

# **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, and 97705L)

## **MASTER LEASE CERTIFICATES OF PARTICIPATION**

(Base CUSIP 977087)

## **TRANSPORTATION REVENUE OBLIGATIONS**

(Base CUSIP 977123)

## **CLEAN WATER REVENUE BONDS**

(Base CUSIP 977092)

## **PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS**

(Base CUSIP 977109)

## **GENERAL FUND ANNUAL APPROPRIATION BONDS**

(Base CUSIP 977100)

**DECEMBER 26, 2012**



SCOTT WALKER  
GOVERNOR

MIKE HUEBSCH  
SECRETARY

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

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December 26, 2012

Thank you for your interest in the State of Wisconsin.

This is the Continuing Disclosure Annual Report for the fiscal year ending June 30, 2012 (**2012 Annual Report**).

The 2012 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 2012 Annual Report with the Municipal Securities Rulemaking Board (**MSRB**) through the MSRB's 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 2013 may incorporate parts of this 2012 Annual Report by reference.

### **Organization of the 2012 Annual Report**

The 2012 Annual Report is divided into eight parts. The first two parts present general information.

- **Part I** presents the **State's continuing disclosure undertakings**. A Master Agreement on Continuing Disclosure (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, 2012. This part also provides information on the 2011-13 biennial budget, including results of the 2011-12 fiscal year and projected General Fund revenues and General Fund condition statement for the 2012-13 fiscal year.

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

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

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

**Ratings on the State’s Securities**

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

<u>Security</u>	<u>Fitch Ratings</u>	<u>Moody’s Investors Service, Inc.</u>	<u>Standard &amp; Poor’s Ratings Services</u>
General Obligations	AA	Aa2	AA
Master Lease Certificates of Participation	AA-	Aa3	AA-
Transportation Revenue Bonds	AA+	Aa2	AA+
Clean Water Revenue Bonds	AA+	Aa1	AA+
Petroleum Inspection Fee Revenue Bonds	AA	Aa2	AA
General Fund Annual Appropriation Bonds	AA-	Aa3	AA-

**How to Get Additional Information**

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

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

**[www.doa.wi.gov/capitalfinance](http://www.doa.wi.gov/capitalfinance)**

The Capital Finance Office posts to this web site monthly general fund cash flow reports and all event and additional (voluntary) filings that it makes through MSRB’s EMMA system.

December 26, 2012

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We welcome your comments or suggestions about the format and content of the 2012 Annual Report. We can be reached at (608) 267-0374, (608) 266-2305, or **DOACapitalFinanceOffice@wisconsin.gov**.

Sincerely,

A handwritten signature in blue ink, appearing to read "Frank R. Hoadley". The signature is fluid and cursive, with a small "FR" monogram at the end.

Frank R. Hoadley  
Capital Finance Director

**SUMMARY OF OUTSTANDING STATE OF WISCONSIN OBLIGATIONS  
AS OF DECEMBER 15, 2012**

	<u>Principal Balance 12/15/2011</u>	<u>Principal Issued 12/15/2011 - 12/15/12</u>	<u>Principal Matured, Redeemed, or Defeased 12/15/2011 - 12/15/12</u>	<u>Principal Balance 12/15/2012</u>
<b><u>GENERAL OBLIGATIONS<sup>(a)</sup></u></b>				
<b>Total</b>	<b>\$7,378,610,319</b>	<b>\$1,238,860,000</b>	<b>\$602,764,798</b>	<b>\$8,014,705,521</b>
General Purpose Revenue (GPR)	4,919,237,037	746,030,645	350,718,947	5,314,548,734
Self-Amortizing: Veterans	172,950,000	—	52,130,000	120,820,000
Self-Amortizing: Other	2,286,423,282	492,829,355	199,915,851	2,579,336,786
<b><u>MASTER LEASE CERTIFICATES OF PARTICIPATION<sup>(b)</sup></u></b>				
<b>Total</b>	<b>\$ 68,223,080</b>	<b>\$ 9,663,494</b>	<b>\$ 21,995,080</b>	<b>\$ 55,891,494</b>
<b><u>TRANSPORTATION REVENUE OBLIGATIONS<sup>(a)</sup></u></b>				
<b>Total</b>	<b>\$1,768,193,000</b>	<b>\$ 460,125,000</b>	<b>\$ 422,165,000</b>	<b>\$1,806,153,000</b>
<b><u>CLEAN WATER REVENUE BONDS</u></b>				
<b>Total</b>	<b>\$ 897,475,000</b>	<b>\$ 147,450,000</b>	<b>\$ 159,415,000</b>	<b>\$ 885,510,000</b>
<b><u>PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS<sup>(a)</sup></u></b>				
<b>Total</b>	<b>\$ 188,610,000</b>	—	—	<b>\$ 188,610,000</b>
<b><u>GENERAL FUND ANNUAL APPROPRIATION BONDS<sup>(a)</sup></u></b>				
<b>Total</b>	<b>\$3,333,855,000</b>	<b>\$251,555,000</b>	<b>\$ 282,785,000</b>	<b>\$3,302,625,000</b>

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

(b) Reflects balances and master lease originations through December 17, 2012.

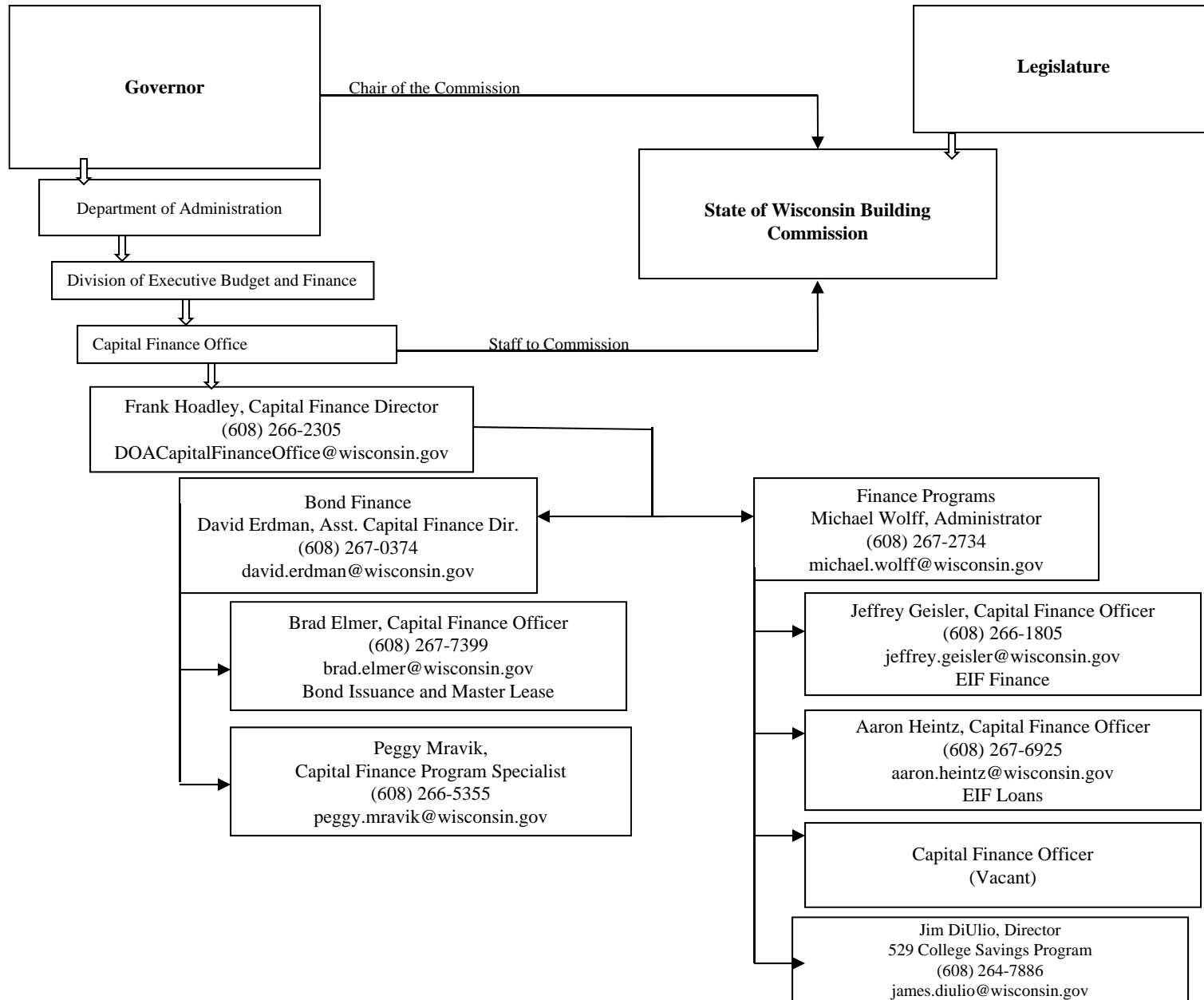
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### Capital Finance Office Staff (December 15, 2012)





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

## BUILDING COMMISSION MEMBERS\*

### Voting Members

	<b>Term of Office Expires</b>
Governor Scott Walker, Chairperson	January 5, 2015
Representative Dean Kaufert, Vice-Chairperson	January 7, 2013
Senator Julie Lassa	January 7, 2013
Senator Fred Risser	January 7, 2013
Senator Dale Schultz	January 5, 2015
Representative Joan Ballweg	January 7, 2013
Representative Gordon Hintz	January 7, 2013
Mr. Robert Brandherm, Citizen Member	At the pleasure of the Governor

### Nonvoting, Advisory Members

Mr. Gil Funk, State Chief Engineer Department of Administration	_____
Mr. Daniel J. Stephans, State Chief Architect Department of Administration	_____

### Building Commission Secretary

Ms. Summer R. Shannon-Bradley, Administrator Division of Facilities Development Department of Administration	At the pleasure of the Building Commission and the Secretary of Administration
--	--

### OTHER PARTICIPANTS

Mr. J.B. Van Hollen State Attorney General	January 5, 2015
Mr. Mike Huebsch, Secretary Department of Administration	At the pleasure of the Governor

### DEBT MANAGEMENT AND DISCLOSURE

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\* The Building Commission is composed of eight members. The Governor serves as the chairperson. Each house of the Wisconsin State 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.

## PART II

### GENERAL INFORMATION ABOUT THE STATE OF WISCONSIN

Part II of the 2012 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
- Results of 2011-12 Fiscal Year
- State Budget (including State Budget for 2011-13 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 2012 Annual Report includes the audited general purpose external financial statements for the fiscal year ending June 30, 2012 and the independent auditor's report that is provided by the State Auditor.

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

*Contact:* Capital Finance Office  
Attn: Capital Finance Director  
*Phone:* (608) 266-2305  
*Mail:* 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](mailto:DOACapitalFinanceOffice@wisconsin.gov)  
*Web site:* [www.doa.wi.gov/capitalfinance](http://www.doa.wi.gov/capitalfinance)

The State has voluntarily provided, since July 2001, monthly reports on general fund financial information. These monthly reports are not required by any of the State's undertakings provided to permit compliance with Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934. These monthly reports are available on the State's Capital Finance Office web site that is listed above and, beginning with July 2009, are filed as additional (voluntary) disclosure with the Municipal Securities Rulemaking Board (**MSRB**) through its Electronic Municipal Market Access (**EMMA**) system; however, such reports are not incorporated by reference into Part II of the 2012 Annual Report, and the State is not obligated to continue providing such monthly reports in the future.

Part II of the 2012 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 2012 Annual Report.

The 2012 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 2012 Annual Report may differ from those 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 2012 Annual Report is part of the report unless expressly incorporated by reference.

Certain statements in Part II of the 2012 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 2012 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)<sup>(a)</sup>

	2011-12	2010-11	2009-10	2008-09	2007-08
<b>State Collected Taxes</b>					
Individual Income.....	\$ 7,041,673,130	\$ 6,700,645,760	\$ 6,089,169,573	\$ 6,222,734,631	\$ 6,713,681,316
General Sales and Use.....	4,288,738,415	4,109,018,615	3,944,187,179	4,083,958,633	4,268,045,204
Corporate Franchise and Income.....	906,575,362	852,863,299	834,478,997	629,523,404	837,807,078
Public Utility.....	365,966,581	341,278,547	319,179,676	320,395,065	297,467,163
Excise.....	709,553,461	720,846,518	757,947,035	647,621,004	540,258,780
Inheritance and Gift .....	322,971	(127,683)	871,188	20,853,110	158,788,699
Insurance Companies.....	148,081,776	139,951,072	130,718,048	136,291,544	156,606,088
Motor Fuel.....	1,049,982,860	1,081,290,313	1,032,747,427	1,013,552,216	1,046,962,146
Forest.....	87,667,774	89,866,379	91,899,481	93,032,745	89,819,018
Miscellaneous.....	151,905,700	113,902,063	138,391,462	141,390,558	152,888,679
Subtotal.....	14,750,468,030	14,149,534,884	13,339,590,065	13,309,352,909	14,262,324,171
<b>Federal Aid</b>					
Medical Assistance.....	4,176,512,065	5,109,464,136	4,906,796,878	3,942,775,227	3,075,496,190
AFDC/W2.....	337,370,248	347,365,695	330,857,056	301,726,136	333,240,980
Transportation.....	929,187,710	1,220,480,068	1,170,855,851	975,604,268	827,688,250
Education.....	2,672,035,875	2,725,353,580	2,196,197,850	2,243,391,257	1,694,591,971
Other.....	3,045,940,968	3,149,817,222	2,916,850,745	2,011,468,231	1,795,311,711
Subtotal.....	11,161,046,866	12,552,480,702	11,521,558,380	9,474,965,119	7,726,329,102
<b>Fees</b>					
University of Wisconsin System.....	1,522,068,610	1,454,338,463	1,345,031,737	1,232,247,037	1,189,573,176
Other.....	654,889,710	587,480,670	545,597,153	611,597,812	522,256,257
Subtotal.....	2,176,958,320	2,041,819,134	1,890,628,890	1,843,844,850	1,711,829,432
<b>Licenses and Permits</b>					
Vehicles and Drivers.....	502,118,905	499,207,251	510,062,726	497,890,497	433,571,153
Hunting and Fishing.....	111,723,046	114,427,444	112,290,993	116,593,950	115,131,275
Other.....	1,117,340,087	1,115,499,641	1,040,451,114	833,185,906	519,392,387
Subtotal.....	1,731,182,038	1,729,134,335	1,662,804,833	1,447,670,353	1,068,094,815
<b>Miscellany</b>					
Service Charges.....	723,955,176	689,043,612	699,788,357	731,084,712	642,584,866
Sales of Products.....	911,024,131	870,309,813	836,037,997	798,401,411	816,218,495
Investment Income <sup>(b)</sup> .....	836,368,703	15,965,452,057	8,624,469,341	(14,949,817,996)	(4,432,460,670)
Gifts and Grants.....	567,649,555	569,985,402	555,577,185	586,570,088	414,079,565
Employee Benefit					
Contributions <sup>(c)</sup> .....	3,288,710,693	3,312,172,015	2,980,810,185	2,826,103,756	2,672,069,440
General Obligation Proceeds.....	1,379,104,679	1,515,996,343	1,233,950,842	721,041,070	524,288,377
Other Revenues.....	2,253,051,260	2,280,667,057	2,131,751,386	2,529,447,931	2,047,138,313
Subtotal.....	9,959,864,197	25,203,626,299	17,062,385,292	(6,757,169,029)	2,683,918,386
<b>Summary</b>					
TOTAL NET REVENUE.....	39,779,519,450	55,676,595,354	45,476,967,460	19,318,664,202	27,452,495,906
Transfers.....	737,889,533	824,558,948	761,715,850	999,470,444	1,213,609,468
Gross Revenue.....	\$ 40,517,408,984	\$ 56,501,154,303	\$ 46,238,683,310	\$ 20,318,134,646	\$ 28,666,105,374

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

(b) The amounts include net pension investment losses of \$15,095,373,443 for fiscal year 2008-09 and \$4,696,238,376 for 2007-08.

(c) Figures include all State and non-State employer and employee contributions. State contributions for State employees totaled \$1,590,209,323 for fiscal year 2011-12, \$1,807,612,171.10 for 2010-11, \$1,630,352,026 for 2009-10, \$1,458,671,648 for 2008-09, and \$1,334,524,228 for 2007-08.

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 2012 and 2013 tax years, which are shown in Table II-2, include a tax bracket created with the 2009-11 biennial budget for the highest income. The taxable income brackets have been indexed for changes in the Consumer Price Index.

**Table II-2**

**INDIVIDUAL INCOME TAX BRACKETS AND RATES**

<b>2012 Taxable Income Brackets<sup>(a)</sup></b>		<b>2012 Marginal Tax Rate</b>
<b><u>Single</u></b>	<b><u>Married Filing Jointly<sup>(b)</sup></u></b>	
0 to 10,570	0 to 14,090	4.60%
10,571 to 21,130	14,091 to 28,180	6.15
21,131 to 158,490	28,181 to 211,330	6.50
158,491 to 232,660	211,331 to 310,210	6.75
232,661+	310,211+	7.75

<b>2013 Taxable Income Brackets<sup>(a)</sup></b>		<b>2013 Marginal Tax Rate</b>
<b><u>Single</u></b>	<b><u>Married Filing Jointly<sup>(b)</sup></u></b>	
0 to 10,750	0 to 14,330	4.60%
10,751 to 21,490	14,331 to 28,650	6.15
21,491 to 161,180	28,651 to 214,910	6.50
161,181 to 236,600	214,911 to 315,460	6.75
236,601+	315,461+	7.75

<sup>(a)</sup> Taxable income in dollars

<sup>(b)</sup> 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. Today twenty-four 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 corporation 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, with 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.

If Congress does not adopt a new estate tax framework and the extended Economic Growth and Tax Relief Reconciliation Act is allowed to expire on December 31, 2012, Wisconsin's estate tax will return beginning January 1, 2013 with an exemption level of \$1 million.

#### *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 a minimum 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 and at the rate of 30.0 cents per \$100 value.

### **Tax Credits**

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

#### *Business Tax Credit*

In the 2011-13 biennial budget (2011 Wisconsin Act 32), the State enacted a domestic production activities credit 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, as defined by the Internal Revenue Code. For corporate tax filers, the credit would be a percentage of the lesser 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. The credit is currently projected to reduce income and franchise tax collections by approximately \$10.1 million in the 2012-13 fiscal year, with the amount of the reduction increasing to approximately \$128.7 million by 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 amount of rent allocated as property tax is 25 percent, or 20 percent if heat is included in rent. In the 2011-12 fiscal year, low-income homeowners and renters received \$133.7 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 May 31, 2012, the State was one of 24 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 2011 ranged from \$124 for one child, \$562 for two children, and \$1,955 for three or more children. In the 2011-12 fiscal year, low-income wage earners received \$103.3 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 2011-12 – one based on income and the other based on the number of acres and other criteria. Combined expenditures under Farmland Preservation Credit programs totaled \$19.6 million in fiscal year 2011-12.

#### *School Levy Tax Credit*

The school levy tax credit is distributed based on each municipality's share of statewide levies for school purposes and is provided to all classes of taxpayers (residential, commercial, industrial, and others). For property taxes levied in December 2011, \$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 \$6,900 on an improved parcel, provided an additional \$147 million of property tax relief for property taxes levied in December 2011. These tax credits offset approximately 8.6 percent of all levies or 19.3 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 2011-12 tax year, the total lottery property tax credit was approximately \$129 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 2011-12 fiscal year, the school property tax credit totaled \$395 million.

### **Tax Collection Procedure (Delinquencies)**

If a taxpayer does not file a valid return when requested, 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 within 10 days may result in a warrant being filed in the county of residence and other involuntary collection actions that 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 2012 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.

Table II-3

EXPENDITURES BY FUNCTION AND TYPE (ALL FUNDS)<sup>(a)</sup>

	2011-12	2010-11	2009-10	2008-09	2007-08
<b>Commerce</b>					
State Operations.....	\$ 237,301,963	\$ 211,331,642	\$ 193,704,769	\$ 162,533,607	\$ 187,653,993
Aids to Individuals and Organizations <sup>(b)</sup> .....	(85,251,510)	193,325,634	158,430,874	154,196,111	103,744,671
Local Assistance.....	41,520,092	85,841,270	110,489,525	81,796,002	84,134,604
Subtotal.....	193,570,545	490,498,546	462,625,168	398,525,720	375,533,268
<b>Education</b>					
State Operations.....	5,700,997,759	4,632,268,421	4,445,195,473	4,377,769,866	4,233,533,822
Aids to Individuals and Organizations.....	406,797,858	1,472,392,496	716,236,863	636,000,157	698,924,143
Local Assistance.....	5,656,240,970	6,206,674,442	6,168,884,618	6,195,999,965	6,001,123,979
Subtotal.....	11,764,036,587	12,311,335,359	11,330,316,954	11,209,769,988	10,933,581,944
<b>Environmental Resources</b>					
State Operations.....	2,453,206,494	2,266,047,112	2,213,657,662	2,466,422,363	2,160,632,869
Aids to Individuals and Organizations.....	22,631,300	15,028,649	24,727,017	21,396,674	21,858,028
Local Assistance.....	1,097,975,192	1,203,556,007	1,378,564,943	1,144,909,938	1,174,800,437
Subtotal.....	3,573,812,986	3,484,631,768	3,616,949,622	3,632,728,976	3,357,291,334
<b>Human Relations and Resources</b>					
State Operations.....	2,622,841,588	2,713,622,954	2,515,476,900	2,569,901,520	2,517,798,022
Aids to Individuals and Organizations.....	10,217,914,514	10,794,521,875	10,078,062,782	8,997,219,620	7,731,541,267
Local Assistance.....	683,427,090	706,742,617	678,205,663	803,642,585	730,956,471
Subtotal.....	13,524,183,192	14,214,887,447	13,271,745,345	12,370,763,725	10,980,295,760
<b>General Executive</b>					
State Operations.....	7,285,111,297	6,959,353,603	6,558,072,669	6,405,607,097	6,382,779,221
Aids to Individuals and Organizations.....	557,776,217	398,562,015	361,477,753	410,146,216	390,323,539
Local Assistance.....	187,696,817	273,440,655	264,085,163	186,142,107	177,907,683
Subtotal.....	8,030,584,331	7,631,356,272	7,183,635,586	7,001,895,420	6,951,010,443
<b>Judicial</b>					
State Operations.....	108,823,889	110,722,556	106,409,521	106,263,715	102,370,371
Local Assistance.....	22,029,230	24,532,807	24,528,200	24,603,200	24,529,305
Subtotal.....	130,853,119	135,255,363	130,937,721	130,866,915	126,899,676
<b>Legislative</b>					
State Operations.....	64,463,115	66,263,679	65,929,776	65,288,990	65,045,988
Subtotal.....	64,463,115	66,263,679	65,929,776	65,288,990	65,045,988
<b>General</b>					
State Operations.....	945,014,871	835,081,071	822,636,597	873,302,876	826,058,802
Aids to Individuals and Organizations.....	344,406,145	340,761,008	340,808,654	290,017,352	269,882,203
Local Assistance.....	2,081,107,574	2,061,111,703	2,000,896,851	1,834,977,446	1,764,087,991
Subtotal.....	3,370,528,589	3,236,953,782	3,164,342,102	2,998,297,674	2,860,028,997
<b>General Obligation Bond Program</b>					
State Operations.....	885,773,517	1,355,559,001	921,805,170	688,245,655	649,532,375
Subtotal.....	885,773,517	1,355,559,001	921,805,170	688,245,655	649,532,375
<b>Summary Totals</b>					
State Operations.....	20,303,534,493	19,150,250,039	17,842,888,538	17,715,335,688	16,475,873,088
Aids to Individuals and Organizations.....	11,464,274,524	13,214,591,677	11,679,743,942	10,508,976,131	9,216,273,852
Local Assistance.....	9,769,996,996	10,561,899,501	10,625,654,964	10,272,071,243	9,957,540,470
GRAND TOTAL.....	\$ 41,537,806,013	\$ 42,926,741,217	\$ 40,148,287,445	\$ 38,496,383,062	\$ 36,299,219,785

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

<sup>(b)</sup> Negative amounts for this category reflect the Department of Commerce being eliminated and its functions moved to other State agencies, pursuant to provisions of the 2011-13 biennial budget (2011 Wisconsin Act 32).

Source: Wisconsin Department of Administration

### General Fund Expenditures

In the 2011-12 fiscal year, about 54% 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 (22%) and state operations and programs (24%), which included the University of Wisconsin System. For the 2012-13 fiscal year, these percentages are expected to be about 50% returned to local units of government, 22% for aids to individuals and organizations, and 28% for state operations and programs, which includes the University of Wisconsin System.

## ACCOUNTING AND FINANCIAL REPORTING

### Statutory Basis

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

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

- In all cases the date of the contract or order determines the fiscal year in which it is charged unless it is determined that the purpose of the contract or order is to prevent lapsing of appropriations or to otherwise circumvent budgeting intent.
- The current year records must remain open until July 31<sup>st</sup> to permit departments to certify for payment bills applicable to the year ended June 30<sup>th</sup> and to deposit revenues applicable to such year, with the following exceptions: (1) amounts withheld for income taxes prior to July 1<sup>st</sup> and (2) taxes imposed on sales prior to July 1<sup>st</sup> are deemed to be accrued tax receipts as of the close of the fiscal year, provided such revenue is deposited on or before August 15<sup>th</sup>.
- On July 31<sup>st</sup> 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, 2012 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, 2012 has been audited and is included as **APPENDIX A** to Part II of the 2012 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, 2012 was \$342 million on a budgetary basis. Under GAAP, the total fund balance of the General Fund for the fiscal year ended June 30, 2012 was a deficit of \$2.211 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, 2012 was \$910 million and related to the State's individual income tax accruals.

## 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 1<sup>st</sup> of each odd-numbered year and ends on June 30<sup>th</sup> of the subsequent odd-numbered year. The requirement for a state budget is linked directly to the Wisconsin Constitution, which provides that “No money shall be paid out of the treasury except in pursuance of an appropriation by law.” The Wisconsin Constitution requires a balanced budget. It also requires that, if final budgetary expenses of any fiscal year exceed available revenues, then the Legislature must take actions to pay the deficiency in the succeeding fiscal year.

### **Budget Requests from Agencies**

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

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

### **Executive Budget**

Pursuant to the Wisconsin Statutes, the Secretary of Administration is required to provide to the Governor or Governor-Elect and to each member of the next Legislature, by November 20<sup>th</sup> of each even-numbered year, a compilation of the total amount of each agency’s biennial budget request. The Wisconsin Statutes also require that DOR compile and provide, by November 20<sup>th</sup> 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 Statutes provide that immediately after delivery of the Governor’s budget message, the executive budget bill or bills must be introduced by the Joint Committee on Finance, without change, into one of the two houses of the Legislature. Upon introduction, the bill or bills must be referred to that committee for review. Because of both the complexity of the budget and its significance, committee review of the budget bill is the most extensive and involved review given to any bill in a legislative session.

### **Legislative Consideration**

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

Upon conclusion of the public hearings, the Joint Committee on Finance commences executive sessions of the Governor’s recommended budget. The committee invariably adopts a budget that contains

numerous changes to the Governor's recommendations. The form of the committee's budget is usually a substitute amendment to the Governor's budget bill rather than being a separately identified new bill.

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

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

### **Governor's Partial Veto Power**

The Wisconsin Constitution grants the Governor the power of partial veto for any appropriation bill. This means that rather than having to approve or reject the budget bill in its entirety, the Governor may selectively delete portions of the budget bill. Thus, both language and dollar amounts in a budget bill may be eliminated by the Governor's veto, and dollar amounts may be reduced. An amendment to the Wisconsin Constitution, approved by Wisconsin voters on April 1, 2008, 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, with a two-thirds vote by each house, override a partial veto and enact the vetoed portion into law. This action may be taken before or after the budget becomes effective.

### **Continuing Authority**

The failure of the Legislature to adopt a new budget before the commencement of a biennium does not result in a lack of spending authority. 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 one 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. The 2011-13 biennial budget of the State was enacted on June 26, 2011, which was prior to the start of the biennium. Of the prior ten biennial budgets, the 2009-11 biennial budget was also enacted prior to the start of the biennium; however, each of the nine 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).

### **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 2012-13 fiscal year is \$65 million. State law currently requires that the amount remain \$65 million each year through the 2014-15 fiscal year, and beginning with the 2015-16 fiscal year, the statutory required reserve should be 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 could move out of balance if estimated revenues are less than anticipated in the budget or if expenditures for open-ended appropriations are greater than anticipated. The Wisconsin Statutes provide that, following the enactment of the budget, if the Secretary of Administration determines that budgeted expenditures will exceed revenues by more than one-half of one percent of general purpose revenues (consisting of general taxes, miscellaneous receipts, and revenues collected by state agencies which lose their identity and are available for appropriation by the Legislature), 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 Legislature’s Joint Committee on Finance, 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, provided that the statutory required balance for that fiscal year is maintained. Pursuant to this requirement, a transfer of approximately \$109 million was made at the end of the 2011-12 fiscal year from the General Fund to the Budget Stabilization Fund (which is a “rainy day fund”). As of December 15, 2012, the balance in the Budget Stabilization Fund is approximately \$125 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 \$738 million based on estimated General Fund expenditures for the 2012-13 fiscal year.

## **BUDGETARY RESULTS OF 2011-12 FISCAL YEAR**

### **Annual Fiscal Report**

The Annual Fiscal Report (Budgetary Basis) for the fiscal year ending June 30, 2012 was published October 15, 2012. It reports the State ended the 2011-12 fiscal year on a statutory and unaudited basis with an undesignated balance of \$342 million. This amount is \$334 million more than the balance included in the budget for the 2011-13 biennium (2011 Wisconsin Act 32).

**Table II-4** shows the final General Fund condition statement for the 2011-12 fiscal year. This table also includes, for comparison, the estimated General Fund condition statement for the 2011-12 fiscal year from the budget for the 2011-13 biennium (2011 Wisconsin Act 32) and as provided by LFB in their February 9, 2012 memorandum (**February 2012 LFB Memorandum**).

Table II-4

**GENERAL FUND CONDITION STATEMENT  
2011-12 FISCAL YEAR  
(in Millions)**

	2011 Wisconsin <u>Act 32</u>	LFB Memorandum (February 2012)	Annual Fiscal Report (Final)
Opening Balance	\$ 85.6	\$ 85.6	\$ 85.6
Prior Year Designation			8.2
Revenues			
Taxes	13,297.2	13,194.6	13,514.6
Department Revenues			
Tribal Gaming	26.5	27.2	24.3
Other	<u>647.9</u>	<u>648.1</u>	<u>532.8</u>
Total Available	14,057.2	13,955.4	14,165.5
Appropriations			
Gross Appropriations	13,996.2	13,996.2	13,867.5
Compensation Reserves	28.8	28.7	19.7
Sum Sufficient Reestimates		(36.5)	
Transfers	262.5	261.2	370.4
Less: Lapses	<u>(303.0)</u>	<u>(306.1)</u>	<u>(434.2)</u>
Net Appropriations	13,984.5	13,943.6	13,823.4
Balances			
Gross Balance	72.8	11.8	342.1
Less: Req'd. Statutory Balance	<u>(65.0)</u>	<u>(65.0)</u>	<u>n/a</u>
Net Balance, June 30	\$ 7.8	\$ 53.2	\$ 342.1

The Annual Fiscal Report (Budgetary Basis) also reports that the State's actual General Fund, or general-purpose revenue (GPR), tax collections for the 2011-12 fiscal year, on a budgetary basis, were \$13.515 billion compared to \$12.912 billion for the 2010-11 fiscal year. This is an increase of \$603 million, or 4.7%. In addition, the actual General Fund, or GPR, tax collections for the 2011-12 fiscal year were \$320 million more than projections in the February 2012 LFB Memorandum.

Table II-5 includes the actual General Fund tax collections for the 2011-12 fiscal year, along with a summary of the final GPR tax revenue collections for the 2010-11 fiscal year and prior revisions to General Fund tax revenue estimates for the 2011-12 fiscal year that occurred after enactment of the 2011-13 biennial budget (2011 Wisconsin Act 32).

Table II-5

**ACTUAL GENERAL FUND TAX REVENUES COMPARED TO PREVIOUS PROJECTIONS  
2011-12 FISCAL YEAR  
(in Millions)**

	2010-11 Fiscal Year (Final)	2011-12 Fiscal Year			
		2011-13 Biennial Budget	LFB Estimate Feb. 2012	DOR Estimate May 2012	Annual Fiscal Report (Final)
Individual Income	\$ 6,700.7	\$ 6,868.2	6,825.0	\$ 6,964.9	\$ 7,041.7
Sales and Use	4,109.0	4,269.8	4,250.0	4,298.9	4,288.7
Corp. Income & Franchise	852.9	880.8	860.0	875.9	906.6
Public Utility	341.3	344.6	361.0	360.1	365.9
Excise					
Cigarettes	604.8	615.0	590.0	577.8	587.8
Liquor & Wine	45.8	47.1	47.4	45.9	47.0
Tobacco Products	60.9	63.6	64.1	63.8	65.5
Beer	9.3	9.5	9.1	9.1	9.2
Insurance Company	140.0	147.0	140.0	144.3	148.1
Miscellaneous Taxes	47.3	51.6	48.0	47.3	54.1
<b>TOTAL</b>	<b>\$12,911.9</b>	<b>\$13,297.2</b>	<b>\$13,194.6</b>	<b>\$13,388.0</b>	<b>\$13,514.6</b>

The Annual Fiscal Report for the 2011-12 fiscal year is not part of this 2012 Annual Report but may be obtained from the MSRB through its EMMA system at [www.emma.msrb.org](http://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) 266-2305  
[DOACapitalFinanceOffice@wisconsin.gov](mailto:DOACapitalFinanceOffice@wisconsin.gov)  
[www.doa.wi.gov/capitalfinance](http://www.doa.wi.gov/capitalfinance)

**STATE BUDGET**

**Budget for 2011-13 Biennium**

The budget for the 2011-13 biennium was initially introduced on March 1, 2011 as the executive budget for the 2011-13 biennium, adopted with some changes by the Legislature on June 16, 2011, signed into law, with partial vetoes, by the Governor on June 26, 2011 (2011 Wisconsin Act 32), and generally became effective on July 1, 2011 (except as otherwise provided in the act).

**Budget for 2012-13 Fiscal Year**

Table II-6 includes the projected General Fund condition statement for the 2012-13 fiscal year from the report provided by DOA by November 20<sup>th</sup> (**November 2012 DOA Report**). The following reflects the ending balance for the 2011-12 fiscal year and all legislative enactments through 2011 Wisconsin Act 296. The following also includes, for comparison, the estimated General Fund condition statements as included in the 2011-13 biennial budget (2011 Wisconsin Act 32) and in the February 2012 LFB Memorandum.



Table II-6

**PROJECTED GENERAL FUND CONDITION STATEMENT**  
**2012-13 FISCAL YEAR**  
(in Millions)

	2012-13 Fiscal Year			
	2011-12 Final Annual Fiscal <u>Report</u>	2011-2013 Biennial <u>Budget</u>	LFB Estimate <u>Feb. 2012</u>	DOA Report (November <u>2012</u> )
<b>Revenues</b>				
Opening Balance	\$ 85.6	\$ 73.4	\$ 11.7	\$342.1
Prior-Year Designation	8.2			
Taxes	13,514.6	13,779.2	13,603.5	13,762.0
<b>Department Revenues</b>				
Tribal Gaming	24.3	28.1	28.6	28.6
Other	<u>532.8</u>	<u>584.6</u>	<u>579.9</u>	<u>577.2</u>
Total Available	14,165.5	14,465.3	14,220.9	14,709.9
<b>Appropriations</b>				
Gross Appropriations	13,867.5	14,765.5	14,765.5	14,755.2
Sum Sufficient Reestimates			(7,982.3)	
Transfers to Other Funds	370.4	137.6	137.6	137.6
Compensation Reserves	19.7	81.9	61.9	61.9
Less: Lapses	<u>(434.2)</u>	<u>(594.2)</u>	<u>(594.2)</u>	<u>(592.9)</u>
Net Appropriations	13,823.4	14,390.9	14,390.9	14,361.8
<b>Balances</b>				
Gross Balance	342.1	74.4	74.4	348.1
Less: Required Statutory Balance	<u>N/A</u>	<u>(65.0)</u>	<u>(65.0)</u>	<u>(65.0)</u>
Net Balance, June 30	\$ 342.1	\$ 9.4	\$ 9.4	\$ 283.1

Detailed information and summary tables and charts concerning the biennial budget bill for the 2011-13 biennium may be obtained from the following addresses (neither the following LFB web site nor the summary available at such web site is incorporated by reference into this part of the 2012 Annual Report):

State of Wisconsin Capital Finance Office

Department of Administration

101 East Wilson Street, FLR 10

P.O. Box 7864

Madison, WI 53707-7864

(608) 266-2305

[DOACapitalFinanceOffice@wisconsin.gov](mailto:DOACapitalFinanceOffice@wisconsin.gov)

<http://legis.wisconsin.gov/lfb/publications/budget/2011-13-Budget/Pages/act32.aspx>

### Revenue Projections for 2012-13 Fiscal Year

The November 2012 DOA Report included estimated general purpose tax revenue for the current fiscal year (2012-13), as compiled by DOR. These estimates are summarized by tax source in [Table II-7](#). State tax revenues are currently estimated at \$13.762 billion for the 2012-13 fiscal year. This is \$248 million (1.8%) higher than fiscal year 2011-12 actual revenues and \$87 million higher than the revenue estimate provided by DOR and included in a memorandum released by DOA on May 10, 2012.

**Table II-7**  
**ESTIMATED GENERAL FUND TAX REVENUE COLLECTIONS**  
**2012-13 FISCAL YEAR**  
**(in Millions)**

	2011-12 Final – Annual Fiscal <u>Report</u>	2011-13 Biennial <u>Budget</u>	2012-13 Fiscal Year		
			LFB Estimate <u>Feb. 2012</u>	DOR Estimate <u>May 2012</u>	DOA Report <u>Nov. 2012</u>
Individual Income	\$ 7,041.7	\$ 7,222.0	\$ 7,120.0	\$ 7,153.9	\$ 7,229.7
Sales and Use	4,288.7	4,387.1	4,365.0	4,420.1	4,403.3
Corp. Income & Franchise	906.6	877.1	855.0	852.3	865.0
Public Utility	365.9	352.6	363.0	357.7	351.4
Excise					
Cigarettes	587.8	610.0	580.0	578.6	574.7
Liquor & Wine	47.0	48.2	48.4	47.3	47.6
Tobacco Products	65.5	65.7	66.2	64.1	65.5
Beer	9.2	9.5	9.0	9.4	9.3
Insurance Company	148.1	150.0	145.0	143.1	155.4
Miscellaneous Taxes	<u>54.1</u>	<u>57.0</u>	<u>51.9</u>	<u>48.7</u>	<u>60.0</u>
<b>TOTAL</b>	<b>\$13,514.6</b>	<b>\$13,779.2</b>	<b>\$13,603.5</b>	<b>\$13,675.2</b>	<b>\$13,762.0</b>

**Budget for 2013-15 Biennium**

Pursuant to the Wisconsin Statutes, the November 2012 **DOA** Report was released by DOA by November 20<sup>th</sup>, and summarized the amount of each agency’s biennial budget request. This report also included estimated General Fund revenues, as compiled by DOR, for the forthcoming biennium.

