for the automatic transfer of 50.0 percent of the excess of General Fund tax revenues over tax estimates to be deposited into a stabilization appropriation. However, the transfer may not be made if the stabilization balance is at least equal to 5.0 percent of estimated General Fund expenditures for the fiscal year. Further, the transfer may not reduce the General Fund balance below the required statutory balance. In addition to the transfer described, under Wisconsin Statutes 13.48(14)(c) and 16.72(4) proceeds from the sale or lease of surplus state land or buildings and net proceeds from the sale of surplus property are also to be deposited into the stabilization appropriation except as otherwise provided by law.

Wisconsin Statutes 16.50(7) provides that if the secretary of the Department of Administration determines that previously authorized expenditures under the biennial budget act will exceed revenues in the current or forthcoming fiscal year by more than one-half of one percent of the estimated general purpose revenue appropriations for that fiscal year, he or she shall immediately notify the governor, the presiding officers of each house of the legislature and the joint committee on finance. Following such notification, the governor shall submit a bill containing recommendations for correcting the imbalance between projected revenues and authorized expenditures, including a recommendation as to whether moneys should be transferred from the budget stabilization appropriation to the General Fund.

The balance of the budget stabilization arrangement as of June 30, 2011 was $16.6 million.

D. Minimum Fund Balance

Wisconsin Statutes 20.003(4) establishes a minimum General Fund balance. Under the statutes, no bill directly or indirectly affecting general purpose revenues as defined in Wisconsin Statues 20.001(2)(a) may be enacted by the legislature if the bill would cause the estimated General Fund balance on June 30 of any fiscal year to be an amount equal to or less than the amount specified for that fiscal year. The minimum required balance for the fiscal year ending June 30, 2011 was $65.0 million.

E. Fund Balance for Governmental Funds

Governmental funds reported the following categories of fund balance as of June 30, 2011 (in thousands):

	General	Transportation	Common School	Nonmajor Governmental	Total Governmental
Nonspendable for:					
Inventory, Prepaid and Long-term Receivables	158,629	16,940	-	15,506	191,074
Legal or Contractual Purposes (Permanent Fund Principal)	-	-	835,367	36,514	871,881
Restricted for:					
Commerce	30,496	-	-	441	30,937
Education	7,001	-	10,756	13,393	31,150
Transportation	-	-	-	-	-
Environmental Resources	5,759	-	-	55,088	60,847
Human Relations and Resources	52,462	-	-	21,107	73,570
General Executive	70,537	-	282	15,293	86,111
Judicial	-	-	-	-	-
Tax Relief and Other General Expenditures	-	-	-	-	-
Intergovernmental - Shared Revenue	-	-	-	723	723
Debt Service	-	-	-	114,526	114,526
Committed to:					
Commerce	-	-	-	22,328	22,328
Education	-	-	-	907	907
Transportation	-	781,294	-	-	781,294
Environmental Resources	-	-	-	40,812	40,812
Human Relations and Resources	-	-	-	12,253	12,253
General Executive	-	-	-	31,606	31,606
Judicial	-	-	-	190	190
Tax Relief and Other General Expenditures	16,586	-	-	-	16,586
Capital Projects	-	-	-	20,584	20,584
Unassigned	(3,336,276)	(4,043)	-	(702,023)	(4,042,342)
Total Fund Balance	(2,994,806)	794,192	846,405	(300,754)	(1,654,964)

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, 2011, $135.2 million of the primary government's bank balance of $1.0 billion was exposed to custodial credit risk as follows (in millions):

Uninsured and uncollateralized	$ 135.2

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, 2011 are immaterial. The primary government does not have a formal policy specifically related to foreign currency risk.

The State’s Unemployment Reserve Fund had $16.5 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, 2011, the Wisconsin Health Care Liability Insurance Plan at December 31, 2010, the University of Wisconsin Hospitals and Clinics Authority at June 30, 2011, and the University of Wisconsin Foundation at December 31, 2010, was $145.3 million.

As of their fiscal year end, $142.0 million of the component units' bank balance of $145.3 million was exposed to custodial credit risk as follows (in millions):

Uninsured and uncollateralized	$ 142.0

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 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 of 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 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 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 Fund are managed with an investment objective of maintaining a diversified portfolio of high quality publicly issued equities and fixed income obligations providing long-term growth in capital and income generation.

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 37.5 percent marketable equities, 25.0 percent fixed income, and 37.5 percent alternatives. The approved asset allocation for intermediate term funds is 15.0 percent marketable equities, 65.0 percent fixed income, 10.0 percent alternatives and 10.0 percent cash. These target allocations were last affirmed/approved in December 2010.

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. 25.182 authorizes the Board to manage the core retirement trust fund in accordance with "prudent investor" standard of responsibility as described in Wis. Stat. Sec. 25.15(2) which requires that the Board manage the funds with the diligence, skill and care that a prudent person acting in a similar capacity and with the same resources would use in managing a large public pension fund.

Investments of the variable retirement trust fund are authorized under Wis. Stat. Sec. 25.15 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, 2011, the reported amount of investments of the primary government, including the various funds, was $5,171.9 million, of which $650.3 million is reported as cash equivalents and $340.3 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, 2011, the primary government had no custodial credit risk exposure for these investments.

University of Wisconsin System (UWS)

At June 30, 2011, the UWS investments were $426.2 million, of which $30.1 million is reported as cash equivalents.

Wisconsin Retirement System (WRS)

At June 30, 2011, the WRS investments were $79.9 billion. The WRS does not have a formal policy for custodial credit risk. As of June 30, 2011, the WRS held eleven tri-party repurchase agreements totaling $1.6 billion. 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. In addition, interest rate risk of certain other funds such as the Retiree Life Insurance Fund is minimized by maintaining a diversified portfolio of investments and monitoring cash flow patterns in order to approximately match the expected maturity of liabilities.

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, 2011, the primary government's investments were (in millions):

Primary Government (excluding Badger Tobacco Securitization Corporation, the various funds, UWS, WRS, SIF, and investments in an external investment pool)

	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	$ 156.1	$ 29.7	$ 22.3	$ 8.1	$ 216.2
State and municipal bonds and notes	14.3	53.4	66.5	168.6	302.8
Negotiable certificates of deposit	16.1	--	--	--	16.1
Repurchase agreements	7.6	--	--	--	7.6
Forward delivery agreements	47.7	--	--	--	47.7
Money market funds	261.2	--	--	--	261.2
Mutual funds – open ended	10.6	86.0	640.1	.2	736.9
Total	$ 513.6	$ 169.1	$ 728.9	$ 176.9	$ 1,588.5

External Investment Pool

Investments of the Retiree Life Insurance Fund and the Life Insurance Fund (reported as pension and other employee benefit trust funds) are held in an external investment pool with the investment objective of maintaining levels in its general account sufficient to guarantee principal amounts of reserves. The interest rate exposure of this pool expressed in terms of duration and the weighted average life is 4.75 and 6.2 years respectively.

As of May 31, 2011, the Badger Tobacco Asset Securitization Corporation's investments were as follows (in millions):

Investment	**Fair Value**	**Weighted Average Maturity (Years)**
Dreyfus Cash Mgmt 288 Inst'l	$ 6.8	0.09
Federated Tax-free Obligations Fund 15	1.3	0.01
Total Fair Value	$ 8.1	
Portfolio weighted average maturity		0.10

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 weighted average maturity (WAM), 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, 2011, 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	WAM	Fair Value	Duration	Fair Value	Duration	Fair Value	Duration
Government/ Agency	$ 5.7	1.42	$ 38.4	15.12	$ 198.0	5.39	$ --	--	$ 5.8	3.85
Corporate	10.6	17.15	58.9	17.15	331.0	5.61	--	--	0.7	4.31
Bond Funds	--	--	--	--	--	--	2.5	5.24	--	--
Total/Average	$ 16.3	.89	$ 97.3	16.35	$ 529.0	5.52	$ 2.5	5.24	$ 6.5	3.90

University of Wisconsin System (UWS)

The UWS uses the option adjusted duration method to analyze interest rate risk.

As of June 30, 2011, the UWS had interest rate risk statistics as detailed below (in millions):

UWS

Fixed Income Sector	Fair Value	Modified Duration
Corporate and other credit	$ 16.9	4.65
Government	4.5	6.34
Collateralized mortgage obligations: U. S. Agencies	14.2	2.22
U.S. private placements	4.8	3.36
Asset backed securities	2.3	.24
Collateralized mortgage obligations: Corporate	1.0	3.91
U.S. Agencies	.5	3.18
Commercial mortgage backed securities	3.7	.94
Treasury inflation protected securities	21.8	4.81
Total	$ 69.7	
Fixed Income Commingled		
Seix Advisors High Yield Fund	$ 25.0	4.76

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, 2011, stated in terms of modified duration and weighted average maturity, is presented below (in millions):

WRS

Investment Type	Fair Value*	Modified Duration (Years)
Asset Backed Securities	$ 30.2	3.49
Asset Backed Securities	1.7	N/A
Certificates of Deposit	15.3	.24
Commercial Paper	94.4	0.17
Corporate Bonds/Private Placements	5,057.6	4.87
Corporate Bonds/Private Placements	79.4	N/A
Futures Contracts	141.6	6.54
Futures Contracts	(6.3)	N/A
Government Agency	595.2	2.58
Government Agency	7.2	N/A
Commercial Mortgages	22.5	N/A
Municipal Bonds	94.0	11.01
Repurchase Agreements	0.7	0.12
Foreign Gov't Bonds	3,750.7	6.89
Foreign Gov't Bonds	3.2	N/A
United States Treasury Securities	4,525.6	7.33
	$14,413.0	

Intermediate and Long Term Collective Trust Funds	Fair Value	Modified Duration (Years)
Emerging Market Fixed Income	$ 305.9	6.75
Global Fixed Income	463.7	4.73
Domestic Fixed Income	7,547.1	5.24
	$8,316.7	

	Fair Value	Weighted Average Maturity (days)
Short Term Collective Trust Funds	$ 29.2	1

Securities Lending Collateral Pool	Fair Value	Weighted Average Maturity (days)
Certificates of Deposit	292.3	35
Commercial Paper	46.7	31
Corporate Bonds	1,150.7	27
Repurchase Agreements	2,289.7	2
	$3,779.4	

*Notional amount presented for futures contracts

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. In addition, credit risk of certain funds such as the Retiree Life Insurance Fund is minimized by monitoring portfolio diversification by asset class, creditor and industry and by complying with investment limitations governed by insurance laws and regulations.

As of June 30, 2011, 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 various funds, UWS, WRS and SIF)

Credit Quality Ratings	Fair Value
AAA	$ 228.5
AA	317.7
A	94.3
BB	.3
B	.1
Not Rated	1,283.0
Total	$ 1,923.9

The various funds' (except for the Tuition Trust Fund) investments 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. IPFCF guidelines provide that at the time of purchase at least 80 percent of the bond portfolio must be rated "A3/A" or better. The Tuition Trust Fund guidelines do not specifically list a minimum credit quality.

The following schedule displays the credit ratings at June 30, 2011, for the various funds (in millions):

	Various Funds				
	LGPIF	SLF	IPFCF	Historical Society	Tuition Trust
	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value
AAA	$ 16.3	$ 39.4	$ 211.4	$ --	$ 5.8
AA	--	5.1	21.2	--	.1
A	--	32.7	197.3	--	.4
BBB	--	18.0	79.6	--	--
BB	--	1.1	15.0	--	.2
B	--	1.0	4.5	--	--
CCC	--	--	--	--	--
Not rated	--	--	--	2.5	--
Totals	$ 16.3	$ 97.3	$ 529.0	$ 2.5	$ 6.5

University of Wisconsin System (UWS)

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the Long Term Fund, fund-level asset allocation constraints limit exposure to below investment grade debt securities to no more than 10.0 percent; for the Intermediate Term Fund, exposure is limited to 6.0 percent. The UWS currently holds below investment grade securities within commingled vehicles representing 6.0 percent of total assets of the Long Term Fund and 5.5 percent of total assets of the Intermediate Term Fund. In addition, actively-managed, investment grade fixed income separate accounts must maintain an average portfolio quality of AA by Standard & Poor's and/or Aa by Moody's, and hold only securities rated BBB- by Standard & Poor's and/or Baa3 by Moody's or higher. As of June 30, 2011, the actively-managed, investment grade fixed income separate accounts held a Keystone Owner Trust security in the amount of $4 thousand rated CAA1 by Moody's and unrated by Standard & Poor's.

The following schedule displays the credit rating as provided by Moody's Investor Service on debt securities held as of June 30, 2011 (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.

UWS	
Ratings	Fair Value
Aaa	$ 58.3
Aa1	.6
Aa2	2.5
Aa3	3.5
A1	1.1
A2	3.7
A3	3.4
Baa1	2.8
Baa2	4.2
Baa3	.9
Ba2	8.8
B2	14.0
Caa2	.3
Unrated and Unrated Pooled Cash	24.7
Total	$ 128.8

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, 2011 (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 or A-1	$ 455.5
Aaa or AAA	7,030.0
Aa3 to Aa1 or AA- to AA+	3,003.8
A3 to A1 or A- to A+	1,813.0
Baa3 to Baa1 or BBB- to BBB+	1,580.8
Ba3 to Ba1 or BB- to BB+	448.2
B3 to B1 or B- to B+	635.7
Caa1 to Caa3 or CCC- to CCC+	230.2
Ca1 to Ca3 or CC- to CC+	8.3
C	10.3
D	3.9
Commingled or pooled	10,295.0
Not rated	2,837.5
Total	$ 28,352.2

Reverse Repurchase Agreements

SWIB had $134.9 million reverse repurchase agreements outstanding at June 30, 2011. Investment guidelines permit certain portfolios to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase the exact securities in the future at the same price plus a stated rate of interest. The market value of the securities underlying reverse repurchase agreements exceeds the cash received, providing the dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities or providing cash equal value, SWIB would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. This credit exposure at year-end was $2.7 million.

Since the proceeds from reverse repurchase agreements are used for short-term financings, the maturities of the purchases made with the proceeds of reverse repurchase agreements are not matched to the maturities of the agreements. The repurchase agreement transactions as of June 30, 2011, had underlying collateral with fair values of approximately 102 percent of the cost of the repurchase agreements. The agreed-upon yields were between .09 percent and .16 percent with maturity dates through July 26, 2011.

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 Trust Fund'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 approximately 3.8 percent and State of Wisconsin general obligation bonds with approximately 3.0 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 AAA-rated mortgage-backed, AAA-rated asset-backed and individual corporate issuers to 3 percent of the market value of the fund investments.

Excluding investments issued or explicitly guaranteed by the U.S. Government, as of June 30, 2011, none of the various funds had more than five percent of their total investments in a single issuer.

University of Wisconsin System (UWS)

Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment in a single issuer. Actively-managed, fixed income separate accounts are limited to holding no more than 7.0 percent in any one issuer (U.S. Government/Agencies are exempted). During fiscal year 2011, the largest concentration by a non-U.S. Government/Agency was JP Morgan Chase with 0.4 percent of total Trust Funds 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. However, foreign currency risk of the Retiree Life Insurance Fund is minimized by utilizing short-duration spot forward contracts to minimize the adverse impact of foreign currency exchange rate risks inherent in the elapsed time between trade processing and trade settlement.

At June 30, 2011, 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, 2011, the various funds did not own any issues denominated in a foreign currency.

University of Wisconsin System (UWS)

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. As of June 30, 2011, the Long Term and Intermediate Term Funds held equity securities denominated in foreign currencies within pooled investment vehicles only, with market values totaling $108.9 million and $6.7 million, respectively, compared to prior fiscal year amounts of $87.3 million and $4.6 million, respectively. Some of the trades for such foreign positions will not settle in foreign currencies until after the fiscal year end. For the Long Term and Intermediate Term Funds, it is generally expected and desired that foreign currency exposure is not hedged, as this enhances the diversification benefits from non-U.S. investments.

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, 2011, the following assets were denominated in the following currencies (in millions):

Currency Exposure by Investment Type

Currency	Cash and Cash Equivalents	Commercial Mortgages	Convert-ible Securities	Options	Stocks	Fixed Income	Financial Futures	Multi-Asset	Preferred Securities	Limited Partner-ships	Real Estate	Total
Argentina Peso	.5	--	--	--	--	6.5	--	--	--	--	--	7.0
Australian Dollar	2.9	--	--	--	909.5	47.4	.7	--	--	--	--	960.5
Brazil Real	2.5	--	--	--	36.1	35.4	--	--	79.3	--	--	153.3
British Pound Sterling	23.0	--	--	--	3,151.5	239.6	3.4	--	--	96.2	--	3,513.7
Canadian Dollar	10.4	--	--	--	1,237.8	109.9	.7	--	--	39.9	--	1,398.7
Columbian Peso	--	--	--	--	--	8.9	--	--	--	--	--	8.9
Chinese Renminbi	--	--	--	--	.2	--	--	--	--	--	--	0.2
Czech Koruna	.2	--	--	--	10.0	--	--	--	--	--	--	10.2
Danish Krone	.4	--	--	--	116.9	32.8	--	--	--	--	--	150.1
Euro Currency Unit	72.0	--	.2	--	4,008.1	1,325.1	6.6	--	66.8	875.4	--	6,354.2
Hong Kong Dollar	3.7	--	--	--	540.6	--	--	--	--	--	--	544.3
Hungarian Forint	.6	--	--	--	.3	5.1	--	--	--	--	--	6.0
Indian Rupee	.6	--	--	--	140.4	3.8	--	--	--	--	--	144.8
Indonesian Rupian	0.0	--	--	--	5.5	22.5	--	--	--	--	--	28.0
Israeli Shekel	.3	--	--	--	33.2	--	--	--	--	--	--	33.5
Japanese Yen	27.8	--	.1	--	2,612.9	1,201.4	5.5	--	--	--	--	3,847.7
Malaysian Ringgit	3.0	--	--	--	22.7	48.0	--	--	--	--	--	73.7
Mexican New Peso	6.1	--	--	--	37.3	65.1	--	--	--	--	--	108.5
Moroccan Dirham	.1	--	--	--	2.2	--	--	--	--	--	--	2.3
New Taiwan Dollar	.1	--	--	--	208.3	--	--	--	--	--	--	208.4
New Turkish Lira	--	--	--	--	54.5	--	--	--	--	--	--	54.5
New Zealand Dollar	--	--	--	--	9.8	6.8	--	--	--	--	--	16.6
Norwegian Krone	1.6	--	--	--	93.5	17.5	--	--	--	--	--	112.6
Peruvian Nuevo Sol	.2	--	--	--	.1	7.7	--	--	--	--	--	8.0
Philippines Peso	.1	--	--	--	1.9	9.5	--	--	--	--	--	11.5
Polish Zloty	.2	--	--	--	49.8	39.9	--	--	--	--	--	89.9
`South African Rand	1.2	--	--	--	35.8	27.2	--	--	--	--	--	64.2
Singapore Dollar	.7	--	--	--	178.7	--	--	--	--	--	--	179.4
South Korean Won	.1	--	--	--	305.7	18.4	--	--	--	--	--	324.2
Swedish Krona	1.5	--	--	--	276.8	36.1	--	--	--	12.4	--	326.8
Swiss Franc	7.8	--	--	--	1,110.3	--	--	--	--	--	--	1,118.1
Thailand Baht	1.0	--	--	--	67.1	--	--	--	--	--	--	68.1
United States Dollar	440.0	22.5	78.9	(0.2)	32,151.1	19,001.7	27.1	1,215.2	69.8	7,171.7	390.8	60,568.6
Uruguayan Peso	--	--	--	--	--	10.7	--	--	--	--	--	10.7
Total Investments by Currency Exposure	608.6	22.5	79.2	(0.2)	47,408.6	22,327.0	44.0	1,215.2	215.9	8,195.6	390.8	80,507.2

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. Collateral is marked to market daily and adjusted as needed to maintain the required minimum level.

The 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.

In accordance with money market mutual fund industry standards, the cash collateral reinvestment pools are valued at amortized cost. The amortized or book value of a fund's assets and underlying fair market value of the assets may differ based on market conditions. The pools' market value relative to its amortized cost is expressed as net asset value (NAV) and is derived by dividing total market value by amortized cost. During Fiscal Year 2011, the securities lending reinvestment pools' NAVs were below the typical money market fund market floor of $.9950. The NAVs improved by the end of the fiscal year. As of June 30, 2011, the U.S. dollar cash collateral reinvestment pools' NAV was $.9992 while the foreign reinvestment pool had a NAV of $.9999.

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. Losses resulting from violations of investment guidelines are also indemnified.

The majority of securities loans can be terminated on demand. The average term of the loans is approximately two days, which is shorter than the weighted average maturity of 16 days for investments made with the U.S. dollar cash collateral and the weighted average maturity of 6 days for investments made with foreign 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, 2011 the Tuition Trust Fund held interest only strips valued at $5.8 million representing approximately 73.4 percent of portfolio investments.

Wisconsin Retirement System (WRS)

Derivatives may be used to implement investment strategies for the Core and Variable Funds. All derivative instruments are subjected to risk analysis and monitoring processes at the portfolio, asset class and fund levels.

Investment guidelines define allowable derivative activity for each portfolio and are based on the investment objectives which have been approved by the Board. Where derivatives are permitted, guidelines stipulate allowable instruments and the manner in which they are to be used.

Investment guidelines have been established which provide minimum credit ratings for counterparties. Additionally, policies have been established which, where possible, seek to provide master netting arrangements with counterparties to over-the-counter derivative transactions.

Gains and losses for all derivative instruments are reported in the Statement of Changes in Fiduciary Net Assets.

Foreign Currency Spot and Forward Contracts — Currency exposure management is permitted through the use of exchange traded currency instruments, and through the use of over-the-counter spot and forward contracts in foreign currencies. Direct hedging of currency exposure back to the U. S. dollar is permitted 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. In some portfolios, currencies of non-benchmark countries may be held through the use of forward contracts, provided that the notional value of any single non-benchmark currency does not exceed 5.0 percent of the market value of the portfolio.

