STATE OF
WISCONSIN

General Purpose External Financial Statements

For the fiscal year ended June 30, 2012

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, 2012

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December 13, 2012

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, 2012. 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://doa.wi.gov/index.asp?locid=167 under the "financial reporting" category.

Sincerely,

Michael Huebsch
Secretary

Stephen J. Censky, CPA
State Controller

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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, 2012, 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 4 percent of the liabilities of the aggregate remaining fund information; the Environmental Improvement Fund, which is a major fund and represents 20 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 included for these programs, are based on the reports of the other auditors. In addition, we did not audit the financial statements of the discretely presented component units. Our opinion on the aggregate discretely presented component units is based upon the audit reports, prepared by other auditors, 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, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1B to the financial statements, the Wisconsin Economic Development Corporation, a newly created legally separate body corporate and politic, is reported as a discretely presented component unit of the State for the first time for fiscal year 2011-12. Condensed financial statements for the Corporation, presented in Note 22 to the financial statements, were developed from unaudited financial information provided by the Corporation, and we were not engaged to audit this information as part of our audit of the State's basic financial statements. Other auditors have been engaged to audit the Corporation's financial statements, but the audited financial statements were not available as of the date of our audit opinion.

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 will also issue our report dated December 13, 2012, 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.

Accounting principles generally accepted in the United States of America require that the 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, be presented to supplement the basic financial statements. Such information, although not a part of the State's basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These procedures consisted of inquiries of management about the methods of preparing the information and comparisons of the information for consistency with managements' responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to do so.

LEGISLATIVE AUDIT BUREAU

December 13, 2012 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, 2012. 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 2012 by $14.8 billion (reported as "net assets"). Of this amount, $(9.3) 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 $2.1 billion in Fiscal Year 2012. Net assets of governmental activities increased by $1.2 billion or 20.6 percent, while net assets of the business-type activities showed an increase of $843.3 million or 12.5 percent.
- *Excess of Revenues over (under) Expenses -- Governmental Activities.* During Fiscal Year 2012, the State's total revenues for governmental activities of $27.2 billion were $2.3 billion more than total expenses (excluding transfers) for governmental activities of $24.9 billion. Of these expenses, $11.9 billion were covered by program revenues. General revenues, generated primarily from various taxes, totaled $15.3 billion.

Fund

- *Governmental Funds -- Fund Balances.* As of the close of Fiscal Year 2012, the State's governmental funds reported combined ending fund balances of $(906.7) million, an increase of $695.6 million in comparison with the prior year. Of this total amount, $(3.3) billion represents the unassigned fund balances.
- *General Fund -- Fund Balance*. At the end of the current fiscal year, total fund balance was $(2.2) billion, a change of $732.8 million from a deficit of $(2.9) billion reported in the prior year. The unassigned fund deficit for the General Fund was $(2.6) billion, or (12.2) 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 $567.6 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 $1.4 billion of general obligation bonds including certain general obligation refunding bonds and $460.1 million of revenue bond obligations including certain revenue refunding 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, 2012 were $38.4 billion, while total liabilities were $23.5 billion, resulting in combined net assets (government and business-type activities) of $14.8 billion. The largest component of the State's total net assets consists of $19.5 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 $4.6 billion of net assets were restricted by external sources or the State Constitution or Statutes, and were not available to finance the day-to-day operations of the State.

The unrestricted net assets, which, if positive, could be used at the State's discretion, showed a negative balance of $(9.3) billion. Therefore, based on this measurement, no funds were available for discretionary purposes. A contributing factor to the negative balance is that governments recognize a liability on the government-wide statement of net assets as soon as an obligation is incurred. While financing focuses on when a liability will be paid, accounting is primarily concerned with when a liability is incurred. Accordingly, the State recognizes long-term liabilities (such as general obligation debt, compensated absences, and future benefits and loss liabilities – listed in Note 10 to the financial statements) on the statement of net assets. In addition to the effect of reporting long-term liabilities when incurred, the General Fund's total deficit fund balance of $(2.2) billion at year-end, as discussed on Page 13, also contributed to the deficit unrestricted net assets reported in the statement of net assets.

During Fiscal Year 2012, the State issued $1.4 billion 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, 2012 totaled $7.3 billion. Outstanding annual appropriation bonds were $3.3 billion at June 30, 2012. Outstanding revenue bonds, which are not considered general obligation debt of the State, totaled $2.9 billion at June 30, 2012.

Table 2
Net Assets
(in millions)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2012	2011*	2012	2011*	2012	2011*	2012-2011
Current and Other Assets	$ 5,843.3	$ 4,889.2	$ 7,429.1	$ 7,151.4	$ 13,272.3	$ 12,040.6	10.2 %
Capital Assets	19,314.7	18,337.7	5,805.7	5,410.5	25,120.5	23,748.2	5.8
Total Assets	25,158.0	23,226.9	13,234.8	12,561.9	38,392.8	35,788.8	7.3
Long-term Liabilities	11,517.8	11,062.7	3,870.6	3,669.0	15,388.4	14,731.8	4.5
Other Liabilities	6,401.0	6,162.7	1,753.6	2,125.4	8,154.6	8,288.1	(1.6)
Total Liabilities	17,918.8	17,225.4	5,624.2	5,794.5	23,543.0	23,019.9	2.3
Net Assets:							
Invested in Capital Assets Net of Related Debt	15,249.9	14,405.4	4,270.1	4,108.7	19,520.0	18,514.1	5.4
Restricted	1,392.2	1,269.7	3,235.5	3,078.1	4,627.7	4,347.8	6.4
Unrestricted (deficit)	(9,402.9)	(9,673.6)	105.1	(419.4)	(9,297.9)	(10,092.9)	7.9
Total Net Assets	$ 7,239.1	$ 6,001.5	$ 7,610.7	$ 6,767.4	$ 14,849.8	$ 12,768.9	16.3

* 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 $20.2 billion and general revenues of $15.3 billion for total revenues of $35.5 billion during Fiscal Year 2012. Expenses for the State during Fiscal Year 2012 were $33.4 billion. As a result of the excess of revenues over expenses, the total net assets of the State increased $2.1 billion, net of contributions and transfers.

Table 3
Changes in Net Assets
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	2012	2011*	2012	2011*	2012	2011*	2012-2011
Program Revenues:							
Charges for Goods and Services	$ 2,265.2	$ 2,270.5	$ 7,039.3	$ 6,726.7	$ 9,304.5	$ 8,997.3	3.4 %
Operating Grants and Contributions	8,805.1	9,420.2	1,117.8	1,863.5	9,922.8	11,283.6	(12.1)
Capital Grants and Contributions	861.5	1,019.8	103.5	99.5	965.0	1,119.3	(13.8)
General Revenues:							
Income Taxes	8,059.9	7,490.7	-	-	8,059.9	7,490.7	7.6
Sales and Excise Taxes	4,978.9	4,820.9	-	-	4,978.9	4,820.9	3.3
Public Utility Taxes	358.8	324.5	-	-	358.8	324.5	10.6
Motor Fuel Taxes	1,026.2	1,029.9	-	-	1,026.2	1,029.9	(0.4)
Other Taxes	451.4	406.4	-	-	451.4	406.4	11.1
Other General Revenues	406.3	381.9	20.6	6.3	426.9	388.2	10.0
Total Revenues	27,213.3	27,164.7	8,281.2	8,696.0	35,494.5	35,860.7	(1.0)
Program Expenses:							
Commerce	274.4	411.8	-	-	274.4	411.8	(33.4)
Education	6,226.2	6,738.2	-	-	6,226.2	6,738.2	(7.6)
Transportation	1,967.9	2,242.4	-	-	1,967.9	2,242.4	(12.2)
Environmental Resources	432.0	506.2	-	-	432.0	506.2	(14.7)
Human Relations and Resources	12,157.0	11,948.8	-	-	12,157.0	11,948.8	1.7
General Executive	755.5	704.9	-	-	755.5	704.9	7.2
Judicial	124.8	132.9	-	-	124.8	132.9	(6.1)
Legislative	58.7	65.6	-	-	58.7	65.6	(10.5)
Tax Relief and Other General Expenditures	1,359.0	1,352.3	-	-	1,359.0	1,352.3	0.5
Intergovernmental - Shared Revenue	989.9	1,023.5	-	-	989.9	1,023.5	(3.3)
Interest on Long-term Debt	523.7	479.1	-	-	523.7	479.1	9.3
Injured Patients and Families Compensation	-	-	36.7	(42.6)	36.7	(42.6)	186.2
Environmental Improvement	-	-	59.4	90.0	59.4	90.0	(34.0)
University of Wisconsin System	-	-	4,418.3	4,393.9	4,418.3	4,393.9	0.6
Unemployment Reserve	-	-	1,763.8	2,513.1	1,763.8	2,513.1	(29.8)
Lottery	-	-	525.1	487.7	525.1	487.7	7.7
Health Insurance	-	-	1,261.8	1,270.4	1,261.8	1,270.4	(0.7)
Care and Treatment Facilities	-	-	322.8	347.5	322.8	347.5	(7.1)
Other Business-type	-	(1.3)	174.2	170.4	174.2	169.1	3.0
Total Expenses	24,869.1	25,604.5	8,562.3	9,230.4	33,431.4	34,834.9	(4.0)
Excess (deficiency) before Contributions and Transfers	2,344.2	1,560.2	(281.1)	(534.4)	2,063.1	1,025.8	
Contributions to Term and Permanent Endowments	-	-	1.5	2.7	1.5	2.7	
Contributions to Permanent Fund Principal	16.2	19.6	-	-	16.2	19.6	
Transfers	(1,122.8)	(1,188.9)	1,122.8	1,187.3	-	(1.6)	
Increase (decrease) in Net Assets	1,237.6	390.9	843.3	655.6	2,080.9	1,046.5	
Net Assets - Beginning (Restated)	6,001.5	5,610.6	6,767.4	6,111.8	12,768.9	11,722.4	
Net Assets - Ending	$ 7,239.1	$ 6,001.5	$ 7,610.7	$ 6,767.4	$ 14,849.8	$ 12,768.9	16.3

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

Governmental Activities

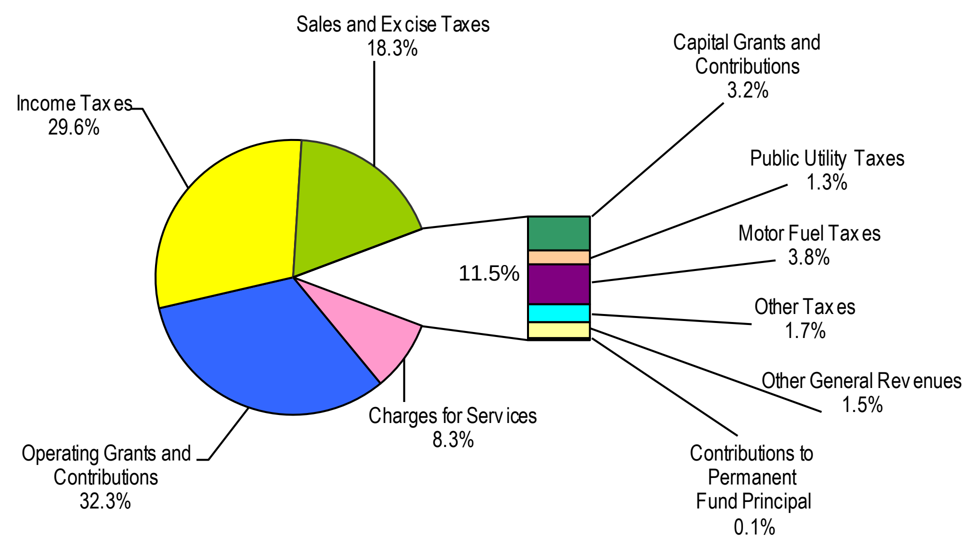
The net assets of governmental activities increased $1.2 billion in Fiscal Year 2012. Revenues for the governmental activities (including contributions to permanent fund principal) totaled $27.2 billion, while expenses and net transfers totaled $26.0 billion in Fiscal Year 2012.

General and program revenues of governmental activities increased $48.6 million during this fiscal year. Tax revenues increased by $802.9 million. Increases in income taxes of $569.2 million, sales and use taxes of $158.1 million, other taxes of $45.0 million, and public utility taxes of $34.3 million were reported. Offsetting the increases in tax revenues were decreases in operating and capital grants which declined by $615.1 million and $158.3 million, respectively.

The State's governmental activities program expenses decreased $735.4 million during Fiscal Year 2012. Contributing to the decline were education expenses which decreased $512.0 million due to a decrease in state funding. In addition, transportation, commerce, environmental resources and intergovernmental/shared revenue expenses declined by $274.5 million, $137.4 million, $74.3 million, and $33.6 million respectively. Conversely, human relations and resources expenses increased $208.3 million while interest on long term debt increased by $44.6 million. In addition, general executive and tax relief and other general expenses increased by $50.6 million and $6.7 million respectively.

As shown in Table 4, below, approximately 54.7 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 32.3 percent of total revenues. Capital grants provided 3.2 percent, charges for services contributed 8.3 percent, and various other revenues provided 1.6 percent of the remaining governmental activity revenue sources.

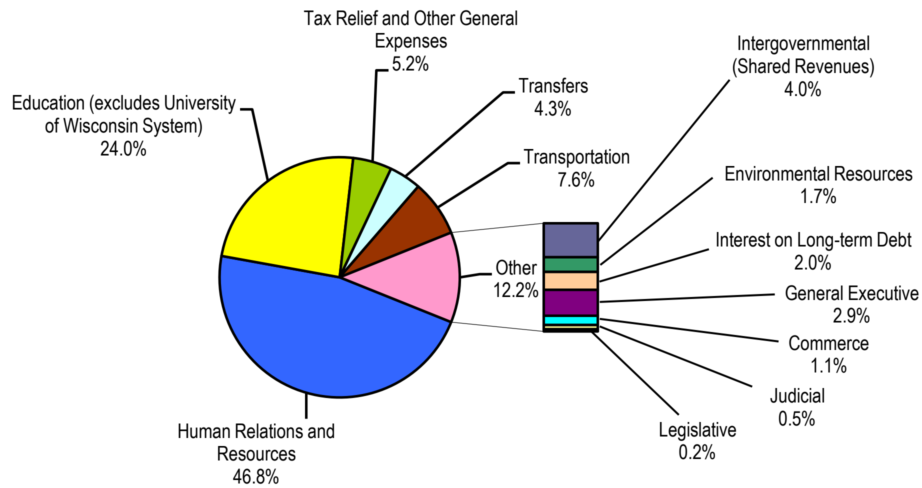
Table 4
Governmental Activities - 2012 Revenues



As shown in Table 5, below, expenses for human relations and resources programs make up the largest portion – 46.8 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 24.0 percent of total expenses. Tax relief and other general expenses and the municipal and county shared revenue program represent 9.2 percent of the total, while transportation expenses represent 7.6 percent. Net transfers to business-type activities, which include a general purpose revenue subsidy to the University of Wisconsin System, make up 4.3 percent of the total expenses and transfers. The interest on long-term debt and remaining functional expenses total 8.1 percent.

Table 5
Governmental Activities - 2012 Expenses



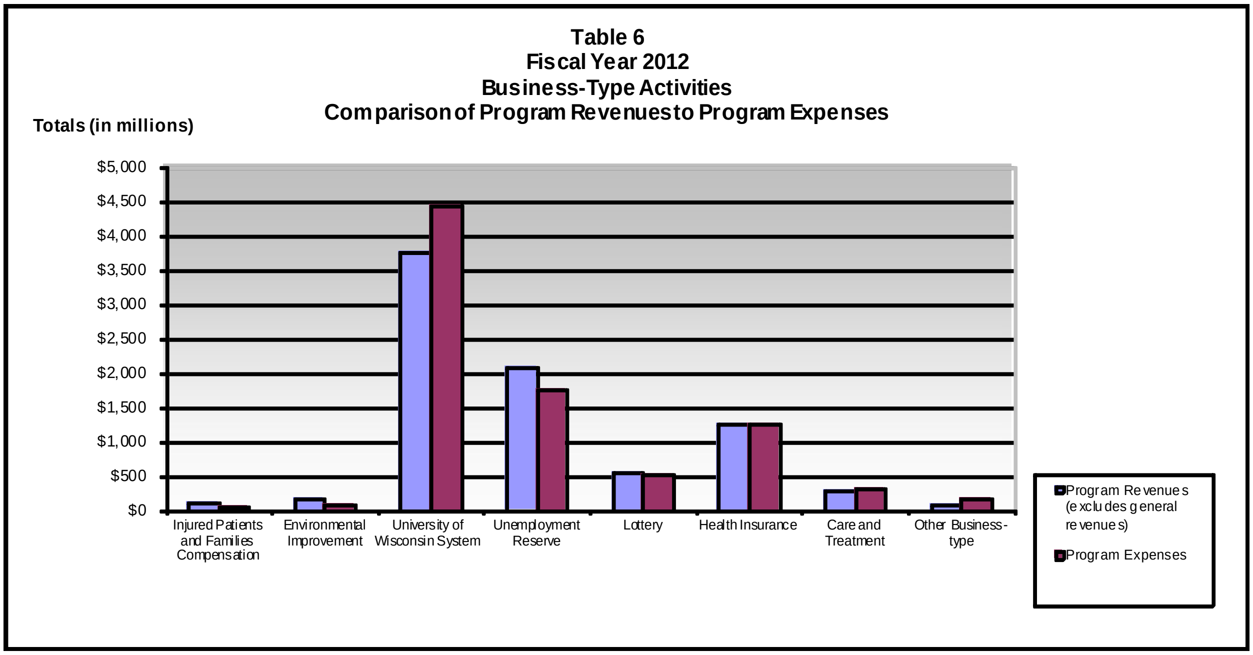
Business-Type Activities

Net assets of the State's business-type activities increased $843.3 million in Fiscal Year 2012.

Revenues of business-type activities totaled $8.3 billion for Fiscal Year 2012, a decline of $414.8 million from the prior year. Program revenues consisted of $7.0 billion of charges for services, $1.1 billion of operating grants and contributions, and $103.5 million of capital grants and contributions. General revenues, contributions to endowments and permanent fund principal, and net transfers totaled $20.6 million, $1.5 million, and $1.1 billion, respectively.

The total expenses for business-type activities were $8.6 billion a decrease of $668.1 million from the prior fiscal year. The largest decrease in program expenses, $749.2 million, related to decreased benefit expenses for the Unemployment Reserve Fund. Offsetting that decrease were expenses of the Injured Patients and Families Compensation Fund which increased by $79.3 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.



FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

Governmental Funds

At the end of Fiscal Year 2012, the State's governmental funds reported a negative combined fund balance of $(906.7) 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, 2012, the State's General Fund reported a total fund deficit of $(2.2) billion. The net change in fund balance during Fiscal Year 2012 was $732.8 million, in contrast to $(79.4) million in Fiscal Year 2011. Major revenue, expenditure and other sources/uses contributing to the change in fund balance are as follows:

Revenues

Revenues of the General Fund totaled $23.6 billion in Fiscal Year 2012, an increase of $129.2 million from Fiscal Year 2011. Factors contributing to this change included the following:

- Revenues from taxes increased $813.8 million. The most significant increase relates to income taxes, which increased $581.8 million or 7.8 percent from Fiscal Year 2011. Sales and use taxes increased 3.2 percent over Fiscal Year 2011 while public utility taxes increased approximately 6.4 percent. The largest component of individual income taxes is withholding from wages and salaries.
- Intergovernmental revenues (i.e., federal assistance) decreased $640.6 million in Fiscal Year 2012, primarily due to the loss of the enhanced federal Medicaid funding provided by the American Recovery and Reinvestment Act (ARRA). The most significant decrease occurred in human relations and resources programs (e.g., Medicaid), which decreased $401.9 million. The commerce function reported a decrease of $135.8 million due to the elimination of the Department of Commerce. In addition, the general executive and education functions reported decreased revenues of $60.2 million and $46.2 million, respectively.
- Miscellaneous revenue decreased $20.6 million and charges for goods and services decreased $25.8 million.

Expenditures

Expenditures of the General Fund totaled $21.6 billion in Fiscal Year 2012, a decrease of $498.7 million from Fiscal Year 2011. The factors contributing to the change included the following:

- Education expenditures decreased $521.3 million due to a decrease in state funding as legislated by 2011 Wisconsin Act 32.
- Human relations and resources expenditures increased $175.7 million in Fiscal Year 2012. Medicaid expenditures increased due to inflation and an increase in enrollment of 1.5 percent from the prior year. The portion of Medicaid program benefits paid for by state funding sources increased during Fiscal Year 2012 because the enhanced federal funding provided by ARRA was no longer available after June 30, 2011.
- Commerce expenditures decreased $155.4 million as a result of the reorganization of state agencies that resulted in the elimination of the Department of Commerce.
- General executive expenditures increased $41.9 million primarily as a result of housing assistance programs transferring from the commerce function to the general executive function.
- Intergovernmental expenditures decreased $34.5 million.

Other Financing Sources and Uses

Other financing sources/uses totaled a net $(1.2) billion in Fiscal Year 2012, a decrease of $133.3 million from the prior year amount of $(1.4) billion. The components of this change included the following:

- Transfers in to the General Fund decreased by $104.2 million (from $208.5 million in Fiscal Year 2011 to $104.3 million in Fiscal Year 2012). This was a result of fewer lapses occurring from the other funds.
- Transfers out of the General Fund totaled $1.3 billion, a decrease of $242.0 million from the prior year. The general purpose revenue supplement comprises a large portion of the transfers out and is provided to various enterprise funds. The supplement totaled $930.1 million, a decrease of $169.8 million from the prior year. The University of Wisconsin, which receives the majority of the supplement, received $855.0 million of the supplement in FY 2012 a decrease of $173.0 million from the amount provided in the prior fiscal year.

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

As of June 30, 2012, the General Fund reported an unassigned fund balance deficit of $(2.6) billion. This compares to a General Fund unassigned fund balance deficit of $(3.3) billion as of June 30, 2011. 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 $4.2 billion increase in appropriations. 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*	$ 1,176.0
Administration; Federal Aids	204.8
Public Instruction Federal Aid; Economic Stimulus	164.9
UW System, General Program Operations (part of Statutory General Fund)	151.5
Federal Aid Medical Assistance	20.6

Actual charges to appropriations (expenditures) were $3.4 billion below the final budgeted estimates. Large positive expenditure variances were reported in Federal Aid Medical Assistance ($246.8 million) and the Administration, Federal Aids ($93.6 million) appropriations.

During the past fiscal year, the budgetary-based fund balance increased by $874.2 million for the statutory General Fund, in part, because of increased tax revenues and decreased expenditures for school aids and the UW System. Net transfers from other funds totaled ($304.2) million in Fiscal Year 2012 compared to $166.6 million in the prior fiscal year.

Transportation Fund

In Fiscal Year 2012, the Transportation Fund reported a net decrease in fund balance of $109.0 million. This compares to a $118.2 million increase in fund balance in Fiscal Year 2011. This decrease resulted primarily from the following factors:

- Revenues of the Fund decreased $122.2 million, to a total of $2.6 billion, primarily relating to the ARRA decrease in federal funding from the U.S. Department of Transportation and Federal Aviation Administration. For Fiscal Years 2011 and 2012, ARRA provided a total of $205.2 million in federal funding for highway projects. ARRA-funded expenditures for highway projects totaled $29.2 million in Fiscal Year 2012 compared to $176.0 million in the prior year. Expenditures of the Fund increased $147.1 million to $2.6 billion in Fiscal Year 2012 compared to $2.5 billion in Fiscal Year 2011.

- Transfers out of the Transportation Fund decreased $21.0 million from the prior year. Under 2011 Wisconsin Act 32, there were no transfers out to the General Fund in Fiscal Year 2012. In the prior year, transfers out to the General Fund totaled $40.8 million. Transfers in to the Fund increased by $14.0 million (39.6 percent) in Fiscal Year 2012 to $49.4 million. Act 32 required the General Fund to transfer $22.5 million to the Transportation Fund in Fiscal Year 2012.

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 $75.1 million in Fiscal Year 2012, a decrease of $230.0 million from Fiscal Year 2011. In addition, capital outlay expenditures of $754.8 million were reported in the Transportation Fund in Fiscal Year 2012, an increase of $333.5 million.

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 $47.8 million in fund balance for the year. This compares to a $26.0 million increase in fund balance in Fiscal Year 2011. Significant changes to the accounts of this fund include:

- Outstanding loans to local governments showed a decrease of $172.3 million in Fiscal Year 2012 (from $556.9 million in Fiscal Year 2011 to $384.6 million in the current year). This represents approximately a 30.9 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 $145.6 million in Fiscal Year 2012, from $126.7 million in Fiscal Year 2011 to $272.3 million in Fiscal Year 2012. 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 2011 to Fiscal Year 2012 include the following:

Environmental Improvement

Fund equity increased $109.6 million to $1.7 billion. Total assets of the Fund increased by $46.6 million while liabilities decreased by $63.0 million. Loans to local governments increased by $29.2 million to a total of $1.9 billion. Conversely, liabilities decreased to $879.5 million as the result of a $63.3 million reduction in revenue bonds and notes payable that remained outstanding as of June 30, 2012.

Operating revenues of the Fund held steady from the prior year at approximately $50.6 million. However, federal non-operating grant funds received decreased by $11.4 million to $66.2 million, a reduction of 14.7 percent. A reduction in other non-operating expenses of $27.6 million, and an increase of $8.6 million in non-operating investment income used as security for revenue bonds, offset the reduction in federal grant funds received.