The November 2012 DOA Report includes a projected General Fund condition statement for the 2013-15 biennium, based on the estimates of GPR tax revenue provided by DOR on November 20, 2012, credits, and other advanced commitments from prior biennia, and budget requests that have been provided by State agencies. The Governor will use these revenue estimates and agency requests to propose a balanced biennial budget, which must be submitted to the Legislature on or before January 31, 2013; however, a later submission date may be allowed by the Legislature if requested by the Governor.

The estimates of general purpose tax revenues for the 2013-15 biennium, as included in the November 2012 DOA Report, are included in **Table II-8**. These estimates reflect annual growth of 3.8% and 3.5%, respectively.

Table II-8

**ESTIMATED GENERAL FUND TAX REVENUE COLLECTIONS  
2013-14 AND 2014-15 FISCAL YEARS  
(in Millions)**

	2013-14	2014-15
	<u>Fiscal Year</u>	<u>Fiscal Year</u>
Individual Income	\$ 7,459.2	\$7,803.6
Sales and Use	4,533.1	4,656.7
Corp. Income & Franchise	897.6	887.1
Public Utility	373.0	373.8
Excise		
Cigarettes	572.8	566.9
Liquor & Wine	71.3	74.6
Tobacco Products	49.4	51.4
Beer	9.3	9.2
Estate <sup>(a)</sup>	94.0	125.0
Insurance Company	157.5	168.2
Miscellaneous Taxes	<u>63.0</u>	<u>66.0</u>
<b>TOTAL</b>	<b>\$14,280.2</b>	<b>\$14,782.5</b>

(a) Assumes federal and state law as of November 20, 2012 when estimates of general purpose revenues for the 2013-15 biennium were provided. Pending possible action by Congress, the estate tax may be restored on January 1, 2013.

**Tobacco Settlement Revenues**

In the year 2002 the State sold to the Badger Tobacco Asset Securitization Corporation (BTASC), pursuant to authority granted under Section 16.63 of the Wisconsin Statutes, the right to receive tobacco settlement revenues to be made by the participating cigarette manufacturers under the **Master Settlement Agreement**, which was entered into among the participating cigarette manufacturers and the attorneys general of 46 states and six other U.S. jurisdictions on November 23, 1998 in connection with the settlement of certain smoking-related litigation.

In May 2002, BTASC issued \$1.591 billion principal amount of bonds to finance its purchase and to fund necessary reserves, operating costs, and costs of issuance. The proceeds that the State received for this sale have been 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 its 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 2012 Annual Report includes the General Purpose External Financial Statements for the fiscal year ended June 30, 2012. The notes to the General Purpose External Financial Statements include a description of various legal proceedings, claims, and tax refunds that may have a potential budgetary effect. The potential budgetary impact of these legal proceedings and claims, and any updates to those proceedings subsequent to June 30, 2012, are outlined below. The following also includes a description of various other legal proceedings, claims, and tax refunds that were not included in the notes to the General Purpose External Financial Statements but may have a potential budgetary effect.

### *Notice of Transferee Liability*

In September 2008, the Internal Revenue Service provided the State of Wisconsin Investment Board a Notice of Transferee Liability. This claim seeks taxes, penalties, and interest relating to the sale of Shockley Communications Corporation (SCC) stock in the year 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 \$28.3 million plus interest.

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

### *2011 Wisconsin Act 10*

Certain budget adjustment legislation for the 2010-11 fiscal year was adopted by the Legislature on March 10, 2011, and signed into law by the Governor on March 11, 2011 (2011 Wisconsin Act 10). A provision of this act modified collective bargaining rights of public employees in the State (except for certain protective occupation employees under the Wisconsin Retirement System or under the City of Milwaukee or Milwaukee County retirement systems). Another provision of the act increased contributions of State employees to their employee health and retirement plans.

On June 15, 2011, various unions primarily representing municipal employees filed a lawsuit in the United States District Court for the Western District of Wisconsin, asking, among other things, that a declaratory judgment be entered on the basis that certain provisions of 2011 Wisconsin Act 10 deny public employees their right to collectively bargain and violate the First and Fourteenth Amendments of the U.S. Constitution, and that preliminary and permanent orders be entered to enjoin the implementation and enforcement of 2011 Wisconsin Act 10. The district court ruled on March 30, 2012 that certain sections of 2011 Wisconsin Act 10 were unconstitutional, those being the sections prohibiting payroll union dues deductions (where public safety employee unions are not prohibited from doing so) and concerning annual elections for certified collective bargaining representation. The district court upheld the remaining provisions of 2011 Wisconsin Act 10, and stayed the order on dues deductions, in part. Both the plaintiff unions and the State filed appeals to the United States Court of Appeals for the Seventh Circuit; the oral arguments were conducted September 24, 2012, and the parties are awaiting a decision.

On July 6, 2011, two other unions representing municipal employees filed suit in the same federal court, before the same judge, and on the same claims; however, plaintiffs filed no motion for any temporary restraining order or preliminary injunction. The court informed the parties during a status conference that the defendants' motion for judgment on the pleadings would be granted and the suit would be dismissed, however, a decision is still pending.

Another case concerning 2011 Wisconsin Act 10 was filed on August 18, 2011 in the Dane County Circuit Court by unions representing teachers for the City of Madison and public works employees for the City of Milwaukee. Claims in this case include, but are not limited to, 2011 Wisconsin Act 10 being unconstitutional since it does not accomplish "budget repair" as required by the Governor's purpose for calling the special legislative session during which it was passed. Plaintiffs filed no motion for any temporary restraining order or preliminary injunction. On September 14, 2012 the circuit court declared unconstitutional amendments made by 2011 Wisconsin Act 10 to the Municipal Employment Relations Act as violative of the rights of free speech, association, and equal protection under the Wisconsin and United States Constitutions. The state statutes that prohibit payroll dues deductions, govern the annual election for certified collective bargaining representation for general municipal employees, and require a local government referendum on any increase in base wages above the consumer price index limit for municipal employees were declared unconstitutional. The circuit court also ruled that the statutes prohibiting the City of Milwaukee from paying the employee share of contributions to the City Employee Retirement System violated the state constitution's "home rule" and prohibition of impairment of contract provisions. The court rejected the plaintiffs' claims that 2011 Wisconsin Act 10 as a whole was

unconstitutional because it was not properly enacted under the state constitution's special legislative session article. The circuit court did not enter an injunction against any defendants. The State filed a motion for a stay of the court's order and on October 22, 2012 the circuit court denied that motion. The State has filed an appeal of the circuit court's decision with the Wisconsin Court of Appeals, and on October 25, 2012 also filed a motion with the Wisconsin Court of Appeals to stay the circuit court's decision.

A similar lawsuit filed November 13, 2012, in Dane County Circuit Court alleges that portions of 2011 Wisconsin Act 10 applying to state employees are equally unconstitutional. The plaintiffs allege that 2011 Wisconsin Act 10 violates their speech and associational rights under the Wisconsin Constitution, and their right to equal protection under the Wisconsin Constitution. The plaintiffs request injunctive relief and such other relief as the court deems appropriate.

The 2011-13 biennial budget does not currently assume any settlement of these matters or other means to address the impact of any negative decision.

#### *Enforcement Provisions of Master Settlement Agreement*

The states that signed the Master Settlement Agreement with the major tobacco manufacturers, including the State, are engaged in litigation as to (1) the manufacturers' right to a downward deduction for their payment in the year 2004 of tobacco settlement revenues based on the states' individual compliance with certain enforcement provisions and (2) the manufacturers' right to have a reduction presumed for all subsequent years' payments of tobacco settlement revenues until states demonstrate their enforcement.

With respect to the 2004 payment reduction issue, on November 4, 2011 the manufacturers released the State from this litigation, as it was determined that the State has adequately enforced the provisions of the Master Settlement Agreement. If the State was found to have not been diligent in enforcing its Master Settlement Agreement during the year 2003, the State's payment of tobacco settlement revenues for 2012 or 2013 could have been retroactively adjusted downward. The State will now be entitled to recoup certain funds that were withheld from prior payments, but no such recoupment is likely until the entire arbitration is concluded. This is not likely to occur until at least the year 2013, which means that any additional funds (in the form of recoupment of past withholding) will not be likely for receipt by the State until no sooner than the year 2014.

With respect to the second issue, the arbitration panel that is hearing this matter ruled that the manufacturers are not entitled to an ongoing presumption that the states did not diligently enforce their relevant statutes for any given year.

The tobacco manufacturers also have asserted claims that the states (including the State) were not diligent in years subsequent to the year 2003, but no proceedings have begun with respect to those ensuing years.

#### *Litigation Regarding Transfers of State Agency Appropriations*

Nonstatutory provisions of 2009 Wisconsin Act 28 provided for the Secretary of the Department of Administration to transfer approximately \$480 million from the balances of executive state agency appropriations. These transfers were completed in June 2011.

On May 11, 2012, the Cities of Milwaukee and Madison, along with three Milwaukee alderpersons, filed a suit against the Secretary of Natural Resources and the Secretary of Administration in Dane County Circuit Court challenging this transfer as unconstitutional. Although the complaint alleges that the entirety of the nonstatutory provision was illegal, it specifically seeks the return of \$19 million to the appropriation for recycling grants to municipalities, formerly held under Section 25.49 of the Wisconsin Statutes (then referred to as the Recycling and Renewable Energy Fund). The defendants have filed a motion to dismiss on grounds of sovereign immunity, mootness, lack of standing, and failure to state a claim. Briefings on this case are ongoing. The 2011-13 biennial budget does not currently assume any settlement of this matter or other means to address the impact of any adverse decision.

### *Litigation Regarding Family Care Rates Paid to Residential Service Providers*

In August 2012, seventeen individuals with developmental disabilities filed a class action lawsuit against the Department of Health Services, the Secretary of the Department of Health Services, and three Managed Care Organizations (MCOs). The lawsuit alleges that reductions in the rates paid to providers of residential care services for persons with developmental disabilities through Wisconsin's Family Care program are discriminatory and violate their rights under the Americans with Disabilities Act and the Rehabilitation Act. Plaintiffs also assert claims against the defendants from the State for violations of their First Amendment right of association and their procedural due process rights. The plaintiffs seek declaratory and injunctive relief, in the form of returning provider rates to January 1, 2012 rates. An answer has been filed on behalf of the defendants from the State, motions to dismiss have been filed by two of the MCOs, and an answer has been filed on behalf of the third MCO. The plaintiffs seek certification of a class of individuals with developmental disabilities and a subclass of nonambulatory individuals with developmental disabilities. No class has been certified. Depending on the size of any class the court might certify and the specific injunctive relief ordered, adverse financial consequences to the state might exceed \$10 million. The 2011-13 biennial budget does not currently assume any settlement of this matter or other means to address the impact of any negative decision.

### *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**

The State has approximately 37,520 full-time equivalent permanent classified civil service employees and 2,284 unclassified civil service employees (data for graduate assistants at UW-Madison and UW-Milwaukee is from 2009) subject to collective bargaining labor laws. All the classified employees covered by the collective bargaining law are statutorily divided into 16 occupational groupings (bargaining units) based on their civil service classification. Covered unclassified employees are assigned to one of four occupational groupings. Exempted from bargaining unit coverage are employees assigned to positions with "confidential" or "management" functions.

Prior to the year 2011, Wisconsin's labor law allowed for a full range of collective bargaining activities including wages and hours and conditions of employment. It excluded binding arbitration on wages and benefits and prohibited a strike as an accepted means of resolving a bargaining impasse. Under 2011 Wisconsin Acts 10 (concerning the 2010-2011 fiscal year budget repair) and 32 (concerning the 2011-2013 biennial budget), various subjects and provisions covered under the collective bargaining laws were substantially changed. Under the new law, approximately 500 classified employees included in the public safety bargaining unit (that is, state patrol troopers and state patrol inspectors) retain full bargaining rights including wage rates, fringe benefits, hours of work, and conditions of employment, all of which will be determined by a collective bargaining agreement. For the remainder of employees covered by the collective bargaining law, the bargaining rights are limited to wages, and the respective bargaining unit must have been, within the most recent year, certified as the exclusive agent for the represented bargaining unit. There are six bargaining units who recertified in October 2011 to be the exclusive representative for bargaining wages. This includes approximately 2,430 employees in five bargaining units in the classified service and 370 employees in one unclassified bargaining unit.

Absent labor contracts for the 2009-11 biennium, and given the new labor law, all classified and unclassified employees are covered under the Compensation Plan for Nonrepresented Employees, for the 2011-13 biennium, which was effective January 1, 2012. This plan (in conjunction with administrative rules and policies) provides wages (unless negotiable) and hours and conditions of employment for all civil service employees (except public safety employees). Bargaining on contracts for the 2013-2015

biennium with the six recertified units (with respect to base wages only) and the public safety bargaining unit is currently in progress.

Each collective bargaining agreement included no-strike and no-lockout provisions, and state law specifies that it is illegal for a state employee “to engage in, induce, or encourage any employee to engage in a strike or a concerted refusal to work or perform their usual duties as employees.” 2011 Wisconsin Act 10 added statutory language that provides that (1) during a state of emergency declared by the governor, an appointing authority may discharge any employee who does any of the following: (a) fails to report to work as scheduled for any three working days during the state of emergency, and the employee’s absences from work are not approved leaves of absence, or (b) participates in a strike, work stoppage, sit-down, stay-in, slowdown, or other concerted activities to interrupt the operations or services of state government, including specifically participation in purported mass resignations or sick calls; and (2) engaging in any action under (1) constitutes just cause for discharge.

The State and its agencies have established contingency plans to staff and operate the various state agencies, programs, and institutions should an incident occur that could disrupt the delivery of critical state services and necessary agency functions. These plans are updated annually.

The budget provides for salary and fringe benefits in an amount that is expected to be sufficient to meet all contractual obligations. While previously the statutes required the agreements between the State and the individual bargaining units to be two-year contracts coinciding with the State’s biennium, state law (as modified by 2011 Wisconsin Act 10) now requires contracts to be for one year and coincide with the applicable fiscal year, and such annual contracts cannot be extended. The exception, again, is for the public safety bargaining unit, for which the contract may be either one or two years and coincide with either the fiscal year or the biennium. Each collective bargaining agreement requires ratification by the members of the respective labor union, approval by the Joint Committee on Employment Relations, passage by both houses of the Legislature, and signature of the Governor.

### **State Budget Assumptions**

Tax revenue projections for the 2011-13 biennial budget (2011 Wisconsin Act 32) were based on May 2011 estimates from LFB. Tax revenue projections for the 2012-13 fiscal year budget are currently based on November 20, 2012 estimates from DOR. 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 have 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 quarterly forecasts of income and employment for the State. These quarterly reports are available from DOR and focus on industry employment, housing trends, and income components for the State.

The economic forecast underlying the updated projections of General Fund tax revenues provided by DOR on November 20, 2012 reflected certain projections presented in a national economic forecast by IHS Global Insight, Inc. (**Global Insight**), which provides national economic forecasts, data base support, and consulting services. **Table II-9** contains excerpts from Global Insight’s September, 2012 national economic forecast, and **Table II-10** contains a summary of information from DOR’s Wisconsin Econometric Model (**Model**).

### *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 Global Insight (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 Global Insight macro model of the U.S. economy and to incorporate new data definitions as embodied in the national and regional income accounts.

The Model provides forecasts of the major components of 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 their current employment statistics program. The Model is a structural model that employs accounting identities and theoretical constructs for predictions on each economic variable. It is driven by a set of variables that are exogenous, or determined outside the Model. The forecast data are used in the Model to generate forecasts of State employment, income, tax revenue, and other economic indicators.

The Model is similar to many economic models in that the economy is described by a set of mathematical equations. There are equations for employment, wages, property income, proprietary income, transfer payments, housing permits, and taxes among others. The Model currently consists of 159 equations, 81 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 industry output, factor costs, tax levels and rates, interest rates, inflation, etc. Currently, the Model uses forecasts provided by Global Insight for these national variables.

Other 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 can be simultaneously solved for income, employment, and other economic variables.

DOR maintains the Model through a process of keeping the Model's database up to date and re-examining the Model's equations when historical data are revised. 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				
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>Real GDP and its Components</b>					
<b>(Amounts in Billions of 2005 Dollars)</b>					
GDP .....	\$13,299.1	\$13,589.0	\$13,836.3	\$14,219.2	\$14,703.2
Percent Change .....	1.8	2.2	1.8	2.8	3.4
GDP (Current Dollars).....	15,075.7	15,680.0	16,237.3	16,937.4	17,791.4
Percent Change .....	4.0	4.0	3.6	4.3	5.0
<b>Employment and Prices</b>					
Payroll Employment (Thousands) .....	131.4	133.2	135.1	137.3	139.9
Percent Change .....	1.2	1.4	1.4	1.6	1.9
Unemployment Rate (%) .....	8.9	8.2	8.0	7.7	7.0
Consumer Price Index (% Change) ...	3.1	2.0	1.4	1.8	1.7
Employment Cost Index (% Change)	2.2	2.0	2.1	2.5	2.6
Industrial Production (% Change) .....	4.1	4.0	2.2	2.7	3.7
Retail Gasoline Prices (\$/gallon)	3.6	3.6	3.3	3.2	3.1
<b>Financial Markets</b>					
3-Month Treasury Bills (rate).....	0.1	0.1	0.1	0.1	0.8
30-Year Fixed Mortgage (rate).....	4.5	3.7	3.5	4.4	5.2
<b>Income and Profits</b>					
<b>(Amounts in Billions)</b>					
Personal Income.....	\$12,947.3	\$13,427.6	\$13,974.1	\$14,645.5	\$15,367.6
Percent Change .....	5.1	3.7	4.1	4.8	4.9
Wages and Salaries .....	6,661.3	6,912.1	7,184.8	7,492.5	7,849.1
Percent Change .....	4.0	3.8	3.9	4.3	4.8
Corporate Profits, Before Tax.....	1,827.0	1,898.0	1,886.9	1,884.9	1,911.6
Percent Change .....	7.3	4.1	(0.6)	(0.1)	1.4

**Source: Global Insight, September 2012**

**Table II-10**  
**ECONOMIC FORECASTS—WISCONSIN**

	Calendar Year				
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>Wisconsin Employment Forecast</b>					
<b>Annual Industry Detail Average</b> <b>(Thousands of Workers)</b>					
Manufacturing .....	442.5	450.9	456.7	463.7	472.8
Percent Change.....	2.8	1.9	1.3	1.5	2.0
Trade, Transport & Utilities .....	508.5	511.7	518.7	522.1	526.9
Percent Change.....	0.0	0.6	1.4	0.6	0.9
Government.....	412.6	406.0	407.7	409.3	412.4
Percent Change.....	(1.6)	(1.6)	0.4	0.4	0.8
Total Nonfarm.....	2,739.1	2,753.6	2,801.9	2,836.0	2,886.6
Percent Change.....	0.4	0.5	1.8	1.2	1.8
<b>Wisconsin Income Forecast</b>					
<b>Components of Personal Income</b> <b>(Amounts in Billions)</b>					
Total Personal Income .....	\$ 226.042	\$ 233.196	\$ 241.822	\$ 252.612	\$ 263.991
Wages and Salaries .....	117.388	121.271	126.067	130.873	136.880
Supplements to Wages/Salaries .....	29.665	30.580	31.888	33.449	35.288
Proprietor's Income .....	17.137	17.444	17.580	18.460	19.350
Property Income.....	35.513	37.475	39.331	41.016	43.228
Personal Current Transfer .....	39.852	40.316	41.874	44.716	46.940
Residence Adjustment .....	3.841	4.006	4.187	4.386	4.625
Contributions for Govt. Social Ins. ....	17.353	17.896	19.106	20.288	22.320
Personal Taxes .....	24.077	25.481	27.412	28.721	30.060
Disposable Personal Income .....	201.965	207.715	214.41	223.891	233.931
<b>Related Income</b>					
<b>Measures (Chained 2005 Dollars)</b>					
Personal Income (billions).....	\$ 198.655	\$ 201.409	\$ 206.453	\$ 212.379	\$ 218.381
Percent Change.....	2.0	1.4	2.5	2.9	2.8
Per Capita Income .....	35	35	36	37	37
Percent Change.....	1.5	0.9	2.0	2.4	2.4
Per Capita Income (current \$).....	40	41	42	44	45
Percent Change.....	4.0	2.7	3.2	4.0	4.0

**Source: Wisconsin Department of Revenue, Fall 2012**

### **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.

#### *Potential Impact of Fiscal Cliff*

The United States Congress has mandated across-the-board cuts to the federal budget for the federal fiscal year that started October 1, 2012 and ends September 30, 2013. These cuts, which would be effective January 2, 2013, will be required pursuant to the Budget Control Act of 2011 since, at this time, the congressional Joint Select Committee on Deficit Reduction has failed to reduce the federal deficit by the amount specified by the act (\$1.2 trillion). Based on information from the federal Office of Management and Budget, the State is aware of federal programs that are subject to this sequestration process and estimated amounts of cuts for the federal fiscal year 2012-2013; however, the amounts of such cuts will not be finalized until January 2013.

Most federal aids are not directly accounted for in the State's General Fund, and reductions in federal moneys may have a more immediate impact on individuals, local governments, and other service providers than on the State directly. At this time the impact on the State's General Fund of the mandated across-the-board cuts to the Federal budget is not known. In some scenarios, the across-the-board cuts to Federal funds could result in budget savings to the State since required matching funds may not be required. Alternatively, the Legislature could decide to appropriate additional funds of the State to address the cuts being made to Federal funds for the various impacted programs. In addition, the United States Congress could enact a bill that would otherwise eliminate the mandated across-the-board cuts to the Federal budget.

### **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 2012 Annual Report have reported information on a budgetary basis. The following tables present information primarily on a cash basis.

The State has experienced and expects to continue to experience certain periods when the General Fund is in a negative cash position. The Wisconsin Statutes provide certain administrative remedies to deal with these periods. The Secretary of Administration may temporarily reallocate cash in other funds to the General Fund. For the 2012-13 fiscal year, the Secretary of Administration can temporarily reallocate cash in other funds to the General Fund up to 9% of the general-purpose revenue appropriations then in effect (approximately \$1.328 billion). In addition, the Secretary of Administration can also temporarily reallocate in the 2012-13 fiscal year an additional amount of up to 3% of the general-purpose revenue appropriations then in effect (approximately \$443 million) for a period of up to 30 days. In aggregate, the limit on the amount available from temporary reallocations for the 2012-13 fiscal year is \$1.771 billion. The 9% limit applies to the 2011-13 biennium; assuming no change in State law, the limit will change to 5% at the start of 2013-14 fiscal year.

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 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-11** is presented over two pages and includes the detailed actual cash flow for the 2011-12 fiscal year and the detailed actual cash flow (through November 30, 2012) and projected cash flow (December 1, 2012 through June 30, 2013) for the 2012-13 fiscal year. **Table II-12** provides year-to-date receipts and disbursement on a cash basis along with a comparison to estimates for the same period and actual receipts and disbursements for the same period of the previous fiscal year. **Table II-13** presents a monthly summary of the General Fund from July 1, 2010 through November 30, 2012 and a projected summary for December 1, 2012 through June 30, 2013.

Operating notes were issued in the 2010-11 fiscal year and in the 2011-12 fiscal year in the amount of \$800 million. No operating notes have been issued for the current 2012-13 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 2012 Annual Report, including **“BUDGETING PROCESS AND FISCAL CONTROLS”**, **“STATE BUDGET”**, and **“STATE OBLIGATIONS; Operating Notes”**. As noted above, there has been and will continue to be differences in the amounts shown for the cash-flow basis and the budgetary basis presentations. For example, the cash-flow basis presentation in the following tables

includes all tax receipts as revenues and tax refunds as disbursements, while the budgetary basis presentations in **Tables II-4** and **II-6** include tax revenues that are net of tax refunds.

Monthly projections of cash flow for the 2012-13 fiscal year reflect the 2011-13 biennial budget (2011 Wisconsin Act 32) and the General Fund tax revenue estimates provided by DOR on November 20, 2012.

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

**Table II-14** presents the actual cash balances available for temporary reallocation from July 31, 2010 through November 30, 2012 and the projected balances for December 31, 2012 through June 30, 2013.

**Tables II-15** and **II-16** present recorded revenues deposited into the General Fund and recorded expenditures made from the General Fund, as recorded by State agencies, for the period of July 1, 2012 to November 30, 2012 as compared to the period of July 1, 2011 to November 30, 2011. 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, 2011 TO JUNE 30, 2012<sup>(a)</sup>

(Amounts in Thousands)

	July 2011	August 2011	September 2011	October 2011	November 2011	December 2011	January 2012	February 2012	March 2012	April 2012	May 2012	June 2012
<b>BALANCES</b> <sup>(a)(b)</sup>												
<b>Beginning Balance</b>	\$ 303,777	\$ 68,536	\$ 331,967	\$ 694,160	\$ 1,542,231	\$ 1,364,658	\$ 815,864	\$ 1,845,045	\$ 1,688,805	\$ 478,655	\$ 1,322,678	\$ 1,774,789
<b>Ending Balance<sup>(c)</sup></b>	68,536	331,967	694,160	1,542,231	1,364,658	815,864	1,845,045	1,688,805	478,655	1,322,678	1,774,789	974,952
<b>Lowest Daily Balance<sup>(c)</sup></b>	(106,671)	(193,350)	160,234	694,160	1,082,929	101,074	815,864	1,542,206	478,655	478,655	1,241,106	720,316
<b>RECEIPTS</b>												
<b>TAX RECEIPTS</b>												
Individual Income	\$ 493,305	\$ 681,394	\$ 712,034	\$ 687,765	\$ 500,417	\$ 555,255	\$ 1,132,633	\$ 529,728	\$ 515,755	\$ 1,447,058	\$ 514,748	\$ 617,328
Sales & Use	409,609	404,000	401,378	392,580	376,919	360,282	434,620	314,420	325,030	374,740	401,068	387,050
Corporate Income	37,126	39,496	174,950	36,185	32,452	155,644	36,997	28,926	209,967	72,167	24,629	187,783
Public Utility	28	43	42	7,675	182,177	2,834	51	1	13	5,006	167,895	705
Excise	67,793	66,226	68,097	58,065	64,017	60,090	57,010	42,922	52,700	56,593	58,879	65,057
Insurance	2	600	12,374	11	602	12,218	5,209	26,990	11,002	14,850	1,158	13,570
<b>Subtotal Tax Receipts</b>	\$ 1,007,863	\$ 1,191,759	\$ 1,368,875	\$ 1,182,281	\$ 1,156,584	\$ 1,146,323	\$ 1,666,520	\$ 942,987	\$ 1,114,467	\$ 1,970,414	\$ 1,168,377	\$ 1,271,493
<b>NON-TAX RECEIPTS</b>												
Federal <sup>(d)</sup>	\$ 492,597	\$ 698,242	\$ 928,719	\$ 658,109	\$ 721,774	\$ 660,512	\$ 961,824	\$ 854,443	\$ 665,024	\$ 702,772	\$ 691,655	\$ 595,743
Other & Transfers	590,592	263,237	583,397	677,134	547,315	497,392	304,514	629,938	489,432	467,722	406,422	532,688
Note Proceeds <sup>(e)</sup>	804,894	-	-	-	-	-	-	-	-	-	-	-
<b>Subtotal Non-Tax Receipts</b>	\$ 1,888,083	\$ 961,479	\$ 1,512,116	\$ 1,335,243	\$ 1,269,089	\$ 1,157,904	\$ 1,266,338	\$ 1,484,381	\$ 1,154,456	\$ 1,170,494	\$ 1,098,077	\$ 1,128,431
<b>TOTAL RECEIPTS</b>	\$ 2,895,946	\$ 2,153,238	\$ 2,880,991	\$ 2,517,524	\$ 2,425,673	\$ 2,304,227	\$ 2,932,858	\$ 2,427,368	\$ 2,268,923	\$ 3,140,908	\$ 2,266,454	\$ 2,399,924
<b>DISBURSEMENTS</b>												
Local Aids	\$ 1,499,562	\$ 171,288	\$ 839,981	\$ 108,662	\$ 970,286	\$ 1,125,174	\$ 194,969	\$ 242,153	\$ 1,162,195	\$ 116,408	\$ 146,132	\$ 1,804,841
Income Maintenance	494,447	641,061	666,896	638,141	683,305	695,917	700,313	669,011	668,952	657,177	539,140	428,534
Payroll and Related	347,575	350,128	402,141	303,497	345,744	461,132	439,962	394,793	476,146	312,280	428,479	444,193
Tax Refunds	119,879	71,956	60,865	104,942	80,146	138,105	118,310	631,696	504,393	433,577	133,598	101,786
Debt Service	230,057	-	-	123,914	21	-	-	-	-	166,060	-	39
Miscellaneous <sup>(f)</sup>	426,773	655,374	548,915	390,297	523,744	432,693	450,123	455,318	463,805	404,785	363,383	420,368
Note Repayment <sup>(e)</sup>	12,894	-	-	-	-	-	-	190,637	203,582	206,598	203,611	-
<b>TOTAL DISBURSEMENTS</b>	\$ 3,131,187	\$ 1,889,807	\$ 2,518,798	\$ 1,669,453	\$ 2,603,246	\$ 2,853,021	\$ 1,903,677	\$ 2,583,608	\$ 3,479,073	\$ 2,296,885	\$ 1,814,343	\$ 3,199,761

(a) The results, projections, or estimates in this table reflect the budget bill for the 2011-13 biennium (2011 Wisconsin Act 32), the updated General Fund tax revenue estimates for the 2011-12 fiscal year as included in the February 2012 LFB Memorandum, and the estimated General Fund tax collections included in the memorandum released by DOA on May 10, 2012. This table does 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 designated funds were expected to range from \$500 million to \$1.2 billion during the 2011-12 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 \$60 million during the 2011-12 fiscal year.

(c) The Wisconsin Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative cash position. For the 2011-12 fiscal year, 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 3% for a period of up to 30 days. The resulting amounts available for temporary reallocation in the 2011-12 fiscal year are approximately \$1.260 billion and \$420 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.

(d) The July 2011 Federal receipts estimate was reduced by approximately \$271 million and recategorized as Other & Transfers to be received throughout the fiscal year. These revisions reflect a change in the projected timing and estimated disbursements for the Medicaid program.

(e) Includes proceeds of \$800 million of operating notes issued on July 19, 2011 and impoundment payments made in February, March, April, and May 2012. The February 2012 impoundment payment reflected the premium received on July 19, 2011 and deposited into the Operating Note Redemption Fund.

(f) Reflects \$234 million paid to the Injured Patients and Families Compensation Fund on August 2, 2011.

Table II-11—(Continued)

ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2012 TO NOVEMBER 30, 2012  
PROJECTED GENERAL FUND CASH FLOW; DECEMBER 1, 2012 TO JUNE 30, 2013<sup>(a)</sup>

(Amounts in Thousands)

	July 2012	August 2012	September 2012	October 2012	November 2012	December 2012	January 2013	February 2013	March 2013	April 2013	May 2013	June 2013
<b>BALANCES<sup>(a)(b)</sup></b>												
<b>Beginning Balance</b>	\$ 974,952	\$ 171,004	\$ 464,971	\$ 998,942	\$ 1,876,708	\$ 1,430,958	\$ 959,486	\$ 1,841,481	\$ 1,794,412	\$ 674,494	\$ 1,049,052	\$ 1,374,112
<b>Ending Balance<sup>(c)</sup></b>	171,004	464,971	998,942	1,876,708	1,430,958	959,486	1,841,481	1,794,412	674,494	1,049,052	1,374,112	834,312
<b>Lowest Daily Balance<sup>(c)</sup></b>	(81,178)	(77,183)	304,320	1,079,009	1,203,423	133,312	959,486	1,358,728	621,269	564,370	622,031	267,775
<b>RECEIPTS</b>												
<b>TAX RECEIPTS</b>												
Individual Income	\$ 779,833	\$ 526,215	\$ 690,069	\$ 794,353	\$ 546,744	\$ 699,858	\$ 1,034,343	\$ 566,517	\$ 485,415	\$ 1,431,520	\$ 569,317	\$ 647,185
Sales & Use	434,120	409,901	406,842	407,910	410,023	365,187	438,058	335,112	325,832	367,917	365,404	406,207
Corporate Income	33,593	27,182	163,442	39,657	23,485	161,693	38,786	25,944	202,318	49,600	29,768	158,306
Public Utility	33	3	85	8,552	172,273	2,761	49	1	-	4,841	170,384	527
Excise	64,041	65,601	65,272	51,587	61,520	59,154	59,569	47,199	47,338	60,813	52,037	58,740
Insurance	1,911	1,267	13,610	711	171	27,875	783	27,080	16,556	16,297	950	12,520
<b>Subtotal Tax Receipts</b>	<b>\$ 1,313,531</b>	<b>\$ 1,030,169</b>	<b>\$ 1,339,320</b>	<b>\$ 1,302,770</b>	<b>\$ 1,214,216</b>	<b>\$ 1,316,528</b>	<b>\$ 1,571,588</b>	<b>\$ 1,001,853</b>	<b>\$ 1,077,459</b>	<b>\$ 1,930,988</b>	<b>\$ 1,187,860</b>	<b>\$ 1,283,485</b>
<b>NON-TAX RECEIPTS</b>												
Federal	\$ 797,195	\$ 685,720	\$ 971,426	\$ 646,891	\$ 631,737	\$ 675,770	\$ 874,754	\$ 759,071	\$ 724,647	\$ 692,566	\$ 820,526	\$ 840,114
Other & Transfers	409,758	346,512	342,076	663,022	294,901	336,029	505,575	638,966	389,918	395,638	324,102	491,966
Note Proceeds	-	-	-	-	-	-	-	-	-	-	-	-
<b>Subtotal Non-Tax Receipts</b>	<b>\$ 1,206,953</b>	<b>\$ 1,032,232</b>	<b>\$ 1,313,502</b>	<b>\$ 1,309,913</b>	<b>\$ 926,638</b>	<b>\$ 1,011,799</b>	<b>\$ 1,380,329</b>	<b>\$ 1,398,037</b>	<b>\$ 1,114,565</b>	<b>\$ 1,088,204</b>	<b>\$ 1,144,628</b>	<b>\$ 1,332,080</b>
<b>TOTAL RECEIPTS</b>	<b>\$ 2,520,484</b>	<b>\$ 2,062,401</b>	<b>\$ 2,652,822</b>	<b>\$ 2,612,683</b>	<b>\$ 2,140,854</b>	<b>\$ 2,328,327</b>	<b>\$ 2,951,917</b>	<b>\$ 2,399,890</b>	<b>\$ 2,192,024</b>	<b>\$ 3,019,192</b>	<b>\$ 2,332,488</b>	<b>\$ 2,615,565</b>
<b>DISBURSEMENTS</b>												
Local Aids	\$ 1,458,204	\$ 172,452	\$ 739,682	\$ 117,384	\$ 900,147	\$ 1,279,495	\$ 220,521	\$ 234,388	\$ 1,201,384	\$ 133,860	\$ 153,579	\$ 1,830,167
Income Maintenance	919,127	675,752	642,086	658,563	623,119	670,727	724,285	634,742	626,704	645,581	548,033	285,766
Payroll and Related	268,154	397,278	233,210	396,557	524,975	285,668	424,716	384,191	378,386	412,348	542,285	349,966
Tax Refunds	60,615	89,758	62,441	93,314	119,840	141,053	129,344	643,453	620,579	497,498	153,307	104,564
Debt Service	229,209	467	278	137,960	400	258	-	8,178	-	516,306	132,531	-
Miscellaneous	389,123	432,727	441,154	331,138	418,123	422,599	571,056	542,007	484,889	439,041	477,693	584,902
Note Repayment	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL DISBURSEMENTS</b>	<b>\$ 3,324,432</b>	<b>\$ 1,768,434</b>	<b>\$ 2,118,851</b>	<b>\$ 1,734,916</b>	<b>\$ 2,586,604</b>	<b>\$ 2,799,800</b>	<b>\$ 2,069,922</b>	<b>\$ 2,446,959</b>	<b>\$ 3,311,942</b>	<b>\$ 2,644,634</b>	<b>\$ 2,007,428</b>	<b>\$ 3,155,365</b>

(a) The results, projections, or estimates in this table reflect the budget bill for the 2011-13 biennium (2011 Wisconsin Act 32), subsequent actions by the Joint Committee on Finance, the projected General Fund tax collections for the 2012-13 fiscal year as included in the May 10, 2012 memorandum from DOA, and DOR's estimated General Fund tax revenues as included in the November 2012 DOA Report. This table does not

(b) The General Fund cash balances presented in this schedule are not based on generally accepted accounting principles (GAAP). The General Fund includes funds designated for operations and capital purposes of certain proprietary programs of the State's universities. Receipts and disbursements of such funds for the designated programs and the disbursement of such funds for other purposes are reflected in the cash flow. A use of the designated funds for purposes other than the proprietary programs is, in effect, a borrowing of such funds. Therefore, at any time that the balance in the General Fund is less than the balance of such designated funds, the State is obligated to replenish the designated funds to the extent of the shortfall. The designated funds are expected to range from \$600 million to \$1.2 billion during the 2012-13 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 \$30 million during the 2012-13 fiscal year.