No cash is exchanged when a foreign exchange spot or forward contract is initiated. Collateral postings are not required for foreign currency spot or forward contract counterparties. Net amounts due are paid or received on the contracted settle date. The net receivable or payable for spot and forward contracts is included in Other Receivables on the Statement of Fiduciary Net Assets. 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. Spot and forward contracts are valued daily with the changes in fair value included in the Net Appreciation (Depreciation) in Fair Value of Investments on the Statement of Changes in Fiduciary Net Assets.

Discretionary currency overlay strategies at the total fund level may be employed when currency market conditions suggest such strategies are warranted. Only the currencies of developed market countries in the MSCI ex US Index may be used to implement the currency overlay. Exchange-traded currency instruments and over-the-counter spot and forward contracts in foreign currencies are used to execute these strategies.

During the fiscal year currency exposure management involved the use of foreign currency spot and forward contracts. The following table presents the fair value of foreign currency spot and forward contract assets and liabilities held as of June 30, 2011 (in millions).

Foreign Currency Spot and Forward Contracts

Currency	Notional (local currency)	Fair Value of Foreign Currency Contracts Receivable ($US)
Foreign Exchange Contracts Sold		
AUSTRALIAN DOLLAR	218.5	$ 3.1
BRAZIL REAL	6.1	.1
BRITISH POUND STER.	99.3	(2.0)
CANADIAN DOLLAR	303.1	4.5
DANISH KRONE	102.4	.1
EURO CURRENCY UNIT	221.1	2.0
HONG KONG DOLLAR	572.3	--
INDIAN RUPEE	16.3	--
INDONESIAN RUPIAN	3,269.5	--
ISRAELI SHEKEL	16.2	.1
JAPANESE YEN	34,189.6	.8
MALAYSIAN RINGGIT	5.0	--
MEXICAN NEW PESO	206.3	.2
NEW TURKISH LIRA	8.7	--
NEW ZEALAND DOLLAR	3.6	.1
NORWEGIAN KRONE	78.1	.2
PHILIPPINES PESO	366.6	--
POLISH ZLOTY	13.5	--
SOUTH AFRICAN RAND	21.7	--
SINGAPORE DOLLAR	40.7	.2
SOUTH KOREAN WON	2,625.6	--
SWEDISH KRONA	657.3	1.5
SWISS FRANC	34.8	(.2)
		$ 10.7

Currency	Notional (local currency)	Fair Value of Foreign Currency Contracts Payable* ($US)
Foreign Exchange Contracts Purchased		
AUSTRALIAN DOLLAR	(26.6)	$ (.8)
BRAZIL REAL	(43.1)	(.8)
BRITISH POUND STER.	(215.5)	2.3
CANADIAN DOLLAR	(19.1)	(.1)
COLOMBIAN PESO	(4,941.9)	--
CZECH KORUNA	(1.4)	--
DANISH KRONE	(54.9)	(.1)
EURO CURRENCY UNIT	(202.1)	(1.6)
HONG KONG DOLLAR	(132.5)	--
HUNGARIAN FORINT	(101.8)	--
INDIAN RUPEE	(150.1)	--
ISRAELI SHEKEL	(45.7)	(.2)
JAPANESE YEN	(22,996.9)	1.6
MEXICAN NEW PESO	(88.4)	--
NEW ZEALAND DOLLAR	(7.6)	(.1)
NORWEGIAN KRONE	(4.5)	--
PERUVIAN NUEVO SOL	(15.2)	(.1)
PHILLIPPINE PESO	(.5)	--
SOUTH AFRICAN RAND	(154.0)	(.5)
SINGAPORE DOLLAR	(1.8)	--
SWEDISH KRONA	(57.8)	(.1)
SWISS FRANC	(88.3)	.8
THAILAND BAHT	(11.0)	--
		$ .3
Net Foreign Exchange Currency Spot and Forward Contracts		$ 11.0

* Net effect of cross currency contracts is reflected in the "Foreign Exchange Contracts Purchased" section.

Foreign exchange spot and forward positions are over-the-counter contracts, entered into with various counterparties. Guidelines have been established which provide minimum credit ratings for counterparties. Additionally, policies have been established which, where possible, seek to implement master netting arrangements with counterparties to over-the-counter derivative transactions.

The table below details the exposures by counterparties, aggregated by counterparty credit rating, with whom SWIB has entered into foreign exchange spot and forward contracts as of June 30, 2011 (in millions).

	Exposure		
Counterparty Credit Rating	Payable	Receivable	Net
AAA	$ (51.4)	$ 52.7	$1.3
AA	(895.8)	901.8	6.0
A	(1,740.8)	1,744.4	3.6
Total	$(2,688.0)	$2,698.9	$10.9

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 SWIB's name, in accordance with initial margin requirements. Futures contracts are marked to market daily, based upon the closing market price of the contract at the board of trade or exchange on which they are traded. The resulting gain/loss is typically received/paid the following day until the contract expires.

The fair value of futures contracts represents the unrealized gain/loss on the contract and is reflected as Financial Futures Contracts on the Statement of Fiduciary Net Assets. Gains and losses as a result of investments in futures contracts are included in the Net Appreciation (Depreciation) in the Fair Value of Investments on the Statement of Changes in Fiduciary Net Assets.

Futures contracts involve, to varying degrees, risk of loss in excess of the variation margin disclosed in the Statement of Fiduciary Net Assets. Losses may arise from future changes in the value of the underlying instrument.

Financial futures contracts may be entered into for the following objectives: facilitate asset class rebalancing, protect portfolios against the risk of changing asset values or interest rates, enhance liquidity, aid in cash flow management, manage interest rate exposure, adjust duration, equitize cash and receivable positions or as a substitute for cash market transactions. Futures contracts are secured by collateral deposited with brokers which can be in the form of cash, U.S. Treasuries and equity securities.

The following table presents the investments in futures contracts as of June 30, 2011 (in millions).

Description	Futures Contracts Expiration	Notional Amount	Unrealized Appreciation (Depreciation)*
Interest Rate Future:			
3MO EUROYEN TIFF FUTURE (TFX)	12/2011 – 9/2012	$ (5.9)	$ --
90DAY BANK ACCEPTED BILL	12/2011 – 6/2012	2.3	--
90DAY STERLING LIBOR FUT (LIF)	12/2011 - 9/2012	(1.4)	--
Fixed Income Futures:			
AUSTRALIAN 10YR BOND FUT (SFE)	9/2011	26.9	--
AUSTRALIAN 3YR BOND FUR (SFE)	9/2011	.9	-
CANADA 10YR BOND FUTURE (MSE)	9/2011	28.8	--
EURO BUXL 30 YR BOND FUT (EUX)	9/2011	2.8	(.1)
EURO-BOBL FUTURE (EUX)	9/2011	48.3	.1
EURO-BUND FUTURE (EUX)	9/2011	6.5	--
EURO-SCHATZ FUTURE (EUX)	9/2011	182.4	.3
JAPAN 10YR MINI BD FUTURE(SGX)	9/2011	16.6	--
UK LONG GILT FUTURE (LIF)	9/2011	3.9	--
US TREAS BD FUTURE (CBT)	9/2011	1.2	--
US ULTRA BOND (CBT)	9/2011	24.7	(.4)
US 10YR NOTE FUTURE (CBT)	9/2011	(77.6)	(.1)
US 2YR TREAS NTS FUT (CBT)	9/2011	(130.9)	(.2)
US 5YR TREAS NTS FUT(CBT)	9/2011	5.6	--
Equity Futures:			
DJ EURO STOXX 50 FUTURE (EUX)	9/2011	144.1	6.2
DOW JONES MINI FUTURE (CBT)	9/2011	3.3	.1
FTSE 100 INDEX FUTURE (LIF)	9/2011	111.3	3.4
MSCI EAFE EMINI INDEX FUT (CME)	9/2011	2.1	.1
RUSSELL 2000 MINI IND FUT(NYF)	9/2011	166.0	8.3
S&P 500 EMINI INDEX FUT (CME)	9/2011	531.8	17.4
S & P MID 400 EMINI (CME)	9/2011	51.9	2.0
S&P/TSE 60 INDEX FUTURES (MSE)	9/2011	65.0	.7
SPI 200 INDEX FUTURE (SFE)	9/2011	53.3	.7
TOPIX INDEX FUTURE (TSE)	9/2011	106.1	5.5
Total		$1,370.0	$44.0

* Unrealized appreciation (depreciation) includes foreign currency gains and losses.

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.

Rebalancing policies and portfolio investment guidelines permit the use of exchange traded options. Options may be used to improve the efficiency or to enhance the expected return of strategic rebalancing procedures. Exchange traded options may be purchased or sold in conjunction with managing asset class exposure if the exercise of the options will move the asset allocation closer to the target established by the Board. The aggregate notional value of the options is limited to 2.0 percent of the market value of the trust fund at the date of purchase. The term of options used for this purpose may not exceed one year.

The fair value of option contracts is based upon the closing market price of the contract and reflected as Options on the Statement of Fiduciary Net Assets. Gains and losses as a result of investments in option contracts are included in the Net Appreciation (Depreciation) in the Fair Value of Investments on the Statement of Changes in Fiduciary Net Assets. The table below presents the fair value of option contracts held as of June 30, 2011.

Option Contracts

Security Description	Contract Type	Maturity	Number of Contracts Written	Cost	Market Value	Unrealized Gain (Loss)
ALERE INC	PUT	JUL 11	(350)	$ (15,400)	$ (8,750)	$ 6,650
CEPHALON INC	PUT	AUG 11	(165)	(10,231)	(1,650)	8,581
CLIFFS NATURAL RESOURCES INC	CALL	JUL 11	(50)	(5,007)	(1,050)	3,957
FREEPORT-MCMORAN COPPER & GOLD	PUT	JUL 11	(100)	(8,707)	(1,110)	7,607
INTUITIVE SURGICAL INC	CALL	OCT 11	(50)	(43,099)	(71,000)	(27,901)
ITT CORP	PUT	OCT 11	(304)	(35,521)	(18,240)	17,281
ITT CORP	PUT	JUL 11	(1,028)	(133,036)	(10,530)	122,506
MONSANTO CO	CALL	AUG 11	(100)	(11,650)	(14,800)	(3,150)
NEWMONT MINING CORP	PUT	JUL 11	(100)	(4,901)	(950)	3,951
RALCORP HOLDINGS INC	PUT	JUL 11	(300)	(23,215)	(12,000)	11,215
RIO TINTO PIC	PUT	JUL 12	(75)	(7,425)	(750)	6,675
S&P 500 EOM INDEX FUTURE SEP 11	PUT	JUL 13	(159)	(138,646)	(17,888)	120,759
THORATEC CORP	PUT	JUL 14	(260)	(20,540)	(3,250)	17,290
Total				$ (457,378)	$ (161,968)	$ 295,421

Unfunded Capital Commitments

University of Wisconsin System (UWS)

The UWS has unfunded limited partnership commitments of $26.0 million for the fiscal year ending June 30, 2011.

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, 2011 totaled $5.5 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 investment portfolio specifies what constitutes a permitted investment and such investments may include obligations of the U.S. government and agencies securities; corporate bonds and notes; money market mutual funds; commercial paper; 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's aggregate investments at June 30, 2011 were $1,047.4 million of which $771.4 million are reported as cash equivalents.

University of Wisconsin Hospitals and Clinics Authority – The University of Wisconsin Hospitals and Clinics Authority's (the Hospital) aggregate investments at June 30, 2011 were $472.8 million of which $265.0 million (invested with the University of Wisconsin Foundation, see 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.

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 $ 1,255.2 million, of which $771.4 million are reported as cash and cash equivalents.

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	$ 93.0	$ 28.6	$ 20.4	$ --	$ 142.0
Corporate notes and bonds	--	5.0	--	--	5.0
Money market funds	860.7	70.2	48.4	--	979.3
Noncollateralized investment contracts	5.5	--	--	--	5.5
Mortgage-backed securities	--	--	8.8	89.0	97.8
Commercial paper	5.0	--	--	--	5.0
Collateralized investment contracts	13.6	--	.6	1.2	15.4
Negotiable certificates of deposit	4.7	.8	--	--	5.5
Total	$ 982.5	$ 104.6	$ 78.2	$ 90.2	$ 1,255.5

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 are limited to U.S. domestic corporations having been rated not less than AA category or its equivalent as to investment quality by two or more nationally recognized investment rating firms. 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 are limited to AAA rated money market mutual funds and non-rated funds with portfolios restricted to only those investments specifically authorized by the policy. Money market funds are regulated by the Securities & Exchange Commission and have a dollar weighted-average portfolio maturity of 90 days or less that fully invest dollar-for-dollar all funds without sales commissions or loads. The Authority invests in money market mutual funds whose investment objectives include seeking to maintain a stable net asset value of $1 per share. The Authority may not invest funds under its control in an amount that exceeds 10 percent of total assets of any individual money market mutual fund. The following table presents the component units' ratings at fiscal year end (in millions):

		Credit Quality Ratings				
Investment Type	**Fair Value**	**AAA**	**AA**	**A**	**BBB**	**Unrated**
Corporate notes and bonds	$ 5.0	$ --	$ 3.0	$ 2.0	$ --	$ --
Money market funds	896.3	771.4	--	87.3	31.7	5.9
Noncollateralized investment contracts	5.5	--	--	5.5	--	--
Negotiable certificates of deposit	5.4	--	--	--	--	5.4
Mortgage-backed securities	87.4	87.4	--	--	--	--
Collateralized investment contracts	15.3	--	--	15.3	--	--
Commercial paper	5.0	--	--	5.0	--	--

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, and no more than 25 percent of the total portfolio's value will be invested in bank certificates of deposit. 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, 2011 the Authority had $9.5 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 receives cash collateral for securities lent. The fair value of the investment securities loaned was $9.7 million as of June 30, 2011, and the fair value of the collateral received was $7.6 million. The Authority may request the bank to terminate any loan of securities for any reason at any time.

As of June 30, 2011, 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, 2011 approximately 100 percent of the securities lent were 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, 2011, the Authority received $2 thousand of income related to security lending transactions.

Other Component Units

Wisconsin Health Care Liability Insurance Plan (WHCLIP) – Aggregate investments of the WHCLIP were $63.2 million, of which $6.1 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, 2010 were $57.1 million consisting of the following (in millions):

Investment Type	Amortized Cost	Estimated Fair Value
U.S. Treasury securities and obligations of the U.S. government corporations and agencies	$ 13.2	$ 14.7
Debt securities issued by foreign governments and corporations	3.0	3.3
Industrial and miscellaneous	23.6	25.5
Loan-backed securities	17.3	18.5
Total	$ 57.1	$ 62.0

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, 2010, by contractual maturity are presented in the table below (in millions):

	Amortized Cost	Estimated Fair Value
1 to 5 Years	$ 15.3	$ 16.2
6 to 10 Years	18.5	20.6
More Than 10 Years	6.0	6.7
	39.8	43.5
Loan-backed securities	17.3	18.5
Total	$ 57.1	$ 62.0

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

Pass-through securities:	
Issued by FNMA and FHLMC	17.3

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

As of December 31, 2010, the WHCLIP did not own any issues denominated in a foreign currency.

University of Wisconsin Foundation (the Foundation) - Aggregate investments of the Foundation are $2,328.5 million.

The following table summarizes the types of investments of the Foundation at December 31, 2010 (in millions):

Investment Type	Fair Value
Bond and debentures	$ 493.3
Stocks	675.6
Bond funds	148.1
Stock funds	24.9
Hedge funds	484.9
Limited partnerships	335.3
Real asset funds	163.5
Other funds	2.9
Total	$ 2,328.5

Custodial Credit Risk

At December 31, 2010, the reported amount of investments was $2,328.5 million. The Foundation had no custodial credit risk exposure for these investments.

Securities Lending

In late 2010, the Foundation ended its participation in a securities lending program operated by its custodial bank. Under the terms of the related agreement, the program required brokers who borrow securities from the Foundation to provide collateral of a value at least equal to 102 percent of the then fair value of the loaned securities and accrued interest, if any. This collateral was then reinvested on behalf of the Foundation by the custodial bank.

The prime considerations of the collateral pool in which the collateral had been reinvested were liquidity and principal preservation. However, stress experienced by the fixed income market environment in recent years, and the fact that all of the securities held in the pool were subject to credit risk, resulted in a decline in the value of the collateral pool. In addition, certain securities in the pool have defaulted and the collateral backing said securities was placed in a liquidating trust. While the Foundation was still receiving cash flows from this trust, the value of the collateral comprising the trust incurred mark-to-market price declines prior to the Foundation exiting the program. In order to end this arrangement, the Foundation made a payment of $3.8 million, which represented the deficiency at the time. At December 31, 2009, the collateral deficiency liability was approximately $2.4 million.

Valuations of the collateral pool were provided to the Foundation by the custodial bank. For purposes of determining the value of collateral investments reflected on the statement of financial position at the end of 2009, the custodial bank used financial models, third-party pricing services, or other inputs where quoted prices in an active market are not available. Such calculations reflected hypothetical transactions, were subject to uncertainties, and accordingly did not reflect the amount that would have been realized in a sale. In addition, in light of the judgment involved in the fair value decisions by the custodial bank, and given the current market conditions at the time, the illiquidity of certain of the securities in the collateral pool, and the credit risk associated with securities in the collateral pool, there was no assurance that a fair value assigned to a particular security by the custodial bank was accurate.

At December 31, 2010, the Foundation did not have equity and fixed income securities with fair values on loan.

Income from securities lending for the year ended December 31, 2010 was approximately $74 thousand.

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), (bd) and (dg) enumerate the various types of securities in which the SIF can invest, which include direct obligations of the United States or its agencies, corporations wholly owned by the Untied States or chartered by an act of Congress, securities guaranteed by the United States, unsecured notes of financial and industrial issuers, direct obligations of or guaranteed by the government of Canada, certificates of deposit issued by banks in the United States and solvent financial institutions in Wisconsin, and bankers acceptances. Other prudent investments may be approved by the State of Wisconsin Investment Board’s (the Board) Board of Trustees.

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. The fair value of investments is determined at the end of each month. 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. Short-term debt investments with remaining maturities of up to 90 days are valued using amortized costs to estimate fair value, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Repurchase agreements and nonnegotiable certificates of deposit are valued at cost because they are nonparticipating contracts that do not capture interest rate changes in their value.

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, 2011, the reported amount of investments was $6,682.4 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, 2011, the following table shows the investments by investment type, amount and the weighted average maturities (in millions):

Investment	Fair Value	Weighted Average Maturity (Days)
Bank demand deposits	$ 700.0	0
Repurchase agreements	1,342.0	1
Government and agency	4,553.5	105
Certificates of deposit	40.0	151
Banker's Acceptances	46.9	65
Total	$ 6,682.4	
Portfolio weighted average maturity		73

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, 2011 (in millions):

	Ratings	Fair Value	Percent
Bank Demand Deposits	NR	$ 700.0	10.5
Repurchase agreements (collateral):			
U.S. government debt	AAA	1,069.0	16.0
Government sponsored entity U.S agency	AAA	273.0	4.1
U.S. Treasury	AAA	25.1	0.4
Federal Home Loan Bank	A-1+/AAA	1,497.9	22.4
Federal Home Loan Mortgage Corporation	A-1+	1,503.5	22.5
Federal National Mortgage Association	A-1+/AAA	1,527.0	22.8
Certificates of deposit:			
Nonnegotiable (Var Wis Banks)	N/R	40.0	0.6
Banker's Acceptances	A-1+	46.9	0.7
Totals		$ 6,682.4	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. 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. treasury or agency securities. As of June 30, 2011 the SIF has more than five percent of its investments in a U.S. Bank demand deposit (10.5 percent), FHLB (22.4 percent), FHLMC (22.5 percent), FNMA (22.8 percent), and repurchase agreement collateral consisting of various securities issued by these same three U.S. agencies (4.1 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 guidelines allow the investment in U.S. dollar denominated issues only.