Injured Patients and Families Compensation

Fund equity of the Injured Patients and Families Compensation Fund increased by $66.8 million from $294.4 million to $361.2 million at June 30, 2012. Total assets of the Fund, which increased $94.0 million to $1.0 billion, are primarily comprised of investments of $944.3 million. Fund liabilities, which increased by $27.3 million to $667.3 million, are comprised primarily of future benefits and loss liabilities of $665.8 million.

Operating revenue of the fund consisted of assessment income which increased by $2.4 million (7.1 percent) to $36.0 million. The enhanced revenue resulted from an 8.5 percent increase in assessment rates and changes in the number of participating providers and provider types. Non-operating investment and interest income increased by $13.1 million to $67.4 million primarily due to market factors and an increase in the investments held. Benefit expenses, which are determined by an actuary, increased by $80.2 million to $35.9 million for Fiscal Year 2012. In comparison, negative benefits expense of $(44.3) million was reported in the prior year. As a result of the Fiscal Year 2012 actuarial estimate, the total liability for future benefit and loss liabilities increased by $29.3 million to $665.8 million.

In August 2011, the General Fund transferred $233.7 million of cash to the Fund. During Fiscal Year 2011, the Wisconsin Supreme Court ruled that a $200 million transfer out of the Fund to the General Fund, as required by 2007 Wisconsin Act 20, was unconstitutional. The cash transfer from the General Fund constituted a repayment of $200 million of principal and $33.7 million of accumulated interest and lost earnings.

Unemployment Reserve

Fund equity of the Unemployment Reserve Fund increased by $313.7 million from $(926.1) million to $(612.4) million at June 30, 2012. Benefit expenses decreased $749.2 million from $2.5 billion to $1.8 billion in Fiscal Year 2012, a decrease of 29.8 percent. The decrease is primarily the result of the federally funded benefits declining by $554.1 million. In addition, the average unemployment rate fell from 7.8 percent to 7.1 percent. While revenues of the fund also decreased, the decrease in expenses was larger resulting in an improved fund equity position.

Operating revenues decreased by $431.0 million from $2.5 billion to $2.1 billion in Fiscal Year 2012. Federal aids decreased by $554.1 million from $1.3 billion to $754.7 million, a decrease of 42.3 percent. However, employer contributions increased $139.6 million from $1.1 billion to $1.2 billion in Fiscal Year 2012, an increase of 12.8 percent. In Fiscal Year 2012, the federal government began recovering the $1.3 billion owed to them by reducing the employers' federal unemployment tax credit by 0.3 percent. The revenue generated, which was credited to the Fund as employer contributions, along with other available resources was used to repay the advance. As a result, the liability decreased by $396.8 million to $926.2 million. It is estimated the advance will be repaid in 2014.

Annual interest of approximately 4.0 percent is incurred on the outstanding advance balance. Because interest may not be paid from resources of the Unemployment Reserve Fund, the Unemployment Interest Payment Fund, a nonmajor governmental special revenue fund, was established. Employer assessment revenue and interest expenditures of $42.1 million were reported for Fiscal Year 2012 in the Unemployment Interest Payment Fund.

University of Wisconsin System

Operating revenues of the University of Wisconsin System increased $117.8 million or approximately 3.6 percent to $3.4 billion. Revenue was enhanced by an increase in local and private grants and contracts of $66.8 million (28.7 percent) and sales and services of educational activities, which increased by $35.8 million (12.0 percent). Student tuition and fees increased by $30.3 million (2.8 percent) primarily due to an increase in tuition rates approved by the Board of Regents. Sales and services of auxiliary enterprises also increased by $12.4 million. Offsetting the increases were reductions in revenues for federal grants of $(15.6) million and other revenues of $(18.0) million. Operating expenses increased $7.8 million or 0.2 percent. Supplies and services and depreciation expenses increased by $79.0 million and $14.3 million, respectively. Offsetting those increased expenses were declines in personal services, as well as scholarships and fellowships expenses, of $63.7 million and $21.9 million, respectively.

Transfers in to the University of Wisconsin declined by $62.2 million to a total of $1.1 billion in FY 2012. The general purpose revenue supplement received from the State's General Fund, which comprises the majority of the amount transferred in, was $855.0 million for Fiscal Year 2012. This is a decline of $173.0 million from the prior year. Offsetting that decrease was an increase in transfers in from other non-major governmental funds.

GOVERNMENT-WIDE CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the close of Fiscal Year 2012, the State had $25.1 billion invested in capital assets, net of accumulated depreciation of $4.8 billion. This represents an increase of $1.4 billion, or 5.9 percent, from Fiscal Year 2011. Depreciation charges totaled $120.6 million and $252.5 million for governmental and business-type activities, respectively, in Fiscal Year 2012. 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	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Land and Land Improvements	$ 2,408	$ 2,310	$ 166	$ 157	$ 2,574	$ 2,467
Buildings and Improvements	1,340	1,345	3,508	3,273	4,848	4,618
Library Holdings	73	84	1,113	1,124	1,187	1,208
Machinery and Equipment	325	328	361	367	686	696
Infrastructure	12,885	12,789	-	-	12,885	12,789
Construction and Software in Progress	2,284	1,454	658	488	2,942	1,943
Totals	$ 19,315	$ 18,310	$ 5,806	$ 5,410	$ 25,120	$ 23,719

The major capital asset additions completed or acquired during Fiscal Year 2012 included the:

- Biochemistry II Building – UW-Madison ($107.6 million),
- Communication Arts Renovate and Addition – UW-Parkside ($35.3 million),
- New Academic Building – UW-Superior ($26.3 million),
- Chazen Museum of Art – UW-Madison ($38.5 million),
- Suite Style Residence Hall – UW-Stevens Point ($23.6 million),
- Gordon Commons Redevelopment – UW-Madison ($32.2 million),
- Memorial Union Center – UW-Stout ($18.6 million),
- Joseph J. Zibler School of Public Health – UW-Milwaukee ($12.3 million).

In addition to these completed projects, construction and software in progress as of June 30, 2012 for governmental and business-type activities totaled $2.3 billion and $657.5 million, respectively. A list of those projects is provided in Note 7. The State's continuing or proposed major capital projects for Fiscal Year 2012 and future years include:

- I-94 North South Freeway Project (completion in 2022) $1.9 billion,
- US 41 Winnebago and Brown Counties (completion in 2017) $1.5 billion,
- Zoo Interchange (completion in 2019) $1.7 billion,
- Highway 26 Janesville to Watertown (completion in 2015) $490 million,
- Highway 12 Lake Delton to Sauk City (completion in 2017) $198 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, 2012 was $7.3 billion, as shown in Table 8. During Fiscal Year 2012, $1.4 billion 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, $354.0 million was to be used for University of Wisconsin System academic and self-amortizing facilities; $42.3 million for transportation projects, $38.7 million for the Stewardship Program, $50.1 million for environmental programs, and $193.9 million for various other projects. In addition, bond proceeds of $681.1 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, 2012, $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, 2012, as shown in Table 8. These bonds included $1.9 billion of Transportation Revenue Bonds, $124.4 million of Petroleum Inspection Revenue Bonds, and $873.7 million of Environmental Improvement Revenue Bonds.

Table 8
Outstanding Debt as of June 30, 2012 and 2011
(in millions)

	Governmental Activities		Business-Type Activities		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
General obligation bonds	$5,708.9	$5,337.9	$1,569.9	$1,392.4	$ 7,278.8	$ 6,730.3
Annual appropriation bonds	3,298.4	3,331.6	--	--	3,298.4	3,331.6
Revenue bonds	2,039.2	1,923.6	873.7	937.0	2,912.9	2,860.6
Totals	$11,046.5	$10,593.1	$2,443.6	$2,329.4	$13,490.1	$12,922.5

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, 2012, 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 $12.9 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, 2012, 93.0 percent of the roads and 96.7 percent of bridges were in good or fair condition, consistent with State policies. This compares to 88.0 percent of the roads and 96.4 percent of bridges as of June 30, 2011. The 2012 increase in the percentage of roads in good or fair condition is due to inclusion of new construction in the scope of the condition assessment. Without such inclusion, the percentage of roads rated good or fair would have been equivalent to the 2011 level. New construction was included because efficiencies were gained from a new van used to capture condition assessment data, resulting in new construction being included in the assessment closer to the completion date. In prior years, new construction was generally not included in condition assessments until the following year.

For the fiscal year ended June 30, 2012, actual maintenance and preservation costs for the State's road network were $585.3 million or $25.7 million less than the estimated amount. On that same date, actual maintenance and preservation costs for the State's bridge network were $61.1 million or $40.8 million less 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 2011, the Wisconsin economy continued its slow recovery from the 2007-09 worldwide recession.

Wisconsin employment began recovering in early 2010 and this recovery continued in 2011. According to the federal Bureau of Labor Statistics' Quarterly Census of Employment and Wages, total employment in Wisconsin increased 1.2 percent in 2011, in line with national growth, which was also 1.2 percent. Wisconsin employment decreased in each of the previous three years, down 0.3 percent in 2008, 4.6 percent in 2009 and 0.4 percent in 2010. This performance matched national employment trends. Nationally, employment decreased 0.4 percent in 2008, 4.6 percent in 2009 and 0.6 percent in 2010.

More recently, Wisconsin's growth in employment has slowed in comparison to the nation. Between 2011 and 2012, Wisconsin employment has increased 0.5 percent according to the Current Population Survey. Nationally, employment is up 2.2 percent over the same period. However, Wisconsin's seasonally adjusted unemployment rate in 2012 was 6.9 percent compared to 7.9 percent nationally.

Reflecting the continuing recovery, Wisconsin's state nominal gross domestic product increased 3.7 percent in 2011. This was in line with the 4.3 percent growth in 2010 and a significant improvement over the declines of 0.2 percent in both 2008 and 2009. It compares to a 50-state total for gross domestic product growth of 1.8 percent for 2008, a 2.5 percent decline in 2009, and growth of 4.2 percent and 3.9 percent in 2010 and 2011, respectively. Since 2007, Wisconsin's gross domestic product increased 7.7 percent compared to a 7.5 percent increase nationally.

The changes in economic performance affected income growth. Wisconsin personal income fell 3.0 percent in 2009, increased 3.5 percent in 2010 and increased 4.5 percent in 2011. Nationally, personal income declined 4.8 percent in 2009, increased by 3.8 percent in 2010 and increased 5.1 percent in 2011. On a per capita basis, Wisconsin's income performance is somewhat better than the nation's. Per capita income in Wisconsin dropped 3.4 percent in 2009, rose by 3.1 percent in 2010 and increased 4.1 percent in 2011. This compares to a decline of 5.6 percent in 2009, an increase of 3.0 percent in 2010 and an increase of 4.4 percent in 2011 for the nation. Relative to the national average, Wisconsin per capita income has remained in approximately the same range for the past three years at 95.4 percent, 95.5 percent and 95.2 percent in 2009, 2010 and 2011, respectively. This represents an improvement from 2008 when Wisconsin per capita income was only 93.2 percent of the national average.

Wisconsin's property values reflect a continuation of a challenging residential real estate market. In 2011, real property values declined 1.7 percent, with residential real estate values falling 1.6 percent. Commercial real estate values decreased 2.3 percent in 2011. In 2012, real property values declined 3.3 percent, primarily due to a reduction of 4.0 percent in residential real estate values. Commercial real estate values experienced a smaller decline of 1.5 percent and manufacturing property values increased 1.1 percent in 2012. Relative to the national average, Wisconsin is among the median states in property value and has not experienced as dramatic a loss in property as other states.

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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State of Wisconsin

Statement of Net Assets
June 30, 2012

(In Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Assets and Deferred Outflows				
Cash and Cash Equivalents	$ 1,138,568	$ 2,292,420	$ 3,430,988	$ 846,956
Investments	298,029	1,754,199	2,052,227	652,837
Cash and Investments with Other Component Units	-	-	-	265,379
Receivables (net of allowance)	3,638,862	3,025,432	6,664,294	2,304,488
Internal Balances	(52,871)	52,871	-	-
Inventories	46,249	50,761	97,010	8,475
Prepaid Items	132,827	79,823	212,650	7,470
Capital Leases Receivable - Component Units	-	2,509	2,509	-
Restricted and Limited Use Assets:				
Cash and Cash Equivalents	309,370	146,479	455,849	97,661
Investments	19,589	-	19,589	2,399,660
Deferred Charges	73,585	17,751	91,336	6,416
Other Assets	22,958	6,836	29,793	75,645
Capital Assets:				
Depreciable	1,569,441	3,876,749	5,446,189	369,029
Nondepreciable:				
Infrastructure	12,884,667	-	12,884,667	-
Other	4,860,596	1,928,998	6,789,594	45,344
Deferred Outflows of Resources	216,094	-	216,094	113,975
Total Assets and Deferred Outflows	25,157,964	13,234,828	38,392,792	7,193,333
Liabilities				
Accounts Payable and Other Accrued Liabilities	1,331,547	344,700	1,676,248	189,592
Due to Other Governments	2,151,502	85,961	2,237,464	32,081
Tax Refunds Payable	1,354,479	-	1,354,479	-
Tax and Other Deposits	24,741	21,030	45,771	114,151
Amounts Held in Trust by Component Unit for Other Component Units	-	-	-	251,335
Amounts Held in Trust by Component Unit for Others	-	-	-	25,598
Unearned Revenue	391,517	279,506	671,022	789
Interest Payable	110,660	15,046	125,705	23,380
Short-term Notes Payable	820,491	81,107	901,598	-
Other Liabilities	216,094	-	216,094	123,820
Advance from Federal Government	-	926,239	926,239	-
Long-term Liabilities:				
Current Portion	919,475	358,131	1,277,606	107,368
Noncurrent Portion	10,598,324	3,512,430	14,110,753	2,631,922
Total Liabilities	17,918,829	5,624,150	23,542,979	3,500,035
Net Assets				
Invested in Capital Assets, Net of Related Debt	15,249,918	4,270,087	19,520,005	181,476
Restricted for:				
Human Relations and Resources	103,595	-	103,595	-
Conservation Related	75,390	-	75,390	-
General Executive	79,522	-	79,522	-
Transportation	24,886	-	24,886	-
Debt Service	108,761	-	108,761	-
Environmental Improvement	-	1,727,658	1,727,658	-
Permanent Trusts:				
Expendable	15,894	264,449	280,342	11,334
Nonexpendable	916,380	154,999	1,071,380	2,437
Future Benefits	-	602,656	602,656	41,905
Other Purposes	67,735	485,746	553,481	2,629,431
Unrestricted	(9,402,946)	105,083	(9,297,863)	826,715
Total Net Assets	$ 7,239,135	$ 7,610,678	$ 14,849,813	$ 3,693,298

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

Statement of Activities
For the Fiscal Year Ended June 30, 2012

(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	$ 274,384	$ 248,448	$ 4,673	$ -
Education	6,226,185	19,107	1,005,969	59
Transportation	1,967,864	713,537	153,528	853,215
Environmental Resources	431,983	222,587	92,155	1,232
Human Relations and Resources	12,157,044	705,026	7,136,616	6,979
General Executive	755,504	240,439	366,591	-
Judicial	124,784	60,593	747	-
Legislative	58,737	1,997	5	-
Tax Relief and Other General Expenses	1,359,015	5	44,786	-
Intergovernmental - Shared Revenue	989,906	53,490	-	-
Interest on Debt	523,737	-	-	-
Total Governmental Activities	24,869,142	2,265,228	8,805,070	861,484
Business-type Activities:				
Injured Patients and Families Compensation	36,725	36,030	67,436	-
Environmental Improvement	59,434	50,577	98,328	-
University of Wisconsin System	4,418,333	3,461,615	189,713	88,691
Unemployment Reserve	1,763,830	1,328,158	754,673	-
Lottery	525,091	547,739	1,832	-
Health Insurance	1,261,835	1,260,103	1,414	-
Care and Treatment Facilities	322,790	274,137	1,239	10,705
Other Business-type	174,222	80,908	3,139	4,109
Total Business-type Activities	8,562,260	7,039,267	1,117,774	103,505
Total Primary Government	$ 33,431,402	$ 9,304,495	$ 9,922,843	$ 964,989
Component Units:				
Housing and Economic Development Authority	$ 296,095	$ 139,287	$ 165,264	$ -
Health Care Liability Insurance Plan	1,970	2,282	8,095	-
University Hospitals and Clinics Authority	1,115,671	1,204,426	-	3,987
University of Wisconsin Foundation	245,516	(66,122)	197,542	-
Wisconsin Economic Development Corp	25,069	1,263	80,767	-
Total Component Units	$ 1,684,321	$ 1,281,136	$ 451,668	$ 3,987

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
$ (21,263)		$ (21,263)	
(5,201,050)		(5,201,050)	
(247,584)		(247,584)	
(116,009)		(116,009)	
(4,308,424)		(4,308,424)	
(148,474)		(148,474)	
(63,444)		(63,444)	
(56,736)		(56,736)	
(1,314,224)		(1,314,224)	
(936,415)		(936,415)	
(523,737)		(523,737)	
(12,937,360)		(12,937,360)	
	$ 66,742	66,742	
	89,471	89,471	
	(678,315)	(678,315)	
	319,002	319,002	
	24,479	24,479	
	(318)	(318)	
	(36,709)	(36,709)	
	(86,066)	(86,066)	
-	(301,714)	(301,714)	
(12,937,360)	(301,714)	(13,239,074)	
			$ 8,456
			8,407
			92,742
			(114,096)
			56,962
			52,470
8,059,907	-	8,059,907	-
4,978,948	-	4,978,948	-
358,822	-	358,822	-
257,729	-	257,729	-
1,026,181	-	1,026,181	-
193,691	-	193,691	-
(204)	20,607	20,403	29,357
406,478	26	406,504	-
-	1,524	1,524	514
16,244	-	16,244	-
(1,122,833)	1,122,833	-	-
14,174,963	1,144,990	15,319,952	29,871
1,237,602	843,276	2,080,878	82,341
6,001,533	6,767,402	12,768,935	3,610,957
$ 7,239,135	$ 7,610,678	$ 14,849,813	$ 3,693,298

Balance Sheet - Governmental Funds
June 30, 2012

(In Thousands)

	General	Transportation	Common School	Nonmajor Governmental	Total Governmental
Assets					
Cash and Cash Equivalents	$ 10,699	$ 580,652	$ 223,043	$ 301,720	$ 1,116,114
Investments	797	-	272,335	24,897	298,029
Receivables (net of allowance):					
Taxes	1,258,467	96,775	-	32,902	1,388,144
Loans to Local Governments	304	-	384,590	20,320	405,213
Other Loans Receivable	35,286	16,996	-	-	52,281
Other Receivables	443,965	8,120	2,357	72,767	527,209
Due from Other Funds	174,744	77,823	7,970	71,310	331,847
Due from Component Units	8,626	-	-	-	8,626
Due from Other Governments	878,151	299,609	5,306	10,554	1,193,620
Inventories	10,275	27,299	-	3,519	41,093
Prepaid Items	115,393	4,301	-	12,666	132,359
Restricted and Limited Use Assets:					
Cash and Cash Equivalents	-	-	-	309,370	309,370
Investments	-	-	-	19,589	19,589
Other Assets	22,957	-	-	1	22,958
Total Assets	$ 2,959,663	$ 1,111,574	$ 895,602	$ 879,614	$ 5,846,453
Liabilities and Fund Balances					
Liabilities:					
Accounts Payable and Other Accrued Liabilities	$ 993,330	$ 239,379	$ -	$ 35,079	$ 1,267,789
Due to Other Funds	115,733	45,491	1,370	107,566	270,159
Due to Component Units	18,804	-	-	5,207	24,011
Interfund Payables	49,981	-	-	510	50,491
Due to Other Governments	2,020,806	98,697	-	31,999	2,151,502
Tax Refunds Payable	1,350,252	3,791	-	436	1,354,479
Tax and Other Deposits	13,463	390	-	10,887	24,741
Unearned Revenue	353,130	33,019	-	4,923	391,072
Deferred Revenue	254,557	599	-	10,060	265,217
Interest Payable	-	-	-	43,047	43,047
Advances from Other Funds	611	-	-	4,151	4,762
Short-term Notes Payable	-	-	-	811,178	811,178
Revenue Bonds and Notes Payable	-	-	-	94,715	94,715
Total Liabilities	5,170,669	421,366	1,370	1,159,758	6,753,163
Fund Balances:					
Nonspendable	92,164	31,600	878,338	52,524	1,054,627
Restricted	202,222	24,886	15,894	234,484	477,485
Committed	125,507	633,722	-	137,869	897,098
Unassigned	(2,630,900)	-	-	(705,021)	(3,335,921)
Total Fund Balances	(2,211,006)	690,208	894,232	(280,144)	(906,710)
Total Liabilities and Fund Balances	$ 2,959,663	$ 1,111,574	$ 895,602	$ 879,614	$ 5,846,453

(Continued)

Balance Sheet - Governmental Funds
June 30, 2012

(Continued)

			Total Governmental
Reconciliation to the Statement of Net Assets:			
Total Fund Balances - Governmental Funds (from previous page)		$	(906,710)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:			
Infrastructure	12,884,667		
Other Capital Assets	7,311,518		
Accumulated Depreciation	(1,185,269)		
			19,010,916
Other long-term assets that are not available to pay for current period expenditures and, therefore, are deferred in the funds.			75,808
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.			264,772
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.			13,454
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	(1,944,489)		
Appropriation Bonds Payable	(3,298,422)		
General Obligation Bonds Payable	(5,540,586)		
Accrued Interest on Bonds	(67,612)		
Capital Leases	(33,208)		
Installment Contracts	(113)		
Compensated Absences	(146,866)		
Pollution Remediation	(7,490)		
Claims and Judgments	(2,049)		
Other Postemployment Benefits Liability	(178,270)		
			(11,219,105)
Net Assets of Governmental Activities as reported on the Statement of Net Assets (See page 21)		$	7,239,135

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, 2012

(In Thousands)

	General	Transportation	Common School	Nonmajor Governmental	Total Governmental
Revenues:					
Taxes	$ 13,659,746	$ 1,026,228	$ -	$ 192,824	$ 14,878,798
Intergovernmental	8,435,692	998,904	6	81,260	9,515,862
Licenses and Permits	799,413	491,880	-	610,531	1,901,824
Charges for Goods and Services	282,925	21,341	7	16,246	320,518
Investment and Interest Income	(1,282)	(186)	51,516	2,094	52,143
Fines and Forfeitures	38,509	317	16,213	4,566	59,606
Gifts and Donations	7,483	4	-	12,379	19,866
Miscellaneous:					
Tobacco Settlement	131,298	-	-	-	131,298
Other	228,562	13,534	2,000	48,758	292,854
Total Revenues	23,582,346	2,552,022	69,742	968,658	27,172,768
Expenditures:					
Current Operating:					
Commerce	204,578	-	-	76,062	280,640
Education	6,139,880	-	32,500	13,098	6,185,478
Transportation	8,486	1,892,424	-	38,848	1,939,758
Environmental Resources	103,185	-	-	321,824	425,009
Human Relations and Resources	11,999,714	-	-	80,626	12,080,339
General Executive	654,121	-	-	101,707	755,828
Judicial	124,767	-	-	243	125,010
Legislative	63,030	-	-	-	63,030
Tax Relief and Other General Expenditures	1,354,170	-	-	7,946	1,362,116
Intergovernmental - Shared Revenue	935,820	-	-	54,086	989,906
Capital Outlay	35,326	754,766	-	327,130	1,117,222
Debt Service:					
Principal	-	-	-	166,080	166,080
Interest	-	-	-	520,128	520,128
Other Expenditures	-	-	-	8,356	8,356
Total Expenditures	21,623,078	2,647,190	32,500	1,716,134	26,018,901
Excess of Revenues Over (Under) Expenditures	1,959,268	(95,168)	37,242	(747,476)	1,153,867
Other Financing Sources (Uses):					
Long-term Debt Issued	-	-	-	575,705	575,705
Long-term Debt Issued - Refunding Bonds	-	-	-	849,969	849,969
Payments for Refunded Bonds	-	-	-	(305,887)	(305,887)
Payments to Refunding Bond Escrow Agent	-	-	-	(693,061)	(693,061)
Premium on Bonds	-	-	-	222,536	222,536
Transfers In	104,286	49,393	12,500	571,181	737,360
Transfers Out	(1,336,999)	(74,605)	(1,915)	(449,948)	(1,863,467)
Capital Lease Acquisitions	7,557	2,035	-	-	9,592
Installment Purchase Acquisitions	-	-	-	113	113
Total Other Financing Sources (Uses)	(1,225,156)	(23,178)	10,585	770,608	(467,140)
Net Change in Fund Balances	734,113	(118,346)	47,827	23,132	686,726
Fund Balances, Beginning of Year	(2,943,815)	799,192	846,405	(304,094)	(1,602,312)
Increase (Decrease) in Inventories	(1,304)	9,362	-	818	8,876
Fund Balances, End of Year	$ (2,211,006)	$ 690,208	$ 894,232	$ (280,144)	$ (906,710)

(Continued)

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Fiscal Year Ended June 30, 2012

(Continued)

			Total Governmental
Reconciliation to the Statement of Activities:			
Net Change in Fund Balances (from previous page)		$	686,726
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.			8,876
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	1,116,462		
Depreciation Expense	(100,661)		
Grants and Contributions (Donated Assets)	1,811		
			1,017,612
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.			(45,733)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.			(15,251)
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	(1,425,674)		
Payments for Refunded Bonds	305,887		
Payments to Refunding Bond Escrow Agent	693,061		
Repayment of Bond Principal	166,080		
Bond Premium	(222,536)		
Bond Issuance Costs (Amortization)	5,783		
			(477,399)
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	52,945		
Decrease (increase) in Capital Leases	6,731		
Decrease (increase) in Installment Contracts	152		
Decrease (increase) in Compensated Absences	(594)		
Decrease (increase) in Pollution Remediation Liabilities	3,610		
Decrease (increase) in Claims and Judgments	306		
Decrease (increase) in Postemployment Benefit Liabilities	(8,189)		
			54,962
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.			7,809
Changes in Net Assets of Governmental Activities as reported on the Statement of Activities (See page 23)		$	1,237,602