(c) The Wisconsin Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative cash position. For the 2012-13 fiscal year, 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 3% for a period of up to 30 days. The resulting amounts available for temporary reallocation in the 2012-13 fiscal year are approximately \$1.328 billion and \$443 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<sup>(a)</sup>**  
**(Cash Basis)**  
**As of November 30, 2012**

	<u>FY12 through November 2011</u>		<u>FY13 through November 2012</u>			Adjusted	Difference
	<u>Actual</u>	<u>Actual<sup>(b)</sup></u>	<u>Estimate<sup>(b)</sup></u>	<u>Variance</u>	<u>Variance<sup>(c)</sup></u>	<u>FY12 Actual to</u>	<u>FY13 Actual</u>
<b>RECEIPTS</b>							
<b>Tax Receipts</b>							
Individual Income	\$ 3,074,915	\$ 3,337,213	\$ 3,316,350	\$ 20,863	\$ 20,863	\$ 262,298	
Sales	1,984,486	2,068,796	2,056,872	11,924	11,924	84,310	
Corporate Income	320,209	287,359	301,461	(14,102)	(14,102)	(32,850)	
Public Utility	189,965	180,946	188,284	(7,338)	(7,338)	(9,019)	
Excise	324,198	308,021	307,184	837	837	(16,177)	
Insurance	13,589	17,670	27,629	(9,959)	(9,959)	4,081	
<b>Total Tax Receipts</b>	<b>\$ 5,907,362</b>	<b>\$ 6,200,005</b>	<b>\$ 6,197,780</b>	<b>\$ 2,225</b>	<b>\$ 2,225</b>	<b>\$ 292,643</b>	
<b>Non-Tax Receipts</b>							
Federal	\$ 3,499,441	\$ 3,732,969	\$ 3,557,484	\$ 175,485	\$ 175,485	\$ 233,528	
Other and Transfers	2,661,675	2,056,270	2,341,342	(285,072)	(285,072)	(605,405)	
Note Proceeds	804,894	-	-	-	-	(804,894)	
<b>Total Non-Tax Receipts</b>	<b>\$ 6,966,010</b>	<b>\$ 5,789,239</b>	<b>\$ 5,898,826</b>	<b>\$ (109,587)</b>	<b>\$ (109,587)</b>	<b>\$ (1,176,771)</b>	
<b>TOTAL RECEIPTS</b>	<b>\$ 12,873,372</b>	<b>\$ 11,989,244</b>	<b>\$ 12,096,606</b>	<b>\$ (107,362)</b>	<b>\$ (107,362)</b>	<b>\$ (884,128)</b>	
<b>DISBURSEMENTS</b>							
Local Aids	\$ 3,289,779	\$ 3,387,869	\$ 3,380,850	\$ (7,019)	\$ (7,019)	\$ 98,090	
Income Maintenance	3,123,850	3,518,647	3,461,812	(56,835)	(56,835)	394,797	
Payroll & Related	1,749,085	1,820,174	1,964,381	144,207	144,207	71,089	
Tax Refunds	437,788	425,968	433,235	7,267	7,267	(11,820)	
Debt Service	353,992	368,314	427,371	59,057	59,057	14,322	
Miscellaneous	2,545,103	2,012,265	2,399,115	386,850	386,850	(532,838)	
Note Repayment	12,894	-	-	-	-	(12,894)	
<b>TOTAL DISBURSEMENTS</b>	<b>\$ 11,512,491</b>	<b>\$ 11,533,237</b>	<b>\$ 12,066,764</b>	<b>\$ 533,527</b>	<b>\$ 533,527</b>	<b>\$ 20,746</b>	
<b>2012-13 FISCAL YEAR VARIANCE YEAR-TO-DATE</b>				<b>\$ 426,165</b>	<b>\$ 426,165</b>		

- (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 2012-13 fiscal year reflect the budget for the 2011-13 biennium (2011 Wisconsin Act 32), subsequent actions of the Joint Committee on Finance, the General Fund tax revenue collection estimates included in the May 10, 2012 memorandum from DOA, and DOR's estimated General Fund tax revenues as included in the November 2012 DOA 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<sup>(a)</sup>**  
**July 1, 2010 through November 30, 2012 — Actual**  
**December 1, 2012 through June 30, 2013 — Estimated<sup>(b)</sup>**  
**(Amounts in Thousands)**

	<u>Starting Date</u>	<u>Starting Balance</u>	<u>Receipts<sup>(c)</sup></u>	<u>Disbursements<sup>(c)</sup></u>
2010	July.....	\$ 383,306 <sup>(d)</sup>	\$ 3,033,669	\$ 3,501,423
	August.....	(84,448) <sup>(d)</sup>	2,220,600	1,638,533
	September.....	497,619	2,862,024	2,439,651
	October.....	919,992	2,127,540	1,607,624
	November.....	1,439,908	2,475,495	2,489,150
	December.....	1,426,253 <sup>(d)</sup>	2,113,524	3,648,753
2011	January.....	(108,976) <sup>(d)</sup>	3,455,330	1,595,375
	February.....	1,750,979	2,259,769	2,283,655
	March.....	1,727,093	2,339,013	3,451,895
	April.....	614,211	2,518,414	2,161,460
	May.....	971,165	2,216,355	1,734,386
	June.....	1,453,134	2,749,732	3,899,089
	July.....	303,777 <sup>(d)</sup>	2,895,946	3,131,187
	August.....	68,536 <sup>(d)</sup>	2,153,238	1,889,807
	September.....	331,967	2,880,991	2,518,798
	October.....	694,160	2,517,524	1,669,453
	November.....	1,542,231	2,425,673	2,603,246
	December.....	1,364,658	2,304,227	2,853,021
2012	January.....	815,864	2,932,858	1,903,677
	February.....	1,845,045	2,427,368	2,583,608
	March.....	1,688,805	2,268,923	3,479,073
	April.....	478,655	3,140,908	2,296,885
	May.....	1,322,678	2,266,454	1,814,343
	June.....	1,774,789	2,399,924	3,199,761
	July.....	974,952 <sup>(d)</sup>	2,520,484	3,324,432
	August.....	171,004 <sup>(d)</sup>	2,062,401	1,768,434
	September.....	464,971	2,652,821	2,118,851
	October.....	998,941	2,612,683	1,734,916
	November.....	1,876,708	2,140,854	2,586,604
	December.....	1,430,959	2,328,327	2,799,800
2013	January.....	959,486	2,951,917	2,069,922
	February.....	1,841,481	2,399,890	2,446,959
	March.....	1,794,412	2,192,024	3,311,942
	April.....	674,494	3,019,192	2,644,634
	May.....	1,049,052	2,332,488	2,007,428
	June.....	1,374,112	2,615,565	3,155,365

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

<sup>(b)</sup> The results, projections, or estimates in this table for the 2012-13 fiscal year reflect the budget for the 2011-13 biennium (2011 Wisconsin Act 32) subsequent actions of the Joint Committee on Finance, the General Fund tax revenue collection estimates included in the May 10, 2012 memorandum from DOA, and DOR's estimated General Fund tax revenues as included in the November 2012 DOA Report.

<sup>(c)</sup> Operating notes were issued for the 2010-11, and 2011-12 fiscal years, but not for the 2012-13 fiscal year.

<sup>(d)</sup> At some period during this month, the General Fund was in a negative cash position. The Wisconsin Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative cash position. For the 2012-13 fiscal year, the Secretary of Administration could temporarily reallocate cash in other funds to the General Fund up to 9% of the general purpose revenue appropriations then in effect (approximately \$1.328 billion). In addition, the Secretary of Administration could also temporarily reallocate an additional amount of up to 3% of the general-purpose revenue appropriations then in effect (approximately \$443 million) for a period of up to 30 days. This results in an aggregate amount of \$1.771 billion for the 2012-13 fiscal year. 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 or defer certain payments.

**Source: Department of Administration**

**Table II-14**  
**CASH BALANCES IN FUNDS AVAILABLE FOR TEMPORARY REALLOCATION<sup>(a)</sup>**  
**July 31, 2010 to November 30, 2012 — Actual**  
**December 31, 2012 to June 30, 2013 — 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 \$4.347 billion in February 2009. 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**

<u>Month (Last Day)</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
January .....		\$ 1,197	\$ 1,428	\$ 1,428
February .....		1,416	1,478	1,578
March .....		1,548	1,520	1,520
April .....		1,654	1,529	1,529
May .....		1,657	1,500	1,289
June .....		1,625	1,596	1,427
July .....	\$ 1,188	1,402	1,460	
August .....	1,246	1,586	1,498	
September .....	1,335	1,542	1,569	
October .....	1,283	1,321	1,232	
November .....	1,242	1,349	1,389	
December .....	1,185	1,438	1,438	

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

<u>Month (Last Day)</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
January .....		\$ 4,389	\$ 4,645	\$ 4,645
February .....		4,482	4,658	4,658
March .....		4,745	4,925	4,925
April .....		4,511	4,542	4,542
May .....		4,243	4,086	3,842
June .....		4,091	4,018	4,035
July .....	\$ 4,469	4,648	4,620	
August .....	3,883	4,229	4,176	
September .....	3,833	3,905	3,998	
October .....	3,495	3,421	3,421	
November .....	3,585	3,484	3,527	
December .....	3,974	4,122	4,122	

(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: Department of Administration**

**Table II-15**

**GENERAL FUND RECORDED REVENUES<sup>(a)</sup>**

**(Agency-Recorded Basis)**

**July 1, 2012 to November 30, 2012 compared with previous year<sup>(b)</sup>**

	<b>Annual Fiscal Report Revenues</b>	<b>Projected Revenues</b>	<b>Recorded Revenues July 1, 2011 to November 30, 2011<sup>(d)</sup></b>	<b>Recorded Revenues July 1, 2012 to November 30, 2012<sup>(e)</sup></b>
	<b>2011-12 Fiscal Year<sup>(b)</sup></b>	<b>2012-13 Fiscal Year<sup>(c)</sup></b>		
Individual Income Tax .....	\$ 7,041,673,000	\$ 7,153,900,000	\$ 2,625,044,856	\$ 2,705,729,753
General Sales and Use Tax .....	4,288,739,000	4,420,100,000	1,459,464,019	1,484,665,331
Corporate Franchise and Income Tax .....	906,575,000	852,300,000	243,135,035	213,756,658
Public Utility Taxes .....	365,912,000	357,700,000	189,797,153	169,188,420
Excise Taxes .....	709,553,000	699,400,000	256,965,699	243,175,683
Inheritance Taxes .....	323,000	-	197,088	195,163
Insurance Company Taxes .....	148,082,000	143,100,000	34,899,944	39,597,622
Miscellaneous Taxes .....	53,774,000	48,700,000	38,777,062	43,871,928
<b>SUBTOTAL.....</b>	<b>13,514,631,000</b>	<b>13,675,200,000</b>	<b>4,848,280,856</b>	<b>4,900,180,558</b>
Federal and Other Inter- Governmental Revenues <sup>(f)</sup> .....	10,067,623,000	8,588,544,400	3,932,802,616	4,049,622,033
Dedicated and Other Revenues <sup>(g)</sup> .....	4,975,160,000	5,347,083,300	2,221,471,906	2,250,267,782
<b>TOTAL.....</b>	<b>\$ 28,557,414,000</b>	<b>\$ 27,610,827,700</b>	<b>\$ 11,002,555,378</b>	<b>\$ 11,200,070,373</b>

- (a) The revenues in this table are presented on an agency-recorded basis and not a budgetary basis. None of the data presented here has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments.
- (b) The amounts are from the Annual Fiscal Report (budgetary basis) for the 2011-12 fiscal year, dated October 15, 2012.
- (c) The projections or estimates included in this table on an agency-recorded basis reflect the 2011-13 biennial budget (2011 Wisconsin Act 32), all legislative enactments through 2011 Wisconsin Act 286, and the General Fund tax revenue estimates from DOR included in the May 10, 2012 memorandum from DOA, but do not reflect DOR's estimated General Fund tax revenues as included in the November 2012 DOA Report.
- (d) The amounts shown are 2011-12 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 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.
- (e) The amounts shown are 2012-13 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 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.
- (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: Department of Administration**

**Table II-16**

**GENERAL FUND RECORDED EXPENDITURES BY FUNCTION<sup>(a)</sup>  
(Agency-Recorded Basis)  
July 1, 2012 to November 30, 2012 compared with previous year<sup>(b)</sup>**

	<b>Annual Fiscal Report Expenditures 2011-12 Fiscal Year<sup>(b)</sup></b>	<b>Appropriations 2012-13 Fiscal Year<sup>(c)</sup></b>	<b>Recorded Expenditures July 1, 2011 to November 30, 2011<sup>(d)</sup></b>	<b>Recorded Expenditures July 1, 2012 to November 30, 2012<sup>(e)</sup></b>
Commerce.....	\$ 87,038,000	\$ 252,733,400	\$ 96,876,735	\$ 83,716,581
Education.....	11,684,709,000	11,916,417,800	3,785,916,341	3,679,519,967
Environmental Resources.....	179,524,000	410,393,100	58,455,962	76,573,034
Human Relations & Resources .....	11,785,472,000	11,204,872,000	5,021,619,061	5,281,221,630
General Executive.....	1,079,036,000	1,409,038,300	582,704,412	548,184,932
Judicial.....	130,606,000	138,649,600	39,609,584	53,189,097
Legislative.....	64,463,000	75,228,600	19,897,438	20,501,601
General Appropriations.....	2,368,153,000	2,349,235,600	1,990,625,076	1,871,373,629
<b>TOTAL.....</b>	<b>\$ 27,379,001,000</b>	<b>\$ 27,756,568,400</b>	<b>\$ 11,595,704,610</b>	<b>\$ 11,614,280,471</b>

- (a) The expenditures in this table are presented on an agency-recorded basis and not a budgetary basis. None of the data presented here has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments.
- (b) The amounts are from the Annual Fiscal Report (budgetary basis) for the 2011-12 fiscal year, dated October 15, 2012.
- (c) The estimates in this table reflect the 2011-13 biennial budget (2011 Wisconsin Act 32) and all legislative enactments through 2011 Wisconsin Act 286.
- (d) The amounts shown are 2011-12 fiscal year expenditures as recorded by all State agencies.
- (e) The amounts shown are 2012-13 fiscal year expenditures as recorded by all State agencies.

**Source: 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<sup>(a)</sup>**  
**(As of June 30; Amounts in Thousands)**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>					
Cash & Investment Pool Shares .....	\$ 979,659	\$ 308,829	\$ 388,031	\$ (142,628)	\$ 29,559
Contingent Fund Advances .....	2,939	2,942	2,943	3,123	3,128
Investments .....					255
<b>Receivables</b>					
Accounts Receivable .....	1,384,328	1,210,956	1,068,226	1,131,883	1,105,242
Due from Other Funds .....	45,172	321,371	167,333	289,751	103,115
Inventory .....	685	711	650	660	460
Prepayments .....	77,351	96,099	93,139	92,088	85,226
Other Assets .....	132,913	134,734	162,142	153,098	155,844
<b>TOTAL ASSETS</b> .....	<u>\$ 2,623,047</u>	<u>\$ 2,075,642</u>	<u>\$ 1,882,464</u>	<u>\$ 1,527,975</u>	<u>\$ 1,482,829</u>
<b>LIABILITIES</b>					
Accounts Payable .....	\$ 450,252	\$ 486,688	\$ 632,282	\$ 678,702	\$ 531,477
Operating Notes Payable .....		-	8,000	8,000	8,000
Due to Other Funds .....	197,479	295,934	111,628	110,144	118,633
Tax and Other Deposits .....	12,308	25,051	45,947	53,713	60,175
Deferred Revenue .....	173,646	175,698	190,229	172,343	103,985
<b>TOTAL LIABILITIES</b> .....	<u>\$ 833,685</u>	<u>\$ 983,371</u>	<u>\$ 988,086</u>	<u>\$ 1,022,902</u>	<u>\$ 822,270</u>
<b>FUND BALANCE</b>					
<b>Reserves</b>					
Encumbrances & GPR Balances .....	\$ 89,323	\$ 106,460	\$ 168,631	\$ 122,067	\$ 122,384
Program Revenue Balances .....	511,994	680,227	625,874	420,173	427,751
Total Reserves .....	\$ 601,317	\$ 786,687	\$ 794,505	\$ 542,240	\$ 550,135
Unreserved Balance-Undesignated .....	1,115,672	305,584	99,873	(37,167)	110,424
<b>TOTAL FUND BALANCE</b> .....	<u>\$ 1,789,362</u>	<u>\$ 1,092,271</u>	<u>\$ 894,378</u>	<u>\$ 505,073</u>	<u>\$ 660,559</u>
<b>TOTAL LIABILITIES AND</b>					
<b>FUND BALANCE</b> .....	<u>\$ 2,623,047</u>	<u>\$ 2,075,642</u>	<u>\$ 1,882,464</u>	<u>\$ 1,527,975</u>	<u>\$ 1,482,829</u>

<sup>(a)</sup>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 serves as custodian of unclaimed and escheated property that is transferred to the State.
- *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), 11 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 3<sup>rd</sup> if the first Monday is January 1<sup>st</sup> or January 2<sup>nd</sup>). 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 administrative districts.

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

### **Description of Services Provided by State Government**

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

#### *Commerce*

The State's involvement in the commerce function is in the regulation of conduct of commercial transactions. The objective is to protect the public as consumers of agricultural and manufactured goods and services and as participants in financial transactions. The State also actively promotes economic

development by 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; the 2011-13 biennial budget restructured and renamed the department previously named the Department of Regulation and Licensing and abolished the Department of Commerce and transferred its duties, in part, to various other State agencies.
- *Department of Financial Institutions* regulates securities transactions and supervises banks, credit unions, and savings and loans.
- *Public Service Commission* regulates the rates and services offered by railroad companies and heat, light, power, and water companies.
- *Department of Tourism* promotes the State's many attributes to visitors.

The *Wisconsin Economic Development Corporation* was created by 2011 Wisconsin Act 7 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 that is chaired by the Governor, and receives appropriations from the State and an allocation of federal moneys to fund its activities. Prior to 2011 Wisconsin Act 7 (February 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 2011-12 school year, which administer the elementary and secondary schools within those districts. There were approximately 855,327 students attending public elementary and secondary schools in the

2011-12 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 2010-11 academic year, 362,619 full- and part-time students were enrolled in the technical college system. Enrollment numbers for the 2011-12 academic year are not yet available, but the projections of these enrollment numbers are approximately 400,000 full- and part-time students. 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 2011-12 was 181,269 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 or protection of the land, forest, water, air, and minerals of the State.

The State works with municipalities and industries to treat sewage or industrial wastes to retain the purity of State lakes and streams. Smokestack and automobile exhausts are monitored to prevent air pollution. Parks and forests have been established and 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. Nearly 5.8 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, on November 16, 2012 the State 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 unified more than 30 services that were divided between the then-Department of Health and Family Services and the Department of Workforce Development including, but not limited to, 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 State's Department of Corrections is responsible for segregating convicted adult and juvenile criminals in its penal institutions and rehabilitating them for eventual return to society. The Department of Justice furnishes legal services to State agencies and provides technical assistance to local law enforcement agencies. The Office of the State Public Defender makes determinations of indigence and provides legal representation for specified defendants who are unable to afford a private attorney.

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

### *General Executive*

The administrative or staff functions that support the direct services provided to Wisconsin residents and local governments are included in this functional group. 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. The Department of Administration also 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](http://www.edvest.com) and [www.tomorrowsscholar.com](http://www.tomorrowsscholar.com). These web sites, and the materials available on the web sites, are not incorporated into, nor are they a part of, this 2012 Annual Report. In 2012, management of the Wisconsin Section 529 College Savings Plan transitioned from Wells Fargo Funds Management to TIAA-CREF Tuition Financing, Inc.
- *Office of State Employment Relations* supervises State personnel practices.
- *Government Accountability Board* combines the duties of the previous Ethics Board and State Elections Board, which includes administering 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.
- *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, and calculates the equalized value of the property that has been assessed by local government.
- *Department of Employee Trust Funds* manages the State's public employee retirement system.
- *Office of the State Treasurer* serves as custodian of unclaimed property.
- *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 but not limited to 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. The Secretary of Administration, and both the head of the engineering function and the ranking architect in the DOA Division of State Facilities, 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. Payments of debt service on State general obligations have a priority over all other obligations of the State. As of December 15, 2012, the State had \$8.015 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 2012 Annual Report](#) for additional information on general obligations.

### **Operating Notes**

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

Operating notes may be issued in an amount not exceeding 10% of budgeted appropriations of general purpose and program revenues in the year in which operating notes are issued. Operating notes are not general obligations of the State and are not on parity with State general obligations. The General Fund may be pledged for the repayment of operating notes, and money of the General Fund may be impounded for future payment of principal and interest; however, any such repayment or impoundment must 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, 2012, the State had not issued operating notes in fiscal year 2012-13.

### **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 17, 2012, the outstanding principal amount of the State's obligations under the master lease program was approximately \$56 million. See [Part IV of the 2012 Annual Report](#) for additional information on master lease certificates of participation.

### **State Revenue Obligations**

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

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

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

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

Three such programs have been authorized and are currently outstanding:

- *Transportation revenue bond program.* This program finances a portion of the costs of the State highways and related transportation facilities. The obligations are secured by motor vehicle registration fees and other registration-related fees. The Commission has issued 31 series of bonds (which include refunding bond issues) and two series of commercial paper notes for this program, which were outstanding in the aggregate amount of \$1.806 billion as of December 15, 2012. See [Part V of the 2012 Annual Report](#) for additional information on transportation revenue obligations.
- *Clean water fund program.* This program makes loans to municipalities in the State for the construction or improvement of their water pollution control facilities. The Commission has issued 20 series of bonds for this program (which include refunding bond issues), which were outstanding in the amount of \$886 million as of December 15, 2012. See [Part VI of the 2012 Annual Report](#) for additional information on clean water revenue bonds.
- *Petroleum inspection fee revenue obligations program.* This program funds environmental remediation claims submitted under the Petroleum Environmental Cleanup Fund Award Program. Obligations issued for this program are secured by petroleum inspection fees. The Commission has issued five series of bonds (which include refunding bond issues) and two series of extendible municipal commercial paper for this program, which were outstanding in the aggregate amount of \$189 million as of December 15, 2012. See [Part VII of the 2012 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 (i) to pay the State's unfunded accrued prior service (pension) liability and the State's unfunded accrued liability for sick leave conversion and (ii) to finance the purchase of tobacco settlement revenues that had been previously sold by the Secretary of Administration. 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 (which include 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 PostEmployment Benefits"**. The general fund annual appropriation bonds issued for this purpose were outstanding in the aggregate amount of \$1.791 billion as of December 15, 2012. 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 \$1.511 billion as of December 15, 2012.

See **Part VIII of the 2012 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, 2012, WHEDA has 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 is approximately \$449 million, and in aggregate, WHEDA has \$2.343 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 \$355 million of borrowing authority was available on November 30, 2012.
- *Housing rehabilitation programs.* Borrowing authority of \$100 million, of which \$100 million of borrowing authority was available on November 30, 2012.
- *Single-family home ownership mortgage loan program.* WHEDA has issued \$7.400 billion in such bonds as of November 30, 2012. In the one-year period ending November 30, 2012, no single-family issues were sold.
- *Residential facilities for the elderly and chronically disabled.* Borrowing authority of \$99 million, and as of November 30, 2012, WHEDA had sold three bond issues totaling \$5 million.

- *Economic development and agriculture loans.* Borrowing authority of \$217 million of which, as of November 30, 2012, WHEDA had sold 142 series of bonds for economic development and agriculture totaling \$83 million, which are not general obligations of WHEDA, and 56 series of bonds, totaling \$92 million, which are general obligations of WHEDA.
- *General programs not secured by capital reserve fund.* Approximately \$9.7 million of obligations issued for this purpose remain outstanding as of November 30, 2012.

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 non-profit hospitals, nursing homes, research facilities, other health-related organizations, and private educational facilities. It may finance any qualifying capital project and may refinance any qualifying outstanding indebtedness. As of June 30, 2012, WHEFA had outstanding 257 issues totaling approximately \$8.679 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 and a number of clinics. It provides instruction for medical and other health related professions, students, and sponsors. It also supports medical research and assists health care programs and personnel throughout the State. As of November 30, 2012, UWHCA had outstanding six issues totaling approximately \$226 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), a faculty member of a University of Wisconsin-Madison (UW) health professions school (other than the Medical School) appointed by the UW Chancellor, a chairperson of a department of the Medical School appointed by the UW Chancellor, the dean of the Medical School, the UW Chancellor, three members appointed by the Board of Regents, the co-chairs of the Legislature's joint committee on finance (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).
- *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.* Currently there are eleven issues outstanding in the aggregate amount of \$449 million that carry a moral obligation of the State.

<u>Name of WHEDA Issue</u>	<u>Maturity Date</u>	<u>Principal Issued</u>	<u>Outstanding Balance</u>
<b>Housing Revenue Bonds</b>			
1998 Series A, B & C	11/1/2032	\$ 39,895,000	\$ 8,835,000
2002 Series A-I	5/1/2034	169,160,000	24,155,000
2003 Series A-E	5/1/2044	41,975,000	37,400,000
2005 Series A-F	11/1/2045	179,535,000	155,200,000
2006 Series A-D	5/1/2037	28,580,000	24,490,000
2007 Series A-G	5/1/2042	42,570,000	40,685,000
2008 Series A-G	11/1/2034	56,155,000	37,190,000
2009 Series A	5/1/2042	14,045,000	8,995,000
2010 Series A-B	5/1/2043	42,775,000	41,450,000
2012 Series A-B	5/1/2055	53,540,000	53,540,000
2012 Series C	5/1/2044	16,670,000	<u>16,670,000</u>
Totals			\$448,610,000

- *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 \$189 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 (Wisconsin Center District) that is outstanding in the amount of \$125 million that carries a moral obligation of the State. Two other local districts (the Southeast Wisconsin Professional Baseball Park District and the Green Bay-Brown County Professional Football Stadium District) each have authority to issue \$160 million of revenue obligations that, subject to the Secretary of Administration's determination that certain conditions have been met, could carry a moral obligation of the State. Both districts have issued revenue obligations, 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 are three issues by a redevelopment authority (Redevelopment Authority of the City of Milwaukee) for the Milwaukee Public Schools Neighborhood Schools Initiative that are outstanding in the total amount of \$92 million that carry 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 first by a yearly actuarial determination of the value of the retirement benefits that have accrued to State employees and will have to be paid out in the future. 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 pursuant to provisions of 2011 Wisconsin Act 10, an employer cannot fund any of the member's required contribution. As of December 1, 2012, employee and employer contributions for calendar year 2013 are set at the following rates:



**WISCONSIN RETIREMENT SYSTEM  
STATE EMPLOYER CONTRIBUTION RATES<sup>(a)</sup>**

<u>Employee Classification</u>	<u>Employee Required</u>	<u>Employer Required</u>
General employees (including teachers)	6.65%	6.65%
Elected officials, judges, and state executives	7.00	7.00
Protective occupations with Social Security	6.65	9.75
Protective occupations without Social Security	6.65	12.35

<sup>(a)</sup> Effective date of January 1, 2013

**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 3.9% of its protective payroll for special duty disability coverage. Prior to the enactment of 2011 Wisconsin Act 10, employer funding all, or some of, the member's required contribution was permitted by the Wisconsin Statutes. 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 include the following, however, certain provisions of 2011 Wisconsin Act 10 are currently the subject of matters being addressed in the courts:

- 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 is eliminated.
- All new participants after July 1, 2011 are subject 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 is increased from 33%, to 67%, of full-time employment.
- Employee required contributions may not be paid by the employer on behalf of the employee.
- Employee paid contributions are treated as pretax contributions under section 414(h)(2) of the Internal Revenue Code.
- The formula multiplier for State executives, judges, and elected officials was reduced from 3.0% 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, and 2012 retirees in the WRS's Core Retirement Trust experienced reductions of 2.1%, 1.3%, 1.2%, and 7.0%, 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.

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 are available from the State of Wisconsin Department of Employee Trust Funds publications web site ([etf.wi.gov/publications.htm](http://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, this 2012 Annual Report. As of December 15, 2012, the Comprehensive Annual Financial Report for the year ended December 31, 2011 for the Department of Employee Trust Funds (including WRS and other benefit plans and trust funds administered by the Department of Employee Trust Funds) is not available. Most data in the following tables for the year ended December 31, 2011 is unaudited.

**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.

### **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 27% 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—January 1, 2011 Actuarial Valuation*

In May 2012, the State received a report containing the results of an actuarial valuation (as of January 1, 2011) of the State of Wisconsin Retiree Health Program. The report shows a total unfunded liability for other post-employment benefits of \$953 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 up from the \$832 million amount reported in May 2010 (as of January 1, 2009). 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, 2010 calculated an unfunded liability of approximately \$59 million.

**Table II-18**  
**WISCONSIN RETIREMENT SYSTEM**  
**ACTUARIAL STATEMENT OF ASSETS AND LIABILITIES**  
**December 31, 2011 (Unaudited)**  
**(Amounts in Millions)**

	<u>12/31/2011</u>	<u>12/31/2010</u>	<u>Increase (Decrease)</u>
<b>Assets and Employer Obligations:</b>			
<u>Net Assets</u>			
Cash, Investments & Receivables			
Less: Payables & Suspense Items			
Core Division .....	\$73,738.7	\$75,044.8	\$ (1,306.1)
Variable Division.....	<u>5,201.3</u>	<u>5,582.1</u>	<u>(380.8)</u>
Totals .....	<u>78,940.0</u>	<u>80,758.8</u>	<u>(1,818.8)</u>
<u>Obligations of Employers</u>			
Unfunded Accrued Liability.....	<u>99.3</u>	<u>131.9</u>	<u>(32.6)</u>
<b>TOTAL ASSETS .....</b>	<b><u>\$79,039.3</u></b>	<b><u>\$80,758.8</u></b>	<b><u>\$ (1,719.5)</u></b>
<b>Reserves and Surplus:</b>			
<u>Reserves</u>			
Actuarial Present Value of Projected Benefits Payable to Terminated Vested Participants and Active Members:			
Member Normal Contributions .....	\$14,294.9	\$16,107.5	\$ (1,812.6)
Member Additional Contributions.....	139.5	146.1	(6.6)
Employer Contributions .....	<u>20,995.5</u>	<u>23,366.2</u>	<u>(2,370.7)</u>
Total Contributions.....	\$35,429.9	\$39,619.8	\$ (4,189.9)
Actuarial Present Value of Projected Benefits Payable to Current Retirees And Beneficiaries:			
Core Annuities.....	\$42,078.3	\$38,148.5	\$ 3,929.8
Variable Annuities.....	<u>3,462.9</u>	<u>3,005.4</u>	<u>457.5</u>
<b>TOTAL ANNUITIES.....</b>	<b><u>45,541.2</u></b>	<b><u>41,153.9</u></b>	<b><u>4,387.3</u></b>
<b>TOTAL RESERVES .....</b>	<b><u>\$80,971.1</u></b>	<b><u>\$80,773.7</u></b>	<b><u>\$ 197.4</u></b>
<u>Surplus</u>			
Core Annuity Reserve Surplus.....	\$ (1,666.8)	\$ (350.1)	\$ (1,316.7)
Variable Annuity Reserve Surplus.....	<u>( 265.0)</u>	<u>335.2</u>	<u>(600.2)</u>
<b>TOTAL SURPLUS .....</b>	<b><u>(1,931.8)</u></b>	<b><u>(14.9)</u></b>	<b><u>(1,916.9)</u></b>
<b>TOTAL RESERVES AND SURPLUS .....</b>	<b><u>\$ 79,039.3</u></b>	<b><u>\$ 80,758.8</u></b>	<b><u>\$ (1,719.5)</u></b>

**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, 2011 was \$3.87 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 (6.65% and 7.0% of their salary, respectively, for calendar year 2013. 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, 2011 was \$468 million, which consisted of \$230 million or 5.9% of payroll from the employer and \$238 million or 6.2% 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, 2011, had no unfunded liability. The total system unfunded liability of \$99 million, as of December 31, 2011, 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, 2011 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)**

<u>Year</u>	<b>A</b> <b>Net Real</b> <b>Assets</b>	<b>B</b> <b>Unfunded</b> <b>Actuarial</b> <b>Liability</b>	<b>C</b> <b>Reserve</b> <b>Requirement</b> <b>(A+B)</b>	<b>D</b> <b>Funding</b> <b>Ratio</b> <b>(A÷C)</b>
2001.....	\$ 58,024,300	\$ 2,110,400	\$ 60,134,700	96.5
2002.....	57,861,900	1,756,900	59,618,800	97.1
2003.....	62,685,300	526,400	63,211,700	99.2
2004.....	66,209,400	412,900	66,622,300	99.4
2005.....	68,615,100	372,500	68,987,500	99.5
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

Source: Department of Employee Trust Funds

Table II-20

**WISCONSIN RETIREMENT SYSTEM  
COVERED EMPLOYEES**

<u>Year</u>	<b>Active</b> <b>State</b>	<b>Active</b> <b>Local</b>	<b>Retired</b>
2001.....	70,512	193,371	112,142
2002.....	71,222	195,128	116,289
2003.....	71,031	194,119	121,582
2004.....	70,933	193,667	126,211
2005.....	70,006	193,116	131,674
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

Source: Department of Employee Trust Funds

Table II-21

**WISCONSIN RETIREMENT SYSTEM  
REQUIRED CONTRIBUTIONS BY SOURCE<sup>(a)</sup>  
(Amounts in Thousands)**

<u>Year</u>	<u>State</u>		<u>Local</u>		<u>Total</u>	
	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
2001 .....	\$ 739	\$283,567	\$ 3,467	\$ 765,541	\$ 4,206	\$1,049,108
2002 .....	763	315,782	3,679	733,748	4,442	1,049,530
2003 .....	860	304,740	3,871	758,829	4,731	1,063,569
2004 .....	937	324,297	4,106	784,860	5,043	1,109,156
2005 .....	1,038	344,760	4,339	829,156	5,377	1,173,916
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

<sup>(a)</sup> Employer contributions include employer pick-up, if any, of employee contributions. Contributions for 2011 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)**

<u>Year</u>	<u>Contributions</u>			<u>Investment Income</u>	<u>Supplemental</u>	<u>Misc.</u>	<u>Total</u>
	<u>Required Employee</u>	<u>Required Employer<sup>(a)</sup></u>	<u>Additional Employee</u>				
2001	\$ 496,012	\$ 557,303	\$ 5,086	\$ (1,990,408)	\$ 4,517	\$ 211	\$ (927,279)
2002	513,038	910,181	13,593	(5,880,598)	3,873	184	(4,439,279)
2003	564,754	1,737,816	6,329	12,043,429	3,301	3,563	14,359,192
2004	605,184	645,476	18,236	7,512,872	3,082	191	8,785,131
2005	623,250	603,012	17,468	5,492,548	3,039	173	6,739,490
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

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

**Source: Department of Employee Trust Funds**

**Table II-23**  
**WISCONSIN RETIREMENT SYSTEM**  
**BENEFIT EXPENDITURES BY TYPE<sup>(a)</sup>**  
**(Amounts in Thousands)**

<u>Year</u>	<u>Separations</u>	<u>Death</u>	<u>Annuities</u>	<u>Supplemental<sup>(b)</sup></u>	<u>Misc.</u>	<u>Total</u>
2001 .....	\$ 40,740	\$ 22,308	\$2,467,690	\$ 4,517	\$ 15,635	\$2,550,890
2002 .....	38,470	27,551	2,603,193	3,873	18,667	2,691,754
2003 .....	28,847	32,725	2,627,877	3,301	16,392	2,729,142
2004 .....	24,967	28,028	2,797,263	3,082	13,496	2,866,836
2005 .....	25,221	26,633	3,041,029	3,039	17,859	3,113,781
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

<sup>(a)</sup> Amounts include payments from employee additional contributions.

<sup>(b)</sup> 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, 2010.

**Table II-24**  
**WISCONSIN RETIREMENT SYSTEM**  
**SEPARATION BEFORE AGE AND SERVICE RETIREMENT**

**Select and Ultimate Withdrawal**

**% of Active Participants Terminating**

<u>Age &amp; Service</u>	<u>Protective</u>		<u>Public Schools</u>		<u>University</u>		<u>Executive &amp;Elected</u>	<u>Others</u>	
	<u>With</u>	<u>Without</u>	<u>Males</u>	<u>Females</u>	<u>Males</u>	<u>Females</u>		<u>Males</u>	<u>Females</u>
	<u>Soc. Sec.</u>	<u>Soc. Sec.</u>							
0	13.8%	5.2%	16.5%	13.0%	18.0%	20.0%	20.0%	21.0%	20.0%
1	7.0	3.4	11.0	9.5	16.0	16.0	14.5	13.0	14.0
2	4.6	2.1	7.1	7.2	12.5	14.0	12.5	9.0	10.0
3	4.1	1.5	5.2	6.1	10.5	12.0	10.5	7.0	8.2
4	3.2	1.4	4.2	5.0	8.8	9.7	10.0	5.8	7.2
5 & over									
25	1.9	0.9	2.0	2.0	3.5	5.2	6.5	3.0	4.0
30	1.9	0.8	1.7	1.9	3.5	5.2	6.5	3.0	3.7
35	1.7	0.8	1.3	1.7	3.5	5.2	6.2	2.5	3.2
40	1.3	0.7	1.1	1.3	3.2	4.3	5.1	1.9	2.6
45	1.1	0.7	1.0	1.1	2.6	3.0	4.2	1.5	2.1
50	1.0	0.6	0.8	0.9	1.9	1.9	3.8	1.3	1.8
55	1.0	0.6	0.8	0.9	1.5	1.5	3.8	1.2	1.7
60	1.0	0.6	0.8	0.9	1.5	1.5	3.8	1.2	1.7

### Disability Rates

**% of Active Participants Becoming Disabled**

<u>Age</u>	<u>Protective</u>		<u>Public Schools</u>		<u>University</u>		<u>Others</u>	
	<u>With</u>	<u>Without</u>	<u>Males</u>	<u>Females</u>	<u>Males</u>	<u>Females</u>	<u>Males</u>	<u>Females</u>
	<u>Soc. Sec.</u>	<u>Soc. Sec.</u>						
20 .....	0.02%	0.05%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
25 .....	0.02	0.05	0.01	0.01	0.01	0.01	0.01	0.01
30 .....	0.02	0.05	0.01	0.01	0.01	0.01	0.01	0.03
35 .....	0.03	0.06	0.01	0.01	0.01	0.03	0.01	0.04
40 .....	0.04	0.08	0.02	0.02	0.01	0.05	0.04	0.06
45 .....	0.06	0.16	0.05	0.07	0.03	0.05	0.08	0.09
50 .....	0.09	0.92	0.13	0.14	0.05	0.08	0.18	0.14
55 .....	1.47	0.68	0.23	0.20	0.14	0.13	0.34	0.25
60 .....	2.48	0.20	0.39	0.29	0.18	0.20	0.60	0.35

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)

<u>Age</u>	<u>% Retiring Next Year</u>								
	<u>General</u>		<u>Public Schools</u>		<u>University</u>		<u>Protective</u>		<u>Executive &amp; Elected</u>
	<u>Males</u>	<u>Females</u>	<u>Males</u>	<u>Females</u>	<u>Males</u>	<u>Females</u>	<u>With Soc. Sec.</u>	<u>Without Soc. Sec.</u>	
50							8%	4%	
51							8	4	
52							9	6	
53							28	23	
54							20	28	
55							17	28	
56							17	28	
57	24%	19%	40%	30%	15%	17%	17	37	17%
58	24	19	35	30	15	14	17	32	17
59	24	19	28	30	15	14	17	35	17
60	24	19	28	30	15	14	17	22	11
61	20	19	28	30	15	22	20	15	11
62	33	29	38	38	17	20	20	20	11
63	33	29	35	32	17	20	30	20	11
64	24	25	25	26	17	20	18	20	8
65	26	25	25	31	20	22	30	40	8
66	28	28	25	27	22	20	30	40	20
67	15	15	20	26	18	18	23	40	17
68	15	15	20	24	18	18	23	40	17
69	15	15	20	22	18	18	20	40	17
70	15	15	25	18	20	18	100	100	15
71	15	15	25	18	20	18	100	100	15
72	15	15	25	18	18	18	100	100	15
73	15	15	25	18	18	18	100	100	10
74	15	15	25	18	18	18	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**

<b>Sample Attained Ages</b>	<b>Future Life Expectancy (years)</b>	
	<b>Males</b>	<b>Females</b>
40	41.9	45.3
45	37.1	40.5
50	32.4	35.7
55	27.9	30.9
60	23.5	26.4
65	19.3	22.0
70	15.3	17.8
75	11.7	13.9
80	8.6	10.4
85	6.2	7.4

**Salary Scale**

**% Increases in Salaries Next Year**

<u>Age</u>	<u>Merit</u>					<u>Total</u>				
	<u>Other</u>	<u>Teachers</u>	<u>Protective</u>	<u>Executive &amp; Elected</u>	<u>Base (Economy)</u>	<u>Other</u>	<u>Teachers</u>	<u>Protective</u>	<u>Executive &amp; Elected</u>	
1	3.5%	3.5%	5.0%	1.2%	3.2%	6.7%	6.7%	8.2%	4.4%	
2	3.5	3.5	5.0	1.2	3.2	6.7	6.7	8.2	4.4	
3	3.2	3.4	4.4	1.2	3.2	6.4	6.6	7.6	4.4	
4	2.9	3.3	3.7	1.2	3.2	6.1	6.5	6.9	4.4	
5	2.6	3.2	3.1	1.1	3.2	5.8	6.4	6.3	4.3	
10	1.6	2.9	1.4	1.0	3.2	4.8	6.1	4.6	4.2	
15	1.3	2.4	1.1	0.9	3.2	4.5	5.6	4.3	4.1	
20	1.1	1.9	0.9	0.8	3.2	4.3	5.1	4.1	4.0	
25	0.9	1.3	0.8	0.6	3.2	4.1	4.5	4.0	3.8	
30	0.7	1.2	0.6	0.4	3.2	3.9	4.4	3.8	3.6	

**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, the Wisconsin Retirement System (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 non-elected 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 Advisor 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 October 31, 2012; Unaudited)**

**HOLDINGS DETAIL REPORT**

	<u>Amortized Cost</u>	<u>Market Value</u>	<u>Percent of Portfolio at Amortized Cost</u>
U.S. Governments Agencies .....	\$2,908,119,207	\$2,908,826,628	34.6%
U.S. Repurchase Agreements.....	4,694,000,000	4,694,000,000	55.9
U.S. Governments Treasuries .....	748,930,908	749,001,425	8.9
Certificates of Deposit and Bankers	<u>51,543,204</u>	<u>51,543,204</u>	<u>0.6</u>
Acceptance .....			
	<u>\$8,402,593,319</u>	<u>\$8,403,371,256</u>	<u>100.0%</u>

Accrued Gross Income: \$2,465,787.70

**AVERAGE MATURITY FOR THE LAST SIX MONTHS**

<u>Reporting Date</u>	<u>Average Maturity (Days)</u>	<u>Reporting Date</u>	<u>Average Maturity (Days)</u>
10/31/2012	76	7/31/2012	62
9/30/2012	76	6/30/2012	75
8/31/2012	61	5/31/2012	70

**Summary of Investment Fund Participants**

	<u>Par Amount</u>	<u>Percent of Portfolio</u>
<b>Mandatory Participants</b>		
State of Wisconsin and Agencies .....	\$ 3,705,043,000	44.7%
State of Wisconsin Investment Board.....	2,387,754,000	28.8
<b>Elective Participants</b>		
Local Government Investment Pool .....	<u>2,188,486,000</u>	<u>26.4</u>
	<u>\$ 8,281,283,000</u>	100.0%

NOTE: The difference between the total of the participants' share (\$8,281,283,000, and the amortized cost of the State Investment Fund holdings detail report (\$8,402,593,000) 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 October 31, 2012.

