# STATE OF WISCONSIN
# CONTINUING DISCLOSURE
# ANNUAL REPORT

Filed Pursuant to Undertakings Provided to Permit Compliance With Securities Exchange Commission Rule 15c2-12

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

MASTER LEASE CERTIFICATES OF PARTICIPATION
(Base CUSIP 977087)

TRANSPORTATION REVENUE OBLIGATIONS
(Base CUSIP 977123)

CLEAN WATER REVENUE BONDS
(Base CUSIP 977092)

ENVIRONMENTAL IMPROVEMENT FUND REVENUE BONDS
(Base CUSIP 97709T)

PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS
(Base CUSIP 977109)

GENERAL FUND ANNUAL APPROPRIATION BONDS
(Base CUSIP 977100)

**December 23, 2015**

**SCOTT WALKER**
GOVERNOR

**SCOTT A. NEITZEL**
SECRETARY

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

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WISCONSIN DEPARTMENT OF ADMINISTRATION

December 23, 2015

Thank you for your interest in the State of Wisconsin.

This is the Continuing Disclosure Annual Report for the fiscal year ending June 30, 2015 (**2015 Annual Report**).

The 2015 Annual Report provides information on different securities that the State issues and is provided under the State's continuing disclosure undertakings. These undertakings of the State are intended to help dealers and brokers comply with Rule 15c2-12 under the Securities Exchange Act of 1934. As of this date, the State has filed the 2015 Annual Report with the Municipal Securities Rulemaking Board (**MSRB**) through its Electronic Municipal Market Access (**EMMA**) system. EMMA receives, and makes available to the public, continuing disclosure documents and related information that is provided by issuers and obligated persons.

Official Statements for securities that the State issues during calendar year 2016 may incorporate parts of this 2015 Annual Report by reference.

**Organization of the 2015 Annual Report**

The 2015 Annual Report is divided into nine parts. The first two parts present general information.

- **Part I** presents the **State's continuing disclosure undertakings**. A Master Agreement on Continuing Disclosure (Amended and Restated December 1, 2010) establishes a general framework. Separate addenda describe the information to be provided for specific types of securities.
- **Part II** presents **general information about the State**, including its operations and financial results. This part includes the General Purpose External Financial Statements portion of the audited Comprehensive Annual Financial Report for the fiscal year ending June 30, 2015. This part also provides information on the 2015-17 biennial budget and the results of the 2014-15 fiscal year.

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

- **Part III** — **General obligations (including bonds, commercial paper, and extendible municipal commercial paper)**
- **Part IV — Master lease certificates of participation**

- **Part V — Transportation revenue obligations (including bonds and commercial paper)**
- **Part VI — Clean water revenue bonds**
- **Part VII — Environmental improvement revenue bonds**
- **Part VIII — Petroleum inspection fee revenue obligations (including bonds and extendible municipal commercial paper)**
- **Part IX – General fund annual appropriation bonds (including bonds and variable rate notes)**

**Ratings on the State's Securities**

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

| Security | Fitch Ratings | Kroll Bond Rating Agency, Inc. | Moody's Investors Service, Inc. | Standard & Poor's Ratings Services |
|---|---|---|---|---|
| General Obligations | AA | AA | Aa2* | AA |
| Master Lease Certificates of Participation | AA– | AA– | Aa3* | AA– |
| Transportation Revenue Bonds | AA+ | AAA | Aa2 | AA+ |
| Clean Water Revenue Bonds | AA+ | — | Aa1 | AA+ |
| Environmental Improvement Revenue Bonds | AAA | — | — | AAA |
| Petroleum Inspection Fee Revenue Bonds | AA | — | Aa2 | AA |
| General Fund Annual Appropriation Bonds | AA– | — | Aa3* | AA– |

* On November 19, 2014 Moody's Investors Service, Inc. changed the outlook on the State's general obligations and appropriation credits from "stable" to "positive" along with affirming its current rating on those respective obligations.

**How to Get Additional Information**

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

The Capital Finance Office maintains a web site that provides access to both disclosure and non disclosure information. The Capital Finance Office posts to this web site general fund cash flow reports and all event and additional (voluntary) filings that it makes through MSRB's EMMA system.

**doa.wi.gov/capitalfinance**

We welcome your comments or suggestions about the 2015 Annual Report. I can be reached at (608) 267-0374 or **DOACapitalFinanceOffice@wisconsin.gov**.

Sincerely,

/S/ DAVID R. ERDMAN

David R. Erdman
Capital Finance Director

# SUMMARY OF OUTSTANDING STATE OF WISCONSIN OBLIGATIONS AS OF DECEMBER 15, 2015

| | Principal Balance 12/15/2014 | Principal Issued 12/15/2014 – 12/15/15 | Principal Matured, Redeemed, or Defeased 12/15/2014 – 12/15/15 | Principal Balance 12/15/2015 |
|---|---|---|---|---|
| | | | ***GENERAL OBLIGATIONS***[(a)] | |
| **Total** | **$7,856,685,602** | **$1,071,720,000** | **$940,181,186** | **$7,988,224,416** |
| General Purpose Revenue (GPR) | 4,885,766,328 | 615,126,546 | 674,247,572 | 4,826,645,302 |
| Self-Amortizing: Veterans | 65,845,000 | — | 11,580,000 | 54,265,000 |
| Self-Amortizing: Other | 2,905,074,274 | 456,593,454 | 254,353,614 | 3,107,314,114 |
| | | ***MASTER LEASE CERTIFICATES OF PARTICIPATION*** | | |
| **Total** | **$ 92,103,222** | **$48,837,274** | **$ 28,978,437** | **$111,962,060** |
| | | ***TRANSPORTATION REVENUE OBLIGATIONS***[(a)] | | |
| **Total** | **$2,034,983,000** | **$432,240,000** | **$360,300,000** | **$2,106,923,000** |
| | | ***CLEAN WATER REVENUE BONDS*** | | |
| **Total** | **$ 764,745,000** | **$133,253,000** | **$ 199,820,000** | **$698,160,000** |
| | | ***ENVIRONMENTAL IMPROVEMENT FUND REVENUE BONDS*** | | |
| **Total** | **—** | **$43,380,000** | **—** | **$43,380,000** |
| | | ***PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS***[(a)] | | |
| **Total** | **$ 139,100,000** | **—** | **$26,540,000** | **$112,560,000** |
| | | ***GENERAL FUND ANNUAL APPROPRIATION BONDS***[(a)] | | |
| **Total** | **$3,179,230,000** | **—** | **$63,295,000** | **$3,115,935,000** |

(a) This table also includes variable rate obligations that have been issued by the State.

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# Capital Finance Office Staff (December 15, 2015)

**Governor**

Chair of the Commission

**Legislature**

**State of Wisconsin Building Commission**

Department of Administration

Division of Executive Budget and Finance

Capital Finance Office

Staff to Commission

David R. Erdman, Capital Finance Director
(608) 267-0374
david.erdman@wisconsin.gov

- Bond Finance/
  Assistant Capital Finance Director
  (Vacant)
  - Joe Adomakoh, III, Capital Finance Officer
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    Bond Issuance and Master Lease
  - Katherine C. Miller, Capital Finance Officer
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    Bond Issuance
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    Capital Finance Program Specialist
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- Aaron Heinz,
  Finance Programs Administrator
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  - Jessica Fandrich, Capital Finance Officer
    (608) 267-2734
    jessica.fandrich@wisconsin.gov
    EIF Loans
  - Capital Finance Officer
    (Vacant)

# STATE OFFICIALS PARTICIPATING IN ISSUANCE AND SALE OF BONDS AND OTHER OBLIGATIONS

## BUILDING COMMISSION MEMBERS*

| **Voting Members** | **Term of Office Expires** |
|---|---|
| Governor Scott Walker, Chairperson | January 7, 2019 |
| Senator Terry Moulton, Vice Chairperson | January 7, 2019 |
| Senator Jerry Petrowski | January 7, 2019 |
| Senator Janis Ringhand | January 7, 2019 |
| Representative Mark Born | January 2, 2017 |
| Representative Robb Kahl | January 2, 2017 |
| Representative Rob Swearingen | January 2, 2017 |
| Mr. Robert Brandherm, Citizen Member | At the pleasure of the Governor |

**Nonvoting, Advisory Members**

| | |
|---|---|
| Vacant, State Chief Engineer<br>Department of Administration | —— |
| Mr. Kevin Trinastic, State Ranking Architect<br>Department of Administration | —— |

**Building Commission Acting Secretary**

| | |
|---|---|
| Mr. Robinson J. Binau, Director<br>Division of Facilities Development<br>Bureau of Capital Budget and Construction Administration<br>Department of Administration | At the pleasure of the Building Commission and the Secretary of Administration |

## OTHER PARTICIPANTS

| | |
|---|---|
| Mr. Brad D. Schimel<br>State Attorney General | January 7, 2019 |
| Mr. Scott A. Neitzel, Secretary<br>Department of Administration | At the pleasure of the Governor |

## DEBT MANAGEMENT AND DISCLOSURE

Department of Administration
Capital Finance Office
P.O. Box 7864
101 E. Wilson Street, FLR 10
Madison, WI 53707-7864
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Mr. David Erdman
Capital Finance Director
(608) 267-0374
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* The Building Commission is composed of eight voting members. The Governor serves as the chairperson. Each house of the Wisconsin State Legislature appoints three members. State law provides for the two major political parties to be represented in the membership from each house. One citizen member is appointed by the Governor and serves at the Governor's pleasure.

# PART II

## GENERAL INFORMATION ABOUT THE STATE OF WISCONSIN

Part II of the 2015 Annual Report provides general information about the State of Wisconsin **(State)**. It describes the following:

- Revenues
- Expenditures
- Accounting and Financial Reporting
- Budgeting Process and Fiscal Controls
- Budgetary Results of 2014-15 Fiscal Year
- State Budget (including State Budget for 2015-17 Biennium)
- General Fund Information
- State Government Organization
- State Obligations
- Employee Pension Funds and Other Post-Employment Benefits
- Statistical Information

APPENDIX A to Part II of the 2015 Annual Report includes the audited general purpose external financial statements for the fiscal year ending June 30, 2015 and the independent auditor's report that is provided by the State Auditor.

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

*Contact:* Capital Finance Office
Attn: Capital Finance Director
*Phone:* (608) 267-0374
*Mail:* State of Wisconsin Department of Administration
101 East Wilson Street, FLR 10
P.O. Box 7864
Madison, WI 53707-7864
*E-mail:* DOACapitalFinanceOffice@wisconsin.gov
*Web site:* doa.wi.gov/capitalfinance

The State has independently provided, starting in July 2001, monthly reports on general fund financial information. The State did not provide these monthly reports from June 2013 through March 2014, and the State's frequency of the reports during calendar year 2015 has been less than monthly. These reports are not required by any of the State's undertakings provided to permit compliance with Rule 15c2-12, adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934. These reports are available on the State's Capital Finance Office web site that is listed above and also filed as additional voluntary information with the Municipal Securities Rulemaking Board (**MSRB**) through its Electronic Municipal Market Access (**EMMA**) system. These reports are not incorporated by reference into this Part II of the 2015 Annual Report. The State is not obligated to provide such reports at any time in the future.

Part II of the 2015 Annual Report presents financial information about the State in various formats. Some financial information is presented on a budgetary basis or an agency-recorded basis, while other information is presented on a cash basis. Some financial information relates to the General Fund only, while other information relates to other funds. The reader should be aware of these different formats when reviewing the financial information presented within the 2015 Annual Report.

The 2015 Annual Report includes information and defined terms for different types of securities issued by the State. The context or meaning of terms used in one part of the 2015 Annual Report may differ from that of the same terms used in another part, and the total amount shown in a table may vary from the related sum due to rounding. No information or resource referred to in the 2015 Annual Report is part of the report unless expressly incorporated by reference.

Certain statements in this Part II of the 2015 Annual Report may be forward-looking statements that are based on expectations, estimates, projections, or assumptions. Any forward-looking statements are made as of the date of the 2015 Annual Report, and the State undertakes no obligation to update such statements to reflect subsequent events or circumstances. Actual results could differ materially from the anticipated results.

# REVENUES

### Revenue Structure

The State raises revenues from diverse sources:

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

Table II-1 identifies the specific sources of revenue (all funds) and the amounts raised from each source for each of the last five years. Future receipts may differ from historical data.

**Table II-1**

**REVENUES (ALL SOURCES)[a]**

| | 2014-15 | 2013-14 | 2012-13 | 2011-12 | 2010-11 |
|---|---|---|---|---|---|
| **State Collected Taxes** | | | | | |
| Individual Income | $ 7,325,816,775 | $ 7,061,389,669 | $ 7,496,854,246 | $ 7,041,673,130 | $ 6,700,645,760 |
| General Sales and Use | 4,892,125,859 | 4,628,337,935 | 4,410,129,770 | 4,288,738,415 | 4,109,018,615 |
| Corporate Franchise and Income | 1,004,926,461 | 967,184,149 | 925,383,342 | 906,575,362 | 852,863,299 |
| Public Utility | 381,819,363 | 360,967,550 | 341,266,658 | 365,966,581 | 341,278,547 |
| Excise | 699,060,289 | 698,686,674 | 689,463,769 | 709,553,461 | 720,846,518 |
| Inheritance and Gift | (112,267) | (77,722) | 304,551 | 322,971 | (127,683) |
| Insurance Companies | 165,448,106 | 165,764,951 | 159,276,691 | 148,081,776 | 139,951,072 |
| Motor Fuel | 1,063,767,473 | 1,040,569,511 | 1,008,656,099 | 1,049,982,860 | 1,081,290,313 |
| Forest | 90,613,470 | 88,385,116 | 86,237,850 | 87,667,774 | 89,866,379 |
| Miscellaneous | 181,725,163 | 163,761,829 | 159,985,468 | 151,905,700 | 113,902,063 |
| Subtotal | 15,805,190,692 | 15,174,969,661 | 15,277,558,445 | 14,750,468,030 | 14,149,534,884 |
| **Federal Aid** | | | | | |
| Medical Assistance | 4,854,702,033 | 4,675,469,265 | 4,493,657,926 | 4,176,512,065 | 5,109,464,136 |
| AFDC/W2 | 329,162,381 | 282,163,922 | 360,228,664 | 337,370,248 | 347,365,695 |
| Transportation | 990,580,399 | 888,220,243 | 1,000,025,145 | 929,187,710 | 1,220,480,068 |
| Education | 2,477,689,057 | 2,580,044,827 | 2,553,997,049 | 2,672,035,875 | 2,725,353,580 |
| Other | 2,690,819,415 | 2,752,701,021 | 2,860,170,174 | 3,045,940,968 | 3,149,817,222 |
| Subtotal | 11,342,953,284 | 11,178,599,277 | 11,268,078,959 | 11,161,046,866 | 12,552,480,702 |
| **Fees** | | | | | |
| University of Wisconsin System | 1,623,453,886 | 1,622,568,090 | 1,615,764,806 | 1,522,068,610 | 1,454,338,463 |
| Other | 668,384,323 | 628,539,901 | 648,748,261 | 654,889,710 | 587,480,670 |
| Subtotal | 2,291,838,209 | 2,251,107,991 | 2,264,513,067 | 2,176,958,320 | 2,041,819,134 |
| **Licenses and Permits** | | | | | |
| Vehicles and Drivers | 509,385,404 | 505,324,754 | 491,882,914 | 502,118,905 | 499,207,251 |
| Hunting and Fishing | 110,205,770 | 116,470,715 | 108,625,710 | 111,723,046 | 114,427,444 |
| Other | 1,115,655,149 | 1,113,707,662 | 1,122,321,862 | 1,117,340,087 | 1,115,499,641 |
| Subtotal | 1,735,246,322 | 1,735,503,130 | 1,722,830,486 | 1,731,182,038 | 1,729,134,335 |
| **Miscellany** | | | | | |
| Service Charges | 781,313,675 | 738,505,532 | 722,908,805 | 723,955,176 | 689,043,612 |
| Sales of Products | 935,521,722 | 922,241,810 | 924,093,491 | 911,024,131 | 870,309,813 |
| Investment Income [b] | 1,871,831,241 | 14,510,680,894 | 9,140,017,879 | 836,368,703 | 15,965,452,057 |
| Gifts and Grants | 612,224,426 | 563,269,277 | 616,858,189 | 567,649,555 | 569,985,402 |
| Employee Benefit Contributions [c] | 3,612,450,153 | 3,737,652,049 | 3,149,560,809 | 3,288,710,693 | 3,312,172,015 |
| General Obligation Proceeds | 1,298,902,695 | 828,217,375 | 1,219,324,725 | 1,379,104,679 | 1,515,996,343 |
| Other Revenues | 2,922,615,939 | 2,832,874,576 | 2,466,863,205 | 2,253,051,260 | 2,280,667,057 |
| Subtotal | 12,034,859,851 | 24,133,441,512 | 18,239,627,102 | 9,959,864,197 | 25,203,626,299 |
| **Summary** | | | | | |
| TOTAL NET REVENUE | 43,210,088,358 | 54,473,621,572 | 48,772,608,059 | 39,779,519,450 | 55,676,595,354 |
| Transfers | 1,508,789,439 | 1,459,009,937 | 1,249,254,506 | 737,889,533 | 824,558,948 |
| Gross Revenue | $ 44,718,877,797 | $ 55,932,631,509 | $ 50,021,862,565 | $ 40,517,408,984 | $ 56,501,154,303 |

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

(b) Figures include investment income for all funds. Investment income for the Wisconsin Retirement System totaled $1,650,635,903 for fiscal year 2014-15, $14,249,209,345 for 2013-14, $8,950,565,085 for 2012-13, $594,932,788 for 2011-12, and $15,748,375,054 for 2010-11.

(c) Figures include all State and non-State employer and employee contributions.

**Source: Wisconsin Department of Administration**

## Tax Structure

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

### *Individual Income Tax*

The tax brackets and rates for the 2015 and 2016 tax years, which are shown in Table II-2, include the rate reductions and bracket consolidation effective with the 2013-15 biennial budget (2013 Wisconsin Act 20) the reduction in the lowest marginal tax rate effective with 2013 Wisconsin Act 145, and the increase in the standard deduction for married filing jointly filers beginning with tax year 2016. The taxable income brackets have been indexed for changes in the Consumer Price Index.

**Table II-2**

**INDIVIDUAL INCOME TAX BRACKETS AND RATES**

| 2015 Taxable Income Brackets[a] | | |
|---|---|---|
| **Single** | **Married Filing Jointly[b]** | **2015 Marginal Tax Rate** |
| 0 to 11,090 | 0 to 14,790 | 4.00% |
| 11,091 to 22,190 | 14,791 to 29,580 | 5.84 |
| 22,191 to 244,270 | 29,581 to 325,700 | 6.27 |
| 244,271+ | 325,701+ | 7.65 |

| 2016 Taxable Income Brackets[a] | | |
|---|---|---|
| **Single** | **Married Filing Jointly[b]** | **2016 Marginal Tax Rate** |
| 0 to 11,120 | 0 to 14,820 | 4.00% |
| 11,121 to 22,230 | 14,821 to 29,640 | 5.84 |
| 22,231 to 244,750 | 29,641 to 326,330 | 6.27 |
| 244,751+ | 326,331+ | 7.65 |

[a] Taxable income in dollars

[b] Income thresholds for those married filing separately are half of the brackets for married filing jointly.

*General Sales and Use Tax*

A 5 percent tax is imposed on the sale or use of services and all tangible personal property unless specifically exempted. The most notable exemptions are food, prescription drugs, and motor and heating fuel. In 2009, the State adopted the Streamlined Sales and Use Tax Agreement, which is a multi-state agreement intended to simplify and modernize sales and use tax administration and to promote the voluntary collection of sales tax by out-of-state businesses. As of November 30, 2015, 24 states have adopted the agreement, representing 33 percent of the national population, and nine additional states are moving to adopt conforming legislation.

*Corporate Income and Franchise Taxes*

Corporations doing business in the State are subject to either the corporate income or the corporate franchise tax. The difference between the two taxes is subtle, relating primarily to restrictions under federal law on the types of income that states can tax with an income tax. While the majority of corporations pay the franchise tax, both the franchise tax and the income tax are levied at a rate of 7.9 percent of corporate net income. The net tax liability is determined by subtracting allowable credits.

*Public Utility Taxes*

Public utilities in the State are subject to State taxation in lieu of local general property taxation. The State tax takes one of two general forms; an ad valorem tax based on the assessed value of the company's property within the State, or a tax or license fee based on the gross revenues or receipts of the company generated in the State.

Companies subject to the ad valorem tax include air carrier companies, conservation and regulation companies, municipal electric associations, pipeline companies, railroad companies, and telephone companies. A tax assessment is calculated by determining the full market value of the company's taxable property and multiplying that value by a tax rate. In general, the tax assessment equals the statewide average net property tax rate multiplied by the value of the taxable property. For telephone companies, however, the property values are determined within each local taxing jurisdiction. The value within each taxing jurisdiction is multiplied by the net tax rate applied in that jurisdiction. This procedure causes the value of intangible property to be excluded from the calculated amount.

Companies subject to the tax or license fee based on gross revenues or receipts include car line companies, electric cooperatives, and municipal and private light, heat, and power companies. Car line companies (which are companies engaged in the business of furnishing or leasing car line equipment to a railroad) are taxed on all receipts allocated to the State at a tax rate equal to the average statewide net property tax rate. For electric cooperatives, certain revenues are excluded, and deductions may be allowed. The taxable gross revenues are taxed at a flat rate of 3.19 percent, except that the tax rate on wholesale sales of electricity is reduced to 1.59 percent. For light, heat, and power companies, certain revenues are excluded, and deductions may be allowed. Taxable gross revenues from the sale of gas services are subject to tax at the rate of 0.97 percent, and wholesale sales of electricity are taxed at the rate of 1.59 percent. The tax rate on all other revenues is 3.19 percent.

*Excise Taxes on Tobacco and Alcohol*

Cigarettes are taxed at the rate of $2.52 cents per pack of 20, moist snuff is taxed at the rate of 100 percent of the manufacturer's list price, and other tobacco products are taxed at the rate of 71 percent of the manufacturer's list price, while the tax on cigars is the lesser of 71 percent of the manufacturer's list price or $0.50 per cigar. The cigarette and tobacco products taxes are collected from distributors and subjobbers.

Wine is taxed at $0.25 or $0.45 per gallon (or $0.066 or $0.119 per liter), depending on its alcohol content. Liquor is taxed at $3.25 per gallon (or $0.859 per liter). The wine and liquor tax is collected from wholesalers. Beer is taxed at the rate of $2 per barrel, and the tax is paid monthly by brewers.

*Estate, Inheritance, and Gift Taxes*

For deaths occurring after September 30, 2002 and before January 1, 2008, the State imposed an estate tax in an amount equal to the credit allowed for state inheritance or estate taxes under federal law in effect on December 31, 2000. For deaths occurring on or after January 1, 2008, State estate taxes were based on the federal credit computed under federal law in effect on the date of death, which, based on federal law in effect since January 1, 2008, resulted in the current elimination of State estate taxes for deaths occurring on or after January 1, 2008.

Congress has taken action to extend certain tax laws and to reinstate a modified federal estate tax to allow for a deduction for state estate taxes. Under current State law, this action results in the continued elimination of State estate taxes for deaths occurring on or after January 1, 2008. 2013 Wisconsin Act 20 eliminated Wisconsin's estate tax for deaths occurring after December 31, 2012. Prior statutes would take effect again if federal law is modified to provide a credit for state estate taxes.

*Insurance Company Premium Tax*

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

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

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

*Motor Vehicle Fuel Tax*

Motor vehicle fuel is taxed at the rate of 30.9 cents per gallon. The tax is collected from the wholesaler but is specifically passed through to the user. The revenues are deposited in the Transportation Fund, where they are used primarily for highway purposes.

*Forest Tax*

The forest tax is the only State tax upon general property. It is a levy on all taxable property in the State. The tax rate is $0.1697 per $1,000 in property value. The tax is collected by municipal treasurers and remitted to the State during property tax settlements. After its receipt in the General Fund, it is transferred to the segregated Conservation Fund.

*Miscellaneous Taxes*

The State collects other miscellaneous taxes and fees, the largest of which is the real estate transfer fee. This fee is assessed at the time of a sale or transfer of real estate (subject to certain exceptions) and at the rate of $0.30 per $100 value.

**Tax Credits**

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

*Manufacturing and Agriculture Tax Credit*

In the 2011-13 biennial budget (2011 Wisconsin Act 32), the State enacted a domestic production activities credit, renamed the "manufacturing and agriculture credit" by 2011 Wisconsin Act 232, for income and franchise taxes to provide tax relief to manufacturers and farmers. For individual income tax filers, the credit is equal to a specified percentage of a claimant's qualified production activities income **(QPAI)** derived from property assessed as manufacturing or agricultural property in the State. For corporate tax filers, the credit is a percentage of the claimant's QPAI, apportioned income, or income taxable under combined reporting provisions. The credit percentages increase on a phased-in schedule, rising from 1.875 percent in tax year 2013 to 7.5 percent in tax year 2016 and thereafter. The credit is nonrefundable, but unused credit amounts may be carried forward and used in future years. According to Legislative Fiscal Bureau, the credit is expected to reduce income and franchise tax revenues by $208 million in the 2015-16 fiscal year with the fiscal effect increasing to $285 million in the 2016-17 fiscal year.

*Homestead Tax Credit*

Property tax relief is provided to low-income homeowners and renters through a homestead tax credit. The maximum household income limit is $24,680. The maximum amount of aidable property taxes is $1,460, and the amount of farm acreage on which the property tax is based is 120 acres. For renters, the portion of rent allocated as property tax is 25 percent, or 20 percent if heat is included in rent. In the 2014-15 fiscal year, low-income homeowners and renters received $106.3 million in homestead tax credit relief.

*Earned Income Tax Credit*

The earned income tax credit provides assistance to lower-income workers. The tax credit supplements the wages and self-employment income of such families. It offsets the impact of the social security tax and increases the incentive to work. As of August 1, 2014, the State was one of 26 states and the District of Columbia that offered an earned income tax credit. Twenty-two of those states, including the State, offered a refundable earned income tax credit.

The State's earned income tax credit is calculated as a percentage of the federal tax credit, which varies by income and family size. The State's tax credit varies the percent of the federal tax credit by the number of children: 4 percent of the federal tax credit for one child, 11 percent for two, and 34 percent for three or more. The maximum State tax credit in tax year 2014 was $132 for one child, $601 for two children, and $2,089 for three or more children. In the 2014-15 fiscal year, low-income wage earners received $101 million in earned income tax credits.

*Farmland Preservation Tax Credit*

The farmland preservation program provides property tax relief to farmland owners and encourages local governments to develop farmland preservation policies. The tax credit reduces income tax liability or is rebated if the credit exceeds income tax due. Two separate calculations of and qualifications for the credit were available in fiscal year 2014-15; one based on income and the other based on the number of acres and other criteria. Combined expenditures under Farmland Preservation Credit programs totaled $19 million in fiscal year 2014-15.

*School Levy Tax Credit*

The school levy tax credit is distributed based on each municipality's share of statewide levies for school purposes and is provided to all classes of property taxpayers (residential, commercial, industrial, and others). For property taxes levied in December 2014, $747 million of school levy tax credits was distributed statewide. The first dollar credit, which offsets the school district property taxes paid on the first $6,500 on an improved parcel, provided an additional $148 million of property tax relief for property taxes levied in December 2014. These tax credits offset approximately 8.6 percent of all levies or 18.9 percent when measured against school levies only. The tax credits are paid to counties or municipalities to reduce the amount due from all property taxpayers.

*Lottery Property Tax Credit.*

The net proceeds of the state lottery are reserved for property tax relief. The lottery property tax credit is paid to counties or municipalities to reduce the amount due from local taxpayers. The lottery property tax credit is paid only for property taxes on primary residences. For the 2014 tax year, the total lottery property tax credit was approximately $170 million.

*School Property Tax Credit*

The school property tax credit is a nonrefundable credit to reduce individual income net tax liability, and is equal to 12 percent of the first $2,500 in property taxes, or rent relating to allocable property taxes, for a maximum credit of $300. In the 2014-15 fiscal year, the school property tax credit totaled approximately $404 million.

**Tax Collection Procedure (Delinquencies)**

If a taxpayer does not file a valid return when required, the State of Wisconsin Department of Revenue (**Department of Revenue** or **DOR**) may estimate the amount of tax due and send the taxpayer an assessment of the amount owing. The taxpayer has 60 days to appeal the amount owed, and absent an appeal, the account is considered delinquent on the due date. A delinquency also occurs when a taxpayer fails to properly pay taxes on a filed return or under-computes the tax due. The taxpayer is billed for the shortfall, and in the case where taxes are not properly paid, there is no appeal process. An assessment can also result from office or field audits. A taxpayer has 60 days to appeal an audit adjustment.

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

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

If voluntary payments cannot be arranged, the revenue agent may proceed to a variety of involuntary collection actions, such as attachment of wages, levy, or garnishment of assets. Depending on the circumstances of the account, DOR may move directly to an involuntary collection action after the notice of overdue tax is sent. If the amount owed is greater than $5,000, the account will be posted on a DOR web site that identifies delinquent taxpayers. If the delinquent taxpayer has a refund coming from any tax program administered by DOR, the refund is applied to the delinquent balance. Federal tax refunds are also applied to the delinquent balance.

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

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

If the revenue agent cannot collect the delinquent taxes, and it is unknown whether the taxpayer has any assets that may be garnished, then a supplemental hearing may be called before the court commissioner in the taxpayer's county of residence, in order to determine the taxpayer's ability to pay. If assets are discovered, DOR may request appointment of a receiver to sell the assets. If the taxpayer is without any assets, the proceedings may be stayed and the account periodically reviewed until either the taxpayer has assets to pay or a determination is made to write off the account.

An analysis of the overall delinquency rate for the income, franchise, and sales and use taxes is shown in Table II-29 under "STATISTICAL INFORMATION".

## EXPENDITURES

### General

State expenditures are categorized under eight functional categories and the general obligation bond program. They are subcategorized by three distinct types of expenditures. The eight functional categories, which are listed in Table II-3, are described later in Part II of the 2015 Annual Report. See "STATE GOVERNMENT ORGANIZATION; Description of Services Provided by State Government". The three types of expenditures are described below.

- *State Operations.* Direct payments by State agencies to carry out State programs for expenses such as salaries, supplies, services, debt service, and permanent property, including the University of Wisconsin System.
- *Aids to Individuals and Organizations*. Payments from a State fund made directly to, or on behalf of, an individual or private organization (for example, Medicaid, parent choice and charter school programs, or student financial assistance).
- *Local Assistance*. Payments from a State fund to, or on behalf of, local units of government and school districts, including payments associated with State programs administered by local governments and school districts (for example, elementary and secondary school aids, shared revenues, and school levy and first dollar tax credits).

Table II-3 shows the amounts expended (all funds) by function and type for each of the last five years.

### General Fund Expenditures

In the 2014-15 fiscal year, about 52% of all general-fund taxes collected by the State were returned to local units of government. The remaining funds were used for aids to individuals and organizations (24%) and State operations and programs (24%), which included the University of Wisconsin System. For the 2015-16 fiscal year, these percentages are expected to be about 50% returned to local units of government, 26% for aids to individuals and organizations, and 24% for State operations and programs, which includes the University of Wisconsin System.

**Table II-3**

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

| | 2014-15 | 2013-14 | 2012-13 | 2011-12 | 2010-11 |
|---|---|---|---|---|---|
| **Commerce** | | | | | |
| State Operations | $ 251,812,554 | $ 229,386,338 | $ 230,498,660 | $ 237,301,963 | $ 211,331,642 |
| Aids to Individuals and Organizations [(b)] | 36,164,193 | 37,092,716 | 39,257,204 | ($85,251,510) | 193,325,634 |
| Local Assistance | 64,054,263 | 76,482,860 | 56,037,043 | 41,520,092 | 85,841,270 |
| Subtotal | 352,031,010 | 342,961,915 | 325,792,907 | 193,570,545 | 490,498,546 |
| **Education** | | | | | |
| State Operations | 6,166,780,064 | 6,243,833,208 | 6,005,424,862 | 5,700,997,759 | 4,632,268,421 |
| Aids to Individuals and Organizations | 497,227,676 | 457,347,628 | 431,783,064 | 406,797,858 | 1,472,392,496 |
| Local Assistance | 6,389,703,799 | 5,859,524,660 | 5,639,197,518 | 5,656,240,970 | 6,206,674,442 |
| Subtotal | 13,053,711,539 | 12,560,705,496 | 12,076,405,444 | 11,764,036,587 | 12,311,335,359 |
| **Environmental Resources** | | | | | |
| State Operations | 2,437,220,712 | 2,707,169,764 | 2,711,567,716 | 2,453,206,494 | 2,266,047,112 |
| Aids to Individuals and Organizations | 29,100,920 | 34,929,320 | 27,553,037 | 22,631,300 | 15,028,649 |
| Local Assistance | 1,223,204,106 | 1,156,224,236 | 1,165,514,898 | 1,097,975,192 | 1,203,556,007 |
| Subtotal | 3,689,525,738 | 3,898,323,320 | 3,904,635,650 | 3,573,812,986 | 3,484,631,768 |
| **Human Relations and Resources** | | | | | |
| State Operations | 2,789,044,549 | 2,733,416,164 | 2,664,971,784 | 2,622,841,588 | 2,713,622,954 |
| Aids to Individuals and Organizations | 12,059,458,300 | 11,541,177,302 | 10,744,126,690 | 10,217,914,514 | 10,794,521,875 |
| Local Assistance | 788,474,755 | 796,649,514 | 704,135,972 | 683,427,090 | 706,742,617 |
| Subtotal | 15,636,977,604 | 15,071,242,980 | 14,113,234,446 | 13,524,183,192 | 14,214,887,447 |
| **General Executive** | | | | | |
| State Operations | 8,287,821,942 | 7,692,753,618 | 6,885,875,587 | 7,285,111,297 | 6,959,353,603 |
| Aids to Individuals and Organizations | 465,241,942 | 458,594,192 | 467,821,376 | 557,776,217 | 398,562,015 |
| Local Assistance | 145,926,694 | 158,295,861 | 203,809,063 | 187,696,817 | 273,440,655 |
| Subtotal | 8,898,990,578 | 8,309,643,671 | 7,557,506,026 | 8,030,584,331 | 7,631,356,272 |
| **Judicial** | | | | | |
| State Operations | 107,969,106 | 104,815,737 | 105,624,208 | 108,823,889 | 110,722,556 |
| Local Assistance | 22,989,415 | 22,058,356 | 22,055,899 | 22,029,230 | 24,532,807 |
| Subtotal | 130,958,521 | 126,874,093 | 127,680,107 | 130,853,119 | 135,255,363 |
| **Legislative** | | | | | |
| State Operations | 65,595,364 | 65,525,903 | 64,552,205 | 64,463,115 | 66,263,679 |
| Subtotal | 65,595,364 | 65,525,903 | 64,552,205 | 64,463,115 | 66,263,679 |
| **General** | | | | | |
| State Operations | 1,301,160,305 | 1,232,746,769 | 965,930,734 | 945,014,871 | 835,081,071 |
| Aids to Individuals and Organizations | 332,178,675 | 343,230,101 | 328,033,500 | 344,406,145 | 340,761,008 |
| Local Assistance | 2,047,342,389 | 2,043,214,193 | 2,011,453,810 | 2,081,107,574 | 2,061,111,703 |
| Subtotal | 3,680,681,369 | 3,619,191,063 | 3,305,418,045 | 3,370,528,589 | 3,236,953,782 |
| **General Obligation Bond Program** | | | | | |
| State Operations | 790,116,321 | 1,093,559,790 | 1,089,901,357 | 885,773,517 | 1,355,559,001 |
| Subtotal | 790,116,321 | 1,093,559,790 | 1,089,901,357 | 885,773,517 | 1,355,559,001 |
| **Summary Totals** | | | | | |
| State Operations | 22,197,520,916 | 22,103,207,291 | 20,724,347,113 | 20,303,534,493 | 19,150,250,039 |
| Aids to Individuals and Organizations | 13,419,371,707 | 12,872,371,259 | 12,038,574,871 | 11,464,274,524 | 13,214,591,677 |
| Local Assistance | 10,681,695,421 | 10,112,449,680 | 9,802,204,203 | 9,769,996,966 | 10,561,899,501 |
| GRAND TOTAL | $ 46,298,588,044 | $ 45,088,028,229 | $ 42,565,126,187 | $ 41,537,805,982 | $ 42,926,741,217 |

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

(b) The negative amount for this category reflect the Department of Commerce being eliminated and its functions being moved to other State agencies, pursuant to provisions of the 2011-13 biennial budget (2011 Wisconsin Act 32).

**Source: Wisconsin Department of Administration**

# ACCOUNTING AND FINANCIAL REPORTING

## Statutory Basis

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

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

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

**Generally Accepted Accounting Principles**

The State also accounts for and reports on its operations using generally accepted accounting principles (**GAAP**). For the fiscal year ended June 30, 2015 the State has prepared a Comprehensive Annual Financial Report (**CAFR**) in accordance with GAAP. The General Purpose External Financial Statements section of the CAFR for the fiscal year ended June 30, 2015 has been audited and is included as APPENDIX A to Part II of the 2015 Annual Report.

Financial statements prepared in accordance with GAAP differ from those prepared in accordance with the Wisconsin Statutes. A notable difference pertains to the General Fund balance. The undesignated, unreserved balance for the fiscal year ended June 30, 2015 was $136 million on a budgetary basis. Under GAAP, the total fund balance of the General Fund for the fiscal year ended June 30, 2015 was a deficit of $1.779 billion. The difference results primarily because GAAP recognizes accrued liabilities that are not taken into account under the statutory basis. The single largest accrued liability for the fiscal year ended June 30, 2015 was $713 million and related to the State's individual income tax accruals.

**New Enterprise Resource Planning System**

Effective October 1, 2015, the State implemented a statewide initiative to consolidate information technology systems with an integrated software system that included applications for finance, procurement, budget and reporting. Effective December 14, 2015, applications of this new enterprise resource planning system were implemented for human resources and payroll.

## BUDGETING PROCESS AND FISCAL CONTROLS

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

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

**Budget Requests from Agencies**

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

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

**Executive Budget**

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

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

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

**Legislative Consideration**

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

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

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

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

**Governor's Partial Veto Power**

The Wisconsin Constitution grants the Governor the power of partial veto for any appropriation bill. This means that rather than having to approve or reject the budget bill in its entirety, the Governor may selectively delete portions of the budget bill. Both language and dollar amounts in a budget bill may be eliminated by the Governor's veto, and dollar amounts may be reduced. The Wisconsin Constitution prohibits the Governor from using the partial veto to create a new sentence by combining parts of two or more sentences.

The budget bill (less any items deleted or reduced by the Governor's partial veto) then becomes the State's fiscal policy document for the next two years. Just as it may do with a Governor's veto of a bill in its entirety, the Legislature may, by a two-thirds vote by each house, override a partial veto and enact the vetoed portion into law. This action may be taken before or after the budget becomes effective.

**Continuing Authority**

The failure of the Legislature to adopt a new budget before the commencement of a biennium does not result in a lack of spending authority. Under Wisconsin law an existing appropriation continues in effect until it is amended or repealed. Thus, in the event that a budget is not in effect at the start of a fiscal year, the prior year's budget serves as the budget until such time as a new budget is enacted. Once a newly enacted budget becomes effective, the continuing authority is superseded by the newly enacted appropriations.

The continuing authority of existing appropriations until a new budget is adopted helps to protect against the effect of a delay in the adoption of a budget. If an amount has been appropriated for the second fiscal year in one biennium, there will be continuing authority in the same amount until a new biennial budget is enacted or some other legislative action is taken to amend or repeal the appropriation. The 2015-17 biennial budget of the State was enacted on July 12, 2015, which was 12 days after the start of the biennium. Of the prior ten biennial budgets, the 2009-11, 2011-13 and 2013-15 biennial budgets were each enacted prior to the start of the respective biennium; however, each of the seven biennial budgets prior to the 2009-11 biennium was enacted after the start of the biennium, with the latest date after the start of a biennium being October 26, 2007 (for the 2007-09 biennium), which was nearly four months after the start of the 2007-08 fiscal year (which was the first fiscal year of that biennium).

**General Fund Tax Increase**

Legislation passed in 2011 (2011 Wisconsin Act 9) requires that neither house of the Legislature may pass a bill that increases certain General Fund taxes (income, state sales, or franchise taxes) unless the bill is approved by two-thirds of those members present and voting. There is an exception if the Legislature passes a joint resolution requiring a statewide advisory referendum on the question of whether the legislature should authorize the tax increase, and a majority of voters voting at the referendum approve the tax increase.

### Fiscal Controls

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

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

State law prohibits the enactment of legislation that would cause the estimated General Fund balance to be less than a specified amount or percentage of the general purpose revenue appropriations for that fiscal year. The specified amount for the 2015-16 fiscal year is $65 million. State law currently requires that the amount remain $65 million for the 2016-17 fiscal year, and beginning with the 2017-18 fiscal year, the statutory required reserve will be an amount equal to the lesser of the prior fiscal year's required balance plus $5 million, or 2% of the general purpose revenue appropriations for that fiscal year. The specified amount, or percentage of general purpose revenue appropriations, is included in Wisconsin Statutes, and can be changed (and previously has been changed) by legislative action.

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

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

### Budget Stabilization Fund

Statutory provisions require, for each fiscal year, the transfer of 50% of general purpose revenues received over the original budget estimate to the State's Budget Stabilization Fund (which is a "rainy day fund"), provided that the statutory required General Fund balance for that fiscal year is maintained. As of December 15, 2015, the balance in the Budget Stabilization Fund was approximately $280 million.

The transfers to the Budget Stabilization Fund, which only occur when general purpose revenues exceed the original budget estimates, are required to continue until the balance in the Budget Stabilization Fund is at least equal to 5% of the estimated expenditures from the General Fund, which would be approximately $794 million based on estimated General Fund expenditures for the 2015-16 fiscal year.

A provision of 2013 Wisconsin Act 145 suspended the statutory provisions requiring transfers from the General Fund to the Budget Stabilization Fund for the 2013-14 and 2014-15 fiscal years.

# BUDGETARY RESULTS OF 2014-15 FISCAL YEAR

The Annual Fiscal Report (budgetary basis) for the fiscal year ending June 30, 2015 was published October 15, 2015. It reports that the State ended the 2014-15 fiscal year on a statutory and unaudited basis with an undesignated balance of $136 million. This amount is $20 million less than the projected ending balance for that fiscal year included in the budget for the 2013-15 biennium (2013 Wisconsin Act 20), but $419 million more than the projected ending balance that was included in memorandum provided by LFB on January 23, 2015 **(January 2015 LFB Report)**. The State did not issue any operating notes during the 2014-15 fiscal year.

Table II-4 shows the final General Fund condition statement for the 2014-15 fiscal year. The table also includes, for comparison, the actual General Fund condition statement for the 2013-14 fiscal year and the estimated General Fund condition statements for the 2014-15 fiscal year from the 2013-15 biennial budget (2013 Wisconsin Act 20), as approved on May 6, 2014 by the JCF , and as included in the January 2015 LFB Report.

**Table II-4**

**GENERAL FUND CONDITION STATEMENT**
**2014-15 FISCAL YEAR**
**(in Millions)**

| | | 2014-15 Fiscal Year | | | |
|---|---|---|---|---|---|
| | 2013-14 Annual Fiscal Report | 2013-15 Biennial Budget | JCF May 2014 | January 2015 LFB Report | Annual Fiscal Report |
| Revenues | | | | | |
| Opening Balance | $ 759.2 | $ 463.5 | $ 724.3 | $ 516.9 | $ 516.9 |
| Prior Year Designation | 18.7 | | | | 122.4 |
| Taxes | 13,948.1 | 14,517.5 | 14,724.6 | 14,469.8 | 14,541.2 |
| Department Revenues | | | | | |
| Tribal Gaming | | 27.0 | 23.5 | | |
| Other | 587.2 | 534.2 | 535.2 | 504.9 | 549.9 |
| Total Available | 15,313.3 | 15,542.3 | 16,007.7 | 15,491.6 | 15,730.4 |
| Appropriations | | | | | |
| Gross Appropriations | 15,043.2 | 15,433.4 | 15,883.1 | 15,883.2 | 15,925.0 |
| 2013 Wisconsin Act 9 | | 10.6 | | | |
| Transfers to Other Funds | 40.4 | 143.8 | 143.8 | 169.6 | 169.6 |
| Compensation Reserves | 57.8 | 133.1 | 133.1 | 133.1 | 35.0 |
| Less: Lapses | (345.2) | (334.9) | (317.7) | (324.4) | (534.8) |
| Net Appropriations | 14,796.4 | 15,386.0 | 15,842.3 | 15,775.0 | 15,594.8 |
| Balances | | | | | |
| Gross Balance | 516.9 | 156.3 | 165.3 | (283.4) | 135.6 |
| Less: Req. Statutory Balance | n/a | (65.0) | (65.0) | n/a | n/a |
| Net Balance, June 30 | $ 516.9 | $ 91.3 | $ 100.3 | $ (283.4) | $ 135.6 |

The Annual Fiscal Report (budgetary basis) also provides final General Fund tax collections for the 2014-15 fiscal year. These General Fund tax revenue collections, on a budgetary basis, were $14.541 billion, compared to $13.948 billion for the 2013-14 fiscal year. This is an increase of approximately $593 million, or 4.3%, from the collections for the 2013-14 fiscal year, and approximately $71 million more than the projections for the 2014-15 fiscal year as included in the January 2015 LFB Report.

Table II-5 includes a summary of the final General Fund tax revenues for the 2014-15 fiscal year. Table II-5 also includes, for comparison, the actual General Fund tax collections for the 2013-14 fiscal year and the projected General Fund tax collections for the 2014-15 fiscal year included in the 2013-15 biennial budget (2013 Wisconsin Act 20), provided by DOR for the November 2014 DOA Report, and included in the January 2015 LFB Report.

The projections in Table II-5 further reflect (i) reduced certain General Fund taxes in the 2013-15 biennial budget (2013 Wisconsin Act 20), (ii) adjustments on or after April 1, 2014 by DOR to the individual income tax withholding tables to reflect the recent changes in tax rates and tax brackets, and (iii) legislation enacted on March 24, 2014 that further reduced certain General Fund taxes.

**Table II-5**

**GENERAL FUND TAX REVENUE COLLECTIONS**
**2014-15 FISCAL YEAR**
**(in Millions)**

| | 2013-14 Actual | Budget 2013 Act 20 | DOR Nov. 2014 | Jan. 2015 LFB Report | 2014-15 Actual |
|---|---|---|---|---|---|
| Individual Income | $ 7,061.4 | $ 7,651.0 | $ 7,499.8 | $ 7,350.0 | $ 7,325.8 |
| Sales and Use | 4,628.3 | 4,607.2 | 4,819.7 | 4,880.0 | 4,892.1 |
| Corp. Income & Franchise | 967.2 | 993.8 | 1,008.3 | 935.0 | 1,004.9 |
| Public Utility | 361.0 | 355.9 | 371.9 | 377.9 | 381.8 |
| Excise | | | | | |
| Cigarettes | 573.0 | 541.4 | 577.2 | 556.5 | 569.5 |
| Liquor & Wine | 49.0 | 66.7 | 70.2 | 69.3 | 71.9 |
| Tobacco Products | 67.7 | 51.5 | 48.7 | 47.6 | 48.8 |
| Beer | 9.0 | 9.0 | 8.8 | 8.8 | 8.8 |
| Insurance Company | 165.8 | 168.0 | 173.6 | 176.0 | 165.3 |
| Miscellaneous Taxes | 65.8 | 73.0 | 65.1 | 68.7 | 72.0 |
| TOTAL | $13,948.1 | $14,517.5 | $14,643.3 | $14,469.8 | $14,541.2 |

The Annual Fiscal Report for the 2014-15 fiscal year is not part of the 2015 Annual Report but has been filed with, may be obtained from, the MSRB through its EMMA system at www.emma.msrb.org or at the following address:

State of Wisconsin Capital Finance Office
Department of Administration
101 East Wilson Street, FLR 10
P.O. Box 7864
Madison, WI 53707-7864
(608) 267-0374
DOACapitalFinanceOffice@wisconsin.gov
www.doa.wi.gov/capitalfinance

# STATE BUDGET

### Budget for 2015-17 Biennium

The budget act for the 2015-17 biennium (2015 Wisconsin Act 55) was adopted by the Legislature on July 8, 2015, signed into law, with partial vetoes, by the Governor on July 12, 2015, and became effective on July 13, 2015 (except as otherwise provided in the act). Detailed information and summary tables and charts concerning the enacted budget for the 2015-17 biennium may be obtained from the following website (neither the following website nor the summaries available at such website are incorporated by reference into this Part II of the 2015 Annual Report):

http://legis.wisconsin.gov/lfb/publications/budget/2015-17%20Budget/Pages/publications.aspx

Table II-6 includes the estimated General Fund condition statement for the 2015-16 and 2016-17 fiscal years, as included in 2015 Wisconsin Act 55, and includes, for comparison, the final General Fund condition statement for the 2014-15 fiscal year and the proposed General Fund condition statements included in the executive budget introduced in February 2015. As shown in Table II-6, the actual ending balance for the 2014-15 fiscal year is approximately $135 million greater than the assumed starting balance for the 2015-16 fiscal year.

**Table II-6**

**ESTIMATED GENERAL FUND CONDITION STATEMENT**
**2015-16 AND 2016-17 FISCAL YEARS**
**(in Millions)**

| | | 2015-16 Fiscal Year | | 2016-17 Fiscal Year | |
|---|---|---|---|---|---|
| | 2014-15 Annual Fiscal Report | Governor's Executive Budget | 2015 Act 55 (Enacted Budget) | Governor's Executive Budget | 2015 Act 55 (Enacted Budget) |
| Revenues | | | | | |
| Opening Balance | $ 516.9 | $ 0.3 | $ 0.3 | $ 92.0 | $ 161.8 |
| Prior-Year Designation | 122.4 | | | | |
| Taxes | 14,541.2 | 15,190.8 | 15,207.9 | 15,827.2 | 15,791.6 |
| Department Revenues | | | | | |
| Tribal Gaming | | 23.5 | 23.4 | 24.1 | 23.1 |
| Other | 549.9 | 507.3 | 516.1 | 499.1 | 513.5 |
| Total Available | 15,730.4 | 15,721.7 | 15,747.6 | 16,442.5 | 16,490.0 |
| Appropriations | | | | | |
| Gross Appropriations | 15,925.0 | 15,876.0 | 15,886.4 | 16,961.3 | 17,041.4 |
| Transfers | 169.6 | 38.0 | 38.0 | 39.6 | 39.5 |
| Compensation Reserves | 35.0 | 10.7 | 10.7 | 18.6 | 18.6 |
| Less: Lapses | (534.8) | (295.0) | (349.2) | (700.0) | (740.8) |
| Net Appropriations | 15,594.8 | 15,629.7 | 15,585.8 | 16,319.5 | 16,358.7 |
| Balances | | | | | |
| Gross Balance | 135.6 | 92.0 | 161.8 | 123.0 | 131.4 |
| Less: Req. Statutory Balance | n/a | (65.0) | (65.0) | (65.0) | (65.0) |
| Net Balance, June 30 | $ 135.6 | $ 27.0 | $ 96.8 | $ 58.0 | $ 66.4 |

### 2015-17 General Fund Tax Collections

Tables II-7 and II-8 include a summary of the estimated General Fund tax collections for the 2015-16 and 2016-17 fiscal years, as included in 2015 Wisconsin Act 55, in the respective amounts of $15.208 billion and $15.792 billion. The tables on the following pages also include, for comparison, the estimated General Fund tax collections for the respective fiscal years as provided by DOR for the November 2014 DOA Report and as set forth in the January 2015 LFB Report.

While not quantified, a memorandum from LFB dated May 6, 2015 **(May 2015 LFB Memorandum)** noted that the growth rates for estimated General Fund tax collections in the 2015-16 and 2016-17 fiscal years may be reduced from the rates assumed in the January 2015 LFB Report. Taking into account the then-estimated General Fund tax collections for the 2014-15 fiscal year, the May 2015 LFB memorandum concluded that the estimates in the January 2015 LFB Report for the three-year period were still reasonable and should not be adjusted.

**Table II-7**

**ESTIMATED GENERAL FUND TAX REVENUE COLLECTIONS**
**2015-16 FISCAL YEAR**
**(in Millions)**

| | DOR Nov. 2014 | Jan. 2015 LFB Report | Enacted Budget |
|---|---|---|---|
| Individual Income | $ 7,787.8 | $ 7,845.0 | $ 7,858.6 |
| Sales and Use | 4,954.7 | 5,030.0 | 5,054.1 |
| Corp. Income & Franchise | 970.0 | 970.0 | 994.0 |
| Public Utility | 364.5 | 366.8 | 366.8 |
| Excise | | | |
| Cigarettes | 574.6 | 551.0 | 551.0 |
| Liquor & Wine | 72.8 | 71.4 | 71.4 |
| Tobacco Products | 50.7 | 48.6 | 48.5 |
| Beer | 8.7 | 8.6 | 8.6 |
| Insurance Company | 184.4 | 181.0 | 181.0 |
| Miscellaneous Taxes | 67.2 | 73.9 | 73.9 |
| TOTAL | $15,035.4 | $15,146.3 | $15,207.9 |

**Table II-8**

**ESTIMATED GENERAL FUND TAX REVENUE COLLECTIONS**
**2016-17 FISCAL YEAR**
**(in Millions)**

| | DOR Nov. 2014 | Jan. 2015 LFB Report | Enacted Budget |
|---|---|---|---|
| Individual Income | $8,174.0 | $ 8,255.0 | $ 8,238.4 |
| Sales and Use | 5,142.8 | 5,190.0 | 5,224.0 |
| Corp. Income & Franchise | 999.8 | 960.0 | 1,015.7 |
| Public Utility | 368.9 | 373.4 | 373.4 |
| Excise | | | |
| Cigarettes | 565.9 | 545.5 | 545.5 |
| Liquor & Wine | 75.8 | 73.6 | 73.6 |
| Tobacco Products | 52.1 | 49.6 | 49.4 |
| Beer | 8.4 | 8.4 | 8.4 |
| Insurance Company | 195.8 | 187.0 | 187.0 |
| Miscellaneous Taxes | 69.4 | 76.3 | 76.3 |
| TOTAL | $15,652.9 | $15,718.8 | $15,791.6 |

In addition, information on the enacted biennial budget for 2015-17 but has been filed with, may be obtained from, the MSRB through its EMMA system at www.emma.msrb.org or at the following address:

State of Wisconsin Capital Finance Office
Department of Administration
101 East Wilson Street, FLR 10
P.O. Box 7864
Madison, WI 53707-7864
(608) 267-0374
DOACapitalFinanceOffice@wisconsin.gov

**Tobacco Settlement Revenues**

In 2002 the State sold to the Badger Tobacco Asset Securitization Corporation **(BTASC)**, pursuant to statutory authority, the right to receive tobacco settlement revenues to be made by the participating cigarette manufacturers under the **Master Settlement Agreement**, which was entered into in 1998 among the participating cigarette manufacturers and the attorneys general of 46 states and six other U.S. jurisdictions in connection with the settlement of certain smoking-related litigation.

In May 2002, BTASC issued $1.591 billion principal amount of bonds to finance its purchase and to fund necessary reserves, operating costs, and costs of issuance. The proceeds that the State received for this sale were expended. The bonds issued by BTASC were payable from the tobacco settlement revenues that the State had sold and assigned to BTASC.

In April 2009, the State, acting by and through the Department of Administration, issued $1.529 billion principal amount of general fund annual appropriation bonds to purchase from BTASC the State's right to the tobacco settlement revenues pursuant to the Master Settlement Agreement. All obligations previously issued by BTASC have been redeemed, and the State resumed its right to receive tobacco settlement revenues under the Master Settlement Agreement as a result of the State's purchase.