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

State of Wisconsin

Balance Sheet
Proprietary Funds
June 30, 2012

(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	$ 39,991	$ 326,057	$ 1,201,990	$ -
Investments	69,594	47,741	-	-
Loans to Local Governments (net of allowance)	-	152,559	-	-
Other Loans Receivable (net of allowance)	-	-	31,332	-
Other Receivables (net of allowance)	9,710	285	126,599	327,181
Due from Other Funds	-	4	36,398	584
Due from Component Units	-	-	2,763	-
Interfund Receivables	-	-	145,513	-
Due from Other Governments	-	8,236	104,724	19,287
Inventories	2	-	41,928	-
Prepaid Items	7	21	41,917	-
Capital Leases Receivable - Component Units	-	-	1,288	-
Deferred Charges	-	-	13,026	-
Other Assets	-	-	-	-
Total Current Assets	119,303	534,903	1,747,477	347,052
Noncurrent Assets:				
Investments	874,699	200,721	389,491	-
Loans to Local Governments (net of allowance)	-	1,776,478	-	-
Other Loans Receivable (net of allowance)	-	-	159,402	-
Other Receivables	-	-	3,860	80,088
Prepaid Items	-	184	-	-
Advances to Other Funds	-	4,151	-	-
Capital Leases Receivable - Component Units	-	-	1,222	-
Restricted and Limited Use Assets:				
Cash and Cash Equivalents	34,010	101,181	-	11,288
Deferred Charges	-	3,341	-	-
Other Assets	-	-	-	-
Depreciable Capital Assets (net of accumulated depreciation)	467	2	3,687,937	-
Nondepreciable Capital Assets	-	-	1,894,820	-
Total Noncurrent Assets	909,177	2,086,059	6,136,732	91,375
Total Assets	$ 1,028,480	$ 2,620,962	$ 7,884,209	$ 438,427
Liabilities and Fund Equity				
Current Liabilities:				
Accounts Payable and Other Accrued Liabilities	$ 1,027	$ 69	$ 168,676	$ 41,180
Due to Other Funds	150	1,234	68,452	3,947
Due to Component Units	-	-	335	-
Interfund Payables	-	-	-	-
Due to Other Governments	-	-	4,997	79,483
Advance from Federal Government	-	-	-	397,350
Tax and Other Deposits	-	-	1,961	-
Unearned Revenue	252	-	166,835	-
Interest Payable	-	3,461	10,050	-
Short-term Notes Payable	-	-	79,693	-
Current Portion of Long-term Liabilities:				
Future Benefits and Loss Liabilities	82,214	-	-	-
Capital Leases	-	-	6,601	-
Compensated Absences	18	43	73,135	-
General Obligation Bonds Payable	-	-	54,062	-
Revenue Bonds and Notes Payable	-	59,170	-	-
Total Current Liabilities	83,661	63,978	634,796	521,960
Noncurrent Liabilities:				
Accounts Payable and Other Accrued Liabilities	-	-	-	-
Due to Other Governments	-	927	-	-
Advance from Federal Government	-	-	-	528,890
Noncurrent Portion of Long-term Liabilities:				
Future Benefits and Loss Liabilities	583,564	-	-	-
Capital Leases	-	-	18,480	-
Compensated Absences	51	43	63,292	-
Other Postemployment Benefits	39	30	197,783	-
General Obligation Bonds Payable	-	-	1,322,287	-
Revenue Bonds and Notes Payable	-	814,480	-	-
Total Noncurrent Liabilities	583,654	815,481	1,601,842	528,890
Total Liabilities	667,315	879,458	2,236,638	1,050,849
Fund Equity:				
Invested in Capital Assets, Net of Related Debt	467	2	4,101,634	-
Restricted for Environmental Improvement	-	1,727,658	-	-
Restricted for Expendable Trusts	-	-	264,449	-
Restricted for Nonexpendable Trusts	-	-	154,999	-
Restricted for Future Benefits	360,697	-	-	-
Restricted for Other Purposes	-	-	416,617	-
Unrestricted	-	13,843	709,871	(612,422)
Total Fund Equity	361,165	1,741,504	5,647,570	(612,422)
Total Liabilities and Fund Equity	$ 1,028,480	$ 2,620,962	$ 7,884,209	$ 438,427

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

Business-type Activities - Enterprise Funds Nonmajor Enterprise	Business-type Activities - Enterprise Funds Totals	Governmental Activities - Internal Service Funds
$ 724,382	$ 2,292,420	$ 22,454
12,915	130,251	-
661	153,220	-
5,986	37,318	-
59,566	523,341	1,403
16,155	53,140	31,078
-	2,763	74
-	145,513	-
6,710	138,956	356
8,831	50,761	4,711
37,694	79,639	467
-	1,288	-
43	13,069	101
345	345	-
873,288	3,622,023	60,644
159,037	1,623,948	-
1,136	1,777,614	-
131,334	290,736	-
30	83,978	-
-	184	-
611	4,762	-
-	1,222	-
-	146,479	-
1,341	4,682	480
6,491	6,491	-
188,342	3,876,749	248,809
34,178	1,928,998	54,978
522,500	9,745,843	304,268
$ 1,395,788	$ 13,367,866	$ 364,912
$ 65,103	$ 276,055	$ 14,557
41,581	115,365	6,852
-	335	-
50,297	50,297	44,725
554	85,034	2,104
-	397,350	-
19,069	21,030	-
112,419	279,506	-
1,535	15,046	1,269
1,414	81,107	9,313
67,021	149,235	30,496
353	6,954	236
4,574	77,770	1,140
10,940	65,003	13,897
-	59,170	-
374,861	1,679,256	124,589
36,732	36,732	-
-	927	-
-	528,890	-
295,105	878,668	65,259
1,115	19,595	388
7,453	70,840	2,700
26,119	223,972	3,099
182,588	1,504,875	154,377
-	814,480	-
549,112	4,078,979	225,822
923,973	5,758,235	350,411
167,984	4,270,087	124,802
-	1,727,658	-
-	264,449	-
-	154,999	-
241,959	602,656	-
69,128	485,746	-
(7,256)	104,036	(110,301)
471,815	7,609,631	14,501
$ 1,395,788	$ 13,367,866	$ 364,912

Total Fund Equity Reported Above	$ 7,609,631
Adjustment to Reflect the Consolidation of Internal Service Activities Related to Enterprise Funds	1,046
Net Assets of Business-type Activities	$ 7,610,678

Statement of Revenues, Expenses, and Changes in Fund Equity - Proprietary Funds
For the Fiscal Year Ended June 30, 2012

(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	$ 36,030	$ -	$ -	$ -
Participant and Employer Contributions	-	-	-	1,226,898
Tuition and Fees	-	-	1,105,144	-
Federal Grants and Contracts	-	-	973,562	-
Local and Private Grants and Contracts	-	-	298,984	-
Sales and Services of Educational Activities	-	-	335,815	-
Sales and Services of Auxiliary Enterprises	-	-	362,783	-
Sales and Services to UW Hospital Authority	-	-	59,672	-
Investment and Interest Income	-	29,285	-	-
Interest Income Used as Security for Revenue Bonds	-	21,251	-	-
Miscellaneous:				
Federal Aid for Unemployment Insurance Program	-	-	-	754,673
Reimbursing Financing Revenue	-	-	-	92,195
Other	-	41	265,850	9,065
Total Operating Revenues	36,030	50,577	3,401,811	2,082,832
Operating Expenses:				
Personal Services	471	3,777	2,834,714	-
Supplies and Services	331	2,007	1,122,014	-
Lottery Prize Awards	-	-	-	-
Scholarships and Fellowships	-	-	130,929	-
Depreciation	36	4	238,412	-
Benefit Expense	35,887	-	-	1,763,830
Interest Expense	-	39,522	-	-
Other Expenses	-	-	7,827	-
Total Operating Expenses	36,725	45,309	4,333,896	1,763,830
Operating Income (Loss)	(695)	5,268	(932,084)	319,002
Nonoperating Revenues (Expenses):				
Operating Grants	-	66,217	-	-
Investment and Interest Income	67,436	1,199	589	-
Investment Income Used as Security for Revenue Bonds	-	30,970	-	-
Gain (Loss) on Disposal of Capital Assets	-	-	(33,407)	-
Interest Expense	-	-	(50,396)	-
Gifts and Donations	-	-	191,048	-
Miscellaneous Revenues	-	-	59,804	-
Other Expenses:				
Property Tax Credits	-	-	-	-
Grants Disbursed	-	-	-	-
Federal Settlement	-	-	-	-
Other	-	(14,125)	-	-
Total Nonoperating Revenues (Expenses)	67,436	84,260	167,638	-
Income (Loss) Before Contributions and Transfers	66,742	89,528	(764,446)	319,002
Capital Contributions	-	-	88,691	-
Additions to Endowments	-	-	1,524	-
Transfers In	-	28,252	1,147,775	-
Transfers Out	(17)	(8,115)	(95,887)	(5,313)
Net Change in Fund Equity	66,725	109,664	377,657	313,689
Total Fund Equity, Beginning of Year	294,439	1,631,839	5,269,914	(926,111)
Total Fund Equity, End of Year	$ 361,165	$ 1,741,504	$ 5,647,570	$ (612,422)

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

Business-type Activities - Enterprise Funds: Nonmajor Enterprise	Business-type Activities - Enterprise Funds: Totals	Governmental Activities - Internal Service Funds
$ 875,975	$ 912,005	$ 252,520
1,275,144	2,502,042	-
-	1,105,144	-
-	973,562	-
-	298,984	-
-	335,815	-
-	362,783	-
-	59,672	-
9,857	39,142	-
-	21,251	-
-	754,673	-
-	92,195	-
910	275,867	8
2,161,887	7,733,137	252,528
275,528	3,114,489	43,901
165,555	1,289,907	145,142
320,115	320,115	-
-	130,929	-
14,084	252,536	19,946
1,347,837	3,147,554	30,637
9,548	49,070	-
13,157	20,984	-
2,145,825	8,325,585	239,626
16,062	(592,447)	12,902
2,306	68,523	165
23,298	92,522	21
-	30,970	-
2	(33,405)	(1,660)
(1,912)	(52,307)	(7,021)
345	191,394	-
1,298	61,102	2,397
(133,339)	(133,339)	-
(2,541)	(2,541)	-
-	-	(3,829)
-	(14,125)	-
(110,542)	208,792	(9,928)
(94,480)	(383,655)	2,975
14,814	103,505	-
-	1,524	-
89,522	1,265,549	14,662
(33,385)	(142,716)	(10,759)
(23,529)	844,207	6,878
495,343	6,765,425	7,623
$ 471,815	$ 7,609,631	$ 14,501

Total Net Change in Fund Equity Reported Above	$ 844,207
Consolidation Adjustment of Internal Services Activities Related to Enterprise Funds	(931)
Change in Net Assets of Business-Type Activities	$ 843,276

Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2012

(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	$ 34,538	$ -	$ -	$ 1,232,972
Cash Payments to Suppliers for Goods and Services	(390)	(1,907)	(1,109,476)	-
Cash Payments to Employees for Services	(467)	(3,551)	(2,781,408)	-
Tuition and Fees	-	-	1,102,826	-
Grants and Contracts	-	-	1,264,693	-
Cash Payments for Lottery Prizes	-	-	-	-
Cash Payments for Loans Originated	-	-	(28,299)	-
Collection of Loans	-	-	26,726	-
Interest Income	-	-	-	-
Cash Payments for Benefits	(6,612)	-	-	(1,836,782)
Sales and Services of Educational Activities	-	-	317,065	-
Sales and Services of Auxiliary Enterprises	-	-	387,073	-
Sales and Services to UW Hospital Authority	-	-	58,034	-
Scholarships and Fellowships	-	-	(130,929)	-
Other Operating Revenues	-	41	241,233	1,010,183
Other Operating Expenses	-	-	-	-
Other Sources of Cash	-	-	-	-
Other Uses of Cash	-	-	-	-
Net Cash Provided (Used) by Operating Activities	27,068	(5,417)	(652,461)	406,373
Cash Flows from Noncapital Financing Activities:				
Operating Grants Receipts	-	66,456	-	-
Grants Disbursed	-	(14,125)	-	-
Repayment of Bonds and Notes	-	(58,170)	-	-
Interest Payments	-	(44,288)	-	-
Property Tax Credit Payments	-	-	-	-
Noncapital Gifts and Grants	-	-	192,572	-
Interfund Loans Received	-	-	-	-
Interfund Loans Repaid	-	-	-	-
Interfund Borrowings to Other Funds	-	-	385,073	-
Interfund Advances Collected	233,747	-	-	-
Transfers In	-	28,252	953,418	-
Transfers Out	(16)	(8,115)	(95,602)	(5,233)
Student Direct Lending Receipts	-	-	814,837	-
Student Direct Lending Disbursements	-	-	(815,935)	-
Other Cash Inflows from Noncapital Financing Activities	-	-	49,951	899,890
Other Cash Outflows from Noncapital Financing Activities	(691)	(700)	(245)	(1,306,263)
Net Cash Provided (Used) by Noncapital Financing Activities	233,040	(30,691)	1,484,069	(411,606)
Cash Flows from Capital and Related Financing Activities:				
Proceeds from Issuance of Debt	-	-	398,982	-
Capital Contributions	-	-	251,740	-
Repayment of Bonds and Notes	-	-	(167,406)	-
Interest Payments	-	-	(112,955)	-
Transfers In	-	-	-	-
Capital Lease Obligations	-	-	-	-
Proceeds from Sale of Capital Assets	-	-	-	-
Payments for Purchase of Capital Assets	(117)	-	(636,844)	-
Other Cash Inflows from Capital Financing Activities	-	-	86,147	-
Other Cash Outflows from Capital Financing Activities	-	-	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(117)	-	(180,336)	-
Cash Flows from Investing Activities:				
Proceeds from Sale and Maturities of Investment Securities	40,778	105,397	100,253	-
Purchase of Investment Securities	(303,529)	(109,959)	(105,076)	-
Cash Payments for Loans Originated	-	(183,006)	-	-
Collection of Loans	-	153,832	-	-
Investment and Interest Receipts	29,834	59,728	8,796	-
Net Cash Provided (Used) by Investing Activities	(232,918)	25,993	3,974	-
Net Increase (Decrease) in Cash and Cash Equivalents	27,073	(10,115)	655,246	(5,233)
Cash and Cash Equivalents, Beginning of Year	46,928	437,354	546,744	16,521
Cash and Cash Equivalents, End of Year	$ 74,001	$ 427,239	$ 1,201,990	$ 11,288

	Business-type Activities - Enterprise Funds		
	Nonmajor Enterprise	Totals	Governmental Activities - Internal Service Funds
	$ 2,151,596	$ 3,419,106	$ 270,320
	(121,866)	(1,233,639)	(141,590)
	(288,304)	(3,073,730)	(43,087)
	-	1,102,826	-
	-	1,264,693	-
	(330,599)	(330,599)	-
	(1,671)	(29,971)	-
	49,624	76,351	-
	10,102	10,102	-
	(1,319,604)	(3,162,998)	(26,557)
	-	317,065	-
	-	387,073	-
	-	58,034	-
	-	(130,929)	-
	4,232	1,255,689	8
	(44,604)	(44,604)	-
	9,017	9,017	2,144
	(303)	(303)	(9,065)
	117,620	(106,816)	52,173
	2,255	68,712	-
	(2,421)	(16,546)	-
	(40,810)	(98,980)	-
	(9,299)	(53,588)	(7)
	(135,014)	(135,014)	-
	-	192,572	-
	(5,999)	(5,999)	-
	(4,527)	(4,527)	(40,941)
	-	385,073	-
	-	233,747	-
	84,045	1,065,715	19,315
	(33,605)	(142,572)	(9,540)
	-	814,837	-
	-	(815,935)	-
	392	950,233	411
	(8)	(1,307,907)	(71)
	(144,991)	1,129,820	(30,832)
	12,111	411,093	-
	14,814	266,555	-
	(11,578)	(178,984)	(14,455)
	(2,115)	(115,070)	(7,774)
	3,323	3,323	-
	(487)	(487)	(261)
	4	4	31,651
	(24,487)	(661,448)	(23,148)
	2,303	88,450	2,595
	(826)	(826)	(139)
	(6,938)	(187,390)	(11,531)
	19,052	265,480	-
	(3,342)	(521,907)	-
	(211)	(183,216)	-
	373	154,205	-
	9,363	107,721	-
	25,235	(177,716)	-
	(9,073)	657,898	9,810
	733,455	1,781,002	12,644
	$ 724,382	$ 2,438,899	$ 22,454

(Continued)

Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2012

(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)	$ (695)	$ 5,268	$ (932,084)	$ 319,002
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	36	4	238,412	-
Provision for Uncollectible Accounts	-	-	-	11,836
Operating Income (Investment Income) Classified as Investing Activity	-	(50,536)	-	-
Operating Expense (Interest Expense) Classified as Noncapital Financing Activity	-	39,751	-	-
Miscellaneous Nonoperating Income (Expense)	-	-	-	-
Changes in Assets and Liabilities:				
Decrease (Increase) in Receivables	(239)	-	10,075	(18,619)
Decrease (Increase) in Due from Other Funds	-	1,041	(19,298)	248
Decrease (Increase) in Due from Component Units	-	-	(1,639)	-
Decrease (Increase) in Due from Other Governments	-	-	(14,589)	78,243
Decrease (Increase) in Inventories	1	-	533	-
Decrease (Increase) in Prepaid Items	1	19	14,520	-
Decrease (Increase) in Other Assets	-	-	-	-
Decrease (Increase) in Deferred Charges	-	-	1,325	-
Increase (Decrease) in Accounts Payable and Other Accrued Liabilities	960	(74)	15,479	(17,905)
Increase (Decrease) in Due to Other Funds	(59)	(453)	(774)	(1,013)
Increase (Decrease) in Due to Component Units	-	-	(1,668)	-
Increase (Decrease) in Due to Other Governments	-	(210)	2,657	34,581
Increase (Decrease) in Tax and Other Deposits	-	-	-	-
Increase (Decrease) in Unearned Revenue	(2,214)	-	(281)	-
Increase (Decrease) in Interest Payable	-	(230)	-	-
Increase (Decrease) in Compensated Absences	2	-	4,481	-
Increase (Decrease) in Postemployment Benefits	-	2	30,390	-
Increase (Decrease) in Future Benefits and Loss Liabilities	29,275	-	-	-
Total Adjustments	27,763	(10,685)	279,624	87,371
Net Cash Provided (Used) by Operating Activities	$ 27,068	$ (5,417)	$ (652,461)	$ 406,373
Noncash Investing, Capital and Financing Activities:				
Assets Acquired through Capital Leases	$ -	$ -	$ 2,270	$ -
Lottery Prize Annuity Investment Liability	-	-	-	-
Net Change in Unrealized Gains and Losses	37,603	23,285	(14,911)	-
Other	(2,579)	-	14,483	-

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
	$ 16,062	$ (592,447)	$ 12,902
	14,084	252,536	19,946
	508	12,344	-
	(267)	(50,802)	-
	9,548	49,299	-
	1,470	1,470	(6,846)
	60,582	51,799	(126)
	(2,242)	(20,251)	17,895
	-	(1,639)	3
	324	63,978	(18)
	207	741	29
	601	15,141	247
	523	523	-
	27	1,353	-
	(2,468)	(4,008)	1,973
	(514)	(2,813)	2,548
	-	(1,668)	-
	73	37,101	(289)
	246	246	-
	(9,365)	(11,860)	-
	-	(230)	-
	725	5,208	(16)
	503	30,895	(154)
	26,992	56,267	4,080
	101,558	485,631	39,271
	$ 117,620	$ (106,816)	$ 52,173
	$ -	$ 2,270	$ 51
	3,002	3,002	-
	14,728	60,705	-
	575	12,479	-

Statement of Fiduciary Net Assets
June 30, 2012

(In Thousands)

	Pension and Other Employee Benefit Trust	Investment Trust	Private-Purpose Trust	Agency
Assets				
Cash and Cash Equivalents	$ 1,926,073	$ 2,484,361	$ 226,563	$ 25,824
Securities Lending Collateral	1,338,864	-	-	-
Prepaid Items	20,515	-	1	-
Receivables (net of allowance):				
Prior Service Contributions Receivable	91,054	-	-	-
Benefits Overpayment Receivable	4,098	-	-	-
Due from Other Funds	52,830	-	-	952
Due from Component Units	4,286	-	-	-
Interfund Receivables	586,538	-	-	-
Due from Other Governments	145,419	-	5,876	370
Due from Employers	-	-	-	7,201
Interest and Dividends Receivable	248,380	-	-	-
Investment Sales Receivable	249,179	-	-	-
Other Receivables	20,260	-	3,275	6,519
Total Receivables	1,402,046	-	9,150	15,042
Investments:				
Fixed Income	22,860,340	-	-	-
Stocks	42,028,634	-	-	-
Options	(1,182)	-	-	-
Financial Futures Contracts	34,100	-	-	-
Limited Partnerships	9,908,203	-	-	-
Preferred Securities	130,152	-	-	-
Convertible Securities	56,605	-	-	-
Real Estate	508,544	-	-	-
Investments of Private Purpose Trust Funds	-	-	2,662,860	-
Investments of Agency Funds	-	-	-	256
Multi-asset Investments	2,547,454	-	-	-
External Investment Pool	597,397	-	-	-
Total Investments	78,670,248	-	2,662,860	256
Inventories	81	-	-	-
Capital Assets	2,031	-	-	-
Other Assets	-	-	-	316,803
Total Assets	83,359,858	2,484,361	2,898,574	$ 357,925
Liabilities				
Accounts Payable and Other Accrued Liabilities	36,993	-	1,104	$ 18,061
Reverse Repurchase Agreements	649,424	-	-	-
Securities Lending Collateral Liability	1,338,864	-	-	-
Annuities Payable	284,327	-	-	-
Advance Contributions	117	-	-	-
Due to Other Funds	77,306	160	5	-
Interfund Payables	586,538	-	-	-
Due to Other Governments	35,573	-	-	-
Tax and Other Deposits	-	-	-	339,864
Future Benefits and Loss Liabilities	-	-	4,848	-
Investment Payable	289,011	-	-	-
Unearned Revenue	872	-	15,219	-
Compensated Absences Payable	2,160,752	-	-	-
Other Postemployment Benefits	1,168	-	-	-
Total Liabilities	5,460,945	160	21,175	$ 357,925
Net Assets				
Held in Trust for Pension Benefits, Pool Participants and Other Purposes	$ 77,898,913	$ 2,484,201	$ 2,877,399	

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, 2012

(In Thousands)

	Pension and Other Employee Benefit Trust	Investment Trust	Private-Purpose Trust
Additions			
Contributions:			
Employer Contributions	$ 898,874	$ -	$ -
Employee Contributions	770,053	-	-
Other	-	-	256
Total Contributions	1,668,927	-	256
Deposits	-	10,143,283	310,037
Premiums	-	-	206,560
Federal Subsidy	-	-	14,631
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	(1,048,661)	-	-
Interest	658,943	-	-
Dividends	1,095,018	-	-
Securities Lending Income	13,004	-	-
Other	132,160	-	-
Investment Income of Investment, Private Purpose, and Other Employee Benefit Trust Funds	52,063	4,961	13,069
Less:			
Investment Expense	(245,150)	-	(5,615)
Securities Lending Rebates and Fees	10,060	-	-
Investment Income Distributed to Other Funds	(28,676)	-	-
Net Investment Income	638,761	4,961	7,454
Interest on Prior Service Receivable	6,668	-	-
Miscellaneous Income	232	-	5
Transfers In	9	-	-
Total Additions	2,314,597	10,148,243	538,943
Deductions			
Retirement Benefits and Refunds:			
Retirement, Disability, and Beneficiary	4,240,898	-	-
Separations	30,456	-	-
Total Retirement Benefits and Refunds	4,271,353	-	-
Distributions	24,582	10,137,254	251,450
Other Benefit Expense	143,145	-	231,056
Administrative Expense	23,440	160	12,842
Transfers Out	633	-	4
Total Deductions	4,463,153	10,137,414	495,352
Net Increase (Decrease)	(2,148,556)	10,829	43,591
Net Assets - Beginning of Year	80,047,469	2,473,372	2,833,808
Net Assets - End of Year	$ 77,898,913	$ 2,484,201	$ 2,877,399

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

Notes To The Financial Statements

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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., and the Badger Tobacco Asset Securitization Corporation are reported as blended component units; and the Wisconsin Housing and Economic Development Authority, the Wisconsin Health Care Liability Insurance Plan, the University of Wisconsin Hospitals and Clinics Authority, the Wisconsin Economic Development Corporation 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

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

Wisconsin Economic Development Corporation
201 West Washington Avenue
Madison, Wisconsin 53737

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.

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, the Wisconsin Economic Development Corporation 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.

Wisconsin Economic Development Corporation-The Wisconsin Economic Development Corporation (WEDC) is a legally separate body corporate and politic. The WEDC's primary purpose is economic development activities in the State. The State appoints a majority of the WEDC's Board, has the ability to impose its will on the WEDC, and a financial benefit/burden relationship exists. The WEDC reports on a fiscal year ended June 30.

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.

C. Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

The 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".

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 are 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, 2012, 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 $438.4 million representing one-half of the total appropriated amount is reported at June 30, 2012 as Due to Other Governments.