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**

<u>Calendar Year</u>	<u>Value of Taxable Property</u>	<u>Rate of Increase (Decrease)</u>
2003 .....	\$360,710,211,300	—
2004 .....	391,187,814,700	8.4%
2005 .....	427,933,562,000	9.4
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)

Source: Department of Revenue

**Table II-29**

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

<u>Fiscal Year</u>	<u>Total Revenues Expected (Amounts in Thousands)</u>	<u>Delinquent Balance<sup>(a)</sup> (Amounts in Thousands)</u>	<u>Delinquent Balance as a Percent of Total Revenues Expected</u>
2003 .....	\$ 9,264,797	\$ 691,613	6.09%
2004 .....	9,775,264	679,552	5.99
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 <sup>(b)</sup> .....	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

<sup>(a)</sup> 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.

<sup>(b)</sup> 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**

<u>Year</u>	<u>Wisconsin Total</u>		<u>% Change</u>		<u>Population Per Sq. Mile</u>	
	<u>(Amounts in Thousands)</u>	<u>Rank</u>	<u>Wisconsin</u>	<u>U.S.</u>	<u>Wisconsin</u>	<u>U.S.</u>
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 .....	5,687	20	0.6	0.4	105.0	87.4
2011 .....	5,692	20	0.4	0.7	105.5	88.2

Source: Decennial census and land area statistics—2000/2010 Census of Population and Housing, and U.S. Bureau of the Census World Wide Web Site; Tables GCT-T1-R and TM-M2

**Table II-31**

**POPULATION CHARACTERISTICS  
(2010)**

	<u>Wisconsin</u>	<u>U.S.</u>
% Urban .....	70.2	80.7
% Rural .....	29.8	19.3
% Foreign-born .....	4.5	12.9
Dependency Ratio <sup>(a)</sup> .....	2.6	2.7

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

	<u>Wisconsin</u>	<u>U.S.</u>
Grade School - 8 years .....	96.6	94.0
High School - 4 years .....	89.4	91.1
Bachelor's Degree .....	26.5	28.5

<sup>(a)</sup> Population age 18-64 years of age divided by population less than 18 years of age and population 65 years of age and older.

Source: Table S1501 2011 American Community Survey 1-Year Estimates; U.S. Bureau of the Census American Factfinder Web Site

**Table II-32**

**POPULATION BY AGE GROUP  
(2010)**

<u>Age Group</u>	<u>Wisconsin</u>	<u>U.S.</u>
Under 5.....	6.3%	6.5%
5-14 .....	13.1	13.3
15-44 .....	39.1	40.7
45-59 .....	22.2	21.0
60 and over.....	<u>19.3</u>	<u>18.5</u>
Total.....	100.0	100.0

Source: Table QT-P1 Age Groups and Sex 2010 Census

**Table II-33**

**ESTIMATED PERSONAL INCOME**

<u>Year</u>	<u>Wisconsin Total (Amounts in Millions)</u>	<u>Per Capita Wisconsin</u>	<u>Per Capita U.S.</u>	<u>Percentage WI To U.S.</u>
2002.....	\$ 167,708	\$30,790	\$31,461	97.9%
2003.....	173,248	31,633	32,271	98.0
2004.....	180,303	32,715	33,881	96.6
2005.....	186,545	33,664	35,424	95.0
2006.....	198,556	35,637	37,698	94.5
2007.....	206,380	37,916	39,458	96.1
2008.....	213,379	37,916	40,673	93.2
2009.....	211,478	37,398	39,626	94.4
2010.....	217,562	38,225	39,937	95.7
2011.....	228,888	40,073	41,663	96.2

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**

<u>Year<sup>(a)</sup></u>	<u>Wisconsin</u>	<u>U.S.</u>	<u>Percentage WI To U.S.</u>
2002.....	\$63,436	\$59,981	105.8%
2003.....	66,725	62,228	107.2
2004.....	65,441	63,278	103.4
2005.....	66,988	62,732	106.8
2006.....	69,010	65,093	106.0
2007.....	71,267	66,111	107.7
2008.....	71,064	67,019	106.0
2009.....	75,111	72,336	103.8
2010.....	78,742	75,764	103.9
2011.....	77,946	74,985	103.9

<sup>(a)</sup> Year refers to the time period used for eligibility for the Department of Health and Human Services' Low Income Home Energy Assistance Program (LIHEAP).

Source: U.S. Bureau of the Census for Low Income Home Energy Assistance Program of the U.S. Department of Health and Human Services; Wisconsin State Median Income for FFY 2009/2010 World Wide Web Site

Table II-35

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

	Wisconsin Distribution		U.S. Distribution	
	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>
Farm Wage and Salary Disbursements.....	0.6%	0.6%	0.3%	0.3%
Forestry, Fishing, and Related Activities	0.1	0.2	0.2	0.2
Mining .....	0.1	0.1	0.9	1.0
Utilities .....	0.9	0.9	0.8	0.8
Construction .....	4.4	4.3	4.5	4.5
Manufacturing				
Durable Goods Manufacturing .....	12.3	12.7	6.8	7.0
Nondurable Goods Manufacturing .....	7.5	7.5	3.7	3.6
Wholesale Trade.....	5.6	5.6	5.6	5.6
Retail Trade .....	6.3	6.2	6.3	6.2
Transportation & Warehousing .....	3.2	3.2	3.1	3.1
Information.....	2.2	2.3	3.2	3.2
Finance and Insurance .....	6.9	6.9	7.6	7.7
Real Estate and Rental and Leasing	0.8	0.7	1.4	1.4
Professional, Scientific, and Technical .....	5.0	5.1	9.3	9.5
Management of Companies and Enterprises .....	3.5	3.8	2.9	3.0
Administrative and Waste Management.....	3.1	3.2	4.0	4.1
Educational Services .....	1.6	1.6	1.9	1.9
Health Care and Social Assistance .....	13.7	13.6	11.4	11.4
Arts, Entertainment, and Recreation.....	0.9	0.9	1.1	1.1
Accommodation and Food Services .....	2.7	2.7	3.4	3.4
Other Services, Except Public Administration ...	3.1	3.1	3.2	3.2
Government and Government Enterprises				
Federal, Civilian .....	1.6	1.5	3.3	3.2
Military .....	0.4	0.4	1.6	1.5
State and Local .....	13.4	13.1	13.5	13.0
Total Earnings by Industry .....	100.0	100.0	100.0	100.0

**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  
(2011 Annual Average)**

	Wisconsin		U.S.	
	(Amounts in Thousands)	%	(Amounts in Thousands)	%
Natural Resources & Mining .....	3	0.1	784	0.6
Construction.....	91	3.3	5,504	4.2
Manufacturing .....	443	16.2	11,733	8.9
Retail Trade .....	294	10.7	14,643	11.1
Wholesale Trade .....	115	4.2	5,529	4.2
Transportation, Warehousing & Utilities.....	100	3.6	4,847	3.7
Information .....	46	1.7	2,659	2.0
Financial Activities.....	158	5.8	7,681	5.8
Professional & Business Services.....	283	10.3	17,331	13.2
Educational & Health Services.....	411	15.0	19,884	15.1
Leisure & Hospitality .....	249	9.1	13,320	10.1
Other Services.....	136	5.0	5,342	4.1
Government .....	413	15.1	22,104	16.8
Total .....	2,741	100.0	131,359	100.0

**Source: Department of Workforce Development**

**Table II-37**

**GENERAL STATISTICS OF MANUFACTURING<sup>(a)</sup>**

	<u>2010</u>	<u>2011</u>
Total Capital Expenditures (millions).....	\$ 3,816	\$ 4,423
Number of Employees (thousands).....	413.2	427.9
Total Payroll (millions).....	\$ 19,893	\$ 21,168
Number of Production Workers (thousands) .....	300.3	309.4
Value Added by Manufacturer (millions).....	\$ 67,556	\$ 72,804
Value of Shipments (millions).....	\$ 149,261	\$ 163,107

<sup>(a)</sup> Data for the years 2010 and 2011 is from the 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**

<u>Year</u>	<u>% Change</u>		
	<u>Wisconsin</u>	<u>Wisconsin</u>	<u>U.S.</u>
2001 .....	37,773	10.6	2.8
2002 .....	38,208	1.2	6.8
2003 .....	40,884	7.0	8.1
2004 .....	39,992	(2.2)	8.6
2005 .....	35,334	(11.6)	4.1
2006 .....	27,329	(19.8)	(14.6)
2007 .....	21,837	(20.1)	(24.0)
2008 .....	15,509	(29.0)	(35.1)
2009 .....	10,780	(30.5)	(35.6)
2010 .....	10,864	3.6	3.7
2011 .....	9,939	(8.5)	3.2

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

Table II-39

**UNEMPLOYMENT RATE COMPARISON<sup>(a)</sup>  
By Month 2007 To 2012  
By Quarter 2003 To 2006**

	<u>2012</u>		<u>2011</u>		<u>2010</u>		<u>2009</u>		<u>2008</u>		<u>2007</u>	
	<u>Wis.</u>	<u>U.S.</u>	<u>Wis.</u>	<u>U.S.</u>	<u>Wis.</u>	<u>U.S.</u>	<u>Wis.</u>	<u>U.S.</u>	<u>Wis.</u>	<u>U.S.</u>	<u>Wis.</u>	<u>U.S.</u>
January .....	7.6	8.8	8.5	9.8	10.0	10.6	7.7	8.5	5.0	5.4	5.5	5.0
February ....	7.9	8.7	8.6	9.5	10.3	10.4	8.8	8.9	5.2	5.2	5.8	4.9
March .....	7.5	8.4	8.3	9.2	10.1	10.2	9.4	9.0	5.0	5.2	5.5	4.5
April .....	6.8	7.7	7.5	8.7	8.8	9.5	8.8	8.6	4.2	4.8	5.1	4.3
May.....	6.8	7.9	7.3	8.7	8.3	9.3	8.7	9.1	4.2	5.2	4.5	4.3
June .....	7.6	8.4	8.0	9.3	8.5	9.6	9.1	9.7	4.7	5.7	5.0	4.7
July .....	7.4	8.6	7.6	9.3	8.2	9.7	8.8	9.7	4.6	6.0	4.7	4.9
August .....	7.1	8.2	7.3	9.1	7.9	9.5	8.6	9.6	4.7	6.1	4.5	4.6
September..	6.2	7.6	6.8	8.8	7.3	9.2	8.0	9.5	4.3	6.0	4.2	4.5
October.....	5.7	7.5	6.6	8.5	7.2	9.0	7.9	9.5	4.5	6.1	3.9	4.4
November..			6.5	8.2	7.5	9.3	8.0	9.4	5.2	6.5	4.1	4.5
December ..			<u>6.6</u>	<u>8.3</u>	<u>7.4</u>	<u>9.1</u>	<u>8.3</u>	<u>9.7</u>	<u>5.9</u>	<u>7.1</u>	<u>4.3</u>	<u>4.8</u>
Annual Average ...			7.5	8.9	8.5	9.6	8.7	9.3	4.8	5.8	4.8	4.8
<b>2006 Quarters</b>												
			<u>WI</u>	<u>U.S.</u>								
I .....			5.4	5.0	I .....			5.7	5.6			
II .....			4.7	4.6	II .....			4.8	5.0			
III .....			4.4	4.7	III .....			4.4	5.0			
IV .....			4.2	4.2	IV .....			4.3	4.7			
<b>2004 Quarters</b>												
			<u>WI</u>	<u>U.S.</u>								
I .....			6.1	6.1	I .....			6.5	6.3			
II .....			5.1	5.5	II .....			5.9	6.1			
III .....			4.6	5.4	III .....			5.3	6.0			
IV .....			4.3	5.1	IV .....			4.8	5.5			
<b>2003 Quarters</b>												
			<u>WI</u>	<u>U.S.</u>								
I .....			6.1	6.1	I .....			6.5	6.3			
II .....			5.1	5.5	II .....			5.9	6.1			
III .....			4.6	5.4	III .....			5.3	6.0			
IV .....			4.3	5.1	IV .....			4.8	5.5			

(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, 2012. 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](http://www.doa.wi.gov/capitalfinance)

{This page number is the last sequential page number of the 2012 Annual Report to be used in Part II of the 2012 Annual Report. The following uses page numbers from the general purpose external financial statements. The sequential page numbers for the 2012 Annual Report continue in Part III.}

# STATE OF WISCONSIN

## General Purpose External Financial Statements



For the fiscal year ended June 30, 2012

**Scott Walker, Governor**

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

Prepared by the State Controller's Office

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**General Purpose External Financial Statements  
For the Fiscal Year Ended June 30, 2012**

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**WISCONSIN DEPARTMENT OF  
ADMINISTRATION**

**SCOTT WALKER**  
GOVERNOR

**MIKE HUEBSCH**  
SECRETARY

Division of Executive Budget and Finance  
State Controller's Office  
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Madison, WI 53707-7932  
Voice (608) 266-1694  
Fax (608) 266-7734  
[www.doa.state.wi.us/debf/](http://www.doa.state.wi.us/debf/)

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December 13, 2012

The Honorable Scott Walker  
The Honorable Members of the Legislature  
Citizens of the State of Wisconsin

We are pleased to submit the General Purpose External Financial Statements of the State of Wisconsin for the fiscal year ended June 30, 2012. They are part of the audited Comprehensive Annual Financial Report and present financial information in conformity with generally accepted accounting principles.

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

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

The General Purpose External Financial Statements, as well as the Comprehensive Annual Financial Report, are on file at the office of the State Controller and will benefit users requiring summary information about our State's finances. The Comprehensive Annual Financial Report is available on the Department of Administration's website at: <http://doa.wi.gov/index.asp?locid=167> under the "financial reporting" category.

Sincerely,

Michael Huebsch  
Secretary

Stephen J. Censky, CPA  
State Controller



**STATE OF WISCONSIN**  
**Legislative Audit Bureau**

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Toll-free hotline: 1-877-FRAUD-17

Joe Chrisman  
State Auditor

**INDEPENDENT AUDITOR'S REPORT**

Honorable Members of the Legislature

The Honorable Scott Walker, Governor

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Wisconsin as of and for the year ended June 30, 2012, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Wisconsin's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements for the following: the Wisconsin Department of Transportation Revenue Bond Program and Commercial Paper Program, which represent 12 percent of the liabilities of the governmental activities and 4 percent of the liabilities of the aggregate remaining fund information; the Environmental Improvement Fund, which is a major fund and represents 20 percent of the assets and 16 percent of the liabilities of the business-type activities; or the College Savings Program Trust, which represents 3 percent of the assets of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for these programs, are based on the reports of the other auditors. In addition, we did not audit the financial statements of the discretely presented component units. Our opinion on the aggregate discretely presented component units is based upon the audit reports, prepared by other auditors, of the Wisconsin Housing and Economic Development Authority, the University of Wisconsin Hospitals and Clinics Authority, and the University of Wisconsin Foundation.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The following financial statements, which were audited by other auditors, were also audited in accordance with these standards: the Wisconsin Department of Transportation Revenue Bond Program and Commercial Paper Program, the Environmental Improvement Fund, the College Savings Program Trust, the Wisconsin Housing and Economic Development Authority, and the University of Wisconsin Hospitals and Clinics Authority. The financial statements of the University of Wisconsin Foundation, which were audited by other auditors, were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *Government Auditing Standards*. Auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Wisconsin as of June 30, 2012, and

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

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

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


In accordance with *Government Auditing Standards*, we will also issue our report dated December 13, 2012, on our consideration of the State's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

LEGISLATIVE AUDIT BUREAU

December 13, 2012

by

  
Joe Chrisman  
State Auditor





## MANAGEMENT'S DISCUSSION AND ANALYSIS

The *Management's Discussion and Analysis* of the State of Wisconsin's Comprehensive Annual Financial Report (CAFR) presents a discussion and analysis of the State's financial performance during the fiscal year that ended June 30, 2012. It should be read in conjunction with the transmittal letter located at the front of this CAFR, and the State's financial statements, including the note disclosures which are an integral part of the statements, that follow this part of the CAFR.

### FINANCIAL HIGHLIGHTS -- PRIMARY GOVERNMENT

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

- *Net Assets.* The assets of the State of Wisconsin exceeded its liabilities at the close of Fiscal Year 2012 by \$14.8 billion (reported as "net assets"). Of this amount, \$(9.3) billion was reported as "unrestricted net assets". A positive balance in unrestricted net assets would represent the amount available to be used to meet a government's ongoing obligations to citizens and creditors.
- *Changes in Net Assets.* The State's total net assets increased by \$2.1 billion in Fiscal Year 2012. Net assets of governmental activities increased by \$1.2 billion or 20.6 percent, while net assets of the business-type activities showed an increase of \$843.3 million or 12.5 percent.
- *Excess of Revenues over (under) Expenses -- Governmental Activities.* During Fiscal Year 2012, the State's total revenues for governmental activities of \$27.2 billion were \$2.3 billion more than total expenses (excluding transfers) for governmental activities of \$24.9 billion. Of these expenses, \$11.9 billion were covered by program revenues. General revenues, generated primarily from various taxes, totaled \$15.3 billion.

#### Fund

- *Governmental Funds -- Fund Balances.* As of the close of Fiscal Year 2012, the State's governmental funds reported combined ending fund balances of \$(906.7) million, an increase of \$695.6 million in comparison with the prior year. Of this total amount, \$(3.3) billion represents the unassigned fund balances.
- *General Fund -- Fund Balance.* At the end of the current fiscal year, total fund balance was \$(2.2) billion, a change of \$732.8 million from a deficit of \$(2.9) billion reported in the prior year. The unassigned fund deficit for the General Fund was \$(2.6) billion, or (12.2) percent of total General Fund expenditures.

Additional information regarding individual funds begins on Page 13.

#### Long-term Debt

- The State's total long-term debt obligations (bonds and notes payable) increased by \$567.6 million during the current fiscal year which represents the net difference between new issuances, payments and refundings of outstanding debt. The key factors contributing to this increase are the issuance during the fiscal year of \$1.4 billion of general obligation bonds including certain general obligation refunding bonds and \$460.1 million of revenue bond obligations including certain revenue refunding bonds. Additional detail regarding these activities begins on Page 18.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

**Basic Financial Statements**

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

- The *government-wide financial statements* provide a broad view of the State’s operations. The statements provide both short-term and long-term information about the State’s financial status, which assists in assessing the State’s financial condition at the end of the fiscal year.
- The *fund financial statements* focus on individual parts of the State government, reporting the State's operations in greater detail than the government-wide statements. The basic fund financial statements provide more detailed information on the State's most significant funds.

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

<b>Table 1</b>				
<b>Major Features of State of Wisconsin's Government-wide and Fund Financial Statements</b>				
	<b>GOVERNMENT-WIDE STATEMENTS</b>	<b>FUND STATEMENTS</b>		
		<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
<b>Scope</b>	<p>Entire State government (except fiduciary funds) and the State's component units, reported as follows:</p> <ul style="list-style-type: none"> <li>• <i>Governmental Activities</i> – 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.</li> <li>• <i>Business-Type Activities</i> – Those operations for which a fee is charged to external users for goods and services are reported in this category.</li> <li>• <i>Discretely Presented Component Units</i> – 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.</li> </ul>	<p>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.</p> <p>Examples of the State's governmental funds (including the State's three major governmental funds), as reported within their respective fund types, follow:</p> <ul style="list-style-type: none"> <li>• <i>General Fund</i> (a major fund)</li> <li>• <i>Special Revenue:</i> <ul style="list-style-type: none"> <li>-- Transportation (a major fund)</li> </ul> </li> <li>• <i>Debt Service:</i> <ul style="list-style-type: none"> <li>-- Bond Security and Redemption</li> </ul> </li> <li>• <i>Capital Projects:</i> <ul style="list-style-type: none"> <li>-- Capital Improvement</li> </ul> </li> <li>• <i>Permanent:</i> <ul style="list-style-type: none"> <li>-- Common School (a major fund)</li> </ul> </li> </ul>	<p>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.</p> <p>Examples of the State's proprietary funds, including the State's four major enterprise funds, follow:</p> <ul style="list-style-type: none"> <li>• <i>Enterprise:</i> <ul style="list-style-type: none"> <li>-- Injured Patients and Families Compensation (a major fund)</li> <li>-- Environmental Improvement (a major fund)</li> <li>-- University of Wisconsin System (a major fund)</li> <li>-- Unemployment Reserve (a major fund)</li> <li>-- Lottery</li> </ul> </li> <li>• <i>Internal services:</i> <ul style="list-style-type: none"> <li>-- Technology Services</li> <li>-- Facilities Operations and Maintenance</li> </ul> </li> </ul>	<p>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.</p> <p>Examples of the State's fiduciary funds, as reported within their respective fund types, follow:</p> <ul style="list-style-type: none"> <li>• <i>Pension and Other Employee Benefit Trust Funds:</i> <ul style="list-style-type: none"> <li>-- Wisconsin Retirement System</li> </ul> </li> <li>• <i>Investment Trust:</i> <ul style="list-style-type: none"> <li>-- Local Government Pooled Investment</li> </ul> </li> <li>• <i>Private Purpose Trust:</i> <ul style="list-style-type: none"> <li>-- College Savings Program Trust</li> </ul> </li> <li>• <i>Agency:</i> <ul style="list-style-type: none"> <li>-- Support Collection Trust</li> </ul> </li> </ul>
<b>Required financial statements</b>	<ul style="list-style-type: none"> <li>• Statement of net assets – Presents all of the government's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the state's net assets are an indicator of whether its financial health is improving or weakening, respectively.</li> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenses and changes in fund equity</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul> <p>Because the State can not use these assets to finance its operations, fiduciary funds are not included in the government-wide financial statements discussed in the left column.</p>

(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
<b>Accounting basis and measurement focus</b>	<p>Accrual accounting and economic resource focus</p> <p>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.</p>	<p>Modified accrual accounting and current financial resource focus</p> <p>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.</p>	<p>Accrual accounting and economic resources focus</p>	<p>Accrual accounting and economic resources focus</p>
<b>Type of asset/liability information</b>	<p>All assets and liabilities, both financial and capital, and short-term and long-term</p>	<p>Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included</p>	<p>All assets and liabilities, both financial and capital, and short-term and long-term</p>	<p>All assets and liabilities, both short-term and long-term</p>
<b>Type of inflow-outflow information</b>	<p>All revenues and expenses during the year, regardless of when cash is received or paid</p>	<ul style="list-style-type: none"> <li>• Revenues for which cash is received during or soon after the end of the year</li> <li>• Expenditures when goods or services have been received and payment is due during the year or soon thereafter</li> </ul>	<p>All revenues and expenses during the year, regardless of when cash is received or paid</p>	<p>All revenues and expenses during the year, regardless of when cash is received or paid</p>

**Additional Required Supplementary Information**

In addition to this Management's Discussion and Analysis, which is required supplementary information, the basic financial statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements. The required supplementary information includes (1) post-employment benefits - state health insurance program, (2) condition and maintenance data regarding the State's infrastructure, and (3) a budgetary comparison schedule of the General and the Transportation funds, including reconciliations between the statutory and GAAP fund balances at fiscal year-end.

**Other Supplementary Information**

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

## FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

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

### Net Assets

As presented in Table 2, total assets of the State on June 30, 2012 were \$38.4 billion, while total liabilities were \$23.5 billion, resulting in combined net assets (government and business-type activities) of \$14.8 billion. The largest component of the State's total net assets consists of \$19.5 billion invested in capital assets (i.e., land, buildings, equipment, infrastructure, and others), less any related debt outstanding that was needed to acquire or construct the assets. Approximately \$4.6 billion of net assets were restricted by external sources or the State Constitution or Statutes, and were not available to finance the day-to-day operations of the State.

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

During Fiscal Year 2012, the State issued \$1.4 billion of general obligation bonds, primarily for the acquisition or improvement of land, water, property, highways, buildings, and equipment. General obligation bonds outstanding at June 30, 2012 totaled \$7.3 billion. Outstanding annual appropriation bonds were \$3.3 billion at June 30, 2012. Outstanding revenue bonds, which are not considered general obligation debt of the State, totaled \$2.9 billion at June 30, 2012.

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

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

## Changes in Net Assets

The revenues and expenses information, as shown in Table 3, was derived from the government-wide statement of activities and reflects how the State's net assets changed during the fiscal year. The State earned program revenues of \$20.2 billion and general revenues of \$15.3 billion for total revenues of \$35.5 billion during Fiscal Year 2012. Expenses for the State during Fiscal Year 2012 were \$33.4 billion. As a result of the excess of revenues over expenses, the total net assets of the State increased \$2.1 billion, net of contributions and transfers.

**Table 3**  
**Changes in Net Assets**

(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change 2012-2011
	2012	2011*	2012	2011*	2012	2011*	
<b>Program Revenues:</b>							
Charges for Goods and Services	\$ 2,265.2	\$ 2,270.5	\$ 7,039.3	\$ 6,726.7	\$ 9,304.5	\$ 8,997.3	3.4 %
Operating Grants and Contributions	8,805.1	9,420.2	1,117.8	1,863.5	9,922.8	11,283.6	(12.1)
Capital Grants and Contributions	861.5	1,019.8	103.5	99.5	965.0	1,119.3	(13.8)
<b>General Revenues:</b>							
Income Taxes	8,059.9	7,490.7	-	-	8,059.9	7,490.7	7.6
Sales and Excise Taxes	4,978.9	4,820.9	-	-	4,978.9	4,820.9	3.3
Public Utility Taxes	358.8	324.5	-	-	358.8	324.5	10.6
Motor Fuel Taxes	1,026.2	1,029.9	-	-	1,026.2	1,029.9	(0.4)
Other Taxes	451.4	406.4	-	-	451.4	406.4	11.1
Other General Revenues	406.3	381.9	20.6	6.3	426.9	388.2	10.0
<b>Total Revenues</b>	<b>27,213.3</b>	<b>27,164.7</b>	<b>8,281.2</b>	<b>8,696.0</b>	<b>35,494.5</b>	<b>35,860.7</b>	<b>(1.0)</b>
<b>Program Expenses:</b>							
Commerce	274.4	411.8	-	-	274.4	411.8	(33.4)
Education	6,226.2	6,738.2	-	-	6,226.2	6,738.2	(7.6)
Transportation	1,967.9	2,242.4	-	-	1,967.9	2,242.4	(12.2)
Environmental Resources	432.0	506.2	-	-	432.0	506.2	(14.7)
Human Relations and Resources	12,157.0	11,948.8	-	-	12,157.0	11,948.8	1.7
General Executive	755.5	704.9	-	-	755.5	704.9	7.2
Judicial	124.8	132.9	-	-	124.8	132.9	(6.1)
Legislative	58.7	65.6	-	-	58.7	65.6	(10.5)
Tax Relief and Other General Expenditures	1,359.0	1,352.3	-	-	1,359.0	1,352.3	0.5
Intergovernmental - Shared Revenue	989.9	1,023.5	-	-	989.9	1,023.5	(3.3)
Interest on Long-term Debt	523.7	479.1	-	-	523.7	479.1	9.3
Injured Patients and Families Compensation	-	-	36.7	(42.6)	36.7	(42.6)	186.2
Environmental Improvement	-	-	59.4	90.0	59.4	90.0	(34.0)
University of Wisconsin System	-	-	4,418.3	4,393.9	4,418.3	4,393.9	0.6
Unemployment Reserve	-	-	1,763.8	2,513.1	1,763.8	2,513.1	(29.8)
Lottery	-	-	525.1	487.7	525.1	487.7	7.7
Health Insurance	-	-	1,261.8	1,270.4	1,261.8	1,270.4	(0.7)
Care and Treatment Facilities	-	-	322.8	347.5	322.8	347.5	(7.1)
Other Business-type	-	(13)	174.2	170.4	174.2	169.1	3.0
<b>Total Expenses</b>	<b>24,869.1</b>	<b>25,604.5</b>	<b>8,562.3</b>	<b>9,230.4</b>	<b>33,431.4</b>	<b>34,834.9</b>	<b>(4.0)</b>
Excess (deficiency) before Contributions and Transfers	2,344.2	1,560.2	(281.1)	(534.4)	2,063.1	1,025.8	
Contributions to Term and Permanent Endowments	-	-	15	2.7	15	2.7	
Contributions to Permanent Fund Principal	16.2	19.6	-	-	16.2	19.6	
Transfers	(1,122.8)	(1,188.9)	1,122.8	1,187.3	-	(16)	
<b>Increase (decrease) in Net Assets</b>	<b>1,237.6</b>	<b>390.9</b>	<b>843.3</b>	<b>655.6</b>	<b>2,080.9</b>	<b>1,046.5</b>	
<b>Net Assets - Beginning (Restated)</b>	<b>6,001.5</b>	<b>5,610.6</b>	<b>6,767.4</b>	<b>6,111.8</b>	<b>12,768.9</b>	<b>11,722.4</b>	
<b>Net Assets - Ending</b>	<b>\$ 7,239.1</b>	<b>\$ 6,001.5</b>	<b>\$ 7,610.7</b>	<b>\$ 6,767.4</b>	<b>\$ 14,849.8</b>	<b>\$ 12,768.9</b>	<b>16.3</b>

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

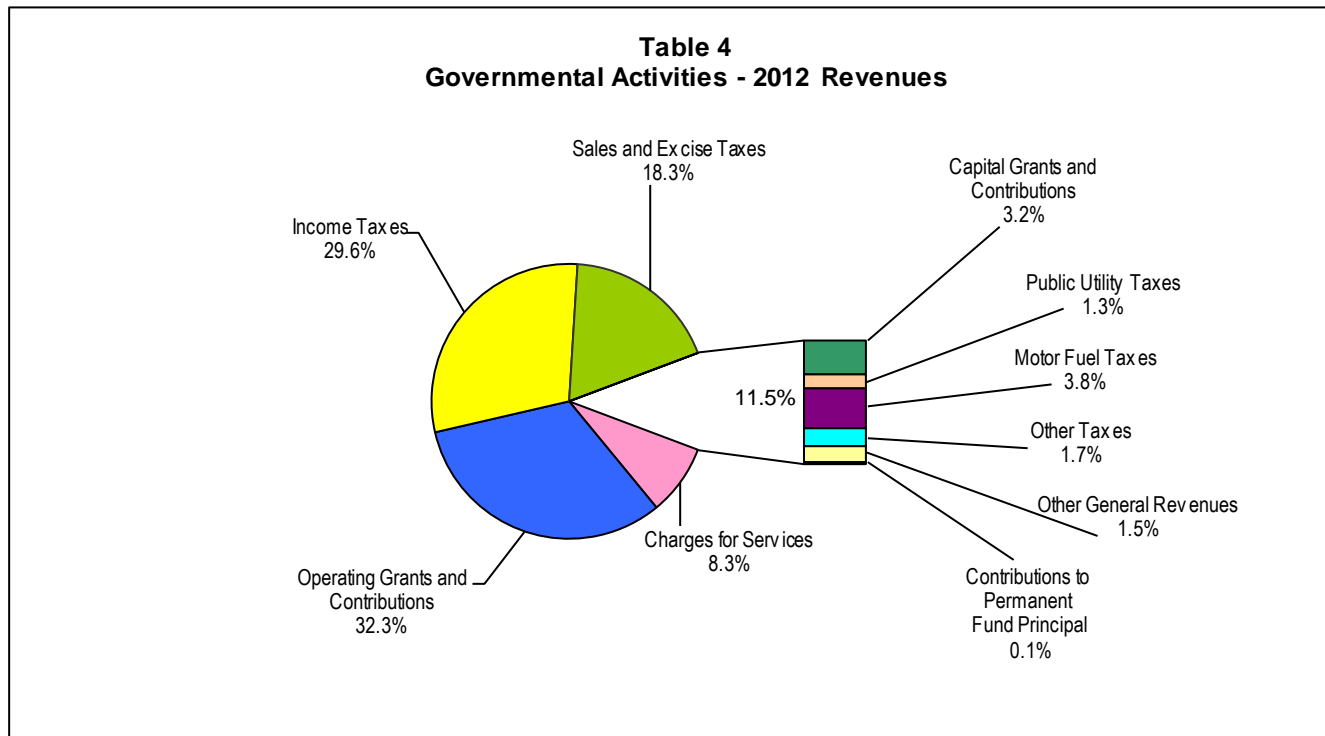
**Governmental Activities**

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

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

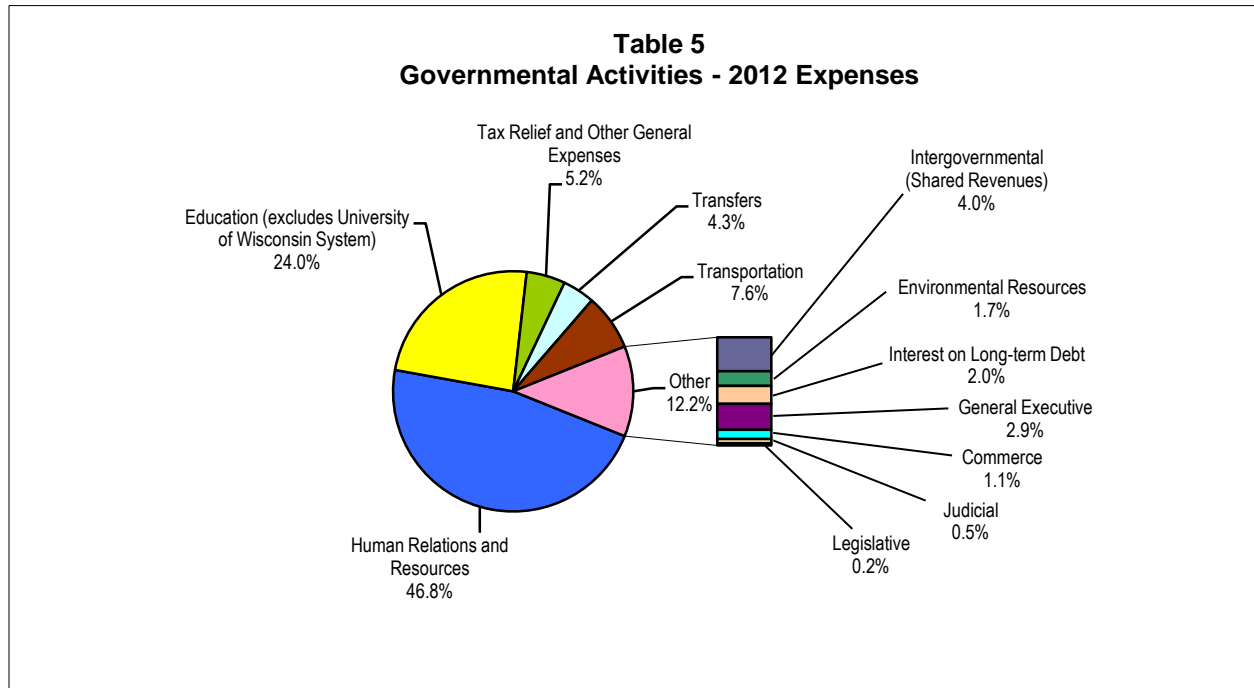
The State’s governmental activities program expenses decreased \$735.4 million during Fiscal Year 2012. Contributing to the decline were education expenses which decreased \$512.0 million due to a decrease in state funding. In addition, transportation, commerce, environmental resources and intergovernmental/shared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

As shown in Table 4, below, approximately 54.7 percent of revenues from all sources earned came from taxes (sales and excise, income, public utility, motor fuel, and other taxes). Operating grants and contributions represent amounts received from other governments/entities – primarily the federal government. Operating grants and contributions for non-capital purposes provided 32.3 percent of total revenues. Capital grants provided 3.2 percent, charges for services contributed 8.3 percent, and various other revenues provided 1.6 percent of the remaining governmental activity revenue sources.