**Potential Effect of Litigation**

APPENDIX A to Part II of the 2015 Annual Report includes the General Purpose External Financial Statements for the fiscal year ended June 30, 2015. The notes to the General Purpose External Financial Statements include a description of various legal proceedings, claims, and tax refunds that may have a budgetary effect. The potential budgetary impact of these legal proceedings and claims, and any updates to those proceedings subsequent to June 30, 2015, are outlined below. The following also includes a description of various other legal proceedings, claims, and tax refunds that were not included in the notes to the General Purpose External Financial Statements but may have a budgetary effect.

*Notice of Transferee Liability*

In September 2008, the Internal Revenue Service made a claim against the State of Wisconsin Investment Board by issuing 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 Internal Revenue Service asserts that the shareholders' sale of SCC stock should have been characterized as a sale of assets by SCC, on which SCC should have paid income taxes. The Internal Revenue Service asserts that the former SCC shareholders, including the State of Wisconsin Investment Board, would be liable for those taxes, plus penalties and interest. The State of Wisconsin Investment Board's liability, as a putative transferee of SCC assets, would be limited to approximately $28 million plus interest.

The State of Wisconsin Investment Board believes that the loss, if any, resulting from the claim will not have a material impact on net investment assets or net income in future years.

*Enforcement Provisions of Master Settlement Agreement*

The State and 22 other states that signed the Master Settlement Agreement are in litigation with the major tobacco manufacturers regarding the post-2003 diligence of the states in their enforcement of certification and escrow payment laws designed to monitor and regulate the sale of cigarettes by tobacco manufacturers that did not sign the Master Settlement Agreement.

An arbitration proceeding regarding the dispute for calendar year 2004 is in the initial stages. The arbitration panel has not been selected and formal proceedings are not expected to commence until mid-2016.

*Talgo Train Disputes*

Talgo, Inc. **(Talgo)** and the State entered into two contracts. The first contract was for the construction and purchase of high speed passenger rail trains. The second contract was to maintain the trains and contained a non-appropriation clause that permitted either party to terminate the agreement if the Legislature did not appropriate funds necessary to perform the contract. The State decided to discontinue the project.  In November 2012, Talgo filed a lawsuit claiming the State defaulted on its legal obligations.  The circuit court denied the State's motion to dismiss the case.

In August 2015 the State and Talgo settled the case and resolved all claims related to the two contracts. Under the settlement agreement, Talgo will keep the trains and receive an approximate $10 million payment from the State to close out the contracts.  Talgo will attempt to sell the trains.  If the trains are sold, the State can collect 30 percent of the sale price up to $10 million.  As a result, depending on the selling price, the State could recover the entire $10 million payment.

*Other*

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

**Employment Relations**

Effective July 1, 2015, the entire University of Wisconsin **(UW)** System was statutorily separated from the remainder of the State's executive branch for civil service administration and employment relations, including collective bargaining. More precisely, UW-Madison became one entity, and the remainder of the UW System another entity, each with its own civil service system, statutorily-defined collective bargaining units, and collective bargaining authority. The remainder of executive branch agencies constitutes another civil service system, with collective bargaining authority established in the Division of Personnel Management within the Department of Administration. The following summary describes collective bargaining under the authority of the Department of Administration, but does not include information about UW collective bargaining units. This is a change from past reporting of collective bargaining and employment relations.

The executive branch (not including UW) has approximately 25,273 full-time-equivalent (**FTE**) classified and unclassified employees in 18 statutorily-designated bargaining units. An additional 2,322 classified supervisors in two bargaining units may by statute also be considered for representation, but these supervisory units have never applied for representation.  In 2015, two of these 18 bargaining units, currently covering 371 FTE employees, were represented by a union to negotiate wages (base wages only) for fiscal year 2015-16.  One additional bargaining unit, covering 332 FTE employees, was represented to negotiate wages and benefits for the fiscal biennium. At the end of calendar year 2015, however, one additional union covering 326 employees became certified to negotiate base wages only for fiscal year 2016-17. Thus, at the end of 2015, a total of 1,028 FTE employees were represented for some degree of collective bargaining.

For all except one bargaining unit, representation rights are strictly limited to negotiation of base wage increases for a single fiscal year contract, and a recertification election must be held each year. The one exception is the public safety bargaining unit (State Patrol troopers and inspectors), which may negotiate wage rates, pay schedules, fringe benefits, hours of work, and conditions of employment for fiscal biennium contracts, and represent employees for grievances. Unlike other unions, the public safety union is not subject to annual recertification.

Each collective bargaining agreement requires ratification by the members of the respective labor union, approval by the legislative Joint Committee on Employment Relations, passage by both houses of the Legislature, and signature of the Governor.

There were two base wage labor agreements for fiscal year 2014-15, but there are not yet any agreements for fiscal year 2015-16. In 2015, an agreement was reached with the public safety union for the 2013-15 biennium, but there has not yet been bargaining for the 2015-17 biennium.

All classified and unclassified employees are also covered under the 2015-17 Compensation Plan, except for subjects reserved for collective bargaining.  This plan, in conjunction with statutes, administrative rules, and policies, provides wages and hours and conditions of employment for all civil service employees, except as negotiable by unions. Fringe benefits including retirement, health and life are determined legislatively or through the Group Insurance and Employee Trust Fund Boards. The public safety union is the only union that can negotiate with regard to certain aspects of these fringe benefits.

The budget provides for salary and fringe benefits in an amount that is expected to be sufficient to meet all contractual obligations.

**State Budget Assumptions**

Tax revenue projections for the 2015-17 biennial budget were based on January 2015 estimates from LFB, as further reviewed and addressed in the May 2015 LFB Memorandum. See "STATE BUDGET". The estimates are based on the State tax structure and on assumptions about basic economic factors and their historical relationships to State tax receipts. Revenue sources other than taxes are estimated in the preparation of the budget. The all-funds budget establishes estimates of these nontax revenues and presumes that an equal amount of expenditures will be made. For that purpose, any variation from that expected level of revenue is assumed to result in a corresponding increase or decrease in expenditures.

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

**Economic Assumptions**

DOR prepares and provides forecasts of income and employment for the State. These reports are available from DOR and focus on industry employment, housing trends, and income components for the State.

The revenues for the 2015-17 biennial budget were based on the January 2015 tax revenue estimates from LFB, as further reviewed and addressed in the May 2015 LFB Memorandum. In addition, the May 2015 economic report from DOR reflects certain projections presented in a national economic forecast by IHS Economics **(IHS)**, which provides national economic forecasts, database support, and consulting services. Table II-9 contains excerpts from IHS' March 2015 national economic forecast, and Table II-10 contains a summary of information from DOR's Wisconsin Econometric Model **(Model)** and DOR'S May 2015 economic report.

*Wisconsin Econometric Model*

The Model is a forecasting tool used for assessing the future of the State's economy, measured primarily by income and employment. The Model provides DOR with information about how the State's economy responds to changes in the national economic conditions and plays a critical role in the revenue estimating process. The Model was first designed in 1976 by a predecessor of IHS (Data Resources Inc.). DOR has periodically redesigned the Model to improve its performance and also to correspond to changes in national modeling concepts in the IHS macro model of the U.S. economy and to incorporate new data definitions as embodied in the national and regional income accounts.

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

The Model is similar to many economic models in that the economy is described by a set of mathematical equations. There are equations for employment, wages, property income, proprietary income, transfer payments, housing permits, and taxes, among others. The Model currently consists of 177 equations, 93 of which are econometric regressions.

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

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

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

DOR maintains the Model through a process of keeping the Model's database up to date and re-examining the Model's equations when historical data are revised. The Model is calibrated to be temporally consistent with current data estimates by re-estimating the system of equations on a regular basis.

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

**Table II-9**
**ECONOMIC FORECASTS—U.S.**

| | Calendar Year | | | | |
|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2016** | **2017** |
| **Real GDP and its Components (Amounts in Billions of 2009 Dollars)** | | | | | |
| GDP | $15,710.3 | $16,085.4 | $16,561.3 | $17,014.3 | $17,463.8 |
| Percent Change | 2.2 | 2.4 | 3 | 2.7 | 2.6 |
| GDP (Current Dollars) | 16,768.1 | 17,418.3 | 18,152.6 | 18,972.6 | 19,814.0 |
| Percent Change | 3.7 | 3.9 | 4.2 | 4.5 | 4.4 |
| **Employment and Prices** | | | | | |
| Payroll Employment (Millions) | 136.4 | 139 | 142.2 | 144.8 | 146.6 |
| Percent Change | 1.7 | 1.9 | 2.3 | 1.8 | 1.2 |
| Unemployment Rate (%) | 7.4 | 6.2 | 5.5 | 5.3 | 5.2 |
| Consumer Price Index (% Change) | 1.5 | 1.6 | -0.7 | 2.1 | 2.4 |
| Employment Cost Index (% Change) | 1.9 | 2.1 | 2.6 | 2.8 | 3.1 |
| Industrial Production (% Change) | 2.9 | 4.2 | 2.5 | 3.3 | 3.2 |
| Retail Gasoline Prices ($/gallon) | 3.6 | 3.4 | 2.2 | 2.4 | 2.7 |
| **Financial Markets** | | | | | |
| 3-Month Treasury Bills (rate) | 0.1 | 0 | 0.4 | 1.5 | 3.2 |
| 30-Year Fixed Mortgage (rate) | 4.0 | 4.2 | 4.0 | 5.0 | 5.8 |
| **Income and Profits (Amounts in Billions)** | | | | | |
| Personal Income | $14,166.9 | $14,729.1 | $15,297.8 | $16,006.9 | $16,848.6 |
| Percent Change | 2.0 | 4.0 | 3.9 | 4.6 | 5.3 |
| Wages and Salaries | 7,124.7 | 7,445.9 | 7,807.7 | 8,199.9 | 8,608.6 |
| Percent Change | 2.8 | 4.5 | 4.9 | 5.0 | 5.0 |
| Corporate Profits, Before Tax | 2,106.9 | 2,086.4 | 2,278.0 | 2,361.0 | 2,294.3 |
| Percent Change | 4.2 | -1.0 | 9.2 | 3.6 | -2.8 |

**Source: IHS, March 2015**

**Table II-10**

**ECONOMIC FORECASTS—WISCONSIN**

| | Calendar Year | | | | |
|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2016** | **2017** |
| **Wisconsin Employment Forecast** | | | | | |
| **Annual Industry Detail Average (Thousands of Workers)** | | | | | |
| Manufacturing | 457.4 | 464.6 | 471.3 | 479.5 | 485.1 |
| Percent Change | 0.4 | 1.6 | 1.4 | 1.7 | 1.2 |
| Trade, Transport & Utilities | 517.5 | 524.5 | 532.1 | 535.5 | 537.1 |
| Percent Change | 1.0 | 1.3 | 1.4 | 0.6 | 0.3 |
| Government | 409.4 | 411.7 | 413.7 | 415.0 | 419.4 |
| Percent Change | -0.4 | 0.6 | 0.5 | 0.3 | 1.1 |
| Total Nonfarm | 2,809.2 | 2,846.4 | 2,888.4 | 2,930.0 | 2,963.4 |
| Percent Change | 1.0 | 1.3 | 1.5 | 1.4 | 1.1 |
| **Wisconsin Income Forecast** | | | | | |
| **Components of Personal Income (Amounts in Billions)** | | | | | |
| Total Personal Income | $ 248.335 | $ 256.676 | $ 264.386 | $ 274.389 | $ 287.561 |
| Wages and Salaries | 124.777 | 128.768 | 133.764 | 139.406 | 145.420 |
| Supplements to Wages/Salaries | 35.264 | 36.190 | 37.281 | 38.672 | 40.415 |
| Proprietor's Income | 18.264 | 19.230 | 19.246 | 19.818 | 20.918 |
| Property Income | 44.614 | 46.137 | 46.985 | 48.795 | 52.223 |
| Personal Current Transfer | 42.217 | 43.780 | 45.284 | 46.760 | 48.690 |
| Contributions for Govt. Social Ins. | 20.493 | 21.266 | 22.173 | 23.258 | 24.505 |
| Personal Taxes | 28.209 | 29.829 | 32.014 | 34.205 | 35.924 |
| Disposable Personal Income | 220.126 | 226.847 | 232.373 | 240.184 | 251.638 |
| **Related Income Measures (Chained 2009 Dollars)** | | | | | |
| Personal Income (billions) | $ 231.365 | $ 235.992 | $ 243.446 | $ 248.620 | $ 255.774 |
| Percent Change | 0.9 | 2.0 | 3.2 | 2.1 | 2.9 |
| Per Capita Income | 40.3 | 41.0 | 42.1 | 42.9 | 44.0 |
| Percent Change | 0.6 | 1.7 | 2.8 | 1.8 | 2.6 |
| Per Capita Income (current $) | 43.2 | 44.5 | 45.7 | 47.3 | 49.4 |
| Percent Change | 1.8 | 3.0 | 2.7 | 3.5 | 4.5 |

**Source: Wisconsin Department of Revenue, May 2015**

## Budget Format

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

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

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

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

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

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

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

**Impact of Federal Programs**

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

*Budget Sequestration Cuts*

The United States Congress had mandated across-the-board cuts to the federal budget, starting with the federal fiscal year that started October 1, 2012. These cuts were required pursuant to the Budget Control Act of 2011 because, at that time, the congressional Joint Select Committee on Deficit Reduction had failed to reduce the federal deficit by $1.2 trillion.

For the federal fiscal year that started October 1, 2015, Public Law No: 114-74 provides increases in federal domestic spending of $25 billion for federal fiscal year 2016 and $15 billion for federal fiscal year 2017 over amounts directed in the Budget Control Act of 2011. Due to these increases, Wisconsin does not expect to see any significant decrease in federal funds over the next two federal fiscal years.

**Supplemental Appropriations**

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

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

## GENERAL FUND INFORMATION

**General Fund Cash Flow**

Many of the budgetary tables presented thus far in Part II of the 2015 Annual Report have reported information on a budgetary basis. The following tables present information primarily on a cash basis.

Table II-11 is presented over two pages and includes the detailed actual cash flow for the 2014-15 fiscal year and the detailed actual cash flow (through October 31, 2015) and projected cash flow (November 1, 2015 through June 30, 2016) for the 2015-16 fiscal year. Table II-12 is also presented over two pages and provides, for both the 2014-15 fiscal year and the 2015-16 fiscal year, year-to-date receipts and disbursement on a cash basis along with a comparison to estimates for the same period and actual receipts and disbursements for the same period of the previous fiscal year. Table II-13 presents a monthly summary of the General Fund from July 1, 2013 through October 31, 2015 and a projected summary for November 1, 2015 through June 30, 2016.

No operating notes were issued for the 2013-14 or 2014-15 fiscal years, and none have been issued for the current 2015-16 fiscal year.

Tables II-11, II-12, and II-13 should be read in conjunction with other information concerning the State budget set forth elsewhere in Part II of the 2015 Annual Report, including “Budgeting Process and Fiscal Controls”, “State Budget”, and “State Obligations; Operating Notes”. As noted above, there have been and will continue to be differences in the amounts shown for the cash-flow basis and the budgetary basis presentations. For example, the cash-flow basis presentations in the following tables includes all tax receipts as revenues and tax refunds as disbursements, while the budgetary basis presentations in Tables II-4 and II-6 include tax revenues that are net of tax refunds.

The results, projections, or estimates for the 2015-16 fiscal year in the following tables reflect the enacted budget for the 2015-17 biennium (2015 Wisconsin Act 55) and the estimated General Fund tax revenues included in the January 2015 LFB Report. The May 2015 LFB Memorandum notes, while not quantified, that the growth rate for General Fund tax collections in the 2015-16 fiscal year may be reduced from that included in the January 2015 LFB Report.

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

The State has experienced and expects to continue to experience certain periods when the General Fund is in a negative cash position. The Wisconsin Statutes provide certain administrative remedies to deal with these periods. The Secretary of Administration may temporarily reallocate cash in other funds to the General Fund in an amount up to 9% of the general-purpose revenue appropriations then in effect (approximately $1.430 billion for the 2015-16 fiscal year). In addition, the Secretary of Administration can also temporarily reallocate an additional amount of up to 3% of the general-purpose revenue appropriations then in effect (approximately $477 million for the 2015-16 fiscal year) for a period of up to 30 days. In aggregate, the limit on the amount available from temporary reallocations for the 2015-16 fiscal year is $1.907 billion.

If the amount available for temporary reallocation to the General Fund is insufficient, then the Secretary of Administration may set priorities for payments from the General Fund as well as prorate and defer certain payments. The Wisconsin Statutes provide that all payments shall be in accordance with the following order of preference:

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

Table II-14 presents the actual cash balances available for temporary reallocation from July 31, 2013 through October 31, 2015 and the projected balances for November 30, 2015 through June 30, 2016. The available cash balances are presented in two different tables; one table does not include balances in the Local Government Investment Pool **(LGIP)**, while the second table does include such balances. Though the LGIP is available for temporary reallocation, funds in the LGIP are deposited and withdrawn by local units of government and thus are outside the control of the State.

Tables II-15 and II-16 are each presented over two pages and include recorded revenues deposited into the General Fund and recorded expenditures made from the General Fund, as recorded by State agencies, for the periods of July 1, 2014 to June 30, 2015 as compared to the prior fiscal year and July 1, 2015 to September 30, 2015 as compared to the period of July 1, 2014 to September 30, 2014. These tables present information that is based on the revenues and expenditures that are recorded in, or processed through, the State's central accounting system and across all State agencies. With respect to revenues, there may be differences between the tax revenues shown in Table II-15 and those reported by the Department of Revenue from time to time in its monthly general purpose revenue collections report; the Department of Revenue report only includes general purpose revenues or taxes that are actually collected by the Department of Revenue while certain revenues are collected by other State agencies.

## Table II-11

## ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2014 TO JUNE 30, 2015[(a)]

(Amounts in Thousands)

| | July 2014 | August 2014 | September 2014 | October 2014 | November 2014 | December 2014 | January 2015 | February 2015 | March 2015 | April 2015 | May 2015 | June 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **BALANCES[(a)(b)]** | | | | | | | | | | | | |
| **Beginning Balance** | $ 1,500,597 | $ 621,109 | $ 756,170 | $ 1,729,087 | $ 2,072,479 | $ 1,847,944 | $ 1,201,952 | $ 2,162,014 | $ 1,884,579 | $ 1,218,386 | $ 1,501,616 | $ 1,689,576 |
| **Ending Balance[(c)]** | 621,109 | 756,170 | 1,729,087 | 2,072,479 | 1,847,944 | 1,201,952 | 2,162,014 | 1,884,579 | 1,218,386 | 1,501,616 | 1,689,576 | 1,370,554 |
| **Lowest Daily Balance [(c)]** | 474,074 | 404,168 | 756,170 | 1,530,791 | 1,689,582 | 743,846 | 1,201,952 | 1,884,579 | 1,020,531 | 865,557 | 1,319,503 | 646,437 |
| **RECEIPTS** | | | | | | | | | | | | |
| **TAX RECEIPTS** | | | | | | | | | | | | |
| Individual Income | $ 626,833 | $ 390,635 | $ 915,187 | $ 654,655 | $ 441,890 | $ 714,038 | $ 996,881 | $ 637,145 | $ 831,546 | $ 1,293,430 | $ 405,482 | $ 927,132 |
| Sales & Use | 462,971 | 453,323 | 455,697 | 456,193 | 432,190 | 401,625 | 486,898 | 374,866 | 352,849 | 420,413 | 405,945 | 446,383 |
| Corporate Income | 52,188 | 37,424 | 211,697 | 41,057 | 19,493 | 192,904 | 36,648 | 35,594 | 235,115 | 53,465 | 34,544 | 216,997 |
| Public Utility | 130 | - | 120 | 1,191 | 184,956 | 124 | 90 | 1 | 49 | 1,275 | 184,130 | 1,016 |
| Excise | 67,966 | 60,757 | 64,696 | 61,704 | 60,015 | 53,433 | 58,670 | 47,320 | 52,594 | 60,493 | 56,272 | 61,876 |
| Insurance | 1,680 | 4,088 | 12,290 | 3 | 1,895 | 13,649 | 9,831 | 21,449 | 6,576 | 12,187 | 1,797 | 12,167 |
| **Subtotal Tax Receipts** | $ 1,211,768 | $ 946,227 | $ 1,659,687 | $ 1,214,803 | $ 1,140,439 | $ 1,375,773 | $ 1,589,018 | $ 1,116,375 | $ 1,478,729 | $ 1,841,263 | $ 1,088,170 | $ 1,665,571 |
| **NON-TAX RECEIPTS** | | | | | | | | | | | | |
| Federal | $ 810,205 | $ 834,417 | $ 968,988 | 684,990 | $ 644,460 | $ 710,538 | $ 950,927 | $ 833,415 | $ 704,361 | $ 690,057 | $ 662,532 | $ 700,283 |
| Other & Transfers | 501,229 | 144,917 | 681,077 | 497,759 | 320,689 | 383,155 | 372,813 | 604,961 | 412,421 | 497,436 | 389,421 | 663,076 |
| Note Proceeds | - | - | - | - | - | - | - | - | - | - | - | - |
| **Subtotal Non-Tax Receipts** | $ 1,311,434 | $ 979,334 | $ 1,650,065 | $ 1,182,749 | $ 965,149 | $ 1,093,693 | $ 1,323,740 | $ 1,438,376 | $ 1,116,782 | $ 1,187,493 | $ 1,051,953 | $ 1,363,359 |
| **TOTAL RECEIPTS** | $ 2,523,202 | $ 1,925,561 | $ 3,309,752 | $ 2,397,552 | $ 2,105,588 | $ 2,469,466 | $ 2,912,758 | $ 2,554,751 | $ 2,595,511 | $ 3,028,756 | $ 2,140,123 | $ 3,028,930 |
| **DISBURSEMENTS** | | | | | | | | | | | | |
| Local Aids | $ 1,441,859 | $ 150,140 | $ 753,269 | $ 77,962 | $ 859,761 | $ 1,247,477 | $ 185,941 | $ 645,375 | $ 1,363,068 | $ 101,079 | $ 104,844 | $ 1,865,238 |
| Income Maintenance | 883,285 | 628,138 | 674,194 | 724,905 | 642,959 | 749,144 | 745,401 | 698,831 | 697,885 | 740,807 | 667,558 | 466,085 |
| Payroll and Related | 277,483 | 399,958 | 274,523 | 631,072 | 308,187 | 431,543 | 474,119 | 503,796 | 281,894 | 503,420 | 535,817 | 413,671 |
| Tax Refunds | 94,130 | 95,975 | 81,377 | 117,186 | 104,514 | 168,934 | 92,063 | 490,238 | 514,846 | 501,268 | 162,677 | 139,703 |
| Debt Service | 238,014 | - | - | 126,795 | - | - | - | - | - | 534,810 | - | - |
| Miscellaneous | 467,919 | 516,289 | 553,472 | 376,240 | 414,702 | 518,360 | 455,172 | 493,946 | 404,011 | 364,142 | 481,267 | 463,255 |
| Note Repayment | - | - | - | - | - | - | - | - | - | - | - | - |
| **TOTAL DISBURSEMENTS** | $ 3,402,690 | $ 1,790,500 | $ 2,336,835 | $ 2,054,160 | $ 2,330,123 | $ 3,115,458 | $ 1,952,696 | $ 2,832,186 | $ 3,261,704 | $ 2,745,526 | $ 1,952,163 | $ 3,347,952 |

(a) The results in this table reflect the budget bill for the 2013-15 biennium (2013 Wisconsin Act 20), the withholding table changes that DOR made on or after April 1, 2014, the General Fund tax cuts and other provisions included in legislation signed into law on March 24, 2014 (2013 Wisconsin Act 145), and the estimated General Fund tax revenues included in the January 2015 LFB Report. The May 2015 LFB Memorandum notes, while not quantified, that the growth rate for General Fund tax collections in the 2015-16 fiscal year may be reduced from that included in the January 2015 LFB Report. This table do not include any temporary reallocations of

(b) The General Fund cash balances presented in this schedule are not based on generally accepted accounting principles (GAAP). The General Fund includes funds designated for operations and capital purposes of certain proprietary programs of the State's universities. Receipts and disbursements of such funds for the designated programs and the disbursement of such funds for other purposes are reflected in the cash flow. A use of the designated funds for purposes other than the proprietary programs is, in effect, a borrowing of such funds. Therefore, at any time that the balance in the General Fund is less than the balance of such designated funds, the State is obligated to replenish the designated funds to the extent of the shortfall. The ending monthly balances of designated funds ranged from $1.2 billion to $1.9 billion during the 2012-13 fiscal year, ranged from $1.2 billion to $1.9 billion during the 2013-14 fiscal year, and were expected to range from $1.1 billion to $1.8 billion for the 2014-15 fiscal year. In addition, the General Fund holds deposits for several escrow accounts pursuant to court orders or federal rulings. These funds were expected to average approximately $25 million during the 2014-15 fiscal year.

(c) The Wisconsin Statutes provide certain administrative remedies to deal with periods when the General Fund may be in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds to the General Fund in an amount up to 9% of the total general-purpose revenue appropriations then in effect with an additional amount up to 3% for a period of up to 30 days. The resulting amounts that were available for temporary reallocation in the 2014-15 fiscal year were approximately $1.429 billion and $477 million, respectively. If the amount available for temporary reallocation to the General Fund were not sufficient, then the Secretary of Administration would be authorized to set priorities for payments from the General Fund and to prorate and defer certain payments.

## Table II-11—(Continued)

### ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2015 TO OCTOBER 31, 2015
### PROJECTED GENERAL FUND CASH FLOW; NOVEMBER 1, 2015 TO JUNE 30, 2016[(a)]

(Amounts in Thousands)

| | July 2015 | August 2015 | September 2015 | October 2015 | November 2015 | December 2015 | January 2016 | February 2016 | March 2016 | April 2016 | May 2016 | June 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **BALANCES[(a)(b)]** | | | | | | | | | | | | |
| **Beginning Balance** | $ 1,370,554 | $ 469,093 | $ 729,166 | $ 1,203,261 | $ 1,557,648 | $ 1,523,995 | $ 867,056 | $1,857,464 | $1,857,823 | $1,005,299 | $1,232,447 | $1,779,494 |
| **Ending Balance[(c)]** | 469,093 | 729,166 | 1,203,261 | 1,557,648 | 1,523,995 | 867,056 | 1,857,464 | 1,857,823 | 1,005,299 | 1,232,447 | 1,779,494 | 1,313,030 |
| **Lowest Daily Balance [(c)]** | 338,299 | 194,537 | 633,217 | 919,870 | 1,431,419 | (61,266) | 704,871 | 1,751,339 | 1,031,884 | 841,161 | 770,571 | 182,540 |
| **RECEIPTS** | | | | | | | | | | | | |
| **TAX RECEIPTS** | | | | | | | | | | | | |
| Individual Income | $ 666,489 | $ 522,178 | $ 768,990 | $ 478,412 | $ 747,229 | $ 637,606 | $ 1,060,383 | $ 794,871 | $ 710,901 | $ 1,209,892 | $ 711,522 | $ 816,005 |
| Sales & Use | 489,113 | 482,535 | 465,150 | 474,261 | 452,380 | 414,963 | 500,105 | 380,098 | 364,591 | 436,651 | 421,630 | 471,969 |
| Corporate Income | 92,451 | 39,285 | 213,589 | 28,566 | 25,968 | 212,384 | 48,685 | 36,788 | 257,886 | 67,497 | 34,147 | 212,798 |
| Public Utility | 26 | 23 | 202 | 10,969 | 179,523 | 120 | 87 | 1 | 48 | 1,238 | 178,722 | 987 |
| Excise | 65,577 | 60,991 | 63,906 | 60,550 | 62,145 | 56,240 | 58,630 | 50,968 | 49,140 | 56,943 | 56,803 | 61,654 |
| Insurance | 96 | 1,430 | 12,756 | 1 | 1,949 | 14,037 | 10,110 | 22,058 | 6,763 | 12,533 | 1,848 | 12,513 |
| **Subtotal Tax Receipts** | $ 1,313,752 | $ 1,106,442 | $ 1,524,593 | $ 1,052,759 | $ 1,469,194 | $ 1,335,350 | $ 1,678,000 | $ 1,284,784 | $ 1,389,329 | $ 1,784,754 | $ 1,404,672 | $ 1,575,926 |
| **NON-TAX RECEIPTS** | | | | | | | | | | | | |
| Federal | $ 803,301 | $ 711,694 | $ 947,952 | $ 646,940 | $ 702,549 | $ 692,909 | $ 1,046,611 | $ 908,060 | $ 776,343 | $ 734,914 | $ 773,035 | $ 721,735 |
| Other & Transfers | 504,970 | 147,192 | 583,051 | 597,118 | 343,049 | 434,919 | 406,163 | 651,400 | 471,375 | 477,873 | 433,963 | 620,688 |
| Note Proceeds | - | - | - | - | - | - | - | - | - | - | - | - |
| **Subtotal Non-Tax Receipts** | $ 1,308,271 | $ 858,886 | $ 1,531,003 | $ 1,244,058 | $ 1,045,598 | $ 1,127,828 | $ 1,452,774 | $ 1,559,460 | $ 1,247,718 | $ 1,212,787 | $ 1,206,998 | $ 1,342,423 |
| **TOTAL RECEIPTS** | $ 2,622,023 | $ 1,965,328 | $ 3,055,596 | $ 2,296,817 | $ 2,514,792 | $ 2,463,178 | $ 3,130,774 | $ 2,844,244 | $ 2,637,047 | $ 2,997,541 | $ 2,611,670 | $ 2,918,349 |
| **DISBURSEMENTS** | | | | | | | | | | | | |
| Local Aids | $ 1,319,758 | $ 161,471 | $ 837,873 | $ 86,607 | $ 885,889 | $ 1,313,914 | $ 194,779 | $ 648,099 | $ 1,264,254 | $ 119,369 | $ 149,243 | $ 1,876,227 |
| Income Maintenance | 993,857 | 653,300 | 664,523 | 754,435 | 752,810 | 805,533 | 839,655 | 772,164 | 842,554 | 775,950 | 735,579 | 380,971 |
| Payroll and Related | 427,901 | 344,133 | 423,358 | 515,823 | 350,287 | 397,874 | 462,713 | 438,306 | 475,242 | 493,804 | 389,280 | 495,557 |
| Tax Refunds | 94,031 | 95,212 | 99,015 | 99,116 | 107,127 | 173,157 | 85,778 | 456,768 | 479,696 | 410,519 | 124,603 | 100,849 |
| Debt Service | 252,542 | - | - | 178,708 | 7,054 | 258 | - | 5,882 | - | 537,195 | 124,347 | 257 |
| Miscellaneous | 435,395 | 451,139 | 556,732 | 307,741 | 445,278 | 429,381 | 557,441 | 522,666 | 427,825 | 433,556 | 541,571 | 530,952 |
| Note Repayment | - | - | - | - | - | - | - | - | - | - | - | - |
| **TOTAL DISBURSEMENTS** | $ 3,523,484 | $ 1,705,255 | $ 2,581,501 | $ 1,942,430 | $ 2,548,445 | $ 3,120,117 | $ 2,140,366 | $ 2,843,885 | $ 3,489,571 | $ 2,770,393 | $ 2,064,623 | $ 3,384,813 |

(a) The results, projections, or estimates in this table reflect the enacted budget for the 2015-17 biennium (2015 Wisconsin Act 55) and the estimated General Fund tax revenues included in the January 2015 LFB Report. The May 2015 LFB Memorandum notes, while not quantified, that the growth rate for General Fund tax collections in the 2015-16 fiscal year may be reduced. The projections or estimates in this table do not include any temporary reallocations of cash.

(b) The General Fund cash balances presented in this schedule are not based on generally accepted accounting principles (GAAP). The General Fund includes funds designated for operations and capital purposes of certain proprietary programs of the State's universities. Receipts and disbursements of such funds for the designated programs and the disbursement of such funds for other purposes are reflected in the cash flow. A use of the designated funds for purposes other than the proprietary programs is, in effect, a borrowing of such funds. Therefore, at any time that the balance in the General Fund is less than the balance of such designated funds, the State is obligated to replenish the designated funds to the extent of the shortfall. The ending monthly balances of designated funds ranged from $1.2 billion to $1.9 billion during the 2013-14 fiscal year, from $1.1 billion to $1.9 billion for the 2014-15 fiscal year, and are expected to range from $1.0 billion to $1.8 billion for the 2015-16 fiscal year. In addition, the General Fund holds deposits for several escrow accounts pursuant to court orders or federal rulings. These funds are expected to average approximately $25 million during the 2015-16 fiscal year.

(c) The Wisconsin Statutes provide certain administrative remedies to deal with periods when the General Fund may be in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds to the General Fund in an amount up to 9% of the total general-purpose revenue appropriations then in effect with an additional amount up to 3% for a period of up to 30 days. The resulting amounts available for temporary reallocation in the 2015-16 fiscal year are approximately $1.430 billion and $477 million, respectively. If the amount available for temporary reallocation to the General Fund is not sufficient, then the Secretary of Administration is authorized to set priorities for payments from the General Fund and to prorate and defer certain payments.

**Table II-12**

**GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS YEAR-TO-DATE COMPARED TO ESTIMATES AND PREVIOUS FISCAL YEAR[(a)]**
**(Cash Basis)**
**As of June 30, 2015 (2014-15 Fiscal Year)**

| | 2013-14 Fiscal Year through June, 2014 | 2014-15 Fiscal Year through June, 2015 | | | | |
|---|---|---|---|---|---|---|
| | Actual | Actual[(b)] | Estimate[(b)] | Variance | Adjusted Variance[(c)] | Difference FY14 Actual to FY15 Actual |
| RECEIPTS | | | | | | |
| Tax Receipts | | | | | | |
| Individual Income | $ 9,093,741 | $ 8,834,854 | $ 8,593,780 | $ 241,074 | $ 241,074 | $ (258,887) |
| Sales | 4,890,683 | 5,149,353 | 5,101,470 | 47,883 | 47,883 | 258,670 |
| Corporate Income | 1,075,966 | 1,167,126 | 1,013,096 | 154,030 | 154,030 | 91,160 |
| Public Utility | 365,105 | 373,082 | 386,376 | (13,294) | (13,294) | 7,977 |
| Excise | 691,507 | 705,796 | 685,342 | 20,454 | 20,454 | 14,289 |
| Insurance | 105,124 | 97,612 | 113,046 | (15,434) | (15,434) | (7,512) |
| Total Tax Receipts | $ 16,222,126 | $ 16,327,823 | $ 15,893,110 | $ 434,713 | $ 434,713 | $ 105,697 |
| Non-Tax Receipts | | | | | | |
| Federal | $ 9,121,758 | $ 9,195,173 | $ 9,415,481 | $ (220,308) | $ (220,308) | $ 73,415 |
| Other and Transfers | 5,033,394 | 5,468,954 | 4,979,398 | 489,556 | 489,556 | 435,560 |
| Note Proceeds | - | - | - | - | - | - |
| Total Non-Tax Receipts | $ 14,155,152 | $ 14,664,127 | $ 14,394,879 | $ 269,248 | $ 269,248 | $ 508,975 |
| TOTAL RECEIPTS | $ 30,377,278 | $ 30,991,950 | $ 30,287,989 | $ 703,961 | $ 703,961 | $ 614,672 |
| DISBURSEMENTS | | | | | | |
| Local Aids | $ 8,400,938 | $ 8,796,013 | $ 9,017,318 | $ 221,305 | $ 221,305 | $ 395,075 |
| Income Maintenance | 7,952,437 | 8,319,192 | 8,364,760 | 45,568 | 45,568 | 366,755 |
| Payroll & Related | 4,779,633 | 5,088,048 | 5,010,957 | (77,091) | (77,091) | 308,415 |
| Tax Refunds | 2,839,727 | 2,562,911 | 2,317,729 | (245,182) | (245,182) | (276,816) |
| Debt Service | 1,118,715 | 899,619 | 908,934 | 9,315 | 9,315 | (219,096) |
| Miscellaneous | 5,611,799 | 5,456,211 | 5,772,915 | 316,704 | 316,704 | (155,588) |
| Note Repayment | - | - | - | - | - | - |
| TOTAL DISBURSEMENTS | $ 30,703,249 | $ 31,121,994 | $ 31,392,613 | $ 270,619 | $ 270,619 | $ 418,745 |
| 2014-15 FISCAL YEAR VARIANCE YEAR-TO-DATE | | | | $ 974,580 | $ 974,580 | |

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

(b) The results and estimates in this table for the 2014-15 fiscal year reflect the budget bill for the 2013-15 biennium (2013 Wisconsin Act 20), impacts of withholding table changes that DOR made on or after April 1, 2014, the General Fund tax cuts and other provisions included in legislation signed into law on March 24, 2014 (2013 Wisconsin Act 145), and the estimated General Fund tax revenues in the January 2015 LFB Report.

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

**Source: Wisconsin Department of Administration**

## Table II-12—(Continued)

### GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS YEAR-TO-DATE COMPARED TO ESTIMATES AND PREVIOUS FISCAL YEAR[a]
### (Cash Basis)
### As of October 31, 2015 (2015-16 Fiscal Year)

| | 2014-15 Fiscal Year through October, 2014 | 2015-16 Fiscal Year through October, 2015 | | | | |
|---|---|---|---|---|---|---|
| | Actual | Actual[b] | Estimate[b] | Variance | Adjusted Variance[c] | Difference FY15 Actual to FY16 Actual |
| RECEIPTS | | | | | | |
| Tax Receipts | | | | | | |
| Individual Income | $ 2,587,310 | $ 2,436,069 | $ 2,612,925 | $ (176,856) | $ (176,856) | $ (151,241) |
| Sales | 1,828,184 | 1,911,059 | 1,890,570 | 20,489 | 20,489 | 82,875 |
| Corporate Income | 342,366 | 373,891 | 344,621 | 29,270 | 29,270 | 31,525 |
| Public Utility | 1,441 | 11,220 | 1,398 | 9,822 | 9,822 | 9,779 |
| Excise | 255,123 | 251,024 | 250,480 | 544 | 544 | (4,099) |
| Insurance | 18,061 | 14,283 | 18,574 | (4,291) | (4,291) | (3,778) |
| Total Tax Receipts | $ 5,032,485 | $ 4,997,546 | $ 5,118,568 | $ (121,022) | $ (121,022) | $ (34,939) |
| Non-Tax Receipts | | | | | | |
| Federal | $ 3,298,600 | $ 3,109,887 | $ 3,469,533 | $ (359,646) | $ (359,646) | $ (188,713) |
| Other and Transfers | 1,824,982 | 1,832,331 | 2,009,698 | (177,367) | (177,367) | 7,349 |
| Note Proceeds | - | - | - | - | - | - |
| Total Non-Tax Receipts | $ 5,123,582 | $ 4,942,218 | $ 5,479,231 | $ (537,013) | $ (537,013) | $ (181,364) |
| TOTAL RECEIPTS | $ 10,156,067 | $ 9,939,764 | $ 10,597,799 | $ (658,035) | $ (658,035) | $ (216,303) |
| DISBURSEMENTS | | | | | | |
| Local Aids | $ 2,423,230 | $ 2,405,709 | $ 2,505,118 | $ 99,409 | $ 99,409 | $ (17,521) |
| Income Maintenance | 2,910,522 | 3,066,115 | 3,378,105 | 311,990 | 311,990 | 155,593 |
| Payroll & Related | 1,623,575 | 1,711,215 | 1,664,516 | (46,699) | (46,699) | 87,640 |
| Tax Refunds | 388,668 | 387,374 | 398,384 | 11,010 | 11,010 | (1,294) |
| Debt Service | 364,809 | 431,250 | 427,805 | (3,445) | (3,445) | 66,441 |
| Miscellaneous | 1,873,381 | 1,751,007 | 2,002,402 | 251,395 | 251,395 | (122,374) |
| Note Repayment | - | - | - | - | - | - |
| TOTAL DISBURSEMENTS | $ 9,584,185 | $ 9,752,670 | $ 10,376,330 | $ 623,660 | $ 623,660 | $ 168,485 |
| 2015-16 FISCAL YEAR VARIANCE YEAR-TO-DATE | | | | $ (34,375) | $ (34,375) | |

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

(b) The results, projections, and estimates in this table for the 2015-16 fiscal year reflect the budget bill for the 2015-17 biennium (2015 Wisconsin Act 55) and the estimated General Fund tax revenues included in the January 2015 LFB Report. The May 2015 LFB Memorandum notes, while not quantified, that the growth rate for General Fund tax collection in the 2015-16 fiscal year may be reduced from that included in the January 2015 LFB Report.

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

**Source: Wisconsin Department of Administration**

## Table II-13

### GENERAL FUND MONTHLY CASH POSITION[(a)]
### July 1, 2013 through October 31, 2015 — Actual
### November 1, 2015 through June 30, 2016 — Estimated[(b)]
### (Amounts in Thousands)

| | Starting Date | Starting Balance | Receipts[(c)] | Disbursements[(c)] |
|---|---|---|---|---|
| 2013 | July | $ 1,826,568 | $ 2,612,216 | $ 3,479,525 |
| | August | 959,259 | 1,942,353 | 1,805,260 |
| | September | 1,096,352 | 3,301,997 | 2,422,051 |
| | October | 1,976,298 | 2,359,585 | 1,745,587 |
| | November | 2,590,296 | 2,087,185 | 2,476,392 |
| | December | 2,201,089 | 2,402,394 | 2,738,822 |
| 2014 | January | 1,864,661 | 3,079,425 | 1,964,632 |
| | February | 2,979,454 | 2,494,932 | 2,538,836 |
| | March | 2,935,550 | 2,385,627 | 3,251,761 |
| | April | 2,069,416 | 2,767,975 | 2,718,417 |
| | May | 2,118,974 | 2,107,332 | 2,164,396 |
| | June | 2,061,910 | 2,836,257 | 3,397,570 |
| | July | 1,500,597 | 2,523,202 | 3,402,690 |
| | August | 621,109 | 1,925,561 | 1,790,500 |
| | September | 756,170 | 3,309,752 | 2,336,835 |
| | October | 1,729,087 | 2,397,552 | 2,054,160 |
| | November | 2,072,479 | 2,105,588 | 2,330,123 |
| | December | 1,847,944 | 2,469,466 | 3,115,458 |
| 2015 | January | 1,201,952 | 2,912,758 | 1,952,696 |
| | February | 2,162,014 | 2,554,751 | 2,832,186 |
| | March | 1,884,579 | 2,595,511 | 3,261,704 |
| | April | 1,218,386 | 3,028,756 | 2,745,526 |
| | May | 1,501,616 | 2,140,123 | 1,952,163 |
| | June | 1,689,576 | 3,028,930 | 3,347,952 |
| | July | 1,370,554 | 2,622,023 | 3,523,484 |
| | August | 469,093 | 1,965,328 | 1,705,255 |
| | September | 729,166 | 3,055,596 | 2,581,501 |
| | October | 1,203,261 | 2,296,817 | 1,942,430 |
| | November | 1,557,648 | 2,514,792 | 2,548,445 |
| | December | 1,523,995 [(d)] | 2,463,178 | 3,120,117 |
| 2016 | January | 867,056 | 3,130,774 | 2,140,366 |
| | February | 1,857,464 | 2,844,244 | 2,843,885 |
| | March | 1,857,823 | 2,637,047 | 3,489,571 |
| | April | 1,005,299 | 2,997,541 | 2,770,393 |
| | May | 1,232,447 | 2,611,670 | 2,064,623 |
| | June | 1,779,494 | 2,918,349 | 3,384,813 |

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

(b) The results, projections, or estimates in this table for the 2015-16 fiscal year reflect the enacted budget for the 2015-17 biennium (2015 Wisconsin Act 55) and the estimated General Fund tax revenues included in the January 2015 LFB Report. The May 2015 LFB Memorandum notes, while not quantified, that the growth rate for General Fund tax collection in the 2015-16 fiscal year may be reduced from that included in the January 2015 LFB Report.

(c) Operating notes have not been issued for the 2013-14, 2014-15, or 2015-16 fiscal years.

(d) At some period during this month, the General Fund was in a negative cash position. The Wisconsin Statutes provide certain administrative remedies for periods when the General Fund is in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds to the General Fund up to 9% of the total general purpose revenue appropriations then in effect. For the 2015-16 fiscal year this amount is projected to be $1.430 billion. In addition, the Secretary of Administration may also temporarily reallocate an additional amount of up to 3% of total general purpose revenue appropriations for a period of up to 30 days. For the 2015-16 fiscal year this amount is projected to be $477 million. If the amount available for temporary reallocation to the General Fund is insufficient, then the Secretary of Administration is authorized to set priorities for payments from the General Fund and to prorate and defer certain payments.

**Source: Wisconsin Department of Administration**

**Table II-14**
**CASH BALANCES IN FUNDS AVAILABLE FOR TEMPORARY REALLOCATION[(a)]**
**July 31, 2013 to October 31, 2015 — Actual**
**November 30, 2015 to June 30, 2016 — Estimated**
**(Amounts in Millions)**

The following two tables show, on a monthly basis, the cash balances available for temporary reallocation. The first table does not include balances in the Local Government Investment Pool **(LGIP)**, and the second table does include such balances. Though the LGIP is available for temporary reallocation, funds in the LGIP are deposited and withdrawn by local units of government and thus are outside the control of the State. The monthly average daily balances in the LGIP for the past five years have ranged from a low of $2.113 billion during November 2011 to a high of $3.464 billion in February 2013. The Secretary of Administration may not exercise the authority to make temporary reallocation if doing so would jeopardize the cash flow of any fund or account from which the temporary reallocation would be made.

**Available Balances; Does Not Include Balances in the LGIP**

| Month (Last Day) | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| January | | $1,465 | $1,264 | $1,465 |
| February | | 1,518 | 1,368 | 1,518 |
| March | | 1,534 | 1,406 | 1,534 |
| April | | 1,644 | 1,415 | 1,644 |
| May | | 1,620 | 1,430 | 1,620 |
| June | | 1,533 | 1,481 | 1,533 |
| July | $1,557 | 1,396 | 1,245 | |
| August | 1,569 | 1,311 | 1,359 | |
| September | 1,616 | 1,373 | 1,674 | |
| October | 1,419 | 1,294 | 1,303 | |
| November | 1,454 | 1,266 | 1,454 | |
| December | 1,518 | 1,346 | 1,518 | |

**Available Balances; Includes Balances in the LGIP**

| Month (Last Day) | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| January | | $4,586 | $4,198 | $4,586 |
| February | | 4,642 | 4,464 | 4,642 |
| March | | 4,884 | 4,688 | 4,884 |
| April | | 4,605 | 4,354 | 4,605 |
| May | | 4,173 | 4,241 | 4,173 |
| June | | 4,012 | 4,222 | 4,012 |
| July | $4,865 | 4,588 | 4,642 | |
| August | 4,283 | 3,879 | 4,071 | |
| September | 4,005 | 3,821 | 4,249 | |
| October | 3,615 | 3,438 | 3,589 | |
| November | 3,614 | 3,440 | 3,614 | |
| December | 4,255 | 3,965 | 4,255 | |

(a) The amounts shown reflect a reduction in the aggregate cash balances available to the extent any fund had a negative balance and temporary reallocations were made from such fund.

**Source: Wisconsin Department of Administration**

**Table II-15**

**GENERAL FUND RECORDED REVENUES[(a)]**
**(Agency-Recorded Basis)**
**July 1, 2014 to June 30, 2015 compared with previous year[(b)]**

| | Annual Fiscal Report Revenues 2013-14 Fiscal Year[(b)] | Projected Revenues 2014-15 Fiscal Year[(c)] | Recorded Revenues July 1, 2013 to June 30, 2014[(d)] | Recorded Revenues July 1, 2014 to June 30, 2015[(e)] |
|---|---|---|---|---|
| Individual Income Tax ....……. | $ 7,061,390,000 | $ 7,514,100,000 | $ 7,061,389,669 | $ 7,325,816,775 |
| General Sales and Use Tax ……. | 4,628,338,000 | 4,808,400,000 | $ 4,628,337,935 | $4,892,125,859 |
| Corporate Franchise and Income Tax ............……… | 967,184,000 | 1,099,900,000 | 967,184,149 | 1,004,926,461 |
| Public Utility Taxes .........……. | 360,967,000 | 358,300,000 | 360,967,550 | 381,819,363 |
| Excise Taxes ....................……. | 698,687,000 | 697,000,000 | 698,686,674 | 699,060,289 |
| Inheritance Taxes ..........………. | (78,000) | - | (77,722) | (112,267) |
| Insurance Company Taxes ……... | 165,765,000 | 172,000,000 | 165,764,951 | 165,448,106 |
| Miscellaneous Taxes ....………. | 65,848,000 | 74,900,000 | 95,919,109 | 100,676,423 |
| SUBTOTAL............…………. | 13,948,101,000 | 14,724,600,000 | 13,978,172,315 | 14,569,761,009 |
| Federal and Other Inter-Governmental Revenues[(f)] .....… | 10,168,393,000 | 10,022,639,400 | 10,168,393,627 | 10,214,695,110 |
| Dedicated and Other Revenues[(g)] ..........……. | 5,649,427,000 | 4,773,215,600 | 5,893,245,945 | 6,125,112,592 |
| TOTAL....................…………. | $ 29,765,921,000 | $ 29,520,455,000 | $ 30,039,811,887 | $ 30,909,568,710 |

(a) The revenues in this table are presented on an agency-recorded basis and not a budgetary basis. None of the data presented in this table has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments.

(b) The amounts are from the Annual Fiscal Report (budgetary basis) for the 2013-14 fiscal year, dated October 15, 2014.

(c) The results, projections, or estimates included in this table on an agency-recorded basis reflect the 2013-15 biennial budget (2013 Wisconsin Act 20), the estimated General Fund tax revenues included in a memorandum provided by LFB in January, 2014, the impacts of withholding table changes that DOR made on or after April 1, 2014, and the General Fund tax cuts and other provisions included in legislation signed into law on March 24, 2014 (2013 Wisconsin Act 145), but do not reflect the estimated General Fund tax revenues, as provided by DOR, in the November 2014 DOA Report or the estimated General Fund tax revenues in the January 2015 LFB Report.

(d) The amounts shown are 2013-14 fiscal year revenues as recorded by all State agencies. There may be differences between the tax revenues shown in this table and those reported by DOR from time to time in its monthly general purpose revenue collections report; the DOR report only includes general purpose revenues or taxes that are actually collected by DOR.

(e) The amounts shown are 2014-15 fiscal year general purpose revenues and program revenue taxes collected across all State agencies. There may be differences between the tax revenues shown in this table and those reported by DOR from time to time in its monthly general purpose revenue collections report; the DOR report only includes general purpose revenues or taxes that are actually collected by DOR.

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

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

**Source: Wisconsin Department of Administration**

**Table II-15—(Continued)**

**GENERAL FUND RECORDED REVENUES[(a)]**
**(Agency-Recorded Basis)**
**July 1, 2015 to September 30, 2015 compared with previous year[(b)]**

| | Annual Fiscal Report Revenues 2014-15 Fiscal Year[(b)] | Projected Revenues 2015-16 Fiscal Year[(c)] | Recorded Revenues July 1, 2014 to September 30, 2014[(d)] | Recorded Revenues July 1, 2015 to September 30, 2015[(e)] |
|---|---|---|---|---|
| Individual Income Tax ............ | $ 7,325,817,000 | $ 7,858,620,000 | $1,503,629,331 | $1,588,330,989 |
| General Sales and Use Tax ....... | 4,892,126,000 | 5,054,130,000 | $849,657,887 | $862,696,098 |
| Corporate Franchise and Income Tax .................... | 1,004,926,000 | 994,020,000 | 233,759,751 | 217,685,064 |
| Public Utility Taxes ................. | 381,819,000 | 366,800,000 | 119,785 | -299,476 |
| Excise Taxes ............................ | 699,060,000 | 679,475,000 | 127,975,456 | 126,545,510 |
| Inheritance Taxes .................... | (112,000) | - | -106,641 | 7,505 |
| Insurance Company Taxes ....... | 165,448,000 | 181,000,000 | 29,127,211 | 27,575,409 |
| Miscellaneous Taxes ................ | 72,117,000 | 73,900,000 | 16,169,557 | 19,466,175 |
| SUBTOTAL.......................... | 14,541,201,000 | 15,207,945,000 | 2,760,332,337 | 2,842,007,274 |
| Federal and Other Inter-Governmental Revenues[(f)] ....... | 10,216,151,000 | 10,603,138,400 | 2,572,796,396 | 2,508,651,550 |
| Dedicated and Other Revenues[(g)] ................ | 5,865,052,000 | 5,258,827,500 | 1,562,660,502 | 1,535,283,328 |
| TOTAL.............................. | $ 30,622,404,000 | $ 31,069,910,900 | $ 6,895,789,235 | $ 6,885,942,152 |

(a) The revenues in this table are presented on an agency-recorded basis and not a budgetary basis. None of the data presented in this table has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments.

(b) The amounts are from the Annual Fiscal Report (budgetary basis) for the 2014-15 fiscal year, dated October 15, 2015.

(c) The results, projections, or estimates included in this table on an agency-recorded basis reflect the 2015-17 biennial budget (2015 Wisconsin Act 55) and the estimated General Fund tax revenues included in the January 2015 LFB Report. The May 2015 LFB Memorandum notes, while not quantified, that the growth rate for General Fund tax collection in the 2015-16 fiscal year may be reduced from that included in the January 2015 LFB Report.

(d) The amounts shown are 2014-15 fiscal year revenues as recorded by all State agencies. There may be differences between the tax revenues shown in this table and those reported by DOR from time to time in its monthly general purpose revenue collections report; the DOR report only includes general purpose revenues or taxes that are actually collected by DOR.

(e) The amounts shown are 2015-16 fiscal year general purpose revenues and program revenue taxes collected across all State agencies. There may be differences between the tax revenues shown in this table and those reported by DOR from time to time in its monthly general purpose revenue collections report; the DOR report only includes general purpose revenues or taxes that are actually collected by DOR.

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

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

**Source: Wisconsin Department of Administration**

**Table II-16**

## GENERAL FUND RECORDED EXPENDITURES BY FUNCTION[(a)]
## (Agency-Recorded Basis)
## July 1, 2014 to June 30, 2015 compared with previous year[(b)]

| | Annual Fiscal Report Expenditures 2013–14 Fiscal Year[(b)] | Appropriations 2014–15 Fiscal Year[(c)] | Recorded Expenditures July 1, 2013 to June 30, 2014[(d)] | Recorded Expenditures July 1, 2014 to June 30, 2015[(e)] |
|---|---|---|---|---|
| Commerce | $ 197,230,000 | $ 227,465,900 | $ 197,230,979 | $ 230,177,534 |
| Education | 12,451,421,000 | 12,993,697,600 | 12,451,421,123 | 12,984,123,453 |
| Environmental Resources | 434,226,000 | 395,938,000 | 434,226,738 | 334,716,022 |
| Human Relations & Resources | 13,384,219,000 | 12,754,047,600 | 13,384,219,969 | 13,886,821,512 |
| General Executive | 1,001,832,000 | 1,123,118,300 | 1,001,832,709 | 988,070,737 |
| Judicial | 126,672,000 | 135,823,100 | 126,672,416 | 130,744,284 |
| Legislative | 65,525,000 | 74,923,700 | 65,525,903 | 65,595,364 |
| General Appropriations | 2,296,866,000 | 2,374,477,200 | 2,296,866,923 | 2,267,904,909 |
| TOTAL | $ 29,957,991,000 | $ 30,079,491,400 | $ 29,957,996,761 | $ 30,888,153,814 |

(a) The expenditures in this table are presented on an agency-recorded basis and not a budgetary basis. None of the data presented in this table has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments.