State Property Tax Credit Program

At June 30, 2012, 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, 2012.

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, 2012.

The aggregated State Property Tax Credit Program liability of $680.8 million is reported in the General Fund as Due to Other Governments. Of that amount, $568.7 million relates to the school levy tax credit and $112.1 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 2012, 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 2012 property tax bills, the State made this payment in March 2012. 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 2012, while the remaining portion represents a prepaid item. The resulting prepaid item reported within the Lottery Fund totals $32.3 million at June 30, 2012.

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, 2012, the State was liable to various local governments and other taxing jurisdictions for unpaid exempt computer aid payments of $57.5 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, 2012, 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. 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. Formal action of the state legislature is the highest level action that results in committed fund balance. 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 are 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, 2012, 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	$ 1,116,114	$ -	$ 22,454	$ -	$ 1,138,568
Investments	298,029	-	-	-	298,029
Receivables (net of allowance):					
Taxes	1,388,144	-	-	(1,388,144)	-
Loans to Local Governments	405,213	-	-	(405,213)	-
Other Loans Receivable	52,281	-	-	(52,281)	-
Other Receivables	527,209	2,359	1,833	3,107,462	3,638,862
Due from Other Funds	331,847	-	31,078	(362,925)	-
Due from Component Units	8,626	-	-	(8,626)	-
Due from Other Governments	1,193,620	-	-	(1,193,620)	-
Internal Balances	-	-	(1,046)	(51,824)	(52,871)
Inventories	41,093	444	4,711	-	46,249
Prepaid Items	132,359	-	467	-	132,827
Restricted Assets:					
Cash and Cash Equivalents	309,370	-	-	-	309,370
Investments	19,589	-	-	-	19,589
Deferred Charges	-	73,004	581	-	73,585
Other Assets	22,958	-	-	-	22,958
Depreciable Capital Assets	-	1,320,631	248,809	-	1,569,441
Infrastructure	-	12,884,667	-	-	12,884,667
Other Non-depreciable Capital Assets	-	4,805,617	54,978	-	4,860,596
Other Deferred Outflows	-	216,094	-	-	216,094
Total Assets	$ 5,846,453	$ 19,302,818	$ 363,866	$ (355,172)	$ 25,157,964
Liabilities:					
Accounts Payable and Other Accrued Liabilities	1,267,789	-	17,931	45,828	1,331,547
Due to Other Funds	270,159	-	51,577	(321,736)	-
Due to Component Units	24,011	-	-	(24,011)	-
Interfund Payables	50,491	-	-	(50,491)	-
Due to Other Governments	2,151,502	-	-	-	2,151,502
Tax Refunds Payable	1,354,479	-	-	-	1,354,479
Tax and Other Deposits	24,741	-	-	-	24,741
Unearned Revenue/Deferred Revenue	656,289	(264,772)	-	-	391,517
Interest Payable	43,047	67,612	-	-	110,660
Advances from Other Funds	4,762	-	-	(4,762)	-
Short-term Notes Payable	811,178	-	9,313	-	820,491
Other Liabilities	-	216,094	-	-	216,094
Long-term Liabilities:					
Current Portion	94,715	778,991	45,768	-	919,475
Noncurrent Portion	-	10,372,501	225,822	-	10,598,324
Total Liabilities	6,753,163	11,170,427	350,411	(355,172)	17,918,829
Fund Balances/Net Assets	(906,710)	8,132,391	13,454	-	7,239,135
Total Liabilities and Fund Balances/Net Assets	$ 5,846,453	$ 19,302,818	$ 363,866	$ (355,172)	$ 25,157,964

(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, 2012, 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	$ 14,878,798	$ -	$ -
Income Taxes	-	(2,333)	-
Sales & Excise Taxes	-	(1,938)	-
Public Utility Taxes	-	-	-
Other Taxes	-	(70)	-
Motor Fuel (Transportation) Taxes	-	(47)	-
Other Dedicated Taxes	-	868	-
Intergovernmental	9,515,862	-	-
Operating Grants	-	-	750
Capital Grants	-	-	1,291
Unrestricted Grants	-	-	-
Licenses and Permits	1,901,824	-	-
Charges for Goods and Services	320,518	2,554	-
Investment and Interest Income	52,143	-	-
Fines and Forfeitures/Contributions to Permanent Fund	59,606	-	-
Gifts and Donations	19,866	-	-
Miscellaneous:		(14,286)	(4,025)
Tobacco Settlement	131,298	-	-
Other	292,854	-	-
Total Revenues	27,172,768	(15,251)	(1,985)
Expenditures/Expenses:			
Current Operating:			
Commerce	280,640	(474)	372
Education	6,185,478	(66)	12,634
Transportation	1,939,758	(1,164)	39,993
Environmental Resources	425,009	1,025	10,767
Human Relations and Resources	12,080,339	6,304	68,086
General Executive	755,828	(8,892)	9,739
Judicial	125,010	(1,994)	1,767
Legislative	63,030	(174)	-
Tax Relief and Other General Expenditures	1,362,116	-	-
Intergovernmental - Shared Revenue	989,906	-	-
Capital Outlay	1,117,222	-	(1,117,222)
Debt Service:			
Principal	166,080	-	-
Interest and Other Charges	528,484	1,691	-
Total Expenditures/Expenses	26,018,901	(3,745)	(973,865)
Excess of Revenues Over (Under) Expenditures/Expenses	1,153,867	(11,506)	971,880
Other Financing Sources (Uses):			
Net Transfers	(1,126,107)	9	-
Long-term Debt Issued	1,425,674	-	-
Premium/Discount on Bonds	222,536	-	-
Payments for Refunded Bonds	(305,887)	-	-
Payments to Refunding Bond Escrow Agent	(693,061)	-	-
Capital Lease Acquisitions	9,592	(9,592)	-
Installment Purchase Acquisitions	113	(113)	-
Total Other Financing Sources (Uses)	(467,140)	(9,695)	-
Net Change in Fund Balance	686,726	$ (21,202)	$ 971,880
Change in Inventories	8,876		
Net Change for the Year	$ 695,602		

(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
$ -	$ -	$ -	$ (14,878,798)	$ -
-	-	-	8,062,240	8,059,907
-	-	-	4,980,886	4,978,948
-	-	-	358,822	358,822
-	-	-	257,799	257,729
-	-	-	1,026,228	1,026,181
-	-	-	192,824	193,691
-	-	-	(9,515,862)	-
-	-	76,448	8,727,872	8,805,070
-	-	-	860,193	861,484
-	-	-	-	-
-	-	-	(1,901,824)	-
11,490	-	(14,550)	1,945,216	2,265,228
21	-	-	(52,368)	(204)
-	-	-	(43,362)	16,244
-	-	-	(19,866)	-
-	-	-	424,789	406,478
-	-	-	(131,298)	-
-	-	-	(292,854)	-
11,510	-	61,898	637	27,229,577
(79)	-	(5,606)	(469)	274,384
(1,432)	-	29,421	150	6,226,185
(1,560)	245	-	(9,409)	1,967,864
(543)	(3,506)	-	(769)	431,983
(3,488)	(306)	47,027	(40,918)	12,157,044
7,753	-	(8,944)	20	755,504
-	-	-	-	124,784
(68)	(4,051)	-	-	58,737
-	2,224	-	(5,325)	1,359,015
-	-	-	-	989,906
-	-	-	-	0
-	(166,080)	-	-	-
7,021	(61,302)	-	47,843	523,737
7,605	(232,776)	61,898	(8,876)	24,869,142
3,906	232,776	-	9,513	2,360,435
3,903	-	-	(637)	(1,122,833)
-	(1,425,674)	-	-	-
-	(222,536)	-	-	-
-	305,887	-	-	-
-	693,061	-	-	-
-	-	-	-	-
-	-	-	-	-
3,903	(649,263)	-	(637)	(1,122,833)
$ 7,809	$ (416,486)	$ 0	8,876	1,237,602
			(8,876)	-
			$ (0)	$ 1,237,602

(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, 2012 are (in thousands):

Special Revenue:		
Petroleum Inspection	$	41,115
Dry Cleaner Environmental Response		3,943
Capital Projects:		
Capital Improvement		595,235
Transportation Revenue Bonds		64,649
Enterprise:		
Unemployment Reserve		612,422
Northern Developmental Disabilities Center		18,663
Southern Developmental Disabilities Center		21,016
Life Insurance		287
Internal Service:		
Technology Services		250
Risk Management		87,517
Pension and Other Employee Benefit Trust:		
Accumulated Sick Leave		102,460
Retiree Health Insurance		8,078

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, 2012 (in thousands):

Governmental Activities:	
Net Assets Restricted by Enabling Legislation	38,392
Business-type Activities:	
Net Assets Restricted by Enabling Legislation	193,527

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, 2012 was $125.5 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, 2012 was $65.0 million.

E. Fund Balance for Governmental Funds

Governmental funds reported the following categories of fund balance as of June 30, 2012 (in thousands):

	General	Transportation	Common School	Nonmajor Governmental	Total Governmental
Nonspendable for:					
Inventory, Prepaid and Long-term Receivables	92,164	31,600	-	16,185	139,949
Legal or Contractual Purposes (Permanent Fund Principal)	-	-	878,338	36,340	914,678
Restricted for:					
Commerce	2,507	-	-	32	2,539
Education	12,000	-	13,612	13,722	39,334
Transportation	-	24,886	-	-	24,886
Environmental Resources	4,131	-	-	75,390	79,521
Human Relations and Resources	103,595	-	-	21,107	124,702
General Executive	79,522	-	2,282	15,334	97,138
Judicial	62	-	-	-	62
Tax Relief and Other General Expenditures	404	-	-	-	404
Intergovernmental - Shared Revenue	-	-	-	138	138
Debt Service	-	-	-	108,761	108,761
Committed to:					
Commerce	-	-	-	35,572	35,572
Education	-	-	-	878	878
Transportation	-	633,722	-	-	633,722
Environmental Resources	-	-	-	51,395	51,395
Human Relations and Resources	-	-	-	6,475	6,475
General Executive	-	-	-	27,488	27,488
Judicial	-	-	-	274	274
Tax Relief and Other General Expenditures	125,507	-	-	-	125,507
Capital Projects	-	-	-	15,787	15,787
Unassigned	(2,630,900)	-	-	(705,021)	(3,335,921)
Total Fund Balance	(2,211,006)	690,208	894,232	(280,144)	(906,710)

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, 2012, $202.3 million of the primary government's bank balance of $1.6 billion was exposed to custodial credit risk as follows (in millions):

Uninsured and uncollateralized	$	202.3

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, 2012 are immaterial. The primary government does not have a formal policy specifically related to foreign currency risk.

The State's Unemployment Reserve Fund had $11.3 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, 2012, the Wisconsin Health Care Liability Insurance Plan at December 31, 2011, the University of Wisconsin Hospitals and Clinics Authority at June 30, 2012, and the University of Wisconsin Foundation at December 31, 2011, was $169.8 million.

As of their fiscal year end, $167.3 million of the component units' bank balance of $169.8 million was exposed to custodial credit risk as follows (in millions):

Uninsured and uncollateralized	$	167.3

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 Department of Administration.

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 35.0 percent marketable equities, 30.0 percent fixed income, and 35.0 percent alternatives. The approved asset allocation for intermediate term funds is 15.0 percent marketable equities, 70.0 percent fixed income, 10.0 percent alternatives and 5.0 percent cash. These target allocations were last affirmed/approved in December 2011.

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, 2012, the reported amount of investments of the primary government, including the various funds, was $5,688.4 million, of which $722.6 million is reported as cash equivalents and $338.3 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, 2012, the primary government had no custodial credit risk exposure for these investments.

University of Wisconsin System (UWS)

At June 30, 2012, the UWS investments were $412.9 million, of which $23.4 million is reported as cash equivalents. The UWS's investments are registered in the name of the UWS and the UWS does not participate in any securities lending programs through its custodian bank. Investment securities underlying the UWS's investment in shares of external investment pools or funds are in custody at those funds. The shares owned in these external investment pools are registered in the name of the UWS.

Wisconsin Retirement System (WRS)

At June 30, 2012, the WRS investments were $78.1 billion. The WRS does not have a formal policy for custodial credit risk. As of June 30, 2012, the WRS held 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, 2012, 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 Type	Investment Maturities: Less Than 1 Year	1 to 5 Years	6 to 10 years	More Than 10 Years	Fair Value
U.S. Government and U.S. agency holdings	$ 95.7	$ 26.9	$ 20.4	$ 4.2	$ 147.2
State and municipal bonds and notes	21.6	57.8	161.4	239.5	480.3
Corporate notes and bonds	.1	.4	.2	--	.7
Repurchase agreements	7.6	--	--	--	7.6
Forward delivery agreements	47.7	--	--	--	47.7
Money market funds	323.8	--	--	--	323.8
Mutual funds – open ended	2.7	95.0	690.6	--	788.3
Mutual funds –closed ended	1,874.0	.2	.5	.1	1,874.8
Total	$ 2,373.2	$ 180.3	$ 873.0	$ 243.8	$ 3,670.3

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 5.05 and 6.7 years respectively.

As of May 31, 2012, 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, 2012, 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	$ 5.6	.45	$ 45.3	14.39	$ 294.9	5.28	$ --	--	$ 5.6	3.33
Corporate	--	--	67.1	16.76	484.1	5.85	--	--	0.7	3.64
Bond Funds	--	--	--	--	--	--	2.5	5.68	--	--
Total/Average	$ 5.6	.45	$ 112.4	15.80	$ 779.0	5.64	$ 2.5	5.68	$ 6.3	3.37

University of Wisconsin System (UWS)

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

As of June 30, 2012, the UWS had interest rate risk statistics as detailed below (in millions):

UWS

Fixed Income Sector	Fair Value	Modified Duration
Corporate and other credit	$ 22.2	4.17
Government	5.8	5.26
Collateralized mortgage obligations: U. S. Agencies	11.3	1.84
U.S. private placements	5.2	2.57
Asset backed securities	0.8	0.12
Collateralized mortgage obligations: Corporate	1.0	3.39
U.S. Agencies	0.4	2.36
Commercial mortgage backed securities	2.8	1.22
Treasury inflation protected securities	20.7	5.94
Total	$ 70.2	
Fixed Income Commingled		
Seix Advisors High Yield Fund	$ 25.1	4.18

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 the 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 weighted average 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, 2012, 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	$ 17.4	5.35
Certificates of Deposit	11.0	0.37
Commercial Paper	112.0	0.16
Corporate Bonds/Private Placements	5,243.8	4.98
Corporate Bonds/Private Placements	18.8	N/A
Futures Contracts	603.7	8.22
U.S. Government Agency	785.7	2.16
Municipal Bonds	101.6	10.85
Repurchase Agreements	220.0	0.01
Foreign Government/ Agency Bonds	3,411.1	7.17
U.S. Treasury Inflation Protected Securities	3,936.4	8.26
U.S. Treasury Securities	2,396.4	7.26
	$16,857.9	

Commingled Funds	**Fair Value**	**Modified Duration (Years)**
Emerging Market Fixed Income	$ 330.1	7.12
Global Fixed Income	404.2	4.77
Domestic Fixed Income	6,698.3	5.77
	$7,432.6	

Short Term Commingled Funds	**Fair Value**	**Weighted Average Maturity (days)**
Cash Management	$ 0.1	1

Securities Lending Collateral Pool	**Fair Value**	**Weighted Average Maturity (days)**
Corporate Bonds	32.3	63
Repurchase Agreements	1,425.6	2
	$1,457.9	

*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, 2012, 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	$ 238.5
AA	921.3
A	304.2
BBB	.2
BB	.1
Not Rated	658.1
Total	$ 2,122.4

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, 2012, 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	$ --	$ 1.1	$ 19.0	$ --	$ --
AA	5.6	48.0	323.2	--	5.7
A	--	40.2	292.9	--	.3
BBB	--	21.8	131.0	--	.2
BB	--	.6	9.5	--	.1
B	--	.7	3.4	--	--
CCC	--	--	--	--	--
Bond Fund	--	--	--	2.5	--
Totals	$ 5.6	$ 112.4	$ 779.0	$ 2.5	$ 6.3

University of Wisconsin System (UWS)

For the Long Term Fund, fund-level asset allocation constraints limit exposure to below investment grade debt securities to no more than 20.0 percent; for the Intermediate Term Fund, exposure is limited to 15.0 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 6.3 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.

The following schedule displays the credit ratings as provided by Moody's Investor Service for debt securities held as of June 30, 2012 (in millions). Obligations of the United States and obligations explicitly guaranteed by the U.S. government have been included in the AAA rating below.

UWS

Ratings	Fair Value
Aaa	$ 52.7
Aa1	0.4
Aa2	0.8
Aa3	0.5
A1	3.2
A2	4.7
A3	4.7
Baa1	5.0
Baa2	6.3
Baa3	2.7
Ba2	9.0
B2	11.9
Caa2	0.7
No Rating	5.6
Unrated Pooled Cash	23.4
Total	$ 131.6

Wisconsin Retirement System (WRS)

With the exception of derivative instrument credit risk, there are no fund-wide or system-wide investment guidelines related to credit risk exposures for investments of the WRS. Fixed income credit risk investment guidelines outline out the minimum ratings required 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, 2012 (in millions). Obligations of the United States Treasury and obligations explicitly guaranteed by the U.S. government have been included in the AA rating below although they are considered to be without credit risk.

WRS

Ratings	Fair Value
P-1 or A-1	$ 132.5
AAA or Aaa	1,146.8
AA or Aa	7,719.1
A	3,050.0
BBB or Baa	2,161.5
BB or Ba	485.1
B	592.3
CCC or Caa	182.7
CC or Ca	2.6
C	11.4
D	1.4
Commingled Funds	7,432.7
Not rated	2,226.9
Total	$ 25,145.0

Reverse Repurchase Agreements

SWIB had $649.4 million reverse repurchase agreements outstanding at June 30, 2012. Investment guidelines permit certain portfolios to enter into reverse repurchase agreements, which are a sale of securities with a simultaneous agreement to repurchase the 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 counterparty defaults on their obligations to resell these securities or provide cash of equal value, SWIB could suffer an economic loss equal to the difference between the market value of the underlying securities plus accrued interest and the agreement obligation, including accrued interest. This credit exposure at June 30, 2012 was $10.7 million.

The proceeds from reverse repurchase agreements are reinvested by the Board. The maturities of the purchases made with the proceeds of reverse repurchase agreements are not necessarily matched to the maturities of the agreements. The agreed-upon yields earned by the counterparty were between 0.20 percent and 0.27 percent. The maturity of most reverse repurchase agreements occurred in July and August 2012. The remainder of the reverse repurchase agreements had open maturities, whereby a maturity date is not established upon entering into the agreement. These agreements can be terminated at the will of either SWIB or the counterparty and typically mature within three months.

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 4.4 percent and State of Wisconsin general obligation bonds with approximately 6.1 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. None of these issuers were owned at fiscal year end.

Excluding investments issued or explicitly guaranteed by the U.S. Government, as of June 30, 2012, none of the various funds had more than five percent of their total investments in a single issuer.

University of Wisconsin System (UWS)

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 2012, the largest concentration in a non-U.S. Government/Agency was Citigroup, which represented 0.5 percent of total Trust Funds assets, compared to a 0.4 percent exposure to JP Morgan Chase in fiscal year 2011.

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 to less than 5 percent of the portfolio's market value.

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, 2012, 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, 2012, the various funds did not own any issues denominated in a foreign currency.

University of Wisconsin System (UWS)

As of June 30, 2012, the Long Term and Intermediate Term Funds held equity securities denominated in foreign currencies within pooled investment vehicles only, with market values totaling $100.5 million and $7.3 million, respectively, compared to prior fiscal year amounts of $108.9 million and $6.7 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, 2012, the WRS had the following currency exposure (all assets stated in millions of United States Dollars):

Currency Exposure by Investment Type

Currency	Cash and Cash Equivalents	Equity Short Sales	Convert-ible Securities	Options	Stocks	Fixed Income	Financial Futures	Multi-Asset	Preferred Securities	Limited Partner-ships	Real Estate	Total
Argentina Peso	--	--	--	--	--	0.5	--	--	--	--	--	0.5
Australian Dollar	9.2	--	--	--	888.6	66.7	0.2	--	--	--	--	964.7
Brazil Real	0.6	--	--	--	86.1	31.3	--	--	29.5	--	--	147.6
British Pound Sterling	20.3	--	--	--	3,368.5	264.6	1.1	--	--	111.9	--	3,766.5
Canadian Dollar	12.3	(0.2)	--	--	1,206.8	70.9	0.9	--	--	26.3	--	1,317.0
Columbian Peso	--	--	--	--	--	3.0	--	--	--	--	--	3.0
Czech Koruna	--	--	--	--	7.2	--	--	--	--	--	--	7.2
Danish Krone	1.0	--	--	--	108.6	25.0	--	--	--	--	--	134.6
Euro	76.7	--	0.4	--	3,494.9	1,121.0	3.3	--	74.7	852.7	--	5,623.8
Hong Kong Dollar	4.5	--	--	--	567.8	--	--	--	--	--	--	572.2
Hungarian Forint	0.3	--	--	--	0.3	11.0	--	--	--	--	--	11.6
Indian Rupee	0.6	--	--	--	84.5	--	--	--	--	--	--	85.0
Indonesian Rupiah	--	--	--	--	9.8	--	--	--	--	--	--	9.8
Israeli New Shekel	0.6	--	--	--	45.9	--	--	--	--	--	--	46.5
Japanese Yen	37.8	--	--	--	2,878.2	1,162.2	2.7	--	--	--	--	4,080.8
Malaysian Ringgit	18.1	--	--	--	14.9	32.8	--	--	--	--	--	65.8
Mexican New Peso	1.1	--	--	--	42.6	76.4	--	--	--	--	--	120.1
Moroccan Dirham	--	--	--	--	0.2	--	--	--	--	--	--	0.2
New Taiwan Dollar	2.5	--	--	--	175.5	--	--	--	--	--	--	178.0
Turkish Lira	0.8	--	--	--	86.5	0.5	--	--	--	--	--	87.8
New Zealand Dollar	0.1	--	--	--	11.0	9.2	--	--	--	--	--	20.3
Norwegian Krone	1.2	--	--	--	102.3	9.4	--	--	--	--	--	112.9
Peruvian Nuevo Sol	--	--	--	--	0.1	6.5	--	--	--	--	--	6.6
Philippines Peso	0.4	--	--	--	2.4	9.6	--	--	--	--	--	12.5
Polish Zloty	0.1	--	--	--	34.0	30.1	--	--	--	--	--	64.1
Russian Ruble	--	--	--	--	--	0.7	--	--	--	--	--	0.7
Singapore Dollar	1.1	--	--	--	208.5	--	--	--	--	--	--	209.6
South African Rand	0.1	--	--	--	43.0	19.6	--	--	--	--	--	62.6
South Korean Won	0.2	--	--	--	257.4	12.2	--	--	--	--	--	269.8
Swedish Krona	3.5	--	--	--	283.1	32.9	--	--	--	11.7	--	331.2
Swiss Franc	4.8	--	--	--	1,118.5	--	--	--	--	--	--	1,123.2
Thai Baht	--	--	--	--	88.4	--	--	--	--	--	--	88.4
United States Dollar	909.5	(0.2)	56.2	(1.2)	26,813.2	19,856.9	25.9	2,547.5	26.0	8,905.7	508.5	59,647.8
Uruguayan Peso	--	--	--	--	--	7.3	--	--	--	--	--	7.3
Total Investments by Currency Exposure	1,107.4	(0.4)	56.6	(1.2)	42,028.8	22,860.3	34.1	2,547.5	130.2	9,908.3	508.5	79,179.7

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 in exchange for collateral, in the form of cash or securities, with the simultaneous agreement to return the collateral for identical 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 against collateral denominated in a different currency, 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 in two separate pools, a U.S. dollar cash collateral pool and a pool denominated in Euros, in accordance with the contractual investment guidelines, which are designed to insure the safety of principal and obtain a modest rate of return. The investment guidelines limit new investments to overnight repurchase agreements collateralized with high quality U.S. government and sovereign debt securities. The earnings generated from the collateral investments, plus or minus the rebates paid to or received from the dealers and less fees paid to agents, results in the net earnings from lending activities, which are 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. As of June 30, 2012, the U.S. dollar cash collateral reinvestment pool's NAV was 0.9979 while the foreign reinvestment pool had a NAV of 1.0000.

At fiscal year-end, minimal 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 the WRS 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 less than one week, while the weighted average maturity/days to reset is four days for investments made with the U.S. dollar cash collateral and three days for investments made with Euro cash collateral at June 30, 2012.

Securities lending is allowed in certain commingled fund investments. All earnings of these funds are reported in the Statement of Changes in Fiduciary Net Assets.

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, 2012 the Tuition Trust Fund held interest only strips valued at $5.6 million representing approximately 75.9 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 and degree to 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.

Certain investments and cash deposits were posted as collateral for exchange-traded derivatives positions. At June 30, 2012, the Core and Variable Funds posted $45.5 million in cash and $40.3

million in equity securities as collateral with futures and option clearing brokers.

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 percent of the market value of the portfolio.

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 World Index may be used to implement a currency overlay.

No cash is exchanged when a foreign exchange spot or forward contract is initiated. 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.

Spot and forward contracts are executed with various counterparties that meet established credit rating guidelines, and master netting arrangements are sought with counterparties for over-the-counter derivative transactions. Such arrangements permit the closeout and netting of transactions with the same counterparty upon the occurrence of certain events, such as payment default, rating downgrade, bankruptcy, illegality or force majeure. Policies for requiring collateral postings relating to spot and forward contracts vary by portfolio and counterparty and are intended to mitigate the credit risk associated with the counterparty.