As shown in Table 5, below, expenses for human relations and resources programs make up the largest portion – 46.8 percent – of total governmental expenses and transfers. Included in this cost function are programs such as Medical Assistance and Temporary Assistance for Needy Families as well as costs for state correctional facilities and services.

Educational expenses, which include various school aids but exclude expenses of the University of Wisconsin System, make up 24.0 percent of total expenses. Tax relief and other general expenses and the municipal and county shared revenue program represent 9.2 percent of the total, while transportation expenses represent 7.6 percent. Net transfers to business-type activities, which include a general purpose revenue subsidy to the University of Wisconsin System, make up 4.3 percent of the total expenses and transfers. The interest on long-term debt and remaining functional expenses total 8.1 percent.





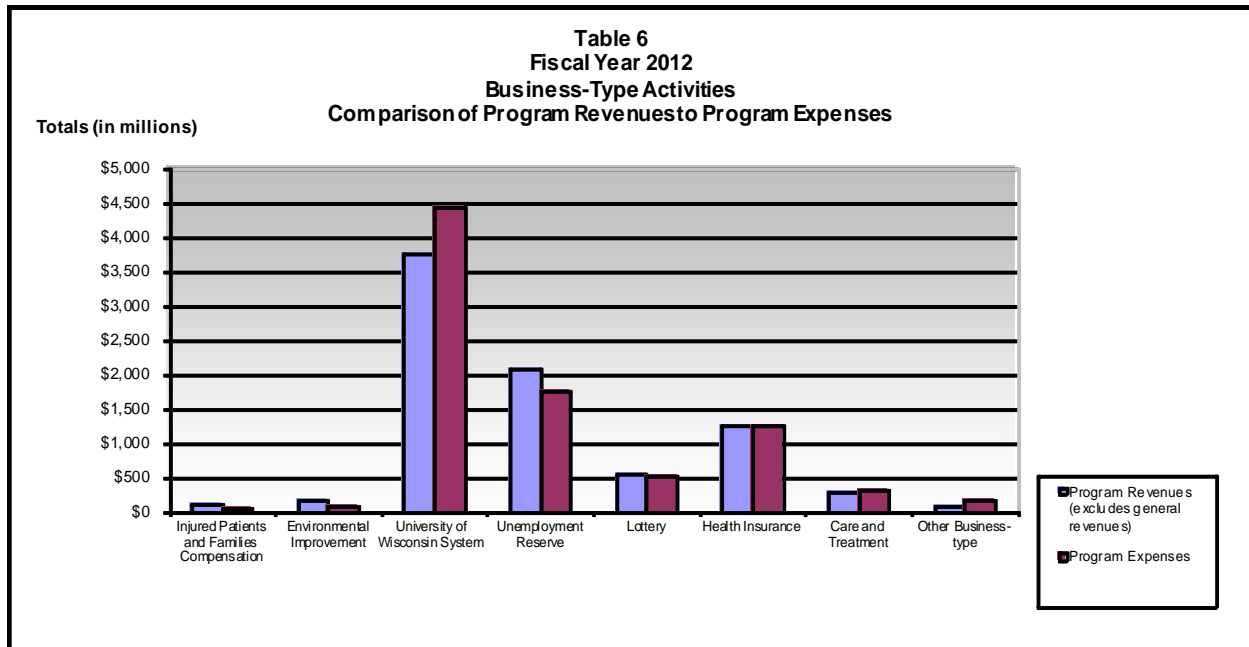
### Business-Type Activities

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

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

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

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



## FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

### Governmental Funds

At the end of Fiscal Year 2012, the State's governmental funds reported a negative combined fund balance of \$(906.7) million. Funds with significant changes in fund balance are discussed below:

#### General Fund

The General Fund is the chief operating fund of the State. At June 30, 2012, the State's General Fund reported a total fund deficit of \$(2.2) billion. The net change in fund balance during Fiscal Year 2012 was \$732.8 million, in contrast to \$(79.4) million in Fiscal Year 2011. Major revenue, expenditure and other sources/uses contributing to the change in fund balance are as follows:

#### Revenues

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

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

#### Expenditures

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

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

*Other Financing Sources and Uses*

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

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

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

As of June 30, 2012, the General Fund reported an unassigned fund balance deficit of \$(2.6) billion. This compares to a General Fund unassigned fund balance deficit of \$(3.3) billion as of June 30, 2011. A deficit unassigned fund balance represents the excess of the liabilities of the General Fund over its assets and nonspendable, restricted, and committed fund balance accounts.

**General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget were significant and included a \$4.2 billion increase in appropriations. Contributing to the variance is the fact that several of the State’s programs and various transfers (including Food Stamps - see the item denoted with \*, below) are not included in the original budget. In addition, numerous adjustments to spending estimates were needed as the year progressed because of changing circumstances (spending needs can change dramatically over a one-year period). The largest variances occurred in the following appropriations (in millions):

Program	Variance
Food Stamps, Electronic Benefit Transfer*	\$ 1,176.0
Administration; Federal Aids	204.8
Public Instruction Federal Aid; Economic Stimulus	164.9
UW System, General Program Operations (part of Statutory General Fund)	151.5
Federal Aid Medical Assistance	20.6

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

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

## Transportation Fund

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

- Revenues of the Fund decreased \$122.2 million, to a total of \$2.6 billion, primarily relating to the ARRA decrease in federal funding from the U.S. Department of Transportation and Federal Aviation Administration. For Fiscal Years 2011 and 2012, ARRA provided a total of \$205.2 million in federal funding for highway projects. ARRA-funded expenditures for highway projects totaled \$29.2 million in Fiscal Year 2012 compared to \$176.0 million in the prior year. Expenditures of the Fund increased \$147.1 million to \$2.6 billion in Fiscal Year 2012 compared to \$2.5 billion in Fiscal Year 2011.
- Transfers out of the Transportation Fund decreased \$21.0 million from the prior year. Under 2011 Wisconsin Act 32, there were no transfers out to the General Fund in Fiscal Year 2012. In the prior year, transfers out to the General Fund totaled \$40.8 million. Transfers in to the Fund increased by \$14.0 million (39.6 percent) in Fiscal Year 2012 to \$49.4 million. Act 32 required the General Fund to transfer \$22.5 million to the Transportation Fund in Fiscal Year 2012.

Capital outlay expenditures funded with general obligation bonds and reported in the Capital Improvement Fund (a capital projects fund) rather than the Transportation Fund, totaled \$75.1 million in Fiscal Year 2012, a decrease of \$230.0 million from Fiscal Year 2011. In addition, capital outlay expenditures of \$754.8 million were reported in the Transportation Fund in Fiscal Year 2012, an increase of \$333.5 million.

## Common School Fund

The Common School Fund, a permanent fund, provides low cost loans to municipalities and school districts for public purposes. Investment and interest earnings of the fund are primarily distributed to local school districts as library aids. This fund reported a net increase of \$47.8 million in fund balance for the year. This compares to a \$26.0 million increase in fund balance in Fiscal Year 2011. Significant changes to the accounts of this fund include:

- Outstanding loans to local governments showed a decrease of \$172.3 million in Fiscal Year 2012 (from \$556.9 million in Fiscal Year 2011 to \$384.6 million in the current year). This represents approximately a 30.9 percent decrease in loans over the prior year and is the result of loan prepayments being made by local governments.
- Investments of the fund increased \$145.6 million in Fiscal Year 2012, from \$126.7 million in Fiscal Year 2011 to \$272.3 million in Fiscal Year 2012. Due to the prepayment of loans, additional cash has been available for investment in bonds.

## Proprietary Funds

The State's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail. Significant changes to balances of major proprietary funds from Fiscal Year 2011 to Fiscal Year 2012 include the following:

### Environmental Improvement

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

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

### **Injured Patients and Families Compensation**

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

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

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

### **Unemployment Reserve**

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

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

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

### **University of Wisconsin System**

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

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

## GOVERNMENT-WIDE CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the close of Fiscal Year 2012, the State had \$25.1 billion invested in capital assets, net of accumulated depreciation of \$4.8 billion. This represents an increase of \$1.4 billion, or 5.9 percent, from Fiscal Year 2011. Depreciation charges totaled \$120.6 million and \$252.5 million for governmental and business-type activities, respectively, in Fiscal Year 2012. The details of these assets are presented in Table 7, below. Additional information about the State's capital assets is presented in Note 7 to the financial statements.

	<b>Governmental</b>		<b>Business-Type</b>		<b>Total</b>	
	<b>Activities</b>		<b>Activities</b>		<b>Primary Government</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Land and Land Improvements	\$ 2,408	\$ 2,310	\$ 166	\$ 157	\$ 2,574	\$ 2,467
Buildings and Improvements	1,340	1,345	3,508	3,273	4,848	4,618
Library Holdings	73	84	1,113	1,124	1,187	1,208
Machinery and Equipment	325	328	361	367	686	696
Infrastructure	12,885	12,789	-	-	12,885	12,789
Construction and Software in Progress	2,284	1,454	658	488	2,942	1,943
<b>Totals</b>	<b>\$ 19,315</b>	<b>\$ 18,310</b>	<b>\$ 5,806</b>	<b>\$ 5,410</b>	<b>\$ 25,120</b>	<b>\$ 23,719</b>

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

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

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

- I-94 North South Freeway Project (completion in 2022) \$1.9 billion,
- US 41 Winnebago and Brown Counties (completion in 2017) \$1.5 billion,
- Zoo Interchange (completion in 2019) \$1.7 billion,
- Highway 26 Janesville to Watertown (completion in 2015) \$490 million,
- Highway 12 Lake Delton to Sauk City (completion in 2017) \$198 million,
- Renovation and Remodeling of the Charter Street Heating Plant (estimated cost \$251 million),
- Wisconsin Institutes for Medical Research – Center Tower – UW-Madison (estimated cost \$135 million),
- Wisconsin Energy Institute – UW-Madison (estimated cost \$100 million),
- UW-Milwaukee Facilities Master Plan (\$240 million for various projects),
- Joint Historical and Veterans Museum (estimated budget of \$75 million), and
- UW-Madison Athlete Performance Center (estimated budget of \$76.8 million).

## Debt Administration

The State of Wisconsin Building Commission, an agency of the State, is empowered by law to consider, act upon, authorize, issue and sell all debt obligations of the State. The total general obligation debt outstanding for the State as of June 30, 2012 was \$7.3 billion, as shown in Table 8. During Fiscal Year 2012, \$1.4 billion of general obligation bonds were issued to provide for the acquisition or improvement of land, water, property, highways, buildings, equipment, or facilities for public purposes or to refund outstanding bonds. Of the bonds issued in the current year, \$354.0 million was to be used for University of Wisconsin System academic and self-amortizing facilities; \$42.3 million for transportation projects, \$38.7 million for the Stewardship Program, \$50.1 million for environmental programs, and \$193.9 million for various other projects. In addition, bond proceeds of \$681.1 million were used to refund outstanding general obligation bonds.

In Fiscal Year 2004, the State issued \$1.8 billion of annual appropriation bonds to pay the State's unfunded accrued prior service (pension) liability and its unfunded accrued liability for sick leave conversion credits. In Fiscal Year 2009, the State issued \$1.5 billion of annual appropriation bonds to purchase the future right, title, and interest in the Tobacco Settlement Revenues (TSRs) from Badger Tobacco Asset Securitization Corporation (BTASC) as well as pay any issuance expenses. As of June 30, 2012, \$3.3 billion of these bonds were outstanding.

Chapter 18 of the Wisconsin Statutes authorizes the State to issue revenue obligations. These obligations, which are not general obligation debt of the State, are secured by a pledge of revenues or property derived from the operations of a program funded by the issuance of the obligations. Revenue bonds of the primary government totaled \$2.9 billion outstanding at June 30, 2012, as shown in Table 8. These bonds included \$1.9 billion of Transportation Revenue Bonds, \$124.4 million of Petroleum Inspection Revenue Bonds, and \$873.7 million of Environmental Improvement Revenue Bonds.

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

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

At June 30, 2012, State of Wisconsin general obligation fixed rate bonds had a rating of Aa2 from Moody's Investors Services, AA from Standard and Poor's Rating Services, and AA from Fitch Ratings. General obligation variable notes had a rating of P-1 from Moody's, A-1+ from Standard and Poor's Corporation, and F1+ from Fitch Investors Services, L.P.

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

## INFRASTRUCTURE -- MODIFIED APPROACH

The State reports infrastructure (i.e., roads, bridges, and buildings considered an ancillary part of roads) as capital assets. The State has elected to report its infrastructure assets (11,200 centerline miles of roads and 5,100 bridges with a combined value of \$12.9 billion), using the modified approach. Under this method, infrastructure assets are not required to be depreciated if the State manages its eligible infrastructure assets using an asset management system designed to maintain and preserve these assets at a condition level established and disclosed by the State.

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

In order to adequately serve the traveling public and support the State economy, it is the State's policy to ensure at least 85 percent of the state-owned roads and bridges are in good or fair condition. As of June 30, 2012, 93.0 percent of the roads and 96.7 percent of bridges were in good or fair condition, consistent with State policies. This compares to 88.0 percent of the roads and 96.4 percent of bridges as of June 30, 2011. The 2012 increase in the percentage of roads in good or fair condition is due to inclusion of new construction in the scope of the condition assessment. Without such inclusion, the percentage of roads rated good or fair would have been equivalent to the 2011 level. New construction was included because efficiencies were gained from a new van used to capture condition assessment data, resulting in new construction being included in the assessment closer to the completion date. In prior years, new construction was generally not included in condition assessments until the following year.

For the fiscal year ended June 30, 2012, actual maintenance and preservation costs for the State's road network were \$585.3 million or \$25.7 million less than the estimated amount. On that same date, actual maintenance and preservation costs for the State's bridge network were \$61.1 million or \$40.8 million less than the estimated amount. In developing estimated costs at the beginning of the fiscal year it is difficult to predict the types of projects that will actually incur costs during the year. In addition, the State of Wisconsin, Department of Transportation's multi-year contracting process, allowing encumbrances to carry forward, makes a comparison of actual to estimated amounts difficult since expenditures for the current year may have been budgeted and committed to a project in prior years.

## ECONOMIC FACTORS

During calendar year 2011, the Wisconsin economy continued its slow recovery from the 2007-09 worldwide recession.

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

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

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



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

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

## **CONTACTING THE STATE'S FINANCIAL MANAGEMENT**

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

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

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

\* \* \* \*

Statement of Net Assets

June 30, 2012

(In Thousands)

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

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

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

(In Thousands)

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

General Revenues:  
 Dedicated for General Purposes:  
     Income Taxes  
     Sales and Excise Taxes  
     Public Utility Taxes  
     Other Taxes  
 Motor Fuel/Other Taxes Dedicated for Transportation  
 Other Dedicated Taxes  
 Interest and Investment Earnings  
 Miscellaneous  
 Contributions to Term and Permanent Endowments  
 Contributions to Permanent Fund Principal  
 Transfers  
 Total General Revenues, Contributions, and Transfers  
 Change in Net Assets  
 Net Assets - Beginning  
 Net Assets - Ending

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

**Net (Expense) Revenue and  
Changes in Net Assets**

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

**Balance Sheet - Governmental Funds**  
**June 30, 2012**

(In Thousands)

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

(Continued)

**Balance Sheet - Governmental Funds**  
**June 30, 2012**

(Continued)

**Total  
Governmental**

**Reconciliation to the Statement of Net Assets:**

**Total Fund Balances - Governmental Funds** (from previous page) \$ (906,710)

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:

Infrastructure	12,884,667	
Other Capital Assets	7,311,518	
Accumulated Depreciation	(1,185,269)	
		<u>19,010,916</u>

Other long-term assets that are not available to pay for current period expenditures and, therefore, are deferred in the funds. 75,808

Some of the State's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds. 264,772

Internal service funds are used by management to charge the costs of certain activities, such as telecommunications and insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. 13,454

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the fund statements. These liabilities, however, are included in the Statement of Net Assets.

Revenue Bonds Payable	(1,944,489)	
Appropriation Bonds Payable	(3,298,422)	
General Obligation Bonds Payable	(5,540,586)	
Accrued Interest on Bonds	(67,612)	
Capital Leases	(33,208)	
Installment Contracts	(113)	
Compensated Absences	(146,866)	
Pollution Remediation	(7,490)	
Claims and Judgments	(2,049)	
Other Postemployment Benefits Liability	(178,270)	
		<u>(11,219,105)</u>

**Net Assets of Governmental Activities as reported on the Statement of Net Assets** (See page 21) \$ 7,239,135

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

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

(In Thousands)

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

(Continued)

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

(Continued)

**Total  
Governmental**

**Reconciliation to the Statement of Activities:**

**Net Change in Fund Balances** (from previous page) \$ 686,726

Inventories, which are recorded under the purchases method for governmental fund reporting, are reported under the consumption approach on the Statement of Activities. As a result of this change, the Increase (Decrease) in Reserve for Inventories on the fund statement has been reclassified as functional expenses on the government-wide statement. 8,876

Governmental funds report the acquisition or construction of capital assets as expenditures, while governmental activities report depreciation expense to allocate the cost of these assets over their estimated useful life. Donated assets are set up at fair value with a corresponding amount of revenue recognized. In the current period, these amounts are:

Capital Outlay/Functional Expenditures	1,116,462	
Depreciation Expense	(100,661)	
Grants and Contributions (Donated Assets)	<u>1,811</u>	
		1,017,612

In the Statement of Activities, only the gain/(loss) on the sale/disposal of capital assets is reported, while in the governmental funds, any proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold/disposed. (45,733)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (15,251)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Bonds Issued	(1,425,674)	
Payments for Refunded Bonds	305,887	
Payments to Refunding Bond Escrow Agent	693,061	
Repayment of Bond Principal	166,080	
Bond Premium	(222,536)	
Bond Issuance Costs (Amortization)	<u>5,783</u>	
		(477,399)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Net Decrease (increase) in Accrued Interest	52,945	
Decrease (increase) in Capital Leases	6,731	
Decrease (increase) in Installment Contracts	152	
Decrease (increase) in Compensated Absences	(594)	
Decrease (increase) in Pollution Remediation Liabilities	3,610	
Decrease (increase) in Claims and Judgments	306	
Decrease (increase) in Postemployment Benefit Liabilities	<u>(8,189)</u>	
		54,962

Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. 7,809

**Changes in Net Assets of Governmental Activities as reported on the Statement of Activities** (See page 23) \$ 1,237,602

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



**State of Wisconsin**  
**Balance Sheet**  
**Proprietary Funds**  
**June 30, 2012**

(In Thousands)

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

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	
\$	724,382	\$ 2,292,420	\$	22,454
	12,915	130,251		-
	661	153,220		-
	5,986	37,318		-
	59,566	523,341		1,403
	16,155	53,140		31,078
	-	2,763		74
	-	145,513		-
	6,710	138,956		356
	8,831	50,761		4,711
	37,694	79,639		467
	-	1,288		-
	43	13,069		101
	345	345		-
	873,288	3,622,023		60,644
	159,037	1,623,948		-
	1,136	1,777,614		-
	131,334	290,736		-
	30	83,978		-
	-	184		-
	611	4,762		-
	-	1,222		-
	-	146,479		-
	1,341	4,682		480
	6,491	6,491		-
	188,342	3,876,749		248,809
	34,178	1,928,998		54,978
	522,500	9,745,843		304,268
\$	1,395,788	\$ 13,367,866	\$	364,912
\$	65,103	\$ 276,055	\$	14,557
	41,581	115,365		6,852
	-	335		-
	50,297	50,297		44,725
	554	85,034		2,104
	-	397,350		-
	19,069	21,030		-
	112,419	279,506		-
	1,535	15,046		1,269
	1,414	81,107		9,313
	67,021	149,235		30,496
	353	6,954		236
	4,574	77,770		1,140
	10,940	65,003		13,897
	-	59,170		-
	374,861	1,679,256		124,589
	36,732	36,732		-
	-	927		-
	-	528,890		-
	295,105	878,668		65,259
	1,115	19,595		388
	7,453	70,840		2,700
	26,119	223,972		3,099
	182,588	1,504,875		154,377
	-	814,480		-
	549,112	4,078,979		225,822
	923,973	5,758,235		350,411
	167,984	4,270,087		124,802
	-	1,727,658		-
	-	264,449		-
	-	154,999		-
	241,959	602,656		-
	69,128	485,746		-
	(7,256)	104,036		(110,301)
	471,815	7,609,631		14,501
\$	1,395,788	\$ 13,367,866	\$	364,912
Total Fund Equity Reported Above		\$ 7,609,631		
Adjustment to Reflect the Consolidation of Internal Service Activities Related to Enterprise Funds		1,046		
Net Assets of Business-type Activities		\$ 7,610,678		

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

(In Thousands)

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

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

<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental Activities - Internal Service Funds</b>	
	<b>Nonmajor Enterprise</b>	<b>Totals</b>		
\$	875,975	\$ 912,005	\$	252,520
	1,275,144	2,502,042		-
	-	1,105,144		-
	-	973,562		-
	-	298,984		-
	-	335,815		-
	-	362,783		-
	-	59,672		-
	9,857	39,142		-
	-	21,251		-
	-	754,673		-
	-	92,195		-
	910	275,867		8
	<u>2,161,887</u>	<u>7,733,137</u>		<u>252,528</u>
	275,528	3,114,489		43,901
	165,555	1,289,907		145,142
	320,115	320,115		-
	-	130,929		-
	14,084	252,536		19,946
	1,347,837	3,147,554		30,637
	9,548	49,070		-
	13,157	20,984		-
	<u>2,145,825</u>	<u>8,325,585</u>		<u>239,626</u>
	<u>16,062</u>	<u>(592,447)</u>		<u>12,902</u>
	2,306	68,523		165
	23,298	92,522		21
	-	30,970		-
	2	(33,405)		(1,660)
	(1,912)	(52,307)		(7,021)
	345	191,394		-
	1,298	61,102		2,397
	(133,339)	(133,339)		-
	(2,541)	(2,541)		-
	-	-		(3,829)
	-	(14,125)		-
	<u>(110,542)</u>	<u>208,792</u>		<u>(9,928)</u>
	(94,480)	(383,655)		2,975
	14,814	103,505		-
	-	1,524		-
	89,522	1,265,549		14,662
	(33,385)	(142,716)		(10,759)
	<u>(23,529)</u>	<u>844,207</u>		<u>6,878</u>
	<u>495,343</u>	<u>6,765,425</u>		<u>7,623</u>
\$	<u>471,815</u>	<u>\$ 7,609,631</u>	\$	<u>14,501</u>
Total Net Change in Fund Equity Reported Above	\$	844,207		
Consolidation Adjustment of Internal Services				
Activities Related to Enterprise Funds		(931)		
Change in Net Assets of Business-Type Activities	\$	<u>843,276</u>		

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

(In Thousands)

**Business-type Activities - Enterprise Funds**

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

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

(Continued)

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

(Continued)

**Business-type Activities - Enterprise Funds**

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

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

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

\$	-	\$	2,270	\$	51
	3,002		3,002		-
	14,728		60,705		-
	575		12,479		-



Statement of Fiduciary Net Assets

June 30, 2012

(In Thousands)

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

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

**Statement of Changes in Fiduciary Net Assets  
For the Fiscal Year Ended June 30, 2012**

(In Thousands)

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

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

Notes To The Financial Statements

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## Notes To The Financial Statements

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Basis of Presentation

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

#### B. Financial Reporting Entity

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

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

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

service fund. The State has no legal liability for the obligations of BTASC.

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

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

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

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

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

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

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

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

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

**Blended Component Units**

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

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

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

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

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

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

**Discretely Presented Component Units**

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

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

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

*University of Wisconsin Hospitals and Clinics Authority* – The University of Wisconsin Hospitals and Clinics Authority (Hospital) is a not-for-profit academic medical center. The Hospital operates an acute-care hospital with approximately 480 available beds, numerous specialty clinics, and seven ambulatory facilities providing comprehensive health care to patients, education programs, research and community service to residents of southern Wisconsin. Prior to June 1996, the Hospital was a unit of the University of Wisconsin-Madison. In June 1996, in accordance with legislation enacted by the State Legislature, the Hospital was restructured as a Public Authority, a public body corporate and politic created by State statutes. The State

appoints a majority of the Hospital's Board of Directors and a financial benefit/burden relationship exists between the Hospital and the State. The Hospital reports on a June 30 fiscal year-end.

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

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

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

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

## Related Organizations

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

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

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

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

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

## C. Government-wide and Fund Financial Statements

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

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

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

statement. Fiduciary funds are also exempt from major fund reporting and are aggregated by fund type and ultimately reported as single columns on the fiduciary statements.

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

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

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

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

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

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

Governmental funds are reported on the modified accrual basis of accounting. This basis of accounting recognizes revenues generally when they become measurable and available to pay current reporting period liabilities. For this purpose, the State

considers tax revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Other revenues are considered to be available if received within one year after the fiscal year end except for tobacco settlement revenues for which just one-half of revenues expected to be received within one year are recognized. Material revenue sources susceptible to accrual include individual and corporate income taxes, sales taxes, public utility taxes, motor fuel taxes and federal revenues.

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

The State reports the following major funds:

#### **Major Governmental Funds**

- *General Fund* – the primary operating fund of the State, accounts for all financial transactions except those required to be accounted for in another fund.
- *Transportation Fund* – a special revenue fund, accounts for the proceeds from motor fuel taxes, vehicle registrations, licensing fees, and federal and local governments which are used to supply and support safe, efficient and effective transportation in Wisconsin.
- *Common School Fund* – a permanent fund, accounts for revenues received from the sale of federally granted land, fines and forfeitures from penal law branches, and the disposal of escheated property. These moneys are used for public purpose loans to municipalities and school districts. Earnings of this fund are distributed to local school districts and to cover administrative costs incurred by the Public Lands Commission.

#### **Major Enterprise Funds**

- *Injured Patients and Families Compensation Fund* – accounts for the program to provide excess medical malpractice insurance for Wisconsin health care providers. The revenues to finance this insurance are primarily derived from assessments against health care providers.
- *Environmental Improvement Fund* – accounts for financial resources generated and used for clean water projects. Federal capitalization grants, interest earnings, revenue bond proceeds, and general obligation bond proceeds are its primary funding sources.



- *University of Wisconsin System Fund* – accounts for the 13 universities, 13 two-year colleges, the University of Wisconsin Extension and System Administration.
- *Unemployment Reserve Fund* – accounts for unemployment contributions made by employers, federal program receipts, benefit payment recoveries and unemployment benefits paid to laid off workers in the State.

In addition, the State reports the following fund types:

#### **Governmental Funds**

- *Special Revenue Funds* – account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Examples include the Conservation Fund and the Petroleum Inspection Fund.
- *Debt Service Funds* – account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Financial resources that are being accumulated for future principal and interest are also reported in debt service funds.
- *Capital Projects Funds* – account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those financed by proprietary funds or that will be held in trust for individuals, private organizations, or other governments).
- *Permanent Funds* – account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the State's programs – that is, for the benefit of the State or its citizenry.

#### **Proprietary Funds**

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

#### **Fiduciary Funds**

- *Pension and Other Employee Benefit Trust Funds* – account for the Wisconsin Retirement System as well as other employee benefit programs including accumulated sick leave, duty disability, employee reimbursement accounts, life insurance, and retiree life insurance.
- *Investment Trust Funds* – account for the local government investment pool managed by the State Treasurer and the Milwaukee Retirement System.
- *Private-purpose Trust Funds* – account for the State-sponsored college savings programs and the BadgerRx for Individuals Fund.
- *Agency Funds* – account for the assets of liquidated insurance companies to insure payments to claimants, transactions of the retiree health insurance program, assets held by the State for inmates and residents of state facilities, deposits of bank and insurance companies doing business in the state, and the collection and disbursement of court-ordered support payments.

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

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

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

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

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

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

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

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

### **1. Cash and Cash Equivalents**

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

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

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

### **2. Investments**

#### **Primary Government**

The State may invest in direct obligations of the United States and Canada, securities guaranteed by the United States, certificates of deposit issued by banks in the United States and solvent financial institutions in the State, commercial paper and

nonsecured corporate notes and bonds, bankers acceptances, participation agreements, privately placed bonds and mortgages, common and preferred stock and other securities approved by applicable sections of the Wisconsin Statutes, bond resolutions, and various trust indentures (see Note 5 to the financial statements).

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

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

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

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

**Component Units**

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

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

Investments of the University of Wisconsin Hospitals and Clinics Authority (the Hospital) in equity securities with readily

determinable fair values and all investments in debt securities are reported at fair value based on quoted market prices.

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

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

**3. Mortgage and Other Loans**

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

Mortgage loans of the Veterans Mortgage Loan Repayment Fund and the Veterans Trust Fund programs, business-type activities, are stated at the outstanding loan balance less an allowance for doubtful accounts.

**4. Forestation State Tax**

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

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

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

**5. Interfund Assets/Liabilities**

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

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

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

**6. Inventories and Prepaid Items**

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

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

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

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

**7. Capital Assets**

Capital assets, which include property, plant, equipment, intangibles, land and infrastructure assets (roads, bridges, and buildings considered an ancillary part of roads), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Assets of the primary government, other than infrastructure and land purchased for the construction of infrastructure assets, are capitalized when they have a unit cost of \$5,000 or more (except for a collection of library resources that must have a cumulative value equal to or greater than \$5.0 million) and a useful life of two or more years. In addition, internally generated intangible assets are capitalized only if costs are equal to or are greater than \$1.0 million. Assets of the discretely presented component units are capitalized when they have a unit cost of \$5,000 or more, except for the University of Wisconsin Foundation, which capitalizes assets greater than \$2,500.

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

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

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

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

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

**8. Restricted and Limited Use Assets**

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

**9. Local Assistance Aids**

**Municipal and County Shared Revenue Program**

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

At June 30, 2012, the State was liable to various local governments for unpaid shared revenue aid. To measure the amount of the program allocable to the State's fiscal year, the amount is prorated over portions of recipient local governments' calendar fiscal years that are within the State's fiscal year. The result is that a liability of \$438.4 million representing one-half of the total appropriated amount is reported at June 30, 2012 as Due to Other Governments.

**State Property Tax Credit Program**

At June 30, 2012, the State was liable to various taxing jurisdictions for the school levy, the first dollar, and the lottery

property tax credits paid through the State Property Tax Credit Program.

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

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

Under the lottery property tax credit, owners of property used as a primary residence receive a tax credit equal to the school property tax on a portion of the dwelling's value.

State statutes require that payment to local taxing jurisdictions for the school levy and first dollar tax credits be made during July. Although the state property tax credit is calculated on the property tax levy for school purposes, the State's July payment is paid to an administering municipality who treats the payment the same as other tax collections and distributes the collections to the various tax levying jurisdictions (e.g., cities, towns, and school districts).

The portion of the liability payable to school districts for the school levy and first dollar tax credits represents the amount of the July payment earned over the school districts' previous fiscal year ended June 30. Since the entire school districts' portion of the July payment occurs within the State's fiscal year, 100 percent of the July payment relating to the school taxing jurisdictions' levy is reported as a liability at June 30, 2012.

The portion of the liability payable to general government for the school levy and first dollar tax credits represents the amount of the July payment prorated over the portion of the local governments' calendar year which is within the State's fiscal year. The result is that 50 percent of the July payment based on the general government taxing jurisdictions' levy is reported as a liability at June 30, 2012.

The aggregated State Property Tax Credit Program liability of \$680.8 million is reported in the General Fund as Due to Other Governments. Of that amount, \$568.7 million relates to the school levy tax credit and \$112.1 million relates to the first dollar tax credit. Beginning with the State's fiscal year 2010, a portion of the school tax credit is funded by the Lottery Fund. For FY 2012, the Lottery funded \$14.9 million of the credit.

The lottery tax credit is accounted for in the Lottery Fund, an enterprise fund that records revenues and expenses on the accrual basis. The State pays municipal treasurers for lottery credits who distribute the moneys to the various taxing jurisdictions. For credits reducing the calendar year 2012 property tax bills, the State made this payment in March 2012. A portion of the State's March payment distributed to the general government taxing jurisdictions applies to their fiscal year that

ends on December 31. Therefore, part of the March distribution represents an expense of the State in Fiscal Year 2012, while the remaining portion represents a prepaid item. The resulting prepaid item reported within the Lottery Fund totals \$32.3 million at June 30, 2012.

**State Aid for Exempt Computers**

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

At June 30, 2012, the State was liable to various local governments and other taxing jurisdictions for unpaid exempt computer aid payments of \$57.5 million.

**10. Long-term Debt Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt is reported as a liability. Bond premiums and discounts, as well as issuance costs, are deferred and amortized using the effective interest rate method on a prospective basis beginning in Fiscal Year 2004, except for the annual appropriation bonds that are amortized ratably over the life of the obligations to which they relate. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges.

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

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

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

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

**11. Compensated Absences**

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

**Annual Leave**

Full-time employees' annual leave days are credited on January 1 of each calendar year in general at a minimum of 15 or 13 days per year, depending on Fair Labor Standards Act (FLSA) status. There is no requirement to use annual leave. However, unused leave is lost unless approval to carry over the unused portion is obtained from the employing agency. Generally, compensatory time accumulates for eligible employees for hours worked in excess of forty hours per week. In general, each full-time employee is eligible for four and one-half personal holidays each calendar year, provided the employee is in pay status for at least one day in the year. If a holiday occurs on a Saturday, employees receive leave time proportional to their working status to use at their discretion.

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

**Sick Leave**

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

**12. Unearned and Deferred Revenue**

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

Unearned revenue of the University of Wisconsin System consists of payments received but not earned at June 30, 2012, primarily for summer session tuition, tuition and room deposits for the next fall term, advance ticket sales for upcoming intercollegiate athletic events, and amounts received from grant and contract sponsors that have not yet been earned under the terms of the agreement.

Deferred revenue, reported in the governmental fund statements, represents revenues that are unavailable and consequently not susceptible to accrual. That is, under modified accrual accounting, revenue is not recognized until it is both measurable and available to finance expenditures of the current period.

**13. Self-Insurance**

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

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

**14. Fund Balance Classification and Restricted Net Assets/Fund Equity****Fund Balance Classification**

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

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

**Restricted Net Assets/Fund Equity**

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



**NOTE 2. DETAILED RECONCILIATION OF THE GOVERNMENT-WIDE AND FUND STATEMENTS****A. Explanation of Differences Between the Balance Sheet – Governmental Funds and the Statement of Net Assets**

During the year ended June 30, 2012, the following adjustments and reclassifications were necessary to reconcile the information from the fund-based Balance Sheet – Governmental Funds to the amounts presented in the governmental section of the Statement of Net Assets (in thousands). The differences result primarily from the long-term economic focus of the Statement of Net Assets compared to the current financial focus of the Balance Sheet – Governmental Funds.

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

- (1) Long-term asset and liability differences arise because governmental funds focus only on short-term financing (that is, resources that will be available to pay for current period expenditures). In contrast, the Statement of Net Assets has a long-term economic focus and reports on all capital and financial resources.
- (2) The adjustment for internal service funds reflects the reclassification of these funds for the government-wide statement. The assets and liabilities of these funds are reported as proprietary activities on the fund statements, but are included as governmental activities on the Statement of Net Assets.
- (3) Various reclassifications are necessary due to the differing level of detail needed on each of the statements. Eliminations are done on the Statement of Net Assets to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government. The net residual amounts due between governmental and business-type activities are shown as internal balances.

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

During the year ended June 30, 2012, the following adjustments and reclassifications were necessary to reconcile the information from the fund-based Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the amounts presented in the governmental section of the Statement of Activities (in thousands). The differences result primarily from the long-term economic focus of the Statement of Activities compared to the current financial focus of the Statement of Revenues, Expenditures, Changes in Fund Balance – Governmental Funds.

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

- (1) Long-term revenue differences arise because governmental funds report revenues only when they are considered "available," while government-wide statements report revenues when earned. Long-term expense differences arise because governmental funds report operating expenses (including interest) using the modified accrual basis of accounting, while government-wide statements report using the accrual basis of accounting.
- (2) Capital-related adjustments consist of the difference between proceeds for the sales of capital assets and the gain or loss from the sales of capital assets, and from the difference between capital outlay expenditures recorded in the governmental funds and depreciation expense recorded in the government-wide statements.
- (3) The adjustment for internal service funds reflects the elimination of these funds from the government-wide statement, which is accomplished by charging/refunding additional amounts to participating governmental activities to completely offset the internal service funds' cost for the year.

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

- (4) Long-term debt transaction differences consist of bond proceeds and principal repayments reported as other financing sources and expenditures in governmental funds, but as increases and decreases in liabilities in the government-wide statements.
- (5) Intra-entity activity within the same function is eliminated to remove the grossing up of both direct expenses and program revenues within that category.
- (6) Revenue and expense reclassifications are necessary due to the differing level of detail needed on each of the statements. In addition, the Statement of Activities focuses on program revenue, which has been redefined from the traditional revenue source categories.

**NOTE 3. BUDGETARY CONTROL**

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

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

**NOTE 4. DEFICIT FUND BALANCE/FUND EQUITY, RESTRICTED NET ASSETS, BUDGET STABILIZATION ARRANGEMENT, MINIMUM FUND BALANCE POLICY and FUND BALANCE OF GOVERNMENTAL FUNDS.**

**A. Deficit Fund Balance/Fund Equity**

In addition to the General Fund, funds reporting a deficit fund balance, fund equity, or net assets position at June 30, 2012 are (in thousands):

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

**B. Restricted Net Assets**

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, which amends GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, provides guidance in determining when net assets have been restricted to a particular use by the passage of enabling legislation and how those net assets should be reported in financial statements when there are changes in the circumstances surrounding such legislation. Net assets restricted by enabling legislation were as follows on June 30, 2012 (in thousands):

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

**C. Budget Stabilization Arrangement**

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

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

The balance of the budget stabilization arrangement as of June 30, 2012 was \$125.5 million.

**D. Minimum Fund Balance**

Wisconsin Statutes 20.003(4) establishes a minimum General Fund balance. Under the statutes, no bill directly or indirectly affecting general purpose revenues as defined in Wisconsin Statutes 20.001(2)(a) may be enacted by the legislature if the bill would cause the estimated General Fund balance on June 30 of any fiscal year to be an amount equal to or less than the amount specified for that fiscal year. The minimum required balance for the fiscal year ending June 30, 2012 was \$65.0 million.