(b) The amounts are from the Annual Fiscal Report (budgetary basis) for the 2013-14 fiscal year, dated October 15, 2014.

(c) The results, projections, and estimates included in this table reflect the 2013-15 biennial budget (2013 Wisconsin Act 20).

(d) The amounts shown are 2013-14 fiscal year expenditures as recorded by all State agencies. The amounts shown include expenditures for the 2013-14 fiscal year that were recorded by State agencies during the months of July and August, 2014.

(e) The amounts shown are 2014-15 fiscal year expenditures as recorded by all State agencies. The amounts shown include expenditures for the 2014-15 fiscal year that were recorded by State agencies during the months of July and August, 2015.

**Source: Wisconsin Department of Administration**

**Table II-16—(Continued)**

**GENERAL FUND RECORDED EXPENDITURES BY FUNCTION[(a)]**
**(Agency-Recorded Basis)**
**July 1, 2015 to September 31, 2015 compared with previous year[(b)]**

| | Annual Fiscal Report Expenditures 2014–15 Fiscal Year[(b)] | Appropriations 2015–16 Fiscal Year[(c)] | Recorded Expenditures July 1, 2014 to September 30, 2014[(d)] | Recorded Expenditures July 1, 2015 to September 30, 2015[(e)] |
|---|---|---|---|---|
| Commerce | $ 231,274,000 | $ 200,900,000 | $ 51,204,605 | $ 43,317,848 |
| Education | 12,965,215,000 | 13,042,874,200 | 2,647,585,507 | 2,548,357,280 |
| Environmental Resources | 331,465,000 | 348,785,900 | 24,922,230 | 22,730,541 |
| Human Relations & Resources | 13,881,927,000 | 13,729,644,600 | 3,578,066,838 | 3,733,259,149 |
| General Executive | 987,071,000 | 1,170,397,600 | 382,717,502 | 424,387,870 |
| Judicial | 130,748,000 | 137,494,300 | 32,828,226 | 33,551,581 |
| Legislative | 65,596,000 | 75,781,100 | 11,362,811 | 16,045,061 |
| General Appropriations | 2,267,905,000 | 2,364,033,200 | 1,181,802,723 | 1,177,221,877 |
| TOTAL | $ 30,861,201,000 | $ 31,069,910,900 | $ 7,910,490,442 | $ 7,998,871,207 |

(a) The expenditures in this table are presented on an agency-recorded basis and not a budgetary basis. None of the data presented in this table has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments.

(b) The amounts are from the Annual Fiscal Report (budgetary basis) for the 2014-15 fiscal year, dated October 15, 2015.

(c) The results, projections, and estimates included in this table reflect the 2015-17 biennial budget (2015 Wisconsin Act 55).

(d) The amounts shown are 2014-15 fiscal year expenditures as recorded by all State agencies.

(e) The amounts shown are 2015-16 fiscal year expenditures as recorded by all State agencies.

**Source: Wisconsin Department of Administration**

## General Fund History

Table II-17 presents the General Fund condition for the previous five years.

**Table II-17**
**COMPARATIVE CONDITION OF GENERAL FUND[(a)]**
**(As of June 30; Amounts in Thousands)**

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash & Investment Pool Shares | $ 1,375,275 | $1,505,307 | $ 1,831,711 | $ 979,659 | $ 308,829 |
| Contingent Fund Advances | 2,909 | 2,931 | 2,939 | 2,939 | 2,942 |
| **Receivables** | | | | | |
| Accounts Receivable | 1,418,149 | 1,410,134 | 1,458,430 | 1,384,328 | 1,210,956 |
| Due from Other Funds | 160,950 | 206,976 | 182,348 | 45,172 | 321,371 |
| Inventory | 588 | 364 | 593 | 685 | 711 |
| Prepayments | 72,749 | 69,120 | 79,019 | 77,351 | 96,099 |
| Other Assets | 127,622 | 115,065 | 16,898 | 132,913 | 134,734 |
| TOTAL ASSETS | $ 3,158,242 | $3,309,897 | $ 3,571,938 | $ 2,623,047 | $ 2,075,642 |
| **LIABILITIES** | | | | | |
| Accounts Payable | $ 591,323 | $ 536,002 | $ 513,857 | $ 450,252 | $ 486,688 |
| Operating Notes Payable | - | - | - | - | - |
| Due to Other Funds | 337,782 | 194,579 | 454,770 | 197,479 | 295,934 |
| Tax and Other Deposits | 28,271 | 20,476 | 21,189 | 12,308 | 25,051 |
| Deferred Revenue | 185,747 | 175,201 | 163,382 | 173,646 | 175,698 |
| TOTAL LIABILITIES | $ 1,143,123 | $ 926,258 | $ 1,153,198 | $ 833,685 | $ 983,371 |
| **FUND BALANCE** | | | | | |
| **Reserves** | | | | | |
| Encumbrances & GPR Balances | $ 236,915 | $ 241,535 | $ 138,845 | $ 161,696 | $ 106,460 |
| Program Revenue Balances | 419,048 | 472,871 | 402,290 | 511,994 | 680,227 |
| Total Reserves | $ 655,963 | $ 714,406 | $ 541,135 | $ 673,690 | $ 786,687 |
| Unreserved Balance-Undesignated | 1,359,156 | 1,669,233 | 1,987,605 | 1,115,672 | 305,584 |
| TOTAL FUND BALANCE | $ 2,015,119 | $2,383,639 | $ 2,528,740 | $ 1,789,362 | $ 1,092,271 |
| TOTAL LIABILITIES AND FUND BALANCE | $ 3,158,242 | $3,309,897 | $ 3,681,938 | $ 2,623,047 | $ 2,075,642 |

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

**Source: Department of Administration**

# STATE GOVERNMENT ORGANIZATION

The State is located in the Midwest. The State ranks 20th among the states in population and 25th in land area. Wisconsin attained statehood in 1848, its capital is the City of Madison, and its largest city is Milwaukee. The following is a summary of the general organization of, and services provided by, State government.

## General Organization

*Executive Branch*

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

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

- *Attorney General*. The Attorney General heads the State of Wisconsin Department of Justice, which provides all State agencies with legal advice and counsel.
- *State Treasurer*. The State Treasurer participates in the promotion of the State's unclaimed property program administered by the Department of Revenue, and signs certain checks and other financial instruments.
- *Secretary of State*. The Secretary of State keeps a record of the official acts of the Legislature and executive agencies.
- *Superintendent of Public Instruction*. The Superintendent of Public Instruction heads the State of Wisconsin Department of Public Instruction, which supervises the operations of and establishes standards for schools throughout the State.

The executive branch consists of 17 departments (including two headed by other constitutional officers), 10 independent agencies, and numerous other authorities.

*Legislative Branch*

The legislative branch consists of the Legislature and its subordinate service agencies. The Legislature is bicameral, composed of the Senate and the Assembly. The 33 members of the Senate serve staggered four-year terms, and the 99 members of the Assembly serve identical two-year terms. Both the Senate and the Assembly operate on a committee system. The Legislature's biennial session begins in odd-numbered years on the first Monday in January (or January 3rd if the first Monday is January 1st or January 2nd). By a joint resolution, the biennial session is divided into floor periods interspersed with committee work periods. In odd-numbered years, the Joint Committee on Legislative Organization develops a schedule for the two-year period. The Legislature also meets in special session when so called by the Governor and in extraordinary session when a majority from each branch signs a petition; at these times the Legislature may transact only that business for which the special or extraordinary session is called.

*Judicial Branch*

The judicial branch consists of:

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

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

**Description of Services Provided by State Government**

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

*Commerce*

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

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

Several State agencies participate in the field of commerce:

- *Department of Agriculture, Trade and Consumer Protection* provides consumer protection and regulates the conditions of the growth and processing of food and fair trade practices in general.
- *Department of Safety and Professional Services* supervises a variety of examining boards in various trades and professions and promotes industrial development. This department includes some of the functions provided by the previous Departments of Regulation and Licensing and Commerce.
- *Department of Financial Institutions* regulates securities transactions and supervises State-chartered banks, credit unions, and savings and loans.
- *Public Service Commission* regulates the rates and services offered by railroad companies and heat, light, power, and water companies. The commission also awards grants for expansion of broadband services to underserved areas of the State.
- *Department of Tourism* promotes the State's many attributes to visitors.

The *Wisconsin Economic Development Corporation* was created in 2011 to develop and implement economic and business development programs in the State. The Wisconsin Economic Development Corporation is a public body corporate and politic, has a 13-member board of directors whose chair is elected by the board from among the nonlegislative voting members, and receives appropriations from the State to fund its activities. Prior to 2011, the Wisconsin Department of Commerce provided economic development services.

*Education*

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

- *Primary and Secondary Schools.* There were 424 school districts in the State for the 2014-15 school year, which administer the elementary and secondary schools within those districts. There were approximately 854,419 students attending public elementary and secondary schools in the 2014-15 school year. Elementary and secondary schools are operated by district boards, with supervision of the system provided by the Department of Public Instruction.

- *Technical Colleges.* The State is divided into 16 technical college districts. In the 2014-15 academic year, 304,022 full- and part-time students were enrolled in the technical college system. The technical colleges are operated by district boards, with supervision of the system provided by the Technical College System Board.
- *University of Wisconsin System.* The University of Wisconsin System consists of its doctoral campus in Madison (the largest campus in the State), its doctoral campus in Milwaukee, 11 other four-year degree-granting institutions, 13 two-year colleges, and the University of Wisconsin Extension. The system's total enrollment in 2014-15 was 180,797 students.

Other agencies and boards concerned with the education function of the State include the Educational Communications Board (which operates the State public radio network, the State public television network, and the State educational television network), the State Historical Society, the Arts Board, and the Higher Educational Aids Board (which manages and oversees of the State's student financial aid system for residents attending institutions of higher education).

*Environmental Resources and Transportation*

Two major State agencies, the Department of Transportation and the Department of Natural Resources, are concerned with the development of transportation resources, and the protection of the land, forests, water, air, wildlife, and minerals of the State while promoting a healthy, sustainable environment.

The State works with municipal and industrial operations discharging wastewater to surface or groundwater to retain the purity of State lakes and streams and ensure quality groundwater for families, businesses, customers and the community. The State also sets standards of air quality at a level which will provide adequate protection to public health and welfare, and prevent detrimental effects on property and our environment. Parks and forests have been established and are maintained both to preserve unusual phenomena of nature and to provide the public with recreational and educational opportunities. Private forest owners are given incentives to observe scientific conservation practices so that new growth may replace cut timber. Hunting and fishing limits are set, and hunters and fishermen licensed, to preserve the fish and wildlife from extinctive practices. Farming methods that preserve the quality and stability of the soil are encouraged.

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

The State has an elaborate system of highways. It consists of interstate highways financed from Federal and State funds and of State highways, county trunk highways, town roads, city and village streets, and park and forest roads. Closely connected with the highway building functions of the State government and the aid granted to local units for streets and highways are the objects for which these roads are built—the motor vehicle and its occupants. While the State is concerned with the building and maintenance of an adequate number of roads of certain standards to meet the traffic demands, it is also concerned with the safety and convenience of the people who are using those roads. Over 5.7 million vehicles are currently registered.

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

*Human Relations and Resources*

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

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

Improving living standards for needy, aged, handicapped, and minors in need of assistance is also a goal of the State. Such health and welfare activities are primarily the work of the Department of Health Services, including the State's Badger Care Plus Program, which provides health insurance coverage for all children under the age of 19 (regardless of income) and low-income adults, and a prescription drug program for the elderly. With respect to the Patient Protection and Affordable Care Act, the State has notified the U.S. Department of Health and Human Services that the State will not build a state-based health insurance exchange and will defer to the Federal Government's insurance exchange.

The Board of Aging and Long Term Care makes recommendations on programs to benefit the aged and those individuals needing long term care services. The Department of Veterans Affairs operates additional assistance programs for military service veterans.

As a worker, the individual comes in contact with the State in many ways, mostly through the Department of Workforce Development:

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

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

The Department of Children and Families focuses exclusively on helping and protecting children and families within the State. It administers more than 30 services, including child welfare and the Wisconsin Works (W-2) program, which provides employment preparation services, case management, and cash assistance to eligible families.

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

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

*General Executive*

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

- *Department of Administration* duties include budgeting, information technology, data processing, accounting, payroll, financial reporting, processing the receipt and disbursement of monies received or expended by the State, engineering, and facilities management and planning. In addition, the 2015-17 biennial budget abolished the Office of State Employment Relations and transferred its duties, which included supervision of State personnel practices, to the Department of Administration. In addition, the Department of Administration administers the State's Section 529 College Savings Plans. Further information about these Section 529 College Savings Plans can be found at www.edvest.com and www.tomorrowsscholar.com. These web sites, and the materials available on the web sites, are not incorporated into, nor are they a part of the 2015 Annual Report.
- *Government Accountability Board* administers a code of ethics for State public officials, overseeing the election processes of the State, administering public funding of campaigns, monitoring candidate expenditures, and keeping election records. 2015 Wisconsin Act 118 eliminate the Government Accountability Board, effective June 30, 2016, and create two commissions—an elections commission responsible for overseeing the election process and keeping election records and an ethics commission for administering public funding of campaigns and monitoring candidate expenditures.
- *Department of Revenue* collects the taxes imposed by Wisconsin Statutes, distributes that part of the revenue that is to be returned to the local units of government, calculates the equalized value of the property that has been assessed by local government, operates and distributes the proceeds of the State lottery and serves as custodian of unclaimed property.
- *Office of the State Treasurer* participates in the promotion of the State's unclaimed property program administered by the Department of Revenue, and signs certain checks and other financial instruments.
- *Department of Employee Trust Funds* manages the State's public employee retirement system and health and other group insurance contracts.
- *Office of the Secretary of State* keeps and authenticates various State records.
- *State of Wisconsin Investment Board* invests the assets of the Wisconsin Retirement System and various State funds, including the State Investment Fund.

*Legislative*

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

*General Appropriations*

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

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

## STATE OF WISCONSIN BUILDING COMMISSION

The Commission supervises all matters relating to the State's issuance of general obligations, revenue obligations, and operating notes. In addition, the Commission also oversees the planning, improvement, major maintenance, and renovation of State facilities.

Limitations in the Wisconsin Constitution severely restricted the issuance of direct State debt until 1969, when the Wisconsin Constitution was amended to authorize the State to borrow money. Chapter 18 of the

Wisconsin Statutes delegates powers to the Commission and establishes the procedures for the issuance of debt.

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

DOA assists the Commission, with the Administrator of the Division of Facilities Development, with the concurrence of the Secretary of Administration, serving as the Secretary to the Building Commission. As of the date of the 2015 Annual Report, there is an Acting Administrator for the DOA Division of Facilities Development, and in addition, the Director of the Division of Facilities Development's Bureau of Capital Budget and Construction Administration is serving as Acting Secretary to the Building Commission. The Secretary of Administration, and both the head of the engineering function and the ranking architect in the DOA Division of Facilities Development, serve as nonvoting advisory members. Employees of the DOA Division of Executive Budget and Finance, including the Capital Finance Director, serve as staff responsible for managing the State's various borrowing programs.

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

# STATE OBLIGATIONS

### General Obligations

The State, acting through the Commission, may issue general obligation bonds and notes or enter into loans that are secured by the State's full faith, credit, and taxing power. There is irrevocably appropriated, as a first charge upon all revenues of the State, a sum sufficient for the timely payment of State general obligations. As of December 15, 2015, the State had $7.988 billion of outstanding general obligations.

The State has never defaulted in the punctual payment of principal or interest on any general obligation indebtedness and has never attempted to prevent or delay such required payments. The State has reserved no right to reduce or modify any terms with respect to security or source of payment of general obligation bonds or notes. See Part III of the 2015 Annual Report for additional information on general obligations.

### Operating Notes

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

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

As of December 15, 2015, the State had not issued operating notes in fiscal year 2015-16.

## Master Lease Program

The State, acting by and through the Department of Administration, has entered into a master lease for the purpose of acquiring property (and in limited situations, prepaid service contracts) for State agencies through installment payments. The State's obligation to make lease payments is subject to annual appropriation by the Legislature. The full faith and credit of the State are not pledged to the lease payments; the State is not obligated to levy or pledge any tax to pay the lease payments. The State's obligation to make the lease payments does not constitute debt for purposes of the Wisconsin constitutional debt limit, and there is no limit to the amount of such obligations that the State can incur. Although an effort is made to use the master lease program for all property acquired by the State through nonappropriation leases, it is possible that State agencies may separately incur such obligations through other lease arrangements. Certificates of participation have been issued that evidence a proportionate interest in certain lease payments to be made by the State. As of December 15, 2015, the outstanding principal amount of the State's obligations under the master lease program was approximately $112 million. See Part IV of the 2015 Annual Report for additional information on master lease certificates of participation.

## State Revenue Obligations

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

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

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

Revenues pledged to the repayment of revenue obligations are deposited with a trustee for the obligations. These revenues are pledged to the owners of revenue obligations, who have a security interest on all such revenues until payment of the obligations has been made or provided for. Four such programs have been authorized and are currently outstanding:

- *Transportation revenue bond program.* This program finances a portion of the costs of the State highways and related transportation facilities. The obligations are secured by motor vehicle registration fees and other registration-related fees. The Commission has issued 36 series of bonds (which include refunding bond issues) and three series of commercial paper notes for this program, which were outstanding in the aggregate amount of $2.107 billion as of December 15, 2015. See Part V of the 2015 Annual Report for additional information on transportation revenue obligations.
- *Clean water fund program.* This program makes loans to municipalities in the State for the construction or improvement of their water pollution control facilities. The Commission has authorized two revenue bond programs for the funding the clean water fund program. The first are clean water revenue bonds; the Commission has issued 27 series of bonds for this program (including refunding bond issues), which were outstanding in the amount of $698 million as of December 15, 2015. The State does not intend to issue any additional clean water revenue bonds other than potential refunding bonds. See Part VI of the 2015 Annual Report for additional information on clean water revenue bonds. The second are environmental improvement fund revenue bonds; the Commission issued its first series of such bonds on December 3, 2015, which were outstanding in the amount of $43 million as of December 15, 2015. See Part VII of the 2015 Annual Report for additional information on environmental improvement fund revenue bonds.

- *Petroleum inspection fee revenue obligations program.* This program funds environmental remediation claims submitted under the Petroleum Environmental Cleanup Fund Award Program. Obligations issued for this program are secured by petroleum inspection fees. The Commission has issued five series of bonds (including refunding bond issues) and two series of extendible municipal commercial paper for this program, which were outstanding in the aggregate amount of $113 million as of December 15, 2015. See Part VIII of the 2015 Annual Report for additional information on petroleum inspection fee revenue obligations.

**General Fund Annual Appropriation Bonds**

The State has issued general fund annual appropriation bonds (1) to pay the State's unfunded accrued prior service (pension) liability and the State's unfunded accrued liability for sick leave conversion and (2) to finance the purchase of tobacco settlement revenues that the State previously sold to BTASC. The general fund annual appropriation bonds are not a debt of the State, and the State's obligation to make debt service payments is subject to annual appropriation by the Legislature. The full faith and credit of the State are not pledged, and the State is not obligated to levy or pledge any tax, to make the debt service payments.

The State has issued six series of general fund annual appropriation bonds (including refunding bond issues) to pay the State's unfunded accrued prior service (pension) liability, determined as of January 1, 2003, and the State's unfunded accrued liability for sick leave conversion, determined as of October 1, 2003. See "STATE OBLIGATIONS; Prior Service Pension Liabilities and Other Post-Employment Benefits". The general fund annual appropriation bonds issued for this purpose were outstanding in the aggregate amount of $1.637 billion as of December 15, 2015. With respect to the outstanding general fund annual appropriation bonds that are in the form of taxable floating rate notes, the State has hedged nearly all its variable-rate exposure by entering into interest rate exchange agreements (commonly called swap agreements).

The State has issued one series of general fund annual appropriation bonds to finance the purchase of tobacco settlement revenues that the State previously sold to BTASC. See "STATE BUDGET; Tobacco Settlement Revenues". The general fund annual appropriation bonds issued for this purpose were outstanding in the aggregate amount of $1.479 billion as of December 15, 2015.

See Part IX of the 2015 Annual Report for additional information on all general fund annual appropriation bonds.

**Independent Authorities**

State law creates and grants to three independent special purpose authorities the power to issue bonds and notes. None of these entities is a department or agency of the State, and none can issue bonds or notes that are legal obligations of the State.

*Wisconsin Housing and Economic Development Authority*

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

WHEDA may issue bonds and notes, which are to be general obligations of WHEDA (except for bonds for the housing rehabilitation loan program) unless WHEDA chooses to limit the obligation. The State is expressly not liable on WHEDA obligations. Repayment may be secured by capital reserve funds, which may be created for each bond issue in an amount that is appropriate for the type of projects being funded. Invasion of this reserve triggers a moral obligation pledge on the part of the State and prevents further WHEDA borrowing until the reserve is replenished. In the event a capital reserve fund is not established for a particular bond issue, the moral obligation pledge would not be applicable. As of June 30, 2015, WHEDA had borrowing authority of approximately $600 million for programs secured by the capital reserve fund, excluding debt issued to refund other debt, the current outstanding balance for programs secured by the capital reserve fund was approximately $365 million, and in aggregate, WHEDA had $1.228 billion in outstanding notes and bonds. WHEDA has borrowing authority for several specific programs:

- *Programs secured by capital reserve fund.* Borrowing authority of $600 million, excluding debt issued to refund other debt, of which $403 million of borrowing authority was available on November 30, 2015.
- *Housing rehabilitation programs.* Borrowing authority of $100 million, of which $100 million of borrowing authority was available on November 30, 2015.
- *Single-family home ownership mortgage loan program.* WHEDA has issued $7.730 billion in such bonds as of November 30, 2015. In the one-year period ending November 30, 2015, one single-family issue of approximately $203 million was sold.
- *Residential facilities for the elderly and chronically disabled.* Borrowing authority of $99 million, and as of November 30, 2015, WHEDA had sold three bond issues totaling $5 million.
- *Economic development and agriculture loans.* Current borrowing authority of $167 million. From current and previous borrowing authority, as of November 30, 2015, WHEDA had sold 143 series of bonds for economic development and agriculture totaling $125 million, which are not general obligations of WHEDA, and 58 series of bonds, totaling $93 million, which are general obligations of WHEDA.
- *General programs not secured by capital reserve fund.* Approximately $3 million of obligations issued for this purpose remain outstanding as of November 30, 2015.

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

*Wisconsin Health and Educational Facilities Authority*

The Wisconsin Health and Educational Facilities Authority **(WHEFA)** provides revenue bond financing for all Wisconsin 501(c)(3) nonprofit organizations. It may finance any qualifying capital project and may refinance any qualifying outstanding indebtedness. As of June 30, 2015, WHEFA had outstanding 244 issues totaling approximately $9.524 billion. All bonds are limited obligations of WHEFA, payable only from revenues specified in the documents pertaining to each bond financing and are not State debt. There is no capital reserve fund or authorization for a moral obligation pledge. An annual program and financial report to the Legislature and the Governor is required. The State Auditor is empowered to investigate WHEFA's financial affairs and prescribe methods of accounting. The governance of WHEFA is by a seven-member, staggered-term board nominated by the Governor and confirmed by the Senate. The Governor annually appoints the chairperson. Financial reports may be obtained from Wisconsin Health and Educational Facilities Authority, 18000 West Sarah Lane, Suite 300, Brookfield, WI 53045-5841. The telephone number is (262) 792-0466, the e-mail address is info@whefa.com, and the web site address is www.whefa.com.

*University of Wisconsin Hospitals and Clinics Authority*

The University of Wisconsin Hospitals and Clinics Authority (**UWHCA**) operates the University of Wisconsin Hospital, American Family Children's Hospital and a number of clinics. It provides instruction for medical and other health related professions, students, and sponsors. It also supports medical research and assists health care programs and personnel throughout the State. As of June 30, 2015, UWHCA had outstanding long-term debt totaling approximately $453 million.

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

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

### Local Districts

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

- *Local exposition district.* This type of district is authorized to issue bonds for costs related to an exposition center. If the Secretary of Administration determines that certain conditions are met, the State may have a moral obligation to appropriate moneys to make up deficiencies in the district's debt service reserve fund that secure up to $200 million principal amount of bonds in the event that project revenues and tax revenues received by the district are inadequate to pay debt service on the bonds. To date, one such district has been created (the Wisconsin Center District). Provisions of 2015 Wisconsin Act 60 further authorized this type of district to issue up to $203 million of obligations for costs related to a sports and entertainment arena facilities. Any such obligations issued for this purpose would not be subject to a moral obligation of the State.
- *Local professional baseball park district.* The territory of this type of district consists of each county with a population of more than 600,000 and all contiguous counties. A district is authorized to issue bonds for costs related to a baseball park. If the Secretary of Administration determines that certain conditions are met, the State may have a moral obligation to appropriate moneys to make up deficiencies in the district's reserve funds that secure up to $160 million principal amount of bonds in the event the project revenues and tax revenues received by the district are inadequate to pay debt service. To date, one such district has been created (the Southeast Wisconsin Professional Baseball Park District).
- *Local professional football park district.* The territory of this type of district consists of any county with a population of more than 150,000 that includes the principal site of a stadium that is the home of a professional football team. A district is authorized to issue revenue bonds for costs related to a football park. If the Secretary of Administration determines that certain conditions are met, the State may have a moral obligation to appropriate moneys to make up deficiencies in the district's reserve funds that secure up to $160 million principal amount of bonds in the event the project revenues and tax revenues received by the district are inadequate to pay debt service. To date, one such district has been created (the Green Bay-Brown County Professional Football Stadium District).

### Moral Obligations

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

- *Payments to reserve funds securing certain obligations of WHEDA.* As of June 30, 2015 there were eleven issues outstanding in the aggregate amount of $365 million that carry a moral obligation of the State.

| **Name of WHEDA Issue** | **Maturity Date** | **Principal Issued** | **Outstanding Balance** |
|---|---|---|---|
| *Housing Revenue Bonds* | | | |
| 1998 Series A, B & C | 11/1/2018 | $ 39,895,000 | $ 330,000 |
| 2003 Series A-E | 5/1/2044 | 41,975,000 | 22,000,000 |
| 2005 Series A-F | 11/1/2045 | 179,535,000 | 133,880,000 |
| 2006 Series A-D | 5/1/2047 | 28,580,000 | 22,885,000 |
| 2007 Series A-G | 11/1/2042 | 42,570,000 | 31,140,000 |
| 2008 Series A-G | 11/1/2033 | 56,155,000 | 27,380,000 |
| 2009 Series A | 5/1/2042 | 14,045,000 | 8,860,000 |
| 2010 Series A-B | 11/1/2043 | 42,775,000 | 33,375,000 |
| 2012 Series A-B | 5/1/2055 | 53,540,000 | 53,330,000 |
| 2012 Series C | 11/1/2044 | 16,670,000 | 16,355,000 |
| 2013 Series A-C | 5/1/2045 | 21,270,000 | 15,885,000 |
| Total | | | $365,420,000 |

- *Payments of debt service on petroleum inspection fee revenue obligations.* In its legislation authorizing the issuance of the petroleum inspection fee revenue obligations, the Legislature, recognizing a moral obligation to do so, expressed its expectation that, if the Legislature were to reduce the rate of the petroleum inspection fee (which has happened) and if the petroleum inspection fee were insufficient to pay debt service on the petroleum inspection fee revenue obligations when due (which has not happened), then the Legislature would make an appropriation from the general fund sufficient to pay such debt service. The petroleum inspection fee revenue obligations are currently outstanding in the principal amount of $113 million.

- *Payments to reserve funds securing certain obligations of different types of local districts,* subject to the Secretary of Administration's determination that certain conditions have been met. Currently there is one issue from a local exposition district (the Wisconsin Center District) that is outstanding in the amount of $118 million that carries a moral obligation of the State. Two other local districts (the Southeast Wisconsin Professional Baseball Park District and the Green Bay-Brown County Professional Football Stadium District) each have authority to issue $160 million of revenue obligations that, subject to the Secretary of Administration's determination that certain conditions have been met, could carry a moral obligation of the State. Both of these districts have issued revenue obligations, but those obligations do not carry the moral obligation of the State.

- *Payments to reserve funds securing obligations issued by certain redevelopment authorities,* subject to the Secretary of Administration's determination that certain conditions have been met. Currently there is one issue by a redevelopment authority (the Redevelopment Authority of the City of Milwaukee) for the Milwaukee Public Schools Neighborhood Schools Initiative that are outstanding in the total amount of $32 million that carries a moral obligation of the State.

- *Payments required to be made by municipalities on loans from the Clean Water Fund Program,* if so designated by the State. Currently no Clean Water Fund Program loan carries a moral obligation of the State.

### Employee Pension Funds

The State is part of the Wisconsin Retirement System **(WRS)**, which is a hybrid pension plan with separate individual accounts maintained for all participants. Market-related risks are generally mitigated via (1) regular changes in active employee contributions based on actuarial costs and (2) adjustment of benefits based on investment performance. A further description of the WRS and identification of the State's obligation follows; this is supplemented with additional statistical material in Tables II-18 through II-23.

The State's pension obligations are defined by formulas that establish monthly retirement benefits as a function of annual compensation and years of service. The State's current contributions to meet these pension obligations are established by a yearly actuarial determination of the value of the retirement benefits that have accrued to State employees and will have to be paid out in the future. The actuarial method used to determine the size of the contributions is known as "Frozen Initial Liability" for prior service liability and "Entry Age Normal" for current contributions. Actuarial assumptions that have been adopted in application of this method are shown in Tables II-24, II-25, and II-26.

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

WRS covers all full-time employees of the State. The total retirement contribution consists of a member (employee) contribution and an employer contribution, and an employer cannot fund any of the member's required contribution. As of June, 2015, employee and employer contributions for calendar year 2016 were set at the following rates:

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

| Employee Classification | Employee Required | Employer Required |
|---|---|---|
| General employees (including teachers) | 6.60% | 6.60% |
| Elected officials, judges, and state executives | 7.80 | 7.80 |
| Protective occupations with Social Security | 6.60 | 9.40 |
| Protective occupations without Social Security | 6.60 | 13.20 |

(a) Effective date of January 1, 2016

**Source: Department of Employee Trust Funds**

The contributions are actuarially determined each year by an independent actuarial firm. In addition, the State is also charged 0.2% of its protective payroll for special duty disability coverage. Prior to the enactment of 2011 Wisconsin Act 10, employers were permitted to fund all, or some of, the member's required contribution. With the enactment of 2011 Wisconsin Act 10, the total retirement contribution must be split equally between the employee required contribution and the employer required contribution (except in certain circumstances).

Other changes to WRS as the result of 2011 Wisconsin Act 10 included the following:

- The employee required contribution for protective occupations with Social Security and for protective occupations without Social Security is the same as for general employees. The employer required contribution for these groups is the difference between the total required contribution and the employee required contribution.
- The benefit adjustment contribution was eliminated.
- All new participants after July 1, 2011 were subjected to a five-year vesting requirement. Participants terminating before fully vesting are not eligible for a retirement benefit but can receive a separation benefit of member contributions and interest.
- The work requirement to be eligible to participate in the WRS was increased from 33%, to 67%, of full-time employment.
- Employee required contributions may not be paid by the employer on behalf of the employee.
- The formula multiplier for State executives, judges, and elected officials was reduced from 2.0% to 1.6%.

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

Annual adjustments are also made to annuities from the WRS based on investment performance. In calendar years 2009, 2010, 2011, 2012, and 2013 retirees in the WRS's Core Retirement Trust experienced reductions of up to 2.1%, 1.3%, 1.2%, 7.0%, and 9.6%, respectively, to their monthly annuity amounts. While these were the first negative adjustments for the Core Retirement Trust since the WRS was created, retirees in the Variable Retirement Investment Trust see annual adjustments, sometimes negative, that reflect changing market value on a year-by-year basis. In calendar years 2014 and 2015, retirees in the WRS's Core Retirement Trust experienced increases of 4.7% and 2.9%, respectively, to their monthly annuity amounts.

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

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

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

Various reports and information relating to WRS and the Department of Employee Trust Funds, including the Comprehensive Annual Financial Report for the year ended December 31, 2014 for the Department of Employee Trust Funds (including WRS and other benefit plans and trust funds) are or will be available from the State of Wisconsin Department of Employee Trust Funds publications web site at: etf.wi.gov/publications.htm. This web site, and the materials available on this web site, are not incorporated into, nor are they a part of, the 2015 Annual Report.

Table II-18 provides comparative actuarial balance sheets for the most recent reporting periods. The unfunded accrued liability presented is solely the responsibility of local governments and is not an obligation of the State.

*GASB Pension Accounting Standards*

On August 18, 2015, the State of Wisconsin Legislative Audit Bureau **(LAB)** released a report containing an audit of the WRS financial statements for the period ended December 31, 2014. This LAB report is not the Comprehensive Annual Financial Report for WRS and the Department of Employee Trust Funds, but does address the Governmental Accounting Standards Board **(GASB)** new pension accounting standards requiring uniform calculations of pension expense and liabilities; these standards have been adopted for the WRS financial statements. The LAB report presents a net pension asset for the WRS of $2.5 billion or 102.7% of liabilities as of December 31, 2014. Under the new GASB pension accounting standards, each participating employer in the WRS is required to report its proportionate share of this net pension asset on its financial statements, if such statements are prepared in accordance with GAAP.

### Prior Service Pension Liabilities and Other Post-Employment Benefits

*Pension Liabilities in Accompanying Financial Statements*

Liabilities of WRS are reported in the following tables. While WRS covers most public employers and employees in the State, including local governments, the State and its participants account for 29% of the all participants in the system. WRS tracks unfunded prior service liabilities in separate accounts for each employer. The unfunded prior service liabilities reported in the financial statements for WRS are entirely attributable to other units of government and not to the State of Wisconsin.

Pension liabilities are calculated using the "Entry Age Normal with Frozen Initial Liability" actuarial cost method. Under this method, actuarial gains and losses are treated as future costs in the normal cost calculation and do not affect the past service liability. Investment losses, such as those experienced in 2008, do not create an unfunded liability but do place upward pressure on future contribution rates.

*Pension and Sick Leave Conversion Benefits*

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

*Implied Subsidy of Group Health Insurance*

In May 2014, the State received a report containing the results of an actuarial valuation (as of January 1, 2013) of the State of Wisconsin Retiree Health Program. The report shows a total unfunded liability for other post-employment benefits of $893 million, which results from an implicit rate subsidy (previously referred to as implied subsidy of group health insurance). The liability for this implicit rate subsidy is down from the $953 million amount reported in May 2012 (as of January 1, 2011). Beginning January 1, 2012, prescription drug coverage for Medicare eligible retirees enrolled in the State group health insurance program is provided through a self-funded Medicare Part D Employer Group Waiver Plan, including a Medicare wrap. As a result, the State no longer receives the Retiree Drug Subsidy, and there is no longer a liability for any Medicare Part D subsidy.

*Implied Subsidy of Retiree Life Insurance Program*

A Retiree Life Insurance Program may also have an implied rate subsidy. The State provides post-retirement life insurance coverage to retired plan participants over the age of 65 at no cost to the employee. An actuarial valuation of this plan as of January 1, 2014 calculated an unfunded liability of approximately $164 million.

**Table II-18**

**WISCONSIN RETIREMENT SYSTEM**
**ACTUARIAL STATEMENT OF ASSETS AND LIABILITIES**
**December 31, 2014**
**(Amounts in Millions)**

| | 12/31/2014 | 12/31/2013 | Increase (Decrease) |
|---|---|---|---|
| **Assets and Employer Obligations:** | | | |
| Net Assets | | | |
| Cash, Investments & Receivables | | | |
| Less: Payables & Suspense Items | | | |
| Core Division | $82,385.4 | $78,170.1 | $ 4,215.3 |
| Variable Division | 6,975.0 | 7,053.4 | (78.4) |
| Totals | 89,360.4 | 85,223.5 | 4,136.9 |
| Obligations of Employers | | | |
| Unfunded Accrued Liability | 1.7 | 52.6 | (20.9) |
| TOTAL ASSETS | $89,392.1 | $85,276.1 | $4,116.0 |
| **Reserves and Surplus:** | | | |
| Reserves | | | |
| Actuarial Present Value of Projected Benefits Payable to Terminated Vested Participants and Active Members: | | | |
| Member Normal Contributions | $16,243.3 | $15,407.7 | $ 835.6 |
| Member Additional Contributions | 16.0 | 151.5 | (135.5) |
| Employer Contributions | 22,001.7 | 21,256.4 | 745.3 |
| Total Contributions | $38,261.0 | $36,815.6 | $ 1,445.4 |
| Actuarial Present Value of Projected Benefits Payable to Current Retirees And Beneficiaries: | | | |
| Core Annuities | $45,790.7 | $42,300.5 | $ 3,490.2 |
| Variable Annuities | 3,917.1 | 3,347.0 | 570.1 |
| TOTAL ANNUITIES | 49,707.8 | 45,647.5 | 4,060.3 |
| TOTAL RESERVES | $87,968.8 | $82,463.1 | $ 5,505.7 |
| Surplus | | | |
| Core Annuity Reserve Surplus | $ 1,345.0 | $ 1,972.7 | $ (627.7) |
| Variable Annuity Reserve Surplus | 78.3 | 840.3 | (762.0) |
| TOTAL SURPLUS | 1,423.3 | 2,813.0 | (1,389.7) |
| TOTAL RESERVES AND SURPLUS | $ 89,392.1 | $ 85,276.1 | $ 4,116.0 |

**Source: Department of Employee Trust Funds**

**Notes to Wisconsin Retirement System**

All eligible State of Wisconsin employees participate in the Wisconsin Retirement System **(System)**, a cost-sharing multiple-employer public employee retirement system **(PERS)**. The payroll for State employees covered by the system for the year ended December 31, 2014 was $4.20 billion, which includes various public authorities in the State.

Effective June 29, 2011, all permanent employees expected to work over 1,200 hours a year (880 hours a year for teachers) are eligible to participate in the System. General category and Executive/Elected employees are required by statute to contribute one-half of the actuarially determined contribution (6.6% of their salary for calendar year 2015. Employers may not make these contributions to the plan on behalf of the employees. Protective occupation employees are required to contribute the same percentage of their salaries as General category employees. Employers are required to contribute the remaining amounts necessary to pay the projected cost of future benefits. The total required contribution for the year ended December 31, 2014 was $608 million, which consisted of $313 million or 7.5% of payroll from the employer and $295 million or 7.0% of payroll from employees.

Employees who retire at or after age 65 (55 for protective occupation employees) are entitled to receive a retirement benefit. The benefit is calculated as 1.6% (2.0% for Executives, Elected Officials, and Protective Occupations with social security and 2.5% for protective occupations without social security) of final average earnings for each year of creditable service after December 31, 1999. Service earned before January 1, 2000 accrues benefits at a rate of 1.765% (2.165% for Executive/Elected Officials, and Protective Occupations with social security and 2.665% for protective occupations without social security). The benefit multiplier is reduced to 1.6% for service earned after June 29, 2011 for Executive/Elected Officials. Final Average Earnings is the average of the employee's three highest years' earnings. Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. For employees joining the system after June 29, 2011, five years of service are required to be eligible for a retirement benefit. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefit. The System also provides death and disability benefits for employees. Eligibility for and the amount of all benefits are determined under Chapter 40 of the Wisconsin Statutes.

The System utilizes the "Entry Age Normal with Frozen Initial Liability" actuarial method in establishing employer contribution rates. Under this method, the Unfunded Accrued Actuarial Liability is affected only by the monthly amortization payments, compound interest, the added liability created by new employer units, and any added liabilities caused by changes in benefit provisions. All actuarial gains or losses arising from the difference between actual and assumed experience are reflected in the determination of the normal cost. The unfunded accrued actuarial liability is being amortized over a 40-year period beginning January 1, 1990. However, periodically, the Employee Trust Funds Board has reviewed and, when appropriate, adjusted the actuarial assumptions used to determine this liability. Changes in the assumptions affect the unfunded accrued actuarial liability, and the resulting actuarial gains or losses are credited or charged to employer's unfunded liability accounts. The State of Wisconsin, as of December 31, 2014, had no unfunded liability. The total system unfunded liability of $32 million, as of December 31, 2014, is attributable to local governments.

Ten-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's December 31, 2014 Comprehensive Annual Financial Report.

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

**Table II-19**

**WISCONSIN RETIREMENT SYSTEM**
**FUNDING RATIO**
**(Amounts in Thousands)**

| Year | A<br>Net Real<br>Assets | B<br>Unfunded<br>Actuarial<br>Liability | C<br>Reserve<br>Requirement<br>(A+B) | D<br>Funding<br>Ratio<br>(A÷C) |
|---|---|---|---|---|
| 2005 | $68,615,100 | $372,500 | $68,987,500 | 99.5% |
| 2006 | 73,415,300 | 320,500 | 73,735,800 | 99.6 |
| 2007 | 79,791,900 | 287,800 | 80,079,700 | 99.6 |
| 2008 | 77,159,400 | 252,600 | 77,412,000 | 99.7 |
| 2009 | 78,911,300 | 193,300 | 79,104,600 | 99.8 |
| 2010 | 80,626,900 | 131,900 | 80,758,800 | 99.8 |
| 2011 | 78,940,000 | 99,300 | 79,039,300 | 99.9 |
| 2012 | 78,613,000 | 69,700 | 78,682,700 | 99.9 |
| 2013 | 85,276,100 | 52,600 | 85,328,700 | 99.9 |
| 2014 | 89,360,400 | 31,700 | 89,392,100 | 100.0 |

**Source: Department of Employee Trust Funds**

**Table II-20**

**WISCONSIN RETIREMENT SYSTEM**
**COVERED EMPLOYEES**

| Year | Active<br>State | Active<br>Local | Retired |
|---|---|---|---|
| 2005 | 70,006 | 193,116 | 131,674 |
| 2006 | 70,366 | 192,490 | 137,117 |
| 2007 | 71,162 | 192,219 | 142,906 |
| 2008 | 72,165 | 193,556 | 144,033 |
| 2009 | 72,415 | 194,878 | 150,671 |
| 2010 | 72,740 | 193,889 | 155,775 |
| 2011 | 70,391 | 186,863 | 167,453 |
| 2012 | 72,269 | 184,564 | 173,655 |
| 2013 | 73,091 | 183,697 | 180,056 |
| 2014 | 73,893 | 183,362 | 185,605 |

**Source: Department of Employee Trust Funds**

**Table II-21**

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

| | State | | Local | | Total | |
|---|---|---|---|---|---|---|
| **Year** | **Employee** | **Employer** | **Employee** | **Employer** | **Employee** | **Employer** |
| 2005...................... | $ 1,038 | $344,760 | $ 4,339 | $ 829,156 | $ 5,377 | $1,173,916 |
| 2006...................... | 1,169 | 368,020 | 4,606 | 863,256 | 5,775 | 1,231,276 |
| 2007...................... | 1,622 | 393,386 | 4,934 | 902,112 | 6,556 | 1,295,498 |
| 2008...................... | 1,748 | 421,936 | 5,217 | 937,406 | 6,965 | 1,359,342 |
| 2009...................... | 1,248 | 415,600 | 6,703 | 950,177 | 7,951 | 1,365,777 |
| 2010...................... | 3,602 | 444,538 | 8,099 | 1,006,560 | 11,701 | 1,451,098 |
| 2011...................... | 62,391 | 347,477 | 101,703 | 878,753 | 164,094 | 1,226,230 |
| 2012...................... | 213,447 | 263,731 | 398,207 | 697,435 | 611,654 | 961,166 |
| 2013...................... | 249,681 | 305,657 | 511,329 | 704,475 | 761.010 | 1,010,132 |
| 2014...................... | 279,067 | 328,856 | 612,781 | 689,606 | 891,848 | 1,018,462 |

[a] Employer contributions include employer pick-up, if any, of employee contributions. Contributions for 2011 and subsequent years reflect provisions of 2011 Wisconsin Act 10.

**Source: Department of Employee Trust Funds**

**Table II-22**

**WISCONSIN RETIREMENT SYSTEM**
**REVENUES BY TYPE**
**(Amounts in Thousands)**

| | Contributions | | | | | | |
|---|---|---|---|---|---|---|---|
| **Year** | **Required Employee** | **Required Employer[a]** | **Additional Employee** | **Investment Income** | **Supplemental** | **Misc.** | **Total** |
| 2005 | $623,250 | $603,012 | $17,468 | $ 5,492,548 | $3,039 | $ 173 | $ 6,739,490 |
| 2006 | 614,726 | 653,849 | 16,891 | 10,962,280 | 1,764 | 127 | 12,249,637 |
| 2007 | 688,044 | 646,615 | 18,462 | 6,495,914 | 1,422 | 401 | 7,850,858 |
| 2008 | 722,534 | 684,731 | 14,139 | (22,744,110) | 1,160 | 1,618 | (21,319,928) |
| 2009 | 728,181 | 705,257 | 9,249 | 13,024,986 | 912 | 205 | 14,468,790 |
| 2010 | 776,120 | 743,406 | 11,870 | 8,317,435 | 743 | 247 | 9,849,821 |
| 2011 | 783,609 | 781,064 | 14,760 | 699,546 | 602 | 1,897 | 2,281,478 |
| 2012 | 746,678 | 799,349 | 10,473 | 9,858,710 | 470 | 208 | 11,415,888 |
| 2013 | 863,079 | 914,698 | 8,180 | 11,343,231 | 342 | 190 | 13,129,720 |
| 2014 | 927,342 | 982,968 | 15,205 | 4,888,240 | 265 | 377 | 6,814,397 |

**Source: Department of Employee Trust Funds**

**Table II-23**

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

| Year | Separations | Death | Annuities | Supplemental[b] | Misc. | Total |
|---|---|---|---|---|---|---|
| 2005 ............... | $25,221 | $26,633 | $3,041,029 | $3,039 | $ 17,859 | $3,113,781 |
| 2006 ............... | 25,072 | 37,507 | 3,195,279 | 1,764 | 16,316 | 3,275,938 |
| 2007 ............... | 24,172 | 36,874 | 3,480,104 | 1.422 | 17,689 | 3,560,261 |
| 2008 ............... | 27,375 | 28,802 | 3,793,740 | 1,160 | 17,970 | 3,869,047 |
| 2009 ............... | 24,800 | 23.456 | 3,758,389 | 912 | 36,543 | 3,843,300 |
| 2010 ............... | 26,415 | 29,124 | 3,846,305 | 743 | 17,603 | 3,920,190 |
| 2011 ............... | 28,006 | 33,129 | 4,103,321 | 601 | 18,620 | 4,183,677 |
| 2012 ............... | 26,563 | 24,800 | 4,182,881 | 470 | 21,542 | 4,256,256 |
| 2013 ............... | 33,271 | 37,972 | 4,186,386 | 342 | 22,858 | 4,280,829 |
| 2014 ............... | 34,401 | 33,480 | 4,411,169 | 265 | 119,371 | 4,598,686 |

[a] Amounts include payments from employee additional contributions.

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

**Source: Department of Employee Trust Funds**

## ACTUARIAL ASSUMPTIONS

Tables II-24, II-25, and II-26 set forth the actuarial assumptions that will be applied in the determination of contribution levels required for the funding of the WRS effective January 1, 2014.

### Table II-24

### WISCONSIN RETIREMENT SYSTEM
### SEPARATION BEFORE AGE AND SERVICE RETIREMENT

**Select and Ultimate Withdrawal**

| | % of Active Participants Terminating | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Protective | | Public Schools | | University | | | Others | |
| Age & Service | With Soc. Sec. | Without Soc. Sec. | Males | Females | Males | Females | Executive &Elected | Males | Females |
| 0 | 15.0% | 4.0% | 17.7% | 15.0% | 18.3% | 22.0% | 20.0% | 17.5% | 19.5% |
| 1 | 7.0 | 3.5 | 11.4 | 10.5 | 15.0 | 15.0 | 14.0 | 13.0 | 13.5 |
| 2 | 4.3 | 2.1 | 7.3 | 7.1 | 11.3 | 12.5 | 14.0 | 8.5 | 10.0 |
| 3 | 3.8 | 1.3 | 5.2 | 5.5 | 9.6 | 10.0 | 10.0 | 6.8 | 8.0 |
| 4 | 3.4 | 1.2 | 3.9 | 4.6 | 8.5 | 9.5 | 10.0 | 6.0 | 7.4 |
| 10 & over | | | | | | | | | |
| 25 | 1.7 | 0.7 | 1.8 | 2.2 | 3.2 | 5.0 | 6.0 | 2.5 | 3.8 |
| 30 | 1.6 | 0.7 | 1.4 | 1.9 | 3.2 | 4.5 | 5.1 | 2.5 | 3.3 |
| 35 | 1.4 | 0.7 | 1.2 | 1.4 | 3.1 | 4.0 | 4.2 | 2.1 | 2.8 |
| 40 | 1.2 | 0.6 | 1.1 | 1.1 | 2.7 | 3.4 | 3.7 | 1.6 | 2.2 |
| 45 | 1.1 | 0.6 | 1.0 | 0.9 | 2.1 | 2.6 | 3.3 | 1.3 | 1.8 |
| 50 | 1.0 | 0.5 | 1.0 | 0.9 | 1.6 | 1.8 | 3.1 | 1.1 | 1.6 |
| 55 | 1.0 | 0.5 | 1.0 | 0.9 | 1.4 | 1.5 | 3.0 | 1.1 | 1.5 |
| 60 | 1.0 | 0.5 | 1.0 | 0.9 | 1.4 | 1.5 | 3.0 | 1.1 | 1.5 |

**Disability Rates**

| | % of Active Participants Becoming Disabled | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Protective | | Public Schools | | University | | Others | |
| Age | With Soc. Sec. | Without Soc. Sec. | Males | Females | Males | Females | Males | Females |
| 20 | 0.01% | 0.04% | 0.01% | 0.01% | 0.01% | 0.01% | 0.01% | 0.01% |
| 25 | 0.01 | 0.04 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |
| 30 | 0.01 | 0.04 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.03 |
| 35 | 0.02 | 0.04 | 0.01 | 0.01 | 0.01 | 0.03 | 0.01 | 0.04 |
| 40 | 0.03 | 0.07 | 0.02 | 0.02 | 0.01 | 0.04 | 0.04 | 0.05 |
| 45 | 0.04 | 0.13 | 0.04 | 0.06 | 0.02 | 0.04 | 0.07 | 0.07 |
| 50 | 0.08 | 0.74 | 0.11 | 0.12 | 0.04 | 0.07 | 0.15 | 0.11 |
| 55 | 1.21 | 0.54 | 0.21 | 0.17 | 0.11 | 0.10 | 0.29 | 0.20 |
| 60 | 2.04 | 0.16 | 0.34 | 0.25 | 0.14 | 0.15 | 0.51 | 0.29 |

**Source: Department of Employee Trust Funds**

## Table II-25

## WISCONSIN RETIREMENT SYSTEM
## RETIREMENT PATTERNS

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

| | % Retiring Next Year | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | General | | Public Schools | | University | | Protective | | |
| | | | | | | | With | Without | Executive |
| Age | Males | Females | Males | Females | Males | Females | Soc. Sec. | Soc. Sec. | & Elected |
| 50 | | | | | | | 6% | 4% | |
| 51 | | | | | | | 7 | 4 | |
| 52 | | | | | | | 8 | 5 | |
| 53 | | | | | | | 23 | 17 | |
| 54 | | | | | | | 18 | 25 | |
| 55 | | | | | | | 17 | 21 | |
| 56 | | | | | | | 16 | 27 | |
| 57 | 20% | 17% | 40% | 27% | 13% | 14% | 16 | 30 | 15% |
| 58 | 20 | 17 | 35 | 27 | 13 | 14 | 16 | 30 | 15 |
| 59 | 20 | 17 | 25 | 27 | 13 | 13 | 16 | 30 | 15 |
| 60 | 20 | 20 | 28 | 27 | 13 | 13 | 18 | 26 | 10 |
| 61 | 20 | 20 | 25 | 27 | 13 | 19 | 18 | 15 | 13 |
| 62 | 27 | 27 | 36 | 34 | 15 | 19 | 22 | 20 | 13 |
| 63 | 32 | 28 | 32 | 27 | 15 | 19 | 29 | 40 | 12 |
| 64 | 24 | 25 | 24 | 23 | 15 | 18 | 16 | 40 | 12 |
| 65 | 24 | 25 | 24 | 28 | 15 | 22 | 30 | 40 | 12 |
| 66 | 30 | 29 | 25 | 30 | 20 | 23 | 20 | 40 | 20 |
| 67 | 24 | 20 | 24 | 28 | 18 | 17 | 15 | 40 | 17 |
| 68 | 17 | 18 | 24 | 26 | 18 | 17 | 25 | 40 | 15 |
| 69 | 17 | 18 | 24 | 20 | 18 | 17 | 20 | 40 | 15 |
| 70 | 17 | 18 | 20 | 20 | 20 | 20 | 100 | 100 | 13 |
| 71 | 17 | 18 | 20 | 20 | 20 | 20 | 100 | 100 | 13 |
| 72 | 17 | 15 | 20 | 20 | 15 | 20 | 100 | 100 | 25 |
| 73 | 17 | 15 | 20 | 20 | 15 | 20 | 100 | 100 | 10 |
| 74 | 17 | 15 | 20 | 20 | 15 | 20 | 100 | 100 | 10` |
| 75 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

**Source:** **Department of Employee Trust Funds**

**Table II-26**

**WISCONSIN RETIREMENT SYSTEM**
**OTHER ASSUMPTIONS**

**Mortality Rates**

**Active & Retired Life Mortality Rates**

| Sample Attained Ages | Future Life Expectancy (years) Males | Females |
|---|---|---|
| 40 | 42.9 | 46.1 |
| 45 | 38.1 | 41.3 |
| 50 | 33.3 | 36.5 |
| 55 | 28.7 | 31.8 |
| 60 | 24.4 | 27.2 |
| 65 | 20.1 | 22.7 |
| 70 | 16.1 | 18.4 |
| 75 | 12.4 | 14.3 |
| 80 | 9.0 | 10.7 |
| 85 | 6.3 | 7.6 |

**Salary Scale**

| | Merit & Longevity Increase in Next Year | | | | | |
|---|---|---|---|---|---|---|
| Age | General | University Teachers | Teachers | Protective With S.S. | Protective w/o S.S. | Executive & Elected |
| 1 | 3.5% | 3.2% | 5.8% | 4.8% | 5.5% | 2.0% |
| 2 | 3.5 | 3.2 | 5.8 | 4.8 | 5.5 | 2.0 |
| 3 | 3.1 | 3.1 | 5.4 | 4.1 | 4.7 | 2.0 |
| 4 | 2.8 | 3.0 | 5.1 | 3.5 | 3.8 | 1.9 |
| 5 | 2.5 | 2.9 | 4.7 | 2.8 | 3.0 | 1.9 |
| 10 | 1.5 | 2.4 | 3.2 | 1.4 | 0.9 | 1.6 |
| 15 | 1.1 | 1.7 | 1.8 | 1.1 | 0.5 | 1.2 |
| 20 | 0.9 | 1.1 | 0.8 | 0.9 | 0.4 | 0.7 |
| 25 | 0.6 | 0.8 | 0.4 | 0.8 | 0.3 | 0.4 |
| 30 | 0.4 | 0.6 | 0.2 | 0.6 | 0.2 | 0.3 |

In addition to the above Merit and Longevity increase assumptions, there is a 3.2% wage inflation assumption for every age.

**Future Annual Investment Return**

For purposes of the above tables, the future annual invested return is assumed to be 7.2%.

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

**Source: Department of Employee Trust Funds**

## STATE OF WISCONSIN INVESTMENT BOARD

The State of Wisconsin Investment Board (**SWIB**) invests the assets of the State Investment Fund, WRS, and several smaller trust funds established by the State. Overall policy direction for SWIB is established by an independent, nine-member Board of Trustees (**Trustees**). The Trustees establish long-term investment policies, set guidelines for each investment portfolio, and monitor investment performance.