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, 2012 (in millions).

Foreign Currency Spot and Forward Contracts

Currency	Notional (local currency)	Fair Value of Foreign Currency Contracts Receivable ($US)
Foreign Currency Contracts Sold		
AUSTRALIAN DOLLAR	286.9	$ 7.0
BRAZIL REAL	20.0	0.2
BRITISH POUND STER.	212.2	2.6
CANADIAN DOLLAR	547.5	4.6
CHILEAN PESO	4,498.4	(0.2)
DANISH KRONE	154.7	0.5
EURO CURRENCY UNIT	149.3	2.9
HONG KONG DOLLAR	295.7	--
HUNGARIAN FORINT	1,445.7	(0.2)
ISRAELI NEW SHEKEL	53.4	0.1
JAPANESE YEN	25,174.4	(1.1)
MEXICAN NEW PESO	101.0	(0.1)
NEW ZEALAND DOLLAR	3.9	--
NORWEGIAN KRONE	130.6	0.3
POLISH ZLOTY	31.4	0.5
SOUTH AFRICAN RAND	21.0	--
SINGAPORE DOLLAR	43.2	0.1
SOUTH KOREAN WON	204.9	--
SWEDISH KRONA	708.1	2.8
SWISS FRANC	62.9	1.0
TURKISH LIRA	29.6	0.3
		$ 21.3

Currency	Notional (local currency)	Fair Value of Foreign Currency Contracts Payable* ($US)
Foreign Currency Contracts Purchased		
AUSTRALIAN DOLLAR	(107.5)	$ (1.7)
BRAZIL REAL	(28.9)	0.3
BRITISH POUND STER.	(358.9)	(2.0)
CANADIAN DOLLAR	(171.1)	(1.5)
COLOMBIAN PESO	(4,169.7)	--
DANISH KRONE	(44.8)	(0.1)
EURO CURRENCY UNIT	(173.8)	(2.7)
HONG KONG DOLLAR	(159.7)	--
HUNGARIAN FORINT	(1,445.7)	(0.1)
INDIAN RUPEE	(7.0)	--
INDONESIAN RUPIAH	(368.3)	--
ISRAELI NEW SHEKEL	(70.5)	(0.2)
JAPANESE YEN	(11,469.2)	0.2
MALAYSIAN RINGGIT	(60.1)	(0.2)
MEXICAN NEW PESO	(13.6)	--
NEW TAIWAN DOLLAR	(2.7)	--
NEW ZEALAND DOLLAR	(10.2)	(0.4)
NORWEGIAN KRONE	(18.5)	(0.1)
PERUVIAN NUEVO SOL	(17.0)	(0.1)
SOUTH AFRICAN RAND	(59.1)	0.1
SOUTH KOREAN WON	(4,454.1)	--
SWEDISH KRONA	(302.5)	(0.4)
SWISS FRANC	(124.2)	(2.1)
TURKISH LIRA	(7.9)	--
		$ (11.0)
Net Foreign Exchange Currency Spot and Forward Contracts		$ 10.3

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

The table below details counterparty exposures, aggregated by credit rating, with whom SWIB has entered into foreign exchange spot and forward contracts as of June 30, 2012 (in millions).

	Exposure		
Counterparty Credit Rating	**Payable**	**Receivable**	**Fair Value**
AA	$ (374.7)	$ 378.4	$3.7
A	(2,409.7)	2,416.5	6.8
BBB	(147.9)	147.7	(0.2)
Total	$(2,932.3)	$2,942.6	$10.3

Futures Contracts – A 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. Collateral for futures contracts can be in the form of cash, U.S. Treasuries and equity securities. 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 from 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 margin deposited with the broker. Losses may arise from future changes in the value of the underlying instrument.

Futures contracts may be entered into for the following objectives: facilitate asset class rebalancing, adjust sector exposures, 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 receivables or as a substitute for cash market transactions.

The following table presents the investments in futures contracts as of June 30, 2012 (in millions).

	Futures Contracts		
Description	**Expiration**	**Notional Amount**	**Unrealized Appreciation (Depreciation)***
Fixed Income Futures	Sept 2012	603.7	1.4
Equity Index Futures	Jul 12 – Sep 12	948.1	32.7
TOTAL		$1,551.8	$34.1

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

Options – An option contract gives the purchaser of the contract the right, but not the obligation, 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 and over-the-counter options. Options may be used to improve the efficiency or to enhance the expected return of strategic rebalancing procedures. Also, 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 provided by rebalancing policies is limited to 2 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 is 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, 2012 (in millions).

Options Contracts

Options Sold	Contract Type	Expiration	Notional	Unrealized Gain/(Loss)	Fair Value
Equity	Call	July 2012 – January 2013	$ (39.6)	$ (0.1)	$ (0.4)
Equity	Put	July 2012 – January 2013	(51.6)	2.2	(0.8)
Total Option Contracts			$ (91.2)	$ 2.1	$ (1.2)

Multi Asset

Wisconsin Retirement System (WRS)

The SWIB employs portfolio strategies which involve investment across multiple asset classes. The "Multi Asset" category on the Statement of Fiduciary Net Assets consists of risk parity and hedge funds. Risk parity and hedge fund investments are either in the form of a commingled fund, with ownership through fund shares, or a limited partnership.

The risk parity portfolios seek to equally weight asset allocation risk across multiple assets and geographies. Exposures are expected to deliver improved risk and return tradeoffs versus conventional portfolios comprised of stocks and bonds. The risk parity portfolios also intend to provide more diversified exposure over various economic environments.

The Retirement Funds invest in a diversified set of hedge fund strategies, invested across multiple asset classes. In general, a hedge fund is a private investment fund that seeks to maximize absolute returns using a broad range of strategies, typically employing both long and short positions. An allocation to a diversified hedge fund portfolio is intended to assist SWIB's pursuit of investment return by earning near equity returns but with a level of risk that is significantly lower than traditional publicly traded equities, and contribute to overall portfolio diversification by means of a lower correlation to traditional asset classes.

Hedge funds can be illiquid, either by virtue of the illiquidity of underlying assets or due to lock-up terms in the partnership agreement. However, SWIB has taken steps to minimize this risk by investing in hedge funds with more liquid asset classes and by structuring its investments to stagger lock-up periods. Hedge funds also use leverage to varying degrees, and while it is possible that a hedge fund can lose a significant portion of its capital, SWIB has limited the amount it invests in hedge funds in total with any individual hedge fund manager.

At fiscal year-end, the majority of SWIB's risk parity and hedge fund investments are reflected within the "Multi Asset" category in the Statement of Fiduciary Net Assets. In addition, hedge fund portfolios with a long only equity strategy are included within the "Stocks" classification on the Statement of Fiduciary Net Assets.

Unfunded Capital Commitments

University of Wisconsin System (UWS)

The UWS has unfunded limited partnership commitments of $24.4 million for the fiscal year ending June 30, 2012, relative to $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 total $5.5 billion as of June 30, 2012.

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, 2012 were $1,067.9 million of which $728.7 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, 2012 were $579.9 million of which $265.4 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 $ 1,382.5 million, of which $728.7 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	$ 148.3	$ 39.4	$ 5.7	$ --	$ 193.4
Corporate notes and bonds	--	4.9	--	--	4.9
Money market funds	842.9	38.6	161.7	--	1,043.2
Mortgage-backed securities	--	.3	5.8	115.4	121.5
Collateralized investment contracts	13.5	.6	--	1.2	15.3
Negotiable certificates of deposit	4.3	--	--	--	4.3
Total	$ 1,009.0	$ 83.8	$ 173.2	$ 116.6	$ 1,382.6

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	$ 4.9	$ --	$ 4.9	$ --	$ --	$ --
Money market funds	941.3	728.7	--	137.2	61.8	13.6
Negotiable certificates of deposit	4.3	--	--	--	--	4.3
Mortgage-backed securities	121.6	--	--	--	--	121.6
Collateralized investment contracts	15.3	--	--	10.5	--	4.8

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, 2012 the Authority had $6.1 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 $6.3 million as of June 30, 2012, and the fair value of the collateral received was $4.2 million. The Authority may request the bank to terminate any loan of securities for any reason at any time.

As of June 30, 2012, 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, 2012 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, 2012, 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 $79.5 million, of which $13.2 million are money market mutual funds 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, or AAA rated CMOs and ABS. Investments must be in the form of marketable debt issues, at the time of purchase all bonds must be investment grade, 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 investment grade, using the current Barclay benchmark at the time of purchase, futures transactions, short selling, use of margin, derivatives and hedge funds.

The investments of the WHCLIP at December 31, 2011 were $66.2 million consisting of the following (in millions):

Investment Type	Amortized Cost	Estimated Fair Value
U.S. Treasury securities and obligations of the U.S. government corporations and agencies	$ 18.7	$ 18.9
States, territories, and possessions	1.0	1.1
Political subdivisions	.3	.3
Industrial and miscellaneous	22.6	23.8
Loan-backed securities	23.7	23.7
Total	$ 66.3	$ 67.8

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, 2011, by contractual maturity are presented in the table below (in millions):

	Amortized Cost	Estimated Fair Value
1 to 5 Years	$ 14.4	$ 14.7
6 to 10 Years	16.5	17.4
More Than 10 Years	11.7	11.9
	42.6	44.0
Loan-backed securities	23.7	23.8
Total	$ 66.3	$ 67.8

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

Pass-through securities:	
Issued by FNMA and FHLMC	16.5

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

As of December 31, 2011, the WHCLIP did not own any issues denominated in a foreign currency.

University of Wisconsin Foundation (the Foundation) - Aggregate investments of the Foundation are $2,332.4 million.

The following table summarizes the types of investments of the Foundation at December 31, 2011 (in millions):

Investment Type	Fair Value
Bond and debentures	$ 88.8
Stocks	644.7
Bond funds	655.0
Stock funds	141.1
Hedge funds	291.1
Limited partnerships	337.3
Real asset funds	171.2
Other funds	3.2
Total	$ 2,332.4

Custodial Credit Risk

At December 31, 2011, the reported amount of investments was $2,332.4 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. In exchange, the Foundation received a beneficial interest in the underlying illiquid collateral worth $1.9 million at December 31, 2011.

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 United 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. Bank demand deposits, repurchase agreements, nonnegotiable certificates of deposit and banker's acceptances 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, 2012, the reported amount of investments was $6,950.4 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, 2012, 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	$ 1,200.0	0
Repurchase agreements	1,631.0	2
Government and agency	4,075.7	125
Certificates of deposit	24.2	141
Banker's Acceptances	19.5	55
Total	$ 6,950.4	
Portfolio weighted average maturity		75

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, 2012 (in millions):

	Ratings	Fair Value	Percent
Bank Demand Deposits	NR	$ 1,200.00	17.3
Repurchase agreements (collateral):			
U.S. government debt	AA	1,449.0	20.8
Government sponsored entity U.S agency	AA	182.0	2.6
U.S. Treasury	A-1+	429.7	6.2
Federal Home Loan Bank	A-1+	1,044.3	15.0
Federal Home Loan Bank	AA	181.6	2.6
Federal Home Loan Mortgage Corporation	A-1+	1,200.7	17.3
Federal National Mortgage Association	A-1+	1,034.9	14.9
Federal National Mortgage Association	AA	99.9	1.4
Federal National Mortgage Association	A	84.6	1.2
Certificates of deposit:			
Nonnegotiable (Var Wis Banks)	N/R	24.2	0.4
Banker's Acceptances	A-1	19.5	0.3
Totals		$ 6,950.4	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, 2012 the SIF has more than five percent of its investments in a U.S. Bank demand deposit (17.3 percent), FHLB (17.6 percent), FHLMC (17.3 percent), FNMA (17.5 percent), and repurchase agreement collateral consisting of various securities issued by these same three U.S. agencies (2.6 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 $54.0 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
2013	$ 7,351
2014	6,305
2015	6,274
2016	6,149
2017	6,343
Thereafter	26,431
Total future value	58,853
Less: Present value adjustment	(14,993)
Present value of payments	$ 43,860

NOTE 6. RECEIVABLES AND NET REVENUES

A. Receivables

Receivables at June 30, 2012 were as follows (in thousands):

			Other Loans Receivable							
	Taxes	Loans to Local Governments	Student Loans	Veterans Loans	Mortgage Loans	Other Loans	Other Receivables	Due From Other Governments	Due From Component Units	Total Receivables
Governmental Activities:										
General	$ 1,258,467	$ 304	$ -	$ -	$ -	$ 35,286	$ 443,965	$ 878,151	$ 8,626	$ 2,624,798
Transportation	96,775	-	-	-	-	16,996	8,120	299,609	-	421,500
Common School	-	384,590	-	-	-	-	2,357	5,306	-	392,253
Nonmajor Governmental	32,902	20,320	-	-	-	-	72,767	10,554	-	136,542
Total Governmental:	1,388,144	405,213	-	-	-	52,281	527,209	1,193,620	8,626	3,575,093
Government-wide Adjustments:										
Internal Service Funds	-	-	-	-	-	-	1,403	356	74	1,833
Accrual Adjustments	-	-	-	-	-	-	2,359	-	-	2,359
Fiduciary Receivables	-	-	-	-	-	-	59,577	-	-	59,577
Total – Governmental Activities	$ 1,388,144	$ 405,213	$ 0	$ 0	$ 0	$ 52,281	$ 590,548	$ 1,193,976	$ 8,699	$ 3,638,862
Related revenue deferral because the receivable does not meet the availability criteria	$ 221,007	$ 0	$ 0	$ 0	$ 0	$ 0	$ 21,173	$ 0	$ 0	$ 242,180
Business-type Activities:										
Current:										
Injured Patients and Families Compensation	$ -	$ -	$ -	$ -	$ -	$ -	$ 9,710	$ -	$ -	$ 9,710
Environmental Improvement	-	152,559	-	-	-	-	285	8,236	-	161,079
University of Wisconsin System	-	-	31,332	-	-	-	126,599	104,724	2,763	265,418
Unemployment Reserve	-	-	-	-	-	-	327,181	19,287	-	346,468
Nonmajor Enterprise	-	661	-	2,085	3,901	-	59,566	6,710	-	72,922
Total Current:	-	153,220	31,332	2,085	3,901	-	523,341	138,956	2,763	855,598
Noncurrent:										
Environmental Improvement	-	1,776,478	-	-	-	-	-	-	-	1,776,478
University of Wisconsin System	-	-	159,402	-	-	-	3,860	-	-	163,263
Unemployment Reserve	-	-	-	-	-	-	80,088	-	-	80,088
Nonmajor Enterprise	-	1,136	-	5,978	121,684	3,672	30	-	-	132,499
Total Noncurrent	-	1,777,614	159,402	5,978	121,684	3,672	83,978	-	-	2,152,328
Government-wide Adjustments:										
Fiduciary Receivables	-	-	-	-	-	-	17,507	-	-	17,507
Total – Business-type Activities	$ 0	$ 1,930,834	$ 190,734	$ 8,063	$ 125,585	$ 3,672	$ 624,826	$ 138,956	$ 2,763	$ 3,025,432

B. Net Revenues

Certain revenues of the University of Wisconsin System are reported net of scholarship allowances. For Fiscal Year 2012, these scholarship allowances totaled as follows (in thousands):

Student Tuition and Fees	$ 186,677
Sales and Services of Auxiliary Enterprises	30,743
Total	$ 217,420

NOTE 7. CAPITAL ASSETS

Primary Government

Capital asset activity for the fiscal year ended June 30, 2012 was as follows (in thousands):

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and Land Improvements	$ 2,237,978	$ 101,397	$ (184)	$ 2,339,191
Buildings and Improvements	163,618	373	-	163,991
Library Holdings	82,070	817	(9,450)	73,437
Construction and Software in Progress	1,456,291	984,361	(156,675)	2,283,977
Infrastructure	12,791,950	127,320	(34,603)	12,884,667
Total capital assets, not being depreciated	16,731,905	1,214,268	(200,911)	17,745,263
Capital assets, being depreciated:				
Land Improvements	141,582	1,556	-	143,138
Buildings and Improvements	2,000,882	28,404	(715)	2,028,571
Equipment	823,085	58,452	(29,183)	852,355
Totals	2,965,549	88,412	(29,898)	3,024,063
Less accumulated depreciation for:				
Land Improvements	67,461	6,596	-	74,057
Buildings and Improvements	802,994	50,390	(492)	852,892
Equipment	489,167	63,620	(25,114)	527,673
Totals	1,359,622	120,607	(25,606)	1,454,623
Total Capital Assets, being depreciated, net	1,605,928	(32,195)	(4,292)	1,569,441
Governmental activities capital assets, net	$ 18,337,833	$ 1,182,073	$ (205,203)	$ 19,314,704
Business-type activities:				
Capital assets, not being depreciated:				
Land and Land Improvements	$ 151,541	$ 6,491	$ -	$ 158,032
Library Holdings	1,124,237	23,045	(33,868)	1,113,413
Construction and Software in Progress	489,170	446,470	(278,085)	657,554
Total Capital Assets, not being depreciated	1,764,947	476,006	(311,954)	1,928,999
Capital assets, being depreciated:				
Land Improvements	13,498	2,945	-	16,443
Buildings	5,596,540	402,845	(9,385)	5,990,000
Equipment	1,149,375	88,583	(52,549)	1,185,409
Totals	6,759,413	494,373	(61,933)	7,191,853
Less accumulated depreciation for:				
Land Improvements	8,296	482	-	8,778
Buildings	2,322,137	168,022	(8,188)	2,481,971
Equipment	783,392	84,032	(43,068)	824,356
Totals	3,113,825	252,536	(51,256)	3,315,105
Total Capital Assets, being depreciated, net	3,645,587	241,837	(10,677)	3,876,748
Business-type activities capital assets, net	$ 5,410,535	$ 717,843	$ (322,630)	$ 5,805,747

In addition to the capital assets reported by governmental and business-type activities, the fiduciary funds reported gross capital assets of $4.9 million at June 30, 2012, with accumulated depreciation totaling $2.9 million.

Depreciation Expense

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

Governmental Activities		
Commerce	$	368
Education		3,131
Transportation		8,286
Environmental Resources		10,517
Human Relations and Resources		66,899
General Executive		9,693
Judicial		1,767
Internal Service Funds		19,946
Total depreciation expense - governmental activities	$	120,607

Business-type Activities		
University of Wisconsin System	$	238,412
Lottery		37
Veterans Mortgage Loan Repayment		27
Injured Patients and Families Compensation		36
Environmental Improvement		4
Other Business-Type		14,021
Total depreciation expense - business-type activities	$	252,536

Impaired Capital Assets

The University of Wisconsin System reported some capital assets meeting the temporarily impaired definition for fiscal year 2012. On January 29, 2012 Drake Hall, a residence hall at the University of Wisconsin-La Crosse, had a fire in its basement and damages totaled $2.5 million. The residence hall was operational for the Fall 2012 semester. Flooding in June 2012 at the University of Wisconsin-Superior caused an estimated $6.6 million in damages to fourteen buildings and infrastructure. All buildings were operational for the Fall 2012 semester. In addition, library holding losses estimated at $17.2 million were sustained due to the flooding in the library.

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, 2012 included the following projects (in thousands):

	Allotments	Expended to June 30, 2012	Encumbrances Outstanding	Unencumbered Allotment Balance
Governmental Activities:				
Reported through capital projects funds:				
Interstate 94 North and South Corridor Reconstruction	$ 137,355	$ 137,355	$ -	$ -
Capital Heating Power Plant - Facility Renovate and Upgrade	56,538	6,117	2,934	48,084
Preservation Storage Building	56,500	137	1,342	55,023
High Speed Rail	68,904	45,744	-	23,160
Armed Forces Reserve Center	41,061	1,833	495	38,944
Major Highway Projects	39,635	39,635		-
State Highway Rehabilitation	33,271	33,271	-	-
Public Health and Ag Lab-Hygiene	29,935	6,649	20,435	6,182
General Land Acquisition	19,888	9,977	7,079	2,833
Wisconsin Resource Center - Female Treatment Center	18,820	2,376	109	16,357
Construction Field Main Shop Wausau	14,059	433	385	13,241
Winnebago Corrections Facility Replacement	13,900	4,194	279	9,664
Wisconsin Historical Society - Learning Visitor Center	12,110	5,145	4,017	3,224
BCPL Land Sale/Transfer to DNR	12,000	2,557	-	9,444
Other projects with allotments totaling less than $10 million		166,218		
Subtotal		461,642		
Projects funded through sources other than capital projects funds:				
Transportation-related		1,800,763		
Department of Natural Resources		11,107		
Department of Administration		6,788		
Department of Health Services		3,310		
Other agency projects		367		
Total construction and software in progress – governmental activities		$ 2,283,977		
Business-type Activities:				
Reported through capital projects funds - University of Wisconsin System:				
Charter Heating Plant Rebuild - Madison	247,536	72,323	65,275	115,869
Interdisciplinary Center - Madison (Phase II)	122,374	34,971	82,867	10,378
UW-Madison - Athlete Performance Center	86,165	18,070	38,142	35,959
West Campus Cogen Facility Addition & Chillers Install - Madison	64,621	1,625	2,185	60,811
Madison - Wisconsin Energy	57,154	31,742	12,690	19,909
Union Redevelopment Project - Madison	56,041	3,460	43,943	8,661
Freshwater Science Addition Phase 1 - Milwaukee	53,014	3,001	1,231	48,802
School of Nursing - Madison	52,860	3,011	33,415	17,298
Chazen Museum of Art - Madison	52,681	19,501	3,055	31,129
Davies Center Redevelopment - Eau Claire	48,727	30,927	7,549	12,112
Lakeshore Hall and Food Service - Madison	48,440	34,004	3,283	13,264
Education Building - Eau Claire	44,500	1,264	31,319	14,428
New Residence Hall - La Crosse	38,418	2,977	215	35,293
Hockey/Swimming - Madison	36,996	22,847	6,848	9,517
New Residence Hall - Oshkosh	34,000	20,647	2,925	11,300
Chippewa Falls - Wisconsin Veteran Home	20,000	14,064	3,052	3,278
South Forks Suite Addition - River Falls	18,935	16,470	1,157	1,709
Lakeshore Residence Hall Phase 2 - Madison	17,316	959	14,515	2,672
Multi-Building Energy - Madison	17,181	8,700	3,966	4,919
Carlson - Whitewater	17,000	8,740	3,015	6,033
Multi-Building Energy Conserve Phase 3 - Madison	16,590	5,391	9,471	2,117
Ross & Hawkes Halls Renovation - Superior	15,276	948	247	14,081
Projects with allotments totaling less than $15 million:				
University of Wisconsin System		224,423		
Other		45,371		
Total Construction in Progress – business-type activities		$ 625,437		

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 $628 million and $29.3 million as of June 30, 2012, respectively.

Component Units

Capital Assets balances of the Wisconsin Housing and Economic Development Authority at June 30, 2012, the University of Wisconsin Hospitals and Clinics Authority at June 30, 2012, the Wisconsin Economic Corporation at June 30, 2012 and the University of Wisconsin Foundation at December 31, 2011 were as follows (in thousands)

	Amount
Capital Assets, not being depreciated:	
Land and Land Improvements	$ 21,730
Construction in Progress	12,551
Total Capital Assets, not being depreciated	34,281
Capital Assets, being depreciated:	
Buildings	553,752
Equipment	292,667
Totals	846,419
Less accumulated depreciation for:	
Buildings	252,473
Equipment	213,854
Totals	466,327
Total Capital Assets, being depreciated, net	380,092
Component Units Capital Assets, net	$ 414,372

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, 2012, net appreciation of $122.8 million was available to meet spending rate distributions, of which $13.8 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 35.0 percent marketable equities, 30.0 percent fixed income, and 35.0 percent alternatives The approved asset allocation for the Intermediate Term Fund is 15.0 percent marketable equities, 70.0 percent fixed income, 10.0 percent alternatives, and 5.0 percent cash.

The fair value of Endowments as of June 30, 2012 was $418.1 million including an unrealized loss of $10.1 million when fair values as of June 30, 2012 are compared to asset acquisition costs. This compares to a fair value as of June 30, 2011 of $428.2 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, 2012, 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	$ 183.1
Realized Gains – Undistributed	245.1
Book Value	428.2
Unrealized Net Gains/Losses - Undistributed	(10.1)
Fair Value	$ 418.1

On June 30, 2012, the portfolio at market, for the Long Term Fund, contained 39.0 percent in common stock and convertible securities, 12.3 percent in bonds and preferred stock, 21.3 percent in alternative assets, 19.7 percent in tactical allocation strategies, 6.5 percent in short-term investments, and 1.2 percent in real assets. The total return on the principal Long Term Fund including capital appreciation was (.8) percent.

On June 30, 2012, the portfolio at market, for the Intermediate Fund, contained 18.2 percent in common stock and convertible securities, 79.2 percent in bonds and preferred stock, and 2.6 percent in short-term investments. The total return on the principal Intermediate Fund including capital appreciation was 3.0 percent.

External investment counsel was furnished for funds representing 88.5 percent of market value principal.

Component Unit

University of Wisconsin Foundation

The University of Wisconsin Foundation's (the Foundation) endowment consists of 3,430 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 Prudent 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, 2011 (in millions):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	$(42.6)	$190.5	$831.8	$979.7

Endowment Related Activities by Type of Fund as of December 31, 2011 (in millions):

	Un-restricted	Temporarily Restricted	Permanently Restricted	Total
Beginning net assets	$ (23.6)	$254.0	$ 792.2	$1022.6
Investment loss	(18.9)	(22.9)	--	(41.8)
Contributions	--	--	35.8	35.8
Appropriation of assets for expenditure	--	(40.6)	--	(40.6)
Transfers in for matching	--	--	1.5	1.5
Net transfers	--	--	2.3	2.3
Ending net assets	$(42.5)	$190.5	$831.8	$979.8

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 $42.6 million as of December 31, 2011. 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 global market benchmark while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return commensurate with 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 an 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.