Copies of the separately issued financial report that includes financial statements and other supplementary information for the SIF may be obtained at **www.swib.state.wi.us** or 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 $56.4 million are held to finance grand prizes payable over a 20-year or 25-year period. The investments in prize annuities are debt obligations of the U.S. government and backed by its full faith and credit as to both principal and interest. Liabilities related to the future prize obligations are presented at their present value and included as Accounts Payable and Other Accrued Liabilities. The following is a schedule of future prize obligations (in thousands):

Fiscal Year	Amount
2012	$ 7,284
2013	7,351
2014	6,305
2015	6,274
2016	6,149
Thereafter	32,774
Total future value	66,137
Less: Present value adjustment	(17,992)
Present value of payments	$ 48,145

NOTE 6. RECEIVABLES AND NET REVENUES

A. Receivables

Receivables at June 30, 2011 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	$ 1,106,644	$ 1,122	$ -	$ -	$ -	$ 24,515	$ 420,465	$ 681,501	$ 225	$ 2,234,472
Transportation	96,916	-	-	-	-	22,375	8,003	236,117	-	363,411
Common School	-	556,870	-	-	-	-	1,051	8,326	-	566,247
Nonmajor Governmental	30,810	23,543	-	-	-	-	57,204	17,904	-	129,462
Total Governmental:	1,234,370	581,535	-	-	-	46,890	486,723	943,849	225	3,293,592
Government-wide Adjustments:										
Internal Service Funds	-	-	-	-	-	-	1,277	313	101	1,691
Accrual Adjustments	-	-	-	-	-	-	2,411	-	-	2,411
Fiduciary Receivables	-	-	-	-	-	-	74,638	-	-	74,638
Total – Governmental Activities	$ 1,234,370	$ 581,535	$ 0	$ 0	$ 0	$ 46,890	$ 565,049	$ 944,162	$ 326	$ 3,372,332
Related revenue deferral because the receivable does not meet the availability criteria	$ 226,240	$ 0	$ 0	$ 0	$ 0	$ 0	$ 34,455	$ 0	$ 0	260,695
Business-type Activities:										
Current:										
Injured Patients and Families Compensation	$ -	$ -	$ -	$ -	$ -	$ -	$ 7,319	$ -	$ -	$ 7,319
Environmental Improvement	-	149,186	-	-	-	-	231	8,428	-	157,845
University of Wisconsin System	-	-	31,493	-	-	-	134,875	90,135	1,124	257,627
Unemployment Reserve	-	-	-	-	-	-	318,775	97,530	-	416,305
Nonmajor Enterprise	-	382	-	3,108	4,934	-	68,368	7,071	-	83,863
Total Current:	-	149,568	31,493	3,108	4,934	-	529,567	203,164	1,124	922,958
Noncurrent:										
Environmental Improvement	-	1,750,678	-	-	-	-	-	-	-	1,750,678
University of Wisconsin System	-	-	159,995	-	-	-	4,313	-	-	164,308
Unemployment Reserve	-	-	-	-	-	-	81,711	-	-	81,711
Nonmajor Enterprise	-	1,275	-	8,572	166,754	3,834	50	-	-	180,486
Total Noncurrent	-	1,751,953	159,995	8,572	166,754	3,834	86,074	-	-	2,177,183
Government-wide Adjustments:										
Fiduciary Receivables	-	-	-	-	-	-	26	-	-	26
Total – Business-type Activities	$ 0	$ 1,901,521	$ 191,488	$ 11,680	$ 171,688	$ 3,834	$ 615,666	$ 203,164	$ 1,124	$ 3,100,167

B. Net Revenues

Certain revenues of the University of Wisconsin System are reported net of scholarship allowances. For Fiscal Year 2011, these scholarship allowances totaled as follows (in thousands):

Student Tuition and Fees	$ 162,817,989
Sales and Services of Auxiliary Enterprises	27,926,072
Total	$ 190,744,061

NOTE 7. CAPITAL ASSETS

Primary Government

Capital asset activity for the fiscal year ended June 30, 2011 was as follows (in thousands):

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and Land Improvements	$ 2,109,599	$ 128,423	$ -	$ 2,238,022
Buildings and Improvements	163,568	49	-	163,618
Library Holdings	82,576	943	(4)	83,515
Equipment	652	-	-	652
Construction and Software in Progress	1,152,518	791,399	(489,833)	1,454,084
Infrastructure	12,378,562	459,563	(49,312)	12,788,813
Total capital assets, not being depreciated	15,887,476	1,380,377	(539,150)	16,728,703
Capital assets, being depreciated:				
Land Improvements	137,256	2,574	-	139,830
Buildings and Improvements	1,954,022	31,062	(565)	1,984,519
Equipment	777,603	74,773	(27,624)	824,751
Totals	2,868,881	108,409	(28,189)	2,949,101
Less accumulated depreciation for:				
Land Improvements	60,899	6,654	-	67,553
Buildings and Improvements	752,799	50,794	(293)	803,301
Equipment	460,894	60,614	(24,313)	497,196
Totals	1,274,593	118,062	(24,605)	1,368,050
Total Capital Assets, being depreciated, net	1,594,287	(9,653)	(3,584)	1,581,050
Governmental activities capital assets, net	$ 17,481,764	$ 1,370,724	$ (542,734)	$ 18,309,753
Business-type activities:				
Capital assets, not being depreciated:				
Land and Land Improvements	$ 135,804	$ 15,833	$ (96)	$ 151,541
Library Holdings	1,106,539	23,461	(5,763)	1,124,237
Construction and Software in Progress	497,450	284,224	(293,252)	488,422
Total Capital Assets, not being depreciated	1,739,793	323,518	(299,111)	1,764,200
Capital assets, being depreciated:				
Land Improvements	10,092	3,323	(5)	13,410
Buildings	5,145,221	457,687	(7,960)	5,594,948
Equipment	1,008,451	172,772	(30,533)	1,150,690
Totals	6,163,764	633,781	(38,497)	6,759,047
Less accumulated depreciation for:				
Land Improvements	8,024	276	(5)	8,296
Buildings	2,172,253	154,553	(4,697)	2,322,109
Equipment	731,847	82,862	(31,489)	783,221
Totals	2,912,124	237,692	(36,191)	3,113,625
Total Capital Assets, being depreciated, net	3,251,640	396,089	(2,307)	3,645,422
Business-type activities capital assets, net	$ 4,991,432	$ 719,606	$ (301,417)	$ 5,409,621

In addition to the capital assets reported by governmental and business-type activities, the fiduciary funds reported gross capital assets of $4,960 thousand at June 30, 2011, with accumulated depreciation totaling $2,802 thousand.

Depreciation Expense

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

Governmental Activities		Business-type Activities	
Commerce	$ 552	University of Wisconsin System	$ 224,073
Education	3,183	Lottery	44
Transportation	6,615	Veterans Mortgage Loan Repayment	30
Environmental Resources	11,217	Injured Patients and Families Compensation	27
Human Relations and Resources	66,588	Environmental Improvement	4
General Executive	8,526	Other Business-Type	13,515
Judicial	2,363	Total depreciation expense - business-type activities	$ 237,692
Legislative	329		
Internal Service Funds	18,688		
Total depreciation expense - governmental activities	$ 118,062		

Impaired Capital Assets

The University of Wisconsin System reported one asset meeting the definition of a temporarily impaired asset. The University of Wisconsin – Eau Claire's Campus School, net book value of $0.4 million, was idle as of June 30, 2011 and will be demolished in the spring of 2012.

Construction and Software in Progress

Construction and software in progress of the primary government reported in the government-wide statement of net assets at June 30, 2011 included the following projects (in thousands):

	Allotments	Expended to June 30, 2011	Encumbrances Outstanding	Unencumbered Allotment Balance
Governmental Activities:				
Reported through capital projects funds:				
Interstate 94 North and South Corridor Reconstruction	$ 172,911	$ 172,911	$ -	$ -
Major Highway Projects	50,148	50,148	-	-
High Speed Rail	47,500	29,824	-	17,676
State Highway Rehabilitation	42,886	42,886	-	-
Armed Forces Reserve Center	41,061	31,347	1,198	8,516
Public Health & Ag Lab-Hygiene	28,535	1,329	782	26,424
Preservation Storage Building	28,250	1,537	660	26,053
Capital Heating Power Plant - Facility Renovate and Upgrade	28,103	20,300	2,435	5,368
Wisconsin Resource Center - Female Treatment Center	18,820	13,356	760	4,703
Construction Field Main Shop Wausau	14,059	436	10	13,614
Winnebago Corrections Facility Replacement	13,900	8,823	2,936	2,141
Wisconsin Historical Society - Learning Visitor Center	12,110	715	380	11,015
Other projects with allotments totaling less than $10 million		63,252		
Subtotal		436,863		
Projects funded through sources other than capital projects funds:				
Transportation-related		993,725		
Department of Natural Resources		13,177		
Department of Administration		6,789		
Department of Health Services		2,908		
Other agency projects		622		
Total construction and software in progress – governmental activities		$ 1,454,084		
Business-type Activities:				
Reported through capital projects funds - University of Wisconsin System:				
Charter Heating Plant Rebuild - Madison	248,266	41,792	196,022	10,452
Biochemistry II Building - Madison	112,450	95,287	10,774	6,389
Madison - Wisconsin Energy	57,154	9,625	41,293	6,236
School of Human Ecology Building and Renovation	52,681	30,975	13,068	8,639
Davies Center Redevelopment-Eau Claire	48,727	8,912	33,150	6,665
Lakeshore Hall and Food Service - Madison	48,440	11,973	32,829	3,638
Chazen Museum of Art - Madison	43,799	33,730	4,206	5,863
New Residence Hall - La Crosse	38,418	29,409	1,778	7,231
Communication Arts Renovate and Addition - Parkside	35,256	29,395	3,598	2,264
Gordon Commons Redevelopment - Madison	34,124	8,502	25,076	547
Hockey/Swimming - Madison	34,096	4,088	22,340	7,668
New Residence Hall - Oshkosh	34,000	11,395	19,653	2,951
New Academic Building - Superior	26,703	24,275	2,138	290
Suite Style Residence Hall - Stevens Point	25,550	22,347	1,063	2,139
Chippewa Falls - Wisconsin Veteran Home	20,000	2,588	14,153	3,259
Memorial Union Center - Stout	18,936	7,249	8,598	3,088
South Forks Suite Addition - River Falls	18,935	4,004	13,665	1,265
Multi-Building Energy Conservation - Madison	17,181	4,988	11,209	984
Carlson - Whitewater	17,000	801	-	16,199
Multi-Building Energy Conservation- Milwaukee	10,847	4,441	5,904	502
Fischer and Weller Renovation - Whitewater	10,505	990	8,762	753
Projects with allotments totaling less than $10 million:				
University of Wisconsin System		77,830		
Other		16,368		
Total Construction in Progress – business-type activities		$ 480,964		

Construction and software in progress of the University of Wisconsin System and of the other business-type activities as reported in the financial statements totaled $472 million and $16.4 million as of June 30, 2011, respectively.

Component Units

Capital Assets balances of the Wisconsin Housing and Economic Development Authority at June 30, 2011, the University of Wisconsin Hospitals and Clinics Authority at June 30, 2011 and the University of Wisconsin Foundation at December 31, 2010 were as follows (in thousands)

		Amount
Capital Assets, not being depreciated:		
Land and Land Improvements	$	19,431
Construction in Progress		8,178
Total Capital Assets, not being depreciated		27,609
Capital Assets, being depreciated:		
Buildings		540,720
Equipment		265,222
Totals		805,942
Less accumulated depreciation for:		
Buildings		232,503
Equipment		193,308
Totals		425,811
Total Capital Assets, being depreciated, net		380,131
Component Units Capital Assets, net	$	407,740

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. The annual spending rate is currently 4.0 percent. 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, 2011, net appreciation of $207.6 million was available to meet spending rate distributions, of which $13.4 million was actually authorized for expenditure.

For University of Wisconsin System-controlled, donor-restricted endowments, the Uniform Prudent Management of Institutional Funds Act as adopted, permits the Board of Regents of the University of Wisconsin System to appropriate for current spending, an amount of realized and unrealized endowment appreciation as they determine to be prudent. Realized and unrealized appreciation in excess of that amount appropriated for current spending is retained by the endowments.

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 37.5 percent marketable equities, 25.0 percent fixed income, and 37.5 percent alternatives The approved asset allocation for the Intermediate Term Fund is 15.0 percent marketable equities, 65.0 percent fixed income, 10.0 percent alternatives, and 10.0 percent cash.

The fair value of Endowments as of June 30, 2011 was $428.2 million including an unrealized gain of $57.5 million when fair values as of June 30, 2011 are compared to asset acquisition costs. This compares to a fair value as of June 30, 2010 of $370.7 million.

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, 2011, 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	$ 168.7
Realized Gains – Undistributed	202.0
Book Value	370.7
Unrealized Net Gains/Losses - Undistributed	57.5
Fair Value	$ 428.2

On June 30, 2011, the portfolio at market, for the Long Term Fund, contained 41.4 percent in common stock and convertible securities, 12.3 percent in bonds and preferred stock, 19.0 percent in alternative assets, 19.0 percent in tactical allocation strategies, and 7.7 percent in short-term investments. The total return on the principal Long Term Fund including capital appreciation was 21.2 percent.

On June 30, 2011, the portfolio at market, for the Intermediate Fund, contained 16.2 percent in common stock and convertible securities, 79.4 percent in bonds and preferred stock, and 4.4 percent in short-term investments. The total return on the principal Intermediate Fund including capital appreciation was 8.3 percent.

External investment counsel was furnished for funds representing 87.9 percent of market value principal.

Component Unit

University of Wisconsin Foundation

The University of Wisconsin Foundation's (the Foundation) endowment consists of 3,325 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the Uniform Management of Institutional Funds Act (UPMIFA) as requiring the preservation of fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently-restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently-restricted net assets is classified as temporarily-restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Endowment Net Asset Composition by Type of Fund as of December 31, 2010 (in millions):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	$(23.6)	$254.0	$792.2	$1,022.4

Endowment Related Activities by Type of Fund as of December 31, 2010 (in millions):

	Un-restricted	Temporarily Restricted	Permanently Restricted	Total
Beginning net assets	$ (38.1)	$175.0	$ 749.4	$886.3
Investment return	14.5	115.9	--	130.4
Contributions	--	--	53.1	53.1
Appropriation of assets for expenditure	--	(36.9)	--	(36.9)
Transfers in for matching	--	--	3.1	3.1
Net transfers	--	--	(13.4)	(13.4)
Ending net assets	$(23.6)	$254.0	$792.2	$1,022.6

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were $23.7 million as of December 31, 2010. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a diversified equity-related benchmark while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return that outpaces spending, inflation, and expenses annually. Actual returns in any given year will vary.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a great emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 2.0 to 3.0 percent annually. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The Foundation amended its spending policy effective July 1, 2010. Under the amended policy, the distribution rate will be 4.5 percent of its endowment fund's average fair value over the 16 quarters through the quarter-end preceding the quarter in which the distribution is planned. The additional number of quarters used in calculating the average value will be transitioned in over a one-year period beginning on the effective date of the amended policy.

Celebrate Children Foundation, Inc

The Celebrate Children Foundation Inc., (CCF) endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors of the CCF has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the CCF classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with SPMIFA, the CCF considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the CCF, and (7) the CCF's investment policies.

Investment Return Objectives, Risk Parameters and Strategies

The CCF has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5 percent once the assets in the board designated fund reach $2.0 million, while growing the funds if possible. Therefore, the CCF expects its endowment assets, over time, to produce an average rate of return of approximately

8 percent annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy

In accordance with the donor's stipulations, investment return from the permanently restricted endowment assets is unrestricted revenue to the CCF. The CCF chose to place the investment return earned from the permanently restricted assets in a board designated endowment fund. The CCF's spending policy for its board designated endowment indicates that no funds will be spent until the board designated endowment reaches $2.0 million. Thereafter, no more than 5 percent of the interest accumulated annually may be spent. In establishing this policy, the CCF considered the long-term expected return on its investment assets, the nature and duration of the endowment funds, some of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The CCF expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 3 percent annually. This is consistent with the CCF's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Endowment net asset composition as of June 30, 2011:

	Unrestricted	Permanently Restricted	Total
Board designated	$ 218,422	$ --	$ 218,422
Donor-restricted	--	1,204,194	1,204,194
Total	$ 218,422	$1,204,194	$1,422,616

Changes in endowment net assets as of June 30, 2011 are:

	Permanently Restricted	Board-Designated	Total
Balance July 1, 2010	$1,084,564	$(14,812)	$1,069,752
Contributions	119,630	--	119,630
Investment return:			
Interest and dividends	--	31,839	31,839
Unrealized gain	--	182,994	182,994
Realized gain	--	18,401	18,401
End of Year	$1,204,194	$218,422	$1,422,616

NOTE 9. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances as of or for the year ended June 30, 2011 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, 2011 were as follows (in thousands):

Due from Other Funds: / **Due to Other Funds:**	General	Trans-portation	Common School	Nonmajor Govern-mental	Injured Patients and Families Compensation	Environ-mental Improve-ment	University of Wisconsin System	Unemploy-ment Reserve	Nonmajor Enterprise	Internal Service	Fiduciary	**Total**
General	$ -	$ 14,720	$ 1,420	$ 35,178	$ 146	$ 300	$ 34,303	$ 4,880	$ 30,300	$ 2,187	$ 74,089	$ 197,523
Transportation	4,236	-	-	57,249	-	-	331	-		126	-	61,942
Common School	776	-	-	-	-	-	-	-	-	-	-	776
Nonmajor Governmental	44,269	19,703	71	7,798	50	537	90	-	8,251	10,008	-	90,777
Environmental Improvement	36	-	-	187	-	-	-	-	-	-		222
University of Wisconsin System	14,353	1,707	-	1,922	-	18	-	-	2	37	26	18,064
Unemployment Reserve	832	-	-	-	-	-	-	-	-	-	-	832
Nonmajor Enterprise	13,709	2	-	1,439	-	-	4	-	367	333	4	15,856
Internal Service	45,894	1,704	-	3,187	6	1	2,197	-	313	115	356	53,773
Fiduciary	27,707	857	-	2,294	7	9	32,301	-	1,645	1,044	269	66,132
Total	$ 151,810	$ 38,692	$ 1,490	$ 109,254	$ 210	$ 865	$ 69,227	$ 4,880	$ 40,876	$ 13,850	$ 74,743	$ 505,898

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.

B. Due from/to Component Units

Receivables and payables between funds and component units at June 30, 2011 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	Total
Due to Primary Government:						
University of Wisconsin Hospitals and Clinics Authority	$ -	$ 1,124	$ 101	$ 6,028	$ -	$ 7,253
Wisconsin Housing and Economic Development Authority	225	-	-	-	-	225
Due to Component Unit:						
University of Wisconsin System	-	-	-	-	2,003	2,003
Total	$ 225	$ 1,124	$ 101	$ 6,028	$ 2,003	$ 9,481

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, 2011 were as follows (in thousands):

	University of Wisconsin System	Fiduciary	Total
Interfund Payables:			
General	$ 376,002	$ -	$ 376,002
Nonmajor Governmental	18,124	-	18,124
Nonmajor Enterprise	60,823	-	60,823
Internal Service	75,637	-	75,637
Fiduciary	-	782,426	782,426
Total	$ 530,586	$ 782,426	$ 1,313,012

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, 2011 were as follows (in thousands):

	Advances from Other Funds (liability):		
	General	Nonmajor Governmental	Total
Advances to Other Funds (asset):			
Injured Patients and Families Compensation	$ 233,747	$ -	$ 233,747
Environmental Improvement	-	3,451	3,451
Nonmajor Enterprise	1,002	-	1,002
Internal Service	-		-
Total	$ 234,749	$ 3,451	$ 238,200

E. Interfund Transfers

Interfund Transfers in and out that occurred during Fiscal Year 2011 were as follows (in thousands):

	Transfers in:									
	General	Trans-portation	Common School	Nonmajor Governmental	Injured Patients and Families Compensation	Environmental Improvement	University of Wisconsin System	Nonmajor Enterprise	Internal Service	Total
Transfers out:										
General	$ -	$ 11,324	$ 10,000	$ 360,518	$ 31,159	$ -	$ 1,073,817	$ 73,978	$ 18,249	$ 1,579,044
Transportation	42,953	-	-	52,622	-	-	77	1	-	95,653
Common School	1,403	-	-	298	-	-	31	-	-	1,732
Nonmajor Governmental	81,136	24,059	-	535,821	-	23,119	136,059	6,315	-	806,509
Injured Patients and Families Compensation	-	-	-	15	-	-	-	-	-	15
Environmental Improvement	-	-	-	9,119	-	-	-	-	-	9,119
University of Wisconsin System	45,635	-	-	59,481	-	-	-	-	-	105,116
Unemployment Reserve	6,545	-	-	-	-	-	-	-	-	6,545
Nonmajor Enterprise	29,779	-	-	6,467	-	-	2	119	167	36,534
Internal Service	2,593	-	-	824	-	-	-	-	702	4,119
Fiduciary	-	-	-	362	-	-	-	-	-	362
Total	$ 210,045	$ 35,382	$ 10,000	$ 1,025,527	$ 31,159	$ 23,119	$ 1,209,986	$ 80,413	$ 19,118	$ 2,644,748

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, 2011, transfers considered non-routine or inconsistent with the fund making the transfer included the following (in thousands):

Transfers in to the General Fund:

Funds Reporting the Transfer Out	Amount
Transportation	$ 40,846
Recycling	30,251
University Wisconsin System	25,000
Environmental	14,285
Petroleum Inspection	14,049
Agrichemical Management	3,023
Universal Service	1,237
Internal Service Funds	1,050
Other Funds	1,211

Transfer out from the General Fund:

Fund Reporting the Transfer In	Amount
Environmental	12,864
Transportation	2,334

Transfers out from the Petroleum Inspection Fund:

Funds Reporting the Transfer In	Amount
Transportation	24,059
Recycling	2,000
Environmental	530

Transfer out from the Transportation Fund:

Fund Reporting the Transfer In	Amount
Conservation	19,925

NOTE 10. CHANGES IN LONG-TERM LIABILITIES

During the year ended June 30, 2011, the following changes occurred in long-term liabilities (in thousands):

Primary Government

Governmental Activities	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Amounts Due Within One Year
Bonds Payable:					
General Obligation Bonds for Governmental Funds	$ 4,484,181	$ 882,385	$ 372,348	$ 4,994,218	$ 405,533
General Obligation Bonds for Internal Services Funds	148,788	25,108	20,971	152,926	12,711
Annual Appropriation Bonds	3,359,690	-	25,835	3,333,855	32,785
Revenue Bonds	1,714,200	200,000	77,195	1,837,005	90,412
Less Deferred Amounts:					
Issuance Premiums and Discounts	268,778	91,603	50,480	309,121	-
Refundings	(36,982)	(2,447)	(5,444)	(33,985)	-
Total Bonds Payable	9,938,655	1,196,648	541,385	10,593,139	541,442
Other Liabilities:					
Future Benefits and Loss Liability	94,847	28,851	32,023	91,675	32,936
Capital Leases	31,572	16,483	7,337	40,718	11,617
Installment Contracts	729	308	772	265	152
Compensated Absences	160,378	47,091	57,342	150,128	58,336
Other Postemployment Benefits	139,441	33,892	-	173,334	-
Claims, Judgments and Commitments	3,220	-	865	2,355	-
Pollution Remediation Obligations	13,991	-	2,891	11,100	1,500
Total Governmental Activities Long-term Liabilities	$ 10,382,835	$ 1,323,274	$ 642,615	$ 11,062,714	$ 645,983

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 2011. 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, 2010	Additions	Reductions	Balance June 30, 2011	Amounts Due Within One Year
Bonds Payable:					
General Obligation Bonds	$ 1,215,433	$ 268,042	$ 118,442	$ 1,365,033	$ 57,724
Revenue Bonds	854,625	153,050	110,200	897,475	58,179
Less Deferred Amounts:					
Issuance Premiums and Discounts	62,675	24,775	5,352	82,097	-
Refundings	(15,156)	(0)	131	(15,287)	-
Total Bonds Payable	2,117,578	445,867	234,126	2,329,319	115,902
Other Liabilities:					
Future Benefits and Loss Liability	1,027,454	83,009	138,827	971,637	143,547
Capital Leases	34,839	3,181	6,414	31,607	6,608
Compensated Absences	144,435	-	1,033	143,402	74,138
Other Postemployment Benefits	151,584	41,493	-	193,077	-
Total Business-type Activities Long-term Liabilities	$ 3,475,891	$ 573,550	$ 380,400	$ 3,669,041	$ 340,195

Component Units

The following table presents the changes in long-term liabilities of the Wisconsin Housing and Economic Development Authority at June 30, 2011, the Wisconsin Health Care Liability Insurance Plan at December 31, 2010, the University of Wisconsin Hospitals and Clinics Authority at June 30, 2011, and the University of Wisconsin Foundation at December 31, 2010:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Amounts Due Within One Year
Revenue Bonds and Notes	$ 3,157,146	$ 232,229	$ 583,689	$ 2,805,686	$ 80,850
Future Benefits and Loss Liability	21,605	3,387	4,505	20,487	4,143
Capital Leases	5,869	--	1,712	4,157	1,641
Compensated Absences	9,135	2,043	--	11,178	11,178
Split-interest Agreement	35,761	1,341	--	37,102	--
Other Post Employment Benefits	12,195	4,026	--	16,221	--
Pension Related	64,432	593	4,806	60,219	5,060
Total Component Units Long-term Liabilities	$ 3,306,143	$ 243,619	$ 594,712	$ 2,955,050	$ 102,872

NOTE 11. BONDS, NOTES AND OTHER DEBT OBLIGATIONS

The following schedule summarizes outstanding long-term bonds and notes payable at June 30, 2011 (in thousands):

Primary Government	
Governmental Activities:	
General Obligation Bonds	$ 5,337,915
Annual Appropriation Bonds	3,331,570
Revenue Bonds:	
Transportation	1,796,522
Petroleum Inspection	127,133
Total Governmental Activities	10,593,140
Business-type Activities:	
General Obligation Bonds:	
University of Wisconsin System	1,158,239
Other Business-type	234,119
Revenue Bonds:	
Environmental Improvement	936,951
Total Business-type Activities	2,329,309
Total Primary Government	12,922,449
Component Units:	
Wisconsin Housing and Economic Development Authority Revenue Bonds	2,571,283
University of Wisconsin Hospitals and Clinics Authority Revenue Bonds	230,564
University of Wisconsin Foundation Note Payable	3,839
Total Component Units	2,805,686
Total at June 30, 2011	$15,728,135

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. Section 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, 2011, $4,354.8 million of general obligation bonds were authorized but unissued.