The nine members of the Board of Trustees include:

- The Secretary of Administration or a designee.
- Two participants in the WRS. One of these is a teacher who is appointed by the Teacher Retirement Board. The other represents non-teacher participants and is appointed by the Wisconsin Retirement Board.
- Six public members, who are appointed by the Governor. Of these public members, four are required to have at least ten years of investment experience, and one is required to be an individual with a minimum of ten years of financial experience who holds a nonelected finance position with a local government that participates in the Local Government Investment Pool.

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

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

Pursuant to Wisconsin Statutes, the State Investment Fund consists of cash balances of the General Fund, State agencies and departments, and WRS reserves. In addition, the State Investment Fund also includes investment deposits from elective participants consisting of over 1,000 municipalities and other public entities, which are accounted for in the LGIP, which is a subset of the State Investment Fund.

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

- Safety of principal
- Liquidity
- Reasonable rate of return

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

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

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

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

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

Table II-27 presents unaudited financial and statistical information for the State Investment Fund. A copy of SWIB's annual report or information on the LGIP and the State Investment Fund may be obtained from SWIB but are not part of this disclosure document.

**Table II-27**

**STATE INVESTMENT FUND**
**(As of June 30, 2015)**

**HOLDINGS DETAIL REPORT**

| | Amortized Cost | Market Value | Percent of Portfolio at Amortized Cost |
|---|---|---|---|
| U.S. Governments Agencies | $7,075,941,992 | $7,076,549,027 | 87.3% |
| U.S. Repurchase Agreements | 958,000,000 | 958,000,000 | 11.8 |
| Certificates of Deposit | 39,830,000 | 39,830,000 | 0.5 |
| Bankers Acceptance | 30,690,428 | 30,690,428 | 0.4 |
| | $8,104,462,420 | $8,105,069,455 | 100.0% |

**AVERAGE MATURITY FOR THE LAST SIX MONTHS**

| Reporting Date | Average Maturity (Days) | Reporting Date | Average Maturity (Days) |
|---|---|---|---|
| 11/30/2015 | 40 | 8/31/2015 | 54 |
| 10/31/2015 | 51 | 7/31/2015 | 69 |
| 9/30/2015 | 51 | 6/30/2015 | 80 |

**Summary of Investment Fund Participants**
**(As of June 30, 2015)**

| | Par Amount | Percent of Portfolio |
|---|---|---|
| **Mandatory Participants** | | |
| State of Wisconsin and Agencies | $ 3,359,641,000 | 42.34% |
| State of Wisconsin Investment Board | 1,834,493,000 | 23.12 |
| **Elective Participants** | | |
| Local Government Investment Pool | 2,741,196,000 | 34.54 |
| | $ 7,935,330,000 | 100.0% |

The difference between the total of the participants' share ($7,935,330,000, and the amortized cost of the State Investment Fund holdings detail report ($8,104,462,420) is the result of (1) check float (checks written and posted at the Department of Administration that have not cleared the bank) and a timing delay by the State in posting bank receipts that have already been invested by SWIB and (2) any cash in the State Investment Fund as of June 30, 2015.

**Source: State of Wisconsin Investment Board**

# STATISTICAL INFORMATION

This section presents information pertaining to the State's economic condition, including property value, population, income, and employment.

**Table II-28**

**STATE ASSESSMENT (EQUALIZED VALUE) OF TAXABLE PROPERTY**

| Calendar Year | Value of Taxable Property | Rate of Increase (Decrease) |
|---|---|---|
| 2006 | $468,983,199,800 | 9.6% |
| 2007 | 497,920,348,700 | 6.2 |
| 2008 | 514,393,963,700 | 3.3 |
| 2009 | 511,911,983,100 | (0.5) |
| 2010 | 495,904,192,300 | (3.1) |
| 2011 | 486,864,232,800 | (1.8) |
| 2012 | 471,092,529,200 | (3.2) |
| 2013 | 467,502,564,000 | (0.8) |
| 2014 | 479,479,968,800 | 2.6 |
| 2015 | 490,602,544,050 | 2.3 |

**Source: Department of Revenue**

**Table II-29**

**DELINQUENCY RATE: INCOME, FRANCHISE, SALES, AND USE TAXES**

| Fiscal Year | Total Revenues Expected (Amounts in Thousands) | Delinquent Balance[a] (Amounts in Thousands) | Delinquent Balance as a Percent of Total Revenues Expected |
|---|---|---|---|
| 2005 | $10,480,113 | $ 682,265 | 5.37% |
| 2006 | 11,049,893 | 702,961 | 5.30 |
| 2007 | 11,712,103 | 794,238 | 5.45 |
| 2008[b] | 11,978,322 | 1,016,825 | 8.49 |
| 2009 | 10,957,071 | 1,128,139 | 10.30 |
| 2010 | 10,898,706 | 993,075 | 9.14 |
| 2011 | 11,662,010 | 914,671 | 7.84 |
| 2012 | 12,236,987 | 968,484 | 7.91 |
| 2013 | 12,832,365 | 971,303 | 7.57 |
| 2014 | 12,656,911 | 975,512 | 7.71 |
| 2015 | 13,222,872 | 928,244 | 7.02 |

[a] The collectible delinquent balance is generally less than shown. The collectible delinquent balance is determined by decreasing the delinquent balance by various factors to address amounts owed by taxpayers in bankruptcy, amounts owed by deceased taxpayers, amounts owed by defunct corporations, and amounts owed by accounts assigned to field revenue agents.

[b] Starting with the 2007-08 fiscal year, the delinquent balance reflects changes due to a new integrated audit, processing, and collection system and a change in the way DOR records accruing interest. In the previous system, accruing interest was only posted to the delinquent tax account when a payment or credit was received. In the new system, accruing interest is posted each month to the delinquent accounts.

**Source: Department of Revenue**

Table II-30

## POPULATION TREND

| Year | Wisconsin Total (Amounts in Thousands) | Rank | %change Wisconsin | %change U.S. | Population Per Sq. Mile Wisconsin | Population Per Sq. Mile U.S. |
|---|---|---|---|---|---|---|
| 1910 | 2,334 | 13 | 12.8 | 21.0 | 42.2 | 26.0 |
| 1920 | 2,632 | 13 | 12.8 | 15.0 | 47.6 | 29.9 |
| 1930 | 2,939 | 13 | 11.7 | 16.2 | 53.7 | 34.7 |
| 1940 | 3,138 | 13 | 6.8 | 7.3 | 57.3 | 37.2 |
| 1950 | 3,435 | 14 | 9.5 | 14.5 | 62.8 | 42.6 |
| 1960 | 3,952 | 15 | 15.1 | 18.5 | 72.6 | 50.6 |
| 1970 | 4,418 | 16 | 11.8 | 13.3 | 81.1 | 57.5 |
| 1980 | 4,706 | 16 | 6.5 | 11.4 | 86.5 | 64.0 |
| 1990 | 4,892 | 16 | 4.0 | 9.8 | 90.1 | 70.3 |
| 2000 | 5,364 | 18 | 9.6 | 13.2 | 98.8 | 79.6 |
| 2001 | 5,404 | 18 | 0.8 | 1.3 | 99.5 | 80.6 |
| 2002 | 5,439 | 20 | 0.6 | 1.0 | 100.2 | 81.4 |
| 2003 | 5,472 | 20 | 0.6 | 1.0 | 100.8 | 82.2 |
| 2004 | 5,504 | 20 | 0.6 | 1.0 | 101.4 | 83.0 |
| 2005 | 5,536 | 20 | 0.6 | 1.0 | 101.9 | 84.0 |
| 2006 | 5,557 | 20 | 0.9 | 0.9 | 103.0 | 85.0 |
| 2007 | 5,602 | 20 | 0.8 | 1.0 | 103.5 | 86.4 |
| 2008 | 5,628 | 20 | 0.5 | 0.9 | 103.9 | 87.1 |
| 2009 | 5,655 | 20 | 0.5 | 0.9 | 104.0 | 88.0 |
| 2010 | 5,689 | 20 | 0.6 | 0.4 | 105.0 | 87.4 |
| 2011 | 5,709 | 20 | 0.4 | 0.8 | 105.4 | 88.3 |
| 2012 | 5,725 | 20 | 0.3 | 0.8 | 105.7 | 88.9 |
| 2013 | 5,743 | 20 | 0.3 | 0.8 | 106.0 | 89.6 |
| 2014 | 5,758 | 20 | 0.3 | 0.7 | 106.3 | 90.3 |

Source: U.S. Census Bureau Population and Housing Units Estimates http://www.census.gov/popzest/ and land area statistics from U.S. Census Bureau State and County Quick Facts
doa.wi.gov/capitalfinance

## Table II-31

## POPULATION CHARACTERISTICS

| | Wisconsin | U.S. |
|---|---|---|
| % Urban (2010) ....................... | 70.2% | 80.7% |
| % Rural (2010) ........................ | 29.8 | 19.3 |
| % Foreign-born (2013)........... | 4.8 | 13.1 |
| Dependency Ratio [(a)] .............. | 60.0 | 60.3 |

## YEARS OF SCHOOL COMPLETED
### (as % of population age 25 and over)

| | Wisconsin | U.S. |
|---|---|---|
| Grade School - 8 years ........... | 97.0% | 94.4% |
| High School/equiv.................. | 91.3 | 86.9 |
| Bachelor's Degree .................. | 31.9 | 27.7 |

(a) Dependency Ratio = $\frac{\text{(Population under 18) + (Population aged 65+)}}{\text{(Population aged 18-64)}}$

**Source:** **All U.S. Census Bureau web site, American FactFinder**
**Urban/Rural: 2010 Census Summary File 1 Table P2**
**Foreign-Born: 2014 American Community Survey 1-Year Estimates Table S0501**
**Dependency Ratio: 2014 American Community Survey 1-Year Estimates Table S0101**
**Educational Attainment: 2014 American Community Survey 1-Year Estimates Table S1501**

**Table II-32**

**POPULATION BY AGE GROUP**
**(2014)**

| Age Group | Wisconsin | U.S. |
|---|---|---|
| Under 5 | 5.9% | 6.2% |
| 5-14 | 12.8 | 13.0 |
| 15-44 | 38.4 | 40.2 |
| 45-59 | 21.4 | 20.3 |
| 60 and over | 21.6 | 20.4 |
| Total | 100.0 | 100.0 |

Note: Totals may not equal 100% due to rounding

**Source: 2014 American Community Survey 1-Year Estimates Table S0101**

**Table II-33**

**ESTIMATED PERSONAL INCOME**

| Year | Wisconsin Total (Amounts in Millions) | Per Capita Wisconsin | Per Capita U.S. | Percentage Wisconsin to U.S. |
|---|---|---|---|---|
| 2005 | $190,293 | $ 34,311 | $ 35,904 | 95.6% |
| 2006 | 202,289 | 36,268 | 38,144 | 95.1 |
| 2007 | 211,378 | 37,674 | 39,821 | 94.6 |
| 2008 | 219,886 | 38,980 | 41,082 | 94.9 |
| 2009 | 217,247 | 38,320 | 39,376 | 97.3 |
| 2010 | 220,826 | 38,815 | 40,277 | 96.4 |
| 2011 | 233,132 | 40,837 | 42,453 | 96.2 |
| 2012 | 243,096 | 42,463 | 44,266 | 95.9 |
| 2013 | 245,438 | 42,737 | 44,438 | 96.2 |
| 2014 | 254,405 | 44,186 | 46,049 | 96.0 |

**Source: Table I.1 Personal Income by State and Region, Bureau of Economic Analysis, U.S. Department of Commerce, World Wide Web Site**

### Table II-34

### MEDIAN INCOME FOR FOUR-PERSON FAMILY

| Year[a] | Wisconsin | U.S. | Percentage |
|---|---|---|---|
| 2005 | $66,988 | $62,732 | 106.8% |
| 2006 | 69,010 | 65,093 | 106.0 |
| 2007 | 75,111 | 72,336 | 103.8 |
| 2008 | 78,742 | 75,648 | 104.1 |
| 2009 | 77,946 | 74,985 | 103.9 |
| 2010 | 77,829 | 74,964 | 103.8 |
| 2011 | 79,141 | 75,845 | 104.3 |
| 2012 | 80,612 | 76,365 | 105.6 |
| 2013 | 82,053 | 77,507 | 105.9 |
| 2014 | 83,145 | 79,784 | 104.2 |

[a] Annual values are not adjusted for inflation.

Source: American Community Survey 1-Year Estimates Table B19019. The 2014 data is from the 2014 1-year estimates, the 2013 data is from the 2013 1-year estimates, and so forth.

**Table II-35**

**DISTRIBUTION OF EARNINGS BY INDUSTRY**
**(By Place of Work)**

| | Wisconsin Distribution | | U.S. Distribution | |
|---|---|---|---|---|
| | **2013** | **2014** | **2013** | **2014** |
| Farm Wage and Salary Disbursements | 0.7% | 0.7% | 0.3% | 0.4% |
| Forestry, Fishing, and Related Activities | 0.2 | 0.2 | 0.2 | 0.2 |
| Mining | 0.1 | 0.2 | 1.1 | 1.1 |
| Utilities | 0.9 | 0.8 | 0.7 | 0.7 |
| Construction | 4.4 | 4.6 | 4.6 | 4.7 |
| Manufacturing | 20.1 | 20.1 | 10.5 | 10.5 |
| Durable Goods Manufacturing | 12.7 | 12.7 | 7.0 | 7.0 |
| Nondurable Goods Manufacturing | 7.4 | 7.5 | 3.5 | 3.5 |
| Wholesale Trade | 5.8 | 5.8 | 5.7 | 5.7 |
| Retail Trade | 6.0 | 6.0 | 6.2 | 6.1 |
| Transportation & Warehousing | 3.1 | 3.2 | 3.2 | 3.2 |
| Information | 2.3 | 2.4 | 3.4 | 3.4 |
| Finance and Insurance | 6.9 | 6.8 | 7.7 | 7.8 |
| Real Estate and Rental and Leasing | 0.7 | 0.7 | 1.4 | 1.5 |
| Professional, Scientific, and Technical | 5.2 | 5.3 | 9.7 | 9.9 |
| Management of Companies and Enterprises | 4.1 | 4.3 | 3.3 | 3.3 |
| Administrative and Waste Management | 3.3 | 3.3 | 4.2 | 4.3 |
| Educational Services | 1.6 | 1.5 | 1.9 | 1.8 |
| Health Care and Social Assistance | 13.6 | 13.3 | 11.5 | 11.3 |
| Arts, Entertainment, and Recreation | 0.9 | 0.9 | 1.1 | 1.1 |
| Accommodation and Food Services | 2.7 | 2.7 | 3.5 | 3.6 |
| Other Services, Except Public Administration | 3.0 | 3.0 | 3.1 | 3.2 |
| Government and Government Enterprises | 14.3 | 14.1 | 16.7 | 16.3 |
| Federal, Civilian | 1.4 | 1.4 | 2.9 | 2.8 |
| Military | 0.3 | 0.3 | 1.3 | 1.3 |
| State and Local | 12.6 | 12.4 | 12.5 | 12.2 |

**Note: This table reflects NAICS.**

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

**Table II-36**

**ESTIMATED EMPLOYEES IN WISCONSIN ON NONAGRICULTURAL PAYROLLS (2014 Annual Average)**

| | Wisconsin | | U.S. | |
|---|---|---|---|---|
| | (Amounts in Thousands) | % | (Amounts in Thousands) | % |
| Natural Resources & Mining | 4 | 0.1 | 896 | 0.6 |
| Construction | 104 | 3.6 | 6,138 | 4.4 |
| Manufacturing | 465 | 16.3 | 12,188 | 8.8 |
| Retail Trade | 121 | 4.2 | 5,826 | 4.2 |
| Wholesale Trade | 303 | 10.6 | 15,364 | 11.1 |
| Transportation, Warehousing & Utilities | 101 | 3.6 | 4,640 | 3.3 |
| Information | 48 | 1.7 | 2,740 | 2.0 |
| Financial Activities | 151 | 5.3 | 7,979 | 5.7 |
| Professional & Business Services | 101 | 3.6 | 19,096 | 13.7 |
| Educational & Health Services | 430 | 15.1 | 21,475 | 15.4 |
| Leisure & Hospitality | 264 | 9.3 | 14,710 | 10.6 |
| Other Services | 138 | 4.9 | 5,573 | 4.0 |
| Government | 411 | 14.4 | 21,863 | 15.7 |
| Total | 2,845 | 100.0 | 139,042 | 100.0 |

**Source: Department of Workforce Development**

**Table II-37**

**GENERAL STATISTICS OF MANUFACTURING[(a)]**

| | 2012 | 2013 |
|---|---|---|
| Total Capital Expenditures (millions) | $ 4,578 | $ 5,586 |
| Number of Employees (thousands) | 436.8 | 434.3 |
| Total Payroll (millions) | $ 21,879 | $ 22,175 |
| Number of Production Workers (thousands) | 313.8 | 310.8 |
| Value Added by Manufacturer (millions) | $ 83,509 | $ 83,725 |
| Value of Shipments (millions) | $ 177,729 | $ 179,294 |

(a) Data for 2012 comes from the Economic Census of the United States. Data for 2013 comes from the 2013 Annual Survey of Manufacturers.

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

**Table II-38**

**TOTAL NEW HOUSING UNITS AUTHORIZED IN PERMIT–ISSUING PLACES**

| | | % Change | |
|---|---|---|---|
| Year | Wisconsin | Wisconsin | U.S. |
| 2005 | 39,992 | (2.2) | 9.6 |
| 2006 | 35,334 | (11.6) | 4.1 |
| 2007 | 27,329 | (22.7) | (14.7) |
| 2008 | 21,837 | (20.1) | (24.0) |
| 2009 | 15,509 | (29.0) | (35.3) |
| 2010 | 10,780 | (30.5) | (35.6) |
| 2011 | 10,864 | 0.8 | 3.7 |
| 2012 | 9,939 | (8.5) | 3.2 |
| 2013 | 12,041 | 21.1 | 32.9 |
| 2014 | 13,869 | 15.2 | 19.4 |

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

## Table II-39

### UNEMPLOYMENT RATE COMPARISON[(a)]
### By Month 2010 To 2015
### By Quarter 2006 To 2009

| | 2015 | | 2014 | | 2013 | | 2012 | | 2011 | | 2010 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Wis. | U.S. | Wis. | U.S. | Wis. | U.S. | Wis. | U.S. | Wis. | U.S. | Wis. | U.S. |
| January ...... | 5.4 | 6.1 | 6.5 | 7.0 | 8.0 | 8.5 | 7.7 | 8.8 | 8.5 | 9.8 | 10.0 | 10.6 |
| February .... | 5.6 | 5.8 | 6.8 | 7.0 | 8.2 | 8.1 | 8.0 | 8.7 | 8.6 | 9.5 | 10.3 | 10.4 |
| March ........ | 5.4 | 5.6 | 6.6 | 6.8 | 7.7 | 7.6 | 7.7 | 8.4 | 8.3 | 9.2 | 10.1 | 10.2 |
| April .......... | 4.4 | 5.1 | 5.6 | 5.9 | 7.2 | 7.1 | 6.8 | 7.7 | 7.5 | 8.7 | 8.8 | 9.5 |
| May ........... | 4.7 | 5.3 | 5.4 | 6.1 | 6.7 | 7.3 | 6.7 | 7.9 | 7.3 | 8.7 | 8.3 | 9.3 |
| June ........... | 4.9 | 5.5 | 5.7 | 6.3 | 7.0 | 7.8 | 7.4 | 8.4 | 8.0 | 9.3 | 8.5 | 9.6 |
| July ............ | 4.5 | 5.6 | 5.5 | 6.5 | 6.8 | 7.7 | 7.2 | 8.6 | 7.6 | 9.3 | 8.2 | 9.7 |
| August ....... | 3.9 | 5.2 | 5.2 | 6.3 | 6.2 | 7.3 | 6.8 | 8.2 | 7.3 | 9.1 | 7.9 | 9.5 |
| September.. | 3.7 | 4.9 | 4.7 | 5.7 | 5.9 | 7.0 | 6.1 | 7.6 | 6.8 | 8.8 | 7.3 | 9.2 |
| October...... | 3.6 | 4.8 | 4.5 | 5.5 | 5.7 | 7.0 | 5.9 | 7.5 | 6.6 | 8.5 | 7.2 | 9.0 |
| November.. | | | 4.7 | 5.5 | 5.8 | 6.6 | 6.2 | 7.4 | 6.5 | 8.2 | 7.5 | 9.3 |
| December .. | | | 4.7 | 5.4 | 5.8 | 6.5 | 6.6 | 7.6 | 6.6 | 8.3 | 7.4 | 9.1 |
| Annual Average ..... | | | 5.5 | 6.2 | 6.8 | 7.4 | 6.9 | 8.1 | 7.5 | 8.9 | 8.5 | 9.6 |

| 2009 Quarters | WI | U.S. |
|---|---|---|
| I .......................................... | 8.7 | 8.8 |
| II .......................................... | 9.0 | 9.1 |
| III .......................................... | 8.8 | 9.6 |
| IV .......................................... | 8.4 | 9.5 |

| 2008 Quarters | WI | U.S. |
|---|---|---|
| I .................................... | 5.1 | 5.3 |
| II .................................... | 4.4 | 5.2 |
| III .................................... | 4.5 | 6.0 |
| IV .................................... | 5.3 | 6.6 |

| 2007 Quarters | WI | U.S. |
|---|---|---|
| I .......................................... | 5.6 | 4.8 |
| II .......................................... | 4.9 | 4.4 |
| III .......................................... | 4.5 | 4.7 |
| IV .......................................... | 4.1 | 4.6 |

| 2006 Quarters | WI | U.S. |
|---|---|---|
| I .................................... | 5.4 | 5.0 |
| II .................................... | 4.7 | 4.6 |
| III .................................... | 4.4 | 4.7 |
| IV .................................... | 4.2 | 4.2 |

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

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

# APPENDIX A

## GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS

The following material is a reprint of the "General Purpose External Financial Statements" section of the audited CAFR for the fiscal year ended June 30, 2015. The entire CAFR is available from the State Controller's Office, Department of Administration, P.O. Box 7864, Madison, WI 53707-7864. The entire CAFR has also been filed with the MSRB through its EMMA system and is also available on the internet at:

www.doa.wi.gov/capitalfinance

{This page number is the last sequential page number of the 2015 Annual Report to be used in Part II of the 2015 Annual Report. The following uses page numbers from the general purpose external financial statements. The sequential page numbers for the 2015 Annual Report continue in Part III.}

# STATE OF
# WISCONSIN

## General Purpose External Financial Statements

For the fiscal year ended June 30, 2015

**Scott Walker, Governor**

Department of Administration
Scott A. Neitzel, Secretary
Jeffery C. Anderson, Deputy State Controller

Prepared by the State Controller's Office

*State of Wisconsin*

# General Purpose External Financial Statements
# For the Fiscal Year Ended June 30, 2015

## Table of Contents

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

WISCONSIN DEPARTMENT OF ADMINISTRATION

December 17, 2015

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, 2015. 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, the State's proportionate share of the net pension asset, the State's pension contribution, 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.

Sincerely,

| | |
|---|---|
| Scott Neitzel | Jeffery C. Anderson, CPA |
| Secretary | Deputy State Controller |

STATE OF WISCONSIN
Legislative Audit Bureau
22 East Mifflin Street, Suite 500 ■ Madison, WI 53703 ■ (608) 266-2818 ■ Hotline: 1-877-FRAUD-17 ■ www.legis.wisconsin.gov/lab
Joe Chrisman
State Auditor

Celebrating 50 Years of Service 1966-2016

# Independent Auditor's Report on the Financial Statements and Other Reporting Required by *Government Auditing Standards*

Honorable Members of the Legislature        The Honorable Scott Walker, Governor

## Report on the Financial Statements

We have audited the accompanying financial statements and the related notes 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, which collectively comprise the State's basic financial statements, as of and for the year ended June 30, 2015, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management of the State of Wisconsin is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 Environmental Improvement Fund, which is a major fund and represents 18 percent of the assets and 17 percent of the liabilities of the business-type activities; and the College Savings Program Trust, which represents 4 percent of the assets of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for these programs, are based solely 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 solely upon audit reports, prepared by other auditors and furnished to us, 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*, which is issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements for the following were audited by other auditors in accordance with these standards: 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 were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *Government Auditing Standards.*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the State's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on these financial statements.

**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, 2015, and the respective changes in financial position and, where applicable, cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphases of Matter**

As discussed in Note 1C to the basic financial statements, the State implemented Governmental Accounting Standards Board (GASB) Statement Number 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement Number 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. These statements revise accounting and financial reporting for pensions by state and local government employers. Our opinions are not modified with respect to this matter.

As discussed in Note 20C to the basic financial statements, the Injured Patients and Families Compensation Fund's loss liabilities related to medical malpractice claims 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, there are inherent uncertainties in estimating the medical malpractice loss liabilities because of the Fund's unlimited liability coverage for economic damages, as well as the extended reporting and settlement periods. These uncertainties make it likely that amounts paid will ultimately differ from the reported estimated loss liabilities. These differences cannot be quantified. Our opinion for this Fund is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*—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 schedule of the State's proportionate share of the net pension liability or asset, the schedule of the State's pension contributions, 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 basic financial statements, is required by GASB, which considers this information to be essential for placing the basic financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information that included inquiries of management about the methods of preparing the information. We further compared the information for consistency with management's 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.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we will also issue a report dated December 17, 2015, 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 used when considering the State's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU

Joe Chrisman
State Auditor

December 17, 2015

# 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, 2015. 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 10 and 11)

- *Net Position.* The assets plus deferred outflows of resources of the State of Wisconsin exceeded its liabilities plus deferred inflows of resources at the close of Fiscal Year 2015 by $22.0 billion (reported as "net position"). Of this amount, $(8.6) billion was reported as "unrestricted net position". A positive balance in unrestricted net position would represent the amount available to be used to meet a government's ongoing obligations to citizens and creditors.
- *Changes in Net Position.* The State's total net position increased by $1.3 billion in Fiscal Year 2015. Net position of governmental activities increased by $589.1 million or 11.7 percent, while net position of the business-type activities showed an increase of $721.0 million or 13.8 percent.
- *Excess of Revenues over (under) Expenses -- Governmental Activities.* During Fiscal Year 2015, the State's total revenues for governmental activities of $28.2 billion were $1.7 billion more than total expenses (excluding transfers) for governmental activities of $26.5 billion. Of these expenses, $11.9 billion were covered by program revenues. General revenues, generated primarily from various taxes, totaled $16.3 billion.

### Fund

- *Governmental Funds -- Fund Balances.* As of the close of Fiscal Year 2015, the State's governmental funds reported combined ending fund balances of $(438.0) million, a decrease of $527.3 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 $(1.8) billion, a change of $(413.7) million from a deficit of $(1.4) billion reported in the prior year. The unassigned fund deficit for the General Fund was $(2.4) billion, or (10.5) percent of total General Fund expenditures.

Additional information regarding individual funds begins on Page 15.

### Long-term Debt

- The State's total long-term debt obligations (bonds and notes payable) increased by $3.6 million during the current fiscal year which represents the net difference between new issuances, payments and refundings of outstanding debt. Increases in debt resulted from new borrowings in excess of repayments of existing debt. During the year issuances of new general obligations exceeded repayments and refundings of debt by $188.6 million. Offsetting that increase, revenue bond repayments exceeded new issuances by $121.3 million and annual appropriation bonds totaling $63.6 million were repaid. Additional detail regarding these activities begins on Page 20.

## 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:<br>• *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.<br>• *Business-Type Activities* – Those operations for which a fee is charged to external users for goods and services are reported in this category.<br>• *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.<br>Examples of the State's governmental funds (including the State's three major governmental funds), as reported within their respective fund types, follow:<br>• *General Fund* (major fund)<br>• *Special Revenue:*<br>-- Transportation (major fund)<br>• *Debt Service:*<br>-- Bond Security and Redemption<br>• *Capital Projects:*<br>-- Capital Improvement (major fund)<br>• *Permanent:*<br>-- Common School | The activities the State operates similar to private business. These funds are used to show activities that operate more like those of commercial enterprises. Fees are charged for services provided, both to outside customers and to other units of the State.<br>Examples of the State's proprietary funds, including the State's four major enterprise funds, follow:<br>• *Enterprise:*<br>-- Injured Patients and Families Compensation (major fund)<br>-- Environmental Improvement (major fund)<br>-- University of Wisconsin System (major fund)<br>-- Unemployment Reserve (major fund)<br>-- Lottery<br>• *Internal services:*<br>-- Technology Services<br>-- 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.<br>Examples of the State's fiduciary funds, as reported within their respective fund types, follow:<br>• *Pension and Other Employee Benefit Trust Funds:*<br>-- Wisconsin Retirement System<br>• *Investment Trust:*<br>-- Local Government Pooled Investment<br>• *Private Purpose Trust:*<br>-- College Savings Program Trust<br>• *Agency:*<br>-- Support Collection Trust |
| **Required financial statements** | • Statement of net position – Presents all of the government's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as "net position". Over time, increases or decreases in the state's net position is an indicator of whether its financial health is improving or weakening, respectively.<br>• 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<br>• Statement of revenues, expenditures, and changes in fund balances | • Statement of net position<br>• Statement of revenues, expenses and changes in fund net position<br>• Statement of cash flows | • Statement of fiduciary net position<br>• Statement of changes in fiduciary net position<br>Because the State cannot 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<br><br>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<br><br>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, deferred outflows of resources, liability, deferred inflows of resources information** | All assets and liabilities, both financial and capital, and short-term and long-term. Deferred inflows/outflows of resources reported only in limited instances as required by GASB standards. | 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<br>• 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:

- Postemployment Benefits - State Health Insurance Program,
- State's Proportionate Share of the Net Pension Liability or Net Pension Asset,
- State's Pension Contributions,
- Infrastructure Assets Reported Using the Modified Approach, and
- Budgetary Comparison Schedule of the General and the Transportation funds (includes 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 position and changes in net position.

### Net Position

As presented in Table 2, total assets of the State on June 30, 2015 were $43.6 billion and deferred outflows of resources were $941.8 million, while total liabilities were $22.6 billion and deferred inflows of resources were $31.1 million, resulting in combined net position (government and business-type activities) of $22.0 billion. The largest component of the State's total net position consists of $22.6 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 $7.9 billion of net position was restricted by external sources or the State Constitution or Statutes, and was not available to finance the day-to-day operations of the State.

The unrestricted net position, which, if positive, could be used at the State's discretion, showed a negative balance of $(8.6) 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 position 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 position. In addition to the effect of reporting long-term liabilities when incurred, the General Fund's total deficit fund balance of $(1.8) billion at year-end, as discussed on Page 15, also contributed to the deficit unrestricted net position reported in the statement of net position.

During Fiscal Year 2015, the State issued $1.5 billion of general obligation bonds, as well as $279.8 million of general obligation long term notes and $105.1 million of general obligation commercial paper, primarily for the acquisition or improvement of land, water, property, highways, buildings, and equipment. At June 30, 2015 general obligation bonds and long term general obligation notes outstanding totaled $7.4 billion, outstanding annual appropriation bonds were $3.1 billion, and outstanding revenue bonds, which are not considered general obligation debt of the State, totaled $3.0 billion.

**Table 2**
**Net Position**
(in millions)

| | Governmental Activities | | Business-type Activities | | Total | | Total Percentage Change |
|---|---|---|---|---|---|---|---|
| | 2015 | 2014* | 2015 | 2014* | 2015 | 2014* | 2015-2014 |
| Current and Other Assets | $ 6,313.1 | $ 6,281.5 | $ 8,722.9 | $ 7,815.9 | $ 15,036.0 | $ 14,097.4 | 6.7 % |
| Capital Assets | 22,364.9 | 21,236.8 | 6,235.1 | 6,216.1 | 28,600.0 | 27,453.0 | 4.2 |
| Total Assets | 28,678.0 | 27,518.3 | 14,958.0 | 14,032.1 | 43,636.1 | 41,550.3 | 5.0 |
| Deferred Outflows of Resources | 569.7 | 247.9 | 372.1 | 78.6 | 941.8 | 326.4 | 188.5 |
| Long-term Liabilities | 11,794.0 | 11,651.9 | 3,752.3 | 3,893.2 | 15,546.3 | 15,545.1 | 0.0 |
| Other Liabilities | 6,214.6 | 6,060.2 | 826.3 | 775.7 | 7,041.0 | 6,836.0 | 3.0 |
| Total Liabilities | 18,008.6 | 17,712.2 | 4,578.6 | 4,668.9 | 22,587.2 | 22,381.1 | 0.9 |
| Deferred Inflows of Resources | 21.3 | 11.6 | 9.7 | 0.6 | 31.1 | 12.2 | |
| Net Position: | | | | | | | |
| Net investment In Capital Assets | 18,051.7 | 17,185.2 | 4,566.1 | 4,540.4 | 22,617.8 | 21,725.5 | 4.1 |
| Restricted | 2,602.0 | 1,622.7 | 5,312.4 | 4,120.9 | 7,914.4 | 5,743.6 | 37.8 |
| Unrestricted (deficit) | (9,436.0) | (8,765.5) | 863.4 | 779.9 | (8,572.6) | (7,985.7) | 7.3 |
| Total Net Position | $ 11,217.7 | $ 10,042.3 | $ 10,741.8 | $ 9,441.1 | $ 21,959.6 | $ 19,483.5 | 12.7 |

* Amounts for the prior fiscal year include restatements of prior year's balances, except for those related to the implementation of GASB Statement No. 68.

## Changes in Net Position

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 position changed during the fiscal year. The State earned program revenues of $19.4 billion and general revenues of $16.3 billion for total revenues of $35.7 billion during Fiscal Year 2015. Expenses for the State during Fiscal Year 2015 were $34.4 billion. As a result of the excess of revenues over expenses, the total net position of the State increased $1.3 billion, net of contributions and transfers.

**Table 3**

**Changes in Net Position**

(in millions)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | | Total Percentage Change |
|---|---|---|---|---|---|---|---|
| | 2015 | 2014* | 2015 | 2014* | 2015 | 2014* | 2015-2014 |
| Program Revenues: | | | | | | | |
| Charges for Services | $ 2,258.8 | $ 2,309.9 | $ 6,974.1 | $ 7,051.0 | $ 9,232.9 | $ 9,360.9 | (1.4) % |
| Operating Grants and Contributions | 8,798.9 | 8,743.3 | 441.8 | 711.3 | 9,240.7 | 9,454.6 | (2.3) |
| Capital Grants and Contributions | 862.3 | 730.0 | 37.8 | 54.4 | 900.1 | 784.4 | 14.7 |
| General Revenues: | | | | | | | |
| Income Taxes | 8,355.7 | 8,369.7 | - | - | 8,355.7 | 8,369.7 | (0.2) |
| Sales and Excise Taxes | 5,590.9 | 5,322.6 | - | - | 5,590.9 | 5,322.6 | 5.0 |
| Public Utility Taxes | 368.9 | 351.7 | - | - | 368.9 | 351.7 | 4.9 |
| Motor Fuel Taxes | 1,067.8 | 1,053.5 | - | - | 1,067.8 | 1,053.5 | 1.4 |
| Other Taxes | 477.7 | 471.1 | - | - | 477.7 | 471.1 | 1.4 |
| Other General Revenues | 417.2 | 386.0 | 4.4 | 22.0 | 421.6 | 408.0 | 3.3 |
| Total Revenues | 28,198.0 | 27,737.8 | 7,458.1 | 7,838.8 | 35,656.1 | 35,576.5 | 0.2 |
| Program Expenses: | | | | | | | |
| Commerce | 265.4 | 249.5 | - | - | 265.4 | 249.5 | 6.4 |
| Education | 7,068.6 | 6,405.0 | - | - | 7,068.6 | 6,405.0 | 10.4 |
| Transportation | 2,156.8 | 2,045.5 | - | - | 2,156.8 | 2,045.5 | 5.4 |
| Environmental Resources | 468.1 | 432.1 | - | - | 468.1 | 432.1 | 8.3 |
| Human Relations and Resources | 13,083.7 | 12,599.8 | - | - | 13,083.7 | 12,599.8 | 3.8 |
| General Executive | 553.7 | 594.8 | - | - | 553.7 | 594.8 | (6.9) |
| Judicial | 127.3 | 123.6 | - | - | 127.3 | 123.6 | 3.0 |
| Legislative | 64.4 | 63.8 | - | - | 64.4 | 63.8 | 1.1 |
| Tax Relief and Other General Expenditures | 1,317.3 | 1,350.6 | - | - | 1,317.3 | 1,350.6 | (2.5) |
| Intergovernmental - Shared Revenue | 964.1 | 960.9 | - | - | 964.1 | 960.9 | 0.3 |
| Interest on Long-term Debt | 455.5 | 487.5 | - | - | 455.5 | 487.5 | (6.6) |
| Injured Patients and Families Compensation | - | - | (88.6) | (13.4) | (88.6) | (13.4) | 561.7 |
| Environmental Improvement | - | - | 48.5 | 50.0 | 48.5 | 50.0 | (3.0) |
| University of Wisconsin System | - | - | 4,725.6 | 4,674.5 | 4,725.6 | 4,674.5 | 1.1 |
| Unemployment Reserve | - | - | 628.4 | 931.1 | 628.4 | 931.1 | (32.5) |
| Lottery | - | - | 581.2 | 570.9 | 581.2 | 570.9 | 1.8 |
| Health Insurance | - | - | 1,361.7 | 1,289.7 | 1,361.7 | 1,289.7 | 5.6 |
| Care and Treatment Facilities | - | - | 370.8 | 351.6 | 370.8 | 351.6 | 5.4 |
| Other Business-type | - | - | 209.4 | 194.0 | 209.4 | 194.0 | 7.9 |
| Total Expenses | 26,525.1 | 25,313.1 | 7,837.0 | 8,048.5 | 34,362.1 | 33,361.6 | 3.0 |
| Excess (deficiency) before Contributions and Transfers | 1,673.0 | 2,424.7 | (379.0) | (209.7) | 1,294.0 | 2,215.0 | |
| Contributions to Term and Permanent Endowments | - | - | 4.0 | 3.1 | 4.0 | 3.1 | |
| Contributions to Permanent Fund Principal | 12.1 | 17.3 | - | - | 12.1 | 17.3 | |
| Transfers | (1,096.0) | (961.0) | 1,096.0 | 961.0 | - | - | |
| Increase (decrease) in Net Position | 589.1 | 1,481.0 | 721.0 | 754.3 | 1,310.2 | 2,235.3 | |
| Net Position - Beginning (Prior Year Ending) | 10,042.3 | 8,561.3 | 9,441.1 | 8,686.8 | 19,483.5 | 17,248.1 | |
| Effect of Implementation of GASB Statement No. 68 | 586.3 | - | 579.7 | - | 1,166.0 | - | |
| Net Position - Beginning (Restated) | 10,628.6 | 8,561.3 | 10,020.8 | 8,686.8 | 20,649.4 | 17,248.1 | |
| Net Position - Ending | $ 11,217.7 | $ 10,042.3 | $ 10,741.8 | $ 9,441.1 | $ 21,959.6 | $ 19,483.5 | 12.7 |

* Amounts for the prior fiscal year include restatements of prior year's balances, except for those related to the implementation of GASB Statement No. 68.

## Governmental Activities

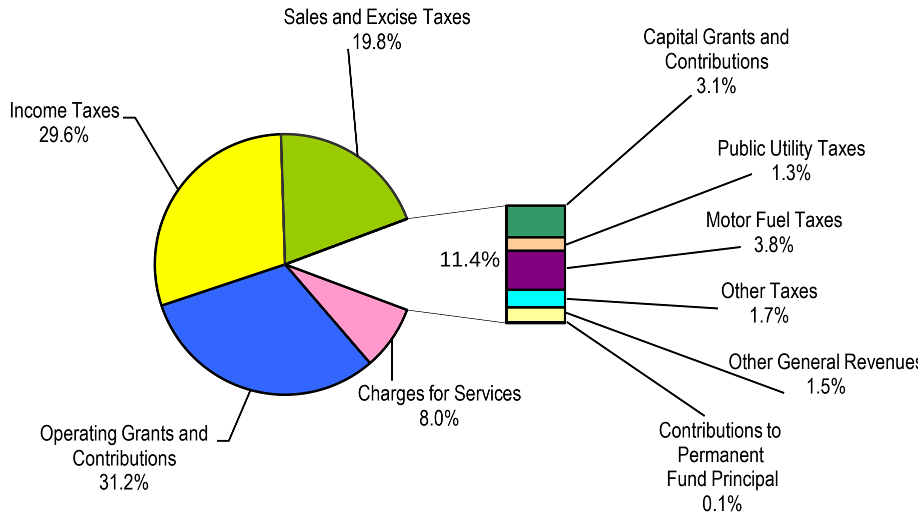
The net position of governmental activities increased $589.1 million in Fiscal Year 2015. Revenues for the governmental activities (including contributions to permanent fund principal) totaled $28.2 billion, while expenses and net transfers totaled $27.6 billion in Fiscal Year 2015.

General and program revenues of governmental activities increased $460.3 million during this fiscal year. Tax revenues increased $292.4 million primarily due to enhanced sales and excise taxes of $268.3 million. Public utility, motor fuel, and other taxes also increased $17.2 million, $14.3 million, and $6.6 million, respectively, while income taxes decreased $14.0 million. In addition, capital grants and operating grants increased $132.3 million and $55.6 million, respectively. Offsetting those increases was a decrease of $51.1 million in charges for services.

The State's governmental activities program expenses increased $1.2 billion during Fiscal Year 2015. Contributing to the increase were education and human relations and resources expenses, which increased $663.6 million and $483.9 million respectively. Education expenses increased because of additional aid payments. Human relations and resources expenses increased because of increased medical assistance payments. Transportation, environmental resources, and commerce expenses increased $111.3 million, $36.0 million, and $15.9 million, respectively. Conversely, general executive, tax relief and other general, and interest expenses decreased $41.2 million, $33.3 million and $31.9 million, respectively.

As shown in Table 4, below, approximately 56.2 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 31.2 percent of total revenues. Capital grants provided 3.1 percent, charges for services contributed 8.0 percent, and various other revenues provided 1.5 percent of the remaining governmental activity revenue sources.

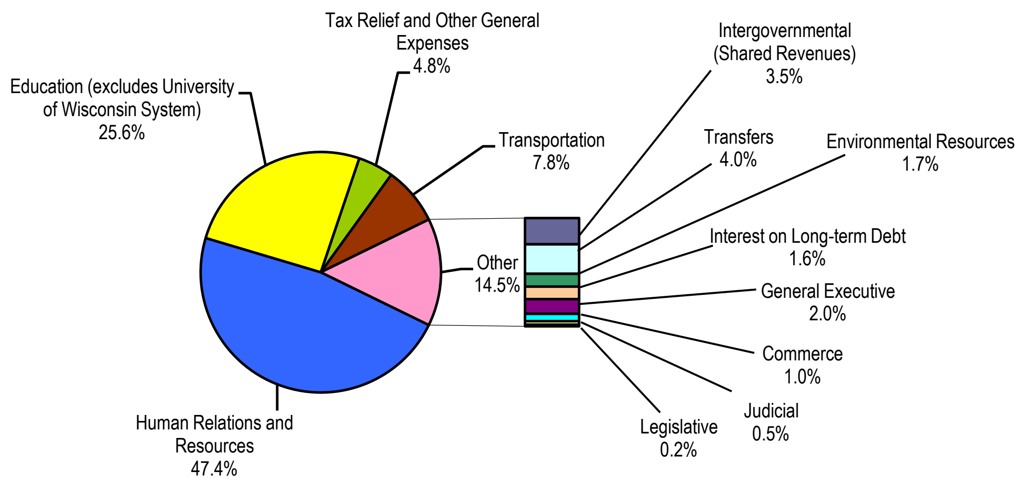
**Table 4**
**Governmental Activities - 2015 Revenues**



As shown in Table 5, below, expenses for human relations and resources programs make up the largest portion – 47.4 percent – of total governmental expenses and transfers. Included in this cost function are programs such as Medical Assistance and Temporary Assistance for Needy Families as well as costs for state correctional facilities and services.

Educational expenses, which include various school aids but exclude expenses of the University of Wisconsin System, make up 25.6 percent of total expenses. Tax relief and other general expenses and the municipal and county shared revenue program represent 8.3 percent of the total, while transportation expenses represent 7.8 percent. Net transfers to business-type activities, which include a general purpose revenue subsidy to the University of Wisconsin System, make up 4.0 percent of the total expenses and transfers. Remaining functional expenses totaled 5.3 percent while interest on long-term debt totaled 1.6 percent.

**Table 5**
**Governmental Activities - 2015 Expenses**



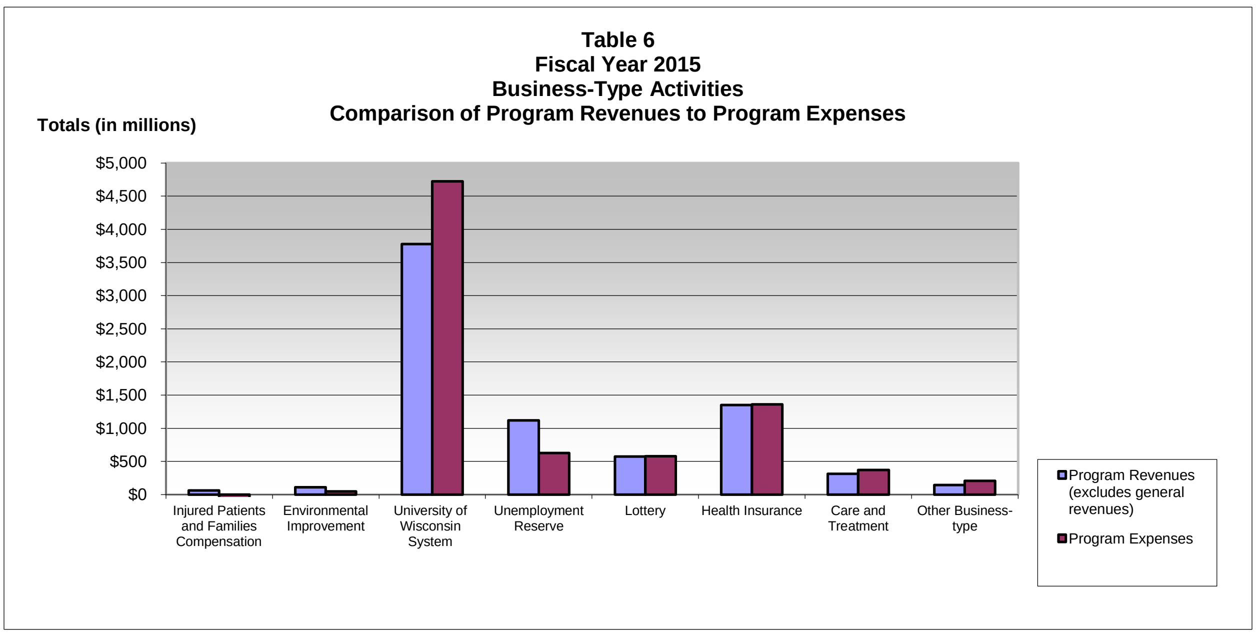
## Business-Type Activities

Net position of the State's business-type activities increased $721.0 million in Fiscal Year 2015.

Revenues of business-type activities totaled $7.5 billion for Fiscal Year 2015, a decline of $380.7 million from the prior year. Program revenues consisted of $7.0 billion of charges for services, $441.8 million of operating grants and contributions, and $37.8 million of capital grants and contributions. General revenues, contributions to endowments and permanent fund principal, and net transfers totaled $4.4 million, $4.0 million, and $1.1 billion, respectively.

The total expenses for business-type activities were $7.8 billion a decrease of $211.5 million from the prior fiscal year. The largest decrease in program expenses, $302.7 million, related to decreased benefit expenses for the Unemployment Reserve Fund. Injured Patients and Family Compensation Fund expenses also declined by $75.2 million. Offsetting those decreases was an increase in health insurance program expenses of $72.0 million and University of Wisconsin System program expenses of $51.1 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 2015, the State's governmental funds reported a negative combined fund balance of $(438.0) million. Funds with significant changes in fund balance are discussed below:

### General Fund

The General Fund is the chief operating fund of the State. At June 30, 2015, the State's General Fund reported a total fund deficit of $(1.8) billion. The net change in fund balance during Fiscal Year 2015 was $(413.7) million, in contrast to $370.8 million in Fiscal Year 2014. Major revenue, expenditure and other sources/uses contributing to the change in fund balance are as follows:

*Revenues*

Revenues of the General Fund totaled $24.6 billion in Fiscal Year 2015, an increase of $310.2 million from Fiscal Year 2014. Factors contributing to this change included the following:

- Revenues from taxes increased $265.6 million. The most significant increase relates to sales taxes, which increased $267.8 million or 5.0 percent from Fiscal Year 2014. Sales tax revenue increases were driven by increased consumer expenditures of taxable goods. Income taxes decreased $25.8 million or 0.3 percent from Fiscal Year 2014. Tax withholding from wages and salaries comprises the largest component of income taxes. Increases in wages and salaries earned during the fiscal year resulted in increased income tax revenues. However, these increases were offset by an update to the income tax withholding tables that went into effect April 1, 2014.
- Intergovernmental revenues (i.e. federal assistance) increased $68.7 million in Fiscal Year 2015. Human relations and resources programs (e.g. Medicaid) reported increased revenues of $46.9 million. Because costs are split between federal and State sources, revenues associated with Medicaid related programs increase as costs increase.

*Expenditures*

Expenditures of the General Fund totaled $23.2 billion in Fiscal Year 2015, an increase of $1.2 billion from Fiscal Year 2014. Factors contributing to the change include the following:

- Education expenditures increased $657.2 million. Under 2013 Wisconsin Act 145, the Wisconsin Technical College System Board distributed an additional $406.0 million to school districts during Fiscal Year 2015. Moreover, 2013 Wisconsin Act 20 provided $74.1 million and $63.5 in increased spending authority for general and per pupil school aids, respectively. Beginning in Fiscal Year 2015, the per pupil aid program provided $150 per pupil up from $75 per pupil in Fiscal Year 2014.
- Human relations and resources expenditures grew $478.3 million, primarily as a result of medical assistance costs. This growth is mostly attributed to the implementation of the Badger Care Reform Waiver in April of 2014, which increased the number of childless adults enrolled in the Medicaid Program. The implementation increased costs for all of Fiscal Year 2015 compared to just the last quarter of the prior fiscal year.

*Other Financing Sources and Uses*

Other financing sources/uses totaled a net $(1.8) billion in Fiscal Year 2015, compared to $(1.8 billion) in Fiscal Year 2014. The components of this included the following:

- Transfers out of the General Fund totaled $1.9 billion, a decrease of $123.6 million from the prior year.
    - The general purpose revenue (GPR) supplement comprises a large portion of the transfers out and is provided to various enterprise funds. The supplement totaled $983.5, decrease of $16.6 million from the prior year. The University of Wisconsin System, which receives the majority of the GPR supplement, received $896.6 million in Fiscal Year 2015, a decrease of $22.1 million.

- Transfers out to the Transportation Fund were $171.4 million in Fiscal Year 2015, an increase of $135.7 million. Under the requirements of 2013 Wisconsin Act 20, the General Fund made a one-time transfer of $133.3 million in Fiscal Year 2015.
- Transfers out to the Capital Improvement Fund totaled $7.4 thousand in Fiscal Year 2015 compared to $152.8 million in Fiscal Year 2014. Because debt was rolled over during the year, certain debt service payments did not need to be made. As such, transfers to the Capital Improvement Fund did not need to be made.

- Transfers in to the General Fund decreased $78.8 million (from $148.7 million in Fiscal Year 2014 to $69.9 million in Fiscal Year 2015) as a result of decreased lapses. A one-time, budgeted transfer of $58.3 million from the University of Wisconsin System for the higher education grant program was made in Fiscal Year 2014.

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

As of June 30, 2015, the General Fund reported an unassigned fund balance deficit of $(2.4) billion. This compares to a General Fund unassigned fund balance deficit of $(2.0) billion as of June 30, 2014. 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 $4.8 billion increase in appropriations. Contributing to the variance is the fact that several of the State's programs and various transfers (see the items denoted with *, below) are not included in the original budget. In addition, numerous adjustments to spending estimates were needed as the year progressed because of changing circumstances (spending needs can change dramatically over a one-year period). The largest variances occurred in the following appropriations (in millions):

| Program | Variance |
|---|---|
| Food Stamps, Electronic Benefit Transfer* | $ 1,200.0 |
| Federal Aid Medical Assistance | 708.5 |
| UW System, General Program Operations (part of Statutory General Fund) | 419.0 |
| Medical Assistance Program Benefits | 160.0 |
| Education Federal Aids; Local Aid | 100.2 |

Actual charges to appropriations (expenditures) were $3.9 billion below the final budgeted estimates. Large positive expenditure variances were reported in the Medical Assistance Federal Aid ($588.9 million) and the UW System Federal Aid ($247.8 million) appropriations.

During the past fiscal year, the budgetary-based fund balance decreased $341.2 million for the statutory General Fund, in part, because of increased expenditures for education and human relations and resources. Net transfers from other funds totaled $(102.4) million in Fiscal Year 2015 compared to $47.4 million in the prior fiscal year.

### Transportation Fund

In Fiscal Year 2015, the Transportation Fund's fund balance increased $86.3 million from $691.2 million to $777.5 million. A constitutional amendment that passed during Fiscal Year 2015 restricted use of state resources deposited into the Fund for state transportation purposes. As such, $743.9 million of restricted fund balance is reported for Fiscal Year 2015, compared to $26.7 million last year. Fund balance created by state resources was reported as committed prior to Fiscal Year 2015.

Revenues of the Fund increased $139.0 million, to a total of $2.6 billion. Intergovernmental revenues, which are primarily from federal sources, increased $126.9 million to a total of $973.0 million. The State Highway Rehabilitation appropriation, which is federally-funded, reported higher expenditures as a result of increased spending authorized by 2013 Wisconsin Act 20. The timing of projects also impacted spending in the appropriation. Therefore, associated intergovernmental revenues also increased.

Expenditures of the Fund were funded primarily with motor fuel taxes, intergovernmental, and license and permit revenue sources, as well as interfund transfers in. Expenditures increased $117.4 million to $2.6 billion in Fiscal Year 2015 compared to $2.4 billion in the prior year. In addition to the expenditures reported in the Transportation Fund, long term debt-funded transportation expenditures of $127.0 million and $208.3 million were reported in the Capital Improvement Fund and Transportation Revenue Bonds Fund, respectively. Transportation-related expenditures of these two funds increased $65.2 million and $18.8 million, respectively in the current year.

Transfers in to the Transportation Fund increased $135.7 million from the prior year to $193.6 million. 2013 Wisconsin Act 20 required a one-time transfer in the biennium of $133.3 million from the General Fund to the Transportation Fund. Transfers out of the Fund increased $14.3 million from the prior year to $124.0 million. Transfers out for debt service payments to the Bond Security and Redemption Fund increased by $17.0 million in Fiscal Year 2015.

### Capital Improvement Fund

Fund balance of the Capital Improvement Fund decreased $56.9 million from $(678.8) million to $(735.7) million. Assets of the Fund, which are comprised of cash and receivables, increased $45.9 million to $68.8 million. Short-term notes payable and amounts owed to the Transportation Fund for reimbursement of transportation-related projects comprise the majority of Fund liabilities. Liabilities totaled $804.5 million, an increase of $102.8 million from the prior year.