**E. Fund Balance for Governmental Funds**

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

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

**NOTE 5. DEPOSITS AND INVESTMENTS**

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

**A. Deposits**

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

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

**1. Primary Government**

As of June 30, 2012, \$202.3 million of the primary government's bank balance of \$1.6 billion was exposed to custodial credit risk as follows (in millions):

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Uninsured and uncollateralized	\$ 202.3
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Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit. Deposits in foreign currency at June 30, 2012 are immaterial. The primary government does not have a formal policy specifically related to foreign currency risk.

The State's Unemployment Reserve Fund had \$11.3 million on deposit with the U.S. Treasury. This amount is presented as Cash and Cash Equivalents and is not included in the carrying amount of deposits nor is it categorized according to risk because it is neither a deposit with a financial institution nor an investment.

**2. Component Units**

The bank balance of deposits of the Wisconsin Housing and Economic Development Authority at June 30, 2012, the Wisconsin Health Care Liability Insurance Plan at December 31, 2011, the University of Wisconsin Hospitals and Clinics Authority at June 30, 2012, and the University of Wisconsin Foundation at December 31, 2011, was \$169.8 million.

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

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Uninsured and uncollateralized	\$ 167.3
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## B. Investments

### 1. Primary Government

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

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

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

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

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

commercial paper; bonds issued by a local district created under Wisconsin Act 229; and investment agreements with a bank, bank holding company, insurance company or other financial institution.

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

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

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

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

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

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

The University of Wisconsin System (UWS) investment policies and guidelines are governed and authorized by the Board of Regents. The current approved asset allocation policy for long-term funds sets a general target of 35.0 percent marketable equities, 30.0 percent fixed income, and 35.0 percent alternatives. The approved asset allocation for intermediate term funds is 15.0 percent marketable equities, 70.0 percent fixed income, 10.0 percent alternatives and 5.0 percent cash. These target allocations were last affirmed/approved in December 2011.



**Wisconsin Retirement System (WRS)**

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

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

Investments of the variable retirement trust fund are authorized under Wis. Stat. Sec. 25.15 and 25.17. Wis. Stat. Sec. 25.17(5) states assets of the variable retirement trust fund shall be invested primarily in equity securities which shall include common stocks, real estate or other recognized forms of equities whether or not subject to indebtedness, including securities convertible into common stocks and securities of corporations in the venture capital stage. The variable retirement trust fund consists primarily of common stock and bonds convertible into common stock, although, because of existing conditions in the securities market, there may temporarily be other types of investments.

**Custodial Credit Risk**

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

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

At June 30, 2012, the reported amount of investments of the primary government, including the various funds, was \$5,688.4 million, of which \$722.6 million is reported as cash equivalents and \$338.3 million is reported as "Other Assets". The primary government, including the various funds, does not have an investment policy specifically for custodial credit risk, however, at June 30, 2012, the primary government had no custodial credit risk exposure for these investments.

**University of Wisconsin System (UWS)**

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

**Wisconsin Retirement System (WRS)**

At June 30, 2012, the WRS investments were \$78.1 billion. The WRS does not have a formal policy for custodial credit risk. As of June 30, 2012, the WRS held repurchase agreements totaling \$1.6 billion. The securities lending collateral account and cash management account participate in repurchase agreement pools, purchasing only a portion of a repurchase agreement in which the manager of these accounts is the buyer-lender. Since the manager that purchased the repurchase agreements is the counterparty, the securities are not held in the WRS's name. They are held in the counterparty's name and held by the counterparty's agent.

**Interest Rate Risk**

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

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

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

The following table provides information about the interest rate risks associated with the primary government's investments, except those of the various funds. The investments include certain short-term cash equivalents, and various long-term items.

At June 30, 2012, the primary government's investments were (in millions):

Investment Type	Investment Maturities				Fair Value
	Less Than 1 Year	1 to 5 Years	6 to 10 years	More Than 10 Years	
U.S. Government and U.S. agency holdings	\$ 95.7	\$ 26.9	\$ 20.4	\$ 4.2	\$ 147.2
State and municipal bonds and notes	21.6	57.8	161.4	239.5	480.3
Corporate notes and bonds	.1	.4	.2	--	.7
Repurchase agreements	7.6	--	--	--	7.6
Forward delivery agreements	47.7	--	--	--	47.7
Money market funds	323.8	--	--	--	323.8
Mutual funds – open ended	2.7	95.0	690.6	--	788.3
Mutual funds –closed ended	1,874.0	.2	.5	.1	1,874.8
Total	\$ 2,373.2	\$ 180.3	\$ 873.0	\$ 243.8	\$ 3,670.3

External Investment Pool

Investments of the Retiree Life Insurance Fund and the Life Insurance Fund (reported as pension and other employee benefit trust funds) are held in an external investment pool with the investment objective of maintaining levels in its general account sufficient to guarantee principal amounts of reserves. The interest rate exposure of this pool expressed in terms of duration and the weighted average life is 5.05 and 6.7 years respectively.

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

As of May 31, 2012, the Badger Tobacco Asset Securitization Corporation's investments were as follows (in millions):

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

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

	Various Funds									
	Duration for Fixed Income Securities (in years)									
	LGPIF		SLF		IPFCF		Historical Society		Tuition Trust	
	Fair Value	Duration	Fair Value	WAM	Fair Value	Duration	Fair Value	Duration	Fair Value	Duration
Government/										
Agency	\$ 5.6	.45	\$ 45.3	14.39	\$ 294.9	5.28	\$ --	--	\$ 5.6	3.33
Corporate	--	--	67.1	16.76	484.1	5.85	--	--	0.7	3.64
Bond Funds	--	--	--	--	--	--	2.5	5.68	--	--
Total/Average	<u>\$ 5.6</u>	.45	<u>\$ 112.4</u>	15.80	<u>\$ 779.0</u>	5.64	<u>\$ 2.5</u>	5.68	<u>\$ 6.3</u>	3.37

#### University of Wisconsin System (UWS)

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

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

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

#### Wisconsin Retirement System (WRS)

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

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

Interest rate risk exposure as of June 30, 2012, stated in terms of modified duration and weighted average maturity, is presented below (in millions):

Investment Type	WRS	
	Fair Value*	Modified Duration (Years)
Asset Backed Securities	\$ 17.4	5.35
Certificates of Deposit	11.0	0.37
Commercial Paper	112.0	0.16
Corporate Bonds/Private Placements	5,243.8	4.98
Corporate Bonds/Private Placements	18.8	N/A
Futures Contracts	603.7	8.22
U.S. Government Agency	785.7	2.16
Municipal Bonds	101.6	10.85
Repurchase Agreements	220.0	0.01
Foreign Government/ Agency Bonds	3,411.1	7.17
U.S. Treasury Inflation Protected Securities	3,936.4	8.26
U.S. Treasury Securities	2,396.4	7.26
	<u>\$16,857.9</u>	

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

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

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

\*Notional amount presented for futures contracts

**Credit Quality Risk**

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

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

The primary government, except for the various funds discussed later, follows Wisconsin Statutes, program policy provisions, appropriate governing boards, and general resolutions contained in revenue bond indenture documents limits investments in public housing bonds issued by public agencies or municipalities, the State of Wisconsin, interest-bearing time deposits, certificates of deposit or other similar banking arrangement, shares of a diversified open-end management investment company repurchase agreements and investment agreements to a rating no lower than the rating assigned to the bonds. Investments in all other permitted debt securities are required to bear the highest rating available from each nationally recognized rating agency. In addition, credit risk of certain funds such as the Retiree Life Insurance Fund is minimized by monitoring portfolio diversification by asset class, creditor and industry and by complying with investment limitations governed by insurance laws and regulations.

As of June 30, 2012, the above mentioned investments for the primary government including the various funds were rated by Standard and Poor's, Moody's Investors Service, and Fitch Ratings and the ratings are presented below using the Standard and Poor's rating scale (in millions):

Primary Government (excluding the various funds, UWS, WRS and SIF)	
Credit Quality Ratings	Fair Value
AAA	\$ 238.5
AA	921.3
A	304.2
BBB	.2
BB	.1
Not Rated	658.1
Total	<u>\$ 2,122.4</u>

The various funds' (except for the Tuition Trust Fund) investments guidelines provide that issues be rated "A-" or better at the time of purchase based on the minimum credit ratings as issued by nationally recognized rating agencies. IPFCF guidelines provide that at the time of purchase at least 80 percent of the bond portfolio must be rated "A3/A-" or better. The Tuition Trust Fund guidelines do not specifically list a minimum credit quality.

The following schedule displays the credit ratings at June 30, 2012, for the various funds (in millions):

	<b>Various Funds</b>				
	<u>LGPIF</u>	<u>SLF</u>	<u>IPFCF</u>	<u>Historical Society</u>	<u>Tuition Trust</u>
	<u>Fair Value</u>	<u>Fair Value</u>	<u>Fair Value</u>	<u>Fair Value</u>	<u>Fair Value</u>
AAA	\$ --	\$ 1.1	\$ 19.0	\$ --	\$ --
AA	5.6	48.0	323.2	--	5.7
A	--	40.2	292.9	--	.3
BBB	--	21.8	131.0	--	.2
BB	--	.6	9.5	--	.1
B	--	.7	3.4	--	--
CCC	--	--	--	--	--
Bond Fund	--	--	--	2.5	--
<b>Totals</b>	<u>\$ 5.6</u>	<u>\$ 112.4</u>	<u>\$ 779.0</u>	<u>\$ 2.5</u>	<u>\$ 6.3</u>

**University of Wisconsin System (UWS)**

For the Long Term Fund, fund-level asset allocation constraints limit exposure to below investment grade debt securities to no more than 20.0 percent; for the Intermediate Term Fund, exposure is limited to 15.0 percent. The UWS currently holds below investment grade securities within commingled vehicles representing 6.0 percent of total assets of the Long Term Fund and 6.3 percent of total assets of the Intermediate Term Fund. In addition, actively-managed, investment grade fixed income separate accounts must maintain an average portfolio quality of AA by Standard & Poor's and/or Aa by Moody's, and hold only securities rated BBB- by Standard & Poor's and/or Baa3 by Moody's or higher.

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

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

**Wisconsin Retirement System (WRS)**

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

The following schedule displays the lowest credit rating available as rated by several nationally recognized statistical rating organizations on debt securities held as of June 30, 2012 (in millions). Obligations of the United States Treasury and obligations explicitly guaranteed by the U.S. government have been included in the AA rating below although they are considered to be without credit risk.

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

**Reverse Repurchase Agreements**

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

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

**Concentration of Credit Risk**

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

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

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

The primary government's, except for the various funds, largest concentration by a single issuer is the State of Wisconsin Global Certificates with approximately 4.4 percent and State of Wisconsin general obligation bonds with approximately 6.1 percent of investments.

With the exception of the Tuition Trust Fund, the various funds investment guidelines limit concentrations of credit risk by establishing maximum issuer and/or sector exposure limits. Generally, the guidelines provide that no single issuer may exceed 5 percent of the fund investments, with the exception of U.S. Government and its agencies, which may be unlimited. The LGPIF further limits AAA-rated mortgage-backed, AAA-rated asset-backed and individual corporate issuers to 3 percent of the market value of the fund investments. None of these issuers were owned at fiscal year end.

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

**University of Wisconsin System (UWS)**

Actively-managed, fixed income separate accounts are limited to holding no more than 7.0 percent in any one issuer (U.S. Government/Agencies are exempted). During fiscal year 2012, the largest concentration in a non-U.S. Government/Agency was Citigroup, which represented 0.5 percent of total Trust Funds assets, compared to a 0.4 percent exposure to JP Morgan Chase in fiscal year 2011.

**Wisconsin Retirement System (WRS)**

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

**Foreign Currency Risk**

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

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

The primary government, except for the various funds discussed later, does not have a formal policy to limit foreign currency risk, however, certain funds such as the Environmental Improvement Fund are not permitted to invest in foreign currency based on provisions contained in its bond indenture general resolution. However, foreign currency risk of the Retiree Life Insurance Fund is minimized by utilizing short-duration spot forward contracts to minimize the adverse impact of foreign currency exchange rate risks inherent in the elapsed time between trade processing and trade settlement.

At June 30, 2012, the primary government, except for the various funds, did not own any issues denominated in a foreign currency.

The various fund's investment guidelines do not specifically address foreign currency risk with the exception that SLF only allows investments in U.S. dollar denominated instruments. As of June 30, 2012, the various funds did not own any issues denominated in a foreign currency.

**University of Wisconsin System (UWS)**

As of June 30, 2012, the Long Term and Intermediate Term Funds held equity securities denominated in foreign currencies within pooled investment vehicles only, with market values totaling \$100.5 million and \$7.3 million, respectively, compared to prior fiscal year amounts of \$108.9 million and \$6.7 million,

respectively. Some of the trades for such foreign positions will not settle in foreign currencies until after the fiscal year end. For the Long Term and Intermediate Term Funds, it is generally expected and desired that foreign currency exposure is not hedged, as this enhances the diversification benefits from non-U.S. investments.

**Wisconsin Retirement System (WRS)**

The WRS held foreign currency denominated cash and securities directly in designated actively managed portfolios and indirectly through its investment in certain commingled invest funds.

As of June 30, 2012, the WRS had the following currency exposure (all assets stated in millions of United States Dollars):

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



## Securities Lending Transactions

### Wisconsin Retirement System (WRS)

*Securities Lending Transactions* – State statutes and Board policies permit the use of investments of the WRS to enter into securities lending transactions. These transactions involve the lending of securities to broker-dealers and other entities in exchange for collateral, in the form of cash or securities, with the simultaneous agreement to return the collateral for identical securities in the future. The securities custodian is an agent in lending the domestic and international securities. When domestic securities are delivered to a borrower as part of a securities lending agreement, the borrower is required to place collateral equal to 102 percent of the loaned securities' fair value, including interest accrued, as of the delivery date with the lending agent. In the event that foreign securities are loaned against collateral denominated in a different currency, the borrower is required to place collateral totaling 105 percent of the loaned securities' fair value, including interest accrued, as of the delivery date with the lending agent. Collateral is marked to market daily and adjusted as needed to maintain the required minimum level.

The cash collateral is reinvested by the lending agent in two separate pools, a U.S. dollar cash collateral pool and a pool denominated in Euros, in accordance with the contractual investment guidelines, which are designed to insure the safety of principal and obtain a modest rate of return. The investment guidelines limit new investments to overnight repurchase agreements collateralized with high quality U.S. government and sovereign debt securities. The earnings generated from the collateral investments, plus or minus the rebates paid to or received from the dealers and less fees paid to agents, results in the net earnings from lending activities, which are then split on a percentage basis with the lending agent.

In accordance with money market mutual fund industry standards, the cash collateral reinvestment pools are valued at amortized cost. The amortized or book value of a fund's assets and underlying fair market value of the assets may differ based on market conditions. The pools' market value relative to its amortized cost is expressed as net asset value (NAV) and is derived by dividing total market value by amortized cost. As of June 30, 2012, the U.S. dollar cash collateral reinvestment pool's NAV was 0.9979 while the foreign reinvestment pool had a NAV of 1.0000.

At fiscal year-end, minimal credit risk exposure to borrowers existed because the amounts owed the borrowers exceeded the amounts the borrowers owed. The contract with the lending agent requires it to indemnify the WRS if the borrowers fail to return the loaned securities and the collateral is inadequate to replace the securities lent. Losses resulting from violations of investment guidelines are also indemnified.

The majority of securities loans can be terminated on demand. The average term of the loans is less than one week, while the weighted average maturity/days to reset is four days for investments made with the U.S. dollar cash collateral and three days for investments made with Euro cash collateral at June 30, 2012.

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

## Derivative Financial Instruments

### Various Funds

*Interest Only Strips* — Interest only strips are securities that derive cash flow from the payment of interest on underlying debt securities. The Tuition Trust Fund held several interest only strips for yield enhancing purposes. Because the underlying securities are United States Treasury obligations, the credit risk is low. On the other hand, interest only strips are more volatile in terms of pricing, and thus the market risk is higher than traditional United States Treasury obligations.

As of June 30, 2012 the Tuition Trust Fund held interest only strips valued at \$5.6 million representing approximately 75.9 percent of portfolio investments.

### Wisconsin Retirement System (WRS)

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

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

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

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

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

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

**Foreign Currency Spot and Forward Contracts** — Currency exposure management is permitted through the use of exchange traded currency instruments and through the use of over-the-counter spot and forward contracts in foreign currencies. Direct hedging of currency exposure back to the U. S. dollar is permitted when consistent with the strategy of the portfolio. Cross-currency exposure management to transfer out of an exposed currency and into a benchmark currency is permitted. In some portfolios, currencies of non-benchmark countries may be held through the use of forward contracts, provided that the notional value of any single non-benchmark currency does not exceed 5 percent of the market value of the portfolio.

Discretionary currency overlay strategies at the total fund level may be employed when currency market conditions suggest such strategies are warranted. Only the currencies of developed market countries in the MSCI World Index may be used to implement a currency overlay.

No cash is exchanged when a foreign exchange spot or forward contract is initiated. Amounts due are paid or received on the contracted settle date. The net receivable or payable for spot and forward contracts is included in Other Receivables on the Statement of Fiduciary Net Assets. Losses may arise from future changes in the value of the underlying currency, or if the counterparties do not perform under the terms of the contract. Spot and forward contracts are valued daily with the changes in fair value included in the Net Appreciation (Depreciation) in Fair Value of Investments on the Statement of Changes in Fiduciary Net Assets.

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

During the fiscal year currency exposure management involved the use of foreign currency spot and forward contracts. The following table presents the fair value of foreign currency spot and forward contract assets and liabilities held as of June 30, 2012 (in millions).

Foreign Currency Spot and Forward Contracts		
Currency	Notional (local currency)	Fair Value of Foreign Currency Contracts Receivable (\$US)
<b>Foreign Currency Contracts Sold</b>		
AUSTRALIAN DOLLAR	286.9	\$ 7.0
BRAZIL REAL	20.0	0.2
BRITISH POUND STER.	212.2	2.6
CANADIAN DOLLAR	547.5	4.6
CHILEAN PESO	4,498.4	(0.2)
DANISH KRONE	154.7	0.5
EURO CURRENCY UNIT	149.3	2.9
HONG KONG DOLLAR	295.7	--
HUNGARIAN FORINT	1,445.7	(0.2)
ISRAELI NEW SHEKEL	53.4	0.1
JAPANESE YEN	25,174.4	(1.1)
MEXICAN NEW PESO	101.0	(0.1)
NEW ZEALAND DOLLAR	3.9	--
NORWEGIAN KRONE	130.6	0.3
POLISH ZLOTY	31.4	0.5
SOUTH AFRICAN RAND	21.0	--
SINGAPORE DOLLAR	43.2	0.1
SOUTH KOREAN WON	204.9	--
SWEDISH KRONA	708.1	2.8
SWISS FRANC	62.9	1.0
TURKISH LIRA	29.6	0.3
		\$ 21.3
Currency	Notional (local currency)	Fair Value of Foreign Currency Contracts Payable* (\$US)
<b>Foreign Currency Contracts Purchased</b>		
AUSTRALIAN DOLLAR	(107.5)	\$ (1.7)
BRAZIL REAL	(28.9)	0.3
BRITISH POUND STER.	(358.9)	(2.0)
CANADIAN DOLLAR	(171.1)	(1.5)
COLOMBIAN PESO	(4,169.7)	--
DANISH KRONE	(44.8)	(0.1)
EURO CURRENCY UNIT	(173.8)	(2.7)
HONG KONG DOLLAR	(159.7)	--
HUNGARIAN FORINT	(1,445.7)	(0.1)
INDIAN RUPEE	(7.0)	--
INDONESIAN RUPIAH	(368.3)	--
ISRAELI NEW SHEKEL	(70.5)	(0.2)
JAPANESE YEN	(11,469.2)	0.2
MALAYSIAN RINGGIT	(60.1)	(0.2)
MEXICAN NEW PESO	(13.6)	--
NEW TAIWAN DOLLAR	(2.7)	--
NEW ZEALAND DOLLAR	(10.2)	(0.4)
NORWEGIAN KRONE	(18.5)	(0.1)
PERUVIAN NUEVO SOL	(17.0)	(0.1)
SOUTH AFRICAN RAND	(59.1)	0.1
SOUTH KOREAN WON	(4,454.1)	--
SWEDISH KRONA	(302.5)	(0.4)
SWISS FRANC	(124.2)	(2.1)
TURKISH LIRA	(7.9)	--
		\$ (11.0)
<b>Net Foreign Exchange Currency Spot and Forward Contracts</b>		\$ 10.3

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

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

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

**Futures Contracts** – A futures contract is an exchange traded agreement to buy or sell a financial instrument at an agreed upon price and time in the future. Upon entering into a futures contract, collateral is deposited with the broker, in SWIB's name, in accordance with initial margin requirements. Collateral for futures contracts can be in the form of cash, U.S. Treasuries and equity securities. Futures contracts are marked to market daily, based upon the closing market price of the contract at the board of trade or exchange on which they are traded. The resulting gain/loss is typically received/paid the following day until the contract expires.

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

Futures contracts involve, to varying degrees, risk of loss in excess of margin deposited with the broker. Losses may arise from future changes in the value of the underlying instrument.

Futures contracts may be entered into for the following objectives: facilitate asset class rebalancing, adjust sector exposures, protect portfolios against the risk of changing asset values or interest rates, enhance liquidity, aid in cash flow management, manage interest rate exposure, adjust duration, equitize cash and receivables or as a substitute for cash market transactions.

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

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

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

**Options** – An option contract gives the purchaser of the contract the right, but not the obligation, to buy (call) or sell (put) the security or index underlying the contract at an agreed upon price on or before the expiration of the option contract. The seller of the contract is subject to market risk, while the purchaser is subject to credit risk and market risk, to the extent of the premium paid to enter into the contract.

Rebalancing policies and portfolio investment guidelines permit the use of exchange traded and over-the-counter options. Options may be used to improve the efficiency or to enhance the expected return of strategic rebalancing procedures. Also, options may be purchased or sold in conjunction with managing asset class exposure if the exercise of the options will move the asset allocation closer to the target established by the Board. The aggregate notional value of the options provided by rebalancing policies is limited to 2 percent of the market value of the trust fund at the date of purchase. The term of options used for this purpose may not exceed one year.

The fair value of option contracts is based upon the closing market price of the contract and is reflected as Options on the Statement of Fiduciary Net Assets. Gains and losses as a result of investments in option contracts are included in the Net Appreciation (Depreciation) in the Fair Value of Investments on the Statement of Changes in Fiduciary Net Assets. The table below presents the fair value of option contracts held as of June 30, 2012 (in millions).

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

**Multi Asset****Wisconsin Retirement System (WRS)**

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

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

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

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

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

**Unfunded Capital Commitments****University of Wisconsin System (UWS)**

The UWS has unfunded limited partnership commitments of \$24.4 million for the fiscal year ending June 30, 2012, relative to \$26.0 million for the fiscal year ending June 30, 2011.

**Wisconsin Retirement System (WRS)**

The Board has committed to fund various limited partnerships and side-by-side agreements related to its private equity and real estate holdings. Commitments that have not been funded total \$5.5 billion as of June 30, 2012.

**2. Component Units****Component Units except for the Wisconsin Health Care Liability Insurance Plan and the University of Wisconsin Foundation (Other Component Units)**

*Wisconsin Housing and Economic Development Authority (Authority)* – The Authority is required by statute to invest at least fifty percent of its General Fund funds in obligations of the State, of the United States, or of agencies or instrumentalities of the United States, or obligations, the principal and interest of which are guaranteed by the United States, or agencies or instrumentalities of the United States. Each investment portfolio specifies what constitutes a permitted investment and such investments may include obligations of the U.S. government and agencies securities; corporate bonds and notes; money market mutual funds; commercial paper; and repurchase agreements and investment agreements.

The Authority enters into collateralized investment contracts with various financial institutions. The investment contracts are generally collateralized by obligations of the United States government.

The Authority is also authorized to invest its funds in the State Investment Fund.

The Authority's aggregate investments at June 30, 2012 were \$1,067.9 million of which \$728.7 million are reported as cash equivalents.

*University of Wisconsin Hospitals and Clinics Authority* – The University of Wisconsin Hospitals and Clinics Authority's (the Hospital) aggregate investments at June 30, 2012 were \$579.9 million of which \$265.4 million (invested with the University of Wisconsin Foundation, see investment disclosure discussion for the University Wisconsin Foundation) are reported as "Cash and Investments with Other Component Units." The board of directors has authorized management to invest in debt and equity securities.

**Custodial Credit Risk**

The component units do not have a formal policy for custodial credit risk. At fiscal year end, the reported amount of investments

was \$ 1,382.5 million, of which \$728.7 million are reported as cash and cash equivalents.

**Interest Rate Risk**

It is the component units' policy to comply with the provisions contained within the general resolutions of revenue bond indentures and other program policy investment criteria. For example, investment maturities will coincide with the anticipated debt service payment dates and cash flow obligations associated with the life of bonds outstanding. Market conditions, rates of return, interest rate spreads within and across asset classes, and

other factors will influence maturity selection for all funds in excess of those required to meet the projected cash flow obligations. No investment will mature after the final bond maturity of the issue.

The following table provides information about the interest rate risks associated with the component units' investments. The investments include certain short-term cash equivalents, and various long-term items. As of fiscal year end, the component units had the following debt investments and maturities (in millions):

Investment Type	Investment Maturities				Fair Value
	Less Than 1 Year	1 to 5 Years	6 to 10 years	More Than 10 Years	
U.S. Government and U.S. agency holdings	\$ 148.3	\$ 39.4	\$ 5.7	\$ --	\$ 193.4
Corporate notes and bonds	--	4.9	--	--	4.9
Money market funds	842.9	38.6	161.7	--	1,043.2
Mortgage-backed securities	--	.3	5.8	115.4	121.5
Collateralized investment contracts	13.5	.6	--	1.2	15.3
Negotiable certificates of deposit	4.3	--	--	--	4.3
<b>Total</b>	<b>\$ 1,009.0</b>	<b>\$ 83.8</b>	<b>\$ 173.2</b>	<b>\$ 116.6</b>	<b>\$ 1,382.6</b>

**Credit Quality Risk**

The component units have established different investment policies for different investment types that generally include minimum rating requirements. For example, corporate bonds and notes are limited to U.S. domestic corporations having been rated not less than AA category or its equivalent as to investment quality by two or more nationally recognized investment rating firms. At least one rating must be in the top two short- or long-term rating categories and all other ratings must be in the top three rating categories. Further, money market funds are limited to AAA rated money market mutual funds and non-rated funds with portfolios restricted to only those investments specifically

authorized by the policy. Money market funds are regulated by the Securities & Exchange Commission and have a dollar weighted-average portfolio maturity of 90 days or less that fully invest dollar-for-dollar all funds without sales commissions or loads. The Authority invests in money market mutual funds whose investment objectives include seeking to maintain a stable net asset value of \$1 per share. The Authority may not invest funds under its control in an amount that exceeds 10 percent of total assets of any individual money market mutual fund. The following table presents the component units' ratings at fiscal year end (in millions):

Investment Type	Fair Value	Credit Quality Ratings				Unrated
		AAA	AA	A	BBB	
Corporate notes and bonds	\$ 4.9	\$ --	\$ 4.9	\$ --	\$ --	\$ --
Money market funds	941.3	728.7	--	137.2	61.8	13.6
Negotiable certificates of deposit	4.3	--	--	--	--	4.3
Mortgage-backed securities	121.6	--	--	--	--	121.6
Collateralized investment contracts	15.3	--	--	10.5	--	4.8

### Concentration of Credit Risk

Investment policies generally limit the concentration of credit risk with an issuer to a predetermined dollar value and/or percent. For example, the investment policy outlined in a general resolution requires that for funds not invested in government securities or money market mutual funds, no more than 5 percent of total portfolio market value can be invested with any issuer or secured by any one guarantor, and not more than 15 percent of the portfolio's market value will be invested in any municipal or industry sector, and no more than 25 percent of the total portfolio's value will be invested in bank certificates of deposit. There were no non-government investments that exceeded 5 percent of the total portfolio.

### Foreign Currency Risk

The component units' policy generally prohibits investments traded in foreign currencies. Although trading in foreign currencies may be acceptable for a limited number of portfolios, no exposure to foreign currency existed at fiscal year end.

### Securities Lending

The Wisconsin Housing and Economic Development Authority's (Authority) Finance committee approved the use of a security-lending program with the trust department of a bank acting as an agent. As of June 30, 2012 the Authority had \$6.1 million of securities on loan to broker-dealers for a fee.

Security lending transactions involve the lending of securities to broker-dealers and other entities for collateral, in the form of cash or securities, with the simultaneous agreement to return the collateral for the same securities in the future. The securities custodian is an agent in lending the domestic and international securities for collateral of 102 percent and 105 percent, respectively, of the loaned securities' market value. The lending agent in accordance with contractual investment guidelines, which are designed to insure the safety of principal and obtain a moderate rate of return, reinvests the collateral. The investment guidelines include very high credit quality standards and also allow for a portion of the collateral investments to be invested with short-term securities. The Authority has the following types of securities on loan: U.S. agency securities, U.S. government securities and corporate notes. The Authority receives cash collateral for securities lent. The fair value of the investment securities loaned was \$6.3 million as of June 30, 2012, and the fair value of the collateral received was \$4.2 million. The Authority may request the bank to terminate any loan of securities for any reason at any time.

As of June 30, 2012, no credit risk exposure to borrowers existed because the amounts owed the borrowers exceeded the amounts the borrowers owed. The contract with the lending agent states that in the event that a borrower fails to return the lent security, the bank will indemnify the Authority for the following amounts: a) The difference between the closing market value of security on the date it should have been returned to the account and the cash collateral substituted for the lent securities, or b) in the case of collateral received in kind, the difference between the closing market value of the security on the date it should have been returned to the account and the closing market value of the collateral in kind on the same date.

The Authority assumes all risk of loss arising out of collateral investment loss and any resulting collateral deficiencies. The bank expressly assumes the risk of loss arising from negligent or fraudulent operations of its securities lending program. The bank operates the securities lending program as a business trust investment pool with open and matched components. In the matched portion of the investment pool, the maturities of the securities lent and collateral are the same. The open portions of the pool maintain a weighted average maturity of the portfolio at approximately 15 days, with a range from one day to 25 days. The open portions of the pool generally have a 15-day mismatch between the portfolio coverage maturity and the open loans. As of June 30, 2012 approximately 100 percent of the securities lent were in the open portion of the investment pool. No restrictions on the amount of the loans exist or can be made. The earnings generated from the securities lending program is reported as other income. During the year ended June 30, 2012, the Authority received \$2 thousand of income related to security lending transactions.

### Other Component Units

*Wisconsin Health Care Liability Insurance Plan (WHCLIP)* – Aggregate investments of the WHCLIP were \$79.5 million, of which \$13.2 million are money market mutual funds and other highly liquid debt instruments reported as cash equivalents.

The board of governors is responsible for and establishment of appropriate investment policies relating to the investment of the WHCLIP's assets. The following investment guidelines are established: a minimum of 30 percent of the loss reserves must be invested in U.S. treasuries or agency securities, or AAA rated CMOs and ABS. Investments must be in the form of marketable debt issues, at the time of purchase all bonds must be investment grade, at least 80 percent of the bond portfolio must be rated A or better, adequate corporate diversification by issuer and sector must be maintained (the securities of any issuer should not exceed 1.5 percent of the bond portfolio based on market value at the time of purchase, excluding government or government agency securities), the average duration of the aggregate bond portfolio shall be less than 10 years, as deemed appropriate by

the investment manager(s) and is not permitted to invest in common stock.

Excluded investments include: bonds rated below investment grade, using the current Barclay benchmark at the time of purchase, futures transactions, short selling, use of margin, derivatives and hedge funds.

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

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

The custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the component units will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty, or by the counterparty's trust department or agent but not in the name of the WHCLIP. The WHCLIP had no custodial credit risk exposure for these investments.

The amortized cost and estimated fair value of bonds at December 31, 2011, by contractual maturity are presented in the table below (in millions):

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

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

Pass-through securities:	
Issued by FNMA and FHLMC	16.5

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

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

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

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

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

### Custodial Credit Risk

At December 31, 2011, the reported amount of investments was \$2,332.4 million. The Foundation had no custodial credit risk exposure for these investments.

### Securities Lending

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

The prime considerations of the collateral pool in which the collateral had been reinvested were liquidity and principal preservation. However, stress experienced by the fixed income market environment in recent years, and the fact that all of the securities held in the pool were subject to credit risk, resulted in a decline in the value of the collateral pool. In addition, certain

securities in the pool have defaulted and the collateral backing said securities was placed in a liquidating trust. While the Foundation was still receiving cash flows from this trust, the value of the collateral comprising the trust incurred mark-to-market price declines prior to the Foundation exiting the program. In order to end this arrangement, the Foundation made a payment of \$3.8 million, which represented the deficiency at the time. In exchange, the Foundation received a beneficial interest in the underlying illiquid collateral worth \$1.9 million at December 31, 2011.



### 3. State Investment Fund

The State Investment Fund (SIF) functions as the State's cash management fund by "pooling" the idle cash balances of all State funds and other public institutions. In the State's Comprehensive Annual Financial Report, the SIF is not reported as a separate fund; rather, each State fund's share in the "pool" is reported on the balance sheet as "Cash and Cash Equivalents." Shares of the SIF belonging to other participating public institutions are presented in the Local Government Pooled Investment Fund, an investment trust fund.

Wis. Stat. Secs. 25.17(3)(b), (ba), (bd) and (dg) enumerate the various types of securities in which the SIF can invest, which include direct obligations of the United States or its agencies, corporations wholly owned by the United States or chartered by an act of Congress, securities guaranteed by the United States, unsecured notes of financial and industrial issuers, direct obligations of or guaranteed by the government of Canada, certificates of deposit issued by banks in the United States and solvent financial institutions in Wisconsin, and banker's acceptances. Other prudent investments may be approved by the State of Wisconsin Investment Board's (the Board) Board of Trustees.

Investments are valued at fair value for financial statement purposes and amortized cost for purposes of calculating income to participants. The custodial bank has compiled fair value information for all securities by utilizing third party pricing services. The fair value of investments is determined at the end of each month. Government and agency securities and commercial paper are priced using matrix pricing. This method estimates a security's fair value by using quoted market prices for securities with similar interest rates, maturities, and credit ratings. Short-term debt investments with remaining maturities of up to 90 days are valued using amortized costs to estimate fair value, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Bank demand deposits, repurchase agreements, nonnegotiable certificates of deposit and banker's acceptances are valued at cost because they are nonparticipating contracts that do not capture interest rate changes in their value.

For purposes of calculating earnings to each participant, all investments are valued at amortized cost. Specifically, income is distributed to pool participants monthly based on their average daily share balance. Distributed income includes realized investment gains and losses calculated on an amortized cost basis, interest income based on stated rates (both paid and accrued), amortization of discounts and premiums on a straight-line basis, and investment and administrative expenses. This method differs from the fair value method used to value investments because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair values of the pool's investments.

#### Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Board will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty or by the counterparty's trust department or agent but not in the name of the Board.

At June 30, 2012, the reported amount of investments was \$6,950.4 million. The SIF had no custodial credit risk exposure for these investments.

#### Interest Rate Risk

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of investments. The weighted average maturity method is used to analyze interest rate risk and investment guidelines mandate that the weighted average maturity for the entire portfolio will not exceed one year. At June 30, 2012, the following table shows the investments by investment type, amount and the weighted average maturities (in millions):

Investment	Fair Value	Weighted Average Maturity (Days)
Bank demand deposits	\$ 1,200.0	0
Repurchase agreements	1,631.0	2
Government and agency	4,075.7	125
Certificates of deposit	24.2	141
Banker's Acceptances	19.5	55
Total	<u>\$ 6,950.4</u>	
Portfolio weighted average maturity		75

**Credit Quality Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This credit risk is measured by the credit quality ratings of investments in debt securities as described by nationally recognized rating agencies such as Standard and Poor's, Moody's Investors Service, and Fitch Ratings. Investment guidelines establish numerous, very specific maximum exposure limits based on the minimum credit ratings as issued by a nationally recognized rating agency.

The following table presents the SIF's ratings as of June 30, 2012 (in millions):

	Ratings	Fair Value	Percent
Bank Demand Deposits	NR	\$ 1,200.00	17.3
Repurchase agreements (collateral):			
U.S. government debt	AA	1,449.0	20.8
Government sponsored entity U.S agency	AA	182.0	2.6
U.S. Treasury	A-1+	429.7	6.2
Federal Home Loan Bank	A-1+	1,044.3	15.0
Federal Home Loan Bank	AA	181.6	2.6
Federal Home Loan Mortgage Corporation	A-1+	1,200.7	17.3
Federal National Mortgage Association	A-1+	1,034.9	14.9
Federal National Mortgage Association	AA	99.9	1.4
Federal National Mortgage Association	A	84.6	1.2
Certificates of deposit:			
Nonnegotiable (Var Wis Banks)	N/R	24.2	0.4
Banker's Acceptances	A-1	19.5	0.3
Totals		<u>\$ 6,950.4</u>	<u>100.0%</u>

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss that may occur due to the amount of investments in a single issuer. The SIF's investment guidelines limit concentrations of credit risk by establishing numerous maximum issuer and/or issue exposure limits based on credit rating. These guidelines do not place a limit on maximum exposure for any U.S. treasury or agency securities. As of June 30, 2012 the SIF has more than five percent of its investments in a U.S. Bank demand deposit (17.3 percent), FHLB (17.6 percent), FHLMC (17.3 percent), FNMA ( 17.5 percent), and repurchase agreement collateral consisting of various securities issued by these same three U.S. agencies (2.6 percent). Since the repurchase agreements mature each day, new collateral, consisting of a different blend of U.S. Treasury and agency securities, is assigned each night.

**Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The SIF guidelines allow the investment in U.S. dollar denominated issues only.