General obligation bonds issued and outstanding as of June 30, 2011 were as follows (in thousands):

Fiscal Year Issued	Series	Dates	Interest Rates	Maturity Through	Amount Issued	Amount Outstanding
1992	1992 Refunding Issue	3/92	6.25	5/15	448,935	4,975
1993	1992 2;	10/92;	5.2 to 6.5	5/15	143,505	24,520
	1993 2	3/93				
1994	1993 Refunding Issue 3	8/93	5.3	11/12	302,050	23,800
1998	1997 D;	9/97	6.95 to 7.15	5/28	79,005	6,785
	1998 C	5/98				
1999	1998 Series 1, E and F;	8/98; 10/98; 10/98	4.75 to 7.25	11/30	258,735	83,470
	1999 Series B	5/99				
2001	2000 Series E,	11/00	6.2 to 7.05	11/31	40,000	4,635
	2001 Series A and D	2/01; 6/01				
2002	2001 Series 1, E, F;	10/01; 10/01; 10/01;	4.3 to 6.96	5/33	819,545	185,770
	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;	3.95 to 5.25	5/33	415,190	148,450
	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 5.25	5/34	1,305,096	755,850
	2004 1, 2, A, 3 and CWGBC	1/04; 1/04; 4/04; 6/04; 4/04				
2005	2004 Series 4, B, C, D and E;	7/04; 8/04; 8/04; 8/04; 10/04;	3.0 to 5.65	5/35	1,079,440	882,560
	2005 Series 1, A, B and C	2/05; 2/05; 4/05; 4/05				
2006	2005 Series D;	8/05;	4.0 to 5.25	5/26	614,635	537,655
	2006 Series 1 and A	1/06; 3/06				
2007	2006 Series B, C and D;	7/06; 8/06; 9/06;	4.25 to 5.76	5/37	867,570	830,633
	2007 Series AW, BW and 1;	2/07; 2/07; 2/07;				
	2007 Series A and B	2/07; 6/07				
2008	2007 Series 2,3 and C;	10/07; 10/07;12/07	3.0 to 6.26	5/38	389,315	332,485
	2008 Series 1, A, AW, B and BW	6/08; 4/08;3/08; 5/08; 6/08				
2009	2008 Series C and D	9/08;12/08;	2.0 to 6.2	5/30	521,875	498,570
	2009 Series AW, A and B	1/09; 6/09; 609				
2010	2009 Series C, D and 1;	9.09; 9/09; 9/09;	2.0 to 5.9	5/40	1,016,483	1,016,483
	2010 Series1, A, B and AW	3/10; 4/10; 4/10; 4/10				
2011	2010 Series C, D, and BW	9/10; 9/10;12/10;	2.0 to 5.25	5/41	1,175,535	1,175,535
	2011 Series A and 1	2/11; 6/11				
Total					9,476,914	6,512,177
Premiums/Discounts					--	259,202
Deferred Amount on Refunding					--	(41,106)
Total General Obligation Bonds					$ 9,476,914	$ 6,730,273

As of June 30, 2011, 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
2012	$ 377,240	$ 247,386	$ 52,512	$ 68,636
2013	394,629	228,373	56,614	64,604
2014	391,138	210,074	56,017	61,950
2015	404,927	191,485	55,452	59,300
2016	390,360	172,462	62,081	56,530
2017-2021	1,668,793	606,347	340,371	235,667
2022-2026	1,011,500	271,577	338,313	152,203
2027-2031	508,557	69,828	283,549	70,982
2032-2036	--	--	74,275	23,511
2037-2041	--	--	45,850	6,756
Total	5,147,144	1,997,532	1,365,034	800,139
Premiums/Discounts	224,756	--	34,446	--
Deferred Amount on Refunding	(33,985)	--	(7,120)	--
Total	$ 5,337,915	$ 1,997,532	$ 1,392,360	$ 800,139

Qualified Build America Bonds

The State has issued four series of general obligation bonds, in the aggregate amount of $769.2 million, that are "qualified Build America Bonds" pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended (Code). Based on the credit allowed for "qualified Build America Bonds", the State has elected to receive from the United States Treasury on each payment date a direct payment in the amount of 35 percent of the interest payable by the State with respect to such date, and the credit will not be allowed to the taxpayers holding the bonds.

- The interest rates on the 2009 Series B bonds, in the amount of $54.5 million, range from 5.15 percent to 5.40 percent payable semiannually on May 1 and November 1 beginning with the first interest payment date of November 1, 2009. These bonds are callable at par on May 1, 2019 or any date thereafter. The bonds mature beginning May 1, 2023 through 2030.

- The interest rates on the 2009 Series D bonds, in the amount of $225.8 million, range from 4.9 percent to 5.9 percent payable semiannually on May 1 and November 1 beginning with the first interest payment date of May 1, 2010. These bonds are callable at par on May 1, 2020 or any date thereafter. The bonds mature beginning May 1, 2023 through 2040.

- The interest rates on the 2010 Series B bonds, in the amount of $179.1 million, range from 4.3 percent to 5.65 percent payable semiannually on May 1 and November 1 beginning with the first interest payment date of November 1, 2010. These bonds are callable at par on May 1, 2020 or any date thereafter. The bonds mature beginning May 1, 2020 through 2030.

- The interest rates on the 2010 Series D bonds, in the amount of $309.7 million, range from 3.45 percent to 5.1 percent payable semiannually on May 1 and November 1 beginning with the first interest payment date of May 1, 2011. These bonds are callable at par on May 1, 2021 or any date thereafter. The bonds mature beginning May 1, 2020 through 2041.

B. Annual Appropriation Bonds

2003 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. In April and June 2008, the State issued $1.0 billion of General Fund Annual Appropriation Refunding Bonds to refund the Series B (Taxable Auction Rate Certificates) that were issued in 2003. The 2008 issuance consisted of Series A (Taxable Fixed Rate) and Series B and C (Taxable Floating Rate Notes).

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 of 2003, Series A (Taxable Fixed Rate) in the outstanding principal amount of $850.0 million ("2003 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 Refunding Bonds of 2008, Series A (Taxable Fixed Rate) in the outstanding principal amount of $464.8 million ("2008 Series A Bonds"), bear interest at rates from 3.799 percent to 5.238 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 of 2008, Series B (Taxable Floating Rate Notes), in the outstanding principal amount of $300.0 million, bear interest at rates 120 basis points over the one-month LIBOR, computed on the basis of a 360-day year and for the number of days actually elapsed, payable monthly on the first business day of the month.

The General Fund Annual Appropriation Bonds of 2008, Series C (Taxable Floating Rate Notes), ("2008 Series C Bonds") in the outstanding principal amount of $202.0 million, bear interest at rates 110 basis points over the one-month LIBOR computed on the basis of a 360-day year and for the number of days actually elapsed, payable monthly on the first business day of the month.

As of June 30, 2011, the debt service requirements for principal and interest on these bonds are as follows (in millions):

Fiscal Year Ended June 30	Principal	Interest
2012	$ 26.9	$ 101.0
2013	286.5	99.8
2014	72.8	86.3
2015	10.4	82.9
2016	17.4	82.4
2017 - 2021	546.9	333.7
2022 - 2026	472.7	224.4
2027 - 2031	347.0	75.4
2032 – 2036	36.2	2.0
Total	1,816.8	1,087.9
Unamortized Prem./Discount	(1.4)	--
Total, net	$ 1,815.4	$ 1,087.9

Derivatives

The State has entered into interest rate exchange agreements, or swap agreements, to modify interest rates for nearly all of the 2008 Series B bonds and 2008 Series C bonds. All interest rate agreements at June 30, 2011, are classified as effective cash flow hedges. Since the interest rate exchange agreements qualify as an effective hedge, changes to fair value are not reported in the statement of activities, and, therefore, no restatement of beginning net assets is necessary as a result of implementation of GASB Statement No. 53 in Fiscal Year 2010. The State has contracted with a third party advisor to provide estimates of the fair value of the aggregate swap agreements as of June 30, 2011.

Objective – In December 2003, 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 the Series B (Taxable Auction Rate Certificates) issued in 2003. 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 Series B (Taxable Auction Rate Certificates) issued in 2003, ($349.7 million). In April and June 2008, the State issued $509 million of annual appropriation refunding bonds as floating rate notes having variable interest rate set every month (2008 Series B Bonds and 2008 Series C Bonds). In conjunction with issuance in April 2008, at its option the State terminated and made corresponding termination payments in the aggregate amount of $40.0 million on some, and a portion of other, interest rate exchange agreements previously entered into in December 2003 and June 2005. As of June 30, 2011, interest rate exchange agreements remain to reduce the interest rate risk in connection with $493.0 million in floating rate notes.

Terms – Nearly all of the outstanding 2008 Series B Bonds and 2008 Series C Bonds are subject to the interest rate exchange agreements with a notional amount totaling $493.0 million as of June 30, 2011. 2008 Series B Bonds and Series C Bonds mature and a related notional amount of the related interest rate exchange agreements decline from May 1, 2012 through 2032. Based on the interest rate exchange agreements, the State owes to the counterparties an amount calculated at fixed rates ranging from 4.661 percent to 5.47 percent and the counterparties owe the State interest on 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, 2011, the aggregate fair value of the interest exchange agreements was negative $104.0 million, an increase of $26.7 million compared to the aggregate fair value of negative $130.7 million reported as of June 30, 2010. Since the interest rate exchange agreements qualify as effective cash flow hedges, a deferred outflow of resources and a liability are reported in the statement of net assets for the fair value of the swap agreements. Changes in the fair value are not reported in the statement of activities. The fair value was valued by a third party consultant based on information contained in the broker Interest Rate Swap Confirmations supplied by the three counterparties -- JP Morgan Chase, Citigroup N.A. New York, and UBS AG. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the interest rate exchange agreement. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the interest rate exchange agreements, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the interest rate exchange agreements. The fair value may vary throughout the life of the swap agreements due to any changes in fixed swap interest rates and swap market conditions.

Associated Debt – Using rates as of June 30, 2011, debt service requirements are presented for the 2008 Series B Bonds and 2008 Series C Bonds 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 floating rate notes and net swap payments will vary.

(in millions)

Fiscal Year Ended June 30	Principal	Interest	Interest Rate Swaps, Net	Totals
2012	$ 4.6	$ 6.7	$ 25.5	$ 36.8
2013	5.9	6.7	25.2	37.8
2014	1.1	6.6	25.0	32.7
2015	1.1	6.6	25.0	32.7
2016	1.1	6.6	24.9	32.6
2017 - 2021	12.9	32.6	123.8	169.3
2022 - 2026	87.4	30.4	116.3	234.1
2027 - 2031	343.0	15.6	59.7	418.3
2032 - 2036	35.8	.4	1.6	37.8
	$ 492.9	$ 112.2	$ 427.0	$ 1,032.1

Interest Rate Risk – Currently, the State does not have interest rate risk because it is paying a fixed-rate of interest on the interest rate exchange agreements. However, if for some unforeseen reason any of the swap agreements are terminated prior to maturity, the State will have interest rate risk associated with the outstanding 2008 Series B Bonds and 2008 Series C Bonds until their maturity.

Credit Risk – As of June 30, 2011, the State was exposed to only a minimal amount of credit risk, as the fair values of all of the four interest rate exchange agreements were negative. Should rates change, the State could have increased exposure in the future. The State has entered into four interest rate agreements with three different counterparties. The lowest rating assigned to these counterparties is, as of June 30, 2011, A1 by Moody's, A+ by Standard & Poor's, and A+ by Fitch Ratings. 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 or 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 floating rate notes), however this risk is fixed at the spreads for the respective series.

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. In addition, 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. As of June 30, 2011, there have not been any such events. If any interest rate exchange agreement is terminated, the State would be unhedged and exposed to additional interest rate risk on the 2008 Series B Bonds and the 2008 Series C Bonds. 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.

Market-Access Risk and Rollover Risk – The State's swap agreements are for the term (maturity) of the 2008 Series B Bonds and the 2008 Series C Bonds and, therefore, there is no market-access risk or rollover risk.

Foreign Currency Risk – The State's swap agreements are not subject to foreign currency risk.

2009 Annual Appropriation Bonds

In April 2009, the State issued $1.5 billion of General Fund Annual Appropriation Bonds. These appropriation obligations were authorized by Wisconsin Statutes for the purpose of purchasing the tobacco settlement revenues that had been sold by the Secretary of Administration to the Badger Tobacco Asset Securitization Corporation pursuant to Wis. Stat. Section 16.63. The 2009 General Fund Annual Appropriation Bonds bear interest rates from 3.00 percent to 6.25 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.

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.

As of June 30, 2011, the debt service requirements for principal and interest on these bonds are as follows (in millions):

Fiscal Year Ended June 30	Principal	Interest
2012	$ 5.9	$ 86.8
2013	6.6	86.4
2014	7.5	86.2
2015	18.3	85.9
2016	28.3	85.0
2017 - 2021	139.1	405.6
2022 - 2026	202.8	364.6
2027 - 2031	352.9	295.2
2032 - 2036	613.1	159.8
2037 - 2041	142.6	8.9
Total	1,517.1	1,664.4
Unamortized Premium/Discount	(.9)	--
Total, net	$ 1,516.2	$ 1,664.4

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 $3,009.8 million of revenue bonds. Presently, there are seventeen issues of Transportation Revenue Bonds totaling $1,719.5 million. Debt service payments are secured by driver and vehicle registration fees and also a reserve fund, which will be used in the event that a deficiency exists in the redemption fund.

The Transportation Revenue Bonds issued and outstanding as of June 30, 2011 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2010B	12/10	4.7 to 6.0	7/31	$ 123,925	$ 123,925
2010A	12/10	5.0	7/21	76,075	76,075
2009B	10/09	3.5 to 5.8	7/30	147,130	147,130
2009A	10/09	3.5 to 4.0	7/14	17,870	17,870
2008A	8/08	5.0	7/29	185,000	179,405
2007A	3/07	4.25 to 5.0	7/27	148,710	148,710
20071	3/07	4.35 to 5.0	7/22	206,900	206,900
2005B	9/05	4.0 to 5.0	7/25	158,400	128,055
2005A	3/05	3.1 to 5.25	7/25	235,585	233,830
2004 1	9/04	5.25	7/17	95,905	70,920
2003A	11/03	5.0	7/24	166,230	114,805
2002A	10/02	4.6 to 5.0	7/23	119,785	70,540
2002 1& 2	4/02	4.85 to 5.625	7/15 & 7/19	200,080	77,920
2001A	11/01	4.0 to 5.0	7/22	106,450	29,965
1998A	8/98	5.5	7/16	130,590	79,260
1993A	9/93	4.75 to 5.0	7/12	116,450	14,235
				2,235,085	1,719,545
Unamortized Prem./Discount				--	76,977
Total				$2,235,085	$1,796,522

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.

As of June 30, 2011, PIF Bonds outstanding are $117.5 million. Debt service payments are secured by petroleum inspection fees.

The PIF revenue bonds issued and outstanding as of June 30, 2011 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2009-1	10.09	2.5 to 5.0	7/17	$ 117,460	$ 117,460
Unamortized Premium				--	9,673
Total				$ 117,460	$ 127,133

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 $2,363.0 million in Revenue Bonds. At June 30, 2011, there were fifteen issues of Revenue Bonds outstanding totaling $897.5 million. These bonds are secured by payments on program loans and earnings of investments.

Bonds issued and outstanding for the Environmental Improvement Fund as of June 30, 2011 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2010-5	11/10	5.0	6/23	$ 36,760	$ 36,760
2010-4	11/10	3.0 to 5.0	6/31	116,290	116,290
2010-3	2/10	3.0 to 5.0	6/25	49,690	49,690
2010-2	2/10	5.0	6/21	14,070	14,070
2010-1	2/10	3.95 to 5.44	6/31	67,415	67,415
2008-3	12/08	3.0 to 5.5	6/26	92,210	86,090
2008-2	2/08	5.0	6/18	27,335	27,335
2008-1	2/08	4.0 to 5.0	6/28	100,000	90,640
2006-2	11/06	4.0 to 5.0	6/27	100,000	86,965
2006-1	3/06	3.5 to 5.0	6/27	80,000	69,575
2004-2	1/05	3.25 to 5.25	6/20	107,025	90,815
2004-1	3/04	4.0 to 5.0	6/24	116,795	76,825
2002-2	8/02	3.0 to 5.5	6/16	85,575	25,055
2002-1	5/02	4.0 to 5.25	6/23	100,000	4,350
1998-2	8/99	4.0 to 5.5	6/17	104,360	55,600
				1,197,525	897,475
Unamortized Premium				--	47,643
Less: Unamortized discount and Charge					(8,167)
Total, net of discount, charge and premium				$1,197,525	$ 936,951

As of June 30, 2011, 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
2012	$ 81,200	$ 79,312	$ --	$ 5,597	$ 58,170	$ 44,288
2013	94,715	79,634	--	5,597	59,170	41,534
2014	99,665	74,686	24,165	5,007	56,250	38,725
2015	104,610	69,431	25,345	3,817	56,930	35,803
2016	102,025	64,118	26,540	2,588	58,550	32,962
2017-2021	535,390	244,109	41,410	1,560	276,365	112,528
2022-2026	472,625	114,203	--	--	222,965	59,370
2027-2031	214,030	32,439	--	--	109,075	14,254
2032-2036	15,285	917	--	--	--	--
Total	1,719,545	758,849	117,460	24,166	897,475	379,464
Unamortized Premium	76,977	--	9,673	--	47,643	--
Unamortized Discount/Charge	--	--	--	--	(8,167)	--
Total, net	$ 1,796,522	$ 758,849	$ 127,133	$ 24,166	$ 936,951	$ 379,464

Qualified Build America Bonds

The State has issued three series of revenue bonds, in the aggregate amount of $320.8 million, that are “qualified Build America Bonds” pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended (Code). Based on the credit allowed for “qualified Build America Bonds”, the State has elected to receive from the United States Treasury on each payment date a direct payment in the amount of 35 percent of the interest payable by the State with respect to such date, and the credit will not be allowed to the taxpayers holding the bonds.

The interest rates on the 2009 Series B (taxable) Transportation Revenue Bonds in the amount of $147.0 million range from 3.5 percent to 5.8 percent payable semiannually on January 1 and July 1 beginning with the first interest payment date of July 1, 2010. These bonds are callable at par on July 1, 2019 or any date thereafter. The bonds mature beginning July 1, 2015 through 2030.

The interest rates on the 2010 Clean Water Revenue, Series 3 bonds in the amount of $49.7 million bonds range from 3.957 percent to 5.441 percent payable semiannually on June 1 and December 1 beginning with the first interest payment date of June 1, 2010. These bonds are callable at par on June 1, 2020 or any date thereafter. The bonds mature beginning June 1, 2017 through 2025.

The interest rates on the 2010 Series B (taxable) Transportation Revenue Bonds in the amount of $123.9 million range from 4.7 percent to 6.0 percent payable semiannually on January 1 and July 1 beginning with the first interest payment date of July 1, 2011. These bonds are callable at par on July 1, 2020 or any date thereafter. The bonds mature beginning July 1, 2022 through 2031.