Three issues of long-term debt totaling $560.5 million were made during Fiscal Year 2015, an increase of $337.8 million from the prior fiscal year. During the year, debt and premium proceeds funded $371.8 million of capital outlay expenditures in the Fund, an increase of $37.9 million. Capital outlay expenditures reflect capital assets, such as buildings and highways, which were either in progress or completed during the fiscal year and will be used on a long-term basis. Debt proceeds also funded $174.5 million of maintenance and repair expenditures on state owned assets that are reported as functional expenditures. Transportation related functional costs increased to $127.0 million, an increase of $65.2 million from the prior year, and comprised 72.7 percent of functional expenditures reported in the Fund.

Transfers In to the Capital Improvement Fund for debt service payments on outstanding notes payable decreased $160.0 million to $17.2 million. The decrease occurred because debt was rolled over in Fiscal Year 2015 reducing the amount of the debt service payments. Transfers Out of the Capital Improvement Fund, which are also funded from debt proceeds, increased $57.9 million to $185.9 million, because more debt was issued and subsequently distributed to proprietary funds.

## Proprietary Funds

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 2014 to Fiscal Year 2015 include the following:

### Environmental Improvement

Fund net position of the Environmental Improvement Fund increased $67.7 million to $2.0 billion. Total assets of the Fund increased by $2.8 million while liabilities decreased by $68.3 million. Loans to local governments increased by $29.2 million to a total of $2.0 billion. Conversely, liabilities decreased to $763.9 million as a result of a $67.7 million reduction in revenue bonds and notes payable that remained outstanding as of June 30, 2015.

Operating income of the Fund, which is comprised primarily of interest on loans, increased by $1.6 million to $13.6 million in Fiscal Year 2015. Non-operating revenue decreased by $3.0 million due to a reduction in investment income which declined by $8.2 million to $4.6 million. This reduction in investment income was offset by an increase of $4.6 million in federal grant funds to $55.8 million.

### Injured Patients and Families Compensation

Fund net position of the Injured Patients and Families Compensation Fund increased by $152.4 million from $580.9 million to $733.3 million at June 30, 2015. Total assets of the Fund, which increased $42.2 million to $1.2 billion, are primarily comprised of investments. Fund liabilities, which decreased by $110.1 million to $490.4 million, are comprised primarily of actuarially-determined future benefits and loss liabilities of $486.0 million.

Operating revenue of the Fund consisted of assessment income which decreased by $3.5 million (9.4 percent) to $33.6 million. The reduced revenue resulted from a 10.0 percent decrease in assessment rates and changes in the number of participating providers. Non-operating income consists solely of investment and interest income which decreased by $55.6 million to $30.2 million due to a decline in investment performance during the year.

Fund operating expenses consist primarily of benefit expenses. Benefit expenses, which are determined by an actuary, were negative $89.4 million for Fiscal Year 2015 compared to negative $14.3 million the prior year. Benefit payments totaled $21.1 million an increase of $3.9 million from Fiscal Year 2014 payments of $17.2 million.

### Unemployment Reserve

Fund net position of the Unemployment Reserve Fund increased by $489.8 million from $329.4 million to $819.2 million at June 30, 2015. Benefit expenses decreased $312.6 million from $931.1 million to $618.5 million in Fiscal Year 2015, a decrease of 33.6 percent. The decrease in benefit expenses is the result of the average unemployment rate falling from 6.13 percent during Fiscal Year 2014 to 4.98 percent during Fiscal Year 2015. While revenues of the Fund decreased, expenses also declined and the federal advance had been paid off in Fiscal Year 2014 resulting in an improved net position.

Operating revenues decreased by $359.9 million from $1.5 billion to $1.1 billion in Fiscal Year 2015. Federal aids decreased by $146.4 million from $153.0 million to $6.6 million because emergency federal benefit programs ended in December 2013. Employer contributions decreased $196.0 million to $1.1 billion a decrease of 15.7 percent.

Because the Fund had an advance outstanding with the federal government for more than three consecutive years, in 2014 the federal government recovered a portion of the advance by reducing the employers' federal unemployment tax credit by 0.9 percent. The revenue generated was credited to the Fund as contributions and used to repay the advance. In 2015, the Fund repaid the advance in full eliminating the reduction to the employers' federal unemployment tax credit and the additional contributions to the Fund.

### University of Wisconsin System

Fund net position increased by $64.7 million to $6.7 billion. Assets, which consist primarily of capital assets and cash, increased $384.9 million to $8.9 billion. Liabilities consist mostly of bonds and short term payables, and increased by $58.7 million to $2.4 billion.

Operating revenues of the University of Wisconsin System increased $31.3 million or approximately 0.9 percent to $3.4 billion. Student tuition, and federal grants and contracts of $1.2 billion and $902.6 million, respectively, comprise 61.0 percent of operating revenues. Student tuition and fees increased by $30.9 million (2.7 percent) while increases of $15.8 million and $8.5 million were reported for sales and services of educational activities and other operating revenues, respectively. Conversely, revenues decreased by $16.5 million (1.8 percent), $3.9 million (1.0 percent), and $2.6 million (1.3 percent), for federal grants and contracts, sales and services of auxiliary enterprises, and local and private grants and contracts, respectively. Operating expenses increased $66.1 million or 1.4 percent. Personal services increased by $49.3 million (1.7 percent). Depreciation and supplies and services expenses also increased by $16.9 million and $12.5 million, respectively while scholarships and fellowships expense declined $13.9 million.

Transfers in to the University of Wisconsin System increased by $49.2 million to a total of $1.1 billion in Fiscal Year 2015. The general purpose revenue supplement received from the State's General Fund, which comprises the majority of the amount transferred in, was $896.6 million a decrease of $22.1 million. The Capital Improvement Fund also transferred $179.9 million of bond and note proceeds to the University of Wisconsin System an increase of $83.9 million from the prior year.

## GOVERNMENT-WIDE CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the close of Fiscal Year 2015, the State had $28.6 billion invested in capital assets, net of accumulated depreciation of $5.6 billion. This represents an increase of $1.2 billion, or 4.3 percent, from Fiscal Year 2014. Depreciation charges totaled $131.2 million and $307.4 million for governmental and business-type activities, respectively, in Fiscal Year 2015. 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 | |
|---|---|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** |
| Land and Land Improvements | $ 2,770 | $ 2,666 | $ 171 | $ 170 | $ 2,941 | $ 2,836 |
| Buildings and Improvements | 1,328 | 1,333 | 4,277 | 4,226 | 5,605 | 5,559 |
| Library Holdings | 76 | 75 | 1,145 | 1,139 | 1,221 | 1,214 |
| Machinery and Equipment | 320 | 311 | 328 | 334 | 648 | 645 |
| Infrastructure | 14,975 | 14,018 | - | - | 14,975 | 14,018 |
| Construction and Software in Progress | 2,896 | 2,775 | 313 | 347 | 3,209 | 3,122 |
| Totals | $ 22,365 | $ 21,177 | $ 6,235 | $ 6,216 | $ 28,600 | $ 27,393 |

The major capital asset additions completed or acquired during Fiscal Year 2015 included the:

- Kenwood IRC – UW-Milwaukee ($77.4 million),
- Freshwater Science Addition – UW-Milwaukee ($51.3 million),
- Multi-Building Energy Construction – UW-Madison ($16.8 million), and
- Multi-Building Energy Conservation – UW-Madison ($15.4 million).

In addition to these completed projects, construction and software in progress as of June 30, 2015 for governmental and business-type activities totaled $2.9 billion and $313.3 million, respectively. A list of those projects is provided in Note 7. The State's continuing or proposed major capital projects for Fiscal Year 2015 and future years include:

- I-94 North South Freeway Project (completion in 2022) $1.7 billion,
- Zoo Interchange (completion in 2021) $1.7 billion,
- US 41 Winnebago and Brown Counties (completion in 2016) $1.5 billion,
- St. Croix Crossing (completion in 2018) $647 million,
- Hoan Bridge (completion in 2017) $251 million,
- Verona Road (completion in 2019) $247.6 million,
- Southeast Mega Zoo (completion date pending) $200 million,
- Highway 12 Lake Delton to Sauk City (completion in 2018) $195 million,
- Renovation and Remodeling of the Charter Street Heating Plant (completion in 2016) $248 million,
- Hill Farms Building A&B Replacement (completion in 2018) $195 million,
- Microbial Science Building – UW-Madison (completion in 2016) $122 million,
- Memorial Theater Wing Renovation (completion in 2016) $117 million, and
- Biochemistry II Building – UW-Madison (completion in 2016) $112 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, 2015 was $7.4 billion, as shown in Table 8. During Fiscal Year 2015, $1.5 billion of general obligation bonds and $279.8 million of general obligation long term notes 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 and long term notes issued in the current year, $605.8 million was to be used for University of Wisconsin System academic and self-amortizing facilities; $490.4 million for transportation projects, $268.5 million for environmental programs, $140.6 million for correctional facilities and $323.1 million for various other projects.

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, 2015, $3.1 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 $3.0 billion outstanding at June 30, 2015, as shown in Table 8. These bonds included $2.2 billion of Transportation Revenue Bonds, $69.1 million of Petroleum Inspection Revenue Bonds, and $758.7 million of Environmental Improvement Revenue Bonds.

**Table 8**
**Outstanding Debt as of June 30, 2015 and 2014**
(in millions)

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** |
| General obligations: | | | | | | |
| Bonds and long term notes | $5,850.3 | $5,653.2 | $1,599.2 | $1,607.7 | $7,449.5 | $7,260.9 |
| Annual appropriation bonds | 3,112.1 | 3,175.8 | -- | -- | 3,112.1 | 3,175.8 |
| Revenue bonds | 2,236.4 | 2,290.1 | 758.7 | 826.4 | 2,995.1 | 3,116.5 |
| Totals | $11,198.9 | $11,119.0 | $2,357.9 | $2,434.1 | $13,556.8 | $13,553.1 |

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

At June 30, 2015, State of Wisconsin general obligation fixed rate bonds had a rating of AA from Fitch Ratings, AA from Kroll Bond Rating Agency, Aa2 from Moody's Investors Services, and AA from Standard and Poor's Rating Services. General obligation variable notes had a rating of F1+ from Fitch Investors Services, L.P, P-1 from Moody's, and A-1+ from Standard and Poor's Corporation.

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. Infrastructure assets exclude right-of-way costs. The State has elected to report its infrastructure assets (11,200 centerline miles of roads and 5,200 bridges with a combined value of $14.9 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 the Federal Highway Administration's composite index for federal-aid highway construction, to the estimated average construction date. All infrastructure assets constructed after July 1, 2000 have been recorded at historical cost.

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, 2015, 92.7 percent of the roads and 96.8 percent of bridges were in good or fair condition, consistent with State policies. This compares to 91.7 percent of the roads and 96.7 percent of bridges as of June 30, 2014.

For the fiscal year ended June 30, 2015, actual maintenance and preservation costs for the State's road network were $643.3 million, or $39.9 million more than the estimated amount. On the same date, actual maintenance and preservation costs for the State's bridge network were $164.4 million, or $107.3 million more than the estimated amount. In developing estimated costs at the beginning of the fiscal year, it is difficult to predict the types of projects that will actually incur costs during the year. In addition, the State of Wisconsin, Department of Transportation's multi-year contracting process, allowing encumbrances to carry forward, makes a comparison of actual to estimated amounts difficult since expenditures for the current year may have been budgeted and committed to a project in prior years.

## ECONOMIC FACTORS

During calendar year 2014, the Wisconsin economy continued its expansion.

Wisconsin employment continued to grow throughout 2014. According to the federal Bureau of Labor Statistics, total nonfarm employment in Wisconsin increased 1.1 percent in 2012, 1.0 percent in 2013 and 1.3 percent during 2014. This performance generally followed national employment trends. Nationally, employment grew 1.7 percent in both 2012 and 2013 and grew 1.9 percent in 2014.

More recently, Wisconsin's growth in employment has accelerated. Between September 2014 and September 2015, Wisconsin employment has increased 1.9 percent. Nationally, employment is up 2.0 percent over the same period. However, Wisconsin's seasonally adjusted unemployment rate in September 2015 was 4.3 percent, well below the 5.1 percent national unemployment rate.

Reflecting the continuing recovery, Wisconsin's state nominal gross domestic product increased 2.9 percent in 2014, slightly trailing the national growth rate of 3.9 percent. Wisconsin's 2014 growth was slightly below the growth rates in 2013 and 2012 of 4.3 percent and 3.5 percent, respectively. These figures compare with the 50-state total gross domestic product increases of 4.2 percent in 2012 and 3.8 percent in 2013. Since 2007, Wisconsin's gross domestic product increased by a similar magnitude to the national average at 20.1 percent compared to 20.3 percent nationally.

Steady growth in output has caused personal incomes to expand. Wisconsin personal income grew 4.3 percent, 1.0 percent and 3.7 percent in 2012, 2013 and 2014, respectively. Nationally, personal income grew 5.1 percent, 1.2 percent and 4.4 percent in the same years. On a per capita basis, Wisconsin's income performance is similar to the nation's. Per capita income in Wisconsin increased by 4.0 percent, 0.6 percent and 3.4 percent in 2012, 2013 and 2014, respectively. This compares to growth of 4.3 percent, 0.4 percent and 3.6 percent in the same years nationally. Relative to the national average, Wisconsin per capita income has remained in approximately the same range for the past three years at 95.9 percent, 96.2 percent and 96.0 percent of the national average in 2012, 2013 and 2014, respectively. This represents an improvement from 2008 when Wisconsin per capita income was only 94.9 percent of the national average.

Wisconsin's statewide total property value increased again in 2015 for the second straight year following five years of declines from 2009 through 2013. The recovery in values has been broad-based, reflecting improvements in all major sectors. In 2014, overall property values increased 2.5 percent, residential real estate values rose 2.3 percent and commercial real estate values increased 0.6 percent. In 2015, total property value increased 2.4 percent, with residential property value growing at 2.3 percent. In addition, commercial real estate and manufacturing values both increased 3.2 percent. Manufacturing values have now increased in four consecutive years.

## CONTACTING THE STATE'S FINANCIAL MANAGEMENT

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

Some state agencies, such as the Department of Employee Trust Funds and the University of Wisconsin, issue stand-alone audited financial statements. 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 Position
## June 30, 2015

(In Thousands)

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Totals | Component Units |
| **Assets** | | | | |
| Cash and Cash Equivalents | $ 1,280,709 | $ 3,080,370 | $ 4,361,079 | $ 508,021 |
| Investments | 534,981 | 1,965,665 | 2,500,646 | 775,260 |
| Cash and Investments with Other Component Units | - | - | - | 212,348 |
| Receivables (net of allowance) | 3,487,848 | 3,105,588 | 6,593,436 | 1,729,482 |
| Internal Balances | 71,210 | (71,210) | - | - |
| Inventories | 52,916 | 50,615 | 103,530 | 17,555 |
| Prepaid Items | 100,841 | 82,809 | 183,650 | 11,679 |
| Capital Leases Receivable - Component Units | - | 199 | 199 | - |
| Restricted and Limited Use Assets: | | | | |
| Cash and Cash Equivalents | 313,198 | 140,100 | 453,298 | 188,835 |
| Investments | 127,902 | - | 127,902 | 3,036,954 |
| Net Pension Asset | 324,103 | 362,760 | 686,863 | 78,998 |
| Other Assets | 19,386 | 6,047 | 25,433 | 84,173 |
| Capital Assets: | | | | |
| Depreciable | 1,542,982 | 4,614,968 | 6,157,950 | 479,200 |
| Nondepreciable: | | | | |
| Infrastructure | 14,975,412 | - | 14,975,412 | - |
| Other | 5,846,542 | 1,620,122 | 7,466,664 | 300,727 |
| Total Assets | 28,678,030 | 14,958,033 | 43,636,062 | 7,423,233 |
| **Deferred Outflows of Resources** | 569,677 | 372,119 | 941,796 | 125,500 |
| **Liabilities** | | | | |
| Accounts Payable and Other Accrued Liabilities | 1,258,492 | 353,759 | 1,612,252 | 282,106 |
| Due to Other Governments | 2,268,469 | 40,298 | 2,308,768 | 48,341 |
| Tax Refunds Payable | 1,139,109 | - | 1,139,109 | - |
| Tax and Other Deposits | 51,301 | 23,898 | 75,199 | 73,822 |
| Amounts Held in Trust by Component Unit for Other Component Units | - | - | - | 282,500 |
| Amounts Held in Trust by Component Unit for Others | - | - | - | 33,206 |
| Unearned Revenue | 343,708 | 301,585 | 645,293 | 839 |
| Interest Payable | 112,797 | 14,392 | 127,189 | 11,379 |
| Short-term Notes Payable | 882,332 | 92,382 | 974,714 | - |
| Other Liabilities | 158,435 | - | 158,435 | 51,778 |
| Long-term Liabilities: | | | | |
| Current Portion | 973,261 | 359,553 | 1,332,814 | 66,787 |
| Noncurrent Portion | 10,820,713 | 3,392,724 | 14,213,437 | 1,753,777 |
| Total Liabilities | 18,008,617 | 4,578,592 | 22,587,209 | 2,604,535 |
| **Deferred Inflows of Resources** | 21,340 | 9,713 | 31,054 | 4,439 |
| **Net Position** | | | | |
| Net Investment in Capital Assets | 18,051,739 | 4,566,086 | 22,617,825 | 352,377 |
| Restricted for: | | | | |
| Human Relations and Resources | 112,342 | - | 112,342 | - |
| Conservation Related | 83,278 | - | 83,278 | - |
| General Executive | 152,017 | - | 152,017 | - |
| Transportation | 743,949 | - | 743,949 | - |
| Debt Service | 70,528 | - | 70,528 | - |
| Capital Projects | - | | - | |
| Unemployment Compensation | - | 819,177 | 819,177 | - |
| Environmental Improvement | - | 1,977,236 | 1,977,236 | - |
| Permanent Trusts: | | | | |
| Expendable | 18,579 | 287,343 | 305,922 | 12,263 |
| Nonexpendable | 1,024,567 | 194,517 | 1,219,083 | 2,501 |
| Future Benefits | - | 971,745 | 971,745 | 34,041 |
| Pensions | 324,103 | 362,760 | 686,863 | 78,998 |
| Other Purposes | 72,609 | 699,621 | 772,230 | 3,422,296 |
| Unrestricted | (9,435,962) | 863,361 | (8,572,601) | 1,037,283 |
| Total Net Position | $ 11,217,748 | $ 10,741,847 | $ 21,959,595 | $ 4,939,758 |

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

*State of Wisconsin*

# Statement of Activities
# For the Fiscal Year Ended June 30, 2015

(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 | $ 265,440 | $ 261,754 | $ 14,537 | $ - |
| Education | 7,068,625 | 17,428 | 1,002,733 | - |
| Transportation | 2,156,820 | 741,921 | 123,051 | 852,643 |
| Environmental Resources | 468,101 | 226,774 | 87,901 | 156 |
| Human Relations and Resources | 13,083,675 | 658,599 | 7,338,748 | 9,476 |
| General Executive | 553,662 | 248,223 | 167,692 | - |
| Judicial | 127,336 | 49,346 | 537 | - |
| Legislative | 64,429 | 1,694 | - | - |
| Tax Relief and Other General Expenses | 1,317,319 | - | 63,669 | - |
| Intergovernmental - Shared Revenue | 964,113 | 53,056 | - | - |
| Interest on Debt | 455,540 | - | - | - |
| Total Governmental Activities | 26,525,060 | 2,258,796 | 8,798,868 | 862,275 |
| Business-type Activities: | | | | |
| Injured Patients and Families Compensation | (88,594) | 33,551 | 30,182 | - |
| Environmental Improvement | 48,513 | 52,542 | 60,403 | - |
| University of Wisconsin System | 4,725,625 | 3,440,837 | 308,299 | 30,568 |
| Unemployment Reserve | 628,386 | 1,106,579 | 12,181 | - |
| Lottery | 581,226 | 574,746 | (1,260) | - |
| Health Insurance | 1,361,734 | 1,338,486 | 11,413 | - |
| Care and Treatment Facilities | 370,751 | 303,932 | 2,690 | 5,430 |
| Other Business-type | 209,358 | 123,388 | 17,895 | 1,793 |
| Total Business-type Activities | 7,837,000 | 6,974,061 | 441,804 | 37,791 |
| Total Primary Government | $ 34,362,060 | $ 9,232,857 | $ 9,240,672 | $ 900,066 |
| **Component Units:** | | | | |
| Housing and Economic Development Authority | $ 250,652 | $ 103,031 | $ 171,528 | $ - |
| Health Care Liability Insurance Plan | (418) | 1,728 | 1,385 | - |
| University Hospitals and Clinics Authority | 1,418,595 | 1,502,970 | - | 4,471 |
| University of Wisconsin Foundation | 291,565 | 99,991 | 380,492 | 7,580 |
| Wisconsin Economic Development Corp | 38,423 | 245 | 60,842 | - |
| Total Component Units | $ 1,998,817 | $ 1,707,965 | $ 614,247 | $ 12,051 |

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 Position

Net Position - Beginning

Net Position - Ending

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

| Net (Expense) Revenue and Changes in Net Position | | | |
|---|---|---|---|
| Primary Government | | | |
| Governmental Activities | Business-Type Activities | Total | Component Units |
| $ 10,851 | | $ 10,851 | |
| (6,048,465) | | (6,048,465) | |
| (439,205) | | (439,205) | |
| (153,270) | | (153,270) | |
| (5,076,852) | | (5,076,852) | |
| (137,747) | | (137,747) | |
| (77,453) | | (77,453) | |
| (62,735) | | (62,735) | |
| (1,253,649) | | (1,253,649) | |
| (911,057) | | (911,057) | |
| (455,540) | | (455,540) | |
| (14,605,121) | | (14,605,121) | |
| | $ 152,326 | 152,326 | |
| | 64,433 | 64,433 | |
| | (945,920) | (945,920) | |
| | 490,375 | 490,375 | |
| | (7,740) | (7,740) | |
| | (11,835) | (11,835) | |
| | (58,698) | (58,698) | |
| | (66,283) | (66,283) | |
| - | (383,343) | (383,343) | |
| (14,605,121) | (383,343) | (14,988,464) | |
| | | | $ 23,907 |
| | | | 3,532 |
| | | | 88,846 |
| | | | 196,498 |
| | | | 22,664 |
| | | | 335,447 |
| 8,355,665 | - | 8,355,665 | - |
| 5,590,876 | - | 5,590,876 | - |
| 368,867 | - | 368,867 | - |
| 286,310 | - | 286,310 | - |
| 1,067,773 | - | 1,067,773 | - |
| 191,437 | - | 191,437 | - |
| 9,715 | 4,354 | 14,069 | 11,944 |
| 407,453 | 39 | 407,492 | 8,204 |
| - | 3,994 | 3,994 | 104 |
| 12,133 | - | 12,133 | - |
| (1,095,969) | 1,095,969 | - | - |
| 15,194,262 | 1,104,356 | 16,298,618 | 20,252 |
| 589,141 | 721,013 | 1,310,154 | 355,699 |
| 10,628,608 | 10,020,834 | 20,649,441 | 4,584,059 |
| $ 11,217,748 | $ 10,741,847 | $ 21,959,595 | $ 4,939,758 |

# Balance Sheet - Governmental Funds
# June 30, 2015

(In Thousands)

| | General | Transportation | Capital Improvement | Nonmajor Governmental | Total Governmental |
|---|---|---|---|---|---|
| **Assets and Deferred Outflows of Resources** | | | | | |
| Assets: | | | | | |
| Cash and Cash Equivalents | $ 337,427 | $ 424,102 | $ 67,114 | $ 429,734 | $ 1,258,376 |
| Investments | 770 | - | - | 534,211 | 534,981 |
| Receivables (net of allowance): | | | | | |
| Taxes | 1,166,819 | 99,592 | - | 22,265 | 1,288,676 |
| Loans to Local Governments | - | - | - | 364,437 | 364,437 |
| Other Loans Receivable | 18,759 | 14,974 | - | - | 33,732 |
| Other Receivables | 577,310 | 11,298 | 19 | 62,536 | 651,163 |
| Due from Other Funds | 220,766 | 372,136 | 1,626 | 73,380 | 667,907 |
| Interfund Receivables | 83,687 | - | - | - | 83,687 |
| Due from Other Governments | 852,024 | 212,599 | - | 17,763 | 1,082,386 |
| Inventories | 19,137 | 28,355 | - | 1,250 | 48,742 |
| Prepaid Items | 74,172 | 5,182 | - | 14,993 | 94,347 |
| Restricted and Limited Use Assets: | | | | | |
| Cash and Cash Equivalents | - | - | - | 313,198 | 313,198 |
| Investments | - | - | - | 127,902 | 127,902 |
| Other Assets | 19,380 | - | - | 6 | 19,386 |
| Total Assets | 3,370,249 | 1,168,237 | 68,759 | 1,961,674 | 6,568,920 |
| Deferred Outflows of Resources | - | 142 | - | - | 142 |
| Total Assets and Deferred Outflows of Resources | $ 3,370,249 | $ 1,168,380 | $ 68,759 | $ 1,961,674 | $ 6,569,062 |
| **Liabilities, Deferred Inflows of Resources, and Fund Balances** | | | | | |
| Liabilities: | | | | | |
| Accounts Payable and Other Accrued Liabilities | $ 996,795 | $ 191,292 | $ 10,212 | $ 18,555 | $ 1,216,854 |
| Due to Other Funds | 306,192 | 39,270 | 147,609 | 121,398 | 614,470 |
| Due to Component Units | 8 | - | - | - | 8 |
| Due to Other Governments | 2,145,488 | 121,587 | - | 1,395 | 2,268,469 |
| Tax Refunds Payable | 1,136,897 | 1,642 | - | 570 | 1,139,109 |
| Tax and Other Deposits | 35,525 | 175 | - | 15,601 | 51,301 |
| Unearned Revenue | 302,403 | 36,759 | - | 4,543 | 343,705 |
| Interest Payable | - | - | - | 48,379 | 48,379 |
| Advances from Other Funds | 685 | - | - | 6,222 | 6,907 |
| Short-term Notes Payable | - | - | 646,664 | 215,253 | 861,917 |
| Revenue Bonds and Notes Payable | - | - | - | 222,630 | 222,630 |
| Total Liabilities | 4,923,993 | 390,724 | 804,486 | 654,547 | 6,773,749 |
| Deferred Inflows of Resources | 225,665 | 169 | - | 7,443 | 233,277 |
| Fund Balances: | | | | | |
| Nonspendable | 92,916 | 33,537 | - | 1,039,829 | 1,166,282 |
| Restricted | 284,480 | 743,949 | - | 225,853 | 1,254,283 |
| Committed | 280,280 | - | - | 169,206 | 449,486 |
| Unassigned | 789,412 | - | (735,727) | (135,204) | (81,518) |
| Total Fund Balances | 1,447,088 | 777,486 | (735,727) | 1,299,685 | 2,788,532 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | $ 6,596,746 | $ 1,168,380 | $ 68,759 | $ 1,961,674 | $ 9,795,559 |

(Continued)

# Balance Sheet - Governmental Funds
## June 30, 2015

(Continued)

| | | | Total Governmental |
|---|---|---|---|
| **Reconciliation to the Statement of Net Position:** | | | |
| **Total Fund Balances - Governmental Funds** (from previous page) | | $ | 2,788,532 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds: | | | |
| Infrastructure | 14,975,412 | | |
| Other Capital Assets | 8,441,727 | | |
| Accumulated Depreciation | (1,384,814) | | |
| | | | 22,032,324 |
| Other long-term assets and deferred outflows and inflows of resources that are not available to pay for current period expenditures and, therefore, are not recognized in the funds. | | | 709,507 |
| Deferred outflows of resources used to accumulate decreases in fair values of hedging derivatives that are not reported in the governmental funds. | 158,435 | | |
| Derivative instruments (interest rate swaps) that also are not reported in the governmental funds. | (158,435) | | |
| | | | 0 |
| 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 not recognized in the funds. | | | 233,275 |
| 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 Position. | | | 15,852 |
| 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 Position. | | | |
| Revenue Bonds Payable | (2,013,792) | | |
| Appropriation Bonds Payable | (3,112,148) | | |
| General Obligation Bonds and Notes Payable | (5,689,648) | | |
| Accrued Interest on Bonds | (64,418) | | |
| Capital Leases | (74,547) | | |
| Installment Contracts | (898) | | |
| Compensated Absences | (153,499) | | |
| Pollution Remediation | (7,490) | | |
| Claims and Judgments | (555) | | |
| Other Postemployment Benefits Liability | (218,251) | | |
| | | | (11,335,245) |
| **Net Position of Governmental Activities as reported on the Statement of Net Position** (See page 23) | | $ | 14,444,245 |

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, 2015

(In Thousands)

| | General | Transportation | Capital Improvement | Nonmajor Governmental | Total Governmental |
|---|---|---|---|---|---|
| **Revenues:** | | | | | |
| Taxes | | | | | |
| Income | $ 8,351,846 | $ - | $ - | $ - | $ 8,351,846 |
| Sales and Excise | 5,593,303 | - | - | - | 5,593,303 |
| Public Utility | 368,867 | - | - | - | 368,867 |
| Other General Purpose | 286,315 | - | - | - | 286,315 |
| Motor Fuel | - | 1,067,795 | - | - | 1,067,795 |
| Other Dedicated | - | - | - | 191,617 | 191,617 |
| Intergovernmental | 8,462,977 | 973,023 | - | 79,238 | 9,515,239 |
| Licenses and Permits | 789,412 | 493,954 | - | 625,923 | 1,909,289 |
| Charges for Goods and Services | 290,768 | 16,407 | - | 20,694 | 327,870 |
| Investment and Interest Income | 8,334 | 376 | 108 | 40,503 | 49,321 |
| Fines and Forfeitures | 41,864 | 640 | - | 17,384 | 59,889 |
| Gifts and Donations | 9,319 | 6 | - | 14,142 | 23,467 |
| Miscellaneous: | | | | | |
| Tobacco Settlement | 126,185 | - | - | - | 126,185 |
| Other | 255,348 | 17,596 | 2,096 | 12,825 | 287,865 |
| Total Revenues | 24,584,538 | 2,569,797 | 2,204 | 1,002,326 | 28,158,866 |
| **Expenditures:** | | | | | |
| Current Operating: | | | | | |
| Commerce | 196,091 | - | 3,796 | 70,614 | 270,500 |
| Education | 6,983,648 | - | 4,565 | 43,097 | 7,031,310 |
| Transportation | 10,108 | 1,975,023 | 126,957 | 219 | 2,112,307 |
| Environmental Resources | 113,772 | - | 21,445 | 319,488 | 454,705 |
| Human Relations and Resources | 12,944,112 | - | 10,119 | 24,642 | 12,978,873 |
| General Executive | 488,077 | - | 165 | 97,924 | 586,166 |
| Judicial | 125,856 | - | - | 208 | 126,064 |
| Legislative | 64,291 | - | - | - | 64,291 |
| Tax Relief and Other General | 1,308,789 | - | 7,474 | 1,400 | 1,317,664 |
| Intergovernmental - Shared Revenue | 911,113 | - | - | 53,000 | 964,113 |
| Capital Outlay | 81,777 | 590,495 | 371,828 | 229,328 | 1,273,428 |
| Debt Service: | | | | | |
| Principal | - | - | - | 610,503 | 610,503 |
| Interest | - | - | 199 | 516,802 | 517,001 |
| Other Expenditures | - | - | 291 | 5,498 | 5,788 |
| Total Expenditures | 23,227,634 | 2,565,518 | 546,838 | 1,972,722 | 28,312,713 |
| Excess of Revenues Over (Under) Expenditures | 1,356,905 | 4,279 | (544,634) | (970,396) | (153,847) |
| **Other Financing Sources (Uses):** | | | | | |
| Long-term Debt Issued | - | - | 560,458 | - | 560,458 |
| Long-term Debt Issued - Refunding Bonds | - | - | - | 1,065,490 | 1,065,490 |
| Payments for Refunded Bonds | - | - | - | (280,790) | (280,790) |
| Payments to Refunding Bond Escrow Agent | - | - | - | (927,779) | (927,779) |
| Premium on Bonds | - | - | 95,641 | 150,387 | 246,028 |
| Transfers In | 69,945 | 193,629 | 17,242 | 951,943 | 1,232,759 |
| Transfers Out | (1,881,411) | (124,002) | (185,869) | (131,235) | (2,322,517) |
| Capital Lease Acquisitions | 40,324 | 1,511 | - | - | 41,836 |
| Installment Purchase Acquisitions | 178 | - | 232 | - | 409 |
| Total Other Financing Sources (Uses) | (1,770,964) | 71,139 | 487,704 | 828,017 | (384,105) |
| Net Change in Fund Balances | (414,060) | 75,417 | (56,931) | (142,379) | (537,952) |
| Fund Balances, Beginning of Year | (1,365,725) | 691,172 | (678,796) | 1,442,651 | 89,302 |
| Increase (Decrease) in Inventories | 376 | 10,897 | - | (587) | 10,686 |
| Fund Balances, End of Year | $ (1,779,409) | $ 777,486 | $ (735,727) | $ 1,299,685 | $ (437,965) |

(Continued)

# Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
# For the Fiscal Year Ended June 30, 2015

(Continued)

| | | | Total Governmental |
|---|---|---|---|
| **Reconciliation to the Statement of Activities:** | | | |
| **Net Change in Fund Balances** (from previous page) | | $ | (537,952) |
| 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. | | | 10,686 |
| 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 | 1,272,967 | | |
| Depreciation Expense | (104,957) | | |
| Grants and Contributions (Donated Assets) | 156 | | |
| | | | 1,168,166 |
| 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 position differs from the change in fund balance by the cost of the capital assets sold/disposed. | | | (56,191) |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. | | | 1,617 |
| Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. 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 Position. | | | |
| Bonds Issued | (1,625,948) | | |
| Payments for Refunded Bonds | 280,790 | | |
| Payments to Refunding Bond Escrow Agent | 927,779 | | |
| Repayment of Bond Principal | 610,503 | | |
| Bond Premium | (246,028) | | |
| Prepaid Bond Insurance Costs (Amortization) | (31) | | |
| | | | (52,936) |
| 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 | 81,206 | | |
| Decrease (increase) in Capital Leases | (27,922) | | |
| Decrease (increase) in Installment Contracts | 928 | | |
| Decrease (increase) in Compensated Absences | (587) | | |
| Decrease (increase) in Claims and Judgments | 8,698 | | |
| Change in net pension assets, net pension liabilties, and pension-related deferred outflows and inflows of resources | 6,267 | | |
| Decrease (increase) in Postemployment Benefit Liabilities | (10,988) | | |
| | | | 57,601 |
| 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. | | | (1,849) |
| **Changes in Net Position of Governmental Activities as reported on the Statement of Activities** (See page 25) | | $ | 589,141 |

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

# Statement of Net Position
# Proprietary Funds
# June 30, 2015

(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 | $ 19,015 | $ 365,403 | $ 1,536,784 | $ 512,284 |
| Investments | 45,670 | 45,551 | - | - |
| Loans to Local Governments (net of allowance) | - | 177,338 | - | - |
| Other Loans Receivable (net of allowance) | - | - | 29,718 | - |
| Other Receivables (net of allowance) | 10,457 | 234 | 104,446 | 283,395 |
| Due from Other Funds | - | 3 | 22,559 | 433 |
| Due from Component Units | - | - | 5,002 | - |
| Interfund Receivables | - | - | - | - |
| Due from Other Governments | - | 8,806 | 89,787 | 2,875 |
| Inventories | 2 | - | 41,103 | - |
| Prepaid Items | 7 | 20 | 75,496 | - |
| Capital Leases Receivable - Component Units | - | - | 56 | - |
| Other Assets | - | - | - | - |
| Total Current Assets | 75,152 | 597,355 | 1,904,950 | 798,987 |
| Noncurrent Assets: | | | | |
| Investments | 1,109,153 | 176,611 | 442,478 | - |
| Loans to Local Governments (net of allowance) | - | 1,861,527 | - | - |
| Other Loans Receivable (net of allowance) | - | - | 166,666 | - |
| Other Receivables | - | - | 1,551 | 65,191 |
| Prepaid Items | - | 134 | - | - |
| Advances to Other Funds | - | 6,222 | - | - |
| Capital Leases Receivable - Component Units | - | - | 142 | - |
| Restricted and Limited Use Assets: | | | | |
| Cash and Cash Equivalents | 38,356 | 98,781 | - | 2,963 |
| Net Pension Asset | 68 | 82 | 330,167 | - |
| Other Assets | - | - | - | - |
| Depreciable Capital Assets (net of accumulated depreciation) | 872 | - | 4,408,900 | - |
| Nondepreciable Capital Assets | - | - | 1,597,085 | - |
| Total Noncurrent Assets | 1,148,449 | 2,143,357 | 6,946,988 | 68,154 |
| Total Assets | 1,223,600 | 2,740,712 | 8,851,938 | 867,141 |
| **Deferred Outflows of Resources** | 70 | 14,460 | 284,451 | - |
| Total Assets and Deferred Outflows of Resources | $ 1,223,670 | $ 2,755,173 | $ 9,136,389 | $ 867,141 |
| **Liabilities** | | | | |
| Current Liabilities: | | | | |
| Accounts Payable and Other Accrued Liabilities | $ 1,966 | $ 150 | $ 198,921 | $ 10,562 |
| Due to Other Funds | 163 | 1,264 | 53,393 | 2,146 |
| Due to Component Units | - | - | 1,503 | - |
| Interfund Payables | - | - | - | - |
| Due to Other Governments | - | 224 | 2,559 | 35,256 |
| Tax and Other Deposits | - | - | 1,791 | - |
| Unearned Revenue | 2,093 | - | 171,606 | - |
| Interest Payable | - | 2,888 | 10,687 | - |
| Short-term Notes Payable | - | - | 89,863 | - |
| Current Portion of Long-term Liabilities: | | | | |
| Future Benefits and Loss Liabilities | 64,042 | - | - | - |
| Capital Leases | - | - | 4,565 | - |
| Compensated Absences | 20 | 57 | 60,379 | - |
| General Obligation Bonds and Notes Payable | - | - | 70,858 | - |
| Revenue Bonds and Notes Payable | - | 59,935 | - | - |
| Total Current Liabilities | 68,284 | 64,518 | 666,123 | 47,964 |
| Noncurrent Liabilities: | | | | |
| Accounts Payable and Other Accrued Liabilities | - | - | - | - |
| Due to Other Governments | - | 575 | - | - |
| Noncurrent Portion of Long-term Liabilities: | | | | |
| Future Benefits and Loss Liabilities | 421,997 | - | - | - |
| Capital Leases | - | - | 32,201 | - |
| Compensated Absences | 45 | 28 | 69,349 | - |
| Other Postemployment Benefits | 50 | 29 | 248,443 | - |
| General Obligation Bonds and Notes Payable | - | - | 1,422,077 | - |
| Revenue Bonds and Notes Payable | - | 698,781 | - | - |
| Total Noncurrent Liabilities | 422,092 | 699,413 | 1,772,070 | - |
| Total Liabilities | 490,376 | 763,931 | 2,438,193 | 47,964 |
| **Deferred Inflows of Resources** | 1 | 1 | 9,130 | - |
| **Net Position:** | | | | |
| Net Investment in Capital Assets | 872 | - | 4,386,421 | - |
| Restricted for Unemployment Compensation | - | - | - | 819,177 |
| Restricted for Environmental Improvement | - | 1,977,236 | - | - |
| Restricted for Expendable Trusts | - | - | 287,343 | - |
| Restricted for Nonexpendable Trusts | - | - | 194,517 | - |
| Restricted for Future Benefits | 732,353 | - | - | - |
| Restricted for Pensions | 68 | 82 | 330,167 | - |
| Restricted for Other Purposes | - | - | 621,193 | - |
| Unrestricted | - | 13,923 | 869,425 | - |
| Total Net Position | 733,293 | 1,991,241 | 6,689,065 | 819,177 |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | $ 1,223,670 | $ 2,755,173 | $ 9,136,389 | $ 867,141 |

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

| Business-type Activities - Enterprise Funds | | |
|---|---|---|
| Nonmajor Enterprise | Totals | Governmental Activities - Internal Service Funds |
| $ 646,884 | $ 3,080,370 | $ 22,333 |
| 6,070 | 97,291 | - |
| 391 | 177,729 | - |
| 2,758 | 32,476 | - |
| 105,342 | 503,875 | 1,094 |
| 63,330 | 86,324 | 37,316 |
| - | 5,002 | - |
| 79,677 | 79,677 | - |
| 8,772 | 110,239 | 124 |
| 9,509 | 50,615 | 4,172 |
| 7,152 | 82,675 | 548 |
| - | 56 | - |
| 355 | 355 | - |
| 930,242 | 4,306,685 | 65,586 |
| 140,132 | 1,868,374 | - |
| 2,142 | 1,863,669 | - |
| 57,157 | 223,822 | - |
| 212 | 66,954 | - |
| - | 134 | 494 |
| 685 | 6,907 | - |
| - | 142 | - |
| - | 140,100 | - |
| 32,443 | 362,760 | - |
| 5,691 | 5,691 | 583,122 |
| 205,197 | 4,614,968 | 288,558 |
| 23,037 | 1,620,122 | 44,053 |
| 466,696 | 10,773,644 | 916,227 |
| 1,396,938 | 15,080,330 | 981,813 |
| 73,138 | 372,119 | 8,103 |
| $ 1,470,076 | $ 15,452,449 | $ 989,916 |
| $ 105,741 | $ 317,340 | $ 11,388 |
| 36,572 | 93,537 | 16,171 |
| - | 1,503 | - |
| 39,612 | 39,612 | 44,075 |
| 1,685 | 39,724 | 1,145 |
| 22,107 | 23,898 | - |
| 127,886 | 301,585 | - |
| 817 | 14,392 | 1,098 |
| 2,520 | 92,382 | 20,415 |
| 85,262 | 149,304 | 44,205 |
| 319 | 4,884 | 6,971 |
| 5,501 | 65,957 | 1,521 |
| 8,616 | 79,473 | 14,529 |
| - | 59,935 | - |
| 436,637 | 1,283,526 | 161,517 |
| 25,210 | 25,210 | - |
| - | 575 | - |
| 363,169 | 785,167 | 62,835 |
| 124 | 32,325 | 17,754 |
| 8,007 | 77,429 | 3,277 |
| 30,802 | 279,324 | 3,305 |
| 97,621 | 1,519,697 | 146,121 |
| - | 698,781 | - |
| 524,933 | 3,418,509 | 233,291 |
| 961,570 | 4,702,034 | 394,808 |
| 581 | 9,713 | 830 |
| 178,793 | 4,566,086 | 129,140 |
| - | 819,177 | - |
| - | 1,977,236 | - |
| - | 287,343 | - |
| - | 194,517 | - |
| 239,393 | 971,745 | - |
| 32,443 | 362,760 | 5,842 |
| 78,428 | 699,621 | - |
| (21,133) | 862,216 | (117,984) |
| 507,925 | 10,740,701 | 16,998 |
| $ 1,470,076 | $ 15,452,449 | $ 412,636 |

| | |
|---|---|
| Total Net Position Reported Above | $ 10,740,701 |
| Adjustment to Reflect the Consolidation of Internal Service Activities Related to Enterprise Funds | 1,145 |
| Net Position of Business-type Activities | $ 10,741,847 |

# Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds
# For the Fiscal Year Ended June 30, 2015

(In Thousands)

| | Business-type Activities - Enterprise Funds | | | |
|---|---|---|---|---|
| | **Injured Patients and Families Compensation** | **Environmental Improvement** | **University of Wisconsin System** | **Unemployment Reserve** |
| **Operating Revenues:** | | | | |
| Charges for Goods and Services | $ 33,551 | $ - | $ - | $ - |
| Participant and Employer Contributions | - | - | - | 1,053,619 |
| Tuition and Fees | - | - | 1,169,244 | - |
| Federal Grants and Contracts | - | - | 902,602 | - |
| Local and Private Grants and Contracts | - | - | 204,338 | - |
| Sales and Services of Educational Activities | - | - | 327,804 | - |
| Sales and Services of Auxiliary Enterprises | - | - | 401,821 | - |
| Sales and Services to UW Hospital Authority | - | - | 64,379 | - |
| Investment and Interest Income | - | 33,641 | - | - |
| Interest Income Used as Security for Revenue Bonds | - | 18,870 | - | - |
| Miscellaneous: | | | | |
| Federal Aid for Unemployment Insurance Program | - | - | - | 6,594 |
| Reimbursing Financing Revenue | - | - | - | 45,905 |
| Other | - | 31 | 332,325 | 6,278 |
| Total Operating Revenues | 33,551 | 52,542 | 3,402,513 | 1,112,396 |
| **Operating Expenses:** | | | | |
| Personal Services | 290 | 4,458 | 3,034,292 | - |
| Supplies and Services | 399 | 3,222 | 1,160,409 | - |
| Lottery Prize Awards | - | - | - | - |
| Scholarships and Fellowships | - | - | 135,765 | - |
| Depreciation | 78 | - | 290,407 | - |
| Benefit Expense | (89,360) | - | - | 618,545 |
| Interest Expense | - | 31,301 | - | - |
| Other Expenses | - | - | 31,449 | 9,841 |
| Total Operating Expenses | (88,594) | 38,980 | 4,652,322 | 628,386 |
| Operating Income (Loss) | 122,145 | 13,562 | (1,249,810) | 484,010 |
| **Nonoperating Revenues (Expenses):** | | | | |
| Operating Grants | - | 55,812 | - | - |
| Investment and Interest Income | 30,182 | 1,135 | 4,740 | 5,587 |
| Investment Income Used as Security for Revenue Bonds | - | 3,464 | - | - |
| Gain (Loss) on Disposal of Capital Assets | - | - | (17,381) | - |
| Interest Expense | - | - | (55,886) | - |
| Gifts and Donations | - | - | 304,934 | - |
| Miscellaneous Revenues | - | - | 38,325 | 777 |
| Other Expenses: | | | | |
| Property Tax Credits | - | - | - | - |
| Grants Disbursed | - | (9,533) | - | - |
| Federal Settlement | - | - | - | - |
| Other | - | - | - | - |
| Total Nonoperating Revenues (Expenses) | 30,182 | 50,879 | 274,733 | 6,365 |
| Income (Loss) Before Contributions and Transfers | 152,326 | 64,441 | (975,077) | 490,375 |
| Capital Contributions | - | - | 30,568 | - |
| Additions to Endowments | - | - | 3,994 | - |
| Transfers In | - | 11,307 | 1,100,735 | - |
| Transfers Out | (15) | (8,012) | (95,491) | (629) |
| Change in Net Position | 152,311 | 67,736 | 64,729 | 489,746 |
| Total Net Position, Beginning of Year | 580,982 | 1,923,506 | 6,624,336 | 329,431 |
| Total Net Position, End of Year | $ 733,293 | $ 1,991,241 | $ 6,689,065 | $ 819,177 |

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

| Business-type Activities - Enterprise Funds | | |
|---|---|---|
| Nonmajor Enterprise | Totals | Governmental Activities - Internal Service Funds |
| $ 936,148 | $ 969,699 | $ 264,324 |
| 1,396,534 | 2,450,153 | - |
| - | 1,169,244 | - |
| - | 902,602 | - |
| - | 204,338 | - |
| - | 327,804 | - |
| - | 401,821 | - |
| - | 64,379 | - |
| 4,150 | 37,791 | - |
| - | 18,870 | - |
| - | 6,594 | - |
| - | 45,905 | - |
| 1,186 | 339,819 | 22,192 |
| 2,338,018 | 6,939,019 | 286,516 |
| 307,930 | 3,346,970 | 45,626 |
| 198,995 | 1,363,024 | 147,030 |
| 342,441 | 342,441 | - |
| - | 135,765 | - |
| 16,867 | 307,353 | 26,196 |
| 1,469,513 | 1,998,698 | 56,525 |
| 3,988 | 35,288 | - |
| 13,642 | 54,931 | - |
| 2,353,375 | 7,584,470 | 275,377 |
| (15,358) | (645,451) | 11,139 |
| 3,616 | 59,429 | 178 |
| 29,373 | 71,018 | - |
| - | 3,464 | - |
| (25) | (17,406) | 141 |
| (1,657) | (57,542) | (7,517) |
| 456 | 305,390 | - |
| 2,798 | 41,900 | 1,355 |
| (165,193) | (165,193) | - |
| (2,570) | (12,103) | - |
| - | - | (1,840) |
| (194) | (194) | (55) |
| (133,395) | 228,762 | (7,738) |
| (148,753) | (416,689) | 3,401 |
| 7,223 | 37,791 | - |
| - | 3,994 | - |
| 109,827 | 1,221,869 | 5,321 |
| (21,754) | (125,900) | (10,624) |
| (53,456) | 721,066 | (1,902) |
| 561,381 | 10,019,635 | 18,900 |
| $ 507,925 | $ 10,740,701 | $ 16,998 |

| | |
|---|---|
| Change in Net Position Reported Above | $ 721,066 |
| Consolidation Adjustment of Internal Services Activities Related to Enterprise Funds | (53) |
| Change in Net Position of Business-Type Activities | $ 721,013 |

*State of Wisconsin*

# Statement of Cash Flows - Proprietary Funds
# For the Fiscal Year Ended June 30, 2015

(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 | $ 34,397 | $ - | $ - | $ 1,066,114 |
| Cash Payments to Suppliers for Goods and Services | (529) | (3,136) | (1,154,881) | - |
| Cash Payments to Employees for Services | (278) | (3,990) | (3,044,971) | - |
| Tuition and Fees | - | - | 1,189,658 | - |
| Grants and Contracts | - | - | 1,114,169 | - |
| Cash Payments for Lottery Prizes | - | - | - | - |
| Cash Payments for Loans Originated | - | (203,391) | (36,166) | - |
| Collection of Loans | - | 174,171 | 36,850 | - |
| Interest Income | - | 52,415 | - | - |
| Cash Payments for Benefits | (21,057) | - | - | (653,036) |
| Sales and Services of Educational Activities | - | - | 327,236 | - |
| Sales and Services of Auxiliary Enterprises | - | - | 412,803 | - |
| Sales and Services to UW Hospital Authority | - | - | 65,105 | - |
| Scholarships and Fellowships | - | - | (135,765) | - |
| Other Operating Revenues | - | 31 | 350,464 | 97,018 |
| Other Operating Expenses | - | - | - | (10,275) |
| Other Sources of Cash | - | - | - | - |
| Other Uses of Cash | - | - | - | - |
| Net Cash Provided (Used) by Operating Activities | 12,533 | 16,100 | (875,499) | 499,820 |
| **Cash Flows from Noncapital Financing Activities:** | | | | |
| Operating Grants Receipts | - | 56,173 | - | - |
| Grants Disbursed | - | (9,533) | - | - |
| Repayment of Bonds and Notes | - | (58,400) | - | - |
| Interest Payments | - | (37,532) | - | - |
| Property Tax Credit Payments | - | - | - | - |
| Noncapital Gifts and Grants | - | - | 308,928 | - |
| Interfund Loans Received | - | - | - | - |
| Interfund Loans Repaid | - | - | - | - |
| Interfund Borrowings to Other Funds | - | - | - | - |
| Transfers In | - | 11,307 | 1,127,661 | - |
| Transfers Out | (15) | (8,012) | (91,095) | (619) |
| Student Direct Lending Receipts | - | - | 735,807 | - |
| Student Direct Lending Disbursements | - | - | (736,411) | - |
| Other Cash Inflows from Noncapital Financing Activities | - | - | 29,871 | 34,097 |
| Other Cash Outflows from Noncapital Financing Activities | - | (3) | - | (33,320) |
| Net Cash Provided (Used) by Noncapital Financing Activities | (15) | (46,000) | 1,374,762 | 158 |
| **Cash Flows from Capital and Related Financing Activities:** | | | | |
| Proceeds from Issuance of Debt | - | - | 257,314 | - |
| Capital Contributions | - | - | 157,515 | - |
| Repayment of Bonds and Notes | - | - | (383,634) | - |
| Interest Payments | - | - | (139,536) | - |
| Transfers In | - | - | - | - |
| Capital Lease Obligations | - | - | (350) | - |
| Proceeds from Sale of Capital Assets | - | - | - | - |
| Payments for Purchase of Capital Assets | (279) | - | (310,180) | - |
| Other Cash Inflows from Capital Financing Activities | - | - | 37,929 | - |
| Other Cash Outflows from Capital Financing Activities | - | - | - | - |
| Net Cash Provided (Used) by Capital and Related Financing Activities | (279) | - | (380,942) | - |
| **Cash Flows from Investing Activities:** | | | | |
| Proceeds from Sale and Maturities of Investment Securities | 72,178 | 7,768 | 114,805 | - |
| Purchase of Investment Securities | (129,240) | (31) | (106,433) | - |
| Cash Payments for Loans Originated | - | - | - | - |
| Collection of Loans | - | - | - | - |
| Investment and Interest Receipts | 33,491 | 8,753 | 11,345 | 5,587 |
| Net Cash Provided (Used) by Investing Activities | (23,571) | 16,490 | 19,717 | 5,587 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (11,333) | (13,410) | 138,039 | 505,566 |
| Cash and Cash Equivalents, Beginning of Year | 68,703 | 477,594 | 1,398,745 | 9,682 |
| Cash and Cash Equivalents, End of Year | $ 57,371 | $ 464,185 | $ 1,536,784 | $ 515,247 |

| Business-type Activities - Enterprise Funds | | |
|---|---|---|
| Nonmajor Enterprise | Totals | Governmental Activities - Internal Service Funds |
| $ 2,293,933 | $ 3,394,443 | $ 263,240 |
| (143,750) | (1,302,296) | (142,609) |
| (309,940) | (3,359,179) | (42,304) |
| - | 1,189,658 | - |
| - | 1,114,169 | - |
| (334,380) | (334,380) | - |
| (49) | (239,606) | - |
| 16,827 | 227,848 | - |
| 5,218 | 57,633 | - |
| (1,356,965) | (2,031,058) | (54,521) |
| - | 327,236 | - |
| - | 412,803 | - |
| - | 65,105 | - |
| - | (135,765) | - |
| 28,694 | 476,206 | 21 |
| (47,532) | (57,807) | (137) |
| 14,356 | 14,356 | 22,361 |
| - | - | (4,253) |
| 166,410 | (180,635) | 41,797 |
| 1,745 | 57,918 | - |
| (2,686) | (12,218) | - |
| (15,230) | (73,630) | - |
| (4,063) | (41,595) | (8) |
| (166,433) | (166,433) | - |
| - | 308,928 | - |
| 2,253 | 2,253 | 1,231 |
| (3,946) | (3,946) | (1,826) |
| (79,603) | (79,603) | - |
| 101,367 | 1,240,335 | 5,321 |
| (21,753) | (121,494) | (10,567) |
| - | 735,807 | - |
| - | (736,411) | - |
| 459 | 64,427 | 96 |
| (17,112) | (50,434) | (6) |
| (205,001) | 1,123,904 | (5,761) |
| 6,221 | 263,535 | 35,286 |
| 7,215 | 164,730 | - |
| (6,180) | (389,813) | (46,947) |
| (1,882) | (141,418) | (8,442) |
| 8,393 | 8,393 | - |
| (367) | (717) | (4,003) |
| 31 | 31 | 506 |
| (27,708) | (338,166) | (18,502) |
| 513 | 38,442 | 1,119 |
| (546) | (546) | - |
| (14,309) | (395,530) | (40,982) |
| 7,636 | 202,388 | - |
| (2,771) | (238,476) | - |
| (183) | (183) | - |
| 223 | 223 | - |
| 33,247 | 92,422 | - |
| 38,151 | 56,374 | - |
| (14,749) | 604,113 | (4,945) |
| 661,633 | 2,616,358 | 27,279 |
| $ 646,884 | $ 3,220,470 | $ 22,333 |

(Continued)