Under the Foundation's spending policy effective July 1, 2010, the distribution rate will be 4.5 percent of its endowment fund's average fair value over the most recent 16 quarters.

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NOTE 9. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances as of or for the year ended June 30, 2012 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, 2012 were as follows (in thousands):

Due from Other Funds:	Due to Other Funds: General	Transportation	Common School	Nonmajor Governmental	Injured Patients and Families Compensation	Environmental Improvement	University of Wisconsin System	Unemployment Reserve	Nonmajor Enterprise	Internal Service	Fiduciary	Total
General	$ -	$ 16,623	$ 1,370	$ 20,888	$ 141	$ 296	$ 36,360	$ 3,947	$ 30,554	$ 5,663	$ 58,901	$ 174,744
Transportation	5,119	-	-	72,261	-	-	327	-		117	-	77,823
Common School	5,826	-	-	2,144	-	-	-	-	-	-	-	7,970
Nonmajor Governmental	31,441	24,598	-	4,287	-	926	624	-	9,434	-	-	71,310
Environmental Improvement	-	-	-	4	-	-	-	-	-	-		4
University of Wisconsin System	14,821	2,036	-	1,995	-	5	-	-	6	29	17,507	36,398
Unemployment Reserve	584	-	-	-	-	-	-	-	-	-	-	584
Nonmajor Enterprise	15,257	2	-	579	-	-	-	-	284	33	-	16,155
Internal Service	23,915	1,515	-	3,602	4	5	662	-	211	487	676	31,078
Fiduciary	18,771	717	-	1,806	4	2	30,479	-	1,093	522	387	53,782
Total	$ 115,733	$ 45,491	$ 1,370	$ 107,566	$ 150	$ 1,234	$ 68,452	$ 3,947	$ 41,581	$ 6,852	$ 77,471	$ 469,848

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, 2012 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	Wisconsin Economic Development Corporation	Total
Due to Primary Government:							
University of Wisconsin Hospitals and Clinics Authority	$ -	$ 2,763	$ 74	$ 4,286	$ -	-	$ 7,122
Wisconsin Economic Development Corporation	8,626	-	-	-	-	-	8,626
Due to Component Unit:							
General Fund	-	-	-	-	-	18,804	18,804
Special Revenue						5,207	5,207
University of Wisconsin System	-	-	-	-	335	-	335
Total	$ 8,626	$ 2,763	$ 74	$ 4,286	$ 335	24,011	$ 40,094

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, 2012 were as follows (in thousands):

	University of Wisconsin System	Fiduciary	Total
Interfund Payables:			
General	$ 49,981	$ -	$ 49,981
Nonmajor Governmental	510	-	510
Nonmajor Enterprise	50,297	-	50,297
Internal Service	44,725	-	44,725
Fiduciary	-	586,538	586,538
Total	$ 145,513	$ 586,538	$ 732,051

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, 2012 were as follows (in thousands):

	Advances from Other Funds (liability):		
	General	Nonmajor Governmental	Total
Advances to Other Funds (asset):			
Environmental Improvement	-	4,151	4,151
Nonmajor Enterprise	611	-	611
Total	$ 611	$ 4,151	$ 4,762

E. Interfund Transfers

Interfund Transfers in and out that occurred during Fiscal Year 2012 were as follows (in thousands):

Transfers out: \ Transfers in:	General	Trans-portation	Common School	Nonmajor Governmental	Environmental Improvement	University of Wisconsin System	Nonmajor Enterprise	Internal Service	Fiduciary	Total
General	$ -	$ 23,634	$ 12,500	$ 316,534	$ -	$ 889,110	$ 81,878	$ 13,335	$ 9	$ 1,337,000
Transportation	1,751	-	-	72,853	-	-	-	-	-	74,605
Common School	1,584	-	-	310	-	21	-	-	-	1,915
Nonmajor Governmental	23,143	25,759	-	105,832	28,252	258,642	7,645	675	-	449,948
Injured Patients and Families Compensation	-	-	-	17	-	-	-	-	-	17
Environmental Improvement	-	-	-	8,115	-	-	-	-	-	8,115
University of Wisconsin System	38,224	-	-	57,663	-	-	-	-	-	95,887
Unemployment Reserve	5,313	-	-	-	-	-	-	-	-	5,313
Nonmajor Enterprise	26,757	-	-	6,626	-	2	-	-	-	33,386
Internal Service	7,514	-	-	2,817	-	-	-	427	-	10,759
Fiduciary	-	-	-	413	-	-	-	224	-	637
Total	$ 104,287	$ 49,393	$ 12,500	$ 571,181	$ 28,252	$ 1,147,775	$ 89,523	$ 14,662	$ 9	$ 2,017,580

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, 2012, 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
University Wisconsin System	$ 16,820
Technology Services	1,400
Financial Services	2,000
Facilities Operations and Maintenance	2,975
Other Funds	70

Transfer out from the General Fund:

Fund Reporting the Transfer In	Amount
Environmental	10,974
Transportation	22,880
Veterans Trust	5,000

Transfers out from the Petroleum Inspection Fund:

Funds Reporting the Transfer In	Amount
Transportation	25,759

NOTE 10. CHANGES IN LONG-TERM LIABILITIES

During the year ended June 30, 2012, the following changes occurred in long-term liabilities (in thousands):

Primary Government

Governmental Activities	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Due Within One Year
Bonds Payable:					
General Obligation Bonds for Governmental Funds	$ 4,994,218	$ 968,217	$ 667,119	$ 5,295,316	$ 414,426
General Obligation Bonds for Internal Services Funds	152,926	31,504	20,299	164,131	13,897
Annual Appropriation Bonds	3,333,855	-	32,785	3,301,070	293,135
Revenue Bonds	1,837,005	460,125	81,200	2,215,930	104,776
Less Deferred Amounts:					
Issuance Premiums and Discounts	309,121	198,585	67,916	439,790	-
Refundings	(33,985)	31,293	315,168	(369,750)	-
Total Bonds Payable	10,593,139	1,689,724	1,184,487	11,046,486	826,234
Other Liabilities:					
Future Benefits and Loss Liability	91,675	55,909	51,829	95,755	30,496
Capital Leases	40,718	9,770	16,657	33,831	11,197
Installment Contracts	265	113	265	113	113
Compensated Absences	150,128	58,914	58,336	150,706	51,435
Other Postemployment Benefits	173,334	8,189	154	181,369	-
Claims, Judgments and Commitments	2,355	-	306	2,049	-
Pollution Remediation Obligations	11,100	-	3,610	7,490	-
Total Governmental Activities Long-term Liabilities	$ 11,062,714	$ 1,822,619	$ 1,315,644	$ 11,517,798	$ 919,475

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 2012. 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, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Due Within One Year
Bonds Payable:					
General Obligation Bonds	$ 1,365,033	$ 362,867	$ 204,497	$ 1,523,403	$ 65,003
Revenue Bonds	897,475	-	58,170	839,305	59,170
Less Deferred Amounts:					
Issuance Premiums and Discounts	82,097	41,208	18,829	104,476	-
Refundings	(15,287)	11,613	(3,244)	(23,656)	-
Total Bonds Payable	2,329,319	415,689	278,253	2,443,528	124,173
Other Liabilities:					
Future Benefits and Loss Liability	971,637	199,815	143,547	1,027,904	149,235
Capital Leases	31,607	2,805	7,863	26,548	6,954
Compensated Absences	143,402	10,028	4,821	148,609	77,770
Other Postemployment Benefits	193,077	30,895	-	223,972	-
Total Business-type Activities Long-term Liabilities	$ 3,669,041	$ 659,231	$ 434,485	$ 3,870,561	$ 358,131

Component Units

The following table presents the changes in long-term liabilities of the Wisconsin Housing and Economic Development Authority at June 30, 2012, the Wisconsin Health Care Liability Insurance Plan at December 31, 2011, the University of Wisconsin Hospitals and Clinics Authority at June 30, 2012, and the University of Wisconsin Foundation at December 31, 2011:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Due Within One Year
Revenue Bonds and Notes	$ 2,805,686	$ 219,647	$ 457,374	$ 2,567,959	$ 91,107
Future Benefits and Loss Liability	20,487	3,015	4,143	19,359	2,482
Capital Leases	4,157	--	1,647	2,510	1,288
Compensated Absences	11,178	556	--	11,734	11,734
Split-interest Agreement	37,102	3,322	--	40,424	--
Other Postemployment Benefits	16,221	4,497	--	20,718	--
Pension Related	60,219	21,436	5,069	76,586	757
Total Component Units Long-term Liabilities	$ 2,955,050	$ 252,473	$ 468,233	$ 2,739,290	$ 107,368

NOTE 11. BONDS, NOTES AND OTHER DEBT OBLIGATIONS

The following schedule summarizes outstanding long-term bonds and notes payable at June 30, 2012 (in thousands):

Primary Government	
Governmental Activities:	
General Obligation Bonds	$ 5,708,860
Annual Appropriation Bonds	3,298,422
Revenue Bonds:	
Transportation	1,914,824
Petroleum Inspection	124,381
Total Governmental Activities	11,046,487
Business-type Activities:	
General Obligation Bonds:	
University of Wisconsin System	1,376,350
Other Business-type	193,528
Revenue Bonds:	
Environmental Improvement	873,650
Total Business-type Activities	2,443,528
Total Primary Government	13,490,015
Component Units:	
Wisconsin Housing and Economic Development Authority Revenue Bonds	2,341,624
University of Wisconsin Hospitals and Clinics Authority Revenue Bonds	224,737
University of Wisconsin Foundation Note Payable	1,598
Total Component Units	2,567,959
Total at June 30, 2012	$16,057,974

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, 2012, $3,958.4 million of general obligation bonds were authorized but unissued.

General obligation bonds issued and outstanding as of June 30, 2012 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	905
1993	1992 2	10/92;	6.45 to 6.5	5/15	5,975	1,340
1994	1993 Refunding Issue 3	8/93	5.3	11/12	302,050	12,215
1999	1998 Series 1, E and F;	8/98; 10/98; 10/98	4.75 to 6.5	11/29	258,735	60,270
	1999 Series B	5/99				
2001	2000 Series E,	11/00	6.6 to 7.0	11/31	40,000	2,675
	2001 Series A and D	2/01; 6/01				
2002	2001 Series 1, E;	10/01; 10/01;	5.5 to 6.71	5/33	302,105	136,815
	2002 Series B, D	3/02; 6/02				
2003	2002 Series E, F, G and H;	9/02; 9/02; 10/02; 12/02;	4.0 to 5.25	5/33	415,190	36,205
	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	470,761
	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;	4.0 to 5.65	5/35	1,079,440	731,035
	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	515,085
	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	762,655
	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, and C;	10/07; 12/07	3.3 to 6.26	5/38	385,480	317,795
	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;	4.0 to 6.2	5/30	521,875	475,215
	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	955,123
	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;	3.6 to 5.95	5/41	1,175,535	1,144,835
	2011 Series A and 1	2/11; 6/11				
2012	2011 Series 2,B,C; 2012 Series 1,2, AW and A	10/11;8/11;12/11;3/12;5/12; 4/12;6/12	.66 to 5.0	5/42	1,359,920	1,359,920
Total					10,099,024	6,982,850
Premiums/Discounts					--	372,910
Deferred Amount on Refunding					--	(77,022)
Total General Obligation Bonds					$ 10,099,024	$ 7,278,738

As of June 30, 2012, 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
2013	$ 391,320	$ 259,891	$ 57,923	$ 73,116
2014	437,618	240,983	57,392	70,806
2015	453,387	220,827	56,997	68,097
2016	426,386	199,518	63,686	65,237
2017	380,918	178,645	64,927	62,087
2018-2022	1,745,931	624,675	349,000	261,308
2023-2027	1,080,990	282,255	417,687	173,593
2028-2032	542,897	67,607	312,522	82,821
2033-2037	--	--	85,785	26,147
2038-2042	--	--	57,484	7,178
Total	5,459,447	2,074,401	1,523,403	890,389
Premiums/Discounts	309,344	--	63,566	--
Deferred Amount on Refunding	(59,930)	--	(17,092)	--
Total	$ 5,708,861	$ 2,074,401	$ 1,569,877	$ 890,389

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 $442.6 million ("2008 Series A Bonds"), bear interest at rates from 4.140 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 $197.3 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, 2012, the debt service requirements for principal and interest on these bonds are as follows (in millions). The principal due in the fiscal year ended June 30, 2012 includes $250.0 million maturity that the State intends to fund prior to the May 1, 2013 maturity date::

Fiscal Year Ended June 30	Principal	Interest
2013	$ 286.5	$ 99.8
2014	72.8	86.3
2015	10.4	82.9
2016	17.4	82.4
2017	25.4	81.5
2018 - 2022	564.6	333.7
2023 - 2027	520.7	224.4
2028 - 2032	292.1	75.4
Total	1,789.9	1,066.4
Unamortized Prem./Discount	(1.2)	--
Total, net	$ 1,788.7	$ 1,066.4

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, 2012, 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, 2012.

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, 2012, interest rate exchange agreements remain to reduce the interest rate risk in connection with $488.4 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 $488.4 million as of June 30, 2012. 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, 2013 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, 2012, the aggregate fair value of the interest exchange agreements was negative $216.1 million, a decrease of $112.1 million compared to the aggregate fair value of negative $104.0 million reported as of June 30, 2011. 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, 2012, 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
2013	$ 5.9	$ 7.0	$ 25.0	$ 37.8
2014	1.1	6.9	24.7	32.7
2015	1.1	6.9	24.7	32.6
2016	1.1	6.9	24.6	32.6
2017	1.1	6.8	24.6	32.5
2018 - 2022	21.9	33.8	121.7	177.5
2023 - 2027	167.4	30.3	110.0	307.7
2028 - 2032	288.8	11.4	41.5	341.8
	$ 488.4	$ 110.0	$ 396.8	$ 995.3

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, 2012, 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, 2012, A2 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, 2012, 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 4.00 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, 2012, the debt service requirements for principal and interest on these bonds are as follows (in millions):

Fiscal Year Ended June 30	Principal	Interest
2013	$ 6.6	$ 86.4
2014	7.5	86.2
2015	18.3	85.9
2016	28.3	85.0
2017	22.2	83.6
2018 - 2022	148.7	398.8
2023 - 2027	221.3	353.6
2028 - 2032	407.40	274.7
2033 - 2037	650.9	123.4
Total	1,511.2	1,577.6
Unamortized Premium/Discount	(1.5)	--
Total, net	$ 1,509.7	$ 1,577.6

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 $3,351.5 million of revenue bonds. Presently, there are nineteen issues of Transportation Revenue Bonds totaling $1,788.6 million. Debt service payments are secured by driver and vehicle registration fees and also a reserve fund, which will be used in the event that a deficiency exists in the redemption fund.

The Transportation Revenue Bonds issued and outstanding as of June 30, 2012 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
20122	6/12	4.0 to 5.0	7/24	$ 116,400	$ 116,400
20121	4/12	2.0 to 5.0	7/32	343,725	343,725
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	173,530
2007A	3/07	4.25 to 4.5	7/27	148,710	83,380
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	100,830
2005A	3/05	3.25 to 5.25	7/25	235,585	192,045
2004 1	9/04	5.25	7/17	95,905	70,920
2003A	11/03	5.0	7/14	250,000	33,540
2002A	10/02	5.0	7/13	200,000	18,320
2002 1& 2	4/02	4.3 to 5.5	7/12	310,795	9,185
2001A	11/01	4.0 to 5.5	7/22	140,000	2,990
1998A	8/98	5.5	7/16	130,590	64,595
1993A	9/93	4.75	7/12	116,450	7,290
				3,003,460	1,788,650
Unamortized Prem./Discount				--	126,174
Total				$3,003,460	$1,914,824

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, 2012, 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, 2012 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				--	6,921
Total				$ 117,460	$ 124,381

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 $2,716.3 million in Revenue Bonds. At June 30, 2012, there were fourteen issues of Revenue Bonds outstanding totaling $839.3 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, 2012 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	112,585
2010-3	2/10	3.95 to 5.44	6/25	49,690	49,690
2010-2	2/10	5.0	6/21	14,070	14,070
2010-1	2/10	3.0 to 5.0	6/31	67,415	63,660
2008-3	12/08	3.0 to 5.5	6/18	92,210	82,790
2008-2	2/08	5.0	6/18	27,335	27,335
2008-1	2/08	4.0 to 5.0	6/18	100,000	87,260
2006-2	11/06	4.0 to 5.0	6/15	100,000	83,290
2006-1	3/06	3.5 to 5.0	6/16	80,000	66,635
2004-2	1/05	3.25 to 5.25	6/15	107,025	78,620
2004-1	3/04	4.0 to 5.0	6/14	116,795	72,410
2002-2	8/02	3.0 to 5.5	6/16	85,575	19,870
1998-2	8/99	4.0 to 5.5	6/17	104,360	44,330
				1,097,525	839,305
Unamortized Premium				--	40,910
Less: Unamortized discount and Charge					(6,565)
Total, net of discount, charge and premium				$1,097,525	$ 873,650

As of June 30, 2012, 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
2013	$ 94,715	$ 85,652	$ --	$ 5,597	$ 59,170	$ 41,534
2014	94,835	81,490	24,165	5,007	56,250	38,725
2015	108,385	76,896	25,345	3,817	56,930	35,803
2016	107,365	71,522	26,540	2,588	58,550	32,962
2017	105,070	66,165	27,800	1,270	59,655	30,115
2018-2022	587,740	249,012	13,610	290	263,755	109,015
2023-2027	441,730	115,016	--	--	211,480	48,204
2028-2032	235,355	30,923	--	--	73,515	8,819
2033-2037	13,455	336	--	--	--	--
Total	1,788,650	777,012	117,460	18,569	839,305	345,177
Unamortized Premium	126,174	--	6,921	--	40,910	--
Unamortized Discount/Charge	--	--	--	--	(6,565)	--
Total, net	$ 1,914,824	$ 777,012	$ 124,381	$ 18,569	$ 837,650	$ 345,177

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 $147.1 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, 2012 of the Wisconsin Housing and Economic Development Authority (Authority) consisted of the following (in thousands):

Revenue bonds and notes	$	2,343,493
Less: Deferred amount on refunding		(1,869)
Total, net	$	2,341,624

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, 2012 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	$ 8,835
2002 A,B&C	5/02	4.7 to 5.6	2033	24,155
2003 A&B	12/03	Variable	2034	5,600
2003 C	12/03	4.0 to 5.25	2043	12,730
2003 D&E	12/03	Variable	2044	19,070
2005 A,B&C	12/05	Variable	2035	9,075
2005 D&E	12/05	3.95 to 5.15	2045	36,185
2005 F	12/05	Variable	2030	109,940
2006 A&B	12/06	3.6 to 4.75	2047	16,235
2006 C&D	12/06	Variable	2037	8,255
2007 A&B	12/07	Variable	2042	16,745
2007 C,D&E	12/07	Variable	2038	8,070
2007 F&G	12/07	Variable	2042	15,870
2008 A,B,C,D, E, F&G	6/08	Variable	2033	37,190
2009 A	12/09	Variable	2042	8,995
2010 A & B	12/10	1.25 to 6.125	2043	41,450
2012 A & B	1/12	Variable	2055	53,540
2012 C	6/12	Variable	2044	16,670
				448,610
Home Ownership Revenue Bonds:				
2000 F	7/00	Variable	2015	825
2000 H	11/00	Variable	2024	7,010
2002 A&C	2/02	4.75 to 5.3	2018	3,260
2002 B	2/02	Variable	2032	3,435
2002 C	2/02	Variable	2016	260
2002 E&G	7/02	4.35 to 4.6	2012	2,625
2002 E & F	7/02	Variable	2032	1,610
2002 I	10/02	Variable	2032	34,750
2003 A	4/03	Variable	2033	29,865
2003 B	7/03	Variable	2034	44,255
2003 C	11/03	Variable	2034	30,815
2003 D	11/03	Variable	2028	10,140
2004 A	4/04	Variable	2035	66,850
2004 C&D	7/04	4.2 to 5.1	2024	9,035
2004 D	7/04	Variable	2035	61,540
2004 E	11/04	Variable	2035	54,470
2005 A	4/05	Variable	2036	60,750
2005 C	6/05	Variable	2033	85,575
2005 C	6/05	4.875	2036	8,295
2005 D	9/05	4.875	2036	7,255
2005 D&E	9/05	Variable	2036	68,675
2006 A&B	1/06	Variable	2037	119,860
2006 C&D	5/06	4.85 to 6.0	2037	128,835
2006 E&F	10/06	4.7 to 5.727	2037	113,725
2007 A&B	4/07	4.65 to 5.75	2038	78,675
2007 B	4/07	Variable	2026	28,785
2007 C&D	4/07	Variable	2038	102,375
2007 C	4/07	5.125	2028	14,475
2007 E&F	12/07	4.58 to 6.0	2038	46,900
2007 E&F	12/07	Variable	2038	39,240
2008 A&B	5/08	Variable	2038	97,240
2008 A&B	5/08	5.3 to 5.5	2028	29,030
2009 A	12/09	Variable	2041	195,970
2010 A &2009 A-1	11/10	.72 to 4.5	2041	97,380
				1,683,785
Business Development Bonds:				
1995 2,	4/95	Variable	2015	565
				565
Multifamily Housing Bonds:				
2006 A&B	7/06	Variable	2036	6,965
2007 A&B	6/07	Variable	2040	11,355
2007 C	8/07	Variable	2048	6,190
2008 A&B	8/08	Variable	2046	13,685
2009 A	6/09	1.8 to3.5	2018	3,710
2009 A	6/09	Variable	2035	15,885
2009 B	12/09	Variable	2043	10,060
2009 B-1	10/11	Variable	2041	5,370
2009 B-2	10/11	Variable	2041	53,390
2011 A	9/11	Variable	2043	9,100
2012 A & B	2/12	Variable	2014	16,000
				151,710
Notes Payable	Various	Variable	Various	49,153
Fac. Refunding	6/09	Variable	2017	9,670
Authority's Total Revenue Bonds and Notes				$2,343,493

Debt service requirements for principal and interest for the Authority at June 30, 2012 are as follows (in thousands):

Fiscal Year Ended	Principal	Interest
2013	$ 83,993	$ 40,168
2014	49,040	38,666
2015	37,235	37,858
2016	46,945	37,379
2017	53,705	36,672
2018 - 2022	331,045	165,523
2023 - 2027	412,515	124,226
2028 - 2032	500,015	77,766
2033 - 2037	439,985	34,901
2038 - 2042	326,530	5,567
2043 - 2047	39,560	645
Thereafter	22,925	148
Total	2,343,493	599,519
Deferred Amount on Refunding	(1,869)	--
Total	$ 2,341,624	$ 599,519

Under a Business Development Program and a Multifamily Housing 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, 2012 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 1.72 percent at June 30, 2012, and the Home ownership mortgage Loan Program line of credit bears interest of 4.0 percent at June 30, 2012. One line of credit rates are based on the 30 day Eurodollar rate while the other is based on the 30 day LIBOR 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, 2012 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, 2012, 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
2013	$ 44,125	$ 3,400	$ 40,098	$ 87,623
2014	53,860	3,246	38,466	95,572
2015	51,800	3,058	36,337	91,195
2016	54,265	2,887	34,413	91,565
2017	58,075	2,693	32,285	93,053
2018 - 2022	199,605	10,861	135,904	346,370
2023 - 2027	202,580	6,814	96,893	306,287
2028 - 2032	215,990	3,662	56,565	276,217
2033 - 2037	155,925	1,354	17,131	174,410
2038 - 2042	27,060	154	1,827	29,041
2043 - 2047	1,735	5	62	1,802
Totals	$1,065,020	$ 38,134	$ 489,981	$1,593,135

The following table outlines information related to agreements in place as of June 30, 2012 (in thousands):