Component Units – Discrete Presentation

Wisconsin Housing and Economic Development Authority

Bonds and notes payable at June 30, 2011 of the Wisconsin Housing and Economic Development Authority (Authority) consisted of the following (in thousands):

Revenue bonds and notes	$ 2,573,539
Less: Deferred amount on refunding	(2,256)
Total, net	$ 2,571,283

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 108 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, 2011 consisted of the following (in thousands):

Series/ Issue	Date	Rates	Maturity Through	Outstanding
Housing Revenue Bonds:				
1998 A,B&C	2/98	5.3 to 6.88	2032	$ 10,580
2002 A,B&C	5/02	4.5 to 5.6	2033	28,150
2003 A&B	12/03	Variable	2034	5,730
2003 C	12/03	4.0 to 5.25	2043	12,960
2003 D&E	12/03	Variable	2044	19,315
2005 A,B&C	12/05	Variable	2035	9,240
2005 D&E	12/05	3.85 to 5.15	2045	37,285
2005 F	12/05	4.31	2030	113,055
2006 A&B	12/06	3.55 to 4.75	2047	16,550
2006 C&D	12/06	Variable	2037	8,445
2007 A&B	12/07	Variable	2042	17,040
2007 C,D&E	12/07	Variable	2038	8,250
2007 F&G	12/07	Variable	2042	16,020
2008 A,B,C,D, E, F&G	6/08	Variable	2033	46,605
2009 A	12/09		2042	14,015
2010 A & B	12/10	Variable .75 to 6.125	2043	42,750
				405,990
Home Ownership Revenue Bonds:				
1999 F,G&H	7/99	5.65	2024	1,275
2000 F	7/00	Variable	2015	1,750
2000 H	11/00	Variable	2024	8,105
2001 A,B&C	5/01	5.65 to 6.4	2032	8,735
2002 A&C	2/02	4.65 to 5.3	2018	14,570
2002 B	2/02	Variable	2032	4,615
2002 C	2/02	Variable	2016	2,090
2002 E&G	7/02	4.25 to 4.85	2017	10,780
2002 E & F	7/02	Variable	2032	27,030
2002 I	10/02	Variable	2032	34,750
2003 A	4/03	Variable	2033	42,490
2003 B	7/03	Variable	2034	51,170
2003 C	11/03	Variable	2034	38,230
2003 D	11/03	Variable	2028	10,985
2004 A	4/04	Variable	2035	70,760
2004 C&D	7/04	4.2 to 5.1	2024	9,035
2004 D	7/04	Variable	2035	76,035
2004 E	11/04	Variable	2035	62,705
2005 A	4/05	Variable	2036	79,240
2005 C	6/05	Variable	2033	92,285
2005 C	6/05	4.875	2036	17,370
2005 D	9/05	4.875	2036	12,555
2005 D&E	9/05	Variable	2036	87,030
2006 A&B	1/06	Variable	2037	165,295
2006 C&D	5/06	4.85 to 6.0	2037	144,390
2006 E&F	10/06	4.7 to 5.727	2037	127,195
2007 A&B	4/07	4.65 to 5.75	2038	90,680
2007 B	4/07	Variable	2026	28,785
2007 C&D	4/07	Variable	2038	131,370
2007 C	4/07	5.125	2028	17,920
2007 E&F	12/07	4.48 to 6.0	2038	58,675
2007 E&F	12/07	Variable	2038	39,240
2008 A&B	5/08	Variable	2038	99,630
2008 A&B	5/08	5.3 to 5.5	2028	34,455
2009 A	12/09	Variable	2041	195,970
2009&2010 A &2009 A-1	11/10	.65 to 4.5	2041	100,000
				1,997,195
Business Development Bonds:				
1995 2, & 6	Various	Variable	2015	730
				730
Multifamily Housing Bonds:				
2006 A&B	7/06	Variable	2036	7,085
2007 A&B	6/07	Variable	2040	11,485
2007 C	8/07	Variable	2048	6,240
2008 A&B	8/08	Variable	2046	13,810
2009 A	6/09	1.5 to3.5	2018	4,115
2009 A	6/09	Variable	2035	15,885
2009 B	12/09	Variable	2043	69,030
				127,650
Notes Payable	Various	Variable	Various	30,794
Fac. Refunding	6/09	Variable	2017	11,180
Authority's Total Revenue Bonds and Notes				$2,573,539

Debt service requirements for principal and interest for the Authority at June 30, 2011 are as follows (in thousands):

Fiscal Year Ended	Principal	Interest
2012	$ 74,354	$ 42,417
2013	43,535	40,218
2014	38,925	39,629
2015	42,835	39,143
2016	52,625	38,611
2017 - 2021	334,375	177,820
2022 - 2026	419,960	138,344
2027 - 2031	544,875	90,079
2032 - 2036	542,315	44,216
2037 - 2041	171,755	7,163
2042 - 2046	301,500	687
Thereafter	6,485	28
Total	2,573,539	658,355
Deferred Amount on Refunding	(2,256)	--
Total	$ 2,571,283	$ 658,355

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, 2011 the Authority had issued 83 series of such bonds in an aggregate principal amount of $73.9 million for economic projects in Wisconsin.

A Construction Plus line of credit bears interest at the rate of 1.68 percent at June 30, 2011, and the Home ownership mortgage Loan Program line of credit bears interest of 4.0 percent at June 30, 2011. Both line of credit rates are based on the 30 day Eurodollar rate.

Derivatives

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 such that the bonds outstanding is greater than the swap notional value or the effective interest rate, determined by the remarketing agent used for bond holder payments, increases over the variable rate index used for calculating the interest received from the counterparty. All interest rate swap agreements at June 30, 2011 are classified as effective cash flow hedges. The Authority does not intend to terminate these agreements other than at par and for purposes of maintaining a match between bonds outstanding and the swap notional value prior to their maturity.

Using rates as of June 30, 2011, 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
2012	$ 48,985	$ 2,274	$ 47,879	$ 99,138
2013	47,945	1,668	46,278	95,891
2014	58,130	1,591	44,489	104,210
2015	57,030	1,505	42,118	100,653
2016	60,735	1,427	39,971	102,133
2017 - 2021	244,950	5,882	168,537	419,369
2022 - 2026	202,120	4,284	125,724	332,128
2027 - 2031	257,855	2,662	80,179	340,696
2032 - 2036	233,990	1,097	29,638	264,725
2037 - 2041	50,340	121	3,571	54,032
2042 - 2046	3,250	5	176	3,431
Totals	$1,265,330	$ 22,516	$ 628,560	$1,916,406

The following table outlines information related to agreements in place as of June 30, 2011 (in thousands):

Program and Bond Issue	Notional Value at 6/30/11	Effective Date	Swap Termination Date	Counterparty Credit Rating	Percent Fixed Rate Paid	Variable Rate/Index Received	Swap Termination Market Value at 6/30/11
Housing Revenue Bonds							
2008 Series G	$ 21,920	5/21/2002	11/1/2033	A/A2	4.68	70% of one month London Interbank Offered Rate (LIBOR)	$ (781)
2003 Series D	8,250	1/5/2005	5/1/2044	AA-/Aa1	4.21	65% of one month LIBOR + 25 basis points	(596)
2003 Series E	11,065	1/5/2005	5/1/2043	AA-/Aa1	4.05	63.5% of one month LIBOR + 20 basis points	(776)
2005 Series F	74,840	1/17/2006	11/1/2030	AA-/Aa1	5.21	One month LIBOR	(12,836)
2006 Series C	3,660	12/14/2006	11/1/2016	AA-/Aa1	3.64	SIFMA + 2 Basis Points	(345)
2006 Series D	4,785	12/14/2006	11/1/2016	AA-/Aa1	3.64	SIFMA + 2 Basis Points	(451)
2007 Series A	9,965	12/19/2007	11/1/2042	AA-/Aa1	4.72	SIFMA + 6 Basis Points	(136)
2007 Series B	7,075	12/19/2007	11/01/2039	AA-/Aa1	4.58	SIFMA + 2 Basis Points	(98)
2007 Series F	10,880	12/19/2007	11/01/2025	AA-/Aa1	4.01	SIFMA + 6 Basis Points	(1,144)
2007 Series G	5,140	12/19/2007	11/01/2025	AA-/Aa1	4.01	SIFMA + 6 Basis Points	(540)
							(17,703)
Multifamily Housing Bonds							
2006 Series A&B	7,085	7/19/2006	10/1/2013	AA-/Aa1	4.21	SIFMA + 2 Basis Points	(552)
2007 Series A	7,555	6/29/2007	10/1/2022	AA-/Aa1	4.43	SIFMA + 6 Basis Points	(1,104)
2007 Series B	3,930	6/29/2007	10/1/2022	AA-/Aa1	5.9	One month LIBOR – 2 Basis Points	(935)
2007 Series C	6,240	8/2/2007	9/1/2024	AA-/Aa1	4.33	SIFMA + 2 Basis Points	(887)
2008 Series A	6,870	8/28/2008	10/1/2026	AA/Aa2	3.89	SIFMA + 2 Basis Points	(620)
2008 Series A	4,415	8/28/2008	10/1/2026	AA/Aa2	3.89	SIFMA + 2 Basis Points	(399)
2008 Series B	2,525	8/28/2008	10/1/2026	AA/Aa2	5.08	LIBOR + 7 Basis Points	(380)
							(4,877)
1987 Home Ownership Revenue Bonds							
2002 Series B	4,615	2/6/2002	3/1/2020	AA-/Aa1	5.88	One month LIBOR + 35 Basis Points	(519)
2002 Series C	2,090	2/6/2002	9/1/2012	AA-/Aa1	3.69	67 percent of one month LIBOR	(37)
2002 Series I	34,750	10/17/2002	9/1/2032	A+/Aa3	4.07	70 percent of one month LIBOR	(1,106)
2003 Series B	51,170	7/29/2003	9/1/2034	AA-/Aa1	3.94	65 percent of one month LIBOR + 25 Basis Points	(4,611)
2004 Series A	31,020	4/29/2004	9/1/2022	AA-/Aa1	4.47	SIFMA + 8 basis points	(2,692)
2004 Series A	5,535	4/29/2004	9/1/2012	AA-/Aa1	2.87	65 percent of one month LIBOR + 25 Basis Points	(84)
2004 Series A	34,205	4/29/2004	3/1/2035	AA-/Aa1	4.27	65 percent of one month LIBOR + 25 Basis Points	(2,626)
2005 Series A	79,240	4/12/2005	3/1/2036	A/A2	3.61	65 percent of one month LIBOR + 25 Basis Points	(4,248)
2005 Series D	69,185	9/29/2005	9/1/2036	AAA/Aa3	3.54	65 percent of one month LIBOR + 25 Basis Points	(3,484)
2007 Series B	28,785	4/10/2007	9/1/2026	AAA/Aa3	5.20	One month LIBOR	(3,969)
2007 Series E	27,980	12/18/2007	9/1/2038	AAA/Aa3	3.96	62 percent of one month LIBOR + 38 Basis Points	(2,203)
2007 Series F	11,260	12/18/2007	9/1/2014	AAA/Aa3	4.43	One month LIBOR	(898)
							(26,477)
1988 Home Ownership Revenue Bonds							
2002 Series E	23,890	7/11/2002	9/1/2032	AA-/Aa1	4.67	70 percent of one month LIBOR	(255)
2002 Series F	3,140	7/11/2002	9/1/2014	AA-/Aa1	5.20	Three months LIBOR + 40 Basis Points	(142)
2003 Series A	9,950	4/3/2003	9/1/2014	A/A2	2.98	65 percent one month LIBOR + 25 Basis Points	(290)
2003 Series A	14,620	4/3/2003	9/1/2030	A/A2	4.26	65 percent one month LIBOR + 25 Basis Points	(141)
2003 Series A	17,920	4/3/2003	9/1/2033	A/A2	4.17	65 percent one month LIBOR + 25 Basis Points	(181)
2003 Series C	24,405	11/4/2003	3/1/2034	A/A2	3.81	65 percent one month LIBOR + 25 Basis Points	(679)
2003 Series C	13,825	11/4,2003	3/1/2019	A/A2	3.32	65 percent one month LIBOR + 25 Basis Points	(511)
2004 Series D	76,035	7/27/2004	9/1/2035	A/A2	3.73	65 percent one month LIBOR + 25 Basis Points	(4,076)
2004 Series E	62,705	11/23/2004	9/1/2035	AA-/Aa1	3.99	65 percent one month LIBOR + 25 Basis Points	(6,885)
2005 Series C	69,460	8/3/2005	3/1/2024	AA-/Aa1	3.34	65 percent one month LIBOR + 25 Basis Points	(4,319)
2005 Series C	22,825	8/3/2005	9/1/2033	AA-/Aa1	4.07	65 percent one month LIBOR + 25 Basis Points	(1,044)
2006 Series A	81,650	1/19/2006	3/1/2029	AA-/Aa1	3.65	65 percent one month LIBOR + 25 Basis Points	(6,077)
2006 Series A	52,480	1/9/2006	9/1/2037	AA-/Aa1	4.27	65 percent one month LIBOR + 25 Basis Points	(1,199)
2007 Series C	18,435	6/28/2007	9/1/2017	AA-/Aa1	4.32	SIFMA + 8 Basis Points	(126)
2007 Series C	22,575	6/28/2007	9/1/2023	AA-/Aa1	4.63	SIFMA + 8 Basis Points	(2,196)
2007 Series C	30,180	6/28/2007	9/1/2016	AA-/Aa1	4.11	SIFMA + 8 Basis Points	(2,114)

2007 Series D	23,760	6/28/2007	9/1/2027	AA-/Aa1	6.48	One month LIBOR	(1,714)
2007 Series D	17,690	6/28/2007	9/1/2016	AA-/Aa1	5.62	One month LIBOR	(1,820)
2007 Series D	18,730	6/28/2007	9/1/2028	AA-/Aa1	6.01	One month LIBOR	(3,748)
2008 Series A	32,995	5/15/2008	3/1/2019	AA/Aa2	3.35	SIFMA + 8 Basis Points	(2,407)
2008 Series A	52,025	5/15/2008	9/1/2038	AAA/Aa3	3.86	62 percent of one month LIBOR + 38 Basis Points	(2,264)
							(42,188)
						Total Swap Termination Market Value	($91,245)

Swap Valuation — The Swap Termination Market Values presented above were estimated by either the Authority's counterparties to the swap agreements or by a third-party consultant, using proprietary valuation models based on industry valuation methodology, including the use of forward yield curves, zero curve rates, and market implied volatility assumptions. The synthetic instrument method and the regression analysis method were used to determine whether the derivative was hedgeable or not based on criteria provided by GASB Statement No. 53 "Accounting and Financial Reporting for Derivative Instruments". The fair values of the hedgeable derivatives are presented in the Statements of Revenue, Expenses and Changes in Fund Net Assets. The market values in the table above represent the termination payments that would have been due had the swaps terminated on June 30, 2011. 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, 2011, 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, 2011, the counterparty or counterparty guarantor in 58 percent of the outstanding swaps were rated AA-/Aa1, 20 percent were rated A/A2, 15 percent were rated AAA/Aa3, and the remaining counterparties were rated AA/Aa2 and A+/Aa3 by S&P and Moody's, respectively. A collateral agreement has been entered into with all but one of the swap counterparties, to help reduce the Authority's exposure to credit risk. Collateral is required based on the counterparty's credit rating and the allowed threshold under each credit rating level. As of June 30, 2011, the counterparty rated AA-/Aa1, has collateral requirements starting at BBB+/Baa1 and a posting threshold of $500,000. The counterparty rated A/A2 has collateral requirements starting at AA-/Aa3 and a posting threshold of $50.0 million. Based on the current rating of AA/Aa2 the posting threshold level is lowered to $40.0 million. The counterparty rating of AA/Aa2 has collateral requirements starting at A+/A1 and a posting threshold of $10.0 million. The counterparty rating of A+/Aa3 has collateral requirements starting at BBB+/Baa1 and a posting threshold of $500,000. The counterparty rated AAA/Aa3 does not have a collateral agreement with the Authority. Based on the fair values as of June 30, 2011, no collateral is required from any counterparty.

Basis and Interest Rate Risk — This risk arises when the amount that is paid by the swap counterparty is different than the variable rate interest payment due to the bondholders. For the Authority, this can happen when the swap counterparty payment is based on a taxable index (LIBOR) while the underlying bonds are traded in the tax exempt market. Based on market conditions, the relationship between taxable and tax exempt rates may vary. 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. In addition, even when the swap counterparty payment is based on a tax exempt index (SIFMA) and the underlying bonds are tax exempt, or the swap counterparty payment is based on a taxable index (LIBOR) and the underlying bonds are taxable, the Authority's variable rate bonds may be traded differently from the market indices.

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. For HORB issues, 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. In the case of the HRB and MHB issues, the underlying mortgages will adjust at the swap termination date to current market conditions.

The following swaps expose the Authority to rollover risk:

Associated Debt Issuance	Bond Maturity Date	Swap Termination Date
1987 HORB 2002 Series B	9/1/2032	3/1/2020
1987 HORB 2002 Series C	9/1/2016	9/1/2012
1987 HORB 2004 Series A	9/1/2028	9/1/2012
1987 HORB 2007 Series F	9/1/2018	9/1/2014
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
1988 HORB 2007 Series C	9/1/2035	9/1/2016

1988 HORB 2007 Series D	3/1/2034	9/1/2016
1988 HORB 2007 Series D	3/1/2038	9/1/2028
1988 HORB 2008 Series A	9/1/2038	3/1/2019
1974 HRB 2006 Series C&D	5/1/2037	11/1/2016
1974 HRB 2007 Series F&G	5/1/2042	11/1/2025
2006 MHB 2006 Series A&B	10/1/2036	10/1/2013
2006 MHB 2007 Series A&B	10/1/2040	10/1/2022
2006 MHB 2007 Series C	10/1/2048	9/1/2024
2006 MHB 2008 Series A&B	4/1/2046	10/1/2026

University of Wisconsin Hospitals and Clinics Authority (the Hospital)

In March 2000, the Hospital issued $56.5 million of Hospital Revenue Bonds, Series 2000 (“Series 2000 Bonds”). In September 2005, the hospital refunded $52.5 million of the outstanding bonds with Variable Rate Demand Hospital Revenue Bonds, Series 2005. Principal payments on the remaining Series 2000 Bonds were paid in full in April 2010. The effective annual interest rate was 5.5 percent per cent in 2010.

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. In March 2009, the Hospital refunded $55.6 million of the outstanding Series 2002A bonds with Variable Rate Demand Revenue Bonds, Series 2009A. The refunding of the Series 2002A bonds resulted in the recognition of a loss of $641 thousand due to the unamortized insurance premium and recognition of a deferred loss of $641 thousand for other unamortized deferred costs of the Series 2002A. Principal payments on the Series 2002B Bonds range from $1.5 million to $1.9 million due annually commencing in April 2011 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 Bonds was 6.1 percent in 2011.

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, 2011 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 70.0 percent of one-month LIBOR per annum, payable monthly. As of June 30, 2011 the interest rate received by the Hospital was 0.2 percent. The fair value of the swap agreement was $(2.6) million at June 30, 2011.

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 $26.0 million at June 30, 2011, 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 70.0 percent of one-month LIBOR per annum, payable monthly. In 2011, the effective interest rate received by the Hospital was .2 percent. The fair value of the swap agreement was $(2.6) million at June 30, 2011.

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. As a result of advanced refunding, the Hospital recognized a deferred loss of $7.3 million which is being amortized to interest expense over the term of the debt. There are no amounts outstanding on the defeased bonds at June 30, 2011. In March 2009, the Hospital refunded $58.1 million of the outstanding Series 2005 bonds with Variable Rate Demand Hospital Revenue Bonds, Series 2009B and transferred the April 2009 principal of $495 thousand into escrow. The refunding of the Series 2005 bonds resulted in the recognition of a deferred loss of $423 thousand.

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. This swap has been applied to the Series 2009B with the refunding of the Series 2005 Bonds. The notional amount of the swap agreement was $56.8 million at June 30, 2011, which matures on April 1, 2029. The terms of the swap agreement are for the Hospital to pay the counterparty a fixed rate of 3.31 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 0.5 percent in 2011. The fair value of the swap agreement was $(5.2) million at June 30, 2011.

In March 2009, insurance on the 2005 swap agreement was removed and the collateral posting provisions of the swap agreement became effective. The collateral amount required is determined based on the fair value of the swap, less the applicable threshold of $7.0 million at the Hospital’s current rating. Collateral valuations are performed daily, based on the official market closing curve. While the counterparty holds the collateral, the funds will earn the overnight Federal Funds interest rate, payable monthly.

In May 2008, the Hospital issued $50.4 million of Fixed Rate Bonds, Series 2008A (“Series 2008A Bonds”) through a private placement. The bond proceeds were used to refund $50.0 million of Variable Rate Demand Hospital Revenue Bonds, Series 1997. Principal payments on the Series 2008 A Bonds, ranging from $515 thousand to $5.2 million are due annually in April 2011 through April 2026. Interest is payable semi-annually. In 2011, the effective interest rate was 5.3 percent.

In June 2008, the Hospital issued $61.0 million of Variable Rate Demand Revenue Refunding Bonds, Series 2008B (“2008B Bonds”). The bonds proceeds were used to refund $60.0 million of Hospital Revenue Bonds consisting of Short-term Adjustable Rate Securities, Series 2004. In 2011, the effective interest rate was 0.2 percent. In May 2011, the Hospital refunded $61.0 million of the outstanding Series 2008B bonds with Revenue Refunding Bonds, Series 2011B. The refunding of the Series 2008B bonds resulted in the recognition of a deferred loss of $474 thousand.

In September 2008, the Hospital entered into an equipment financing agreement with GE Government Finance, Inc., in the amount of $9.3 million. Principal and interest payments are made monthly commencing on November 1, 2008, for seven years. In 2011, the effective interest rate was 4.5 percent.

In March 2009, the Hospital issued $57.1 million of Variable Rate Demand Revenue Refunding Bonds, Series 2009A (“Series 2009A Bonds”), secured by an irrevocable transferable direct-pay letter of credit issued by a commercial bank. The bond proceeds were used to refund $55.6 million of Hospital Revenue Bonds consisting of Short-Term Adjustable Rate Securities, Series 2002A. In 2011, the hospital refunded the outstanding $57.1 million of the Series 2009A bonds with Revenue Refunding Bonds, Series 2011A and the balance of the Series 2009A Interest Fund. The refunding of the Series 2009A bonds resulted in the recognition of a deferred loss of $488 thousand.

In March 2009, the Hospital issued $59.3 million of Variable Rate Demand Revenue Refunding Bonds, Series 2009B (“Series 2009B Bonds”). The bond proceeds were used to refund $58.1 million of Variable Rate Demand Revenue Refunding Bonds, Series 2005. Principal payments on the Series 2009B Bonds ranging from $1.9 million to $8.2 million, are due annually in April 2011 through April 2029. Series 2009B Bonds bear interest at a weekly rate determined by a remarketing agent. Interest is payable monthly. In 2011, the effective interest rate was 0.2 percent.