# Statement of Cash Flows - Proprietary Funds
# For the Fiscal Year Ended June 30, 2015

(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) | $ 122,145 | $ 13,562 | $ (1,249,810) | $ 484,010 |
| Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | | |
| Depreciation | 78 | - | 290,407 | - |
| Provision for Uncollectible Accounts | - | - | - | (4,711) |
| Operating Income (Investment Income) Classified as Investing Activity | - | (29,316) | - | - |
| Operating Expense (Interest Expense) Classified as Noncapital Financing Activity | - | 31,301 | - | - |
| Miscellaneous Nonoperating Income (Expense) | - | - | - | - |
| Changes in Assets, Deferred Outflows, Liabilities, and Deferred Inflows: | | | | |
| Decrease (Increase) in Receivables | 79 | - | 86,842 | 29,792 |
| Decrease (Increase) in Due from Other Funds | - | 133 | 207 | 69 |
| Decrease (Increase) in Due from Component Units | - | - | 726 | - |
| Decrease (Increase) in Due from Other Governments | - | - | (6,468) | 922 |
| Decrease (Increase) in Inventories | 1 | - | 1,492 | - |
| Decrease (Increase) in Prepaid Items | - | 19 | (3,190) | - |
| Decrease (Increase) in Net Pension Assets and Related Deferred Outflows | (2) | 4 | (64,561) | - |
| Decrease (Increase) in Other Assets | - | - | - | - |
| Increase (Decrease) in Accounts Payable and Other Accrued Liabilities | 1,161 | 66 | 47,698 | (3,297) |
| Increase (Decrease) in Due to Other Funds | 43 | 334 | (4,851) | 494 |
| Increase (Decrease) in Due to Component Units | - | - | (147) | - |
| Increase (Decrease) in Due to Other Governments | - | (2) | (2,761) | (7,459) |
| Increase (Decrease) in Tax and Other Deposits | - | - | - | - |
| Increase (Decrease) in Unearned Revenue | (545) | - | 7,145 | - |
| Increase (Decrease) in Interest Payable | - | - | - | - |
| Increase (Decrease) in Compensated Absences | (19) | - | (1,458) | - |
| Increase (Decrease) in Net Pension Liabilities and Related Deferred Inflows | 1 | 1 | 7,793 | - |
| Increase (Decrease) in Postemployment Benefits | 7 | (1) | 15,437 | - |
| Increase (Decrease) in Future Benefits and Loss Liabilities | (110,417) | - | - | - |
| Total Adjustments | (109,612) | 2,538 | 374,311 | 15,810 |
| Net Cash Provided (Used) by Operating Activities | $ 12,533 | $ 16,100 | $ (875,499) | $ 499,820 |
| **Noncash Investing, Capital and Financing Activities:** | | | | |
| Assets Acquired through Capital Leases | $ - | $ - | $ 1,222 | $ - |
| Lottery Prize Annuity Investment Liability | - | - | - | - |
| Net Change in Unrealized Gains and Losses | 4,291 | 4,540 | (33,375) | - |
| Other | (7,294) | 9,306 | 1,930 | - |

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

| Business-type Activities - Enterprise Funds | | |
|---|---|---|
| Nonmajor Enterprise | Totals | Governmental Activities - Internal Service Funds |
| $ (15,358) | $ (645,451) | $ 11,139 |
| 16,867 | 307,353 | 26,196 |
| (495) | (5,206) | - |
| (243) | (29,559) | - |
| 3,988 | 35,288 | - |
| 2,249 | 2,249 | (1,639) |
| 9,103 | 125,817 | 1,121 |
| (26,318) | (25,909) | (2,206) |
| - | 726 | - |
| 375 | (5,171) | 1 |
| 179 | 1,671 | (151) |
| 97,152 | 93,981 | 2,090 |
| (1,514) | (66,073) | (297) |
| 1,295 | 1,295 | - |
| 26,049 | 71,677 | (2,583) |
| 8,088 | 4,108 | 5,450 |
| - | (147) | - |
| (153) | (10,375) | (41) |
| 1,632 | 1,632 | - |
| 5,359 | 11,959 | - |
| - | - | - |
| (93) | (1,570) | 500 |
| 369 | 8,164 | 74 |
| 1,886 | 17,329 | 140 |
| 35,993 | (74,425) | 2,004 |
| 181,768 | 464,815 | 30,658 |
| $ 166,410 | $ (180,635) | $ 41,797 |
| $ 77 | $ 1,299 | $ 24,330 |
| 2,142 | 2,142 | - |
| (1,329) | (25,873) | - |
| 705 | 4,647 | 69 |

# Statement of Fiduciary Net Position
# June 30, 2015

(In Thousands)

| | Pension and Other Employee Benefit Trust | Investment Trust | Private-Purpose Trust | Agency |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and Cash Equivalents | $ 2,683,753 | $ 2,828,661 | $ 53,282 | $ 33,087 |
| Securities Lending Collateral | 833,501 | - | - | - |
| Prepaid Items | 28,077 | - | 1 | - |
| Receivables (net of allowance): | | | | |
| Prior Service Contributions Receivable | 33,239 | - | - | - |
| Benefits Overpayment Receivable | 2,865 | - | - | - |
| Due from Other Funds | 71,046 | - | 46 | 1,151 |
| Due from Component Units | 136 | - | - | - |
| Interfund Receivables | 334,900 | - | - | - |
| Due from Other Governments | 110,956 | - | 8,484 | 863 |
| Due from Employers | - | - | - | 16,169 |
| Interest and Dividends Receivable | 233,038 | - | - | - |
| Investment Sales Receivable | 527,889 | - | - | - |
| Other Receivables | 3,949 | - | 18,851 | 1,602 |
| Total Receivables | 1,318,017 | - | 27,381 | 19,785 |
| Investments: | | | | |
| Fixed Income | 27,139,271 | - | - | - |
| Stocks | 50,725,324 | - | - | - |
| Options | (1,616) | - | - | - |
| Financial Futures Contracts and Swaps | (353) | - | - | - |
| Limited Partnerships | 10,554,585 | - | - | - |
| Preferred Securities | 221,385 | - | - | - |
| Convertible Securities | 3,779 | - | - | - |
| Real Estate | 1,017,433 | - | - | - |
| Investments of Private Purpose Trust Funds | - | - | 3,907,357 | - |
| Investments of Agency Funds | - | - | - | 60 |
| Multi-asset Investments | 3,906,834 | - | - | - |
| External Investment Pool | 608,031 | - | - | - |
| Foreign Currency Contracts | (10,916) | - | - | - |
| Total Investments | 94,163,756 | - | 3,907,357 | 60 |
| Capital Assets | 2,411 | - | - | - |
| Other Assets | - | - | 10 | 307,136 |
| Total Assets | 99,029,515 | 2,828,661 | 3,988,032 | $ 360,067 |
| **Deferred Outflows of Resources** | - | - | 10 | |
| **Liabilities** | | | | |
| Accounts Payable and Other Accrued Liabilities | 65,203 | - | 8,495 | $ 34,662 |
| Reverse Repurchase Agreements | 820,516 | - | - | - |
| Securities Lending Collateral Liability | 833,501 | - | - | - |
| Annuities Payable | 314,945 | - | - | - |
| Due to Other Funds | 105,686 | 117 | 496 | - |
| Interfund Payables | 334,974 | - | 79,603 | - |
| Tax and Other Deposits | - | - | - | 325,405 |
| Future Benefits and Loss Liabilities | - | - | 4,957 | - |
| Short Sales of Securities | 473,539 | - | - | - |
| Investment Payable | 309,109 | - | - | - |
| Unearned Revenue | 1,100 | - | 58 | - |
| Compensated Absences Payable | 2,367,897 | - | - | - |
| Total Liabilities | 5,626,471 | 117 | 93,608 | $ 360,067 |
| **Net Position** | | | | |
| Held in Trust for Pension Benefits, Pool Participants and Other Purposes | $ 93,403,044 | $ 2,828,544 | $ 3,894,434 | |

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

# Statement of Changes in Fiduciary Net Position
# For the Year Ended June 30, 2015

(In Thousands)

| | Pension and Other Employee Benefit Trust | Investment Trust | Private-Purpose Trust |
|---|---|---|---|
| **Additions** | | | |
| Contributions: | | | |
| Employer Contributions | $ 1,097,371 | $ - | $ - |
| Employee Contributions | 944,480 | - | - |
| Other | - | - | 32 |
| Total Contributions | 2,041,850 | - | 32 |
| Deposits | - | 9,287,670 | 449,602 |
| Premiums | - | - | 212,508 |
| Federal Subsidy | - | - | 17,200 |
| Investment Income: | | | |
| Net Appreciation (Depreciation) in Fair Value of Investments | 3,167,373 | - | - |
| Interest | 665,878 | - | - |
| Dividends | 1,354,765 | - | - |
| Securities Lending Income | 28,453 | - | - |
| Other | 221,680 | - | - |
| Investment Income of Investment, Private Purpose, and Other Employee Benefit Trust Funds | 180,456 | 13,161 | 117,935 |
| Less: | | | |
| Investment Expense | (356,811) | (511) | (6,584) |
| Securities Lending Rebates and Fees | (2,407) | - | - |
| Investment Income Distributed to Other Funds | (190,690) | - | - |
| Net Investment Income | 5,068,697 | 12,649 | 111,350 |
| Interest on Prior Service Receivable | 2,133 | - | - |
| Miscellaneous Income | 464 | - | 150 |
| Total Additions | 7,113,144 | 9,300,320 | 790,842 |
| **Deductions** | | | |
| Retirement Benefits and Refunds: | | | |
| Retirement, Disability, and Beneficiary | 4,497,680 | - | - |
| Separations | 34,401 | - | - |
| Total Retirement Benefits and Refunds | 4,532,081 | - | - |
| Distributions | 27,939 | 9,057,587 | 327,387 |
| Other Benefit Expense | 347,255 | - | 238,482 |
| Administrative Expense | 28,727 | 118 | 11,431 |
| Miscellaneous Expense | - | - | - |
| Transfers Out | - | - | 437 |
| Total Deductions | 4,936,001 | 9,057,705 | 577,737 |
| Net Increase (Decrease) | 2,177,143 | 242,615 | 213,105 |
| Net Position - Beginning of Year | 91,225,902 | 2,585,930 | 3,681,329 |
| Net Position - End of Year | $ 93,403,044 | $ 2,828,544 | $ 3,894,434 |

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

# Index

## 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,* GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14,* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34.* 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. GASB Statement No. 61 modifies certain requirements for inclusion in the financial reporting entity, especially in regards to the fiscal dependency criterion where a financial benefit or burden relationship is now required. It also amends the "blending" criteria for component units and clarifies the reporting of equity interests in legally separate organizations.

Based upon the application of the criteria contained in GASB Statement No. 14, as amended by GASB Statement No. 39, the Wisconsin Public Broadcasting Foundation, Inc. is reported as a blended component unit; and the Wisconsin Housing and Economic Development Authority, the Wisconsin Health Care Liability Insurance Plan, the University of Wisconsin Hospital 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 53713
http://www.ecb.org

Wisconsin Housing and Economic Development Authority
201 West Washington Avenue, Suite 700
Madison, WI 53703
http://www.wheda.com

Wisconsin Health Care Liability Insurance Plan
Office of the Commissioner of Insurance
125 South Webster Street
Madison, WI 53703
http://oci.wi.gov

University of Wisconsin Hospital and Clinics Authority
301 South Westfield Road
Madison, WI 53717
http://www.uwhealth.org

Wisconsin Economic Development Corporation
201 West Washington Avenue
Madison, Wisconsin 53703
http://inwisconsin.com

University of Wisconsin Foundation
1848 University Avenue
Madison, WI 53726-4090
https://www.supportuw.org

**Blended Component Unit**

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, non-stock, 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.

**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 Hospital 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 Hospital and Clinics Authority* – The University of Wisconsin Hospital and Clinics Authority (Hospital) is a not-for-profit academic medical center. The Hospital operates an acute-care hospital with 566 beds, numerous specialty clinics, and six intensive care units with a total of 83 beds, and it provides comprehensive health care to patients, education programs, research and community service. 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. 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 Fox River navigational system 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 administrative responsibilities 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 position 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 position 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 position 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 statements. 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.

In Fiscal Year 2015, the State implemented GASB Statement 68 *Accounting and Financial Reporting for Pensions* and GASB Statement 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date.* These statements address accounting and financial reporting by employers for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts. These statements establish standards for measuring and recognizing any pension liability or asset, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, these statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

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

The *government-wide* statement of net position 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, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. 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.

Most of the funds included in the State's Comprehensive Annual Financial Report are presented on a fiscal year ended June 30. However, because funds of the Department of Employee Trust Funds (DETF) are administered on a calendar year basis, they are presented on a fiscal year ended December 31. Funds reported as of December 31 include: Wisconsin Retirement System, Accumulated Sick Leave, Duty Disability, Reimbursed Employee Expense, Local Retiree Life Insurance, Retiree Life Insurance, Milwaukee Retirement System, Retiree Health Insurance, Local Retiree Health Insurance, Income Continuation Insurance, Long-term Disability Insurance, Health Insurance, and Life Insurance.

As a result of the differences in timing, transactions between funds with different fiscal year ends may result in inconsistencies in amounts reported as due to/due from other funds or as interfund transfers. Similar differences may occur in amounts reported as due to/from component units.

The University of Wisconsin Foundation and Wisconsin Health Care Liability Insurance Plan are reported as component units. The Foundation financial statements are prepared using accounting standards promulgated by the Financial Accounting Standards Board as they apply to not-for-profit corporations. The Plan financial statements are prepared using prescribed statutory accounting practices included in the National Association of Insurance Commissioner's Accounting Practices and Procedures Manual. Statutory accounting practices vary somewhat from United States GAAP but are expected to be immaterial.

*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.
- *Capital Improvement Fund* - a capital projects fund, accounts for the proceeds received from general obligation bonds and notes, and associated interest earnings. Resources of the fund are used for the acquisition or construction of major capital facilities and for repair and maintenance projects.

***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 charged to 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* – used to account for resources that are required to be held in trust for members and beneficiaries for public employee retirement or other benefit plans e.g. Wisconsin Retirement System and duty disability.
- *Investment Trust Funds* – account for assets invested on a commingled basis by the State on behalf of other governmental entities e.g. local government pooled investments.
- *Private-purpose Trust Funds* – account for all other trust arrangements which benefit individuals, private organizations, or other governments e.g. the state-sponsored college savings program.
- *Agency Funds* – account for those assets for which the State acts solely in a custodial capacity e.g. the collection and disbursement of court-ordered child 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.

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, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balances

#### 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**

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 Fund and University of Wisconsin System |
| University | University of Wisconsin System |
| Benevolent | General Fund |

**3. Mortgage and Other Loans**

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 or statement of net position for proprietary and fiduciary funds 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".

Amounts reported in the funds as interfund assets/liabilities are eliminated in the governmental and business-type columns of the Statement of Net Position, 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 software purchased by the University of Wisconsin System) 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.

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 the current cost of a similar asset and deflating that cost using the Federal Highway Administration's composite index for federal aid highway construction to the estimated average construction date. All infrastructure assets constructed after July 1, 2000 have been recorded at historical cost. 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 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 in the proprietary fund statements. 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 | 6 - 40 years |
| Equipment, machinery and furnishings | 3 - 15 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**

Assets that are required to be held and/or used as specified in Wisconsin statutes, bond indentures, bond resolutions, trustee agreements, board resolutions, and donor specifications have been reported as Restricted and Limited Use 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, 2015, 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 $442.0 million representing one-half of the total appropriated amount is reported at June 30, 2015 as Due to Other Governments.

### State Property Tax Credit Program

At June 30, 2015, 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, 2015.

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, 2015.

The aggregated State Property Tax Credit Program liability of $670.3 million is reported in the General Fund as Due to Other Governments. Of that amount, $559.5 million relates to the school levy tax credit and $110.8 million relates to the first dollar tax credit.

The lottery property 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 2015 property tax bills, the State made this payment in March 2015. 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 2015, while the remaining portion represents advanced payments. The resulting deferred outflow of resources reported within the Lottery Fund totals $41.8 million at June 30, 2015.

### 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, 2015, the State was liable to various local governments and other taxing jurisdictions for unpaid exempt computer aid payments of $60.2 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 net of the applicable bond premium or discount. Bond premiums and discounts 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.

In the fund financial statements, governmental fund types recognize flows for bond premiums and discounts, as well as issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums and discounts are reported as other financing sources and other financing uses, respectively. Issuance costs are reported as other debt service expenditures for governmental fund types, and non-operating expenses for proprietary fund types.

On the government-wide financial statements, bond premiums and discounts 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 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.

**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 a certain portion of 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 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, such as when grant moneys are received prior to the incurrence of qualifying expenditures. In subsequent periods, when 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, 2015, primarily for summer session tuition, tuition and room deposits for the next fall term, advance ticket sales for upcoming intercollegiate athletic events, and amounts received from grant and contract sponsors that have not yet been earned under the terms of the agreement.

**13. Self-Insurance**

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

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

### 14. Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources are a consumption of net assets by the government that is applicable to a future reporting period. Deferred inflows of resources are an acquisition of net assets by the government that is applicable to a future reporting period. The events associated with the outflows and inflows of resources have already occurred. Under GASB standards, however, the recognition of those outflows and inflows as expenses or expenditures and revenues are deferred until the future periods to which the outflows and inflows are applicable. GASB standards identify circumstances under which deferred outflows of resources and deferred inflows of resources must be reported. The reporting of deferred inflows and outflows are only allowable under those circumstances.

As applicable, the State reports deferred outflows of resources or deferred inflows of resources in the Statement of Net Position for governmental activities and business-type activities and for proprietary and fiduciary fund types as follows:

A decrease or increase in the fair value of derivative instruments classified as effective hedges is presented as a deferred outflow or deferred inflow of resources, respectively, with an off-setting liability or asset, as applicable.

Gains on refunded debt (i.e. the reacquisition price is less than the net carrying amount of the old debt) are reported as deferred inflows, while losses on refunded debt (i.e. the reacquisition price is greater than the net carrying amount of the old debt) are reported as deferred outflows. Both are amortized to interest expense over the remaining life of the old bonds or the life of the new bonds, whichever is shorter.

Differences between expected and actual pension experience with regard to economic and demographic factors in the measurement of the total pension liability for the State's proportionate share are reported as deferred inflows or deferred outflows of resources. They are amortized using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all active and inactive employees provided with pensions through the pension plan.

Changes of assumptions about future economic or demographic factors, or of other inputs in the measurement of the total pension liability for the State's proportionate share, are reported as deferred inflows or deferred outflows of resources. They are amortized using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all active and inactive employees provided with pensions through the pension plan.

Differences between projected and actual earnings on the State's proportionate share of pension plan investments are reported as deferred inflows or deferred outflows of resources and amortized using a systematic and rational method over a closed five-year period.

Changes in the State's proportionate share of the net pension liability since the prior measurement date, and differences between actual and proportionate share of contributions are reported as deferred inflows or deferred outflows of resources. They are amortized using a systematic and rational method over a closed period equal to the average expected remaining service lives of all active and inactive employees provided with pensions through the pension plan.

Contributions to the pension plan from the State subsequent to the measurement date of the collective net pension liability and before the end of the State's fiscal year end are reported as deferred outflows of resources.

State resources transmitted to an entity before time requirements are met, but after all other eligibility requirements have been met, are reported as a deferred outflow of resources.

Federal or other entities' resources transmitted to the State before time requirements are met, but after all other eligibility requirements have been met, are reported as deferred inflows of resources.

Further, governmental fund types may report deferred inflows of resources for unavailable revenue, such as derived nonexchange revenue transactions (e.g. sales tax, income tax, assessments on earnings and consumption, etc.). These inflows are not deferred in the government-wide financial statements; rather, they are recognized as revenue.

### 15. Fund Balance Classification and Restricted Net Position

#### 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 may be used only for specific purposes, pursuant to constraints imposed by passage of a bill by both houses of the legislature that is signed into law by the governor, are reported as committed fund balance. Those committed amounts cannot be used for any other purpose unless a bill passes both houses of the legislature and is signed by the governor to remove or change the specified use. Passage of a bill by both houses of the legislature and signing of the bill by the governor 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 Position**

Restricted Net Position, presented in the government-wide and proprietary funds statement of net position are reported when constraints placed on 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 position may be used at the State's discretion but may have limitations on use based on State statutes.

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## 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 Position

During the year ended June 30, 2015, 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 activities section of the Statement of Net Position (in thousands). The differences result primarily from the long-term economic focus of the Statement of Net Position 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 Position |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| Cash and Cash Equivalents | $ 1,258,376 | $ - | $ 22,333 | $ - | $ 1,280,709 |
| Investments | 534,981 | - | - | - | 534,981 |
| Receivables (net of allowance): | | | | | |
| Taxes | 1,288,676 | - | - | (1,288,676) | - |
| Loans to Local Governments | 364,437 | - | - | (364,437) | - |
| Other Loans Receivable | 33,732 | - | - | (33,732) | - |
| Other Receivables | 651,163 | 3,305 | 1,217 | 2,832,163 | 3,487,848 |
| Due from Other Funds | 667,907 | - | 37,316 | (705,223) | - |
| Interfund Receivables | 83,687 | - | - | (83,687) | - |
| Due from Other Governments | 1,082,386 | - | - | (1,082,386) | - |
| Internal Balances | - | - | (1,145) | 72,355 | 71,210 |
| Inventories | 48,742 | 2 | 4,172 | - | 52,916 |
| Prepaid Items | 94,347 | 5,453 | 1,042 | - | 100,841 |
| Restricted Assets: | | | | | |
| Cash and Cash Equivalents | 313,198 | - | - | - | 313,198 |
| Investments | 127,902 | - | - | - | 127,902 |
| Net Pension Asset | - | 318,261 | 5,842 | - | 324,103 |
| Other Assets | 19,386 | - | 0 | - | 19,386 |
| Depreciable Capital Assets | - | 1,254,424 | 288,558 | - | 1,542,982 |
| Infrastructure | - | 14,975,412 | - | - | 14,975,412 |
| Other Non-depreciable Capital Assets | - | 5,802,489 | 44,053 | - | 5,846,542 |
| Total Assets | 6,568,920 | 22,359,345 | 403,388 | (653,623) | 28,678,030 |
| **Deferred Outflows of Resources** | 142 | 561,431 | 8,103 | - | 569,677 |
| Total Assets and Deferred Outflows | $ 6,569,062 | $ 22,920,777 | $ 411,490 | $ (653,623) | $ 29,247,706 |
| **Liabilities:** | | | | | |
| Accounts Payable and Other Accrued Liabilities | 1,216,854 | - | 13,630 | 28,008 | 1,258,492 |
| Due to Other Funds | 614,470 | - | 60,246 | (674,716) | - |
| Due to Component Units | 8 | - | - | (8) | - |
| Due to Other Governments | 2,268,469 | - | - | - | 2,268,469 |
| Tax Refunds Payable | 1,139,109 | - | - | - | 1,139,109 |
| Tax and Other Deposits | 51,301 | - | - | - | 51,301 |
| Unearned Revenue | 343,705 | 2 | - | - | 343,708 |
| Interest Payable | 48,379 | 64,418 | - | - | 112,797 |
| Advances from Other Funds | 6,907 | - | - | (6,907) | - |
| Short-term Notes Payable | 861,917 | - | 20,415 | - | 882,332 |
| Other Liabilities | - | 158,435 | - | - | 158,435 |
| Long-term Liabilities: | | | | | |
| Current Portion | 222,630 | 683,405 | 67,226 | - | 973,261 |
| Noncurrent Portion | - | 10,587,422 | 233,291 | - | 10,820,713 |
| Total Liabilities | 6,773,749 | 11,493,683 | 394,808 | (653,623) | 18,008,617 |
| **Deferred Inflows of Resources** | 233,277 | (212,767) | 830 | - | 21,340 |
| **Fund Balances/Net Position** | (437,965) | 11,639,861 | 15,852 | - | 11,217,748 |
| Total Liabilities, Deferred Inflows, and Fund Balances/Net Position | $ 6,569,062 | $ 22,920,777 | $ 411,490 | $ (653,623) | $ 29,247,706 |

(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 Position 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 Position.

(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 Position 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, 2015, 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, and Changes in Fund Balance – Governmental Funds.

| | Total Governmental Funds | Long-term Revenues and Expenses (1) | Capital-Related Items (2) |
|---|---|---|---|
| **Revenues:** | | | |
| Taxes | | | |
| Income Taxes | $ 8,351,846 | $ 3,820 | $ - |
| Sales & Excise Taxes | 5,593,303 | (2,427) | - |
| Public Utility Taxes | 368,867 | - | - |
| Other Taxes | 286,315 | (5) | - |
| Motor Fuel (Transportation) Taxes | 1,067,795 | (22) | - |
| Other Dedicated Taxes | 191,617 | (179) | - |
| Intergovernmental | 9,515,239 | - | - |
| Operating Grants | - | - | - |
| Capital Grants | - | - | 156 |
| Licenses and Permits | 1,909,289 | - | - |
| Charges for Goods and Services | 327,870 | 430 | - |
| Investment and Interest Income | 49,321 | - | - |
| Fines and Forfeitures/Contributions to Permanent Fund | 59,889 | - | - |
| Gifts and Donations | 23,467 | - | - |
| Miscellaneous: | | - | (7,503) |
| Tobacco Settlement | 126,185 | - | - |
| Other | 287,865 | - | - |
| Total Revenues | 28,158,866 | 1,617 | (7,347) |
| **Expenditures/Expenses:** | | | |
| Current Operating: | | | |
| Commerce | 270,500 | 186 | 711 |
| Education | 7,031,310 | (31) | 5,199 |
| Transportation | 2,112,307 | (294) | 55,383 |
| Environmental Resources | 454,705 | 84 | 13,095 |
| Human Relations and Resources | 12,978,873 | (115) | 67,953 |
| General Executive | 586,166 | (20,658) | 10,448 |
| Judicial | 126,064 | (46) | 1,317 |
| Legislative | 64,291 | 213 | - |
| Tax Relief and Other General Expenditures | 1,317,664 | - | - |
| Intergovernmental - Shared Revenue | 964,113 | - | - |
| Capital Outlay | 1,273,428 | - | (1,273,428) |
| Debt Service: | | | |
| Principal | 610,503 | - | - |
| Interest and Other Charges | 522,789 | 2,111 | - |
| Total Expenditures/Expenses | 28,312,713 | (18,550) | (1,119,323) |
| Excess of Revenues Over (Under) Expenditures/Expenses | (153,847) | 20,167 | 1,111,975 |
| **Other Financing Sources (Uses):** | | | |
| Net Transfers | (1,089,758) | - | - |
| Long-term Debt Issued | 1,625,948 | - | - |
| Premium/Discount on Bonds | 246,028 | - | - |
| Payments for Refunded Bonds | (280,790) | - | - |
| Payments to Refunding Bond Escrow Agent | (927,779) | - | - |
| Capital Lease Acquisitions | 41,836 | (41,836) | - |
| Installment Purchase Acquisitions | 409 | (409) | - |
| Total Other Financing Sources (Uses) | (384,105) | (42,245) | - |
| **Net Change in Fund Balance/Net Position** | (537,952) | $ (22,078) | $ 1,111,975 |
| Change in Inventories | 10,686 | | |
| **Net Change for the Year** | $ (527,267) | | |

(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 |
|---|---|---|---|---|
| $ - | $ - | $ - | $ - | $ 8,355,665 |
| - | - | - | - | 5,590,876 |
| - | - | - | - | 368,867 |
| - | - | - | - | 286,310 |
| - | - | - | - | 1,067,773 |
| - | - | - | - | 191,437 |
| - | - | - | (9,515,239) | - |
| - | - | (769,968) | 9,568,836 | 8,798,868 |
| - | - | 852,643 | 9,476 | 862,275 |
| - | - | - | (1,909,289) | - |
| (7,983) | - | (18,566) | 1,957,045 | 2,258,796 |
| 0 | - | - | (39,606) | 9,715 |
| - | - | - | (47,755) | 12,133 |
| - | - | - | (23,467) | - |
| - | - | - | 414,957 | 407,453 |
| - | - | - | (126,185) | - |
| - | - | - | (287,865) | - |
| (7,982) | - | 64,109 | 907 | 28,210,170 |
| | | | | |
| (86) | - | (5,804) | (67) | 265,440 |
| (1,568) | - | 33,756 | (40) | 7,068,625 |
| (1,708) | 2,041 | - | (10,908) | 2,156,820 |
| (594) | - | - | 811 | 468,101 |
| (5,420) | (90) | 48,919 | (6,446) | 13,083,675 |
| (9,504) | - | (12,762) | (28) | 553,662 |
| - | - | - | - | 127,336 |
| (74) | - | - | - | 64,429 |
| - | - | - | (345) | 1,317,319 |
| - | - | - | - | 964,113 |
| - | - | - | - | (0) |
| | | | | |
| - | (610,503) | - | - | - |
| 7,517 | (83,215) | - | 6,337 | 455,540 |
| (11,437) | (691,767) | 64,109 | (10,685) | 26,525,060 |
| 3,454 | 691,767 | 0 | 11,593 | 1,685,110 |
| (5,304) | - | - | (907) | (1,095,969) |
| - | (1,625,948) | - | - | - |
| - | (246,028) | - | - | - |
| - | 280,790 | - | - | - |
| - | 927,779 | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| (5,304) | (663,408) | - | (907) | (1,095,969) |
| $ (1,849) | $ 28,359 | $ 0 | 10,685 | 589,141 |
| | | | (10,686) | - |
| | | | $ (0) | $ 589,141 |

(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 NET POSITION, RESTRICTED NET POSITION, BUDGET STABILIZATION ARRANGEMENT, MINIMUM FUND BALANCE POLICY, AND FUND BALANCE OF GOVERNMENTAL FUNDS

### A. Deficit Fund Balance/Fund Net Position

In addition to the General and Capital Improvement Funds, funds reporting a deficit fund balance or net position at June 30, 2015 are (in thousands):

| | | |
|---|---|---|
| Special Revenue: | | |
| Petroleum Inspection | $ | 39,022 |
| Dry Cleaner Environmental Response | | 6,088 |
| Land Information | | 175 |
| Capital Projects: | | |
| Transportation Revenue Bonds | | 89,860 |
| Enterprise: | | |
| Northern Developmental Disabilities Center | | 15,314 |
| Local Government Property Insurance | | 5,852 |
| Long Term Disability Insurance | | 89,176 |
| Internal Service: | | |
| Risk Management | | 97,864 |
| Private-Purpose Trust: | | |
| Retiree Health Insurance | | 65,381 |

### B. Restricted Net Position

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 for 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 position restricted by enabling legislation was as follows on June 30, 2015 (in thousands):

| | |
|---|---|
| Governmental Activities: | |
| Net Position Restricted by Enabling Legislation | 366,924 |
| Business-type Activities: | |
| Net Position Restricted by Enabling Legislation | 575,664 |

### 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 16.72(4) net proceeds from the sale of supplies, materials and equipment 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.

Beyond the requirements noted above, 2013 Wisconsin Act 145, prohibited transfers from the General Fund to the budget stabilization appropriation in Fiscal Year 2015. The balance of the budget stabilization arrangement as of June 30, 2015 was $280.3 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, 2015 was $65.0 million.

### E. Fund Balance for Governmental Funds

Governmental funds reported the following categories of fund balance as of June 30, 2015 (in thousands):

| | General | Transportation | Capital Improvement | Nonmajor Governmental | Total Governmental |
|---|---|---|---|---|---|
| **Nonspendable for:** | | | | | |
| Inventory, Prepaid and Long-term Receivables | 92,916 | 33,537 | - | 16,243 | 142,695 |
| Legal or Contractual Purposes (Permanent Fund Principal) | - | - | - | 1,023,586 | 1,023,586 |
| **Restricted for:** | | | | | |
| Commerce | 3,435 | - | - | 32 | 3,467 |
| Education | 14,554 | - | - | 37,095 | 51,649 |
| Transportation | - | 743,949 | - | - | 743,949 |
| Environmental Resources | 1,691 | - | - | 83,278 | 84,970 |
| Human Relations and Resources | 112,342 | - | - | 24,926 | 137,267 |
| General Executive | 152,017 | - | - | 9,720 | 161,737 |
| Judicial | 38 | - | - | - | 38 |
| Tax Relief and Other General Expenditures | 403 | - | - | - | 403 |
| Intergovernmental - Shared Revenue | - | - | - | 274 | 274 |
| Debt Service | - | - | - | 70,528 | 70,528 |
| **Committed to:** | | | | | |
| Commerce | - | - | - | 38,267 | 38,267 |
| Education | - | - | - | 315 | 315 |
| Environmental Resources | - | - | - | 72,579 | 72,579 |
| Human Relations and Resources | - | - | - | 23,467 | 23,467 |
| General Executive | - | - | - | 15,110 | 15,110 |
| Judicial | - | - | - | 84 | 84 |
| Tax Relief and Other General Expenditures | 280,280 | - | - | - | 280,280 |
| Capital Projects | - | - | - | 19,385 | 19,385 |
| **Unassigned** | (2,437,085) | - | (735,727) | (135,204) | (3,308,015) |
| **Total Fund Balance** | (1,779,409) | 777,486 | (735,727) | 1,299,685 | (437,965) |

## 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, 2015, $350.7 million of the primary government's bank balance of $378.4 million was exposed to custodial credit risk as follows (in millions):

| | | |
|---|---|---|
| Uninsured and uncollateralized | $ | 350.7 |

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, 2015 are immaterial. The primary government does not have a formal policy specifically related to foreign currency risk.

The State’s Unemployment Reserve Fund had $513.8 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.

## 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 B2 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 (SWIB or the Board) has control of the investment and collection of principal, interest, and dividends of all monies invested of the Local Government Property Insurance Fund (LGPIF), the State Life Insurance Fund (SLF), the Injured Patients and Families Compensation Fund (IPFCF), the Historical Society Trust Fund, and the Tuition Trust Fund, which are collectively known as the “Various Funds”.

Wisconsin Statutes allow 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, including solvent financial institutions in Wisconsin.

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 statute.

Funds available for the Historical Society Trust 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 by the Board of Regents in December 2014.

***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 Investment Trust and the Variable Retirement Investment Trust.

The investments of the Core Retirement Investment Trust consist of a diversified portfolio of securities. Wis. Stat. Sec. 25.182 authorizes the Board to manage the Core Retirement Investment Trust 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 Investment Trust are authorized under Wis. Stat. Sec. 25.15 and 25.17. Wis. Stat. Sec. 25.17(5) states assets of the Variable Retirement Investment Trust 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 Investment Trust 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.

### Credit 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.

Investment credit quality ratings as of June 30, 2015, from Standard and Poor's, Moody's Investors Service, and Fitch Ratings are presented below and at the top of the next page 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 | $ 259.4 |
| AA | 839.2 |
| A | 29.9 |
| Not Rated | 1,477.2 |
| Total | $ 2,605.7 |

The Various Funds' investment guidelines generally require that issues be rated "A-" or better at the time of purchase based on the minimum credit ratings as issued by Nationally Recognized Statistical Rating Organizations (NRSROs). IPFCF guidelines provide that, at the time of purchase, at least 80 percent of the bond portfolio must be rated "A3/A-" or better, using the lower of split ratings.

The following schedule displays the credit ratings at June 30, 2015, for the Various Funds (fair values in millions):

**Various Funds**

| | SLF | IPFCF | Historical Society | Tuition Trust |
|---|---|---|---|---|
| AAA | $ 1.1 | $ 15.7 | $ -- | $ -- |
| AA | 46.2 | 425.6 | -- | 3.2 |
| A | 38.8 | 336.1 | -- | 0.1 |
| BBB | 24.0 | 149.8 | -- | 0.3 |
| BB | 0.6 | 5.3 | -- | -- |
| Bond Fund (Not Rated) | -- | -- | 3.3 | -- |
| Totals | $ 110.6 | $ 932.6 | $ 3.3 | $ 3.6 |

***University of Wisconsin System (UWS)***

The UWS currently holds below investment grade securities within commingled vehicles representing 6.5 percent of total assets of the Long Term Fund and 5.7 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- or higher by Standard & Poor's and/or Baa3 or higher by Moody's.

The following schedule displays the credit ratings as provided by Moody's Investor Service for debt securities held as of June 30, 2015 (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 | $ 60.6 |
| Aa1 | 0.7 |
| Aa2 | 0.9 |
| Aa3 | 1.0 |
| A1 | 3.4 |
| A2 | 3.3 |
| A3 | 3.0 |
| Baa1 | 4.7 |
| Baa2 | 2.3 |
| Baa3 | 2.4 |
| Ba2 | 7.5 |
| B1 | 0.4 |
| B2 | 16.7 |
| B3 | 0.2 |
| Caa2 | 0.7 |
| No Rating | 4.3 |
| Unrated Pooled Cash | 28.9 |
| Total | $ 141.0 |

***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 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 assigned by nationally recognized statistical rating organizations on debt securities held as of December 31, 2014 (in millions).

**WRS**

| Rating | Fair Value |
|---|---|
| P-1 or A-1 | $ 523.0 |
| P-2 or A-2 | 341.5 |
| AAA/Aaa | 522.3 |
| AA/Aa | 12,487.9 |
| A | 2,551.8 |
| BBB/Baa | 2,768.5 |
| BB/Ba | 579.9 |
| B | 559.9 |
| CCC/Caa | 171.8 |
| CC/Ca | 0.1 |
| Commingled Fixed Income Funds | 7,357.0 |
| Not rated | 865.2 |
| Total | $ 28,728.9 |

## Reverse Repurchase Agreements

***Wisconsin Retirement System (WRS)***

SWIB held $820.5 million in reverse repurchase agreements at December 31, 2014. 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 counterparty a margin against a decline in market value of the securities. If the counterparty defaults on their obligations to sell these securities back to SWIB 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 December 31, 2014 was $17.0 million.

During the calendar year 2014 SWIB began entering into repurchase agreements under a new Master Repurchase Agreement with an agent who retains full control of the underlying securities. Under this new arrangement credit risk exposure is limited to $200 million per reverse repurchase agreement counterparty. The counterparty credit exposure is monitored daily and managed through the transfer of margin, in the form of cash or securities, between SWIB and the counterparty.

The cash 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 0.15 percent and 0.30 percent. The reverse repurchase agreements had open maturities, whereby a maturity date is not established upon entering into the agreement; however, interest rates on the agreements are negotiated daily. The agreements can be terminated at the will of either SWIB or the counterparty.

### 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))*

The primary government, including the Various Funds, does not have an investment policy specifically for custodial credit risk. As of June 30, 2015, the primary government did not have any direct investment securities exposed to custodial credit risk.

***University of Wisconsin System (UWS)***

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)***

The WRS does not have a formal policy for custodial credit risk. As of December 31, 2014, the WRS held 13 repurchase agreements totaling $151.5 billion. All of these repurchase agreements were tri-party agreements held in short-term cash management portfolios managed by SWIB's custodian. The underlying securities for these repurchase agreements were held by the tri-party's agent, not in SWIB's name.

### 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).

Debt securities issued by the State of Wisconsin represent the largest concentration of investments in a single issuer. In total $339.7 million of the reported investments of the primary government were issued by the State of Wisconsin which represents 14.9 percent of total investments. Of that amount $176.6 million belongs to the Environmental Improvement Fund, and represents 79.5 percent of that fund's investments. The non-major governmental funds in aggregate hold investments of $223.1 million issued by the State of Wisconsin representing 32.1 percent of investments. The non-major governmental funds also hold investments in debt securities issued by the Farm Credit System, and the Federal Home Loan Bank totaling $122.1 million and $67.0 million respectively. The dollar figures represent 17.6 percent, and 9.6 percent of non-major governmental funds' investments respectively.

The Various Funds' investment guidelines limit concentrations of credit risk by establishing maximum issuer and/or sector exposure limits. Generally, the guidelines require that no single issuer may exceed 5 percent of the fund investments, with the exception of U.S. Government and its Agencies, whose exposure is unlimited. The LGPIF further limits AAA-rated U.S. mortgage-backed, AAA-rated asset-backed and individual corporate issuers to 3 percent of the market value of the fund investments. No investments from these issuers were owned at fiscal year-end.

Excluding investments issued or explicitly guaranteed by the U.S. government and pooled investments, as of June 30, 2015, none of the Various Funds had more than 5 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 2015, the largest concentration in a non-U.S. Government/Agency was Citigroup, Inc., which represented 0.4 percent of total Trust Funds assets.

***Wisconsin Retirement System (WRS)***

For investments of the WRS, concentration of credit risk is limited by establishing investment guidelines for individual portfolios or groups of portfolios that generally restrict issuer concentrations in any one company or Rule 144A securities to less than 5 percent of the portfolio's market value.

## 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, 2015, the primary government's investments were (in millions):

**Primary Government** (excluding 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 | $ 134.0 | $ 22.9 | $ 5.7 | $ 123.2 | $ 285.8 |
| State and municipal bonds and notes | 19.4 | 74.6 | 86.0 | 380.6 | 560.6 |
| Corporate notes and bonds | 0.1 | 0.3 | -- | -- | 0.4 |
| Forward delivery agreements | 45.6 | -- | -- | -- | 45.6 |
| Money market funds | 226.4 | -- | -- | -- | 226.4 |
| Mutual funds – open ended | 0.5 | 306.8 | 1,075.4 | -- | 1,382.7 |
| Guaranteed Investment Contracts | -- | 122.6 | -- | -- | 122.6 |
| Total | $ 426.0 | $ 527.2 | $ 1,167.1 | $ 503.8 | $ 2,624.1 |

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 require that a bond's maturity must not exceed ten years. The SLF guidelines require the Weighted Average Maturity (WAM) of the portfolio, including cash, to be a minimum of ten years. The IPFCF guidelines require the average duration of the aggregate bond portfolio to be less than ten years.

As of June 30, 2015, the Various Funds had interest rate risk statistics as detailed below (in millions):

**Various Funds**
**Duration or WAM (in years) for Fixed Income Securities**

| Investment Type | SLF Fair Value | SLF WAM | IPFCF Fair Value | IPFCF Duration | Historical Society Fair Value | Historical Society Duration | Tuition Trust Fair Value | Tuition Trust Duration |
|---|---|---|---|---|---|---|---|---|
| Govt/Agency | $ 43.4 | 12.73 | $ 394.0 | 6.26 | $ -- | -- | $ 3.2 | 2.26 |
| Corporate | 67.2 | 16.15 | 538.5 | 5.64 | -- | -- | 0.4 | 2.16 |
| Bond Fund | -- | -- | -- | -- | 3.3 | 5.77 | -- | -- |
| Total/Wtd Ave | $ 110.6 | 14.81 | $ 932.6 | 5.90 | $ 3.3 | 5.77 | $ 3.6 | 2.25 |

**External Investment Pool**

Investments of the Retiree Life Insurance Fund and the Local Retiree 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 6.3 and 8.9 years, respectively.

***University of Wisconsin System (UWS)***

The UWS uses the option adjusted modified duration method to analyze interest rate risk. As of June 30, 2015, the UWS had interest rate risk statistics as detailed below (in millions):

| UWS Fixed Income Sector | Fair Value | Modified Duration |
|---|---|---|
| Corporates and Other Credit | $ 17.8 | 3.12 |
| Government | 16.9 | 4.74 |
| Collateralized Mortgage Obligations: U. S. Agencies | 11.3 | 2.12 |
| U.S. Private Placements | 5.1 | 2.75 |
| Asset Backed Securities | 0.4 | 0.08 |
| Commercial Mortgage Backed Securities | 2.2 | 6.97 |
| Treasury Inflation Protected Securities | 19.2 | 7.09 |
| U.S. Government Mortgages | 1.3 | 5.82 |
| Total | $ 74.3 | |
| **Fixed Income Commingled Fund** | | |
| Seix Advisors High Yield Fund | $ 29.7 | 3.56 |

***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.

Short term portfolios' interest rate risk is analyzed using the weighted average maturity (to next reset). 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.

Aggregated interest rate risk exposure as of December 31, 2014, stated in terms of modified duration (for long term instruments) and weighted average maturity (for repurchase agreements and short term pooled investments), is presented below (in millions):

**WRS**

| **Investment Type** | **Fair Value** | **Modified Duration (Years)** |
|---|---|---|
| Asset Backed Securities | $ 49.4 | 1.61 |
| Commercial Paper | 870.4 | 0.17 |
| Corporate Bonds & Private Placements | 4,992.1 | 5.74 |
| Foreign Government/Agency Bonds | 3,752.3 | 7.73 |
| Futures Contracts* | 3,690.7 | 4.94 |
| Municipal Bonds | 117.6 | 10.73 |
| U.S. Government Agencies | 633.8 | 1.78 |
| U.S. Treasury Inflation Protected Securities | 6,878.8 | 7.87 |
| U.S. Treasury Securities | 3,926.0 | 4.78 |
| Commingled Funds: | | |
| Emerging Market Fixed Income | 526.9 | 7.15 |
| Global Fixed Income | 501.0 | 4.66 |
| Domestic Fixed Income | 6,325.6 | 6.23 |
| Subtotal | $ 32,264.6 | |

| **Investment Type** | **Fair Value** | **Weighted Average Maturity (days)** |
|---|---|---|
| Repurchase Agreements | $ 151.5 | 3 |
| Commingled Funds: | | |
| Short Term Cash Management | 3.5 | 1 |
| Subtotal | $ 155.0 | |
| Total | $ 32,419.6 | |

*Notional amount presented for fair value

### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact 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, 2015, the primary government, excluding the Various Funds, did not own any issues denominated in a foreign currency.

The Various Funds' investment guidelines do not specifically address foreign currency risk with the exception that the SLF only allows investments in U.S. dollar denominated instruments. As of June 30, 2015, the Various Funds did not directly own any issues denominated in a foreign currency.

***University of Wisconsin System (UWS)***

As of June 30, 2015, the Long Term and Intermediate Term Funds held equity securities denominated in foreign currencies within pooled investment vehicles only, with market values totaling $107.6 million and $6.1 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 December 31, 2014, the WRS had the following currency exposure (all assets stated in millions of United States Dollars):

**Currency Exposures by Investment Type**

| Currency | Cash & Cash Equivalents | Stocks | Fixed Income | Limited Partnerships | Preferred Securities | Futures Contracts | Short Sell Obligations | Other Investments* | Total |
|---|---|---|---|---|---|---|---|---|---|
| Australian Dollar | 9.8 | 978.3 | 55.2 | - | - | 1.0 | - | - | 1,044.3 |
| Brazilian Real | 2.9 | 91.2 | 21.7 | - | 72.0 | - | - | - | 187.7 |
| Canadian Dollar | 14.4 | 1,372.5 | 54.0 | - | - | 1.3 | (3.0) | - | 1,439.2 |
| Colombian Peso | - | - | 1.9 | - | - | - | - | - | 1.9 |
| Czech Koruna | - | 0.7 | - | - | - | - | - | - | 0.7 |
| Danish Krone | - | 224.4 | 26.1 | - | - | - | - | - | 250.5 |
| Euro Currency Unit | 23.7 | 4,866.1 | 1,640.0 | 703.4 | 94.2 | 1.4 | (88.2) | (0.6) | 7,240.0 |
| Hong Kong Dollar | 3.3 | 702.5 | - | - | - | - | - | - | 705.8 |
| Hungarian Forint | - | - | 7.3 | - | - | - | - | - | 7.3 |
| Indian Rupee | 1.6 | 154.3 | - | - | - | - | - | - | 156.0 |
| Indonesian Rupiah | 0.1 | 8.5 | 15.4 | - | - | - | - | - | 24.1 |
| Israeli New Shekel | 1.2 | 46.9 | - | - | - | - | (0.1) | - | 48.1 |
| Japanese Yen | 15.0 | 3,238.1 | 969.3 | - | - | (2.6) | (78.2) | - | 4,141.6 |
| Malaysian Ringgit | 1.7 | 47.8 | 37.5 | - | - | - | - | - | 87.0 |
| Mexican New Peso | 38.1 | 34.2 | 82.8 | - | - | - | - | - | 155.1 |
| New Taiwan Dollar | - | 197.7 | - | - | - | - | - | - | 197.7 |
| New Turkish Lira | - | 69.9 | - | - | - | - | - | - | 69.9 |
| New Zealand Dollar | 0.6 | 31.9 | 7.4 | - | - | - | - | - | 39.9 |
| Norwegian Krone | 1.1 | 114.0 | 7.8 | - | - | - | - | - | 122.9 |
| Peruvian Nuevo Sol | - | - | 0.7 | - | - | - | - | - | 0.7 |
| Philippine Peso | - | 4.4 | - | - | - | - | - | - | 4.4 |
| Polish Zloty | 1.2 | 26.4 | 33.0 | - | - | - | - | - | 60.5 |
| Pound Sterling | 19.6 | 3,610.6 | 366.4 | 77.4 | - | 1.9 | - | - | 4,075.8 |
| Russian Ruble | - | - | 4.3 | - | - | - | - | - | 4.3 |
| South African Rand | 2.5 | 72.6 | 32.8 | - | - | - | - | - | 108.0 |
| Singapore Dollar | 2.3 | 187.0 | 0.5 | - | - | - | (4.6) | - | 185.2 |
| South Korean Won | 0.4 | 280.4 | 8.8 | - | - | - | - | - | 289.6 |
| Swedish Krona | 3.1 | 436.1 | 11.5 | 20.9 | - | - | (15.5) | - | 456.1 |
| Swiss Franc | - | 1,492.8 | - | - | - | - | (15.9) | - | 1,476.9 |
| Thailand Baht | - | 77.3 | - | - | - | - | - | - | 77.3 |
| United States Dollar | 1,719.3 | 32,358.8 | 23,749.7 | 9,752.9 | 55.2 | (3.3) | (268.1) | 4,927.0 | 72,291.5 |
| Uruguayan Peso | - | - | 5.2 | - | - | - | - | - | 5.2 |
| Total Investments by Currency Exposure | 1,861.9 | 50,725.3 | 27,139.3 | 10,554.6 | 221.4 | (0.3) | (473.5) | 4,926.4 | 94,955.0 |

*Other Investments include Multi Asset, Real Estate, Convertible Securities, Options and Swaps

### 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 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 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.

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 contractual investment guidelines, which are designed to minimize the risk of principal loss and provide a modest rate of return. Investment guidelines limit credit and liquidity risk by restricting new investments to overnight repurchase agreements collateralized with high quality U.S. government, U.S. government agencies, and sovereign debt securities. The earnings generated from the collateral investments, plus or minus the rebates received from or paid to 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.

At December 31, 2014, 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 security loans are open-ended and can be terminated on demand. The risk that SWIB would be unable to return collateral to securities borrowers upon termination of the loan is low because the majority of investments made with cash collateral mature in one to two business days. At December 31, 2014, the average maturities of the loans and the assets of the collateral reinvestment pools did not materially differ.

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

### Derivative Instruments

***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.

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

SWIB seeks to mitigate counterparty credit risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring techniques. Additionally, policies have been established which seek to implement master netting arrangements with counterparties that permit the closeout and netting of transactions with the same counterparty. Agreements may also require daily collateral postings to further mitigate credit risk. At December 31, 2014, SWIB posted $18.7 million in cash collateral to OTC counterparties. No securities were pledged relating to OTC positions.

Certain investments and cash deposits were posted as collateral for exchange-traded derivatives positions. At December 31, 2014, the Core and Variable Funds posted $98.0 million in cash and $68.7 million in equity securities as collateral with exchange clearing brokers.

The aggregate fair value of receivables relating to OTC derivative contracts at December 31, 2014 was $4.0 billion. This represents the maximum loss that would be recognized at the reporting date if all sixteen counterparties failed to perform as contracted. This maximum exposure is reduced to $196.4 million when counterparty collateral and master netting arrangements are taken into account.

The table below summarizes, by credit rating, the retirement fund's exposure to OTC derivative instruments' counterparty credit risk as of December 31, 2014 (in millions), without respect to any collateral or netting arrangement.

**OTC Derivative Investments Subject to Counterparty Credit Risk**

| Counterparty Credit Rating | Payable | Receivable | Fair Value |
|---|---|---|---|
| AA | $ (227.1) | $ 228.8 | $1.7 |
| A | (2,063.5) | 2,051.6 | (11.9) |
| BBB | (1,716.5) | 1,715.8 | (0.7) |
| Total | $(4,007.1) | $3,996.2 | $(10.9) |

*Foreign Currency Spot and Forward Contracts* — Foreign Currency Spot and Forward contracts are OTC agreements between two counterparties to exchange designated currencies at a specific time in the future. 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.

Currency exposure management is permitted through the use of currency derivative instruments. 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 and asset class level may be employed when currency market conditions suggest such strategies are warranted.

The net receivable or payable for spot and forward contracts is included in Foreign Currency Contracts on the Statement of Fiduciary Net Position. 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 Position.

During the 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 December 31, 2014 (in millions):

**Foreign Currency Spot and Forward Contracts**

| | Foreign Currency Contract Receivables | | | Foreign Currency Contract Payables | | |
|---|---|---|---|---|---|---|
| **Currency** | **Notional (local currency)** | **Fair Value $US** | **Unrealized Gain/(Loss) $US** | **Notional (local currency)** | **Fair Value $US** | **Unrealized Gain/(Loss) $US** |
| Australian Dollar | 294.0 | 240.2 | (3.6) | (81.8) | (66.9) | 2.0 |
| Brazilian Real | 54.5 | 20.3 | (0.1) | (29.5) | (11.0) | 0.2 |
| British Pound Sterling | 138.3 | 215.6 | (4.6) | (357.7) | (557.6) | 3.9 |
| Canadian Dollar | 431.3 | 372.2 | (2.1) | (267.8) | (231.1) | 5.4 |
| Chilean Peso | 5,563.0 | 9.1 | -- | -- | -- | -- |
| Colombian Peso | 2,630.6 | 1.1 | -- | (5,261.3) | (2.2) | -- |
| Danish Krone | 99.0 | 16.1 | (0.3) | (274.9) | (44.7) | 0.9 |
| Euro Currency Unit | 364.4 | 441.0 | (11.1) | (442.6) | (535.7) | 12.9 |
| Hong Kong Dollar | 552.9 | 71.3 | -- | (531.0) | (68.5) | -- |
| Indian Rupee | 3,004.6 | 47.2 | (0.2) | -- | -- | -- |
| Indonesian Rupiah | -- | -- | -- | (7,175.2) | (0.6) | -- |
| Israeli New Shekel | 39.3 | 10.1 | 0.2 | (16.9) | (4.3) | (0.1) |
| Japanese Yen | 51,562.6 | 430.1 | (15.8) | (17,912.0) | (149.4) | 1.7 |
| Malaysian Ringgit | 2.0 | 0.6 | -- | (48.0) | (13.7) | 0.6 |
| Mexican New Peso | 795.5 | 53.9 | (1.2) | (553.6) | (37.4) | 1.6 |
| New Zealand Dollar | 6.5 | 5.1 | -- | (9.0) | (7.0) | 0.2 |
| Norwegian Krone | 177.3 | 23.6 | (1.2) | (200.0) | (26.7) | 1.7 |
| Peruvian Nuevo Sol | -- | -- | -- | (2.0) | (0.7) | -- |
| Polish Zloty | -- | -- | -- | (32.2) | (9.0) | 0.5 |
| Singapore Dollar | 82.5 | 62.2 | (1.0) | (23.4) | (17.7) | 0.1 |
| South African Rand | -- | -- | -- | (100.9) | (8.7) | 0.1 |
| South Korean Won | -- | -- | -- | (9,160.0) | (8.4) | 0.1 |
| Swedish Krona | 832.4 | 106.3 | (4.0) | (559.3) | (71.4) | 2.3 |
| Swiss Franc | 93.0 | 93.6 | (1.9) | (111.7) | (112.4) | 1.7 |
| United States Dollar | 1,766.5 | 1,766.5 | -- | (2,012.0) | (2,012.0) | -- |
| Totals | | 3,986.2 | (46.8) | | (3,997.1) | 35.9 |
| Net Foreign Currency Contract Receivable / (Payable) | | | | | (10.9) | (10.9) |

*Futures Contracts* – A futures contract is an exchange-traded agreement to buy or sell a financial instrument, index or commodity at an agreed upon price and time in the future.