Copies of the separately issued financial report that includes financial statements and other supplementary information for the SIF may be obtained at [www.swib.state.wi.us](http://www.swib.state.wi.us) or by writing to:

State of Wisconsin Investment Board  
PO Box 7842  
Madison, WI 53707-7842

#### 4. Lottery Investments and Related Future Prize Obligations

Investments of the State Lottery Fund totaling \$54.0 million are held to finance grand prizes payable over a 20-year or 25-year period. The investments in prize annuities are debt obligations of the U.S. government and backed by its full faith and credit as to both principal and interest. Liabilities related to the future prize obligations are presented at their present value and included as Accounts Payable and Other Accrued Liabilities. The following is a schedule of future prize obligations (in thousands):

Fiscal Year	Amount
2013	\$ 7,351
2014	6,305
2015	6,274
2016	6,149
2017	6,343
Thereafter	<u>26,431</u>
Total future value	58,853
Less: Present value adjustment	<u>(14,993)</u>
Present value of payments	<u>\$ 43,860</u>

**NOTE 6. RECEIVABLES AND NET REVENUES****A. Receivables**

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

	Loans to		Other Loans Receivable				Other Receivables	Due From	Due From	Total
	Taxes	Local Governments	Student Loans	Veterans Loans	Mortgage Loans	Other Loans		Other Governments	Component Units	
<b>Governmental Activities:</b>										
General	\$ 1,258,467	\$ 304	\$ -	\$ -	\$ -	\$ 35,286	\$ 443,965	\$ 878,151	\$ 8,626	\$ 2,624,798
Transportation	96,775	-	-	-	-	16,996	8,120	299,609	-	421,500
Common School	-	384,590	-	-	-	-	2,357	5,306	-	392,253
Nonmajor Governmental	32,902	20,320	-	-	-	-	72,767	10,554	-	136,542
Total Governmental:	1,388,144	405,213	-	-	-	52,281	527,209	1,193,620	8,626	3,575,093
Government-wide										
Adjustments:										
Internal Service Funds	-	-	-	-	-	-	1,403	356	74	1,833
Accrual Adjustments	-	-	-	-	-	-	2,359	-	-	2,359
Fiduciary Receivables	-	-	-	-	-	-	59,577	-	-	59,577
<b>Total – Governmental Activities</b>	<b>\$ 1,388,144</b>	<b>\$ 405,213</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 52,281</b>	<b>\$ 590,548</b>	<b>\$ 1,193,976</b>	<b>\$ 8,699</b>	<b>\$ 3,638,862</b>
Related revenue deferral because the receivable does not meet the availability criteria										
	\$ 221,007	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 21,173	\$ 0	\$ 0	\$ 242,180
<b>Business-type Activities:</b>										
Current:										
Injured Patients and Families Compensation										
Environmental Improvement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,710	\$ -	\$ -	\$ 9,710
University of Wisconsin System	-	152,559	-	-	-	-	285	8,236	-	161,079
Unemployment Reserve	-	-	31,332	-	-	-	126,599	104,724	2,763	265,418
Nonmajor Enterprise	-	661	-	2,085	3,901	-	59,566	6,710	-	72,922
Total Current:	-	153,220	31,332	2,085	3,901	-	523,341	138,956	2,763	855,598
Noncurrent:										
Environmental Improvement										
University of Wisconsin System	-	1,776,478	-	-	-	-	-	-	-	1,776,478
Unemployment Reserve	-	-	159,402	-	-	-	3,860	-	-	163,263
Nonmajor Enterprise	-	1,136	-	5,978	12,1684	3,672	30	-	-	132,499
Total Noncurrent	-	1,777,614	159,402	5,978	12,1684	3,672	83,978	-	-	2,152,328
Government-wide										
Adjustments:										
Fiduciary Receivables	-	-	-	-	-	-	17,507	-	-	17,507
<b>Total – Business-type Activities</b>	<b>\$ 0</b>	<b>\$ 1,930,834</b>	<b>\$ 190,734</b>	<b>\$ 8,063</b>	<b>\$ 125,585</b>	<b>\$ 3,672</b>	<b>\$ 624,826</b>	<b>\$ 138,956</b>	<b>\$ 2,763</b>	<b>\$ 3,025,432</b>

**B. Net Revenues**

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

Student Tuition and Fees	\$ 186,677
Sales and Services of Auxiliary Enterprises	30,743
Total	<u>\$ 217,420</u>

**NOTE 7. CAPITAL ASSETS****Primary Government**

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

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

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

Depreciation Expense

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

Governmental Activities		Business-type Activities	
Commerce	\$ 368	University of Wisconsin System	\$ 238,412
Education	3,131	Lottery	37
Transportation	8,286	Veterans Mortgage Loan Repayment	27
Environmental Resources	10,517	Injured Patients and Families Compensation	36
Human Relations and Resources	66,899	Environmental Improvement	4
General Executive	9,693	Other Business-Type	14,021
Judicial	1,767	Total depreciation expense -	
Internal Service Funds	19,946	business-type activities	\$ 252,536
Total depreciation expense - governmental activities	\$ 120,607		

Impaired Capital Assets

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

## Construction and Software in Progress

Construction and software in progress of the primary government reported in the government-wide statement of net assets at June 30, 2012 included the following projects (in thousands):

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

Construction and software in progress of the University of Wisconsin System and of the other business-type activities as reported in the financial statements totaled \$628 million and \$29.3 million as of June 30, 2012, respectively.

**Component Units**

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

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



**NOTE 8. ENDOWMENTS****Primary Government****University of Wisconsin System**

The University of Wisconsin System invests its trust funds, principally gifts and bequests designated as endowments or quasi-endowments, in two of its own investment pools: the Long Term Fund and the Intermediate Term Fund. Benefiting University of Wisconsin System entities receive quarterly distributions from the Long Term Fund, principally endowed assets, based on an annual spending rate applied to a 12-quarter moving average market value of the fund. The annual spending rate is currently 4.0 percent. Distributions from the Intermediate Term Fund, principally quasi-endowments and unspent income distributions, consist of interest earnings distributed quarterly. Spending rate and interest distributions from both of these funds are transferred to the State Investment Fund, pending near-term expenditures. At June 30, 2012, net appreciation of \$122.8 million was available to meet spending rate distributions, of which \$13.8 million was actually authorized for expenditure.

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

University of Wisconsin System investment policies and guidelines for the Long Term Fund and Intermediate Term Fund are governed and authorized by the Board of Regents. The approved asset allocation policy for the Long Term Fund sets a general target of 35.0 percent marketable equities, 30.0 percent fixed income, and 35.0 percent alternatives. The approved asset allocation for the Intermediate Term Fund is 15.0 percent marketable equities, 70.0 percent fixed income, 10.0 percent alternatives, and 5.0 percent cash.

The fair value of Endowments as of June 30, 2012 was \$418.1 million including an unrealized loss of \$10.1 million when fair values as of June 30, 2012 are compared to asset acquisition costs. This compares to a fair value as of June 30, 2011 of \$428.2 million.

The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments since realized gains and losses are based on the difference between the selling price and the acquisition cost of the asset. Therefore, when assets are reported at fair value much of the realized gain or loss may have already been included in prior years as part of the overall change in the fair value of investments.

At June 30, 2012, the book value and fair value of principal funds under control of the University of Wisconsin System was (in millions):

Original Contributions and Distributed Net Gains	\$ 183.1
Realized Gains – Undistributed	245.1
Book Value	428.2
Unrealized Net Gains/Losses - Undistributed	(10.1)
Fair Value	<u>\$ 418.1</u>

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

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

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

**Component Unit****University of Wisconsin Foundation**

The University of Wisconsin Foundation's (the Foundation) endowment consists of 3,430 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently-restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of applicable donor gift instrument at the time the accumulation is added to the fund. The

remaining portion of the donor-restricted endowment fund that is not classified in permanently-restricted net assets is classified as temporarily-restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Endowment Net Asset Composition by Type of Fund as of December 31, 2011 (in millions):

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

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

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

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$42.6 million as of December 31, 2011. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

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

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**NOTE 9. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

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

**A. Due from/to Other Funds:**

Due from Other Funds and the Due to Other Funds represent short-term interfund accounts receivable and payable. The balances in these accounts at June 30, 2012 were as follows (in thousands):

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

The balances in the Due from Other Funds and Due to Other Funds accounts typically result from the time lag between the dates that

- (1) interfund goods and services were provided and when the payments occurred, and
- (2) interfund transfers were accrued and when the liquidations occurred.

**B. Due from/to Component Units**

Receivables and payables between funds and component units at June 30, 2012 were as follows (in thousands):

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

**C. Interfund Receivables/Payables**

Interfund Receivables/Payables represent short-term loans from one fund to another to cover cash overdrafts. Interfund receivables/payables at June 30, 2012 were as follows (in thousands):

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

**D. Advances to/from Other Funds**

Advances to/from Other Funds represent long-term loans to one fund from another fund. Advances at June 30, 2012 were as follows (in thousands):

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

**E. Interfund Transfers**

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

<b>Transfers in:</b>										
	General	Trans- portation	Common School	Nonmajor Governmental	Environmental Improvement	University of Wisconsin System	Nonmajor Enterprise	Internal Service	Fiduciary	Total
<b>Transfers out:</b>										
General	\$ -	\$ 23,634	\$ 12,500	\$ 316,534	\$ -	\$ 889,110	\$ 81,878	\$ 13,335	\$ 9	\$ 1,337,000
Transportation	1,751	-	-	72,853	-	-	-	-	-	74,605
Common School	1,584	-	-	310	-	21	-	-	-	1,915
Nonmajor Governmental	23,143	25,759	-	105,832	28,252	258,642	7,645	675	-	449,948
Injured Patients and Families Compensation	-	-	-	17	-	-	-	-	-	17
Environmental Improvement	-	-	-	8,115	-	-	-	-	-	8,115
University of Wisconsin System	38,224	-	-	57,663	-	-	-	-	-	95,887
Unemployment Reserve	5,313	-	-	-	-	-	-	-	-	5,313
Nonmajor Enterprise	26,757	-	-	6,626	-	2	-	-	-	33,386
Internal Service	7,514	-	-	2,817	-	-	-	427	-	10,759
Fiduciary	-	-	-	43	-	-	-	224	-	637
<b>Total</b>	<b>\$ 104,287</b>	<b>\$ 49,393</b>	<b>\$ 12,500</b>	<b>\$ 571,181</b>	<b>\$ 28,252</b>	<b>\$ 1,147,775</b>	<b>\$ 89,523</b>	<b>\$ 14,662</b>	<b>\$ 9</b>	<b>\$ 2,017,580</b>

Transfers are typically used to move: (1) revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, (3) unrestricted revenues collected in one fund to finance various programs accounted for in other funds in accordance with statute or budgetary authorizations, and (4) accumulated surpluses from other funds to the General Fund when authorized by statute.

**Nonroutine and Other Transfers**

In the fiscal year ended June 30, 2012, transfers considered non-routine or inconsistent with the fund making the transfer included the following (in thousands):

Transfers in to the General Fund:

Funds Reporting the Transfer Out	Amount
University Wisconsin System	\$ 16,820
Technology Services	1,400
Financial Services	2,000
Facilities Operations and Maintenance	2,975
Other Funds	70

Transfer out from the General Fund:

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

Transfers out from the Petroleum Inspection Fund:

Funds Reporting the Transfer In	Amount
Transportation	25,759

**NOTE 10. CHANGES IN LONG-TERM LIABILITIES**

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

**Primary Government**

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

Repayment of the general obligation bonds is made from the Bond Security and Redemption Fund. The amount presented in this fund represents the liability to be paid from resources accumulated to provide debt service payments in Fiscal Year 2012. Repayment of the revenue bonds principal and interest is made from the appropriate debt service fund with payments secured by registration and inspection fees collected by the appropriate program. The compensated absences liability will be liquidated by the State's governmental and internal service funds. Long-term liabilities for claims, judgments and commitments are generally liquidated with resources of the governmental activities.

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

### Component Units

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

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



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

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

**Primary Government****Governmental Activities:**

General Obligation Bonds	\$ 5,708,860
Annual Appropriation Bonds	3,298,422
Revenue Bonds:	
Transportation	1,914,824
Petroleum Inspection	124,381
Total Governmental Activities	<u>11,046,487</u>

**Business-type Activities:**

General Obligation Bonds:	
University of Wisconsin System	1,376,350
Other Business-type	193,528
Revenue Bonds:	
Environmental Improvement	873,650
Total Business-type Activities	<u>2,443,528</u>
Total Primary Government	<u>13,490,015</u>

**Component Units:**

Wisconsin Housing and Economic Development Authority Revenue Bonds	2,341,624
University of Wisconsin Hospitals and Clinics Authority Revenue Bonds	224,737
University of Wisconsin Foundation Note Payable	<u>1,598</u>
Total Component Units	<u>2,567,959</u>

Total at June 30, 2012	<u>\$16,057,974</u>
------------------------	---------------------

**A. General Obligation Bonds****Primary Government**

The State of Wisconsin Building Commission, an agency of the State, is empowered by law to consider, act upon, authorize, issue and sell all debt obligations of the State. To date, the Commission has authorized and issued general obligation bonds primarily to provide funds for the acquisition or improvement of land, water, property, highways, buildings, equipment or facilities for public purposes. Occasionally, general obligation bonds are also issued for the purpose of providing funds for veterans housing loans and to refund general obligation bonds. All general obligation bonds authorized and issued by the State are secured by a pledge of the full faith, credit and taxing power of the State of Wisconsin and are customarily repaid over a period of twenty to thirty years.

Article VIII of the Wisconsin Constitution and Wis. Stat. Section 18.05 set limits on the amount of debt that the State can contract in total and in any calendar year. In total, debt outstanding cannot exceed five percent of the value of all taxable property in the State. Annual debt issued cannot exceed the lesser of three-quarters of one percent or five percent of the value of all taxable property in the State less net indebtedness at January 1.

At June 30, 2012, \$3,958.4 million of general obligation bonds were authorized but unissued.

General obligation bonds issued and outstanding as of June 30, 2012 were as follows (in thousands):

Fiscal Year Issued	Series	Dates	Interest Rates	Maturity Through	Amount Issued	Amount Outstanding
1992	1992 Refunding Issue	3/92	6.25	5/15	448,935	905
1993	1992 2	10/92;	6.45 to 6.5	5/15	5,975	1,340
1994	1993 Refunding Issue 3	8/93	5.3	11/12	302,050	12,215
1999	1998 Series 1, E and F; 1999 Series B	8/98; 10/98; 10/98 5/99	4.75 to 6.5	11/29	258,735	60,270
2001	2000 Series E, 2001 Series A and D	11/00 2/01; 6/01	6.6 to 7.0	11/31	40,000	2,675
2002	2001 Series 1, E; 2002 Series B, D	10/01; 10/01; 3/02; 6/02	5.5 to 6.71	5/33	302,105	136,815
2003	2002 Series E, F, G and H; 2003 Series 1, 2, and A	9/02; 9/02; 10/02; 12/02; 4/03; 4/03; 5/03	4.0 to 5.25	5/33	415,190	36,205
2004	2003 B, C, and 3; 2004 1, 2, A, 3 and CWGBC	7/03; 10/03; 10/03; 1/04; 1/04; 4/04; 6/04; 4/04	0 to 5.25	5/34	1,305,096	470,761
2005	2004 Series 4, B, C, D and E; 2005 Series 1, A, B and C	7/04; 8/04; 8/04; 8/04; 10/04; 2/05; 2/05; 4/05; 4/05	4.0 to 5.65	5/35	1,079,440	731,035
2006	2005 Series D; 2006 Series 1 and A	8/05; 1/06; 3/06	4.0 to 5.25	5/26	614,635	515,085
2007	2006 Series B, C and D; 2007 Series AW, BW and 1; 2007 Series A and B	7/06; 8/06; 9/06; 2/07; 2/07; 2/07; 2/07; 6/07	4.25 to 5.76	5/37	867,570	762,655
2008	2007 Series 2, and C; 2008 Series 1, A, AW, B and BW	10/07; 12/07 6/08; 4/08; 3/08; 5/08; 6/08	3.3 to 6.26	5/38	385,480	317,795
2009	2008 Series C and D 2009 Series AW, A and B	9/08; 12/08; 1/09; 6/09; 6/09	4.0 to 6.2	5/30	521,875	475,215
2010	2009 Series C, D and 1; 2010 Series 1, A, B and AW	9/09; 9/09; 9/09; 3/10; 4/10; 4/10; 4/10	2.0 to 5.9	5/40	1,016,483	955,123
2011	2010 Series C, D, and BW 2011 Series A and 1	9/10; 9/10; 12/10; 2/11; 6/11	3.6 to 5.95	5/41	1,175,535	1,144,835
2012	2011 Series 2,B,C; 2012 Series 1,2, AW and A	10/11; 8/11; 12/11; 3/12; 5/12; 4/12; 6/12	.66 to 5.0	5/42	1,359,920	1,359,920
Total					10,099,024	6,982,850
Premiums/Discounts					--	372,910
Deferred Amount on Refunding					--	(77,022)
Total General Obligation Bonds					\$ 10,099,024	\$ 7,278,738

As of June 30, 2012, general obligation bond debt service requirements for principal and interest for governmental activities and business - type activities are as follows (in thousands):

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

Qualified Build America Bonds

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

- The interest rates on the 2009 Series B bonds, in the amount of \$54.5 million, range from 5.15 percent to 5.40 percent payable semiannually on May 1 and November 1 beginning with the first interest payment date of November 1, 2009. These bonds are callable at par on May 1, 2019 or any date thereafter. The bonds mature beginning May 1, 2023 through 2030.
- The interest rates on the 2009 Series D bonds, in the amount of \$225.8 million, range from 4.9 percent to 5.9 percent payable semiannually on May 1 and November 1 beginning with the first interest payment date of May 1, 2010. These bonds are callable at par on May 1, 2020 or any date thereafter. The bonds mature beginning May 1, 2023 through 2040.
- The interest rates on the 2010 Series B bonds, in the amount of \$179.1 million, range from 4.3 percent to 5.65 percent payable semiannually on May 1 and November 1 beginning with the first interest payment date of November 1, 2010. These bonds are callable at par on May 1, 2020 or any date thereafter. The bonds mature beginning May 1, 2020 through 2030.
- The interest rates on the 2010 Series D bonds, in the amount of \$309.7 million, range from 3.45 percent to 5.1 percent payable semiannually on May 1 and November 1 beginning with the first interest payment date of May 1, 2011. These bonds are callable at par on May 1, 2021 or any date thereafter. The bonds mature beginning May 1, 2020 through 2041.

## B. Annual Appropriation Bonds

### 2003 Annual Appropriation Bonds

In December 2003, the State issued \$1.8 billion of General Fund Annual Appropriation Bonds consisting of Series A (Taxable Fixed Rate) and Series B (Taxable Auction Rate Certificates). These appropriation obligations were authorized by Wisconsin Statutes to obtain proceeds to pay the State's anticipated unfunded accrued prior service (pension) liability under Wis. Stat. Section 40.05(2)(b) and its unfunded accrued liability for sick leave conversion credits under Wis. Stat. Section 40.05(4)(b), (bc), and (bw) and Subchapter IX of Chapter 40. In April and June 2008, the State issued \$1.0 billion of General Fund Annual Appropriation Refunding Bonds to refund the Series B (Taxable Auction Rate Certificates) that were issued in 2003. The 2008 issuance consisted of Series A (Taxable Fixed Rate) and Series B and C (Taxable Floating Rate Notes).

These appropriation obligations are not general obligations of the State, and do not constitute "public debt" of the State as that term is used in the Constitution and in the State Statutes. The payment of the principal of, and premium, if any, and interest on the obligations is subject to annual appropriation; that is, payments due in any fiscal year of the State will be made only to the extent sufficient amounts are appropriated by the Legislature. The State is not legally obligated to appropriate any amounts for payment of debt service. The Legislature, recognizing its moral obligation to make timely appropriations from the General Fund sufficient to pay debt service on such obligations, expresses in Wis. Stat. Section 16.527(10) its expectation and aspiration that it will do so. The Legislature's recognition of a moral obligation, however, does not create a legally enforceable obligation.

The General Fund Annual Appropriation Bonds of 2003, Series A (Taxable Fixed Rate) in the outstanding principal amount of \$850.0 million ("2003 Series A Bonds"), bear interest at rates from 4.80 percent to 5.70 percent computed on the basis of a 30 day month and a 360-day year, payable semiannually on each May 1 and November 1 until their maturity dates.

The General Fund Annual Appropriation Refunding Bonds of 2008, Series A (Taxable Fixed Rate) in the outstanding principal amount of \$442.6 million ("2008 Series A Bonds"), bear interest at rates from 4.140 percent to 5.238 percent computed on the basis of a 30-day month and a 360-day year, payable semiannually on each May 1 and November 1 until their maturity dates.

The General Fund Annual Appropriation Bonds of 2008, Series B (Taxable Floating Rate Notes), in the outstanding principal amount of \$300.0 million, bear interest at rates 120 basis points over the one-month LIBOR, computed on the basis of a 360-day year and for the number of days actually elapsed, payable monthly on the first business day of the month.

The General Fund Annual Appropriation Bonds of 2008, Series C (Taxable Floating Rate Notes), ("2008 Series C Bonds") in the outstanding principal amount of \$197.3 million, bear interest at rates 110 basis points over the one-month LIBOR computed on the basis of a 360-day year and for the number of days actually elapsed, payable monthly on the first business day of the month.

As of June 30, 2012, the debt service requirements for principal and interest on these bonds are as follows (in millions). The principal due in the fiscal year ended June 30, 2012 includes \$250.0 million maturity that the State intends to fund prior to the May 1, 2013 maturity date::

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

### Derivatives

The State has entered into interest rate exchange agreements, or swap agreements, to modify interest rates for nearly all of the 2008 Series B bonds and 2008 Series C bonds. All interest rate agreements at June 30, 2012, are classified as effective cash flow hedges. Since the interest rate exchange agreements qualify as an effective hedge, changes to fair value are not reported in the statement of activities, and, therefore, no restatement of beginning net assets is necessary as a result of implementation of GASB Statement No. 53 in Fiscal Year 2010. The State has contracted with a third party advisor to provide estimates of the fair value of the aggregate swap agreements as of June 30, 2012.

Objective – In December 2003, the State entered into four interest rate exchange agreements with four different counterparties in order to reduce the interest rate risk in connection with \$595.2 million of the Series B (Taxable Auction Rate Certificates) issued in 2003. In June 2005, the State entered into four additional interest rate exchange agreements with three counterparties in order to reduce the interest rate risk on the balance of the Series B (Taxable Auction Rate Certificates) issued in 2003, (\$349.7 million). In April and June 2008, the State issued \$509 million of annual appropriation refunding bonds as floating rate notes having variable interest rate set every month (2008 Series B Bonds and 2008 Series C Bonds). In conjunction with issuance in April 2008, at its option the State terminated and made corresponding termination payments in the aggregate amount of \$40.0 million on some, and a portion of other, interest

rate exchange agreements previously entered into in December 2003 and June 2005. As of June 30, 2012, interest rate exchange agreements remain to reduce the interest rate risk in connection with \$488.4 million in floating rate notes.

Terms – Nearly all of the outstanding 2008 Series B Bonds and 2008 Series C Bonds are subject to the interest rate exchange agreements with a notional amount totaling \$488.4 million as of June 30, 2012. 2008 Series B Bonds and Series C Bonds mature and a related notional amount of the related interest rate exchange agreements decline from May 1, 2013 through 2032. Based on the interest rate exchange agreements, the State owes to the counterparties an amount calculated at fixed rates ranging from 4.661 percent to 5.47 percent and the counterparties owe the State interest on an amount based on a variable rate, which is the one-month LIBOR. The net amount is paid monthly.

Fair Value – As of June 30, 2012, the aggregate fair value of the interest exchange agreements was negative \$216.1 million, a decrease of \$112.1 million compared to the aggregate fair value of negative \$104.0 million reported as of June 30, 2011. Since the interest rate exchange agreements qualify as effective cash flow hedges, a deferred outflow of resources and a liability are reported in the statement of net assets for the fair value of the swap agreements. Changes in the fair value are not reported in the statement of activities. The fair value was valued by a third party consultant based on information contained in the broker Interest Rate Swap Confirmations supplied by the three counterparties -- JP Morgan Chase, Citigroup N.A. New York, and UBS AG. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the interest rate exchange agreement. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the interest rate exchange agreements, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the interest rate exchange agreements. The fair value may vary throughout the life of the swap agreements due to any changes in fixed swap interest rates and swap market conditions.

Associated Debt – Using rates as of June 30, 2012, debt service requirements are presented for the 2008 Series B Bonds and 2008 Series C Bonds that are subject to the interest rate exchange agreements and the net swap payments assuming that interest rates remain the same for their term. As rates vary, interest payments on the floating rate notes and net swap payments will vary.

(in millions)

Fiscal Year Ended June 30	Interest		Swaps, Net	Totals
	Principal	Interest		
2013	\$ 5.9	\$ 7.0	\$ 25.0	\$ 37.8
2014	1.1	6.9	24.7	32.7
2015	1.1	6.9	24.7	32.6
2016	1.1	6.9	24.6	32.6
2017	1.1	6.8	24.6	32.5
2018 - 2022	21.9	33.8	121.7	177.5
2023 - 2027	167.4	30.3	110.0	307.7
2028 - 2032	288.8	11.4	41.5	341.8
	<u>\$ 488.4</u>	<u>\$ 110.0</u>	<u>\$ 396.8</u>	<u>\$ 995.3</u>

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

Credit Risk – As of June 30, 2012, the State was exposed to only a minimal amount of credit risk, as the fair values of all of the four interest rate exchange agreements were negative. Should rates change, the State could have increased exposure in the future. The State has entered into four interest rate agreements with three different counterparties. The lowest rating assigned to these counterparties is, as of June 30, 2012, A2 by Moody's, A by Standard & Poor's, and A by Fitch Ratings. Under the interest rate exchange agreements and to mitigate the potential for credit risk, if any of the counterparties' credit quality falls below A3 by Moody's Investors Service or A- by either Standard & Poor's or Fitch Ratings, the fair value of the interest rate exchange agreement for that respective counterparty will be fully collateralized by that counterparty. In addition, an event of termination occurs if any of the counterparties' credit quality falls below Baa2 by Moody's Investors service or BBB by either Standard & Poor's or Fitch Ratings.

Basis Risk – The interest rate exchange agreements expose the State to basis risk (i.e., a shortfall or surplus between the variable interest rate received on the interest rate exchange agreements and the interest rate paid on the floating rate notes), however this risk is fixed at the spreads for the respective series.

Termination Risk – The interest rate exchange agreements may be terminated by the State, upon two business days written notice, designating to the counterparty the termination date. In addition, the State or the counterparties may terminate the interest rate exchange agreements if the other party fails to perform under the terms of the interest rate exchange agreements or if other various events occur. As of June 30, 2012, there have not been any such events. If any interest rate exchange

agreement is terminated, the State would be unhedged and exposed to additional interest rate risk on the 2008 Series B Bonds and the 2008 Series C Bonds. In addition, if the interest rate exchange agreement has a negative fair value at the time of termination, the State would incur a loss and would be required to make a settlement payment to the related counterparty. Actual termination payments, if required to be made, can be made, at the State's discretion, from the Stabilization Fund, or delayed until funds are available in the Subordinated Payment Obligations Fund or until the next biennium when appropriations can be made in the biennial budget for the termination payments.

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

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

### 2009 Annual Appropriation Bonds

In April 2009, the State issued \$1.5 billion of General Fund Annual Appropriation Bonds. These appropriation obligations were authorized by Wisconsin Statutes for the purpose of purchasing the tobacco settlement revenues that had been sold by the Secretary of Administration to the Badger Tobacco Asset Securitization Corporation pursuant to Wis. Stat. Section 16.63. The 2009 General Fund Annual Appropriation Bonds bear interest rates from 4.00 percent to 6.25 percent computed on the basis of a 30-day month and a 360-day year, payable semiannually on each May 1 and November 1, until their maturity dates.

These appropriation obligations are not general obligations of the State, and do not constitute "public debt" of the State as that term is used in the Constitution and in the State Statutes. The payment of the principal of, and premium, if any, and interest on the obligations is subject to annual appropriation; that is, payments due in any fiscal year of the State will be made only to the extent sufficient amounts are appropriated by the Legislature. The State is not legally obligated to appropriate any amounts for payment of debt service. The Legislature, recognizing its moral obligation to make timely appropriations from the General Fund sufficient to pay debt service on such obligations, expresses in Wis. Stat. Section 16.527(10) its expectation and aspiration that it will do so. The Legislature's recognition of a moral obligation, however, does not create a legally enforceable obligation.

As of June 30, 2012, the debt service requirements for principal and interest on these bonds are as follows (in millions):

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

**C. Revenue Bonds**

**Primary Government**

Chapter 18, Wisconsin Statutes, authorizes the State to issue revenue obligations secured by a pledge of revenues or property derived from the operation of a program funded by the issuance of these obligations. The resulting bond obligations are not general obligations of the State.

**Transportation Revenue Bonds**

Transportation Revenue Bonds are issued to finance part of the costs of certain transportation facilities and major highway projects. Chapter 18, Subchapter II of the Wisconsin Statutes as amended, Wis. Stat. Sec. 84.59 and a general bond resolution and series resolutions authorize the issuance of these bonds.

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

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

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
20122	6/12	4.0 to 5.0	7/24	\$ 116,400	\$ 116,400
20121	4/12	2.0 to 5.0	7/32	343,725	343,725
2010B	12/10	4.7 to 6.0	7/31	123,925	123,925
2010A	12/10	5.0	7/21	76,075	76,075
2009B	10/09	3.5 to 5.8	7/30	147,130	147,130
2009A	10/09	3.5 to 4.0	7/14	17,870	17,870
2008A	8/08	5.0	7/29	185,000	173,530
2007A	3/07	4.25 to 4.5	7/27	148,710	83,380
20071	3/07	4.35 to 5.0	7/22	206,900	206,900
2005B	9/05	4.0 to 5.0	7/25	158,400	100,830
2005A	3/05	3.25 to 5.25	7/25	235,585	192,045
2004 1	9/04	5.25	7/17	95,905	70,920
2003A	11/03	5.0	7/14	250,000	33,540
2002A	10/02	5.0	7/13	200,000	18,320
2002 1& 2	4/02	4.3 to 5.5	7/12	310,795	9,185
2001A	11/01	4.0 to 5.5	7/22	140,000	2,990
1998A	8/98	5.5	7/16	130,590	64,595
1993A	9/93	4.75	7/12	116,450	7,290
				<u>3,003,460</u>	<u>1,788,650</u>
Unamortized				--	126,174
Prem./Discount					
Total				<u>\$3,003,460</u>	<u>\$1,914,824</u>

**Petroleum Inspection Fee Revenue Bonds**

Petroleum Inspection Fee (PIF) Revenue Bonds are issued to finance claims made under the Petroleum Environmental Cleanup Fund Award (PECFA) Program for reimbursement of cleanup costs to soil and groundwater contamination. The program reimburses owners for 75 percent to 99 percent of cleanup costs associated with soil and groundwater contamination.

As of June 30, 2012, PIF Bonds outstanding are \$117.5 million. Debt service payments are secured by petroleum inspection fees.

The PIF revenue bonds issued and outstanding as of June 30, 2012 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2009-1	10.09	2.5 to 5.0	7/17	\$ 117,460	\$ 117,460
Unamortized Premium				--	6,921
Total				<u>\$ 117,460</u>	<u>\$ 124,381</u>

**Clean Water Revenue Bonds**

The Environmental Improvement Fund (the Fund) provides loans and grants to local municipalities to finance wastewater treatment planning and construction. The Fund is authorized to issue up to \$2,716.3 million in Revenue Bonds. At June 30, 2012, there were fourteen issues of Revenue Bonds outstanding totaling \$839.3 million. These bonds are secured by payments on program loans and earnings of investments.

Bonds issued and outstanding for the Environmental Improvement Fund as of June 30, 2012 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2010-5	11/10	5.0	6/23	\$ 36,760	\$ 36,760
2010-4	11/10	3.0 to 5.0	6/31	116,290	112,585
2010-3	2/10	3.95 to 5.44	6/25	49,690	49,690
2010-2	2/10	5.0	6/21	14,070	14,070
2010-1	2/10	3.0 to 5.0	6/31	67,415	63,660
2008-3	12/08	3.0 to 5.5	6/18	92,210	82,790
2008-2	2/08	5.0	6/18	27,335	27,335
2008-1	2/08	4.0 to 5.0	6/18	100,000	87,260
2006-2	11/06	4.0 to 5.0	6/15	100,000	83,290
2006-1	3/06	3.5 to 5.0	6/16	80,000	66,635
2004-2	1/05	3.25 to 5.25	6/15	107,025	78,620
2004-1	3/04	4.0 to 5.0	6/14	116,795	72,410
2002-2	8/02	3.0 to 5.5	6/16	85,575	19,870
1998-2	8/99	4.0 to 5.5	6/17	104,360	44,330
				<u>1,097,525</u>	<u>839,305</u>
Unamortized Premium				--	40,910
Less: Unamortized discount and Charge					(6,565)
Total, net of discount, charge and premium				<u>\$1,097,525</u>	<u>\$ 873,650</u>

As of June 30, 2012, revenue bond debt service requirements for principal and interest for governmental activities and business-type activities are as follows (in thousands):

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

#### Qualified Build America Bonds

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

The interest rates on the 2009 Series B (taxable) Transportation Revenue Bonds in the amount of \$147.1 million range from 3.5 percent to 5.8 percent payable semiannually on January 1 and July 1 beginning with the first interest payment date of July 1, 2010. These bonds are callable at par on July 1, 2019 or any date thereafter. The bonds mature beginning July 1, 2015 through 2030.

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

The interest rates on the 2010 Series B (taxable) Transportation Revenue Bonds in the amount of \$123.9 million range from 4.7 percent to 6.0 percent payable semiannually on January 1 and July 1 beginning with the first interest payment

date of July 1, 2011. These bonds are callable at par on July 1, 2020 or any date thereafter. The bonds mature beginning July 1, 2022 through 2031.



**Component Units – Discrete Presentation**

**Wisconsin Housing and Economic Development Authority**

Bonds and notes payable at June 30, 2012 of the Wisconsin Housing and Economic Development Authority (Authority) consisted of the following (in thousands):

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

*Authority's Revenue Bonds and Notes*

The Authority's revenue bonds and notes are collateralized by the revenues and assets of the Authority, subject to the provisions of resolutions and note agreements which pledge particular revenues or assets to specific bonds or notes. The bonds are subject to mandatory sinking fund requirements and may be redeemed at the Authority's option at various dates and at prices ranging from 100 percent to 108 percent of par value. Any particular series contains both term bonds and serial bonds which mature at various dates. The Authority's revenue bonds and notes outstanding at June 30, 2012 consisted of the following (in thousands):

Series/ Issue	Date	Rates	Maturity Through	Outstanding
<b>Housing Revenue Bonds:</b>				
1998 A,B&C	2/98	5.3 to 6.88	2032	\$ 8,835
2002 A,B&C	5/02	4.7 to 5.6	2033	24,155
2003 A&B	12/03	Variable	2034	5,600
2003 C	12/03	4.0 to 5.25	2043	12,730
2003 D&E	12/03	Variable	2044	19,070
2005 A,B&C	12/05	Variable	2035	9,075
2005 D&E	12/05	3.95 to 5.15	2045	36,185
2005 F	12/05	Variable	2030	109,940
2006 A&B	12/06	3.6 to 4.75	2047	16,235
2006 C&D	12/06	Variable	2037	8,255
2007 A&B	12/07	Variable	2042	16,745
2007 C,D&E	12/07	Variable	2038	8,070
2007 F&G	12/07	Variable	2042	15,870
2008 A,B,C,D, E, F&G	6/08	Variable	2033	37,190
2009 A	12/09	Variable	2042	8,995
2010 A & B	12/10	1.25 to 6.125	2043	41,450
2012 A & B	1/12	Variable	2055	53,540
2012 C	6/12	Variable	2044	16,670
				<u>448,610</u>
<b>Home Ownership Revenue Bonds:</b>				
2000 F	7/00	Variable	2015	825
2000 H	11/00	Variable	2024	7,010
2002 A&C	2/02	4.75 to 5.3	2018	3,260
2002 B	2/02	Variable	2032	3,435
2002 C	2/02	Variable	2016	260
2002 E&G	7/02	4.35 to 4.6	2012	2,625

2002 E & F	7/02	Variable	2032	1,610
2002 I	10/02	Variable	2032	34,750
2003 A	4/03	Variable	2033	29,865
2003 B	7/03	Variable	2034	44,255
2003 C	11/03	Variable	2034	30,815
2003 D	11/03	Variable	2028	10,140
2004 A	4/04	Variable	2035	66,850
2004 C&D	7/04	4.2 to 5.1	2024	9,035
2004 D	7/04	Variable	2035	61,540
2004 E	11/04	Variable	2035	54,470
2005 A	4/05	Variable	2036	60,750
2005 C	6/05	Variable	2033	85,575
2005 C	6/05	4.875	2036	8,295
2005 D	9/05	4.875	2036	7,255
2005 D&E	9/05	Variable	2036	68,675
2006 A&B	1/06	Variable	2037	119,860
2006 C&D	5/06	4.85 to 6.0	2037	128,835
2006 E&F	10/06	4.7 to 5.727	2037	113,725
2007 A&B	4/07	4.65 to 5.75	2038	78,675
2007 B	4/07	Variable	2026	28,785
2007 C&D	4/07	Variable	2038	102,375
2007 C	4/07	5.125	2028	14,475
2007 E&F	12/07	4.58 to 6.0	2038	46,900
2007 E&F	12/07	Variable	2038	39,240
2008 A&B	5/08	Variable	2038	97,240
2008 A&B	5/08	5.3 to 5.5	2028	29,030
2009 A	12/09	Variable	2041	195,970
2010 A & 2009 A-1	11/10	.72 to 4.5	2041	97,380
				<u>1,683,785</u>
<b>Business Development Bonds:</b>				
1995 2,	4/95	Variable	2015	565
				<u>565</u>
<b>Multifamily Housing Bonds:</b>				
2006 A&B	7/06	Variable	2036	6,965
2007 A&B	6/07	Variable	2040	11,355
2007 C	8/07	Variable	2048	6,190
2008 A&B	8/08	Variable	2046	13,685
2009 A	6/09	1.8 to 3.5	2018	3,710
2009 A	6/09	Variable	2035	15,885
2009 B	12/09	Variable	2043	10,060
2009 B-1	10/11	Variable	2041	5,370
2009 B-2	10/11	Variable	2041	53,390
2011 A	9/11	Variable	2043	9,100
2012 A & B	2/12	Variable	2014	16,000
				<u>151,710</u>
Notes Payable	Various	Variable	Various	49,153
Fac. Refunding	6/09	Variable	2017	9,670
<b>Authority's Total Revenue Bonds and Notes</b>				<u><u>\$2,343,493</u></u>

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

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

Under a Business Development Program and a Multifamily Housing Program, revenue bonds are issued which do not constitute indebtedness of the Authority within the meaning of any provision or limitation of the Constitution or Statutes of the State of Wisconsin. They do not constitute or give rise to a pecuniary liability of the Authority or a charge against its general credit. They are payable solely out of the revenues derived pursuant to the loan agreement, or in the event of default of the loan agreement, out of any revenues derived from the sale, releasing or other disposition of the mortgaged property.

Therefore, the bonds are not reflected in the financial statements. As of June 30, 2012 the Authority had issued 83 series of such bonds in an aggregate principal amount of \$73.9 million for economic projects in Wisconsin.

A Construction Plus line of credit bears interest at the rate of 1.72 percent at June 30, 2012, and the Home ownership mortgage Loan Program line of credit bears interest of 4.0 percent at June 30, 2012. One line of credit rates are based on the 30 day Eurodollar rate while the other is based on the 30 day LIBOR rate.