In June 2009, the Hospital issued $5.3 million of Fixed Rate Hospital Revenue Bonds, Series 2009C (“Series 2009C Bonds”) through a private placement. The bond proceeds were designated to finance qualified capital projects. Principal payments on the Series 2009C Bonds, ranging from $248 thousand to $478 thousand, are due bi-annually beginning in April 2011 through October 2024. Series 2009C Bonds bear interest from June 30, 2009 through October 1, 2012, at the initial fixed rate of 5.07 percent per annum. The interest rate will be reset every three years and is payable bi-annually. In 2011, the effective interest rate was 5.1 percent.

In May 2011, the Hospital issued $56.7 million of Revenue Refunding Bonds, Series 2011A to a commercial bank in the form of a direct bond purchase agreement. The bond proceeds were used to refund $57.1 million of Variable Rate Demand Revenue Bonds, Series 2009A. Principal payments on the Series 2011A bonds, ranging from $500 thousand to $3.9 million, are due annually in April 2013 through April 2032. Series 2011A bonds bear interest at 74 percent of LIBOR, plus1.04 percent payable monthly. In 2011, the effective interest rate was 1.2 percent.

In May 2011, the Hospital issued $61.0 million of Revenue Refunding Bonds, Series 2011B to a commercial bank in the form of a direct bond purchase agreement. The bond proceeds were used to refund $61.0 million of Variable Rate Demand Bonds, Series 2008B. Principal payments on the Series 2011B Bonds, ranging from $9.9 million to $15.3 million, are due annually in April 2030 through April 2034. Series 2011B bonds bear interest at 74 percent of LIBOR, plus 1.04 percent, payable monthly. In 2011, the effective interest rate was 1.1 percent. The 2011B bond documents include a material adverse effect clause. The bond documents provide specific details as to what constitutes a material adverse effect and that a material adverse effect could constitute an event of default.

The Series 2002 Bonds, Series 2008A Bonds, Series 2009B, Series 2011A and 2011B 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 a Lease Agreement and provisions limiting the amount of additional indebtedness that may be incurred. The Hospital is in compliance with all debt covenants at June 30, 2011, and has not incurred a material adverse effect as defined.

The 2009B Bonds with variable interest rates are secured by irrevocable transferable direct-pay letters of credit issued by a commercial bank. The initial letter of credit agreements have stated expiration dates of five (5) years. It does not require any principal payments within the first year of the draw; interest payments are due monthly. Outstanding principal payments under the letter of credit would revert to a term out loan after the first year. Any obligations under the term out loans are repayable in equal quarterly installments based on a four year straight-line amortization commencing on the 367th day after the draw with final payments of the outstanding balances on the earliest to occur of: (a) the date on which the letter of credit is replaced or substituted; (b) five years following the date of the draw preceding such Term Out Loan; (c) the date the bonds are successfully remarketed; or (d) the date on which all amounts due have been accelerated pursuant to the letters of credit. The letter of credit agreements include a material adverse effect clause. The agreements provide specific details as to what constitutes a material adverse effect and that a material adverse effect could constitute an event of default under the letter of credit. At June 30, 2011, there were no amounts outstanding under the letter of credit.

Legislation which had limited the Hospital's total borrowings, exclusive of amounts payable to the State, to $235.0 million, with limited exceptions, was amended in April 2008. The statute now requires the Hospital to obtain approval of additional bond issuance from its Board of Directors, maintain an unenhanced bond rating in the category of "A" or better from Standard and Poor's Corporation and Moody's Investor service, Inc., and notify the State Joint Committee on Finance. The Hospital's current rating from S&P and Moody's was A+ and A1, respectively.

The Hospital will be exposed to variable rates if the counterparty to the swap defaults or if the swap is terminated. The swap agreements include bilateral additional termination event provisions. Under the provisions, either party has the option, but not the obligation, to terminate the swap transaction if the other party gets downgraded below certain thresholds. The Hospital nor the counterparties have been downgraded below these thresholds at June 30, 2011. The Hospital does not intend to terminate these agreements. The swaps expose the Hospital to basis risk should the relationship between LIBOR and variable rate coverage, changing the synthetic rate on the bonds. As of June 30, 2011, the Hospital was not exposed to credit risk because each of the swaps had a negative fair value. However, should interest rates change and any one of the fair value of the swaps become positive, the Hospital would be exposed to credit risk in the amount of the swap's fair value.

Scheduled principal and interest repayments on all of the Hospital's long-term debt, including the effect of the swaps based on the effective interest rate, are as follows (in thousands):

Fiscal Year Ended	Principal	Interest	Interest Rate Swap, Net	Total
2012	$ 7,840	$ 4,904	$ 3,181	$ 15,925
2013	8,190	4,617	3,098	15,905
2014	8,562	4,333	2,981	15,876
2015	8,931	4,106	2,777	15,814
2016	8,158	3,872	2,553	14,583
2017-2021	43,082	16,220	8,964	68,266
2022-2026	51,268	9,673	3,905	64,846
2027-2031	62,210	4,384	625	67,219
2032-2034	44,460	1,059	--	45,519
Deferred loss on retirement of 2000 Bonds	(5,544)	--	--	(5,544)
Deferred loss on retirement of 1997 Bonds	(228)	--	--	(228)
Deferred loss on retirement of 2004 Bonds	(411)	--	--	(411)
Deferred loss on retirement of 2002A Bonds	(578)	--	--	(578)
Deferred loss on retirement of 2005 Bonds	(374)	--	--	(374)
Deferred loss on retirement of 2008B Bonds	(472)	--	--	(472)
Deferred loss on retirement of 2009A Bonds	(486)	--	--	(486)
Premium on Bonds	113	--	--	113
	$234,721	$ 53,168	$ 28,083	$315,973

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, 2011 are as follows (in thousands):

Fiscal Year Ended	Principal	Interest
2012	$ 6,199	$ 7,901
2013	6,903	7,601
2014	7,899	7,260
2015	8,654	6,854
2016	8,056	6,410
2017-2021	42,930	25,151
2022-2026	51,233	13,576
2027-2031	62,210	5,010
2032-2034	44,460	1,059
Total	238,544	80,822
Deferred loss on refunding	(8,093)	--
Premium/Discount	113	--
Total	$ 230,564	$ 80,822

University of Wisconsin Foundation

Long-term debt of the University of Wisconsin Foundation consists of two notes payable. One of the notes is payable in accreting monthly principal installments with a final balloon payment due February 2015. The note is collateralized by certain investments equal to the outstanding loan balance. The outstanding balance as of December 31, 2010 is $1.7 million.

Interest of one-month LIBOR plus 1.25 percent on the entire outstanding principal amount. In addition, the notional amount $1.1 million and amortizing thereafter (representing the “notional amount”) is subject to an interest rate swap, converting the floating interest rate to a fixed rate. Interest on the notional amount of the swap effectively changes the one-month LIBOR plus 1.25 percent floating rate to a fixed rate of 5.24 percent. The fair value of the interest rate swap resulted in an unrealized loss of $6.0 thousand as of December 31, 2009. The interest rate swap matured in February 2010, and the note was amended to have a stated interest rate of 5.18 percent.

The second note is payable in five annual installments of $532,731, with a final payment due in January 2014. All payments on the note apply to principal. The balance outstanding as of December 31, 2010 is $2.1 million.

Future maturities of long-term debt as of December 31, 2010 are as follows:

Year ended December 31	Total Principal
2011	$ 684,690
2012	692,751
2013	701,240
2014	710,179
2015	1,050,065
Total	$ 3,838,925

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.

Current Year Refundings/General Obligation Bonds

In April 2011, the State issued $225.5 million of general obligation refunding notes (2011 series 1), the proceeds of which were used to current refund on May 1, 2011 principal of various general obligation bonds in the amount of $218.1 million and to current refund on May 16, 2011 principal of a general obligation bond in the amount of $7.4 million. In June, 2011, the State issued $275.4 million of general obligation refunding bonds (2011 Series 1), the proceeds of $90.5 million which were deposited in an escrow account to provide for future debt service payments and redemption of $86.2 million of various general obligation bonds outstanding at the time of the refunding, and the proceeds of $225.5 million to fund the notes. As a result of the refunding, the $86.2 million of various general obligation bonds for the escrow account provides for future debt service payments and redemption are considered defeased and the associated liability removed from the financial statements. The overall refunding resulted in an increase in total debt service payments by $21.7 million and an economic gain of $12.4 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, 2011, approximately $551.3 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, 2011, revenue bonds outstanding of $260.8 million have been defeased.

- Transportation revenue bonds – At June 30, 2011, revenue bonds outstanding of $310.6 million have been defeased.

Prior Year Refundings/Component Units

Badger Tobacco Asset Securitization Corporation

In April, 2009, the Badger Tobacco Asset Securitization Corporation's (BTASC) deposited securities in an irrevocable trust with an escrow agent to provide for all future debt service payments on the BTASC bonds. As a result, the $1.1 billion of BTASC bonds are considered to be legally defeased and the liability for those bonds has been removed from the financial statements. Any gain or loss on the refunding has not been determined as the future cash flows of the old debt are not estimable due to the uncertainty of future Tobacco Settlement Revenues (TSRs).

Wisconsin Housing and Economic Development Authority

In 1990 the Wisconsin Housing and Economic Development Authority (the Authority) defeased $48.4 million of Insured Mortgage Revenue Bonds, as of June 30, 2011, the remaining outstanding defeased debt is $18.4 million.

Early Extinguishments/Redemptions

Component Units

Wisconsin Housing and Economic Development Authority

During 2011, 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 2011**
Home Ownership Revenue	
Bond Resolutions:	
1987	$ 143,315
1988	199,470
All Other	5,590
Home Ownership Mortgage Revenue	60,000
Housing Revenue Bonds	27,350
Multifamily Housing Bonds	200
General Fund	560

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. 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 deposits to the issuing and paying agent that will be used to pay interest due on maturing notes. At June 30, 2011, the amount of general obligation commercial paper notes outstanding was $188.1 million which had interest rates ranging from .17 percent to .31 percent and maturities ranging from July 7, 2011 to September 7, 2011.

Short-term debt activity for the year ended June 30, 2011 for the general obligation commercial paper notes was as follows (in millions):

Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011
$ 193.5	$ --	$ 5.4	$ 188.1

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 deposits to the issuing and paying agent that will be used to pay interest due on maturing notes. At June 30, 2011, the amount of the general obligation extendible municipal commercial paper outstanding was $404.6 million which had interest rates ranging from .26 percent to .37 percent and maturities ranging from July 15, 2011, to October 3, 2011.

Short-term debt activity for the year ended June 30, 2011 for the general obligation extendible municipal commercial paper was as follows (in millions):

Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011
$ 413.6	$ --	$ 9.0	$ 404.6

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 deposits to the issuing and paying agent that will be used to pay interest due on maturing paper. At June 30, 2011, the amount of petroleum inspection fee revenue extendible commercial paper outstanding was $71.2 million which had interest rates ranging from .26 percent to .40 percent and maturities ranging from July 11, 2011 to September 7, 2011.

Short-term debt activity for the year ended June 30, 2011 for the petroleum inspection fee revenue extendible municipal commercial paper was as follows (in millions):

Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011
$ 71.2	$ --	$ --	$ 71.2

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 deposits to the issuing and paying agent that will be used to pay interest due on maturing notes. At June 30, 2011, the amount of transportation revenue commercial paper notes outstanding was $146.6 million which had interest rates ranging from .31 percent to .32 percent and maturities ranging from August 17, 2011 to October 6, 2011.

Short-term debt activity for the year ended June 30, 2011 for the transportation revenue commercial paper notes was as follows (in millions):

Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011
$ 162.5	$ --	$ 15.9	$ 146.6

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, 2011, the following parity Master Lease certificates were outstanding:

- Master Lease Certificates of Participation of 2006, Series A, in the amount of $23.4 million. This series of Master Lease certificates has interest rates ranging from 4.0 percent to 5.0 percent and matures semi-annually through September 1, 2016.

- Master Lease Certificates of Participation of 2010, Series A (Revolving Credit Agreement – Taxable) in the amount of $23.8 million. This Master Lease certificate evidences the State's obligation to repay advances under a Revolving Credit Agreement, dated June 22, 2007, as amended between U.S. Bank National Association (as trustee), the State of Wisconsin, acting by and through its Department of Administration, as lessee, and Dexia Credit Local. The scheduled termination date under the Revolving Credit Agreement, as amended, is September 1, 2013. 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 Master Lease certificate may include some accrued interest that will be payable at the next semi-annual interest payment date.

- Master Lease Certificates of Participation of 2007, Series B and Master Lease Certificates of Participation of 2008 Series A (Revolving Credit Agreement-Tax Exempt) in the amount of $6.2 million. These Master Lease certificates of participation evidence the State's obligation to repay certain advances under a Revolving Credit Agreement, dated June 22, 2007, as amended between U.S. Bank National Association, as trustee, the State of Wisconsin, acting by and through its Department of Administration, as lessee, and Dexia Credit Local, as amended. The scheduled termination date under the revolving credit agreement is September 1, 2013. This master lease certificates of participation shall bear interest at the rates and mature on the dates provided for in the Revolving Credit Agreement.

- Master Lease Certificates of Participation of 2010, Series B, in the amount of $18.6 million. This series of Master Lease certificates has interest rates ranging from 2.0 percent to 4.0 percent and matures semi-annually through September 1, 2017.

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, 2011, the State has not deposited with the Trustee amounts, that when invested, will terminate lease schedules.

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, 2011, a liability for arbitrage rebate did not exist.

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. Three bond issues with an aggregate outstanding balance of $96.6 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, 2011, $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 $233.0 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.

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 $207.0 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.

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, 2011 for capital leases (in thousands):

Fiscal Year	Governmental Activities	Business-type Activities
2012	$ 13,568	$ 8,008
2013	11,931	7,543
2014	10,030	7,162
2015	5,355	6,234
2016	3,523	3,979
2017 - 2021	940	2,776
2022 - 2026	-	-
2027 - 2031	-	-
2032 - 2036	-	-
2037 - 2041	-	-
Total minimum future payments	45,347	35,702
Less: Interest	(4,629)	(4,095)
Present value of net minimum lease payments	$ 40,718	$ 31,607

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, 2011 (in thousands):

Fiscal Year	Governmental Activities	Business-type Activities
Land and Land Improvements	$ 376	$ -
Buildings and Improvements	1,000	70,950
Machinery and Improvements	113,662	9,644
Construction in Progress	2,128	
Less: Accumulated Depreciation	(41,655)	(34,401)
Carrying Amount	$ 75,511	$ 46,193

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, 2011 was as follows:

Balance Due	Average Life (Weighted Term)
$71,949,734	2.2 Years

Component Unit

University of Wisconsin Hospital and Clinics Authority

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, 2011 for amounts related to this agreement was $4.2 million.

B. Operating Leases

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

Governmental and business-type activities and fiduciary funds rental expenses under operating leases for Fiscal Year 2011 were $78.7 million. Of this amount, $78.2 million relates to minimum rental payments stipulated in lease agreements, $493 thousand relates to contingent rentals, and $164 thousand relates to sublease rental payments received. Component unit rental expenses under operating leases were $16.5 million, of which $16.5 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
2012	$ 46,100	$ 25,705	$ 63	$ 9,705
2013	36,799	17,113	16	4,901
2014	31,347	15,821	5	2,711
2015	25,671	13,795	-	1,593
2016	21,058	11,538	-	1,264
2017 - 2021	39,801	52,820	-	3,251
2022 - 2026	6,178	39,150	-	-
2027 - 2031	444	36,057	-	-
2032 - 2036	381	6,851	-	-
2037 - 2041	392	-	-	-
2042 - 2046	428	-	-	-
2047 - 2051	265	-	-	-
Thereafter	238	-	-	-
Minimum lease payments	$ 209,102	$ 218,849	$ 85	$ 23,426

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, 2011 for installment purchases (in thousands):

Fiscal Year	Governmental Activities
2012	$ 158
2013	115
Total minimum future payments	273
Less: Interest	(8)
Present value of net minimum installment payments	$ 265

NOTE 13. POLLUTION REMEDIATION OBLIGATIONS

The State implemented the Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* in Fiscal Year 2009. This Statement establishes accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the standard excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation obligations that are required upon retirement of an asset, such as landfill closure and post closure care and nuclear power plant decommissioning.

Measurement of Obligations

GASB Statement No. 49 requires the State to calculate pollution remediation obligations using the expected cash flow technique. These estimates are subject to change over time. Costs may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations and other factors. Recoveries from other responsible parties may reduce the State's obligation. In accordance with the standard, if the State cannot reasonably estimate a pollution remediation obligation, it does not report a liability. Under specific circumstances capital assets may be created when pollution remediation is performed. The State has adopted a minimum reporting threshold of $1.0 million. Therefore, only remediation sites with outlays estimated to meet or exceed that amount are reported in the financial statements.

During fiscal year 2011, the State did not recognize additional estimated liabilities for pollution remediation. The State expended $2.9 million to clean up sites in FY 2011, therefore, the beginning liability of $14.0 million was reduced to $11.1 million. There were no recoveries received from other responsible parties during fiscal year 2011 and none are expected for the identified obligations.

Identified Remediation Obligations:

Pollution remediation liabilities are updated annually and are based on engineering studies and the judgment of agency officials. The following table shows liabilities included in the Statement of Net Assets as of June 30, 2011 (in millions):

Nature and Source of Pollution	Estimated Liability	Estimated Recovery
Contract agreement with EPA to clean up Superfund site of former wood treatment facility	$ .5	--
Voluntary commencement by the State to clean up heavy metal contamination of canal near former industrial site	7.0	--
State agreement with EPA to clean up PCB sediments in Milwaukee's Lincoln Park	3.6	--
Total estimated obligations	$11.1	--

In addition to the liability reported in the table above, the State expects to incur estimated costs of $27,000 per year indefinitely to pump and treat contamination at a former chrome plating facility. The State also expects to incur estimated costs of $70,000 per year indefinitely to operate and maintain a closed landfill. Both are Superfund sites and estimated total remediation costs for them cannot be reasonably determined. Therefore, a liability has not been reported in the Statement of Net Assets for either site.

NOTE 14. 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, 2010, is available at www.etf.wi.gov or may be obtained upon request from:

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

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, 2010, the number of participating employers was:

State Agencies	59
Cities	152
Counties	71
4th Class Cities	36
Villages	258
Towns	233
School Districts	426
Wisconsin Technical College System Board Districts	16
Cooperative Educational Service Agencies	12
Other	211
Total Employers	1,474

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 (3.9 percent for Executives and Elected Officials, 5.8 percent for Protective Occupations with Social Security, and 4.8 percent for Protective Occupations without Social Security) to the plan as of June 30, 2011. 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, 2010, 2009, and 2008 were as follows (in millions):

	2010	2009	2008
Employer current service	$ 207.8	$ 192.5	$ 196.2
Percent of payroll	5.3%	5.0%	5.1%
Employer prior service	$ 3.3	$ 3.2	$ 3.1
Percent of payroll	0.1%	0.1%	0.1%
Employee required	$ 196.4	$ 191.1	$ 191.2
Percent of payroll	5.0%	5.0%	5.0%
Benefit adjustment contributions	$ 40.6	$ 30.0	$ 33.2
Percent of payroll	1.0%	0.8%	0.9%
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 for employers in the WRS prior to 2009. Liabilities for employers joining the WRS effective April 5, 2008, are amortized over 30 years. 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, 2011 and 2010, the WRS’s unfunded actuarial accrued liability was $0.1 billion and $0.2 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 7.2 percent.

NOTE 15. 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) allows 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 is available at www.swib.state.wi.us or may be obtained upon request from:

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

NOTE 16. POSTEMPLOYMENT BENEFITS – STATE HEALTH INSURANCE PROGRAM

Effective Fiscal Year 2008, the State implemented the Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of other postemployment benefit expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in financial reports of state and local governmental employers.

Plan Description

The State's Health Insurance Program, a cost-sharing multiple employer, defined benefit plan, is an employer-sponsored program (not administered as a trust) offering group medical coverage to eligible employees and retirees of State and participating local government employers. Created under Chapter 40, of the Wisconsin Statutes, the State Department of Employee Trust Funds and the Group Insurance Board have program administration and oversight responsibilities under Wis. Stat. Sections 15.165(2) and 40.03(6). As of January 2009 (most recent actuarial valuation date), there were 54,598 active, and 20,592 retirees and beneficiaries participating in the plan.

Under this plan, retired employees of the State are allowed to pay the same healthcare premium as active employees, creating an implicit rate subsidy for retirees. This implicit rate subsidy, which is calculated to cover pre-age 65 retirees (since at age 65 retirees are required to enroll in Medicare when eligible), is treated as an other postemployment benefit (OPEB).

The Department of Employee Trust Funds issues a publicly available financial report. That report is available at www.etf.wi.gov or may be obtained upon request from:

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

Funding Policy

The health insurance plan is currently funded on a "pay-as-you-go" basis. GASB Statement No. 45 does not require funding of the OPEB expense and the State does not currently intend to prefund the OPEB obligation. Under this plan, retirees contribute premiums directly to the plan either through "out-of-pocket" or from unused accumulated sick leave conversion credits. The value of the sick leave benefit is defined as compensated absences and reported under the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*.

Contribution requirements are established and may be amended by the Group Insurance Board. For retirees that participate in the health insurance plan, premiums, for non-Medicare retirees, are based on an effective rate structure for the health care service provider selected. Rates range from $584.20 to $1,147.60 for single coverage and $1,456.70 to $2,865.60 for family coverage.

The annual required contribution of the employer (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. At June 30, 2011, the ARC was $136.9 million while the employer contributions were $52.8 million, and the ARC adjustment, with interest, was $20.1 million.

Annual OPEB Cost

The State's annual OPEB cost, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation were as follows (in thousands):

Fiscal Year	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	$128,437	$52,826	41.1%	$367,486
2010	124,294	46,487	37.4	291,875
2009	158,699	48,795	30.8	214,068
2008	148,497	44,333	29.9	104,164

Interest on the net OPEB obligation was $11.7 million while the net OPEB obligation increased $75.6 million.