Program and Bond Issue	Notional Value at 6/30/12	Effective Date	Swap Termination Date	Counterparty Credit Rating	Percent Fixed Rate Paid	Variable Rate/Index Received	Swap Termination Market Value at 6/30/12
Housing Revenue Bonds							
2008 Series G	$ 21,920	5/21/2002	11/1/2033	A-/Baa2	4.68	70% of one month London Interbank Offered Rate (LIBOR)	$ (330)
2003 Series D	8,150	1/5/2005	5/1/2044	A+/Aa3	4.21	65% of one month LIBOR + 25 basis points	(395)
2003 Series E	10,920	1/5/2005	5/1/2043	A+/Aa3	4.05	63.5% of one month LIBOR + 20 basis points	(513)
2005 Series F	72,570	1/17/2006	11/1/2030	A+/Aa3	5.21	One month LIBOR	(23,444)
2006 Series C	3,580	12/14/2006	11/1/2016	A+/Aa3	3.64	SIFMA + 2 Basis Points	(435)
2006 Series D	4,675	12/14/2006	11/1/2016	A+/Aa3	3.64	SIFMA + 2 Basis Points	(569)
2007 Series A	9,815	12/19/2007	11/1/2042	A+/Aa3	4.72	SIFMA + 6 Basis Points	(138)
2007 Series B	6,930	12/19/2007	11/01/2039	A+/Aa3	4.58	SIFMA + 2 Basis Points	(97)
2007 Series F	10,775	12/19/2007	11/01/2025	A+/Aa3	4.01	SIFMA + 6 Basis Points	(2,601)
2007 Series G	5,095	12/19/2007	11/01/2025	A+/Aa3	4.01	SIFMA + 6 Basis Points	(1,230)
							(29,752)
Multifamily Housing Bonds							
2006 Series A&B	6,965	7/19/2006	10/1/2013	A+/Aa3	4.21	SIFMA + 2 Basis Points	(333)
2007 Series A	7,460	6/29/2007	10/1/2022	A+/Aa3	4.43	SIFMA + 6 Basis Points	(1,871)
2007 Series B	3,895	6/29/2007	10/1/2022	A+/Aa3	5.9	One month LIBOR – 2 Basis Points	(1,473)
2007 Series C	6,190	8/2/2007	9/1/2024	A+/Aa3	4.33	SIFMA + 2 Basis Points	(1,682)
2008 Series A	6,805	8/28/2008	10/1/2026	AA-/Aa3	3.89	SIFMA + 2 Basis Points	(1,610)
2008 Series A	4,375	8/28/2008	10/1/2026	AA-/Aa3	3.89	SIFMA + 2 Basis Points	(1,034)
2008 Series B	2,505	8/28/2008	10/1/2026	AA-/Aa3	5.08	LIBOR + 7 Basis Points	(883)
							(8,886)
1987 Home Ownership Revenue Bonds							
2002 Series B	3,435	2/6/2002	3/1/2020	A+/Aa3	5.88	One month LIBOR + 35 Basis Points	(511)
2002 Series C	260	2/6/2002	9/1/2012	A+/Aa3	3.69	67 percent of one month LIBOR	(2)
2002 Series I	34,750	10/17/2002	9/1/2032	A/A2	4.07	70 percent of one month LIBOR	(204)
2003 Series B	44,255	7/29/2003	9/1/2034	A+/Aa3	3.94	65 percent of one month LIBOR + 25 Basis Points	(5,750)
2004 Series A	31,020	4/29/2004	9/1/2022	A+/Aa3	4.47	SIFMA + 8 basis points	(2,070)
2004 Series A	1,625	4/29/2004	9/1/2012	A+/Aa3	2.87	65 percent of one month LIBOR + 25 Basis Points	(8)
2004 Series A	34,205	4/29/2004	3/1/2035	A+/Aa3	4.27	65 percent of one month LIBOR + 25 Basis Points	(1,953)
2005 Series A	60,750	4/12/2005	3/1/2036	A-/Baa2	3.61	65 percent of one month LIBOR + 25 Basis Points	(3,890)
2005 Series D	52,730	9/29/2005	9/1/2036	AAA/Aa3	3.54	65 percent of one month LIBOR + 25 Basis Points	(3,348)
2007 Series B	28,785	4/10/2007	9/1/2026	AAA/Aa3	5.20	One month LIBOR	(4,477)
2007 Series E	27,980	12/18/2007	9/1/2038	AAA/Aa3	3.96	62 percent of one month LIBOR + 38 Basis Points	(3,807)
2007 Series F	11,260	12/18/2007	9/1/2014	AAA/Aa3	4.43	One month LIBOR	(562)
							(26,582)
1988 Home Ownership Revenue Bonds							
2002 Series F	1,610	7/11/2002	9/1/2014	A+/Aa3	5.20	Three months LIBOR + 40 Basis Points	(50)
2003 Series A	6,880	4/3/2003	9/1/2014	A-/Baa2	2.98	65 percent one month LIBOR + 25 Basis Points	(99)
2003 Series A	5,065	4/3/2003	9/1/2030	A-/Baa2	4.26	65 percent one month LIBOR + 25 Basis Points	(26)
2003 Series A	17,920	4/3/2003	9/1/2033	A-/Baa2	4.17	65 percent one month LIBOR + 25 Basis Points	(76)
2003 Series C	11,055	11/4/2003	3/1/2019	A-/Baa2	3.32	65 percent one month LIBOR + 25 Basis Points	(192)
2003 Series C	19,760	11/4/2003	3/1/2034	A-/Baa2	3.81	65 percent one month LIBOR + 25 Basis Points	(498)
2004 Series D	61,540	7/27/2004	9/1/2035	A-/Baa2	3.73	65 percent one month LIBOR + 25 Basis Points	(3,667)
2004 Series E	54,470	11/23/2004	9/1/2035	A+/Aa3	3.99	65 percent one month LIBOR + 25 Basis Points	(8,310)
2005 Series C	62,750	8/3/2005	3/1/2024	A+/Aa3	3.34	65 percent one month LIBOR + 25 Basis Points	(4,495)
2005 Series C	22,825	8/3/2005	9/1/2033	A+/Aa3	4.07	65 percent one month LIBOR + 25 Basis Points	(407)
2006 Series A	76,870	1/19/2006	3/1/2029	A+/Aa3	3.65	65 percent one month LIBOR + 25 Basis Points	(6,438)
2006 Series A	14,170	1/9/2006	9/1/2037	A+/Aa3	4.27	65 percent one month LIBOR + 25 Basis Points	(372)
2007 Series C	22,575	6/28/2007	9/1/2023	A+/Aa3	4.63	SIFMA + 8 Basis Points	(1,991)
2007 Series C	23,510	6/28/2007	9/1/2016	A+/Aa3	4.11	SIFMA + 8 Basis Points	(1,598)
2007 Series D	23,760	6/28/2007	9/1/2027	A+/Aa3	6.48	One month LIBOR	(270)
2007 Series D	13,800	6/28/2007	9/1/2016	A+/Aa3	5.62	One month LIBOR	(1,361)

2007 Series D	18,730	6/28/2007	9/1/2028	A+/Aa3	6.01	One month LIBOR	(4,721)
2008 Series A	32,025	5/15/2008	3/1/2019	AA-/Aa3	3.35	SIFMA + 8 Basis Points	(3,154)
2008 Series A	52,025	5/15/2008	9/1/2038	AAA/Aa3	3.86	62 percent of one month LIBOR + 38 Basis Points	(3,969)
							(41,694)
						Total Swap Termination Market Value	($106,914)

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, 2012. 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, 2012, 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, 2012, the counterparty or counterparty guarantor in 57 percent of the outstanding swaps were rated A+/Aa3, 19 percent were rated A-/Baa2, 16 percent were rated AAA/Aa3, and the remaining counterparties were rated AA-/Aa3 and A/A2 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, 2012, the counterparty rated A+/Aa3, has collateral requirements starting at BBB+/Baa1 and a posting threshold of $500,000. The counterparty rated A-/Baa2 has collateral requirements starting at AA-/Aa3 and a posting threshold of $50.0 million. Based on the current rating of A-/Baa2 the posting threshold level is lowered to $100 thousand. The counterparty rating of AA-/Aa3 has collateral requirements starting at A+/A1 and a posting threshold of $10.0 million. The counterparty rating of A/Aa2 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, 2012, 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	9/1/2034	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 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 were 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 deferred loss of $641 thousand. Principal payments on the remaining Series 2002B Bonds are $1.5 million due in April 2013. Interest rates for the Series 2002B Bonds range from 5.25 percent to 5.50 percent and payable semiannually on April 1 and October 1 of each year. The effective annual interest rate of the Series 2002B Bonds was 6.6 percent in 2012 and 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, 2012 and 2011, and matures on April 1, 2022. This swap had been applied to the Series 2009A with the refunding of the Series 2002A bonds and is now applied to the Series 2011A bonds with the refunding of the Series 2009A bonds. The terms of the swap agreement are for the Hospital to pay the counterparty a fixed rate of 3.85 percent per annum, payable semiannually, and the Hospital to receive a floating rate of 70 percent of one-month London InterBank Offered Rate (LIBOR) per annum, payable monthly. In 2012 and 2011, the effective interest rate received by the Hospital was 0.2 percent. The fair value of the swap agreement was $(3.5) million and $(2.6) million at June 30, 2012 and 2011, respectively.

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. This swap had been applied to the 2008B bonds with the refunding of Series 1997 bonds and is now applied to the Series 2011B bonds with the refunding of Series 2008B bonds. The notional amount of this swap agreement was $25.3 million and $26.0 million at June 30, 2012 and 2011, respectively, and matures on April 1, 2021. The terms of the swap agreement are for the Hospital to pay the counterparty a fixed rate of 3.45 percent per annum, payable semiannually, and the Hospital to receive a floating rate of 70 percent of one-month LIBOR per annum, payable monthly. In 2012 and 2011, the effective interest rate received by the Hospital was 0.2 percent. The fair value of the swap agreement was $(3.5) million and $(2.5) million at June 30, 2012 and 2011, respectively.

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 then outstanding 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, 2012 and 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 payment 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 rate. 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 $54.8 million and $56.8 million at June 30, 2012 and 2011, respectively, and 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 to receive a floating rate of 58.3 percent of one-month LIBOR per annum plus 0.36 percent, payable monthly. In 2012 and 2011, the effective interest rate received by the Hospital was 0.5 percent. The fair value of the swap agreement was $(9.8) million and $(5.2) million at June 30, 2012 and 2011, respectively.

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 remaining Series 2008A Bonds, ranging from $1.1 million to $5.2 million, are due annually from April 2012 through April 2026. Interest is payable semiannually. In 2012 and 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 Bonds, secured by an irrevocable transferable direct pay letter of credit issued by a commercial bank. 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 2012 and 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 the outstanding Hospital Revenue Bonds consisting of Short-Term Adjustable Rate Securities, Series 2002A. In 2011, the effective interest rate was 0.2 percent. In May 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 also 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 remaining Series 2009B Bonds, ranging from $2.1 million to $8.2 million, are due annually from April 2012 through April 2029. Series 2009B Bonds bear interest at a weekly rate determined by a remarketing agent. Interest is payable monthly. The effective annual interest rate was 0.1 percent in 2012 and 0.2 percent in 2011.

The Series 2009B Bonds are secured by an irrevocable transferable direct pay letter of credit issued by a commercial bank. The initial letter of credit agreement has a stated expiration date of five 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 (5) 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, 2012 and 2011, there were no amounts outstanding under the letter of credit.

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 remaining Series 2009C Bonds, ranging from $248 thousand to $478 thousand, are due bi-annually commencing from April 2012 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 biannually. In 2012 and 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 remaining Series 2011A Bonds, ranging from $500 thousand to $3.9 million, are due annually from April 2013 through April 2032. Series 2011A bonds bear interest at 74 percent of LIBOR, plus 1.04 percent, payable monthly. In 2012 and 2011, the effective interest rate was 1.2 percent.

In May 2011, the Hospital also 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 remaining Series 2011B Bonds, ranging from $10.0 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. The effective interest rate was 1.3 percent in 2012 and 1.1 percent in 2011. 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 Bonds, Series 2011A Bonds and Series 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. Management believes that the Hospital is in compliance with all debt covenants and has not incurred a material adverse effect as defined at June 30, 2012 and 2011.

Legislation which had limited the Hospital's total borrowings to a defined amount 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 & Poor's Corporation (S&P) and Moody's Investor Service, Inc. (Moody's), and notify the State Joint Committee on Finance. The Hospital's current rating from S&P and Moody's is A+ and A1, respectively.

The fair values of the swap agreements were estimated considering the project cash flows associated with the swaps, and the fair values are reflected in other long-term liabilities on the financial statements.

Prior to 2012, all of the Hospital's swap agreements were reported as ineffective under the guidelines of GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments (Statement No. 53). Accordingly, the changes in fair market value were reflected as nonoperating income or expense in the statement of revenues, expenses and changes in net assets. In 2012, the Hospital determined that the derivative instruments associated with the Series 2011A and Series 2011B bonds have been effective since inception, the year the Hospital adopted Statement No. 53. Accordingly, an immaterial adjustment of $5.1 million is reflected in the 2012 net increase in fair value of swaps in the statement of revenues, expenses and changes in net assets to record the cumulative change in fair market values associated with those effective swaps through June 30, 2011 within deferred outflows of resources on the balance sheet. The change in fair market value of the effective swaps in 2012 of $1.9 million is also reflected in deferred outflows of resources.

There are collateral posting provisions on the swap agreement. 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. Collateral of $3.0 million was required as of June 30, 2012. No collateral was required as of June 30, 2011.

The Hospital will be exposed to variable rates if the counterparty to the swap defaults or if the swaps are 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. Neither the Hospital nor the counterparties have been downgraded below these thresholds at June 30, 2012 and 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, 2012 and 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.

Aggregate scheduled principal and interest repayments on long-term debt as stated under the actual debt terms, including the effect of the swaps based on the effective interest rate at June 30, 2012 are as follows (in thousands):

Fiscal Year Ended	Principal	Interest	Interest Rate Swap, Net	Total
2013	$ 8,190	$ 4,702	$ 3,121	$ 16,013
2014	8,562	4,416	3,009	15,987
2015	8,931	4,187	2,810	15,928
2016	8,158	3,950	2,589	14,697
2017	7,974	3,752	2,356	14,082
2018-2022	44,774	15,413	7,898	68,085
2023-2027	52,631	8,424	3,898	64,953
2028-2032	65,410	4,075	676	70,161
2033-2035	30,225	556	--	30,781
Deferred loss on retirement of 2000 Bonds	(5,231)	--	--	(5,231)
Deferred loss on retirement of 1997 Bonds	(214)	--	--	(214)
Deferred loss on retirement of 2004 Bonds	(393)	--	--	(393)
Deferred loss on retirement of 2002A Bonds	(551)	--	--	(551)
Deferred loss on retirement of 2005 Bonds	(352)	--	--	(352)
Deferred loss on retirement of 2008B Bonds	(452)	--	--	(452)
Deferred loss on retirement of 2009A Bonds	(463)	--	--	(463)
Premium on Bonds	48	--	--	48
	$227,247	$ 49,475	$ 26,357	$303,079

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, 2012 are as follows (in thousands):

Fiscal Year Ended	Principal	Interest
2013	$ 6,903	$ 7,710
2014	7,899	7,371
2015	8,654	6,968
2016	8,056	6,526
2017	7,947	6,099
2018-2022	44,621	23,287
2023-2027	52,631	12,323
2028-2032	65,410	4,751
2033-2034	30,225	556
Total	232,346	75,591
Deferred loss on refunding	(7,657)	--
Premium/Discount	48	--
Total	$ 224,737	$ 75,591

University of Wisconsin Foundation

Long-term debt of the University of Wisconsin Foundation consists of a note payable. The 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, 2011 is $1.6 million.

Future maturities of long-term debt as of December 31, 2011 are as follows:

Year ended December 31	Total Principal
2012	$ 532,731
2013	532,731
2014	532,730
Total	$ 1,598,192

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 October 2011, the State issued 316.1 million of general obligation refunding bonds (2011 Series 2), the proceeds of which: (i) $326.9 million were deposited in an escrow account to provide for future debt service payments and redemption of $291.5 million of various general obligation bonds outstanding at the time of the refunding,(ii) $53.4 million were used to current refund on November 1, 2011 principal of various general obligation bonds. As a result of the advance refunding, the $291.5 million of various general obligation bonds for which future debt service payments and redemption are paid from the escrow are considered defeased and the associated liability removed from the financial statements. The overall refund issuance resulted in an increase in total debt service payments by $15.3 million and an economic loss of $2.7 million.

In March 2012, the State issued $221.5 million of general obligation refunding bonds (2012 Series 1), the proceeds of which were used to current refund on May 1, 2012 principal of various general obligation bonds in the amount of $252.9 million. The refunding resulted in an increase in total debt service payments by $28.4 million and an economic gain of $.6 million.

In May 2012, the State issued $143.6 million of general obligation refunding bonds (2012 Series 2), the proceeds of $171.9 million were deposited in an escrow account to provide for future debt service payments and redemption of $155.3 million of various general obligation bonds outstanding at the time of the refunding. As a result of the advance refunding, the $155.3 million of various general obligation bond for which future debt service payments and redemption are paid from the escrow account are considered defeased and the associated liability removed from the financial statements. The refunding resulted in a decrease in total debt service payments by $11.9 million and an economic gain of $11.6 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, 2012, approximately $664.8 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, 2012, revenue bonds outstanding of $231.9 million have been defeased.
- Transportation revenue bonds – At June 30, 2012, revenue bonds outstanding of $611.3 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, 2012, the remaining outstanding defeased debt is $16.2 million.

Early Extinguishments/Redemptions

Component Units

Wisconsin Housing and Economic Development Authority

During 2012, 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 2012
Home Ownership Revenue	
Bond Resolutions:	
1987	$ 97,195
1988	184,430
All Other	2,350
Housing Revenue Bonds	16,440
Multifamily Housing Bonds	59,820

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. On June 30, 2012, the amount of general obligation commercial paper notes outstanding was $178.9 million which had interest rates ranging from .11 percent to .2 percent and maturities ranging from July 6, 2012 to August 16, 2012.

Short-term debt activity for the year ended June 30, 2012 for the general obligation commercial paper notes was as follows (in millions):

Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012
$ 188.1	$ --	$ 9.2	$ 178.9

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, 2012, the amount of the general obligation extendible municipal commercial paper outstanding was $521.7 million which had interest rates ranging from .21 percent to .31 percent and maturities ranging from July 2, 2012, to October 9, 2012.

Short-term debt activity for the year ended June 30, 2012 for the general obligation extendible municipal commercial paper was as follows (in millions):

Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012
$ 404.6	$ 131.2	$ 13.9	$ 521.7

Petroleum Inspection Fee Revenue Extendible Municipal Commercial Paper

The State has authorized petroleum inspection fee revenue extendible municipal commercial paper to pay the costs of claims under the Petroleum Environmental Cleanup Fund Award (PECFA) Program. Periodically, additional extendible municipal commercial paper is issued to pay for maturing paper. The State may periodically deposit money into the Junior Subordinate Principal Account, which represents principal payments to be made on the extendible municipal commercial paper. The State also intends to make regular deposits to the issuing and paying agent that will be used to pay interest due on maturing paper. At June 30, 2012, the amount of petroleum inspection fee revenue extendible commercial paper outstanding was $71.2 million which had interest rates ranging from .25 percent to .29 percent and maturities ranging from July 9, 2012 to December 4, 2012.

Short-term debt activity for the year ended June 30, 2012 for the petroleum inspection fee revenue extendible municipal commercial paper was as follows (in millions):

Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012
$ 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, 2012, the amount of transportation revenue commercial paper notes outstanding was $129.8 million which had interest rates ranging from .15 percent to .17 percent and maturities ranging from August 9, 2012 to August 16, 2012.

Short-term debt activity for the year ended June 30, 2012 for the transportation revenue commercial paper notes was as follows (in millions):

Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012
$ 146.6	$ --	$ 16.8	$ 129.8

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, 2012, the following parity Master Lease certificates were outstanding:

- Master Lease Certificates of Participation of 2006, Series A, in the amount of $17.7 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 $5.2 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 2010, Series B, in the amount of $13.4 million. This series of Master Lease certificates has interest rates ranging from 3.0 percent to 4.0 percent and matures semi-annually through September 1, 2017.

- Master Lease Certificates of Participation of 2012, Series A, in the amount of $26.8 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, 2012, 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, 2012, 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, 2012, $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 $112.2 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 non-cancelable 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, 2012 for capital leases (in thousands):

Fiscal Year	Governmental Activities	Business-type Activities
2013	$ 12,384	$ 8,092
2014	10,604	7,597
2015	6,715	6,609
2016	5,065	4,116
2017	879	2,418
2018 - 2022	904	291
2023 - 2027	-	-
2028 - 2032	-	-
2033 - 2037	-	-
Total minimum future payments	36,551	29,122
Less: Interest	(2,720)	(2,574)
Present value of net minimum lease payments	$ 33,831	$ 26,548

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, 2012 (in thousands):

Fiscal Year	Governmental Activities	Business-type Activities
Land and Land Improvements	$ 376	$ -
Buildings and Improvements	1,000	70,886
Machinery and Improvements	125,214	6,875
Less: Accumulated Depreciation	(54,156)	(38,444)
Carrying Amount	$ 72,434	$ 39,318

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, 2012 was as follows:

Balance Due	Average Life (Weighted Term)
$63,137,366	1.9 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, 2012 for amounts related to this agreement was $2.5 million.

B. Operating Leases

Operating leases, those leases not recorded as capital leases, 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. Operating lease expenditures/expenses are recognized as incurred or paid over the lease term.

Governmental and business-type activities rental expenses under operating leases for Fiscal Year 2012 were $79.2 million. Of this amount, $79.1 million relates to minimum rental payments stipulated in lease agreements, $53 thousand relates to contingent rentals. Component unit rental expenses under operating leases were $14.9 million, of which $14.9 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	Govern-mental Activities	Business-type Activities	Com-ponent Units
2013	$ 43,943	$ 19,230	$ 10,138
2014	38,265	16,942	5,855
2015	32,782	15,458	4,130
2016	27,197	13,412	3,173
2017	21,926	12,353	1,965
2018 - 2022	61,277	50,325	3,275
2023 - 2027	5,263	38,690	-
2028 - 2032	463	31,741	-
2033 - 2037	388	1,619	-
2038 - 2042	400	-	-
2043 - 2047	438	-	-
2048 - 2052	402	-	-
Thereafter	10	-	-
Minimum lease payments	$ 232,753	$ 199,771	$ 28,537

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, 2012 for installment purchases (in thousands):

Fiscal Year	Governmental Activities	Business-Type Activities
2013	$ 115	516
2014	-	516
2015	-	516
2016	-	516
2017	-	516
Total minimum future payments	115	2,581
Less: Interest	(3)	(250)
Present value of net minimum installment payments	$ 113	2,331

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 2012, the State did not recognize additional estimated liabilities for pollution remediation. The State expended $3.6 million to clean up sites in FY 2012, therefore, the beginning liability of $11.1 million was reduced to $7.5 million. There were no recoveries received from other responsible parties during fiscal year 2012 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, 2012 (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	--
Total estimated obligations	$7.5	--

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.

The December 31, 2011 financial report will be available at a later date.

Plan Description

The WRS, governed by Chapter 40 of the Wisconsin Statutes, is a cost-sharing multiple-employer defined benefit pension plan. It provides coverage to all eligible State of Wisconsin, local government and other public employees. All employees, initially employed by a participating WRS employer prior to July 1, 2011, expected to work at least 600 hours a year (440 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS. Note: Employees hired to work nine or ten months per year,(e.g. teachers contracts), but expected to return year after year are considered to have met the one-year requirement.

As of December 31, 2011, the number of participating employers was:

State Agencies	61
Cities	152
Counties	71
4th Class Cities	36
Villages	260
Towns	239
School Districts	424
Wisconsin Technical College System Board Districts	16
Cooperative Educational Service Agencies	12
Other	209
Total Employers	1,480

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 and prior to July 1, 2011 are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011 must have five years of creditable service to be 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

Effective the first day of the first pay period on or after June 29, 2011 the employee required contribution was changed to one-half of the actuarially determined contribution rate for general category employees, including teachers, and Executives and Elected Officials. Required contributions for protective contributions are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement. Contribution rates as of June 30, 2012 are:

	Employee	Employer
General (including teachers)	5.9%	5.9%
Executives & Elected Officials	7.05%	7.05%
Protective with Social Security	5.9%	9.0%
Protective without Social Security	5.9%	11.3%

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, 2011, 2010, and 2009 were as follows (in millions):

	2011	2010	2009
Employer current service	$ 226.6	$ 207.8	$ 192.5
Percent of payroll	5.9%	5.3%	5.0%
Employer prior service	$ 2.9	$ 3.3	$ 3.2
Percent of payroll	0.1%	0.1%	0.1%
Employee required	$ 208.9	$ 196.4	$ 191.1
Percent of payroll	5.4%	5.0%	5.0%
Benefit adjustment contributions	$ 28.6	$ 40.6	$ 30.0
Percent of payroll	0.7%	1.0%	0.8%
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, 2012 and 2011, the WRS’s unfunded actuarial accrued liability was $91.1 million and $118.8 million, 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 2011 (most recent actuarial valuation date), there were 57,934 active, and 7,021 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 $560.70 to $1,147.60 for single coverage and $1,397.60 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, 2012, the ARC was $89.6 million while the employer contributions were $38.4 million, and the ARC adjustment, with interest, was $26.9 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
2012	$ 77,432	$38,396	49.6%	$406,522
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 $14.7 million while the net OPEB obligation increased $39.0 million.

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2011 (most recent actuarial valuation date) was as follows (in thousands):

Actuarial accrued liability (AAL)	$ 953,110
Actuarial value of plan assets	0
Unfunded actuarial accrued liability (UAAL)	$ 953,110
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	$3,244,518
UAAL as a percentage of covered payroll	29.4%

Effective January 1, 2012, prescription drug coverage for Medicare eligible retirees enrolled in the State group health insurance program is provided by Navitus Health Solutions through a self-funded, Medicare Part D Employer Group Waiver Plan (EGWP). A Medicare "Wrap" product is also included to provide full coverage to members, as required by uniform benefits, when they reach the Medicare coverage gap, also known as the "donut hole".

As result of the implementation of the EGWP + Wrap, the State no longer receives the Retiree Drug Subsidy; therefore, there is no longer a liability for the State associated with their Medicare retirees. This Plan amendment reduced the total liability for the State of Wisconsin Retiree Health Program by $563.0 million as of January 1, 2011.

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, 2011 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 3.2 percent assumed annual payroll growth. The projected annual healthcare cost trend rate is (3.82) percent initially, adjusted by increments 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, 2010. 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 2011 contribution rates ranged from 1.9 percent to 6.7 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

The December 31, 2011 financial report will be available at a later date.

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, 2011.