The fair value of futures contracts represents the unrealized gain/(loss) on the contracts, since trade inception, and is reflected as a portion of Financial Futures Contracts and Swaps on the Statement of Fiduciary Net Position. 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. Gains and losses resulting 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 Position.

The following table presents the investments in futures contracts as of December 31, 2014 (in millions).

**Futures Contracts**

| Description | Expiration | Notional Amount | Unrealized Appreciation / (Depreciation) * |
|---|---|---|---|
| Long Positions | | | |
| Fixed Income Futures | Mar 15 | $4,197.6 | $ 30.2 |
| Equity Index Futures | Mar 15 | 897.7 | 19.3 |
| Commodity Futures | Jan – Mar 15 | 792.4 | (45.0) |
| Short Positions | | | |
| Fixed Income Futures | Mar 15 | (506.9) | (4.4) |
| Equity Index Futures | Mar – May 15 | (15.5) | (0.4) |
| Total | | $5,365.3 | $ (0.3) |

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

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 to efficiently gain or adjust market exposures for purposes that include trust fund rebalancing, sector, interest rate, or duration types of exposure adjustments; the securitization of cash or as a substitute for cash market transactions.

*Swap Contracts* - Swaps are negotiated contractual agreements between two counterparties. Periodically, the WRS enters into a total return swap agreements. Under the terms of the swaps, the Retirement Funds receive the total return of an equity index while paying the counterparty a variable rate of return based on the 3-month London Interbank Offering Rate (LIBOR). The two swaps in effect during parts of the calendar were each based on a notional value of $10 million. The first swap which was entered into during calendar year 2013 matured in December 2014. The second swap which was entered into during calendar year 2014 terminates November 2015. Fair value is determined based on quoted market prices for each leg, plus accrued interest. The fair value of swaps is reported as part of Financial Futures Contracts and Swaps on the Statement of Fiduciary Net Position and was $(27.8) thousand at calendar year-end, which also represents the unrealized loss on the position at that time. Gains and losses resulting from investments in swap contracts are included in the Net Increase (Decrease) in the Fair Value of Investments on the Statement of Changes in Fiduciary Net Position.

As is specified in SWIB's investment guidelines, OTC derivatives, including swaps, may be used as an alternative to physical securities when it is deemed advantageous for portfolio construction. In addition, swaps may be used to adjust asset class exposures for the Retirement Funds. Guideline limits and soft risk parameters for each portfolio are applied to the aggregate exposures which includes both physical and synthetic securities.

*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 market exposure efficiency, enhance expected returns, or provide market exposure hedges. Exchange rules require that the seller of exchange-traded call option contracts cover these positions either by collateral deposits in the form of cash or securities or by pledging, in escrow, the actual securities that would be transferred to the option purchaser in the event the option contract were exercised.

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 Position. 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 Position.

The table below presents the fair value of option contracts as of December 31, 2014 (in millions):

**Option Contracts**

| Security Description | Contract Type | Expiration | Notional | Unrealized Gain (Loss) | Fair Value |
|---|---|---|---|---|---|
| Options Sold | | | | | |
| Exchange-Traded | | | | | |
| Equity | Call | Jan - Jul 15 | $ (34.0) | -- | $ (0.9) |
| Equity | Put | Jan - Apr 15 | (250.0) | 1.1 | (1.1) |
| Commodity | Put | Jan - Mar 15 | (4.7) | (0.5) | (0.6) |
| Over-the-Counter | | | | | |
| Equity | Call | Jan - Jul 15 | (0.7) | -- | -- |
| Equity | Put | Jan - Feb 15 | (163.2) | (0.1) | (0.6) |
| | | | (452.6) | 0.6 | (3.2) |
| Options Purchased | | | | | |
| Exchange-Traded | | | | | |
| Equity | Call | Jan - Jul 15 | 31.7 | 0.1 | 1.5 |
| Equity | Put | Jan - Jul 15 | 3.5 | (0.2) | -- |
| | | | 35.2 | -- | 1.6 |
| Total Option Contracts | | | $ (417.3) | $ 0.5 | $ (1.6) |

## Short Sell Obligations

***Wisconsin Retirement System (WRS)***

The WRS may sell a security it does not own in anticipation of purchasing the security later at a lower price. This is known as a short sale transaction. For the duration of the short sale transaction, a liability is recorded under “Short Sales of Securities” on the Statement of Fiduciary Net Position. The liability presented represents the fair value of the shorted securities necessary for delivery to the purchaser and is marked-to-market daily. Realized and unrealized gains and losses associated with short sales are recorded on the Statement of Changes in Fiduciary Net Position within the “Net Appreciation (Depreciation) in Fair Value of Investments” category. While the transaction is open, the WRS incurs expenses for securities borrowing costs. In addition, as a security borrower, the WRS may incur dividend and interest expense as such payments must be remitted to the security lender during the course of the loan. Such expenses are included in “Investment Expense” on the Statement of Changes in Fiduciary Net Position.

Risks arise from short sales due to the possible illiquidity of the securities markets and from potential adverse movements in security values. The cost to acquire the securities sold short may exceed the amount of proceeds initially received, as well as the amount of the liability recorded as “Short Sales of Securities” in the Statement of Fiduciary Net Position. Short sales expose the short seller to potentially unlimited liability because there is no upward limit on the price a shorted security could attain. Certain portfolio guidelines permit short sales and, to mitigate risks, the total value of short sales in any portfolio may not exceed 50% of a portfolio’s value. In addition, portfolios which engage in short sales have long only benchmarks established by the Board. Investment performance and risk associated with each portfolio is measured against benchmarks and monitored by management.

When a short sale occurs, the shorting portfolio must borrow the security and deliver it to the buyer. If the shorted security is owned by another WRS portfolio, investment policies allow the borrowing of the shorted securities from other WRS portfolios, including inter-fund borrowings.

Except in the case of borrowings within the same trust fund, the WRS is required to post collateral to the lender, at the required rate of 102% for in-currency loans and 105% for cross-currency loans. At December 31, 2014, the WRS posted $765.2 million in collateral to security lenders. This represented $32.8 million in excess of the fair market value of the securities borrowed. If the security lender recalled the security and SWIB was not able to supply the lender with the security, the lender would be permitted to use SWIB’s collateral to fund the purchase of the security.

## Multi Asset

***Wisconsin Retirement System (WRS)***

SWIB employs portfolio strategies which involve investment across multiple asset classes. The “Multi Asset” category on the Statement of Fiduciary Net Position consists of risk parity and hedge fund multi asset strategies. 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 primarily of stocks and bonds. The risk parity portfolios also intend to provide more diversified exposure over various economic environments.

The WRS invests 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 produce absolute returns using a broad range of strategies with low to moderate levels of volatility, typically employing both long and short positions. An allocation to a diversified hedge fund portfolio is intended to have low correlation to traditional publicly traded equities and contribute to overall total fund diversification.

Hedge funds can be illiquid, either by virtue of the illiquidity of underlying assets or due to lock-up terms. 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 and with any individual hedge fund manager.

At December 31, 2014, the majority of SWIB's risk parity and hedge fund investments are reflected within the "Multi Asset" category on the Statement of Fiduciary Net Position. Hedge fund portfolios with a long only equity strategy are included within the "Stocks" classification on the Statement of Fiduciary Net Position.

### Unfunded Capital Commitments

***University of Wisconsin System (UWS)***

The UWS has unfunded limited partnership commitments of $25.0 million for the fiscal year ending June 30, 2015.

***Wisconsin Retirement System (WRS)***

The Board has entered into a number of agreements that commit the WRS to make investment purchases up to predetermined amounts over certain investment time periods. The unfunded capital commitments for private equity, real estate and multi-asset investments not reported on the Statement of Fiduciary Net Position total $6.2 billion as of December 31, 2014.

## 2. 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 be invested, which include 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, the 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 including solvent financial institutions in Wisconsin and bankers acceptances. The State of Wisconsin Investment Board's (the Board) Board of Trustees may specifically approve other prudent legal investments.

For financial statement purposes, the carrying value of securities depends on asset class and maturity date. Per GASB No. 31, Repurchase Agreements and non-negotiable Certificates of Deposit are valued at cost because they are nonparticipating contracts that do not capture interest rate changes in their value.

Also per GASB No. 31, all short-term debt investments with remaining maturities of up to ninety days (certain U.S. Government/Agency securities & Bankers Acceptances) are valued at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer.

Finally, per GASB No. 31, all short-term investments with remaining maturities of over ninety days (certain U.S. Government/Agency securities) are valued at fair value as determined by quoted market prices, if available. Because quoted market prices for SIF securities are often not available, at month end BNY Mellon, as SWIB's custodial bank, compiles fair values from third party pricing services which use matrix pricing models to determine fair market 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. Distributions include interest income based on stated rates (both paid and accrued), amortization of discounts and premiums on a straight-line basis, realized investment gains and losses calculated on an amortized cost basis, and investment expenses. This method does not distribute to participants any unrealized gains and losses generated by 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.

Although the Board has not adopted a formal deposit or investment policy specifically related to custodial credit risk, investment staff monitors the creditworthiness of the custodian as a counterparty and depository financial institution. Concerns and issues are discussed with the Board's credit task force for further action.

### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment in a single issuer. The SIF's investment guidelines limit concentrations of credit risk by establishing 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, 2015 the SIF has more than five percent of its investments in FHLB (28.8 percent), FHLMC (28.7 percent), FNMA (29.8 percent), and Repurchase Agreement collateral (11.8 percent) consisting of various securities issued by these same three U.S. Agencies. 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.

### Credit Quality Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board established investment guidelines with maximum exposure limits by security type based on the minimum credit ratings as issued by Nationally Recognized Statistical Rating Organizations (NRSROs).

The following table presents these credit ratings and aggregate exposures by investment type as of June 30, 2015 (in millions):

| Investment Type | Ratings | Fair Value | Percent |
|---|---|---|---|
| Repurchase Agreements (Collateral): | | | |
| U.S. Government Debt & Agencies | AA | 958.0 | 11.8 |
| Government Sponsored Entity U.S. Agency: | | | |
| Federal Home Loan Bank (FHLB) | A-1+ | 2,334.3 | 28.8 |
| Federal Home Loan Mortgage Corporation (FHLMC) | A-1+ | 2,324.6 | 28.7 |
| Federal National Mortgage Association (FNMA) | A-1+ | 2,417.6 | 29.8 |
| Certificates of Deposit: | | | |
| Non-Negotiable (Wisconsin CD Program) | NR | 39.8 | 0.5 |
| Banker's Acceptances | A-1+ | 30.7 | 0.4 |
| Total Investments | | $ 8,105.1 | 100.0 |

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Weighted Average Maturity (WAM) method is used to analyze interest rate risk. Investment guidelines mandate that the WAM for the entire portfolio will not exceed one year.

At June 30, 2015, the following table shows the investments by investment type, amount and the weighted average maturities (in millions):

| Investment Type | Fair Value | Weighted Average Maturity (Days) |
|---|---|---|
| Repurchase Agreements | $ 958.0 | 1 |
| Government & Agencies | 7,076.5 | 90 |
| Certificates of Deposit | 39.8 | 115 |
| Banker's Acceptances | 30.7 | 41 |
| Total Investments | $ 8,105.1 | |
| Portfolio Weighted Average Maturity (Days) | | 80 |

### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. 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 **doa.wi.gov/capitalfinance** or by writing to:
State of Wisconsin Investment Board
PO Box 7842
Madison, WI 53707-7842

## 3. Lottery Investments and Related Future Prize Obligations

Investments of the State Lottery Fund totaling $35.6 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 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 in Accounts Payable and Other Accrued Liabilities.

The following is a schedule of future prize obligations (in millions):

| Fiscal Year | Amount |
|---|---|
| 2016 | 6.1 |
| 2017 | 6.3 |
| 2018 | 5.6 |
| 2019 | 4.6 |
| 2020 | 4.1 |
| Thereafter | 12.1 |
| Total future value | 38.9 |
| Less: Present value adjustment | (7.7) |
| Present value of payments | $ 31.2 |

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## NOTE 6. RECEIVABLES AND NET REVENUES

### A. Receivables

Receivables at June 30, 2015 were as follows (in thousands):

| | Taxes | Loans to Local Governments | Other Loans Receivable: Student Loans | Veterans Loans | Mortgage Loans | Other Loans | Other Receivables | Due From Other Governments | Due From Component Units | Total Receivables |
|---|---|---|---|---|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | | | | | | |
| General | $ 1,166,819 | $ - | $ - | $ - | $ - | $ 18,759 | $ 577,310 | $ 852,024 | $ - | $ 2,614,912 |
| Transportation | 99,592 | - | - | - | - | 14,974 | 11,298 | 212,599 | - | 338,463 |
| Capital Improvement | - | - | - | - | - | - | 19 | - | - | 19 |
| Nonmajor Governmental | 22,265 | 364,437 | - | - | - | - | 62,536 | 17,763 | - | 467,001 |
| Total Governmental: | 1,288,676 | 364,437 | - | - | - | 33,732 | 651,163 | 1,082,386 | - | 3,420,395 |
| Government-wide Adjustments: | | | | | | | | | | |
| Internal Service Funds | - | - | - | - | - | - | 1,094 | 124 | - | 1,217 |
| Accrual Adjustments | - | - | - | - | - | - | 3,305 | - | - | 3,305 |
| Fiduciary Receivables | - | - | - | - | - | - | 62,932 | - | - | 62,932 |
| **Total – Governmental Activities** | $ 1,288,676 | $ 364,437 | $ - | $ - | $ - | $ 33,732 | $ 718,493 | $ 1,082,510 | $ - | $ 3,487,848 |
| Related revenue not recognized in the funds because it is not available | $ 188,612 | $ - | $ - | $ - | $ - | $ - | $ 18,614 | $ - | $ - | $ 207,226 |
| **Business-type Activities:** | | | | | | | | | | |
| Current: | | | | | | | | | | |
| Injured Patients and Families Compensation | $ - | $ - | $ - | $ - | $ - | $ - | $ 10,457 | $ - | $ - | $ 10,457 |
| Environmental Improvement | - | 177,338 | - | - | - | - | 234 | 8,806 | - | 186,378 |
| University of Wisconsin System | - | - | 29,718 | - | - | - | 104,446 | 89,787 | 5,002 | 228,952 |
| Unemployment Reserve | - | - | - | - | - | - | 283,395 | 2,875 | - | 286,270 |
| Nonmajor Enterprise | - | 391 | - | 580 | 2,179 | - | 105,342 | 8,772 | - | 117,263 |
| Total Current: | - | 177,729 | 29,718 | 580 | 2,179 | - | 503,875 | 110,239 | 5,002 | 829,321 |
| Noncurrent: | | | | | | | | | | |
| Environmental Improvement | - | 1,861,527 | - | - | - | - | - | - | - | 1,861,527 |
| University of Wisconsin System | - | - | 166,666 | - | - | - | 1,551 | - | - | 168,217 |
| Unemployment Reserve | - | - | - | - | - | - | 65,191 | - | - | 65,191 |
| Nonmajor Enterprise | - | 2,142 | - | 1,460 | 52,233 | 3,465 | 212 | - | - | 59,511 |
| Total Noncurrent | - | 1,863,669 | 166,666 | 1,460 | 52,233 | 3,465 | 66,954 | - | - | 2,154,445 |
| Government-wide Adjustments: | | | | | | | | | | |
| Fiduciary Receivables | - | - | - | - | - | - | 121,822 | - | - | 121,822 |
| **Total – Business-type Activities** | $ - | $ 2,041,398 | $ 196,384 | $ 2,039 | $ 54,411 | $ 3,465 | $ 692,651 | $ 110,239 | $ 5,002 | $ 3,105,588 |

### B. Net Revenues

Certain revenues of the University of Wisconsin System are reported net of scholarship allowances. For Fiscal Year 2015, these scholarship allowances totaled as follows (in thousands):

| | |
|---|---|
| Student Tuition and Fees | $ 217,119 |
| Sales and Services of Auxiliary Enterprises | 38,009 |
| Total | $ 255,128 |

## NOTE 7. CAPITAL ASSETS

### Primary Government

Capital asset activity for the fiscal year ended June 30, 2015 was as follows (in thousands):

| Primary Government | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| **Governmental activities:** | | | | |
| Capital assets, not being depreciated: | | | | |
| Land and Land Improvements | $ 2,599,187 | $ 109,739 | $ (518) | $ 2,708,407 |
| Buildings and Improvements | 165,760 | 608 | - | 166,368 |
| Library Holdings | 75,054 | 1,061 | (226) | 75,889 |
| Construction and Software in Progress | 2,836,428 | 1,091,671 | (1,032,221) | 2,895,877 |
| Infrastructure | 14,017,519 | 1,010,691 | (52,798) | 14,975,412 |
| Total capital assets, not being depreciated | 19,693,949 | 2,213,769 | (1,085,764) | 20,821,954 |
| Capital assets, being depreciated: | | | | |
| Land Improvements | 154,495 | 1,835 | - | 156,330 |
| Buildings and Improvements | 2,126,138 | 54,256 | (1,206) | 2,179,188 |
| Equipment | 853,216 | 77,875 | (32,344) | 898,747 |
| Totals | 3,133,849 | 133,967 | (33,551) | 3,234,265 |
| Less accumulated depreciation for: | | | | |
| Land Improvements | 87,661 | 6,988 | - | 94,649 |
| Buildings and Improvements | 960,426 | 58,007 | (732) | 1,017,702 |
| Equipment | 543,047 | 66,157 | (30,273) | 578,932 |
| Totals | 1,591,135 | 131,153 | (31,005) | 1,691,283 |
| Total Capital Assets, being depreciated, net | 1,542,714 | 2,814 | (2,546) | 1,542,982 |
| Governmental activities capital assets, net | $ 21,236,663 | $ 2,216,583 | $ (1,088,310) | $ 22,364,936 |
| **Business-type activities:** | | | | |
| Capital assets, not being depreciated: | | | | |
| Land and Land Improvements | $ 161,158 | $ 321 | $ (10) | $ 161,469 |
| Library Holdings | 1,139,186 | 22,814 | (16,675) | 1,145,326 |
| Construction and Software in Progress | 347,024 | 146,064 | (179,762) | 313,327 |
| Total Capital Assets, not being depreciated | 1,647,369 | 169,199 | (196,447) | 1,620,122 |
| Capital assets, being depreciated: | | | | |
| Land Improvements | 20,360 | 1,537 | (4) | 21,893 |
| Buildings | 7,091,640 | 269,027 | (4,045) | 7,356,622 |
| Equipment | 1,099,781 | 79,774 | (12,455) | 1,167,100 |
| Totals | 8,211,781 | 350,337 | (16,504) | 8,545,614 |
| Less accumulated depreciation for: | | | | |
| Land Improvements | 11,225 | 933 | (4) | 12,154 |
| Buildings | 2,864,983 | 218,291 | (3,499) | 3,079,775 |
| Equipment | 766,826 | 88,129 | (16,238) | 838,717 |
| Totals | 3,643,035 | 307,353 | (19,742) | 3,930,646 |
| Total Capital Assets, being depreciated, net | 4,568,746 | 42,985 | 3,237 | 4,614,968 |
| Business-type activities capital assets, net | $ 6,216,115 | $ 212,184 | $ (193,209) | $ 6,235,090 |

In addition to the capital assets reported by governmental and business-type activities, the fiduciary funds reported gross capital assets of $5.0 million, with accumulated depreciation totaling $2.5 million.

*Depreciation Expense*

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

| Governmental Activities | | |
|---|---|---|
| Commerce | $ | 707 |
| Education | | 4,331 |
| Transportation | | 9,429 |
| Environmental Resources | | 11,389 |
| Human Relations and Resources | | 67,360 |
| General Executive | | 10,423 |
| Judicial | | 1,317 |
| Internal Service Funds | | 26,196 |
| Total depreciation expense - governmental activities | $ | 131,153 |

| Business-type Activities | | |
|---|---|---|
| University of Wisconsin System | $ | 290,407 |
| Lottery | | 13 |
| Veterans Mortgage Loan Repayment | | 11 |
| Injured Patients and Families Compensation | | 78 |
| Environmental Improvement | | - |
| Other Business-Type | | 16,843 |
| Total depreciation expense - business-type activities | $ | 307,353 |

*Construction and Software in Progress*

Construction and software in progress of the primary government reported in the government-wide statement of net position at June 30, 2015 included the following projects (in thousands):

| | Allotments | Expended to June 30, 2015 | Encumbrances Outstanding | Unencumbered Allotment Balance |
|---|---|---|---|---|
| **Governmental Activities:** | | | | |
| Reported through capital projects funds: | | | | |
| Interstate 94 North and South Corridor Reconstruction | $ 36,480 | $ 36,480 | $ - | $ - |
| Capital Heating Power Plant - Facility Renovate and Upgrade | 28,269 | 27,659 | 43 | 566 |
| Preservation Storage Building | 46,724 | 3,274 | 720 | 42,729 |
| High Speed Rail | 68,904 | 53,224 | - | 15,680 |
| Armed Forces Reserve Center | 33,046 | 33,046 | - | - |
| State Highway Rehabilitation | 24,473 | 24,473 | - | - |
| General Land Acquisition | 69,471 | 47,574 | 6,680 | 15,216 |
| Wisconsin Resource Center - Female Treatment Center | 16,106 | 15,979 | 34 | 92 |
| Construction Field Main Shop Wausau | 14,059 | 10,895 | 38 | 3,125 |
| Stillwater/St Croix Xing Bridge | 124,718 | 124,718 | - | - |
| Wisconsin Historical Society - Learning Visitor Center | 12,110 | 10,782 | 13 | 1,315 |
| Waupun Central Generating Plant | 15,597 | 14,101 | 161 | 1,335 |
| Zoo Interchange | 275,473 | 275,473 | - | - |
| BCPL Land Sale/Transfer to DNR | 14,000 | 10,908 | - | 3,092 |
| Family Justice Center - Milwaukee | 10,625 | 4,243 | - | 6,382 |
| Other projects with allotments totaling less than $10 million | | 121,459 | | |
| Subtotal | | 814,289 | | |
| Projects funded through sources other than capital projects funds: | | | | |
| Transportation-related | | 1,978,614 | | |
| Department of Natural Resources | | 8,274 | | |
| Department of Administration | | 77,964 | | |
| Department of Health Services | | 8,355 | | |
| Department of Children and Families | | 6,351 | | |
| Other agency projects | | 2,031 | | |
| Total construction and software in progress – governmental activities | | 2,895,877 | | |
| **Business-type Activities:** | | | | |
| Reported through capital projects funds - University of Wisconsin System: | | | | |
| RVF Falcon Center For Health & Education | 64,147 | 13,154 | 45,873 | 5,120 |
| University Houses Renovate - Madison | 15,000 | 11,835 | 1,469 | 1,696 |
| Liz Waters Hall Renovate - Madison | 13,517 | 1,527 | 9,545 | 2,446 |
| West Campus Cogen Facility Addition & Chillers Install – Madison | 49,621 | 42,483 | 504 | 6,633 |
| Harvey Hall Renovation - STO | 27,997 | 14,441 | 9,458 | 4,097 |
| Resident Hall Renovate – PLT | 18,100 | 3,257 | 9,532 | 5,311 |
| Children Center Renovation - Milwaukee | 11,981 | 9,268 | 185 | 2,529 |
| Social Science/Nursing & Education - Oshkosh | 27,982 | 15,972 | - | 12,010 |
| Memorial Theater Wing Renovation - Madison | 116,541 | 61,861 | 43,535 | 11,145 |
| Residence Hall Renovation - Whitewater | 19,683 | 11,623 | 5,602 | 2,458 |
| Lot 75 Parking Lot - Madison | 32,670 | 1,717 | 23,260 | 7,693 |
| Student Center – La Crosse | 53,300 | 11,442 | 34,299 | 7,559 |
| Multi-Building Energy Conservation - Madison | 12,032 | 7,482 | 3,337 | 1,213 |
| Chemistry Biology Building - STP | 75,182 | 2,129 | 37 | 73,016 |
| North Depot Residential Hall – STP | 13,477 | 5,638 | 4,670 | 3,168 |
| Projects with allotments totaling less than $10 million: | | | | |
| University of Wisconsin System | | 58,761 | | |
| Other | | 17,583 | | |
| Total Construction in Progress – business-type activities | | $ 290,174 | | |

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 $296.0 million and $18.0 million as of June 30, 2015, respectively.

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## 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, 2015, net appreciation of $123.2 million was available to meet spending rate distributions, of which $16.0 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, 2015 was $471.4 million including an unrealized gain of $65.7 million when fair values as of June 30, 2015 are compared to asset acquisition costs.

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, 2015, 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 | $ 234.6 |
| Realized Gains – Undistributed | 171.1 |
| Book Value | 405.7 |
| Unrealized Net Gains/Losses - Undistributed | 65.7 |
| Fair Value | $ 471.4 |

On June 30, 2015, the portfolio at market, for the Long Term Fund, contained 38.5 percent in common stock and convertible securities, 11.4 percent in bonds and preferred stock, 21.0 percent in alternative assets, 21.0 percent in tactical allocation strategies, 6.5 percent in short-term investments, and 1.6 percent in real assets. The total return on the principal Long Term Fund including capital appreciation was 0.5 percent.

On June 30, 2015, the portfolio at market, for the Intermediate Fund, contained 14.4 percent in common stock and convertible securities, 81.2 percent in bonds and preferred stock, and 4.4 percent in short-term investments. The total return on the principal Intermediate Fund including capital appreciation was 1.2 percent.

External investment counsel was furnished for funds representing 90.4 percent of market value principal.

## NOTE 9. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances as of or for the year ended June 30, 2015 consists 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, 2015 were as follows (in thousands):

| Due from Other Funds: / Due to Other Funds: | General | Transportation | Capital Improvement | Nonmajor Governmental | Injured Patients and Families Compensation | Environmental Improvement | University of Wisconsin System | Unemployment Reserve | Nonmajor Enterprise | Internal Service | Fiduciary | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| General | $ - | $ 17,566 | $ 814 | $ 55,015 | $ 155 | $ 176 | $ 48,053 | $ 2,124 | $ 20,253 | $ 14,469 | $ 62,141 | $ 220,766 |
| Transportation | 172,265 | - | 146,781 | 52,564 | - | - | 312 | - | - | 214 | - | 372,136 |
| Capital Improvement | 200 | - | - | 1 | - | - | - | - | 1,031 | 393 | - | 1,626 |
| Nonmajor Governmental | 43,945 | 13,216 | 15 | 8,798 | - | 1,035 | 4,456 | 21 | 1,892 | - | - | 73,380 |
| Environmental Improvement | 2 | - | - | 1 | - | - | - | - | - | - | - | 3 |
| University of Wisconsin System | 19,665 | 1,537 | - | 1,303 | - | 33 | - | - | 2 | 19 | - | 22,559 |
| Unemployment Reserve | 433 | - | - | - | - | - | - | - | - | - | - | 433 |
| Nonmajor Enterprise | 19,451 | 173 | - | 88 | - | - | 12 | - | 1,275 | 186 | 42,477 | 63,662 |
| Internal Service | 27,689 | 3,676 | - | 1,777 | 2 | 17 | 559 | - | 2,419 | 386 | 791 | 37,316 |
| Fiduciary | 22,543 | 3,103 | - | 1,852 | 5 | 3 | - | - | 9,733 | 503 | 3,075 | 40,816 |
| **Total** | $ 306,192 | $ 39,270 | $ 147,609 | $ 121,398 | $ 163 | $ 1,264 | $ 53,393 | $ 2,146 | $ 36,606 | $ 16,171 | $ 108,483 | $ 832,695 |

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.

Most of the State's funds are presented on a fiscal year ended June 30. However, some funds are presented on a fiscal year ended December 31. As a result, inconsistencies may occur in amounts reported as interfund receivables or payables between funds with different fiscal year ends.

## B. 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, 2015 were as follows (in thousands):

| | Interfund Receivable: | | | |
|---|---|---|---|---|
| | General | Nonmajor Enterprise | Fiduciary | Total |
| **Interfund Payables:** | | | | |
| Nonmajor Enterprise | $ 39,612 | $ - | $ - | $ 39,612 |
| Internal Service | 44,075 | - | - | 44,075 |
| Fiduciary | - | 79,677 | 334,900 | 414.577 |
| Total | $ 83,687 | $ 79,677 | $ 334,900 | $ 498,264 |

## C. Advances to/from Other Funds

Advances to/from Other Funds represent long-term loans to one fund from another fund. Advances at June 30, 2015 were as follows (in thousands):

| | Advances from Other Funds (liability): | | |
|---|---|---|---|
| | General | Nonmajor Governmental | Total |
| **Advances to Other Funds (asset):** | | | |
| Environmental Improvement | $ - | $ 6,222 | $ 6,222 |
| Nonmajor Enterprise | 685 | - | 685 |
| Total | $ 685 | $ 6,222 | $ 6,907 |

## D. Interfund Transfers

Interfund Transfers in and out that occurred during Fiscal Year 2015 were as follows (in thousands):

| | **Transfers in:** General | Trans-portation | Capital Improvement | Nonmajor Governmental | Environmental Improvement | University of Wisconsin System | Nonmajor Enterprise | Internal Service | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Transfers out:** | | | | | | | | | |
| General | $ | $ 171,370 | $ 7 | $ 685,559 | $ - | $ 931,463 | $ 88,434 | $ 4,578 | $ 1,881,411 |
| Transportation | 1,849 | - | 11,947 | 110,204 | - | 2 | - | - | 124,002 |
| Capital Improvement | - | - | - | - | 11,304 | 157,515 | 16,896 | 154 | 185,869 |
| Nonmajor Governmental | 19,937 | 22,259 | 4,147 | 68,338 | - | 11,751 | 4,339 | 464 | 131,235 |
| Injured Patients and Families Compensation | - | - | - | 15 | - | - | - | - | 15 |
| Environmental Improvement | - | - | - | 8,012 | - | - | - | - | 8,012 |
| University of Wisconsin System | 27,545 | - | 467 | 67,478 | - | - | - | - | 95,491 |
| Unemployment Reserve | 629 | - | - | - | - | - | - | - | 629 |
| Nonmajor Enterprise | 11,160 | - | 13 | 10,471 | - | - | 110 | - | 21,754 |
| Internal Service | 8,391 | - | 660 | 1,394 | 3 | 4 | 48 | 125 | 10,624 |
| Fiduciary | 435 | - | - | 472 | - | - | - | - | 907 |
| **Total** | $ 69,945 | $ 193,629 | $ 17,242 | $ 951,943 | $ 11,307 | $ 1,100,735 | $ 109,827 | $ 5,321 | $ 2,459,948 |

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.

Most of the State's funds are presented on a fiscal year ended June 30. However, some funds are presented on a fiscal year ended December 31. As a result, inconsistencies may occur in amounts reported as interfund transfers between funds with different fiscal year ends.

### Nonroutine and Other Transfers

In the fiscal year ended June 30, 2015, 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 of Wisconsin System | $ 9,944 |
| Facilities Operations and Maintenance | 4,500 |
| Technology Services | 1,536 |
| Financial Services | 1,000 |

Transfer out from the General Fund:

| Funds Reporting the Transfer In | Amount |
|---|---|
| Transportation | $ 170,961 |
| Environmental | 11,144 |

Transfers out from the Petroleum Inspection Fund:

| Fund Reporting the Transfer In | Amount |
|---|---|
| Transportation | $ 16,000 |

## NOTE 10. CHANGES IN LONG-TERM LIABILITIES

During the year ended June 30, 2015, the following changes occurred in long-term liabilities (in thousands):

### Primary Government

| Governmental Activities | Balance July 1, 2014 | Additions | Reductions | Balance June 30, 2015 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Bonds and Long-term Notes Payable: | | | | | |
| General Obligation Bonds & Notes for: | | | | | |
| Governmental Funds | $ 5,165,180 | $ 1,324,578 | $ 1,199,295 | $ 5,290,463 | $ 524,194 |
| Internal Services Funds | 161,139 | 32,837 | 42,409 | 151,567 | 14,529 |
| Annual Appropriation Bonds | 3,179,230 | - | 63,295 | 3,115,935 | 79,585 |
| Revenue Bonds | 2,099,645 | 301,370 | 372,180 | 2,028,835 | 240,947 |
| Issuance Premiums and Discounts | 513,804 | 247,863 | 149,600 | 612,067 | - |
| Total Bonds Payable | 11,118,998 | 1,906,649 | 1,826,779 | 11,198,868 | 859,255 |
| Other Liabilities: | | | | | |
| Future Benefits and Loss Liability | 105,036 | 39,140 | 37,136 | 107,040 | 44,205 |
| Capital Leases | 51,732 | 66,166 | 18,626 | 99,271 | 16,061 |
| Installment Contracts | 1,826 | 409 | 1,337 | 898 | 637 |
| Compensated Absences | 157,210 | 56,630 | 55,543 | 158,297 | 53,103 |
| Other Postemployment Benefits | 210,427 | 11,129 | - | 221,556 | - |
| Claims, Judgments and Commitments | 645 | - | 90 | 555 | - |
| Pollution Remediation Obligations | 7,490 | - | - | 7,490 | - |
| Total Governmental Activities Long-term Liabilities | $ 11,653,364 | $ 2,080,123 | $ 1,939,512 | $ 11,793,974 | $ 973,261 |

Repayment of the general obligation bonds and notes 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 2015. 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. Most of the compensated absences and other postemployment benefits liabilities are attributed to the General, Transportation and Conservation funds. Long-term liabilities for claims, judgments and commitments are generally liquidated with resources of the governmental activities.

| Business-type Activities | | Balance July 1, 2014 | | Additions | | Reductions | | Balance June 30, 2015 | | Amounts Due Within One Year |
|---|---|---|---|---|---|---|---|---|---|---|
| Bonds and Long-term Notes Payable: | | | | | | | | | | |
| General Obligation Bonds & Notes | $ | 1,531,947 | $ | 240,817 | $ | 267,762 | $ | 1,505,003 | $ | 79,473 |
| Revenue Bonds | | 764,745 | | - | | 58,400 | | 706,345 | | 59,935 |
| Issuance Premiums and Discounts | | 137,432 | | 38,661 | | 29,555 | | 146,539 | | - |
| Total Bonds Payable | | 2,434,124 | | 279,479 | | 355,716 | | 2,357,887 | | 139,408 |
| Other Liabilities: | | | | | | | | | | |
| Future Benefits and Loss Liability | | 1,008,977 | | 84,384 | | 158,890 | | 934,470 | | 149,304 |
| Capital Leases | | 43,100 | | 1,147 | | 7,038 | | 37,209 | | 4,884 |
| Compensated Absences | | 144,958 | | 65,686 | | 67,258 | | 143,386 | | 65,957 |
| Other Postemployment Benefits | | 261,995 | | 17,329 | | - | | 279,324 | | - |
| Total Business-type Activities Long-term Liabilities | $ | 3,893,154 | $ | 448,026 | $ | 588,903 | $ | 3,752,277 | $ | 359,553 |

## NOTE 11. BONDS, NOTES AND OTHER DEBT OBLIGATIONS

The following schedule summarizes outstanding bonds and long-term notes payable at June 30, 2015 (in thousands):

| | |
|---|---|
| **Primary Government** | |
| **Governmental Activities:** | |
| General Obligation Bonds and Notes | $ 5,850,298 |
| Annual Appropriation Bonds | 3,112,148 |
| Revenue Bonds: | |
| Transportation | 2,167,294 |
| Petroleum Inspection | 69,128 |
| Total Governmental Activities | 11,198,868 |
| **Business-type Activities:** | |
| General Obligation Bonds and Notes: | |
| University of Wisconsin System | 1,492,934 |
| Other Business-type | 106,236 |
| Revenue Bonds: | |
| Environmental Improvement | 758,716 |
| Total Business-type Activities | 2,357,887 |
| Total Primary Government | $ 13,556,754 |

### A. General Obligation Bonds

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 and notes 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 and notes 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, 2015, $3.6 billion of general obligation bonds were authorized but unissued.

General obligation bonds issued and outstanding as of June 30, 2015 were as follows (in thousands):

| Fiscal Year Issued | Series | Dates | Interest Rates | Maturity Through | Amount Issued | Amount Outstanding |
|---|---|---|---|---|---|---|
| 1999 | 1998 Series 1, and E; | 8/98; 10/98 | 4.75 to 5.5 | 5/17 | $ 163,735 | $ 17,145 |
| 2001 | 2000 Series E;<br>2001 Series A | 11/00;<br>2/01 | 7.0 | 5/31 | 20,000 | 1,900 |
| 2002 | 2002 Series B, D | 3/02; 6/02 | 6.25 | 5/33 | 35,000 | 3,435 |
| 2003 | 2002 Series E, F, and H;<br>2003 Series 2 | 9/02; 9/02; 12/02;<br>4/03 | 4.25 to 5.25 | 5/33 | 43,740 | 7,895 |
| 2004 | 2003 Series B, and 3;<br>2004 Series CWGBC | 7/03; 10/03;<br>4/04 | 0 to 5.0 | 11/33 | 214,731 | 72,885 |
| 2005 | 2004 Series C, and D;<br>2005 Series C | 8/04; 8/04;<br>4/05 | 5.15 to 5.65 | 5/35 | 26,000 | 2,805 |
| 2006 | 2005 Series D;<br>2006 Series A | 8/05;<br>3/06 | 4.5 to 5.0 | 5/26 | 517,855 | 53,510 |
| 2007 | 2006 Series B, and C;<br>2007 Series AW, BW, and 1; | 7/06; 8/06;<br>2/07; 2/07; 2/07; | 4.25 to 5.65 | 5/37 | 382,690 | 275,776 |
| 2008 | 2007 Series 2, and C;<br>2008 Series 1, A, AW, B, and BW | 10/07; 12/07;<br>6/08; 4/08; 3/08; 5/08; 6/08 | 3.87 to 6.26 | 5/38 | 385,480 | 99,440 |
| 2009 | 2008 Series C, and D;<br>2009 Series AW, A, and B | 9/08;12/08;<br>1/09; 6/09; 6/09 | 4.0 to 6.0 | 5/30 | 521,875 | 167,920 |
| 2010 | 2009 Series C, D and 1;<br>2010 Series 1, A, B, and AW | 9/09; 9/09; 9/09;<br>3/10; 4/10; 4/10; 4/10 | 3.25 to 5.9 | 5/40 | 1,016,483 | 753,953 |
| 2011 | 2010 Series C, D, and BW;<br>2011 Series A, and 1 | 9/10; 9/10;12/10;<br>2/11; 6/11 | 3.45 to 5.25 | 5/41 | 1,175,535 | 955,060 |
| 2012 | 2011 Series 2, B, and C;<br>2012 Series 1 ,2, AW and A | 10/11; 8/11; 12/11;<br>3/12; 5/12; 4/12; 6/12 | 0.97 to 5.0 | 5/42 | 1,359,920 | 1,248,940 |
| 2013 | 2012 Series B;<br>2013 Series A | 11/12;<br>5/13 | 2.55 to 5.0 | 5/33 | 703,320 | 665,030 |
| 2014 | 2013 Series 1;<br>2014 Series 1, 2, A, and AW | 11/13;<br>2/14; 4/14; 2/14; 4/14 | 0.2 to 5.0 | 5/34 | 1,071,155 | 1,057,290 |
| 2015 | 2014 Series 3, 4 and B;<br>2015 Series 1, A, and B | 9/14; 1/15; 7/14<br>4/15; 2/15; 6/15 | 1.0 to 5.0 | 5/35 | 1,318,765 | 1,284,240 |
| Total | | | | | 8,956,284 | 6,667,224 |
| Premiums/Discounts | | | | | -- | 502,435 |
| Total General Obligation Bonds | | | | | $ 8,956,284 | $ 7,169,659 |

As of June 30, 2015, general obligation bond debt service requirements for principal and interest for governmental activities and business - type activities are as follows (in thousands):

| Fiscal Year Ended June 30 | Governmental Activities Principal | Governmental Activities Interest | Business-Type Activities Principal | Business-Type Activities Interest |
|---|---|---|---|---|
| 2016 | $ 454,100 | $ 243,909 | $ 62,971 | $ 69,142 |
| 2017 | 357,914 | 222,142 | 58,632 | 66,055 |
| 2018 | 372,511 | 205,679 | 59,549 | 63,342 |
| 2019 | 404,911 | 187,941 | 66,701 | 60,449 |
| 2020 | 378,230 | 168,706 | 67,103 | 57,229 |
| 2021-2025 | 1,612,624 | 592,972 | 393,819 | 233,635 |
| 2026-2030 | 1,183,004 | 258,353 | 399,131 | 134,836 |
| 2031-2035 | 431,737 | 41,033 | 282,053 | 47,641 |
| 2036-2040 | -- | -- | 67,295 | 13,768 |
| 2041-2045 | -- | -- | 14,940 | 858 |
| Total | 5,195,030 | 1,920,737 | 1,472,194 | 746,956 |
| Premiums/Discounts | 408,268 | -- | 94,168 | |
| Total | $ 5,603,297 | $ 1,920,737 | $ 1,566,362 | $ 746,956 |

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.

With respect to the direct payments the State expects to receive, since such payments are not Program Income and not pledged to the payment on the Bonds, there is no direct impact on the Bonds with these direct payments being subject to the mandated across-the-board cuts to the Federal budget for the federal fiscal year that started October 1, 2014 and ends September 30, 2015. The impact of these cuts for the current federal fiscal year is a 7.3% reduction in the direct payment amount that the State expected to receive.

- 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. General Obligation Long-term Notes

In April 2015, the State issued $279.8 million of General Obligation Long-term Notes Payable for the purpose of refunding General Obligation Bonds. The face value of the notes are reported as part of General Obligation Bonds and Notes in the Statements of Net Position and bear interest at rates from 1.94 percent to 3.43 percent, payable semi-annually on each May 1 and November 1 until their maturity dates. Principal outstanding at year end totaled $279.8 million.

As of June 30, 2015, long-term general obligation note debt service requirements for principal and interest for governmental activities and business-type activities are as follows (in millions):

| Fiscal Year | Governmental Activities | | Business-Type Activities | |
|---|---|---|---|---|
| Ended June 30 | Principal | Interest | Principal | Interest |
| 2016 | $ - | $ 6,694 | $ - | $ 928 |
| 2017 | 69,727 | 6,396 | 6,178 | 887 |
| 2018 | 72,664 | 5,025 | 10,216 | 765 |
| 2019 | 34,241 | 3,279 | 5,079 | 519 |
| 2020 | 45,387 | 2,320 | 6,073 | 377 |
| 2021 | 24,983 | 869 | 5,262 | 183 |
| Total | $ 247,001 | $ 24,583 | $ 32,809 | $ 3,659 |

## C. 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). In November 2012, the State issued $251.6 million bonds to refund a portion of the 2003 Series A bonds.

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 $568.7 million ("2003 Series A Bonds"), bear interest at rates from 5.20 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 $363.0 million ("2008 Series A Bonds"), bear interest at rates from 5.05 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 $188.5 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.

The General Fund Annual Appropriation Refunding Bonds of 2012, Series A (Taxable Fixed Rate) in the outstanding principal amount of $217.0 million (“2012 Series A Bonds”), bear interest at rates from 1.077 percent to 4.019 percent computed on the basis of a 30-day month and a 360-day year, payable semiannually on May 1 and November 1 until their maturity dates.

As of June 30, 2015, the debt service requirements for principal and interest on these bonds are as follows (in millions):

| Fiscal Year Ended June 30 | Principal | Interest |
|---|---|---|
| 2016 | 51.3 | 88.2 |
| 2017 | 58.3 | 86.9 |
| 2018 | 429.0 | 85.2 |
| 2019 | 41.0 | 64.3 |
| 2020 | 51.8 | 62.0 |
| 2021 – 2025 | 353.8 | 266.9 |
| 2026 – 2030 | 515.4 | 120.3 |
| 2031 – 2032 | 136.7 | 9.5 |
| Total | 1,637.2 | 783.2 |
| Unamortized Prem./Discount | (0.8) | -- |
| Total, net | $ 1,636.3 | $ 783.2 |

The principal due in the fiscal year ended June 30, 2018 includes $363.0 million maturity that the State intends to refund prior to the May 1, 2018 maturity date.

**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, 2015, 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. 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, 2015.

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, 2015, interest rate exchange agreements remain to reduce the interest rate risk in connection with $480.3 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 $480.3 million as of June 30, 2015. 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, 2016 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, 2015, the aggregate fair value of the interest exchange agreements was negative $158.4 million, a decrease of $12.9 million compared to the aggregate fair value of negative $145.5 million reported as of June 30, 2014. 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 position 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, 2015, 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 |
|---|---|---|---|---|
| 2016 | 1.1 | 6.6 | 24.9 | 32.6 |
| 2017 | 1.1 | 6.6 | 24.9 | 32.5 |
| 2018 | 1.1 | 6.5 | 24.8 | 32.5 |
| 2019 | 1.1 | 6.5 | 24.8 | 32.4 |
| 2020 | 1.1 | 6.5 | 24.7 | 32.3 |
| 2021 – 2025 | 48.9 | 31.2 | 118.8 | 198.9 |
| 2026 – 2030 | 316.9 | 20.0 | 76.6 | 413.5 |
| 2031 – 2032 | 109.0 | 1.7 | 6.7 | 117.4 |
| | $ 480.3 | $ 85.6 | $ 326.2 | $ 892.1 |

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

Credit Risk – As of June 30, 2015, 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, 2015, 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 A2 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, 2015, 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, 2015, the debt service requirements for principal and interest on these bonds are as follows (in millions):

| Fiscal Year Ended June 30 | Principal | Interest |
|---|---|---|
| 2016 | 28.3 | 85.0 |
| 2017 | 22.2 | 83.6 |
| 2018 | 24.8 | 82.6 |
| 2019 | 32.7 | 81.4 |
| 2020 | 28.1 | 79.8 |
| 2021 – 2025 | 187.5 | 374.4 |
| 2026 – 2030 | 302.5 | 312.8 |
| 2031 – 2035 | 568.8 | 193.3 |
| 2036 - 2037 | 284.0 | 26.3 |
| Total | 1,478.8 | 1,319.2 |
| Unamortized Premium/Discount | (3.0) | -- |
| Total, net | $ 1,475.8 | $ 1,319.2 |

## D. Revenue Bonds

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 $3.8 billion of revenue bonds. Presently, there are fourteen issues of Transportation Revenue Bonds outstanding totaling $2.0 billion. Debt service payments are secured by driver and vehicle registration fees and the program resolution provides for a reserve fund, which if funded, 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, 2015 were as follows (in thousands):

| Issue | Issue Date | Interest Rates | Maturity Through | Issued | Outstanding |
|---|---|---|---|---|---|
| 2015 1 | 4/15 | 5.0 | 7/29 | $ 207,240 | $ 207,240 |
| 2014 2 | 12/14 | 1.0 to 5.0 | 7/27 | 94,130 | 94,130 |
| 2014 1 | 4/14 | 2.0 to 5.0 | 7/34 | 339,745 | 242,940 |
| 2013 1 | 3/13 | 4.0 to 5.0 | 7/33 | 259,680 | 259,680 |
| 2012 2 | 6/12 | 4.0 to 5.0 | 7/24 | 116,400 | 116,400 |
| 2012 1 | 4/12 | 3.5 to 5.0 | 7/32 | 343,725 | 284,945 |
| 2010 B | 12/10 | 4.7 to 6.0 | 7/31 | 123,925 | 123,925 |
| 2010 A | 12/10 | 5.0 | 7/21 | 76,075 | 57,005 |
| 2009 B | 10/09 | 2.23 to 3.8 | 7/30 | 147,130 | 147,130 |
| 2008 A | 8/08 | 5.0 | 7/29 | 185,000 | 30,780 |
| 2007 1 | 3/07 | 4.35 to 5.0 | 7/22 | 206,900 | 203,580 |
| 2005 B | 9/05 | 5.0 | 7/15 | 158,400 | 10,400 |
| 2005 A | 3/05 | 5.0 to 5.25 | 7/21 | 235,585 | 165,545 |
| 1998 A | 8/98 | 5.5 | 7/16 | 130,590 | 17,185 |
| | | | | 2,624,525 | 1,960,885 |
| Unamortized Premium / Discount | | | | -- | 206,409 |
| Total | | | | $ 2,624,525 | $ 2,167,294 |

**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, 2015, PIF Bonds outstanding are $68.0 million. Debt service payments are secured by petroleum inspection fees.

The PIF revenue bonds issued and outstanding as of June 30, 2015 were as follows (in thousands):

| Issue | Issue Date | Interest Rate | Maturity Through | Issued | Outstanding |
|---|---|---|---|---|---|
| 2009-1 | 10/09 | 2.5 to 5.0 | 7/17 | $ 117,460 | $ 67,950 |
| Unamortized Premium / Discount | | | | -- | 1,178 |
| Total | | | | $ 117,460 | $ 69,128 |

**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 $2.5 billion in Revenue Bonds. At June 30, 2015, there were fifteen issues of Revenue Bonds outstanding totaling $706.3 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, 2015 were as follows (in thousands):

| Issue | Issue Date | Interest Rates | Maturity Through | Issued | Outstanding |
|---|---|---|---|---|---|
| 2013-1 | 3/13 | 3.75 to 5.0 | 6/27 | $ 82,845 | $ 82,845 |
| 2012-2 | 7/12 | 2.65 to 5.0 | 6/24 | 92,450 | 87,950 |
| 2012-1 | 7/12 | 2.0 to 5.0 | 6/33 | 55,000 | 51,075 |
| 2010-5 | 11/10 | 5.0 | 6/23 | 36,760 | 36,760 |
| 2010-4 | 11/10 | 2.0 to 5.0 | 6/31 | 116,290 | 100,635 |
| 2010-3 | 2/10 | 3.96 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 | 51,625 |
| 2008-3 | 12/08 | 3.0 to 5.5 | 6/26 | 92,210 | 71,850 |
| 2008-2 | 2/08 | 5.0 | 6/18 | 27,335 | 27,335 |
| 2008-1 | 2/08 | 4.0 to 5.0 | 6/28 | 100,000 | 76,105 |
| 2006-1 | 3/06 | 3.5 to 5.0 | 6/27 | 80,000 | 3,575 |
| 2004-2 | 1/05 | 3.25 to 5.25 | 6/20 | 107,025 | 37,305 |
| 2002-2 | 8/02 | 3.0 to 5.5 | 6/16 | 85,575 | 3,935 |
| 1998-2 | 8/99 | 4.0 to 5.5 | 6/17 | 104,360 | 11,590 |
| | | | | 1,111,025 | 706,345 |
| Unamortized Premium / Discount | | | | -- | 52,371 |
| Total | | | | $ 1,111,025 | $758,716 |

As of June 30, 2015, 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 | |
|---|---|---|---|---|---|---|
| Fiscal Year | Transportation Revenue Bonds | | Petroleum Inspection Fee Revenue Bonds | | Clean Water Revenue Bonds | |
| Ended June 30 | Principal | Interest | Principal | Interest | Principal | Interest |
| 2016 | 196,090 | 91,916 | 26,540 | 2,588 | 59,935 | 34,657 |
| 2017 | 102,395 | 84,855 | 27,800 | 1,270 | 60,775 | 31,729 |
| 2018 | 100,870 | 80,281 | 13,610 | 290 | 60,510 | 28,825 |
| 2019 | 117,025 | 75,010 | -- | -- | 55,315 | 25,857 |
| 2020 | 122,050 | 69,174 | -- | -- | 54,780 | 23,144 |
| 2021-2025 | 612,910 | 252,950 | -- | -- | 239,810 | 78,095 |
| 2026-2030 | 448,215 | 120,084 | -- | -- | 147,475 | 25,573 |
| 2031-2035 | 261,330 | 24,698 | -- | -- | 27,745 | 1,798 |
| Total | 1,960,885 | 798,998 | 67,950 | 4,148 | 706,345 | 249,678 |
| Unamortized Premium / Discount | 206,409 | -- | 1,178 | -- | 52,371 | -- |
| Total | $ 2,167,294 | $ 798,998 | $ 69,128 | $ 4,148 | $ 758,716 | $ 249,678 |

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.

With respect to the direct payments the State expects to receive, since such payments are not Program Income and not pledged to the payment on the Bonds, there is no direct impact on the Bonds with these direct payments being subject to the mandated across-the-board cuts to the Federal budget for the federal fiscal year that started October 1, 2014 and ends September 30, 2015. The impact of these cuts for the current federal fiscal year is a 7.3% reduction in the direct payment amount that the State expected to receive.

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.

## E. 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 September 2014, the State issued $275.9 million of general obligation refunding bonds (2014 Series 3), the proceeds of $325.7 million were deposited in an escrow account to provide for future debt service payments and redemption of $287.4 million of various general obligation bonds outstanding at the time of the refunding. As a result of the advance refunding, the $287.4 million of various general obligation bonds 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 $24.5 million and an economic gain of $21.2 million.

In January 2015, the State issued $257.4 million of general obligation refunding bonds (2014 Series 4), the proceeds of $308.7 million were deposited in an escrow account to provide for future debt service payments and redemption of $277.6 million of various general obligation bonds outstanding at the time of the refunding. As a result of the advance refunding, the $277.6 million of various general obligation bonds 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 of $19.7 million and an economic gain of $19.4 million.

In April 2015, the State issued $171.1 million of general obligation refunding bonds (2015 Series 1), the proceeds of which were used to current refund on May 1, 2015 principal of various general obligation bonds outstanding in the amount of $63.5 million and advance refund various general obligation bonds outstanding in the amount of $108.2 million. For the advance refunding, the proceeds of $123.2 million were deposited in an escrow account to provide for future debt service payments and redemption of $108.2 million of various general obligation bonds outstanding at the time of the refunding. As a result of the advance refunding, the $108.2 million of various general obligation bonds 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 of $10.1 million and an economic gain of $9.8 million.

In April 2015, the State issued $279.8 million of General Obligation Long Term Notes Payable, the proceeds of which were used to current refund various general obligation bonds with outstanding principal of $278.3 million. The refunding resulted in a decrease in total debt service of $20.5 million and an economic gain of $18.9 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, 2015, $991.3 million of general obligation bond principal has been defeased.

**Current Year Refundings/Revenue Bonds**

In December 2014, the State issued $94.1 million of transportation revenue refunding bonds (2014 Series 2), the proceeds of $112.0 million were deposited in an escrow account to provide for future debt service payments and redemption of $101.2 million of various transportation revenue bonds outstanding at the time of the refunding. As a result of the advance refunding, the $101.2 million of various transportation revenue bonds 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 of $8.2 million and an economic gain of $6.5 million.

In April 2015, the State issued $207.2 million of transportation revenue refunding bonds (2015 Series 1), the proceeds of which were used to current refund on July 1, 2015 principal of various transportation revenue bonds outstanding in the amount of $88.4 million and advance refund various transportation revenue bonds outstanding in the amount of $137.2 million. For the advance refunding, the proceeds of $155.3 million were deposited in an escrow account to provide for future debt service payments and redemption of $137.2 million of various transportation revenue bonds outstanding at the time of the refunding. As a result of the advance refunding, the $137.2 million of various transportation revenue bonds 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 of $23.8 and an economic gain of $20.5 million.

**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, 2015, revenue bonds outstanding of $53.3 million have been defeased.
- Transportation revenue bonds – At June 30, 2015, revenue bonds outstanding of $506.19 million have been defeased.

## F. 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 payments to the issuing and paying agent that will be used to pay interest due on maturing notes. On June 30, 2015, the amount of commercial paper notes outstanding was $163.3 million which had interest rates ranging from 0.07 percent to 0.09 percent and maturities ranging from July 16, 2015 to September 2, 2015.