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2009 (most recent actuarial valuation date) was as follows (in thousands):

Actuarial accrued liability (AAL)	$1,329,526
Actuarial value of plan assets	0
Unfunded actuarial accrued liability (UAAL)	$1,329,526
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	$3,053,972
UAAL as a percentage of covered payroll	43.5%

The actuarial accrued liability calculation considers the retiree drug subsidy (RDS) provisions of Medicare Part D as a separate transaction. Therefore, the actuarial accrued liability, the annual required contribution of the employer (ARC), and the annual OPEB costs are determined without reduction of RDS payments. At January 1, 2009, (most recent actuarial valuation date) the Medicare part D portion included in the actuarial accrued liability is $497.4 million.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2009 actuarial valuation, the entry age normal actuarial cost method was used. Actuarial assumptions included a discount rate of 4.0 percent, determined using an underlying assumption of 3.0 percent for inflation plus 1.0 percent for high quality investments with durations of one year or less, and a 4.1 percent assumed annual payroll growth. The projected annual healthcare cost trend rate is 9.07 percent initially, reduced by decrements to an ultimate rate of 5.0 percent. Other assumptions used, such as mortality, disability and retirement rates for active members, are consistent with an actuarial valuation on the Wisconsin Retirement Plan dated December 31, 2008. In addition, a 30 year, level percent of pay, closed amortization period was used for the initial UAAL, while a 15 year, level percent of pay, closed amortization period was used for any future gains and losses.

Currently, the health insurance plan is not funded by assets held in a separate trust. The discount rate (discussed above) was based on the State’s general assets not earmarked for certain uses, such as building funds. The State’s general assets are held in short-term fixed income investments. Therefore, the discount rate reflects that type of investment policy.

A Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 17. OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

The State of Wisconsin, Department of Employee Trust Funds (DETF), administers three postemployment benefit plans other than pension plans – the State Retiree Health Insurance Fund, the Duty Disability Fund, and the Retiree Life Insurance Fund.

Plan Descriptions

State Retiree Health Insurance Fund

The State *Retiree Health Insurance Fund* is a multiple-employer defined benefit OPEB plan offering group health insurance. Disclosures relating to the plan are provided in Note 16 – *Postemployment Benefits of the State Other Than Pensions – Health Insurance Program*.

Duty Disability Fund

The *Duty Disability Fund* is a cost-sharing multiple-employer defined benefit OPEB plan. The plan offers special disability insurance for state and local participants in protective occupations. The plan is self-insured, and risk is shared between the State and local government employers in the plan. The plan is administered under Wis. Stat. Section 40.65. The plan is reported as a pension and other employee benefit trust fund.

Contributions are actuarially determined in accordance with Wis. Stats. Section 40.05 (2)(ar). All contributions are employer paid based on a graduated, experienced-rated formula. During Calendar Year 2010 contribution rates ranged from 1.9 percent to 6.6 percent of covered payroll based on employer experience.

Eligibility for program benefits is based upon whether a duty-related injury or disease is likely to be permanent, which causes a protective occupation participant to retire, accept reduced pay or light duty assignment, or in some cases, that impairs promotional opportunities. Benefits approximate 80 percent of salary (75 percent if partially disabled and not a State Employee), less certain offsets such as; social security, unemployment compensation, worker's compensation and other retirement benefits. Survivor benefits are also offset by certain benefits based on program requirements.

Retiree Life Insurance Fund

The *Retiree Life Insurance Fund* is a cost-sharing multiple-employer defined benefit OPEB plan. The plan provides post-employment life insurance coverage to all eligible employees. The plan is administered under Wis. Stats. Section 40.70. The plan is reported as a pension and other employee benefit trust fund.

Generally, members may enroll during a 30-day enrollment period once they satisfy a six-month waiting period. They may enroll after the initial 30-day enrollment period with evidence of insurability. Members under evidence of insurability enrollment must enroll in group life insurance coverage before age 55 to be eligible for Basic or Supplemental coverage.

Employers are required to pay the following contributions for active members to provide them with basic coverage after age 65. There are no employer contributions for pre-65 annuitant coverage. All contributions are actuarially determined.

	State	Local
50 percent post retirement coverage	28 percent of the employee premium	40 percent of employee premium
25 percent post retirement coverage	N/A	20 percent of employee premium

At retirement, the member must have active group life insurance coverage and satisfy one of the following:

- Wisconsin Retirement System (WRS) coverage prior to January 1, 1989, or
- At least one month of group life insurance coverage in each of five calendar years after 1989 and one of the following:
- Eligible for an immediate WRS benefit, or
- At least 20 years from their WRS creditable service as of January 1, 1990, plus their years of group life insurance coverage after 1989, or
- At least 20 years on the payroll of their last employer.

In addition, terminating members and retirees must continue to pay the employee premiums until age 65 (age 70 if active).

After retirement, basic coverage is continued for life in amounts for the insurance in force before retirement. Additional coverage may be continued until age 65 at 100 percent of the amount of the insurance in force before retirement at the employee's expense, and spouse and dependent coverage benefits is terminated.

Summary of Significant Accounting Policies

Basis of Accounting

The OPEB plans are reported in accordance with GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Method Used to Value Investments

Duty Disability Fund

Investments for the *Duty Disability Fund* are invested in the Core Retirement Investment Trust, which is managed by the State of Wisconsin Investment Board (SWIB). These investments are valued at fair value. Generally, fair value information represents actual bid prices or the quoted yield equivalent at the end of the year for securities of comparable maturity, quality, and type, as obtained from one or more major investment brokers. If quoted market prices are not available, a variety of third-party pricing methods are used, including appraisals, certifications, pricing models, and other methods deemed acceptable by industry standards.

Retiree Life Insurance Fund

Investments for the *Retiree Life Insurance Fund* are held with the insurance carrier (the Company). The Retiree Life Insurance Fund's investment is a share in the investment pool.

Fixed maturity securities, which may be sold prior to maturity, including fixed maturities on loan, are classified as available-for-sale and are carried at fair value. Premiums and discounts are amortized or accreted over the estimated lives of the securities based on the interest yield method.

The Company uses book value as cost for applying the retrospective adjustment method to loan-backed fixed maturity securities purchased. Prepayment assumptions for single class and multi-class mortgage-backed securities were obtained from broker/dealer survey values or internal estimates.

Marketable equity securities are classified as available-for-sale and are carried at fair value. Mutual funds and exchange traded fund investments in select asset classes that are sub-advised are carried at the fair value of the underlying net assets of the funds.

Available-for-sale securities are stated at fair value.

Mortgage loans are carried at amortized cost less any valuation allowances. Premiums and discounts are amortized or accreted over the terms of the mortgage loans based on the effective interest yield method.

Private equity investments in limited partnerships are carried at the amount invested, adjusted to recognize the Company's ownership share of the earnings or losses of the investee after the date of the acquisition, adjusted for any distributions received (equity method accounting).

Investments in partnerships, which represent minority interests owned in certain general agencies, are carried at the amount invested, adjusted to recognize the Company's ownership share of the earnings or losses of the investee after acquisition adjusted for any distributions received (equity method accounting).

Fair values of fixed maturity securities are based on quoted market prices where available. Fair values of marketable equity securities are based on quoted market prices. Fair values of private equity investments are obtained from the financial statement valuations of the underlying fund or independent broker bids. For fixed maturity securities not based on quoted market prices, generally private placement securities, securities that do not trade regularly, and embedded derivatives, an internally developed pricing model using a commercial software application is most often used. The internally developed pricing model is developed by obtaining spreads versus the U.S. Treasury yield for corporate securities with varying weighted average lives and bond ratings.

Real estate is carried at cost less accumulated depreciation.

The Company's derivative instrument holdings are carried at fair value. All derivatives are recorded as non-hedge transactions. Derivative instrument fair values are based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using current market assumptions and modeling techniques, which are then compared with quotes from counterparties.

For mortgage-backed securities of high credit quality, excluding interest-only securities, the Company recognizes income using a constant effective yield method based on prepayment assumptions obtained from an outside service provider or upon analyst review of the underlying collateral and the estimated economic life of the securities.

Policy loans are carried at the unpaid principal balance.

Cash and cash equivalents are carried at cost, which approximates fair value. The Company considers all money market funds and commercial paper with original maturity dates of less than three months to be cash equivalents.

Finance receivables that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding unpaid principal balances reduced by any charge-offs.

The Company holds “To-Be-Announced” (TBA) Government National Mortgage Association forward contracts that require the Company to take delivery of a mortgage-backed security at a settlement date in the future. Most of the TBAs are settled at the first available period allowed under the contract. However, the deliveries of some of the Company’s TBA securities happen at a later date, thus extending the forward contract date. These securities are reported at fair value as derivative instruments with the changes in fair value reported in net realized investment gains and losses on the consolidated statements of operations.

Required Supplementary Information

Required Supplementary Information about the OPEB plans is presented in the Department of Employee Trust Funds audited financial statements. The December 31, 2010 financial report 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

NOTE 18. PUBLIC ENTITY RISK POOLS ADMINISTERED BY THE DEPARTMENT OF EMPLOYEE TRUST FUNDS

The Department of Employee Trust Funds operates four public entity risk pools: group health insurance, group income continuation insurance, long-term disability insurance, and pharmacy benefits. The information provided in this note applies to the period ending December 31, 2010.

A. Description of Funds

The Health Insurance Fund offers group health 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 373 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 192 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 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 Income Continuation Insurance 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 7.2 percent for income continuation and long-term disability insurance. The liabilities for income continuation, long-term disability, and health insurance were determined by actuarial methods.

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 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 2010 (in millions):

	Health Insurance		Income Continuation Insurance		Long-term Disability Insurance		Pharmacy Benefits	
	2009	2010	2009	2010	2009	2010	2009	2010
Unpaid claims at beginning of the calendar year	$ 4.9	$ 4.3	$ 76.7	$ 72.8	$ 138.6	$ 156.3	$ (2.3)	$ (4.3)
Incurred claims:								
Provision for insured events of the current calendar year	25.9	24.0	33.4	34.3	50.2	54.2	134.8	148.4
Changes in provision for insured events of prior calendar years	(2.3)	(2.5)	(21.8)	(17.1)	(8.9)	(8.6)	(0.1)	(0.7)
Total incurred claims	23.6	21.5	11.6	17.3	41.3	45.6	134.7	147.7
Payments:								
Claims and claim adjustment expenses attributable to insured events of the current calendar year	21.6	20.5	5.5	6.0	1.7	1.9	139.1	155.8
Claims and claim adjustment expenses attributable to insured events of prior calendar years	2.6	1.7	10.0	9.9	21.9	24.4	(2.4)	(5.0)
Total payments	24.2	22.2	15.5	15.9	23.6	26.3	136.7	150.8
Total unpaid claims expenses at end of the calendar year	$ 4.3	$ 3.6	$ 72.8	$ 74.1	$ 156.3	$ 175.6	$ (4.3)*	$ (7.4)*

* Total unpaid claims at the end of 2010 is the net of $4.0 million in unpaid claims and $11.4 million in rebates due from pharmaceutical companies; total unpaid claims at the end of 2009 is the net of $3.9 million in unpaid claims and $8.2 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, 2010 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

NOTE 19. 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 $3.0 million per occurrence and $3.2 million annual aggregate. When claims, which exceed $25,000 per occurrence, total $3.2 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 2011, 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, 2011 are estimated to total $7.9 million.

Property Damages and Bodily Injuries to Third Parties

The State is self-funded for third party liability to a level of $4.0 million per occurrence and purchases insurance in excess of this self-funded retention. The policy limit during Fiscal Year 2011 was $49.0 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. Immaterial non-incremental claims adjustment expenses are not included as part of the liability. Claims incurred but not paid as of June 30, 2011 are estimated to total $21.1 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, 2011 are estimated to total $68.0 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):

	2011	2010
Beginning of fiscal year liability	$ 94,847	$ 103,119
Current year claims and changes in estimates	28,851	21,376
Claim payments	(26,743)	(28,278)
	96,955	96,217
Excess insurance reimbursable	(5,280)	(1,370)
Balance at fiscal year-end	$ 91,675	$ 94,847

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, 2011 is $7.2 million.

NOTE 20. INSURANCE FUNDS

A. Primary Government

1. 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, 2011 the Local Government Property Insurance Fund insured 1,087 local governmental units. The total amount of insurance in force as of June 30, 2011 was $50.0 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, 2011, the fund had $21.1 million of shares in the State Investment Fund which are considered cash equivalents.

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 Loss Liabilities - The Local Government Property Insurance Fund establishes the unpaid loss liability titled future benefits and loss liabilities on the financial statements based on estimates of the ultimate cost of losses (including future loss adjustment expenses) that have been reported but not settled, and of losses that have been incurred but not reported. Estimated amounts of excess-of-loss insurance recoverable on unpaid losses are deducted from the liability for unpaid losses. Loss liabilities are recomputed periodically to produce current estimates that reflect recent settlements, loss 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.

Excess-of-Loss Insurance Coverage - The Local Government Property Insurance Fund purchases excess-of-loss insurance coverage, the operation of which is analogous to “reinsurance,” to reduce its exposure to large losses on all types of insured events. Excess-of-loss insurance permits recovery of a portion of losses from the excess-of-loss insurers, although it does not discharge the primary liability of the fund as direct insurer of the risks reinsured. The fund does not report excess-of-loss insured risks as liabilities unless it is probable that those risks will not be covered by excess-of-loss insurers. As of June 30, 2011 the fund had $425.0 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 $22.0 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 excess-of-loss insurers, which is netted against premium revenue (charges for goods and services in the financial statements), amounted to $5.5 million during the fiscal year. Excess-of-loss and adjusting expense recoveries earned would typically reduce claims paid (benefit expense on the financial statements). During the fiscal year the Local Government Property Insurance Fund received $18.8 million in recoveries.

Unpaid Loss 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 loss expenses. The following represents changes in those aggregate liabilities for the fund during the past two fiscal years (in thousands):

	2011	2010
Unpaid loss liabilities		
at beginning of the year	$6,275	$9,506
Less: Excess-of-loss insurance recoverable	--	(2,716)
Net unpaid loss liabilities at beginning of year	6,275	6,790
Incurred losses and loss expenses:		
Provision for insured events of the current year	23,963	12,113
Increase (decrease) in provision for insured events of prior years	1,770	4
Total incurred losses and loss expenses	25,733	12,117
Payments:		
Losses and loss expenses attributable to insured events of the current year	11,426	6,228
Losses and loss expenses attributable to insured events prior years	7,207	6,404
Total payments	18,633	12,632
Net unpaid loss liabilities at end of year	13,375	6,275
Plus: Excess-of-loss liabilities recoverable	1,743	--
Total unpaid loss liabilities at end of year	$15,118	$6,275

Trend Information

Historical trend information showing revenue and claims development information is presented in the Office of the Commissioner of Insurance June 30, 2011 financial statements. Copies of these statements may be requested from:

Office of the Commissioner of Insurance
125 South Webster Street
Madison, Wisconsin 53702

2. 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	$ 9,326	$ 7,057
1967-1976	30,940	16,593
1977-1985	73,643	23,795
1986-1994	49,928	8,812
1995-2008	41,190	5,484
2009+	3,533	180
	$ 208,560	$ 61,921

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
1995-2008	4.0	1980 CSO, ALB, Aggregate
2009+	4.0	2001 CSO, ALB, Aggregate

* Age Next Birthday

All of the State Life Insurance Fund's 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, 2010 were $92.0 million and the statutory capital and surplus was $8.3 million, and the fund equity at June 30, 2011 was $20.0 million.

3. 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 claims exceeding the legal primary insurance limits prescribed in Wis. Stat. Section 655.23(4), or the maximum liability limit for which the health care provided is insured, whichever limit is greater. Management of the Injured Patients and Families Compensation Fund is vested with a 13-member Board of Governors, which is chaired by the Commissioner of Insurance. 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 recommended by a consulting actuary. 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, 2011 as follows (in thousands):

Projected ultimate loss liability	$ 1,427,708
Less: Net loss paid from inception	(810,106)
Less: Liability for reported losses	(7,149)
Liability for incurred but not reported losses	$ 610,453

The Future Benefits and Loss Liability account also includes a provision for the estimated future payment of the costs to settle claims. The actuary estimates the ultimate loss adjustment expense (LAE) using data available through September 30 of the fiscal year. The actuary estimates LAE at 18 percent of the estimated unpaid loss liabilities as of June 30, 2011. Since the actuary estimate occurs before the end of the fiscal year and are based on an estimate of the cumulative payments, the percentage used by the actuary in determining LAE will differ slightly from the percentages used in financial statements since actual LAE payments are used for financial reporting. The LAE 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, 2011 as follows (in thousands):

Projected ultimate loss adjustment expense liability	$ 184,300
Less: Loss adjustment expense paid from inception	(74,719)
Liability for loss adjustment expense	$ 109,581

In accordance with Section Ins. 17.27(3), Wis. Adm. Code, 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 these estimated loss liabilities. These estimated loss liabilities are discounted only to the extent that they are matched by cash and invested assets. Using the actuarially determined discount factor of 0.824, which is based on an investment yield assumption of 5.5 percent approved by the Board of Governors, the discounted loss liability would be as follows as of June 30, 2011 (in thousands):

Estimated liability for Incurred But Not Reported (IBNR)	$ 610,453
Estimated liability for reported losses	7,149
Estimated unpaid loss adjustment expense	109,581
Total estimated loss liabilities	727,183
Less: Amount representing interest	(127,870)
Discounted loss liabilities	$ 599,313

Included in the above estimates of loss liabilities, both undiscounted and discounted, is a 25 percent risk margin, which was recommended by the actuary and approved by the Board of Governors.

Once every three years, the Office of the Commissioner of Insurance contracts for an actuarial audit of the Injured Patients and Families Compensation Fund. This audit includes a review by another actuary of the reasonableness of the actuarial methodology and assumptions used in developing estimates of the Fund's liabilities. The actuarial audits have concluded that the Fund's loss liability estimates are reasonable, although conservative. The Fund's contracted actuary has considered the recommendations made in the actuarial audits and appropriately incorporated any necessary changes based on those recommendations into the actuarial methodology and assumptions used to calculate the Fiscal Year 2011 liabilities estimate.

In addition to discounted loss liabilities, the Future Benefit and Loss Liabilities account also includes a future medical expenses liability and a contributions being held liability. The future medical expenses liability consists of those accounts required by Wis. Stat. Sec. 655.015 to be established if a settlement or judgment provides for future medical expense payments in excess of $100,000. The accounts are managed by the Fund and earn a proportionate share of the Fund's interest. Any account balance remaining when a claimant dies reverts back the Fund. The contributions being held liability consists of nonrefundable payments, generally in amounts equal to the primary coverage in effect for related claims, that primary insurers have voluntarily presented to the fund and which are negotiable with the fund in exchange for a release of payment for any future defense costs that may be incurred on the claim. This amount is held as a liability to the Fund until a payment on the claim is made.

The breakdown of Future Benefit and Loss Liabilities, including the portions that are estimated as current and noncurrent as of June 30, 2011 (in thousands), is as follows:

Discounted loss liabilities	$ 599,313
Future medical expense liability	37,190
Contributions being held liability	--
Total estimated loss liabilities	636,503
Current portion	(79,817)
Noncurrent portion	$ 556,686

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 loss liabilities. These differences cannot be quantified.

The estimated amounts included in the balance of Future Benefits and Loss Liabilities are continually reviewed and adjusted as the Injured Patients and Families Compensation Fund gains additional experience. 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.

The following is a reconciliation of the change in the balance of Future Benefits and Loss Liabilities during FY 2011 (in thousands):

Liability at the beginning of the year	$ 721,071
Incurred claims and related expenses for the current year and the change in estimated amounts for claims incurred in prior years	(44,282)
Less: current year payments attributable to claims incurred in current and prior years	(40,286)
Liability at the end of the year	$ 636,503

B. Component Units

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, 2010.

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, 2009, and December 31, 2010, are as follows (in thousands):

	2010	2009
Balance at January 1	$ 21,606	$ 17,612
Incurred related to:		
Current year	4,201	4,594
Prior years	(4,317)	630
Total Incurred	(116)	5,224
Paid related to:		
Current year	58	89
Prior years	945	1,141
Total paid	1,003	1,230
Balance at December 31	$ 20,487	$ 21,606

There is inherent uncertainty in medical malpractice claims when establishing the estimates of unpaid losses and unpaid loss adjustment expenses. In 2010, the Plan decreased its estimates of unpaid losses and unpaid loss adjustment expenses related to insured events of prior years. This decrease caused the total of incurred losses and loss adjustment expense to be negative.