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 371 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 2011 (in millions):

	Health Insurance		Income Continuation Insurance		Long-term Disability Insurance		Pharmacy Benefits	
	2010	2011	2010	2011	2010	2011	2010	2011
Unpaid claims at beginning of the calendar year	$ 4.3	$ 3.6	$ 72.8	$ 74.1	$ 156.3	$ 175.6	$ (4.3)	$ (7.4)
Incurred claims:								
Provision for insured events of the current calendar year	24.0	21.4	34.3	42.4	54.2	43.2	148.4	144.6
Changes in provision for insured events of prior calendar years	(2.5)	(1.4)	(17.1)	(10.1)	(8.6)	(4.8)	(0.7)	(1.1)
Total incurred claims	21.5	20.0	17.3	32.3	45.6	38.4	147.7	143.5
Payments:								
Claims and claim adjustment expenses attributable to insured events of the current calendar year	20.5	18.7	6.0	6.7	1.9	1.6	155.8	150.7
Claims and claim adjustment expenses attributable to insured events of prior calendar years	1.7	2.2	9.9	11.6	24.4	23.3	(5.0)	(8.5)
Total payments	22.2	20.9	15.9	18.3	26.3	24.9	150.8	142.2
Total unpaid claims expenses at end of the calendar year	$ 3.6	$ 2.7	$ 74.1	$ 88.1	$ 175.6	$ 189.1	$ (7.4)*	$ (6.1)*

* Total unpaid claims at the end of 2011 is the net of $3.9 million in unpaid claims and $10.0 million in rebates due from pharmaceutical companies; 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.

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

The December 31, 2011 financial report will be available at a later date.

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 $4.0 million annual aggregate. When claims, which exceed $100,000 per occurrence, total $4.0 million, the State's private insurance becomes available. Losses to property occurring after the threshold are first subject to a $100,000 deductible. The amount of loss in excess of $100,000 is covered by the State's private insurance company. During Fiscal Year 2012, 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, 2012 are estimated to total $28.4 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 2012 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, 2012 are estimated to total $20.7 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, 2012 are estimated to total $71.4 million.

Changes in the balances of claims liability for the Risk Management Fund during the current and prior fiscal years are as follows (in thousands):

	2012	2011
Beginning of fiscal year liability	$ 91,675	$ 94,847
Current year claims and changes in estimates	55,908	28,851
Claim payments	(27,058)	(26,743)
	120,525	96,955
Excess insurance reimbursable	(24,771)	(5,280)
Balance at fiscal year-end	$ 95,754	$ 91,675

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, 2012 is $6.9 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, 2012 the Local Government Property Insurance Fund insured 1,076 local governmental units. The total amount of insurance in force as of June 30, 2012 was $51.1 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, 2012, the fund had $24.7 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, 2012 the fund had $450.0 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 $6.4 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 losses recovered through excess-of-loss insurance was $(.1) million.

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):

	2012	2011
Unpaid loss liabilities		
at beginning of the year	$15,118	$6,275
Less: Excess-of-loss insurance		
recoverable	1,743	--
Net unpaid loss liabilities at beginning		
of year	13,375	6,275
Incurred losses and loss		
expenses:		
Provision for insured events of the		
current year	19,327	23,963
Increase (decrease) in provision for		
insured events of prior years	347	1,770
Total incurred losses and loss		
expenses	19,674	25,733
Payments:		
Losses and loss		
expenses attributable to insured		
events of the current year	8,959	11,426
Losses and loss		
expenses attributable to insured		
events prior years	11,085	7,207
Total payments	20,044	18,633
Net unpaid loss liabilities		
at end of year	13,005	13,375
Plus: Excess-of-loss liabilities		
recoverable	13	1,743
Total unpaid loss liabilities		
at end of year	$13,018	$15,118

Trend Information

Historical trend information showing revenue and claims development information is presented in the Office of the Commissioner of Insurance June 30, 2012 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	$ 8,894	$ 6,820
1967-1976	29,848	16,473
1977-1985	72,074	24,139
1986-1994	49,192	9,053
1995-2008	40,788	5,808
2009+	4,687	257
	$ 205,483	$ 62,550

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
2009-2012	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, 2011 were $94.5 million and the statutory capital and surplus was $9.6 million, and the fund equity at June 30, 2012 was $34.3 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 coverage for 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 assessment 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, 2012 as follows (in thousands):

Projected ultimate loss liability	$ 1,448,982
Less: Net loss paid from inception	(809,624)
Less: Liability for reported losses	(20,147)
Liability for incurred but not reported losses	$ 619,211

The Future Benefits and Loss Liability account also includes an estimate of the loss adjustment expense (LAE). Using the data available through September 30 of the fiscal year, the actuary estimates the liability for LAE as 18 percent of the estimated unpaid losses as of June 30, 2012. The percentage used in the financial statements will differ slightly, since the actuary's estimate will be adjusted to reflect actual LAE payments. Specifically, the loss adjustment expenses paid from the inception of the Injured Patients and Families Compensation Fund through June 30, 2012, are deducted from the projected ultimate LAE to determine the liability for LAE as June 30, 2012 as follows (in thousands):

Projected ultimate loss adjustment expense liability	$ 190,818
Less: Loss adjustment expense paid from inception	(78,587)
Liability for loss adjustment expense	$ 112,231

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 0.841, which is based on an investment yield assumption of 5.0 percent approved by the Board of Governors, the discounted loss liability would be as follows as of June 30, 2012 (in thousands):

Estimated liability for incurred but not reported losses	$ 619,211
Estimated liability for reported losses	20,147
Estimated liability for loss adjustment expense	112,231
Total estimated loss liabilities	751,589
Less: Amount representing interest	(119,821)
Discounted loss liabilities	$ 631,768

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 2012 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, 2012 (in thousands), is as follows:

Discounted loss liabilities	$ 631,768
Future medical expense liability	34,010
Contributions being held liability	--
Total estimated loss liabilities	665,778
Current portion	(82,214)
Noncurrent portion	$ 583,564

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 2012 (in thousands):

Liability at the beginning of the year	$ 636,503
Incurred claims and related expenses for the current year and the change in estimated amounts for claims incurred in prior years	35,887
Less: current year payments attributable to claims incurred in current and prior years	(6,612)
Liability at the end of the year	$ 665,778

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, 2011.

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, 2010, and December 31, 2011, are as follows (in thousands):

	2011	2010
Balance at January 1	$ 20,487	$ 21,606
Incurred related to:		
Current year	2,482	4,201
Prior years	(1,844)	(4,317)
Total Incurred	638	(116)
Paid related to:		
Current year	9	58
Prior years	1,766	945
Total paid	1,775	1,003
Balance at December 31	$ 19,350	$ 20,487

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, 2012 is presented below (in thousands):

Condensed Balance Sheet

Assets:		
Current Assets	$	114,885
Other Assets		1,023,786
Total Assets	$	1,138,671
Liabilities:		
Due to Other Funds	$	1,229
Other Current Liabilities (Including Current Portion of Long-term Debt)		62,631
Noncurrent Liabilities		815,408
Total Liabilities		879,268
Fund Equity:		
Restricted		259,403
Total Fund Equity		259,403
Total Liabilities and Fund Equity	$	1,138,671

Condensed Statement of Revenues, Expenses and Changes in Fund Equity

Operating Revenues (Expenses):		
Interest Income used as Security for Revenue Bonds	$	21,251
Interest Expense		(39,521)
Other Operating Expenses		(1,321)
Operating Income (Loss)		(19,591)
Nonoperating Revenues (Expenses):		
Investment Income		31,801
Income (Loss) before Transfers		12,210
Transfers In (Out)		12,300
Change in Fund Equity		24,510
Beginning Fund Equity		234,893
Ending Fund Equity	$	259,403

Condensed Statement of Cash Flows

Net Cash Provided (Used) by:		
Operating Activities	$	(2,126)
Noncapital Financing Activities		(90,158)
Investing Activities		27,719
Net Increase (Decrease)		(64,565)
Beginning Cash and Cash Equivalents		165,677
Ending Cash and Cash Equivalents	$	101,112

NOTE 22. COMPONENT UNITS – CONDENSED FINANCIAL INFORMATION

Significant financial data for the State's discretely presented component units for the year ended December 31, 2011 or June 30, 2012 is presented below (in thousands):

	Wisconsin Housing and Economic Development Authority	Wisconsin Health Care Liability Insurance Plan	University of Wisconsin Hospitals and Clinics Authority	Wisconsin Economic Development Corporation [a]	University of Wisconsin Foundation	Total
Condensed Balance Sheet						
Assets and Deferred Outflows:						
Cash, Investments and Other Assets	$ 3,098,763	$ 80,653	$ 605,353	$ 64,427	$ 2,526,064	$ 6,375,260
Due from Primary Governments	-	-	335	24,011	-	24,346
Cash and Investments with Other Component Units	-	-	265,379	-	-	265,379
Capital Assets, net	14,835	-	392,567	127	6,844	414,372
Deferred Outflows of Resources	106,914	-	7,061	-	-	113,975
Total Assets and Deferred Outflows	$ 3,220,512	$ 80,653	$ 1,270,695	$ 88,566	$ 2,532,907	$ 7,193,333
Liabilities:						
Accounts Payable and Other Current Liabilities	$ 174,474	$ 19,399	$ 136,124	$ 5,611	$ 34,235	$ 369,842
Due to Primary Government	-	-	7,122	8,626	-	15,748
Amounts Held for Other Component Units	-	-	-	-	251,335	251,335
Other Liabilities	106,914	-	16,906	-	-	123,820
Long-term Liabilities (Current and Noncurrent portions)	2,342,170	19,350	335,748	-	42,023	2,739,290
Total Liabilities	2,623,558	38,748	495,900	14,237	327,592	3,500,035
Fund Equity:						
Invested in Capital Assets, Net of Related Debt	5,165	-	169,341	127	6,844	181,476
Restricted	582,902	41,905	13,771	-	2,046,529	2,685,107
Unrestricted	8,887	-	591,683	74,202	151,943	826,715
Total Fund Equity	596,954	41,905	774,795	74,329	2,205,315	3,693,298
Total Liabilities and Fund Equity	$ 3,220,512	$ 80,653	$ 1,270,695	$ 88,566	$ 2,532,907	$ 7,193,333
Condensed Statement of Activities						
Program Expenses:						
Depreciation	$ 4,831	$ -	$ 43,606	$ 19	$ 615	$ 49,071
Payments to Primary Government	-	-	11,600	-	211,663	223,263
Other	291,264	1,970	1,060,465	25,050	33,238	1,411,986
Total Program Expenses:	296,095	1,970	1,115,671	25,069	245,516	1,684,321
Program Revenues:						
Charges for Goods and Services	6,494	2,282	1,181,671	-	-	1,190,447
Investment and Interest Income	118,157	8,095	-	-	(66,473)	59,778
Operating Grants and Contributions	165,264	-	-	80,767	197,542	443,573
Capital Grants and Contributions	-	-	3,987	-	-	3,987
Miscellaneous	14,636	-	22,755	1,263	351	39,006
Total Program Revenues	304,551	10,377	1,208,413	82,030	131,420	1,736,791
Net Program Revenue/(Expense)	8,456	8,407	92,742	56,962	(114,096)	52,470
General Revenues:						
Interest and Investment Earnings	16,639	-	12,718	-	-	29,357
Contributions to Endowments	-	-	514	-	-	514
Change in Fund Equity	25,095	8,407	105,974	56,962	(114,096)	82,341
Fund Equity, Beginning of Year	571,859	33,498	668,821	17,367	2,319,412	3,610,957
Fund Equity, End of Year	$ 596,954	$ 41,905	$ 774,795	$ 74,329	$ 2,205,315	$ 3,693,298

(a) Beginning fund equity of the Wisconsin Economic Development Corporation consists of $17.4 million cash provided to them in Fiscal Year 2011 from the State's General Fund. This is the first year the Corporation is being included as a component unit in the State of Wisconsin's CAFR.

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 2011 Comprehensive Annual Financial Report to the beginning-of-year amounts reported for Fiscal Year 2012 (in thousands):

A. Fund Statements – Governmental Funds

	Major Funds				
	General	Transportation	Common School	Nonmajor Funds	Total Governmental
Fund Balances June 30, 2011 as reported in the 2011 Comprehensive Annual Financial Report	$ (2,994,806)	$ 794,192	$ 846,405	$ (300,754)	$ (1,654,964)
Celebrate Children's Foundation removed	-	-	-	(1,609)	(1,609)
DOA correction of accrual for loan receivable	23,417	-	-	-	23,417
DOR additional revenues	23,053	-	-	-	23,053
Other adjustments of assets and liabilities as of June 30, 2011	4,521	5,000	-	(1,730)	7,791
Fund Balances July 1, 2011 as restated	$ (2,943,815)	$ 799,192	$ 846,405	$ (304,094)	$ (1,602,312)
Effect of adjustments on the amount of excess revenues and other sources over expenditures and other uses of Fiscal Year 2011	$ 50,991	$ -	$ -	$ (1,730)	$ 49,261

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, 2011 as reported in the 2011 Comprehensive Annual Financial Report	$ 294,439	$ 1,631,839	$ 5,269,914	$ (926,111)	$ 497,374	$ 6,767,456	$ 6,330
Other adjustments of assets and liabilities as of June 30, 2011	-	-	-	-	(2,031)	(2,031)	1,293
Fund Equity July 1, 2011 as restated	$ 294,439	$ 1,631,839	$ 5,269,914	$ (926,111)	$ 495,343	$ 6,765,425	$ 7,623
Effect of adjustments on the amount of net change in fund equity of Fiscal Year 2011	$ -	$ -	$ -	$ -	$ (2,031)	$ (2,031)	$ -

C. Fund Statements – Fiduciary Funds

	Pension and Other Employee Benefit Trust	Investment Trust	Private Purpose Trust	Total Fiduciary
Net Assets June 30, 2011 as reported in the 2011 Comprehensive Annual Financial Report	$ 80,047,469	$ 2,473,372	$ 2,834,104	$ 85,354,945
Other adjustments of assets and liabilities as of June 30, 2011	-	-	(296)	(296)
Net Assets July 1, 2011 as restated	$ 80,047,469	$ 2,473,372	$ 2,833,808	$ 85,354,649
Effect of prior period adjustments on the amount of net increase (decrease) in net assets of Fiscal Year 2011	$ -	$ -	$ (296)	$ (296)

D. Government-wide Statements

	Primary Government			
	Governmental Activities	Business-type Activities	Totals	Component Units
Net Assets June 30, 2011 as reported in the 2011 Comprehensive Annual Financial Report	$ 5,923,792	$ 6,769,433	$ 12,693,225	$ 3,593,590
Minor agencies capital assets elimination	(10,433)	-	(10,433)	-
DOA correction of accrual for loan receivable	23,417	-	23,417	0
DOR additional revenues	23,053	-	23,053	-
DOC correction to capital assets	20,998	-	20,998	-
DOT restatement of capital assets and infrastructure	17,901	-	17,901	-
WEDC added as component unit	-	-	-	17,367
Other adjustments of assets and liabilities as of June 30, 2011	2,805	(2,031)	774	-
Net Assets July 1, 2011 as restated	$ 6,001,533	$ 6,767,402	$ 12,768,935	$ 3,610,957
Effect of adjustments on the amount of net increase (decrease) in net assets of Fiscal Year 2011	$ 66,525	$ (2,031)	$ 64,494	$ -

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.

The State accrues liabilities related to legal proceedings, if a loss is probable and reasonably estimable. Such losses, totaling $2.0 million on June 30, 2012 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, 2012.

The U.S. Department of Agriculture (USDA) determined that certain costs of services for the Food and Nutrition Service (FNS), administered by the State of Wisconsin Department of Health Services, were not allowed under program requirements. Therefore, a liability for $1.2 million is reported at June 30, 2012 as a claims and judgments in the government-wide statements 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.

B. Commitments

Primary Government

As of June 30, 2012, encumbrances of the General Fund totaled $463.1 million, encumbrances of the Transportation Fund totaled $1.33 billion, and encumbrances of other non-major governmental funds totaled $328.6 million. Obligations at June 30, 2012 representing multi-year, long-term commitments included (in thousands):

Transportation Fund	$ 475,576
Transportation Revenue Bonds Capital Projects Fund	49,239
General Fund – Housing Programs	25,294

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 $253.6 million as of June 30, 2012. 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 $106 thousand in annuity payments through June 30, 2012, 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, 2012. 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, 2012 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, 2012, the appropriation available totaled $47.4 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 Wisconsin Development Reserve Fund Program represents funds appropriated to subsidize interest and provide guarantees of principal balances of qualifying loans. The Authority is authorized to make loan guarantees up to $49.5 million. At June 30, 2012, outstanding loan guarantees totaled $26.3 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, 2012, $6.2 million of loan guarantees had been approved with outstanding loan guarantees of $3.9 million.

NOTE 25. SUBSEQUENT EVENTS

Primary Government

Long-term Debt

General Obligation Bonds - In November 2012, the State issued $293.1 million of 2012 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 2.6 percent to 5.0 percent payable semiannually, beginning May 1, 2013. The bonds mature beginning May 1, 2022 through 2033.

Annual Appropriation Bonds - In November 2012, the State issued $251.6 million of 2012 Series A general fund annual appropriation refunding bonds (taxable) to be used for the refunding of certain principal due May 1, 2013 of previously issued general fund annual appropriation bonds (taxable). The interest rates ranged from 0.8 percent to 4.0 percent payable semiannually, beginning May 1, 2013. The bonds mature beginning May 1, 2015 through 2018 and May 1, 2027 through 2031.

Revenue Bonds – In July, 2012, the State of Wisconsin issued $55.0 million in Clean Water Revenue Bonds and $92.5 million in Clean Water Revenue Refunding Bonds. Interest rates for both series of bonds range from 2.0 percent to 5.0 percent. The refunding bonds will be used to advance refund the callable maturities of the State of Wisconsin's outstanding Clean Water Revenue Bonds, 2004 Series 1, dated March 3, 2004, and Clean Water Revenue Bonds 2006 Series 2, dated November 7, 2006.

Short-term Debt

In September 2012, the State issued $100.0 million of general obligation extendible municipal commercial paper notes to be used for the acquisition, construction, development, extension, enlargement, or improvement of land, water, property, highways, buildings, equipment, or facilities for public purposes.

Component Units

Wisconsin Housing and Economic Development Authority (the Authority) – Subsequent to June 30, 2012, the Authority redeemed the following bonds (in thousands):

Program/Bond Resolution	Redemptions Amount Retired
Home Ownership Revenue Bonds:	
1987	$ 53,750
1988	100,685
2009	133,325
Housing Revenue Bonds	3,250
Line of Credit – Mortgage Financing	47,497
Multifamily Stand Alone	370

In addition, subsequent to June 30, 2012, the Authority issued the following bonds (in thousands):

Program/Bond Resolution	Issuances
Line of Credit – Mortgage Financing	38,454

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)
1/1/2011	$ 0	$ 953,110	$ 953,110	0.0%	$ 3,244,518	29.4%
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)
2012	11,200	7.0*	15.0	8.0
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

*The 2012 decrease in the percentage of roads rated poor is due to inclusion of new construction in the scope of condition assessment. Without such inclusion, the percentage of poor roads would have been equivalent to the 2011 level. New construction was included because efficiencies were gained from a new van used to capture condition assessment data, resulting in new construction being included in the assessment closer to the completion date. In prior years, new construction was generally not included in condition assessments until the following year.

** The 2011 and 2010 increase in the percentage of roads rated poor compared to previous years is partially attributable to the new equipment used in assessing the IRI. For 2011, all of the miles were tested using the new equipment. For 2010, approximately half of 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)
2012	$ 611.0	$ 585.3	$ 25.7
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

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)
2012	5,100	3.3	15.0	11.7
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

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)
2012	$ 101.9	$ 61.1	$ 40.8
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

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, 2012

(In Thousands)

	Original Budget	Final Budget	Actual Amounts
Unexpended Budgetary Fund Balances, Beginning of Year			$ 1,092,271
Revenues and Transfers (Inflows):			
Taxes	$ 13,324,446	$ 13,415,211	13,541,842
Departmental:			
Tribal Gaming	26,538	27,154	24,252
Other	15,343,826 (A)	15,342,731 (A)	14,991,320
Transfers from:			
Transportation Fund	(A)	(A)	-
Nonmajor Governmental Funds	(A)	(A)	83,047
Nonmajor Enterprise Funds	(A)	(A)	-
Total Revenues and Transfers (Inflows)	28,694,810	28,785,096	28,640,461
Amounts Available for Appropriation			29,732,732
Appropriations (Outflows):			
Commerce	255,413	413,038	212,106
Education	11,580,748	12,233,994	11,675,168
Environmental Resources	181,747	230,845	178,063
Human Relations and Resources	10,979,882	13,812,707	11,812,731
General Executive	1,149,713	1,670,315	1,114,003
Judicial	138,688	143,627	131,384
Legislative	75,227	75,296	64,528
Tax Relief and Other General	2,445,331	2,425,653	2,368,153
Transfers to:			
Transportation Fund	22,500	22,500	22,500
Nonmajor Governmental Funds	240,000	284,530	364,735
Total Appropriations (Outflows)	$ 27,069,248	$ 31,312,506	27,943,370
Fund Balances, End of Year			1,789,362
Less Encumbrances Outstanding at June 30, 2012			(601,317)
Fund Balances, End of Year Budgetary Basis			$ 1,188,045

Reconciliation of the End of Year, Budgetary Basis, Fund Balance to the Detail Reported in the Annual Fiscal Report:	
General Purpose:	
Designated	$ 72,373
Undesignated	342,088
Total General Purpose	414,460
Program Revenue	773,584
Fund Balances, End of Year Budgetary Basis	$ 1,188,045

(A) Interfund transfers to the General Fund were budgeted under departmental revenue during Fiscal Year 2012.

Budgetary Comparison Schedule
Transportation Fund
For the Fiscal Year Ended June 30, 2012

(In Thousands)

	Original Budget	Final Budget	Actual Amounts
Unexpended Budgetary Fund Balances, Beginning of Year			$ 754,644
Revenues (Inflows):			
Taxes	$ 1,027,307	$ 1,027,307	1,027,307
Departmental	1,681,999	1,681,999	1,681,998
Transfers from:			
Nonmajor Governmental Funds	42,000	42,000	42,000
Total Revenues (Inflows)	2,751,306	2,751,306	2,751,305
Amounts Available for Appropriation			3,505,949
Appropriations and Transfers (Outflows):			
Environmental Resources	2,683,813	5,451,609	2,931,254
General Executive	1,803	1,852	1,551
Tax Relief and Other General	21,655	21,895	21,715
Total Appropriations and Transfers (Outflows)	$ 2,707,271	$ 5,475,356	2,954,520
Fund Balances, End of Year			551,430
Less Encumbrances Outstanding at June 30, 2012			(1,604,100)
Fund Balances, End of Year Budgetary Basis			$ (1,052,670)

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, 2012 is presented below (in thousands):

	General Fund	Transportation Fund
Fund balance June 30, 2012 (budgetary basis – budgetary fund structure):		
General Purpose Revenue – fund balance per budgetary basis *Annual Fiscal Report*		
Undesignated fund balance	$ 342,088	
Designated fund balance	72,373	
Total General Purpose Revenue fund balance	414,460	
Program Revenue – fund balance per budgetary basis *Annual Fiscal Report*	773,584	
Fund balance June 30, 2012 (budgetary basis – budgetary fund structure) As reported on the budgetary comparison schedule	1,188,045	$(1,052,670)
Reclassifications:		
To eliminate the effect of encumbrances that were reported as expenditures under budgetary reporting (*basis difference*)	601,317	1,604,100
To include activities of funds such as the Medical Assistance Trust, Hospital Assessment, Critical Hospital Assessment, Budget Stabilization, and Permanent Endowment Funds (reported as special revenue funds under budgetary reporting) as part of the General Fund (*perspective difference*)	193,484	--
To remove activities reported in another GAAP fund type (*perspective differences*):		
Enterprise funds (except for the University of Wisconsin System)	30,028	--
University of Wisconsin System	(1,052,241)	--
Internal Service funds	16,045	--
Fiduciary funds	(526)	--
Transportation Revenue Bonds capital project fund	--	17,549
Fund balance June 30, 2012 (GAAP fund structure – budgetary basis, excluding encumbrances treated as expenditures at year end)	976,151	568,979
Adjustments (*basis differences*):		
To accrue receivables and establish payables for individual income taxes (net)	(910,288)	--
To defer revenues for gross receipts public utility taxes	(251,841)	--
To adjust revenues and expenditures for tax-related items and other tax credit/aid programs (net)	(497,815)	(9,927)
To adjust expenditures for the municipal and county shared revenue program	(495,909)	--
To adjust expenditures for State property tax credit program	(665,079)	--
To accrue unpaid Medicaid payments to providers (net of receivable from federal government)	(243,435)	--
To adjust revenues and expenditures for certain major Health Services, and Children and Families human services payments to local governments	(122,118)	--
To accrue receivable for Medicaid drug rebates (net of payable to federal government)	98,831	
To adjust expenditures/revenues for other Health Services and Workforce Development accruals and deferrals	(90,172)	
To recognize the tobacco settlement revenue receivable	72,388	--
To accrue State educational aids payments deferred until the subsequent year	(75,000)	--
To adjust expenditures for State Energy Program loan activity	18,823	
To adjust revenues and expenditures for other items (net)	(25,541)	131,156
Fund balance June 30, 2012 (GAAP fund structure – GAAP basis) as reported on the governmental fund statements	$(2,211,006)	$690,208

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. One special revenue fund, the Wisconsin Public Broadcasting Foundation, has been excluded from reporting because it is a blended component unit that is neither budgeted nor included under statutory reporting. Of the permanent funds, only the Historical Society Fund and a portion of the Common School and Normal School funds are budgeted.

The State's biennial budget was enacted and published on June 30, 2011. 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.

FORWARD