Short-term debt activity for the year ended June 30, 2015 for general obligation commercial paper notes was as follows (in millions):

| Balance July 1, 2014 | Additions | Reductions | Balance June 30, 2015 |
|---|---|---|---|
| $ 155.1 | $ -- | $ 8.2 | $ 146.9 |

**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 commercial paper notes that reflect principal amortization of the paper. The State also intends to make regular payments to the issuing and paying agent that will be used to pay the interest due on the maturing notes. At June 30, 2015, the amount of extendible municipal commercial paper outstanding was $631.8 million which had interest rates ranging from 0.08 percent to 0.20 percent and maturities from July 8, 2015, to November 10, 2015.

Short-term debt activity for the year ended June 30, 2015 for general obligation extendible municipal commercial paper was as follows (in millions):

| Balance July 1, 2014 | Additions | Reductions | Balance June 30, 2015 |
|---|---|---|---|
| $ 532.1 | $ 105.1 | $ 24.6 | $ 612.6 |

**Petroleum Inspection Fee Revenue Extendible Municipal Commercial Paper**

The State has authorized petroleum inspection fee revenue extendible municipal commercial paper to pay the costs of claims under the Petroleum Environmental Cleanup Fund Award (PECFA) Program. Periodically, additional extendible municipal commercial paper is issued to pay for maturing paper. The State may periodically deposit money into the Junior Subordinate Principal Account, which represents principal payments to be made on the extendible municipal commercial paper. The State also intends to make regular deposits to the issuing and paying agent that will be used to pay interest due on maturing paper. At June 30, 2015, the amount of petroleum inspection fee revenue extendible commercial paper outstanding was $71.2 million which had interest rates ranging from 0.11 percent to 0.18 percent and maturities ranging from August 12, 2015 to September 17, 2015.

Short-term debt activity for the year ended June 30, 2015 for the petroleum inspection fee revenue extendible municipal commercial paper was as follows (in millions):

| Balance July 1, 2014 | Additions | Reductions | Balance June 30, 2015 |
|---|---|---|---|
| $ 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, 2015, the amount of transportation revenue commercial paper notes outstanding was $144.1 million which had interest rates ranging from 0.08 percent to 0.09 percent and maturities ranging from August 3, 2015 to October 8, 2015.

Short-term debt activity for the year ended June 30, 2015 for the transportation revenue commercial paper notes was as follows (in millions):

| Balance July 1, 2014 | Additions | Reductions | Balance June 30, 2015 |
|---|---|---|---|
| $ 163.7 | $ -- | $ 19.6 | $ 144.1 |

## G. Certificates of Participation - 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 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.

The outstanding balance as of June 30, 2015 was as follows:

| Balance Due | Average Life (Weighted Term) |
|---|---|
| $116.1 million | 3.99 Years |

At June 30, 2015, the following parity Master Lease certificates were outstanding:

- Master Lease Certificates of Participation of 2006, Series A, in the amount of $4.7 million. This series of Master Lease certificates has an interest rate of 4.0 percent and matures semi-annually through September 1, 2016.

- Master Lease Certificates of Participation of 2013, Series A (Revolving Credit Agreement – Taxable) in the amount of $39.8 million. This Master Lease certificate evidences the State's obligation to repay advances under a Revolving Credit Agreement, dated September 1, 2013, 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 PNC Bank National Association. The scheduled termination date under the Revolving Credit Agreement, as amended, is September 1, 2016. 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 $1.6 million. This series of Master Lease certificates has interest rates ranging from of 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 $5.9 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 2014, Series A, in the amount of $28.6 million. This series of Master Lease certificates has interest rates ranging from 2.75 percent to 5.0 percent and matures semi-annually through March 1, 2023.

- Master Lease Certificates of Participation of 2014, Series B in the amount of $34.9 million. This series of Master Lease certificates has interest rates ranging from 1.65 to 5.00 percent and matures semi-annually through March 1, 2023.

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, 2015, the State has not deposited with the Trustee amounts, that when invested, will terminate lease schedules.

## H. 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, 2015, a liability for arbitrage rebate did not exist.

## I. 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 in bonds and has issued one series with an outstanding balance of $121.0 million that is 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 $81.7 million have been issued that have a special debt service reserve fund secured by the State's moral obligation.

## J. Credit Agreements

The State has entered into a credit agreement that provides the State a line of credit for liquidity support for up to $200.0 million of general obligation commercial paper notes. As of June 30, 2015, $200.0 million was unused and available. The line of credit expires in March, 2016, but is subject to termination and renewal as provided for in the credit agreement. The cost of this line of credit is 0.25 percent per year.

The State has entered into a credit agreement to provide the State a line of credit for liquidity support for its transportation revenue commercial paper program. The amount of the line of credit is $175.0 million. As of June 30, 2015, $175.0 million was unused and available. This line of credit expires in April, 2016, but is subject to termination and renewal as provided for in the credit agreement. The cost of this line of credit is 0.33 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, 2015 for capital leases (in thousands):

| | Governmental Activities | |
|---|---|---|
| Fiscal Year | Principal | Interest |
| 2016 | $ 16,061 | $ 4,441 |
| 2017 | 13,258 | 3,981 |
| 2018 | 12,927 | 3,330 |
| 2019 | 7,291 | 2,737 |
| 2020 | 4,235 | 2,438 |
| 2021- 2025 | 35,556 | 7,399 |
| 2026 - 2030 | 9,943 | 1,216 |
| 2031- 2035 | - | - |
| 2036 - 2040 | - | - |
| 2041- 2045 | - | - |
| Total minimum future payments | 99,271 | - |
| Total minimum interest payments | $ - | 25,541 |

| | Business-type Activities | |
|---|---|---|
| Fiscal Year | Principal | Interest |
| 2016 | $ 4,882 | $ 2,447 |
| 2017 | 3,366 | 2,242 |
| 2018 | 1,085 | 2,130 |
| 2019 | 561 | 2,076 |
| 2020 | 510 | 2,037 |
| 2021- 2025 | 2,757 | 9,627 |
| 2026 - 2030 | 3,925 | 8,439 |
| 2031- 2035 | 5,627 | 6,737 |
| 2036 - 2040 | 8,067 | 4,296 |
| 2041- 2045 | 6,429 | 989 |
| Total minimum future payments | 37,209 | - |
| Total minimum interest payments | $ - | 41,020 |

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, 2015 (in thousands):

| | Governmental Activities | Business-type Activities |
|---|---|---|
| Land and Land Improvements | $ 376 | $ - |
| Buildings and Improvements | 1,000 | 100,237 |
| Machinery and Improvements | 181,275 | 14,433 |
| Construction in Progress | | |
| Less: Accumulated Depreciation | (52,205) | (55,703) |
| Carrying Amount | $ 130,446 | $ 58,967 |

## 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 2015 were $83.5 million. Of this amount, $83.4 million relates to minimum rental payments stipulated in lease agreements, $49.1 thousand relates to sub rental payments.

The following is an analysis of the future minimum rental payments due under operating leases (in thousands):

| Fiscal Year | Governmental Activities | Business-type Activities |
|---|---|---|
| 2016 | $ 49,700 | $ 18,731 |
| 2017 | 38,316 | 14,885 |
| 2018 | 30,179 | 12,996 |
| 2019 | 21,454 | 10,997 |
| 2020 | 16,655 | 9,876 |
| 2021 - 2025 | 41,342 | 32,288 |
| 2026 - 2030 | 19,314 | 28,493 |
| 2031 - 2035 | 6,703 | 14,647 |
| 2036 - 2040 | 481 | 152 |
| 2041 - 2045 | 444 | 21 |
| 2046 - 2050 | 420 | - |
| 2051 - 2055 | 9 | - |
| Thereafter | 206 | - |
| Minimum lease payments | $ 225,223 | $ 143,087 |

## 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, 2015 for installment purchases (in thousands):

| Fiscal Year | Governmental Activities Principal | Governmental Activities Interest |
|---|---|---|
| 2016 | $ 637 | 16 |
| 2017 | 280 | 3 |
| 2018 | - | - |
| 2019 | - | - |
| 2020 | - | - |
| Total minimum future installment payments | $ 917 | - |
| Total interest payments | $ - | 19 |

| Fiscal Year | Business-type Activities Principal | Business-type Activities Interest |
|---|---|---|
| 2016 | $ 18 | 1 |
| 2017 | 18 | 1 |
| 2018 | 13 | 1 |
| 2019 | 5 | 1 |
| 2020 | 5 | - |
| Total minimum future installment payments | $ 57 | - |
| Total interest payments | $ - | 4 |

## NOTE 13. POLLUTION REMEDIATION OBLIGATIONS

Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* establishes accounting and financial reporting standards for pollution remediation obligations. These 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 2015, the State did not recognize additional estimated liabilities for pollution remediation. The State expended nothing to clean up sites in fiscal year 2015; therefore, the beginning liability of $7.5 million remained at $7.5 million. There were no recoveries received from other responsible parties during fiscal year 2015 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 Position as of June 30, 2015 (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 Position 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 audited financial statements and required supplementary information for the year ending December 31, 2014, is available at: http://legis.wisconsin.gov/lab/ as report number 15-11.

**Plan Description**

The WRS, governed by Chapter 40 of the Wisconsin Statutes, is a cost-sharing multiple-employer defined benefit pension plan administered by the Department of Employee Trust Funds. Benefit terms may only be modified by the Legislature. 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, 2014, the number of participating employers was:

| | |
|---|---|
| State Agencies | 57 |
| Cities | 152 |
| Counties | 71 |
| 4th Class Cities | 36 |
| Villages | 261 |
| Towns | 246 |
| School Districts | 424 |
| Wisconsin Technical College System Board Districts | 16 |
| Cooperative Educational Service Agencies | 12 |
| Other | 207 |
| Total Employers | 1,482 |

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 (54 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.

Vested 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, plus interest, and forfeit all rights to any subsequent benefits, or may leave contributions on deposit and defer application until eligible to receive a retirement benefit. The WRS also provides death and disability benefits for employees.

The Employee Trust Funds Board may periodically adjust annuity payments from the WRS based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase or decrease in annuity payment may result when investment gains or losses, together with other actuarial experience factors, create a surplus or shortfall in the reserves, as determined by the WRS' consulting actuary. Annuity adjustments are not based on cost of living or other similar factors. For Core Retirement Investment Trust fund annuities, decreases may be applied only to previously granted increases. By law, Core Retirement Investment Trust fund annuities cannot be reduced to an amount below the original, guaranteed amount set at retirement.

**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 paid. Employer contributions to the plan are recognized in the accounting period in which the underlying earnings on which the contributions are based are paid 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 position.

**Contributions Required**

Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is 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, 2015 are:

| | Employee | Employer |
|---|---|---|
| General (including teachers) | 6.8% | 6.8% |
| Executives & Elected Officials | 7.7% | 7.7% |
| Protective with Social Security | 6.8% | 9.5% |
| Protective without Social Security | 6.8% | 13.1% |

Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

**State of Wisconsin Net Pension Asset, Pension Contributions, Pension Expenses, and Deferred Outflows and Inflows of Resources**

At June 30, 2015, the State reported a net pension asset of $686.9 million for its proportionate share of the WRS' net pension asset. The net pension asset is reported as a Net Pension Asset on the Statement of Net Position.

The net pension asset was measured as of December 31, 2014, and the total pension liability was based on an actuarial valuation as of December 31, 2013. Update procedures were used to roll forward the total pension liability to the measurement date. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date.

The State's proportionate share of the net pension asset was determined based on the average of the State's contributions to the WRS over the three most recent calendar years relative to the average contributions of all employers for the same period. At December 31, 2014, the State's proportionate share was 28.0 percent, which is an increase of 0.2 percent from its proportionate share as of December 31, 2013.

For calendar year 2014, State employers made $276.0 million in contributions recognized by the WRS.

For the year ended June 30, 2015, the State recognized pension expense of $269.0 million. At June 30, 2015, the State reported deferred outflows and inflows of resources related to pensions of $552.8 million and $12.4 million, respectively. More information about deferred outflows and inflows related to pensions, including the types and the amounts applicable to each type, can be found in Note 21.

A schedule presenting multi-year trend information of the State's proportionate share of the net pension liability or asset is presented as required supplementary information following the notes to the financial statements.

**Actuarial Valuation**

The pension measurements as of December 31, 2014 were based upon the following actuarial assumptions.

| | |
|---|---|
| Actuarial Valuation Date | December 31, 2013 |
| Measurement Date of Net Pension Asset | December 31, 2014 |
| Actuarial Cost Method | Entry Age |
| Asset Valuation Method | Fair Value |
| Long-Term Expected Rate of Return | 7.2% |
| Discount Rate | 7.2% |
| Salary Increases | |
| Inflation | 3.2% |
| Seniority/Merit | 0.2% - 5.8% |
| Mortality | Wisconsin 2012 Mortality Table |
| Post-retirement Adjustments* | 2.1% |

* Post-retirement adjustments are not guaranteed. Actual adjustments are based on recognized investment return, actuarial experience, and other factors. The assumed annual adjustment based on the investment return assumption and the post-retirement discount rate is 2.1%.

Actuarial assumptions are based upon an experience study conducted in 2012 using experience from 2009-2011.

*Long-Term Expected Return on Plan Assets*

The long-term expected rate of return on WRS investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return, net of WRS investment expense and inflation, are developed for each major asset class. The ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The long-term expected rate of return is reviewed every three years in conjunction with the WRS experience study. For each major asset class that is included in the Core Retirement Investment Trust fund's target asset allocation as of December 31, 2014, these best estimates of geometric long-term real rates of return were used:

| Asset Class | Target Allocation | Rate of Return |
|---|---|---|
| Domestic Equity | 21.0% | 5.3% |
| International Equity | 23.0 | 5.7 |
| Fixed Income | 36.0 | 1.7 |
| Inflation Sensitive | 20.0 | 2.3 |
| Real Estate | 7.0 | 4.2 |
| Private Equity/Debt | 7.0 | 6.9 |
| Multi-asset | 6.0 | 3.9 |
| Cash | (20.0) | 0.9 |

For each major asset class that is included in the Variable Retirement Investment Trust fund's target asset allocation as of December 31, 2014, these best estimates of geometric long-term real rates of return were used:

| Asset Class | Target Allocation | Rate of Return |
|---|---|---|
| Domestic Equity | 70.0% | 5.3% |
| International Equity | 30.0 | 5.7 |

The money-weighted rates of return on pension plan investment for the Core and Variable funds for the calendar year ended 2014 were 5.4% and 7.2%, respectively. The money-weighted rate of return expresses investment performance, net of pension plan expenses, adjusted for the changing amounts actually invested.

*Discount Rate*

A single discount rate of 7.2% was used to measure the total pension liability. This rate was based on the expected rate of return on pension plan investments of 7.2% and a long term bond rate of 3.56%. Because of the unique structure of the WRS, the 7.2% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the State's proportionate share of the net pension (liability) asset, calculated using a single discount rate of 7.2%, as well as what the State's net pension (liability) asset would be if it were calculated using a single discount rate that is 100 basis points lower or 100 basis points higher:

| | State's share of the net pension (liability) asset |
|---|---|
| 1% Decrease (6.2%) | $ (1,937,788,328) |
| Current Rate (7.2%) | $ 686,873,469 |
| 1% Increase (8.2%) | $ 2,759,725,231 |

## 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 Fund (Core Fund) and the Variable Retirement Investment Trust Fund (Variable Fund) of the Wisconsin Retirement System. Participation of the MRS in the Core Fund and Variable Fund is described in the DETF Administrative Code, Chapter 10.12. The State of Wisconsin Investment Board (SWIB) manages the Core Fund and Variable Fund 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 Core Fund and Variable Fund 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 Core Fund and Variable Fund 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 audited financial statements along with the accompanying footnote disclosures and supplementary information for the Core Fund and the Variable Fund is available at doa.wi.gov/capitalfinance 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 2013 (most recent actuarial valuation date), there were 55,197 active, and 8,151 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 doa.wi.gov/capitalfinance 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. Monthly Rates range from $602.10 to $1,392.80 for single coverage and $1,497.80 to $3,477.80 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, 2015, the ARC was $86.2 million while the employer contributions were $41.8 million, and the ARC adjustment, with interest, was $34.6 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 |
|---|---|---|---|---|
| 2015 | $ 70,510 | $41,802 | 59.3% | $502,559 |
| 2014 | 69,740 | 41,649 | 59.7 | 473,851 |
| 2013 | 78,158 | 38,919 | 49.8 | 445,760 |

Interest on the net OPEB obligation was $18.9 million while the net OPEB obligation increased $28.7 million.

### Funded Status and Funding Progress

The funded status of the plan as of January 1, 2013 (most recent actuarial valuation date) was as follows (in thousands):

| | |
|---|---|
| Actuarial accrued liability (AAL) | $ 892,844 |
| Actuarial value of plan assets | 0 |
| Unfunded actuarial accrued liability (UAAL) | $ 892,844 |
| Funded ratio (actuarial value of plan assets/AAL) | 0.0% |
| Covered payroll (active plan members) | $3,108,942 |
| UAAL as a percentage of covered payroll | 28.7% |

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 liability for the State associated with their Medicare retirees.

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, 2013 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 (1.64) 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, 2012. 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 2014 contribution rates ranged from 0.21 percent to 6.56 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 position 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. Impairments are determined by specific identification. A mortgage loan is considered impaired if it is probable that amounts due for principal and interest will not be collected in accordance with the contractual terms. Impaired mortgage loans are valued at the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the underlying collateral, if the loan is collateral dependent.

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 and an allowance for estimated losses.

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.

For interest-only securities and mortgage-backed securities not of high credit quality, the Company recognizes the excess of all cash flows, including estimated prepayments, attributable to the security estimated at the acquisition date over the initial investment using the effective yield method with adjustments made as a result of subsequent cash flow information recorded prospectively. If the fair value of the security has declined below its carrying amount, the Company will write the security down to fair value if the decline is deemed other-than-temporary.

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, 2013 financial report is available at doa.wi.gov/capitalfinance 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, 2014 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, 2014.

### 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 419 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 207 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 (LTDI) 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. Since January 2014, WRS collects actuarially-determined premiums paid by employers participating in the LTDI program and remits them to the Group Insurance Board for LTDI coverage.

### 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.

*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 2014 (in millions):

| | Health Insurance | | Income Continuation Insurance | | Long-term Disability Insurance | | Pharmacy Benefits | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Unpaid claims at beginning of the calendar year | $ 2.3 | $ 2.6 | $ 90.7 | $ 82.2 | $ 233.6 | $ 213.1 | $ (7.6) | $ 7.1 |
| Incurred claims and claim adjustment expense: | | | | | | | | |
| Provision for insured events of the current calendar year | 17.7 | 16.9 | 20.5 | 36.0 | 47.5 | 50.6 | 163.5 | 149.0 |
| Changes in provision for insured events of prior calendar years | (0.9) | (0.5) | (8.7) | (8.4) | 54.0 | 7.2 | (0.7) | (0.1) |
| Total incurred claims and claim adjustment expense | 16.8 | 16.4 | 11.8 | 27.6 | 101.5 | 57.8 | 162.8 | 148.9 |
| Payments: | | | | | | | | |
| Claims and claim adjustment expenses attributable to insured events of the current calendar year | 15.4 | 14.6 | 5.9 | 6.4 | 2.1 | 2.2 | 173.4 | 156.6 |
| Claims and claim adjustment expenses attributable to insured events of prior calendar years | 1.4 | 2.1 | 13.7 | 12.7 | 40.5 | 35.1 | (8.3) | 7.0 |
| Total payments | 16.8 | 16.7 | 19.6 | 19.1 | 42.6 | 37.3 | 165.1 | 163.6 |
| Total unpaid claims and claim adjustment expenses at end of the calendar year | $ 2.3 | $ 2.3 | $ 82.9 | $ 90.7 | $ 229.5 | $ 233.6 | $ (9.9)* | $ (7.6)* |

* Total unpaid claims at the end of 2014 are the net of $4.5 million in unpaid claims and $14.4 million in rebates due from pharmaceutical companies; unpaid claims at the end of 2013 are the net of $4.2 million in unpaid claims and $11.8 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, 2013 is available at doa.wi.gov/capitalfinance 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, 2014 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 $5.0 million annual aggregate. When claims, which exceed $100,000 per occurrence, total $5.0 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 2015, 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, 2015 are estimated to total $12.3 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 2015 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, 2015 are estimated to total $20.9 million.

**Worker's Compensation**

The Worker's Compensation Program was created by Wisconsin Statutes Chapter 102 to provide benefits to workers injured on the job. All employees of the State are included in the program. An injury is covered under worker's compensation if it is caused by an accident that arose out of and in the course of employment.

The responsibility for claiming compensation is on the employee. A claim must be filed with the program within two years from the date of injury; otherwise the claim is not allowable.

The worker's compensation liability has been determined by an actuary using paid claims and current claims reserves. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities are affected by external factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims incurred but not paid as of June 30, 2015 are estimated to total $80.3 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):

| | 2015 | 2014 |
|---|---|---|
| Beginning of fiscal year liability | $ 105,036 | $ 99,567 |
| Current year claims and changes in estimates | 39,140 | 67,601 |
| Claim payments | (30,796) | (27,502) |
| | 113,380 | 139,666 |
| Excess insurance reimbursable | (6,340) | (34,630) |
| Balance at fiscal year-end | $ 107,040 | $ 105,036 |

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, 2015 is $6.1 million.

## NOTE 20. INSURANCE FUNDS

### A. Local Government Property Insurance Fund

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, 2015 the Local Government Property Insurance Fund insured 955 local governmental units. The total amount of insurance in force as of June 30, 2015 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, 2015, the fund had $1.8 million of shares in the State Investment Fund which are considered cash equivalents.

*Premium* - Unearned premium reported as unearned 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, 2015 the fund had $800.0 million of per occurrence excess of loss reinsurance in force with a $1.8 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 $9.7 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 $18.4 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):

| | 2015 | 2014 |
|---|---|---|
| Unpaid loss liabilities at beginning of the year | $30,364 | $10,606 |
| Less: Excess-of-loss insurance recoverable | 16,920 | 1,641 |
| Net unpaid loss liabilities at beginning of year | 13,444 | 8,965 |
| Incurred losses and loss expenses: | | |
| Provision for insured events of the current year | 21,923 | 29,668 |
| Increase (decrease) in provision for insured events of prior years | (1,491) | 1,173 |
| Total incurred losses and loss expenses | 20,432 | 30,841 |
| Payments: | | |
| Losses and loss expenses attributable to insured events of the current year | 10,485 | 17,757 |
| Losses and loss expenses attributable to insured events prior years | 11,024 | 8,605 |
| Total payments | 21,509 | 26,362 |
| Net unpaid loss liabilities at end of year | 12,367 | 13,444 |
| Plus: Excess-of-loss liabilities recoverable | 11,366 | 16,920 |
| Total unpaid loss liabilities at end of year | $23,733 | $30,364 |

**Trend Information**

Historical trend information showing revenue and claims development information is presented in the Office of the Commissioner of Insurance June 30, 2015 financial statements. Copies of these statements may be requested from:

Office of the Commissioner of Insurance
125 South Webster Street
Madison, Wisconsin 53703

## B. State Life Insurance Fund

The State Life Insurance Fund was created under Chapter 607, Wisconsin Statutes, to offer life insurance to residents of Wisconsin in a manner similar to private insurers. This fund functions much like a mutual life insurance company and is subject to the same regulatory requirements as any life insurance company licensed to operate in Wisconsin.

Premiums are reported as earned when due. Benefits and expenses are associated with earned premiums so as to result in recognition of profits over the life of the contracts. This association is accomplished by means of the provision for liabilities for future benefits and the amortization of acquisition costs.

The 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 | $ 7,541 | 5,988 |
| 1967-1976 | 26,901 | 16,074 |
| 1977-1985 | 66,743 | 24,733 |
| 1986-1994 | 46,761 | 9,688 |
| 1995-2012 | 44,735 | 7,200 |
| 2013+ | 2,599 | 173 |
| | $ 195,280 | $ 63,856 |

**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 |
| 2013+ | 3.5 | 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, 2014 were $100.2 million and statutory capital and surplus was $9.9 million. Fund equity at June 30, 2015 was $26.6 million.

## C. Injured Patients and Families Compensation Fund

The Injured Patients and Families Compensation Fund was created in 1975 for the purpose of providing excess medical malpractice 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 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. The liability for incurred but not reported losses as of June 30, 2015, is determined by deducting individual case estimates of the liability for reported losses and net losses paid from inception of the Fund, and adding a risk margin to the projected ultimate loss liabilities, as follows (in thousands):

| | |
|---|---|
| Projected ultimate loss liability | $ 1,217,603 |
| Less: Net loss paid from inception | (861,596) |
| Less: Liability for reported losses | (4,001) |
| Risk Margin | 89,002 |
| Liability for incurred but not reported losses | $ 441,008 |

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, 2015. 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 Fund through June 30, 2015, are deducted from the projected ultimate LAE to determine the liability for LAE as June 30, 2015 as follows (in thousands):

| | |
|---|---|
| Projected ultimate LAE liability | $ 156,060 |
| Less: LAE paid from inception | (91,729) |
| Risk Margin | 16,084 |
| Liability for LAE | $ 80,415 |

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 0.8482, which is based on an investment yield assumption of 4.5 percent approved by the Board of Governors, the discounted loss liability would be as follows as of June 30, 2015 (in thousands):

| | |
|---|---|
| Estimated liability for incurred but not reported losses | $ 441,008 |
| Estimated liability for reported losses | 4,001 |
| Estimated liability for loss adjustment expense | 80,415 |
| Total estimated loss liabilities | 525,424 |
| Less: Amount representing interest | (79,741) |
| Discounted loss liabilities | $ 445,683 |

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.

The Office of the Commissioner of Insurance contracts for an actuarial audit of the 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 2015 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 to 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, 2015 (in thousands), is as follows:

| | |
|---|---|
| Discounted loss liabilities | $ 445,683 |
| Future medical expense liability | 38,356 |
| Contributions being held liability | 2,000 |
| Total estimated loss liabilities | 486,039 |
| Current portion | (64,042) |
| Noncurrent portion | $ 421,997 |

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 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 Fiscal Year 2015 (in thousands):

| | |
|---|---|
| Liability at the beginning of the year | $ 596,456 |
| Incurred claims and related expenses for the current year and the change in estimated amounts for claims incurred in prior years | (89,360) |
| Less: current year payments attributable to claims incurred in current and prior years | (21,057) |
| Liability at the end of the year | $ 486,039 |

## NOTE 21. DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

Deferred outflows and resources and deferred inflows of resources at June 30, 2015 were as follows (in thousands):

| | General | Transportation | Capital Improvement | Nonmajor Governmental | Internal Service | Full Accrual Adjustments | Total Governmental Activities |
|---|---|---|---|---|---|---|---|
| **Deferred Outflows of Resources** | | | | | | | |
| Accumulated Decreases in the Fair Value of Hedging Derivatives | $ - | $ - | $ - | $ - | $ - | $ 158,435 | $ 158,435 |
| Debt Refunding | - | - | - | - | 3,074 | 138,334 | 141,408 |
| Advances by the State | - | 142 | - | - | - | - | 142 |
| Differences Between Expected and Actual Pension Experience | - | - | - | - | 837 | 45,787 | 46,624 |
| Net Difference Between Projected and Actual Earnings on Pension Investments | - | - | - | - | 2,796 | 152,944 | 155,740 |
| Changes in Proportion and Differences Between Actual and Proportionate Share of Contributions | - | - | - | - | 159 | 8,704 | 8,863 |
| Pension Contributions Subsequent to the Measurement Date | - | - | - | - | 1,237 | 57,227 | 58,464 |
| **Total Deferred Outflows of Resources** | $ - | $ 142 | $ - | $ - | $ 8,103 | $ 561,431 | 569,677 |

| | General | Transportation | Capital Improvement | Nonmajor Governmental | Internal Service | Full Accrual Adjustments | Total Governmental Activities |
|---|---|---|---|---|---|---|---|
| **Deferred Inflows of Resources** | | | | | | | |
| Debt Refunding | $ - | $ - | $ - | $ - | $ 756 | $ 16,437 | $ 17,193 |
| Unavailable Revenue | 225,665 | 169 | - | 7,443 | - | (233,277) | - |
| Changes in Proportion and Differences Between Actual and Proportionate Share of Contributions | - | - | - | - | 74 | 4,073 | 4,147 |
| **Total Deferred Inflows of Resources** | $ 225,665 | $ 169 | $ - | $ 7,443 | $ 830 | $ (212,767) | $ 21,340 |

| | Injured Patients and Family Compensation | Environmental Improvement | University of Wisconsin System | Unemployment Reserve | Nonmajor Enterprise | Total Business-Type Activities |
|---|---|---|---|---|---|---|
| **Deferred Outflows of Resources** | | | | | | |
| Debt Refunding | $ - | $ 14,412 | $ 31,817 | $ - | $ 1,049 | $ 47,277 |
| Advances by the State | - | - | - | - | 41,841 | 41,841 |
| Differences Between Expected and Actual Pension Experience | 12 | 9 | 47,864 | - | 5,065 | 52,950 |
| Net Difference Between Projected and Actual Earnings on Pension Investments | 40 | 31 | 159,883 | - | 16,918 | 176,872 |
| Changes in Proportion and Differences Between Actual and Proportionate Share of Contributions | 2 | 2 | - | - | 963 | 967 |
| Pension Contributions Subsequent to the Measurement Date | 16 | 7 | 44,887 | - | 7,302 | 52,212 |
| **Total Deferred Outflows of Resources** | $ 70 | $ 14,460 | $ 284,451 | $ - | $ 73,138 | $ 372,119 |

| | Injured Patients and Family Compensation | Environmental Improvement | University of Wisconsin System | Unemployment Reserve | Nonmajor Enterprise | Total Business-Type Activities |
|---|---|---|---|---|---|---|
| **Deferred Inflows of Resources** | | | | | | |
| Debt Refunding | $ - | $ - | $ 1,337 | $ - | $ 131 | $ 1,468 |
| Changes in Proportion and Differences Between Actual and Proportionate Share of Contributions | 1 | 1 | 7,793 | - | 451 | 8,246 |
| **Total Deferred Inflows of Resources** | $ 1 | $ 1 | $ 9,130 | $ - | $ 581 | $ 9,713 |

The $110,678 thousand in deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as pension expenses as follows (in thousands):

| Fiscal Year Ended June 30 | Amount |
|---|---|
| 2016 | $ 84,535 |
| 2017 | 84,535 |
| 2018 | 84,535 |
| 2019 | 84,535 |
| 2020 | 84,535 |
| Thereafter | 6,956 |
| | $ 429,630 |

## NOTE 22. 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, 2015 is presented below (in thousands):

**Condensed Statement of Net Position**

| | | |
|---|---|---|
| Assets: | | |
| Current Assets | $ | 103,876 |
| Other Assets | | 881,466 |
| Total Assets | | 985,342 |
| Deferred Outflows of Resources | | 14,412 |
| Total Assets and Deferred Outflows of Resources | $ | 999,754 |
| Liabilities: | | |
| Due to Other Funds | $ | 1,453 |
| Other Current Liabilities (Including Current Portion of Long-term Debt) | | 62,863 |
| Noncurrent Liabilities | | 699,355 |
| Total Liabilities | | 763,671 |
| Net position: | | |
| Restricted | | 236,083 |
| Total Net Position | | 236,083 |
| Total Liabilities and Net Position | $ | 999,754 |

**Condensed Statement of Revenues, Expenses and Changes in Net Position**

| | | |
|---|---|---|
| Operating Revenues (Expenses): | | |
| Interest Income used as Security for Revenue Bonds | $ | 18,870 |
| Interest Expense | | (31,301) |
| Other Operating Expenses | | (2,155) |
| Operating Income (Loss) | | (14,585) |
| Nonoperating Revenues (Expenses): | | |
| Investment Income | | 4,234 |
| Income (Loss) before Transfers | | (10,351) |
| Transfers In (Out) | | - |
| Change in Net Position | | (10,351) |
| Beginning Net Position | | 246,434 |
| Ending Net Position | $ | 236,083 |

**Condensed Statement of Cash Flows**

| | | |
|---|---|---|
| Net Cash Provided (Used) by: | | |
| Operating Activities | $ | 84,433 |
| Noncapital Financing Activities | | (95,932) |
| Investing Activities | | 16,140 |
| Net Increase (Decrease) | | 4,640 |
| Beginning Cash and Cash Equivalents | | 84,455 |
| Ending Cash and Cash Equivalents | $ | 89,096 |

## NOTE 23. COMPONENT UNITS – CONDENSED FINANCIAL INFORMATION

Significant financial data for the State's discretely presented component units for the year ended December 31, 2014 or June 30, 2015 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 | University of Wisconsin Foundation | Total |
|---|---|---|---|---|---|---|
| **Condensed Statement of Net Position** | | | | | | |
| **Assets:** | | | | | | |
| Cash, Investments and Other Assets | $ 1,998,991 | $ 50,074 | $ 982,242 | $ 130,537 | $ 3,266,712 | $ 6,428,556 |
| Due from Primary Governments | - | - | 2,393 | 8 | - | 2,401 |
| Cash and Investments with Other Component Units | - | - | 212,348 | - | - | 212,348 |
| Capital Assets, net | 13,232 | - | 747,757 | 1,501 | 17,437 | 779,927 |
| Total Assets | 2,012,223 | 50,074 | 1,944,740 | 132,046 | 3,284,149 | 7,423,233 |
| **Deferred Outflows of Resources** | 45,000 | - | 79,534 | 966 | - | 125,500 |
| Total Assets and Deferred Outflows | $ 2,057,223 | $ 50,074 | $ 2,024,274 | $ 133,012 | $ 3,284,149 | $ 7,548,732 |
| **Liabilities:** | | | | | | |
| Accounts Payable and Other Current Liabilities | $ 123,927 | $ 5,535 | $ 263,877 | $ 5,753 | $ 45,257 | $ 444,349 |
| Due to Primary Government | - | - | 5,344 | - | - | 5,344 |
| Amounts Held for Other Component Units | - | - | - | - | 282,500 | 282,500 |
| Other Liabilities | 43,511 | - | 8,267 | - | - | 51,778 |
| Long-term Liabilities (Current and Noncurrent portions) | 1,228,426 | 10,498 | 531,618 | 2,688 | 47,335 | 1,820,564 |
| Total Liabilities | 1,395,864 | 16,033 | 809,106 | 8,440 | 375,092 | 2,604,535 |
| **Deferred Inflows of Resources** | - | - | 4,134 | 305 | - | 4,439 |
| **Net Position:** | | | | | | |
| Net Investment in Capital Assets | 8,267 | - | 325,171 | 1,501 | 17,437 | 352,377 |
| Restricted | 651,226 | 34,041 | 155,665 | 34,894 | 2,674,273 | 3,550,099 |
| Unrestricted | 1,866 | - | 730,198 | 87,871 | 217,347 | 1,037,283 |
| Total Net Position | 661,359 | 34,041 | 1,211,034 | 124,267 | 2,909,058 | 4,939,758 |
| Total Liabilities, Deferred Inflows and Net Position | $ 2,057,223 | $ 50,074 | $ 2,024,274 | $ 133,012 | $ 3,284,149 | $ 7,548,732 |
| **Condensed Statement of Activities** | | | | | | |
| Program Expenses: | | | | | | |
| Depreciation | $ 893 | $ - | $ 58,358 | $ 513 | $ 1,140 | $ 60,904 |
| Payments to Primary Government | - | - | 31,374 | - | 246,728 | 278,102 |
| Other | 249,759 | (418) | 1,328,863 | 37,910 | 43,697 | 1,659,810 |
| Total Program Expenses: | 250,652 | (418) | 1,418,595 | 38,423 | 291,565 | 1,998,817 |
| Program Revenues: | | | | | | |
| Charges for Goods and Services | 5,741 | 1,728 | 1,478,787 | 245 | - | 1,486,502 |
| Investment and Interest Income | 78,953 | 1,385 | - | - | 96,519 | 176,857 |
| Operating Grants and Contributions | 171,528 | - | - | 60,842 | 380,492 | 612,862 |
| Capital Grants and Contributions | - | - | 4,471 | - | 7,580 | 12,051 |
| Miscellaneous | 18,337 | - | 24,183 | - | 3,472 | 45,992 |
| Total Program Revenues | 274,559 | 3,114 | 1,507,441 | 61,087 | 488,063 | 2,334,264 |
| Net Program Revenue/(Expense) | 23,907 | 3,532 | 88,846 | 22,664 | 196,498 | 335,447 |
| General Revenues: | | | | | | |
| Interest and Investment Earnings | 6,992 | - | 3,304 | 1,648 | - | 11,944 |
| Miscellaneous | - | - | 8,008 | 196 | - | 8,204 |
| Contributions to Endowments | - | - | 104 | - | - | 104 |
| Change in Net Position | 30,899 | 3,532 | 100,262 | 24,507 | 196,498 | 355,699 |
| Net Position, Beginning of Year | 630,460 | 30,509 | 1,110,772 | 99,759 | 2,712,559 | 4,584,059 |
| Net Position, End of Year | $ 661,359 | $ 34,041 | $ 1,211,034 | $ 124,267 | $ 2,909,058 | $ 4,939,758 |

## NOTE 24. RESTATEMENTS OF BEGINNING FUND BALANCES/NET POSITIONS AND OTHER CHANGES

The following reconciliations summarize restatements of the end-of-year fund balance and net position amounts as reported in the 2014 Comprehensive Annual Financial Report to the beginning-of-year amounts reported for Fiscal Year 2015 (in thousands):

### A. Fund Statements – Governmental Funds

| | Major Funds | | | | |
|---|---|---|---|---|---|
| | General | Transportation | Capital Improvement | Nonmajor Funds | Total Governmental |
| Fund Balances June 30, 2014 as reported in the 2014 Comprehensive Annual Financial Report | $ (1,381,842) | $ 691,172 | $ (678,796) | $ 1,442,651 | $ 73,185 |
| DOA Recognition of Revolving Loan Program Revenue | 16,902 | - | - | - | 16,902 |
| DOA State Energy Program Adjustments | (1,420) | - | - | - | (1,420) |
| DOC Refund of Prior Year Expenditures | 635 | - | - | - | 635 |
| Fund Balances July 1, 2014 as restated | $ (1,365,725) | $ 691,172 | $ (678,796) | $ 1,442,651 | $ 89,302 |
| Effect of adjustments on the amount of excess revenues and other sources over expenditures and other uses of Fiscal Year 2014 | $ 16,117 | $ - | $ - | $ - | $ 16,117 |

### 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 |
| Net Positions June 30, 2014 as reported in the 2014 Comprehensive Annual Financial Report | $ 580,846 | $ 1,923,371 | $ 6,106,096 | $ 329,431 | $ 500,203 | $ 9,439,948 | $ 9,111 |
| Adoption of GASB Statement No. 68 | 136 | 134 | 518,239 | - | 61,178 | 579,688 | 10,574 |
| Other adjustments of assets and liabilities as of June 30, 2014 | - | - | - | - | - | - | (785) |
| Net Positions July 1, 2014 as restated | $ 580,982 | $ 1,923,506 | $ 6,624,336 | $ 329,431 | $ 561,381 | $ 10,019,635 | $ 18,900 |
| Effect of adjustments on the amount of net change in net position of Fiscal Year 2014 | $ 136 | $ 134 | $ 518,239 | $ - | $ 61,178 | $ 579,688 | $ 11,125 |

### C. Fund Statements – Fiduciary Funds

| | Pension and Other Employee Benefit Trust | Investment Trust | Private Purpose Trust | Total Fiduciary |
|---|---|---|---|---|
| Net Positions June 30, 2014 as reported in the 2014 Comprehensive Annual Financial Report | $ 91,225,902 | $ 2,585,930 | $ 3,681,309 | $ 97,493,140 |
| Adoption of GASB Statement No. 68 | - | - | 20 | 20 |
| Net Positions July 1, 2014 as restated | $ 91,225,902 | $ 2,585,930 | $ 3,681,329 | $ 97,493,160 |
| Effect of prior period adjustments on the amount of net increase (decrease) in net positions of Fiscal Year 2014 | $ - | - | $ 20 | $ 20 |

### D. Government-wide Statements

| | Primary Government | | |
|---|---|---|---|
| | Governmental Activities | Business-type Activities | Totals |
| Net Positions June 30, 2014 as reported in the 2014 Comprehensive Annual Financial Report | $ 9,961,629 | $ 9,441,146 | $ 19,402,775 |
| Adoption of GASB Statement No. 68 | 586,284 | 579,688 | 1,165,972 |
| Restatement of capital assets and related debt | 66,391 | - | 66,391 |
| Other adjustments of assets and liabilities as of June 30, 2014 | 14,304 | - | 14,304 |
| Net Positions July 1, 2014 as restated | $ 10,628,608 | $ 10,020,834 | $ 20,649,441 |
| Effect of adjustments on the amount of net increase (decrease) in net positions of Fiscal Year 2014 | $ 680,966 | $ 579,688 | $ 1,260,654 |

## NOTE 25. LITIGATION, CONTINGENCIES AND COMMITMENTS

### A. Litigation and Contingencies

The State is a participant 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 $18.9 million on June 30, 2015 reported in the governmental activities, are discussed below:

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 $.6 million at June 30, 2015.

The U.S. Department of Housing and Urban Development (HUD) provided federal funding to the State through the Community Development Block Grant (CDBG) program. The funds were sub-granted to units of general local government by the former Department of Commerce, the State agency responsible for administering CDBG prior to Fiscal Year 2012. Of the amounts sub-granted, $16.2 million were determined to not meet program requirements. The State accepted HUD's finding of noncompliance and settled the matter as agreed upon with HUD. This consisted of a $1.0 million cash payment to HUD and a $7.6 million deposit into a local account in September 2015. A liability for this $8.6 million is reported at June 30, 2015 in the General Fund. In addition, the HUD entitlement grant accepted and received by the State in August 2015, was voluntarily reduced by $7.6 million.

Talgo, Inc. (Talgo) and the State entered into two contracts. The first contract was for the construction and purchase of high speed passenger rail trains. The second contract was to maintain the trains and contained a non-appropriation clause that permitted either party to terminate the agreement if the Legislature did not appropriate funds necessary to perform the contract. The State decided to discontinue the project. In November 2012, Talgo filed a lawsuit claiming the State defaulted on its legal obligations. The circuit court denied the State's motion to dismiss the case.

In August 2015 the State and Talgo settled the case and resolved all claims related to the two contracts. Under the settlement agreement, Talgo kept the trains and received a $9.75 million payment from the State to close out the contracts. Talgo will attempt to sell the trains. If the trains are sold, the State can collect up to 30 percent of the sale price up to $9.75 million. As a result, dependent on the selling price, the State could recover the entire $9.75 million payment. A liability of $9.75 million is reported at June 30, 2015 in the Transportation 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 $46.9 million including taxes, interest and potential penalties.

The SWIB believes that the loss, if any, resulting from the claim being upheld will not have a material impact on net investment position 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, 2015, encumbrances of the General Fund totaled $435.2 million, encumbrances of the Transportation Fund totaled $1.3 billion, and encumbrances of other non-major governmental funds totaled $534.0 million. Obligations at June 30, 2015 representing multi-year, long-term commitments included (in thousands):

| | |
|---|---|
| Transportation Fund | $ 407,175 |
| Capital Improvement Fund – WisDOT Harbors, Rails and Highway Programs | 89,227 |
| Transportation Revenue Bonds Capital Projects Fund | 471.6 |
| General Fund – Housing Programs | 17,202 |

*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 $125.0 million as of June 30, 2015. These loan commitments are expected to be met through proceeds from issuance of revenue obligations and additional federal grants.

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 $111 thousand in annuity payments through June 30, 2015, 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, 2015. 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, 2015 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, 2015, the appropriation available totaled $55.1 million. Losses become fixed as of the date of the loss. A public depositor experiencing a loss must assign its interest in the deposit, to the extent of the amount paid, to the Department of Financial Institutions. Any recovery made by the Department of Financial Institutions under the assignment is to be repaid to the appropriation. The possibility of a material loss resulting from payments to and recovery from public depositors is remote.

## NOTE 26. SUBSEQUENT EVENTS

### Primary Government

#### Long-term Debt

*General Obligation Bonds* – In September 2015, the State issued $387.0 million of 2015 Series C 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 bonds had an interest rate of 4.0 to 5.0 percent payable semiannually, beginning May 1, 2016. The bonds mature annually beginning May 1, 2017 through May 1, 2036.

In July 2015, the State issued $133.2 million of 2015 Series 1 clean water revenue refunding bonds to be used for the current and advanced refunding of certain principal of previously issued clean water revenue bonds. The interest rates associated with these bonds were all set at 5.0 percent payable semiannually beginning December 1, 2015. The bonds mature annually beginning June 1, 2017 through June 1, 2028.

*Revenue Bonds* - In December 2015, the State issued $225.0 million of 2015 Series A transportation revenue bonds to be used to pay the costs of State transportation facilities and highway projects and to pay costs of issuance. The bonds have fixed interest rates of 3.0 to 5.0 percent payable semiannually beginning in 2017 with a final maturity in 2036.

In December 2015, the State issued $43.4 million of 2015 Series A Environmental Improvement Fund revenue bonds to be used to make loans under the Clean Water Fund Program to municipalities, primarily for the construction or improvement of their wastewater treatment facilities. The interest rates associated with these bonds had an interest rate of 3.0 to 5.0 percent payable semiannually beginning in 2016 with final maturity in 2030.

#### Certificates of Participation

In July 2015, the State issued $40.0 million of 2015 Series A master lease certificates of participation to be used for the acquisition of tangible property and sometimes, intangible property for various State agencies. The interest rates range from 2.0 to 5.0 percent payable semiannually beginning September 1, 2015. The certificates mature semi-annually beginning September 1, 2015 through March 1, 2023.

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# 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) |
|---|---|---|---|---|---|---|
| 1/1/2013 | $ 0 | $ 892,844 | $ 892,844 | 0.0% | $ 3,108,942 | 28.7% |
| 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% |

## State's Proportionate Share of the Net Pension Liability or Net Pension (Asset)

The State's proportionate share of the net pension liability (NPL) or net pension (asset) (NPA) of the Wisconsin Retirement System is provided below:

| Fiscal Year* | State's Proportion of the NPL/(NPA) (a) | State's Proportionate Share of the NPL/(NPA) (b) | State's Covered Employee Payroll (c) | State's Share of the NPL/(NPA) as a Percentage of Covered Payroll (b / c) | WRS' Net Position as a Percentage of the Total Pension Liability (d) |
|---|---|---|---|---|---|
| 2015 | (28.0%) | $(686,873,469) | $3,735,598,305 | (18.4%) | 102.7% |

* The amounts presented were measured as of the calendar year-end or for the calendar year ended that occurred within the fiscal year listed.

GASB standards require the presentation of 10 years of information. Because fiscal year 2015 is the first year for reporting this information, a full 10-year schedule will not be available until fiscal year 2024.

## State's Pension Contributions

The State's pension contributions to the Wisconsin Retirement System are provided below:

| Fiscal Year* | State's Actuarially Determined Contributions (a) | State's Contributions Made (b) | Contribution Excess/ (Deficiency) (b - a) | State's Total Employee Payroll (c) | State's Contributions Made as a Percentage of Total Employee Payroll (b / c) |
|---|---|---|---|---|---|
| 2015 | $275,968,183 | $275,968,183 | $ - | $3,735,598,305 | 7.4% |

* The amounts presented were measured for the calendar year ended that occurred within the fiscal year listed.

GASB standards require the presentation of 10 years of information. Because fiscal year 2015 is the first year for reporting this information, a full 10-year schedule will not be available until fiscal year 2024.

## 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 road and 5,200 bridges.

### Road Network

Condition assessments are completed on a two-year cycle with the most current results reported for each State road. The State completes the assessment of the Eastern half of the State in one year and the Western half of the State in the next. 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 one of its condition measures. IRI is a direct measure of road roughness, with an IRI of 2.69 mm/m (170 inches/mile) or greater being defined as a "poor" ride. Roads with a "poor" IRI assessment may cause negative impacts for the traveling public by decreasing driver comfort and potentially 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) |
|---|---|---|---|---|
| 2015 | 11,200 | 7.3 | 15.0 | 7.7 |
| 2014 | 11,200 | 8.3 | 15.0 | 6.7 |
| 2013 | 11,200 | 6.2 | 15.0 | 8.8 |
| 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 |

* 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) |
|---|---|---|---|
| 2015 | $603.4 | $643.3 | $ (39.9) |
| 2014 | $619.4 | $605.9 | $ 13.5 |
| 2013 | 580.9 | 561.8 | 19.1 |
| 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 |

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 2006 and actual costs for 2006 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) |
|---|---|---|---|---|
| 2015 | 5,200 | 3.2 | 15.0 | 11.8 |
| 2014 | 5,100 | 3.3 | 15.0 | 11.7 |
| 2013 | 5,100 | 3.1 | 15.0 | 11.9 |
| 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 |

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) |
|---|---|---|---|
| 2015 | $57.1 | $164.4 | $(107.3) |
| 2014 | $261.2 | $131.0 | $130.2 |
| 2013 | 123.2 | 115.3 | 7.9 |
| 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 |

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. Estimated and actual costs for 2014 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.

# Budgetary Comparison Schedule
# General Fund
# For the Fiscal Year Ended June 30, 2015

(In Thousands)

| | Original Budget | Final Budget | Actual Amounts |
|---|---|---|---|
| Unexpended Budgetary Fund Balances, Beginning of Year | | | $ 2,383,639 |
| **Revenues and Transfers (Inflows):** | | | |
| Taxes | $ 14,546,107 | $ 14,753,159 | 14,569,760 |
| Departmental: | | | |
| Tribal Gaming | 27,013 | 23,534 | 48,878 |
| Other | 16,240,044 (A) | 16,241,056 (A) | 16,003,766 |
| Transfers from: | | | |
| Nonmajor Governmental Funds | (A) | (A) | 77,117 |
| Nonmajor Enterprise Funds | (A) | (A) | 352 |
| Total Revenues and Transfers (Inflows) | 30,813,164 | 31,017,748 | 30,699,873 |
| Amounts Available for Appropriation | | | 33,083,512 |
| **Appropriations (Outflows):** | | | |
| Commerce | 227,195 | 268,633 | 230,178 |
| Education | 12,971,915 | 13,719,459 | 12,984,124 |
| Environmental Resources | 372,982 | 432,323 | 334,716 |
| Human Relations and Resources | 12,743,764 | 16,403,794 | 13,887,176 |
| General Executive | 1,121,359 | 1,377,049 | 988,071 |
| Judicial | 135,823 | 137,229 | 130,744 |
| Legislative | 74,924 | 78,328 | 65,595 |
| Tax Relief and Other General | 2,345,124 | 2,365,665 | 2,267,905 |
| Transfers to: | | | |
| Transportation Fund | 143,837 | 143,837 | 169,587 |
| Nonmajor Governmental Funds | - | - | 10,296 |
| Nonmajor Enterprise Funds | - | - | - |
| Total Appropriations (Outflows) | $ 30,136,922 | $ 34,926,317 | 31,068,393 |
| Fund Balances, End of Year | | | 2,015,119 |
| Less Encumbrances Outstanding at June 30, 2015 | | | (564,687) |
| Fund Balances, End of Year Budgetary Basis | | | $ 1,450,432 |

| | |
|---|---|
| Reconciliation of the End of Year, Budgetary Basis, Fund Balance to the Detail Reported in the Annual Fiscal Report: | |
| General Purpose: | |
| Designated | $ 91,276 |
| Undesignated | 135,555 |
| Total General Purpose | 226,831 |
| Program Revenue | 1,223,601 |
| Fund Balances, End of Year Budgetary Basis | $ 1,450,432 |

(A) Interfund transfers to the General Fund were budgeted under departmental revenue during Fiscal Year 2015.

*State of Wisconsin*

# Budgetary Comparison Schedule
# Transportation Fund
# For the Fiscal Year Ended June 30, 2015

(In Thousands)

| | Original Budget | Final Budget | Actual Amounts |
|---|---|---|---|
| Unexpended Budgetary Fund Balances, Beginning of Year | | | $ 646,790 |
| **Revenues (Inflows):** | | | |
| Taxes | $ 1,066,996 | $ 1,066,996 | 1,066,996 |
| Departmental | 1,767,392 | 1,767,392 | 1,767,392 |
| Transfers from: | | | |
| General Fund | 143,837 | 143,837 | 169,587 |
| Nonmajor Governmental Funds | 16,000 | 16,000 | 16,000 |
| Total Revenues (Inflows) | 2,994,225 | 2,994,225 | 3,019,975 |
| Amounts Available for Appropriation | | | 3,666,765 |
| **Appropriations and Transfers (Outflows):** | | | |
| Environmental Resources | 2,867,941 | 5,579,823 | 2,986,476 |
| General Executive | 1,902 | 1,966 | 1,598 |
| Tax Relief and Other General | 21,935 | 22,901 | 22,797 |
| Total Appropriations and Transfers (Outflows) | $ 2,891,778 | $ 5,604,690 | 3,010,871 |
| Fund Balances, End of Year | | | 655,894 |
| Less Encumbrances Outstanding at June 30, 2015 | | | (1,793,596) |
| Fund Balances, End of Year Budgetary Basis | | | $ (1,137,702) |

## 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, 2015 is presented below (in thousands):

| | General Fund | Transportation Fund |
|---|---|---|
| **Fund balance June 30, 2015 (budgetary basis – budgetary fund structure):** | | |
| General Purpose Revenue – fund balance per budgetary basis *Annual Fiscal Report* | | |
| Undesignated fund balance | $ 135,555 | |
| Designated fund balance | 91,276 | |
| Total General Purpose Revenue fund balance | 226,831 | |
| Program Revenue – fund balance per budgetary basis *Annual Fiscal Report* | 1,223,601 | |
| Fund balance June 30, 2015 (budgetary basis – budgetary fund structure) as reported on the budgetary comparison schedule | 1,450,432 | $(1,137,702) |
| Reclassifications: | | |
| To eliminate encumbrances reported as expenditures under budgetary reporting (*basis difference)* | 564,687 | 1,793,596 |
| 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*) | 362,753 | -- |
| To remove activities reported in another GAAP fund type (*perspective differences*): | | |
| Enterprise funds (except for the University of Wisconsin System) | (41,279) | -- |
| University of Wisconsin System | (1,193,476) | -- |
| Internal Service funds | (46,044) | -- |
| Fiduciary funds | (4,536) | -- |
| Transportation Revenue Bonds capital project fund | -- | (1,424) |
| Fund balance June 30, 2015 (GAAP fund structure – budgetary basis, excluding encumbrances treated as expenditures at year end) | 1,092,537 | 654,470 |
| Adjustments (*basis differences*): | | |
| To accrue receivables and establish payables for individual income taxes (net) | (712,802) | -- |
| To defer revenues for gross receipts public utility taxes | (279,595) | -- |
| To adjust revenues and expenditures for tax-related items and other tax credit/aid programs (net) | (440,152) | (856) |
| To adjust expenditures for the municipal and county shared revenue program | (502,170) | -- |
| To adjust expenditures for State property tax credit program | (670,312) | -- |
| To accrue unpaid Medicaid payments to providers (net of receivable from federal government) | (250,893) | -- |
| To adjust revenues and expenditures for certain major Health Services, and Children and Families human services payments to local governments | (144,480) | -- |
| To accrue receivable for Medicaid drug rebates (net of payable to federal government) | 148,355 | -- |
| To adjust expenditures/revenues for other Health Services, Workforce Development, and Children and Families accruals and deferrals | (105,408) | -- |
| To recognize the tobacco settlement revenue receivable | 69,016 | -- |
| To accrue State educational aids payments deferred until the subsequent year | (75,000) | -- |
| To adjust expenditures and revenues for State Energy Program and other revolving loan programs | 36,017 | -- |
| To adjust revenues and expenditures for other items (net) | 55,478 | 123,872 |
| **Fund balance June 30, 2015 (GAAP fund structure – GAAP basis) as reported on the governmental fund statements** | $(1,779,409) | $777,486 |

## 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 activities 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 on June 30, 2013 and published on July 1, 2013. 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