NOTE 21. 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, 2011 is presented below (in thousands):

Condensed Balance Sheet

Assets:		
Current Assets	$	179,714
Other Assets		998,392
Total Assets	$	1,178,106
Liabilities:		
Due to Other Funds	$	2,052
Other Current Liabilities (Including Current Portion of Long-term Debt)		61,860
Noncurrent Liabilities		879,300
Total Liabilities		943,212
Fund Equity:		
Restricted		234,894
Total Fund Equity		234,894
Total Liabilities and Fund Equity	$	1,178,106

Condensed Statement of Revenues, Expenses and Changes in Fund Equity

Operating Revenues (Expenses):		
Interest Income used as Security for Revenue Bonds	$	21,220
Interest Expense		(41,783)
Other Operating Expenses		(2,163)
Operating Income (Loss)		(22,726)
Nonoperating Revenues (Expenses):		
Investment Income		23,250
Income (Loss) before Transfers		524
Transfers In (Out)		15,000
Change in Fund Equity		15,524
Beginning Fund Equity		219,369
Ending Fund Equity	$	234,893

Condensed Statement of Cash Flows

Net Cash Provided (Used) by :		
Operating Activities	$	(2,679)
Noncapital Financing Activities		28,811
Investing Activities		(9,268)
Net Increase (Decrease)		16,865
Beginning Cash and Cash Equivalents		148,812
Ending Cash and Cash Equivalents	$	165,677

NOTE 22. COMPONENT UNITS – CONDENSED FINANCIAL INFORMATION

Significant financial data for the State's four discretely presented component units for the year ended December 31, 2010 or June 30, 2011 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	Total
Condensed Balance Sheet					
Assets and Deferred Outflows:					
Cash, Investments and Other Assets	$ 3,259,138	$ 64,051	$ 467,211	$ 2,635,576	$ 6,425,976
Due from Primary Governments	-	-	2,003	-	2,003
Cash and Investments with Other Component Units	-	-	265,012	-	265,012
Capital Assets, net	15,196	-	385,490	7,054	407,740
Deferred Outflows of Resources	91,245	-	-	-	91,245
Total Assets and Deferred Outflows	$ 3,365,579	$ 64,051	$ 1,119,716	$ 2,642,630	$ 7,191,976
Liabilities:					
Accounts Payable and Other Current Liabilities	$ 130,428	$ 10,067	$ 111,540	$ 30,575	$ 282,610
Due to Primary Government	225	-	7,253	-	7,478
Amounts Held for Other Component Units	-	-	-	251,702	251,702
Other Liabilities	91,245	-	10,301	-	101,546
Long-term Liabilities (Current and Noncurrent portions)	2,571,822	20,487	321,801	40,941	2,955,051
Total Liabilities	2,793,720	30,553	450,895	323,218	3,598,386
Fund Equity:					
Invested in Capital Assets, Net of Related Debt	4,016	-	151,853	7,054	162,923
Restricted	553,536	33,498	10,847	2,137,485	2,735,366
Unrestricted	14,307	-	506,121	174,873	695,301
Total Fund Equity	571,859	33,498	668,821	2,319,412	3,593,590
Total Liabilities and Fund Equity	$ 3,365,579	$ 64,051	$ 1,119,716	$ 2,642,630	$ 7,191,976
Condensed Statement of Revenues, Expenses and Changes in Fund Equity					
Program Expenses:					
Depreciation	$ 6,193	$ -	$ 45,839	$ 489	$ 52,521
Payments to Primary Government	-	-	2,500	206,224	208,724
Other	310,145	1,117	964,215	30,558	1,306,035
Total Program Expenses:	316,338	1,117	1,012,554	237,271	1,567,280
Program Revenues:					
Charges for Goods and Services	6,291	4,210	1,059,550	-	1,070,051
Investment and Interest Income	131,580	3,038	-	278,377	412,995
Operating Grants and Contributions	176,271	-	-	165,668	341,939
Capital Grants and Contributions	-	-	3,286	-	3,286
Miscellaneous	13,654	9	20,472	50	34,185
Total Program Revenues	327,796	7,257	1,083,308	444,095	1,862,456
Net Program Revenue/(Expense)	11,458	6,140	70,754	206,824	295,176
General Revenues:					
Interest and Investment Earnings	9,043	-	23,500	-	32,543
Miscellaneous	-	-	-	-	-
Loss on Unamortized Bond Insurance Premium			-		-
Contributions to Endowments	-	-	644	-	644
Change in Fund Equity	20,501	6,140	94,898	206,824	328,363
Fund Equity, Beginning of Year	551,358	27,357	573,923	2,112,588	3,265,227
Fund Equity, End of Year	$ 571,859	$ 33,498	$ 668,821	$ 2,319,412	$ 3,593,590

NOTE 23. RESTATEMENTS OF BEGINNING FUND BALANCES/FUND EQUITY/NET ASSETS AND OTHER CHANGES

The following reconciliations summarize restatements of the end-of-year fund balance/fund equity/net assets as reported in the 2010 Comprehensive Annual Financial Report to the beginning-of-year amounts reported for Fiscal Year 2011 (in thousands). During Fiscal Year 2011, the State implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* As a result of the implementation of this statement, fund reclassifications and some adjustments to the fund balances reported in the prior year financial statements were required. These adjustments impacted governmental funds as well as an internal service fund.

A. Fund Statements – Governmental Funds

	Major Funds				
	General	Transportation	Common School	Nonmajor Funds	Total Governmental
Fund Balances June 30, 2010 as reported in the 2010 Comprehensive Annual Financial Report	$ (2,943,303)	$ 650,148	$ 820,479	$ (390,557)	$ (1,863,233)
Fund structure changes:					
Wisconsin Election Campaign to General Fund	1,245	-	-	(1,245)	-
Vendor Net reclassified to proprietary fund				2,789	2,789
Correction of accrual for due from other governments	26,113	25,808	-	-	51,921
Other adjustments of assets and liabilities as of June 30, 2010	568	-	-	-	568
Fund Balances July 1, 2010 as restated	$ (2,915,377)	$ 675,956	$ 820,479	$ (389,013)	$ (1,807,955)
Effect of adjustments on the amount of excess revenues and other sources over expenditures and other uses of Fiscal Year 2010	$ 26,681	$ 25,808	$ -	$ -	$ 52,489

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, 2010 as reported in the 2010 Comprehensive Annual Financial Report	$ 132,798	$ 1,555,998	$ 4,894,016	$ (920,352)	$ 443,372	$ 6,105,832	$ (17,017)
Vendor Net reclassified from governmental fund							(2,789)
Other adjustments of assets and liabilities as of June 30, 2010	-	-	-	-	1,638	1,638	(363)
Fund Equity July 1, 2010 as restated	$ 132,798	$ 1,555,998	$ 4,894,016	$ (920,352)	$ 445,010	$ 6,107,470	$ (20,169)
Effect of adjustments on the amount of net change in fund equity of Fiscal Year 2010	$ -	$ -	$ -	$ -	$ 1,638	$ 1,638	$ (363)

C. Fund Statements – Fiduciary Funds

	Pension and Other Employee Benefit Trust	Investment Trust	Private Purpose Trust	Total Fiduciary
Net Assets June 30, 2010 as reported in the 2010 Comprehensive Annual Financial Report	$ 66,937,157	$ 2,606,398	$ 2,265,681	$ 71,809,236
Other adjustments of assets and liabilities as of June 30, 2010	(265)	-	-	(265)
Net Assets July 1, 2010 as restated	$ 66,936,893	$ 2,606,398	$ 2,265,681	$ 71,808,971
Effect of prior period adjustments on the amount of net increase (decrease) in net assets of Fiscal Year 2010	$ (265)	$ -	$ -	$ (265)

D. Government-wide Statements

	Primary Government			
	Governmental Activities	Business-type Activities	Totals	Component Units
Net Assets June 30, 2010 as reported in the 2010 Comprehensive Annual Financial Report	$ 5,583,179	$ 6,110,183	$ 11,693,362	$ 3,265,261
Department of Transportation restatement of capital assets and infrastructure	(13,589)	-	(13,589)	-
Correction of accrual for due from other governments	51,921	-	51,921	-
Elimination of the State Fair Park Exposition Center, Inc. as a component unit				(34)
Other adjustments of assets and liabilities as of June 30, 2010	344	1,638	1,982	
Net Assets July 1, 2010 as restated	$ 5,621,855	$ 6,111,821	$ 11,733,676	$ 3,265,227
Effect of adjustments on the amount of net increase (decrease) in net assets of Fiscal Year 2010	$ 51,046	$ 1,638	$ 52,684	$ -

NOTE 24. LITIGATION, CONTINGENCIES AND COMMITMENTS

A. Litigation and Contingencies

The State is a defendant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations.

Claims and Judgments Reported in Governmental Activities

The State accrues liabilities related to legal proceedings, if a loss is probable and reasonably estimable. Such losses, totaling $2.8 million on June 30, 2011 reported in the governmental activities, are discussed below:

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 totaled $.8 million at June 30, 2011.

The U.S. Department of Agriculture (USDA) determined that certain costs of services for the Supplemental Nutrition Assistance Program (SNAP), administered by the State of Wisconsin Department of Health Services, were not eligible for participation in that program. Therefore, a liability for $2.0 million is reported at June 30, 2011, $1.6 million as a claims and judgments in the government-wide statements and $.4 million as a “Due to Other Governments” in the General Fund.

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.

Notice of Transferee Liability – In September 2008, the Internal Revenue Service (IRS) provided the State of Wisconsin Investment Board (SWIB) a Notice of Transferee Liability. This claim seeks taxes, penalties and interest relating to the sale of Shockley Communications Corporation (SCC) stock in 2001.

The IRS asserts that the shareholders’ sale of SCC stock in 2001 should have been characterized as a sale of assets by SCC, on which SCC should have paid income taxes. The IRS asserts that the former SCC shareholders, including SWIB, would be liable for those taxes, plus penalties and interest. The SWIB’s liability, as a putative transferee of SCC assets, would be limited to $28.3 million plus interest.

The SWIB believes that the loss, if any, resulting from the claim being upheld will not have a material impact on net investment assets or net income in future years. Due to uncertainty in predicting an outcome, a liability has not been recorded.

Transfer from Injured Patients and Families Compensation Fund – 2007 Wisconsin Act 20, which was signed into law October 2007, required a transfer of $200 million from the Injured Patients and Families Compensation Fund to the General Fund. Subsequent to the signing of this legislation and the initial transfer, the Wisconsin Medical Society filed a lawsuit on behalf of their members challenging the transfer as unconstitutional. After being dismissed, the case was appealed to the Wisconsin Supreme Court. In July, 2010, the Wisconsin Supreme Court ruled that the plaintiffs had a property interest in the transferred funds, and that the transfer therefore, constituted an unlawful taking under the Wisconsin Constitution. The Court ruling required that the $200 million, plus interest and lost earnings, be returned to the Injured Patients and Families Compensation Fund. As a result, the General Fund transferred $233.7 million to the Injured Patients and Families Compensation Fund on August 2, 2011. This amount is included in “Advances From Other Funds” on the General Fund Balance Sheet. Similarly, an “Advance To Other Funds” for $233.7 million is reported in the Injured Patients and Families Compensation Fund.

B. Commitments

Primary Government

As of June 30, 2011, encumbrances of the General Fund totaled $612.8 million, encumbrances of the Transportation Fund totaled $1.48 billion, and encumbrances of other non-major governmental funds totaled $238.5 million. Obligations at June 30, 2011 representing multi-year, long-term commitments included (in thousands):

Transportation Fund	$ 492,821
Transportation Revenue Bonds Capital Projects Fund	54,131
General Fund – Housing Programs	73,798

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 $199.2 million as of June 30, 2011. 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 defaults on annuity payments. One of the fund's annuity providers defaulted on $104 thousand in annuity payments through June 30, 2011, 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 $93 thousand through June 30, 2011. 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, 2011 was $32.8 million. The replacement value calculation includes only annuities where the Fund remains the owner. Annuities with qualified assignments are no longer included. 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, 2011, the appropriation available totaled $45.1 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.

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, 2011, outstanding loan guarantees totaled $30.0 million.

In April 2003, the Authority approved the Neighborhood Business Revitalization Guarantee program. The guarantee program will provide up to $12.0 million in loan guarantees for revitalization in targeted urban commercial communities with populations greater than 35,000. As of June 30, 2011, $7.5 million of loan guarantees had been approved with outstanding loan guarantees of $5.1 million.

NOTE 25. SUBSEQUENT EVENTS

Primary Government

Short-term Debt

Operating Notes – In July 2011, the State issued $800.0 million of operating notes. The proceeds of the notes were to be used within six months to fund local assistance payments to the State's municipalities and school districts, and finance day-to-day operations in anticipation of revenue received later in the fiscal year. The notes were issued because of an imbalance between the timing of payments disbursed and receipts collected. The imbalance exists because a greater percentage of receipts are received in the second half of the fiscal year, primarily January, March and April. The notes will be paid at maturity on June 15, 2012.

Long-term Debt

In August 2011, the State issued $329.3 million of 2011 Series B 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 ranged from 4.0 percent to 5.0 percent payable semiannually, beginning May 1, 2012. The bonds mature beginning May 1, 2013 through 2022.

In October 2011, the State issued $316.1 million of 2011 Series 2 general obligation refunding bonds to be used for the current and advance refunding of certain principal of previously issued general obligation bonds. The interest rates ranged form 3.0 percent to 5.0 percent payable semiannually, beginning May 1, 2012. The bonds mature beginning November 1, 2013 through 2022.

In December 2011, the State sold $138.3 million of 2011 Series C general obligation bonds to be used for general governmental purposes. The interest rates range from 3.5 percent to 5.0 percent with the bonds maturing May 1, 2023 to May 1, 2032.

Component Units

Wisconsin Housing and Economic Development Authority (the Authority) – Subsequent to June 30, 2011, the Authority redeemed the following bonds (in thousands):

Program/Bond Resolution	Amount Redeemed
Home Ownership Revenue Bonds:	
1999 Series F, G, H & I	$ 1,275
2006 Series E and F	1,745
2007 Series C and D	1,500

In addition, subsequent to June 30, 2011, the Authority early retired the following bonds (in thousands):

Program/Bond Resolution	Redemptions Amount Retired
Home Ownership Revenue Bonds:	
1987	$ 52,675
1988	92,050
All Other	1,275
Housing Revenue Bonds	45
Line of Credit – Mortgage Financing	11,247

In addition, subsequent to June 30, 2011, the Authority issued the following bonds (in thousands):

Program/Bond Resolution	Issuances
Multifamily Stand Alone Bonds	$ 9,100
Line of Credit – Mortgage Financing	13,892

Required Supplementary Information

Postemployment Benefits - State Health Insurance Program

The funding progress for the State of Wisconsin Health Insurance Plan is provided below (in thousands):

Actuarial Valuation Date	Actuarial Valuation Of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a) / c)
1/1/2009	$ 0	$ 1,329,526	$ 1,329,526	0.0%	$ 3,053,972	43.5%
1/1/2007	$ 0	$ 1,472,774	$ 1,472,774	0.0%	$ 2,842,917	51.8%

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 5,100 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)
2011	11,200	12.0*	15.0	3.0
2010	11,200	9.3*	15.0	5.7
2009	11,200	6.9	15.0	8.1
2008	11,200	6.9	15.0	8.1
2007	11,200	6.4	15.0	8.6
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

*The increase in the percentage of roads rated poorly is partially attributable to the use of new equipment used in assessing the IRI. For 2011, all the miles were tested using the new equipment. DOT officials believe the current data collection methods provide a more accurate view of existing ride quality because of improvements in equipment and methodology.

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)
2011	$ 606.7	$ 705.7	$ (99.0)
2010	660.7	669.1	(8.4)
2009	647.7	624.4	23.3
2008	531.8	537.3	(5.5)
2007	501.8	441.6	60.2
2006	495.7	367.5	128.2
2005	366.6	333.8	32.8
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. Estimated costs for 2005 and actual costs for 2005 through 2008 have been restated from amounts reported in prior years due to an error in classification of costs on a capital project as maintenance/preservation costs.

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 structural condition rating is a broad measure of the condition of a bridge. Each bridge is rated using three National Bridge Inventory (NBI) condition codes and two NBI appraisal ratings.

The three NBI condition codes are Deck Condition, Superstructure Condition, and Substructure Condition. The two NBI appraisal ratings are Structural Evaluation and Waterway Adequacy. The NBI uses a 10-point scale for condition codes and appraisal ratings. A bridge is considered "structurally deficient" if any condition code is 4 or less, or if either appraisal code is 2 or less.

"Structurally deficient" bridges cause negative impacts for the public by increasing the likelihood that heavy loads will need to be rerouted to less efficient routes, thus increasing logistic costs for State businesses. It is the State's policy to ensure no more than 15 percent of its bridges are "structurally deficient".

Recent condition assessment results are as follows:

Year Ended June 30	Number of Bridges	Percent Structurally Deficient	Established Percent	Variance Favorable/ (Unfavorable)
2011	5,100	3.6	15.0	11.4
2010	5,000	4.1	15.0	10.9
2009	5,000	3.8	15.0	11.2
2008	4,900	4.5	15.0	10.5
2007	4,900	4.1	15.0	10.9
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)
2011	$ 42.4	$ 64.2	$ (21.8)
2010	91.7	93.0	(1.3)
2009	55.9	56.9	(1.0)
2008	61.0	46.2	14.8
2007	36.0	46.9	(10.9)
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, 2011

(In Thousands)

	Original Budget	Final Budget	Actual Amounts
Unexpended Budgetary Fund Balances, Beginning of Year			$ 888,575
Revenues and Transfers (Inflows):			
Taxes	$ 12,907,646	$ 12,950,045	12,937,210
Departmental:			
Tribal Gaming	22,312	22,330	24,665
Other	16,354,157 (A)	16,365,580 (A)	15,964,643
Transfers from:			
Transportation Fund	(A)	(A)	40,846
Nonmajor Governmental Funds	(A)	(A)	150,398
Nonmajor Enterprise Funds	(A)	(A)	317
Total Revenues and Transfers (Inflows)	29,284,115	29,337,955	29,118,079
Amounts Available for Appropriation			30,006,654
Appropriations (Outflows):			
Commerce	298,573	633,011	393,116
Education	11,536,103	12,874,949	12,238,342
Environmental Resources	283,376	328,391	207,412
Human Relations and Resources	10,579,349	14,516,194	12,421,088
General Executive	1,117,347	1,739,512	1,141,626
Judicial	136,818	139,185	134,552
Legislative	73,918	76,808	66,199
Tax Relief and Other General	2,274,007	2,323,129	2,272,267
Transfers to:			
Nonmajor Governmental Funds	25,000	25,000	39,782
Total Appropriations (Outflows)	$ 26,324,491	$ 32,656,179	28,914,384
Fund Balances, End of Year			1,092,270
Less Encumbrances Outstanding at June 30, 2011			(778,451)
Fund Balances, End of Year Budgetary Basis			$ 313,819

Reconciliation of the End of Year, Budgetary Basis, Fund Balance to the Detail Reported in the Annual Fiscal Report:	
General Purpose:	
Designated	$ 8,236
Undesignated	85,567
Total General Purpose	93,803
Program Revenue	220,016
Fund Balances, End of Year Budgetary Basis	$ 313,819

(A) Interfund transfers to the General Fund were budgeted under departmental revenue during Fiscal Year 2011.

Budgetary Comparison Schedule
Transportation Fund
For the Fiscal Year Ended June 30, 2011

(In Thousands)

	Original Budget	Final Budget	Actual Amounts
Unexpended Budgetary Fund Balances, Beginning of Year			$ 554,311
Revenues (Inflows):			
Taxes	$ 1,028,911	$ 1,028,911	1,028,911
Departmental	1,905,058	1,905,058	1,905,058
Transfers from:			
Nonmajor Governmental Funds	17,800	17,800	17,800
Total Revenues (Inflows)	2,951,769	2,951,769	2,951,769
Amounts Available for Appropriation			3,506,080
Appropriations and Transfers (Outflows):			
Environmental Resources	2,625,925	6,183,172	2,687,282
General Executive	1,764	1,824	1,495
Tax Relief and Other General	24,160	22,240	21,811
Transfers to:			
General Fund	40,825	40,825	40,846
Total Appropriations and Transfers (Outflows)	$ 2,692,674	$ 6,248,061	2,751,434
Fund Balances, End of Year			754,646
Less Encumbrances Outstanding at June 30, 2011			(1,637,392)
Fund Balances, End of Year Budgetary Basis			$ (882,746)

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, 2011 is presented below (in thousands):

	General Fund	Transportation Fund
Fund balance June 30, 2011 (budgetary basis – budgetary fund structure):		
General Purpose Revenue – fund balance per budgetary basis *Annual Fiscal Report*		
Undesignated fund balance	$ 85,567	
Designated fund balance	8,236	
Total General Purpose Revenue fund balance	93,803	
Program Revenue – fund balance per budgetary basis *Annual Fiscal Report*	220,016	
Fund balance June 30, 2011 (budgetary basis – budgetary fund structure) As reported on the budgetary comparison schedule	313,819	$ (882,746)
Reclassifications:		
To eliminate the effect of encumbrances that were reported as expenditures under budgetary reporting (*basis difference*)	778,451	1,637,392
To reclassify activities of the Medical Assistance Trust, Hospital Assessment, Budget Stabilization, and Permanent Endowment Funds (reported as special revenue funds under budgetary reporting) as part of the General Fund (*perspective difference*)	36,563	--
To reclassify activities reported in another GAAP fund type (*perspective differences*):		
Enterprise funds (except for the University of Wisconsin System)	63,433	--
University of Wisconsin System	(842,233)	--
Internal Service funds	39,014	--
Fiduciary funds	(829)	--
Transportation Revenue Bonds capital project fund	--	16,458
Fund balance June 30, 2011 (GAAP fund structure – budgetary basis, excluding encumbrances treated as expenditures at year end)	388,218	771,104
Adjustments (*basis differences*):		
To accrue receivables and establish payables for individual income taxes (net)	(1,060,332)	--
To defer revenues for gross receipts public utility taxes	(257,425)	--
To adjust revenues and expenditures for tax-related items and other tax credit/aid programs (net)	(471,277)	(9,734)
To adjust expenditures for the municipal and county shared revenue program	(533,896)	--
To adjust expenditures for State property tax credit program	(682,837)	--
To record a loan for the monies received in prior years from the Injured Patients and Families Compensation Fund	(233,747)	--
To accrue unpaid Medicaid payments to providers (net of receivable from federal government)	(38,660)	--
To adjust revenues and expenditures for certain major Health Services, and Children and Families human services payments to local governments	(132,715)	--
To recognize the tobacco settlement revenue receivable	72,183	--
To accrue State educational aids payments deferred until the subsequent year	(75,007)	--
To adjust revenues and expenditures for other items (net)	30,689	32,821
Fund balance June 30, 2011 (GAAP fund structure – GAAP basis) as reported on the governmental fund statements	$ (2,994,806)	$794,192

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. In addition, funds such as the Medical Assistance Trust, Hospital Assessment, Budget Stabilization and Permanent Endowment, special revenue funds under statutory reporting, are included as part of the General Fund under GAAP reporting. As a consequence of these differences, 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. Two special revenue funds, the Wisconsin Public Broadcasting Foundation and the Celebrate Children Foundation, have been excluded from reporting because they are blended component units that are neither budgeted nor included under statutory reporting. Of the permanent funds, only the Historical Society Fund and a portion of the Common School and Normal School funds are budgeted.

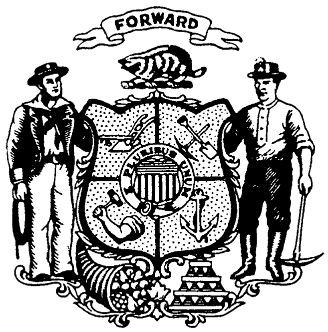
The State's biennial budget was enacted and published on June 29, 2009. This legislation is recognized by State officials as the original budget and is treated as such on the Budgetary Comparison Schedules.

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.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