#### Derivatives

The Authority has entered into various interest rate swap agreements. The agreements provide the Authority with synthetic fixed interest rates on a portion of its debt. During the term of the swap agreements, the Authority expects to effectively pay a fixed rate on the debt. In return, the counterparty pays interest based

on a contractually agreed upon variable rate. The Authority will be exposed to variable rates on the outstanding bonds if the counterparty to the swap defaults, the swap is terminated such that the bonds outstanding is greater than the swap notional value, or the effective interest rate, determined by the remarketing agent used for bond holder payments, increases over the variable rate index used for calculating the interest received from the counterparty. All interest rate swap agreements at June 30, 2012 are classified as effective cash flow hedges. The Authority does not intend to terminate these agreements other than at par and for purposes of maintaining a match between bonds outstanding and the swap notional value prior to their maturity.

Using rates as of June 30, 2012, debt service requirements of the Authority outstanding variable rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows (in thousands). As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year Ended	Interest Rate			
	Principal	Interest	Swaps, Net	Total
2013	\$ 44,125	\$ 3,400	\$ 40,098	\$ 87,623
2014	53,860	3,246	38,466	95,572
2015	51,800	3,058	36,337	91,195
2016	54,265	2,887	34,413	91,565
2017	58,075	2,693	32,285	93,053
2018 - 2022	199,605	10,861	135,904	346,370
2023 - 2027	202,580	6,814	96,893	306,287
2028 - 2032	215,990	3,662	56,565	276,217
2033 - 2037	155,925	1,354	17,131	174,410
2038 - 2042	27,060	154	1,827	29,041
2043 - 2047	1,735	5	62	1,802
Totals	\$1,065,020	\$ 38,134	\$ 489,981	\$1,593,135

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

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

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

Swap Valuation — The Swap Termination Market Values presented above were estimated by either the Authority's counterparties to the swap agreements or by a third-party consultant, using proprietary valuation models based on industry valuation methodology, including the use of forward yield curves, zero curve rates, and market implied volatility assumptions. The synthetic instrument method and the regression analysis method were used to determine whether the derivative was hedgeable or not based on criteria provided by GASB Statement No. 53 "Accounting and Financial Reporting for Derivative Instruments". The fair values of the hedgeable derivatives are presented in the Statements of Revenue, Expenses and Changes in Fund Net Assets. The market values in the table above represent the termination payments that would have been due had the swaps terminated on June 30, 2012. A positive value represents money due to the Authority by the counterparty upon termination while a negative value represents money payable by the Authority.

Termination Risk — Counterparties to the Authority's swap agreements have ordinary termination rights that require a settlement payment by the Authority or the counterparty based on the market value of the swap agreement at the time of termination. As of June 30, 2012, no termination events have occurred.

Credit Risk — The Authority is exposed to credit risk, the risk that the counterparty fails to perform according to its contractual obligations, on all swap agreements. To mitigate this risk, the Authority has entered into swap agreements with highly rated counterparties. As of June 30, 2012, the counterparty or counterparty guarantor in 57 percent of the outstanding swaps were rated A+/Aa3, 19 percent were rated A-/Baa2, 16 percent were rated AAA/Aa3, and the remaining counterparties were rated AA-/Aa3 and A/A2 by S&P and Moody's, respectively. A collateral agreement has been entered into with all but one of the swap counterparties, to help reduce the Authority's exposure to credit risk. Collateral is required based on the counterparty's credit rating and the allowed threshold under each credit rating level. As of June 30, 2012, the counterparty rated A+/Aa3, has collateral requirements starting at BBB+/Baa1 and a posting threshold of \$500,000. The counterparty rated A-/Baa2 has collateral requirements starting at AA-/Aa3 and a posting threshold of \$50.0 million. Based on the current rating of A-/Baa2 the posting threshold level is lowered to \$100 thousand. The counterparty rating of AA-/Aa3 has collateral requirements starting at A+/A1 and a posting threshold of \$10.0 million. The counterparty rating of A/Aa2 has collateral requirements starting at BBB+/Baa1 and a posting threshold of \$500,000. The counterparty rated AAA/Aa3 does not have a collateral agreement with the Authority. Based on

the fair values as of June 30, 2012, no collateral is required from any counterparty.

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

Rollover Risk — The Authority is exposed to rollover risk only on swaps that mature or may be terminated at the counterparty's option prior to the maturity of the associated bond. The Authority's swap agreements have limited rollover risk. For HORB issues, the swap agreements contain scheduled reductions to the notional amounts that are expected to follow the scheduled and anticipated reductions in the associated bonds under a wide range of mortgage prepayment speeds. In the case of the HRB and MHB issues, the underlying mortgages will adjust at the swap termination date to current market conditions.

The following swaps expose the Authority to rollover risk:

Associated Debt Issuance	Bond Maturity Date	Swap Termination Date
1987 HORB 2002 Series B	9/1/2032	3/1/2020
1987 HORB 2002 Series C	9/1/2016	9/1/2012
1987 HORB 2004 Series A	9/1/2028	9/1/2012
1987 HORB 2007 Series F	9/1/2018	9/1/2014
1988 HORB 2002 Series F	9/1/2032	9/1/2014
1988 HORB 2003 Series A	3/1/2029	9/1/2014
1988 HORB 2003 Series C	9/1/2033	3/1/2019
1988 HORB 2005 Series C	3/1/2028	3/1/2024
1988 HORB 2006 Series A	9/1/2030	3/1/2029
1988 HORB 2007 Series C	9/1/2035	9/1/2016
1988 HORB 2007 Series D	9/1/2034	9/1/2016
1988 HORB 2007 Series D	3/1/2038	9/1/2028
1988 HORB 2008 Series A	9/1/2038	3/1/2019

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

### University of Wisconsin Hospitals and Clinics Authority (the Hospital)

In October 2002, the Hospital issued \$68.5 million of Hospital Revenue Bonds, Series 2002 (Series 2002 Bonds) consisting of \$55.6 million Series 2002A Short-term Adjustable Securities and \$12.9 million Series 2002B Fixed Interest Rate Bonds. The bond proceeds were designated to finance-qualified capital projects. In March 2009, the Hospital refunded \$55.6 million of the outstanding Series 2002A bonds with Variable Rate Demand Revenue Bonds, Series 2009A. The refunding of the Series 2002A bonds resulted in the recognition of a deferred loss of \$641 thousand. Principal payments on the remaining Series 2002B Bonds are \$1.5 million due in April 2013. Interest rates for the Series 2002B Bonds range from 5.25 percent to 5.50 percent and payable semiannually on April 1 and October 1 of each year. The effective annual interest rate of the Series 2002B Bonds was 6.6 percent in 2012 and 6.1 percent in 2011.

In October 2002, the Hospital entered into an interest rate swap in order to convert a portion of the Series 2002A Short-term Adjustable Rate Securities to fixed rates. The notional amount of this swap agreement was \$21.4 million at June 30, 2012 and 2011, and matures on April 1, 2022. This swap had been applied to the Series 2009A with the refunding of the Series 2002A bonds and is now applied to the Series 2011A bonds with the refunding of the Series 2009A bonds. The terms of the swap agreement are for the Hospital to pay the counterparty a fixed rate of 3.85 percent per annum, payable semiannually, and the Hospital to receive a floating rate of 70 percent of one-month London InterBank Offered Rate (LIBOR) per annum, payable monthly. In 2012 and 2011, the effective interest rate received by the Hospital was 0.2 percent. The fair value of the swap agreement was \$(3.5) million and \$(2.6) million at June 30, 2012 and 2011, respectively.

In November 2004, the Hospital entered into an interest rate swap in order to convert a portion of the Series 1997 Variable Rate Demand Bonds to fixed rates. This swap had been applied to the 2008B bonds with the refunding of Series 1997 bonds and is now applied to the Series 2011B bonds with the refunding of Series 2008B bonds. The notional amount of this swap agreement was \$25.3 million and \$26.0 million at June 30, 2012 and 2011, respectively, and matures on April 1, 2021. The terms of the swap agreement are for the Hospital to pay the counterparty a fixed rate of 3.45 percent per annum, payable semiannually, and the Hospital to receive a floating rate of 70 percent of one-month LIBOR per annum, payable monthly. In 2012 and 2011, the

effective interest rate received by the Hospital was 0.2 percent. The fair value of the swap agreement was \$(3.5) million and \$(2.5) million at June 30, 2012 and 2011, respectively.

In September 2005, the Hospital issued \$59.8 million of Variable Rate Demand Hospital Revenue Bonds, Series 2005 (Series 2005 Bonds). The bond proceeds were designated to refund a portion of the then outstanding Series 2000 Bonds. As a result of advanced refunding, the Hospital recognized a deferred loss of \$7.3 million which is being amortized to interest expense over the term of the debt. There are no amounts outstanding on the defeased bonds at June 30, 2012 and 2011. In March 2009, the Hospital refunded \$58.1 million of the outstanding Series 2005 bonds with Variable Rate Demand Hospital Revenue Bonds, Series 2009B and transferred the April 2009 principal payment of \$495 thousand into escrow. The refunding of the Series 2005 Bonds resulted in the recognition of a deferred loss of \$423 thousand.

In September 2005, the Hospital entered into an interest rate swap in order to convert the Series 2005 Variable Rate Demand Hospital Revenue Bonds to fixed rate. This swap has been applied to the Series 2009B with the refunding of the Series 2005 Bonds. The notional amount of the swap agreement was \$54.8 million and \$56.8 million at June 30, 2012 and 2011, respectively, and matures on April 1, 2029. The terms of the swap agreement are for the Hospital to pay the counterparty a fixed rate of 3.31 percent per annum, payable monthly, and the Hospital to receive a floating rate of 58.3 percent of one-month LIBOR per annum plus 0.36 percent, payable monthly. In 2012 and 2011, the effective interest rate received by the Hospital was 0.5 percent. The fair value of the swap agreement was \$(9.8) million and \$(5.2) million at June 30, 2012 and 2011, respectively.

In May 2008, the Hospital issued \$50.4 million of Fixed Rate Bonds, Series 2008A (Series 2008A Bonds) through a private placement. The bond proceeds were used to refund \$50.0 million of Variable Rate Demand Hospital Revenue Bonds, Series 1997. Principal payments on the remaining Series 2008A Bonds, ranging from \$1.1 million to \$5.2 million, are due annually from April 2012 through April 2026. Interest is payable semiannually. In 2012 and 2011, the effective interest rate was 5.3 percent.

In June 2008, the Hospital issued \$61.0 million of Variable Rate Demand Revenue Refunding Bonds, Series 2008B Bonds, secured by an irrevocable transferable direct pay letter of credit issued by a commercial bank. The bond proceeds were used to refund \$60.0 million of Hospital Revenue Bonds consisting of Short-term Adjustable Rate Securities, Series 2004. In 2011, the effective interest rate was 0.2 percent. In May 2011, the Hospital refunded \$61.0 million of the outstanding Series 2008B bonds with Revenue Refunding Bonds, Series 2011B. The refunding of the Series 2008B bonds resulted in the recognition of a deferred loss of \$474 thousand.

In September 2008, the Hospital entered into an equipment financing agreement with GE Government Finance, Inc., in the amount of \$9.3 million. Principal and interest payments are made monthly commencing on November 1, 2008, for seven years. In 2012 and 2011, the effective interest rate was 4.5 percent.

In March 2009, the Hospital issued \$57.1 million of Variable Rate Demand Revenue Refunding Bonds, Series 2009A (Series 2009A Bonds), secured by an irrevocable transferable direct pay letter of credit issued by a commercial bank. The bond proceeds were used to refund \$55.6 million of the outstanding Hospital Revenue Bonds consisting of Short-Term Adjustable Rate Securities, Series 2002A. In 2011, the effective interest rate was 0.2 percent. In May 2011, the Hospital refunded the outstanding \$57.1 million of the Series 2009A bonds with Revenue Refunding Bonds, Series 2011A and the balance of the Series 2009A Interest Fund. The refunding of the Series 2009A bonds resulted in the recognition of a deferred loss of \$488 thousand.

In March 2009, the Hospital also issued \$59.3 million of Variable Rate Demand Revenue Refunding Bonds, Series 2009B (Series 2009B Bonds). The bond proceeds were used to refund \$58.1 million of Variable Rate Demand Revenue Refunding Bonds, Series 2005. Principal payments on the remaining Series 2009B Bonds, ranging from \$2.1 million to \$8.2 million, are due annually from April 2012 through April 2029. Series 2009B Bonds bear interest at a weekly rate determined by a remarketing agent. Interest is payable monthly. The effective annual interest rate was 0.1 percent in 2012 and 0.2 percent in 2011.

The Series 2009B Bonds are secured by an irrevocable transferable direct pay letter of credit issued by a commercial bank. The initial letter of credit agreement has a stated expiration date of five years. It does not require any principal payments within the first year of the draw; interest payments are due monthly. Outstanding principal payments under the letter of credit would revert to a term out loan after the first year. Any obligations under the term out loans are repayable in equal quarterly installments based on a four-year straight-line amortization commencing on the 367<sup>th</sup> day after the draw with final payments of the outstanding balances on the earliest to occur of: (a) the date on which the letter of credit is replaced or substituted; (b) five (5) years following the date of the draw preceding such Term Out Loan; (c) the date the bonds are successfully remarketed; or (d) the date on which all amounts due have been accelerated pursuant to the letters-of-credit. The letter-of-credit agreements include a material adverse effect clause. The agreements provide specific details as to what constitutes a material adverse effect and that a material adverse effect could constitute an event of default under the letter of credit. At June 30, 2012 and 2011, there were no amounts outstanding under the letter of credit.

In June 2009, the Hospital issued \$5.3 million of Fixed Rate Hospital Revenue Bonds, Series 2009C (Series 2009C Bonds) through a private placement. The bond proceeds were designated

to finance qualified capital projects. Principal payments on the remaining Series 2009C Bonds, ranging from \$248 thousand to \$478 thousand, are due bi-annually commencing from April 2012 through October 2024. Series 2009C Bonds bear interest from June 30, 2009 through October 1, 2012, at the initial fixed rate of 5.07 percent per annum. The interest rate will be reset every three years and is payable biannually. In 2012 and 2011, the effective interest rate was 5.1 percent.

In May 2011, the Hospital issued \$56.7 million of Revenue Refunding Bonds, Series 2011A to a commercial bank in the form of a direct bond purchase agreement. The bond proceeds were used to refund \$57.1 million of Variable Rate Demand Revenue Bonds, Series 2009A. Principal payments on the remaining Series 2011A Bonds, ranging from \$500 thousand to \$3.9 million, are due annually from April 2013 through April 2032. Series 2011A bonds bear interest at 74 percent of LIBOR, plus 1.04 percent, payable monthly. In 2012 and 2011, the effective interest rate was 1.2 percent.

In May 2011, the Hospital also issued \$61.0 million of Revenue Refunding Bonds, Series 2011B to a commercial bank in the form of a direct bond purchase agreement. The bond proceeds were used to refund \$61.0 million of Variable Rate Demand Bonds, Series 2008B. Principal payments on the remaining Series 2011B Bonds, ranging from \$10.0 million to \$15.3 million, are due annually in April 2030 through April 2034. Series 2011B bonds bear interest at 74 percent of LIBOR, plus 1.04 percent, payable monthly. The effective interest rate was 1.3 percent in 2012 and 1.1 percent in 2011. The 2011B bond documents include a material adverse effect clause. The bond documents provide specific details as to what constitutes a material adverse effect and that a material adverse effect could constitute an event of default.

The Series 2002 Bonds, Series 2008A Bonds, Series 2009B Bonds, Series 2011A Bonds and Series 2011B are collateralized by a security interest in substantially all of the Hospital's revenue. The borrowing agreements contain various covenants and restrictions, including compliance with the terms and conditions of a Lease Agreement and provisions limiting the amount of additional indebtedness that may be incurred. Management believes that the Hospital is in compliance with all debt covenants and has not incurred a material adverse effect as defined at June 30, 2012 and 2011.

Legislation which had limited the Hospital's total borrowings to a defined amount was amended in April 2008. The statute now requires the Hospital to obtain approval of additional bond issuance from its Board of Directors, maintain an unenhanced bond rating in the category of "A" or better from Standard & Poor's Corporation (S&P) and Moody's Investor Service, Inc. (Moody's), and notify the State Joint Committee on Finance. The Hospital's current rating from S&P and Moody's is A+ and A1, respectively.

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

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

There are collateral posting provisions on the swap agreement. The collateral amount required is determined based on the fair value of the swap, less the applicable threshold of \$7.0 million at the Hospital's current rating. Collateral valuations are performed daily, based on the official market closing curve. While the counterparty holds the collateral, the funds will earn the overnight Federal Funds interest rate, payable monthly. Collateral of \$3.0 million was required as of June 30, 2012. No collateral was required as of June 30, 2011.

The Hospital will be exposed to variable rates if the counterparty to the swap defaults or if the swaps are terminated. The swap agreements include bilateral additional termination event provisions. Under the provisions, either party has the option, but not the obligation, to terminate the swap transaction if the other party gets downgraded below certain thresholds. Neither the Hospital nor the counterparties have been downgraded below these thresholds at June 30, 2012 and 2011. The Hospital does not intend to terminate these agreements. The swaps expose the Hospital to basis risk should the relationship between LIBOR and variable rate coverage, changing the synthetic rate on the bonds. As of June 30, 2012 and 2011, the Hospital was not exposed to credit risk because each of the swaps had a negative fair value. However, should interest rates change and any one of the fair value of the swaps become positive, the Hospital would be exposed to credit risk in the amount of the swap's fair value.

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

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

The revenue bonds of the Hospital do not constitute debt of the State nor is the State liable on those bonds.

Debt service requirements for principal and interest for the Hospital's revenue bonds at June 30, 2012 are as follows (in thousands):

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

**University of Wisconsin Foundation**

Long-term debt of the University of Wisconsin Foundation consists of a note payable. The note is payable in five annual installments of \$532,731, with a final payment due in January 2014. All payments on the note apply to principal. The balance outstanding as of December 31, 2011 is \$1.6 million.

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

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

**D. Refundings, Exchanges and Early Extinguishments**

**Refunding Provisions of GASB Statement No. 23**

The State implemented the provisions of GASB Statement No. 23. *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities* beginning with Fiscal Year 1996. This Statement requires proprietary activities to adopt certain accounting and reporting changes for both current refunding and advance refunding resulting in defeasance of debt.

GASB Statement No. 23 permits, but does not require, retroactive application of its provisions. The State has chosen not to apply the provisions retroactively to previously issued financial statements.

**Current Year Refundings/General Obligation Bonds**

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

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

In May 2012, the State issued \$143.6 million of general obligation refunding bonds (2012 Series 2), the proceeds of \$171.9 million were deposited in an escrow account to provide for future debt service payments and redemption of \$155.3 million of various general obligation bonds outstanding at the time of the refunding. As a result of the advance refunding, the \$155.3 million of various general obligation bond for which future debt service payments and redemption are paid from the escrow account are considered defeased and the associated liability removed from the financial statements. The refunding resulted in a decrease in total debt service payments by \$11.9 million and an economic gain of \$11.6 million.

**Prior Year Refundings/General Obligation Bonds**

Government Accounting Standards Board Statement No. 7 *Advance Refundings Resulting in Defeasance of Debt*, provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. At June 30, 2012, approximately \$664.8 million of general obligation bond principal have been defeased.



**Prior Year Refundings/Revenue Bonds**

For financial reporting purposes, the following primary government revenue bonds have been defeased, and therefore, removed as a liability from the balance sheet:

- Environmental Improvement Fund revenue bonds – At June 30, 2012, revenue bonds outstanding of \$231.9 million have been defeased.
- Transportation revenue bonds – At June 30, 2012, revenue bonds outstanding of \$611.3 million have been defeased.

**Prior Year Refundings/Component Units**

**Badger Tobacco Asset Securitization Corporation**

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

**Wisconsin Housing and Economic Development Authority**

In 1990 the Wisconsin Housing and Economic Development Authority (the Authority) defeased \$48.4 million of Insured Mortgage Revenue Bonds, as of June 30, 2012, the remaining outstanding defeased debt is \$16.2 million.

**Early Extinguishments/Redemptions**

**Component Units**

**Wisconsin Housing and Economic Development Authority**

During 2012, the Wisconsin Housing and Economic Development Authority (the Authority) redeemed early various outstanding bonds according to the redemption provisions in the bond resolutions. None of these redemptions resulted in extraordinary losses due to the write-off of remaining unamortized deferred debt financing costs.

A summary of these early redemptions follows (in thousands):

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

**E. Short-term Financing**

The State of Wisconsin Building Commission, an agency of the State, is empowered by law to consider, authorize, issue, and sell debt obligations of the State. To date, the Commission has authorized the issuance of notes. When this short-term debt does not meet long-term financing criteria, it is classified among fund liabilities.

**General Obligation Commercial Paper Notes**

The State has authorized General Obligation Commercial Paper Notes for the acquisition, construction, development, extension, enlargement, or improvement of land, waters, property, highway, buildings, equipment or facilities. Periodically, additional commercial paper notes are issued to pay for maturing commercial paper notes.

The State intends to make annual May 1 payments on the outstanding commercial paper notes that reflect principal amortization of the notes. The State also intends to make regular deposits to the issuing and paying agent that will be used to pay interest due on maturing notes. On June 30, 2012, the amount of general obligation commercial paper notes outstanding was \$178.9 million which had interest rates ranging from .11 percent to .2 percent and maturities ranging from July 6, 2012 to August 16, 2012.

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

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

**General Obligation Extendible Municipal Commercial Paper**

The State has authorized general obligation extendible municipal commercial paper for the acquisition, construction, development, extension, enlargement, or improvement of land, waters, property, highway, buildings, equipment or facilities. Periodically, additional extendible municipal commercial papers are issued to pay for maturing extendible municipal commercial paper. The State intends to make annual May 1 payments on the outstanding extendible commercial paper that reflect principal amortization of the paper. The State also intends to make regular deposits to the issuing and paying agent that will be used to pay interest due on maturing notes. At June 30, 2012, the amount of the general obligation extendible municipal commercial paper outstanding was \$521.7 million which had interest rates ranging from .21 percent to .31 percent and maturities ranging from July 2, 2012, to October 9, 2012.

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

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

**Petroleum Inspection Fee Revenue Extendible Municipal Commercial Paper**

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

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

Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012
\$ 71.2	\$ --	\$ --	\$ 71.2

**Transportation Revenue Commercial Paper Notes**

The State authorized transportation revenue commercial paper notes to pay the costs of major highway projects and certain State transportation facilities. Periodically, additional commercial paper notes are issued to pay for maturing commercial paper notes. The State intends to make annual July 1 payments on the commercial paper notes that reflect principal amortization of the notes. The State also intends to make regular deposits to the issuing and paying agent that will be used to pay interest due on maturing notes. At June 30, 2012, the amount of transportation revenue commercial paper notes outstanding was \$129.8 million which had interest rates ranging from .15 percent to .17 percent and maturities ranging from August 9, 2012 to August 16, 2012.

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

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

## F. Certificates of Participation

The State established a facility in 1992 that provides lease purchase financing for property and certain service items acquired by State agencies. This facility is the Third Amended and Restated Master Lease 1992-1. Pursuant to the terms and conditions of this agreement, the trustee for the facility issues parity Master Lease certificates of participation that evidence proportionate interest of the owners thereof in lease payments. A common pool of collateral ratably secures all Master Lease certificates. Title in the property and service items purchased under the facility remains with the State and the State grants to the Trustee, for the benefit of all Master Lease certificate holders, a first security interest in the leased items. At June 30, 2012, the following parity Master Lease certificates were outstanding:

- Master Lease Certificates of Participation of 2006, Series A, in the amount of \$17.7 million. This series of Master Lease certificates has interest rates ranging from 4.0 percent to 5.0 percent and matures semi-annually through September 1, 2016.
- Master Lease Certificates of Participation of 2010, Series A (Revolving Credit Agreement – Taxable) in the amount of \$5.2 million. This Master Lease certificate evidences the State's obligation to repay advances under a Revolving Credit Agreement, dated June 22, 2007, as amended between U.S. Bank National Association (as trustee), the State of Wisconsin, acting by and through its Department of Administration, as lessee, and Dexia Credit Local. The scheduled termination date under the Revolving Credit Agreement, as amended, is September 1, 2013. This Master Lease certificate shall bear interest at the rates and mature on the dates provided for in the Revolving Credit Agreement. The balance of this Master Lease certificate may include some accrued interest that will be payable at the next semi-annual interest payment date.
- Master Lease Certificates of Participation of 2010, Series B, in the amount of \$13.4 million. This series of Master Lease certificates has interest rates ranging from 3.0 percent to 4.0 percent and matures semi-annually through September 1, 2017.
- Master Lease Certificates of Participation of 2012, Series A, in the amount of \$26.8 million. This series of Master Lease certificates has interest rates ranging from 2.0 percent to 4.0 percent and matures semi-annually through September 1, 2017.

The Third Amended and Restated Master Lease 1992-1 provides that certain lease schedules to the facility can be terminated if the State deposits with the Trustee an amount that is equal to the

outstanding amount of the lease schedule, or in amounts that are sufficient to purchase investments that mature on dates and in amounts to make the lease payments when due. At June 30, 2012, the State has not deposited with the Trustee amounts, that when invested, will terminate lease schedules.

## G. Arbitrage Rebate

The Tax Reform Act of 1986 requires that governmental entities issuing tax-exempt debt subsequent to August 1986, calculate and rebate arbitrage earnings to the federal government. Specifically, the excess of the aggregated amount earned on investments purchased with bond proceeds over the amount that would have been earned if the proceeds were invested at a rate equal to the bond yield, is to be rebated to the federal government. As of June 30, 2012, a liability for arbitrage rebate did not exist.

## H. Moral Obligation Debt

Through legislation enacted in 1999, the State authorized the creation of local districts. These districts (Wisconsin Center District, Southeast Wisconsin Professional Baseball Park District, and the Green Bay/Brown County Professional Football Stadium District) are authorized to issue bonds for their respective purpose, and if the State determines that certain conditions are satisfied, the State may have a moral obligation to appropriate moneys to make up deficiencies in the districts' special debt service reserve funds. To date, the Wisconsin Center District has the authority to issue up to \$200.0 million and has issued \$125.8 million of bonds that are subject to the moral obligation. The two other local districts each have authority to issue \$160.0 million of revenue obligations that, subject to the Secretary of Administration's determination that certain conditions have been met, could carry a moral obligation of the State. All of the districts have issued revenue obligations that do not carry the moral obligation of the State.

Through legislation enacted in 1999, the State authorized the issuance of up to \$170.0 million principal amount of bonds to finance the development or redevelopment of sites and facilities to be used for public schools. If certain conditions are satisfied, and if a special debt service reserve fund is created for the bonds, the State will provide a moral obligation pledge, which would restore the special debt reserve fund established for the bonds to an amount not to exceed the maximum annual debt service on the bonds. Three bond issues with an aggregate outstanding balance of \$96.6 million have been issued that have a special debt service reserve fund secured by the State's moral obligation.

**I. Credit Agreements****Primary Government**

The State has, as part of the working bank contract, a letter of credit agreement with the US Bank National Association under which the Bank has agreed to provide to the State an open line of credit in the amount of \$50.0 million. The agreement provides for advances in anticipation of bond issuance proceeds. As of June 30, 2012, \$50.0 million was unused and available.

The State has entered into a credit agreement to provide a line of credit for liquidity support for up to \$233.0 million of general obligation commercial paper notes. The line of credit expires in March, 2013, but is subject to renewal as provided for in the credit agreement. The cost of this line of credit is 0.095 percent per year.

Also, the State has entered into a credit agreement to provide a line of credit for liquidity support for its transportation revenue commercial paper program. The amount of the line of credit is \$112.2 million. This line of credit expires in April, 2013, but is subject to termination and renewal as provided for in the credit agreement. The cost of this line of credit is 0.100 percent per year.

**NOTE 12. LEASE COMMITMENTS AND INSTALLMENT PURCHASES**

The State leases office buildings, space, and equipment under a variety of agreements that vary in lease term, many of which are subject to appropriation from the State Legislature to continue the lease commitment. If such funding, i.e., through legislative appropriation, is judged to be assured, and the likelihood of cancellation through exercise of the fiscal funding clause is remote, leases are considered non-cancelable and reported as either a capital lease or an operating lease.

**A. Capital Leases**

**Primary Government**

Capital lease commitments in the government-wide and proprietary funds statements are reported as liabilities at lease inception. The related assets along with the depreciation are also reported at that time. Lease payments are reported as a reduction of the liability.

For capital leases in governmental funds, "Other Financing Sources - Capital Lease Acquisitions" and expenditures are recorded at lease inception. Lease payments are recorded as expenditures.

The following is an analysis of the gross minimum lease payments along with the present value of the minimum lease payments as of June 30, 2012 for capital leases (in thousands):

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

Assets acquired through capital leases are valued at the lower of fair market value or the present value of minimum lease payments at the inception of the lease. The following is an analysis of capital assets recorded under capital leases as of June 30, 2012 (in thousands):

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

**Master Lease Program**

The State established a facility in 1992 that provides lease purchase financing for property and certain service items acquired by state agencies. This facility is the Third Amended and Restated Master Lease between the State acting by and through the Department of Administration and U.S. Bank National Association. Lease purchase obligations under the Master Lease are not general obligations of the State, but are payable from appropriations of State agencies participating in the Master Lease Program, subject to annual appropriation. The interest component of each lease/purchase payment is subject to a separate determination. Pursuant to terms of the Master Lease, the Trustee for the facility issues parity Master Lease certificates of participation that evidence proportionate interest of the owners thereof in lease payments. The outstanding balance as of June 30, 2012 was as follows:

<b>Balance Due</b>	<b>Average Life (Weighted Term)</b>
\$63,137,366	1.9 Years

**Component Unit**

**University of Wisconsin Hospital and Clinics Authority**

Under the terms of a lease agreement, the University of Wisconsin Hospitals and Clinics Authority (the Hospital) leases facilities which were occupied by the Hospital as of June, 1996 (see Note 1B to the financial statements). The initial term of the lease is 30 years to be renewed annually with automatic extensions of one additional year on each July 1 until action is taken to stop the extensions. Included in the consideration for the lease is an amount equal to the debt service during the term of the lease agreement on all outstanding bonds issued by the State for the purpose of financing the acquisition, construction or improvement of the leased facilities. The balance at June 30, 2012 for amounts related to this agreement was \$2.5 million.

The following is an analysis of the future minimum rental payments due under operating leases (in thousands):

Fiscal Year	Govern- mental Activities	Business- type Activities	Com- ponent Units
2013	\$ 43,943	\$ 19,230	\$ 10,138
2014	38,265	16,942	5,855
2015	32,782	15,458	4,130
2016	27,197	13,412	3,173
2017	21,926	12,353	1,965
2018 - 2022	61,277	50,325	3,275
2023 - 2027	5,263	38,690	-
2028 - 2032	463	31,741	-
2033 - 2037	388	1,619	-
2038 - 2042	400	-	-
2043 - 2047	438	-	-
2048 - 2052	402	-	-
Thereafter	10	-	-
Minimum lease payments	<u>\$ 232,753</u>	<u>\$ 199,771</u>	<u>\$ 28,537</u>

**B. Operating Leases**

Operating leases, those leases not recorded as capital leases, are not recorded in the statement of net assets. These leases contain various renewal options, the effect of which are reflected in the minimum lease payments only if it is considered that the option will be exercised. Certain other operating leases contain escalation clauses and contingent rentals which are not included in the calculation of the future minimum lease payments. Operating lease expenditures/expenses are recognized as incurred or paid over the lease term.

Governmental and business-type activities rental expenses under operating leases for Fiscal Year 2012 were \$79.2 million. Of this amount, \$79.1 million relates to minimum rental payments stipulated in lease agreements, \$53 thousand relates to contingent rentals. Component unit rental expenses under operating leases were \$14.9 million, of which \$14.9 million relates to minimum rental payments stipulated in lease agreements.

**C. Installment Purchases**

The State has entered into installment purchase agreements. The following is an analysis of the gross minimum installment payments, along with the present value of the minimum installment payments, as of June 30, 2012 for installment purchases (in thousands):

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

**NOTE 13. POLLUTION REMEDIATION OBLIGATIONS**

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

**Measurement of Obligations**

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

During fiscal year 2012, the State did not recognize additional estimated liabilities for pollution remediation. The State expended \$3.6 million to clean up sites in FY 2012, therefore, the beginning liability of \$11.1 million was reduced to \$7.5 million. There were no recoveries received from other responsible parties during fiscal year 2012 and none are expected for the identified obligations.

**Identified Remediation Obligations:**

Pollution remediation liabilities are updated annually and are based on engineering studies and the judgment of agency officials. The following table shows liabilities included in the Statement of Net Assets as of June 30, 2012 (in millions):

Nature and Source of Pollution	Estimated Liability	Estimated Recovery
Contract agreement with EPA to clean up Superfund site of former wood treatment facility	\$ .5	--
Voluntary commencement by the State to clean up heavy metal contamination of canal near former industrial site	7.0	--
Total estimated obligations	<u>\$7.5</u>	<u>--</u>

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

**NOTE 14. RETIREMENT PLAN**

The Wisconsin Retirement System (WRS) was established and is administered by the State of Wisconsin to provide pension benefits for State and local government public employees. The WRS consists of the Core Retirement Investment Trust, the Variable Retirement Investment Trust, and the Police and Firefighters Trust. Although separated for accounting purposes, the assets of these trust funds can be used to pay benefits for any member of the WRS, and are reported as one pension plan.

The WRS is considered part of the State of Wisconsin’s financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information for the year ending December 31, 2010, is available at [www.etf.wi.gov](http://www.etf.wi.gov) or may be obtained upon request from:

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

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

**Plan Description**

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

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

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

For employees beginning participation on or after January 1, 1990 and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 and prior to July 1, 2011 are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011 must have five years of creditable service to be vested. Employees who retire at or after age 65 (55 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

Final average earnings is the average of the participant’s three highest years’ earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits. The WRS also provides death and disability benefits for employees.

**Accounting Policies and Plan Asset Matters**

The financial statements of the WRS have been prepared in accordance with generally accepted accounting principles, using the flow of economic resources measurement focus and a full accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide



contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

All assets of the WRS are invested by the State of Wisconsin Investment Board. The retirement fund assets consist of shares in the Variable Retirement Investment Trust and the Core Retirement Investment Trust. The Variable Retirement Investment Trust consists primarily of equity securities. The Core Retirement Investment Trust is a balanced investment fund made up of fixed income securities and equity securities. Shares in the Core Retirement Investment Trust are purchased as funds are made available from retirement contributions and investment income, and sold when funds for benefit payments and other expenses are needed.

The assets of the Core and Variable Retirement Investment Trusts are carried at fair value with all market value adjustments recognized in current operations. Investments are revalued monthly to current market value. The resulting valuation gains or losses are recognized as income, although revenue has not been realized through a market-place transaction.

The WRS does not have any investments (other than those issued or guaranteed by the U.S. Government) in any one organization that represent 5.0 percent or more of plan net assets.

**State Contributions Required and Contributions Made**

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

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

Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

State contributions made for the years ended December 31, 2011, 2010, and 2009 were as follows (in millions):

	2011	2010	2009
Employer current service	\$ 226.6	\$ 207.8	\$ 192.5
Percent of payroll	5.9%	5.3%	5.0%
Employer prior service	\$ 2.9	\$ 3.3	\$ 3.2
Percent of payroll	0.1%	0.1%	0.1%
Employee required	\$ 208.9	\$ 196.4	\$ 191.1
Percent of payroll	5.4%	5.0%	5.0%
Benefit adjustment contributions	\$ 28.6	\$ 40.6	\$ 30.0
Percent of payroll	0.7%	1.0%	0.8%
Percent of Required Contributions	100%	100%	100%

The WRS uses the “Entry Age Normal with Frozen Initial Liability” actuarial method in establishing employer contribution rates. Under this method, the unfunded actuarial accrued liability (UAAL) is generally affected only by the monthly amortization payments, compound interest, the added liability created by new employer units, and any liabilities caused by changes in benefit provisions. The UAAL is being amortized over a 40 year period beginning January 1, 1990 for employers in the WRS prior to 2009. Liabilities for employers joining the WRS effective April 5, 2008, are amortized over 30 years. However, periodically, the Employee Trust Funds Board has reviewed and, when appropriate, adjusted the actuarial assumptions used to determine this liability. Changes in the assumptions may affect the UAAL, and the resulting actuarial gains or losses are credited or charged to employers’ unfunded liability accounts.

All actuarial gains or losses arising from the difference between actual and assumed experience are reflected in the determination of the normal cost.

As of June 30, 2012 and 2011, the WRS’s unfunded actuarial accrued liability was \$91.1 million and \$118.8 million, respectively. These amounts are presented as Prior Service Contributions Receivable on the financial statements. New prior service liabilities resulting from employers entering the WRS or increasing their prior service coverage are recognized as contributions in the year service is granted and are added to the Prior Service Contributions Receivable. Employer contributions for prior service reduce the receivable. The receivable is increased as of calendar year end with interest at the assumed interest rate of 7.2 percent.

**NOTE 15. MILWAUKEE RETIREMENT SYSTEM**

The Milwaukee Retirement System (MRS) is reported as an Investment Trust Fund. MRS participants provide assets to the State of Wisconsin, Department of Employee Trust Funds (DETF) for investing in its Core Retirement Investment Trust (CRIT) and the Variable Retirement Investment Trust (VRIT), funds of the Wisconsin Retirement System (WRS). Participation of the MRS in the CRIT and VRIT is described in the DETF Administrative Code, Chapter 10.12. The State of Wisconsin Investment Board (SWIB) manages the CRIT and VRIT with oversight by a Board of Trustees as authorized in Wis. Stat. 25.14 and 25.17. SWIB is not registered with the Securities and Exchange Commission as an investment company.

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

Investments are revalued monthly to fair value, with unrealized gains and losses reflected in income.

Monthly, the DETF distributes a pro-rata share of the total CRIT and VRIT earnings less administrative expenses to the MRS accounts. The MRS accounts are adjusted to fair value and gains/losses are recorded directly in the accounts per DETF Administrative Code, Chapter 10.12(2). Neither State statute, a legal provision nor a legally binding guarantee exists to support the value of shares.

Copies of the separately issued financial report that includes financial statements along with the accompanying footnote disclosures and supplementary information for the CRIT and the VRIT is available at [www.swib.state.wi.us](http://www.swib.state.wi.us) or may be obtained upon request from:

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

**NOTE 16. POSTEMPLOYMENT BENEFITS – STATE HEALTH INSURANCE PROGRAM**

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

**Plan Description**

The State’s Health Insurance Program, a cost-sharing multiple employer, defined benefit plan, is an employer-sponsored program (not administered as a trust) offering group medical coverage to eligible employees and retirees of State and participating local government employers. Created under Chapter 40, of the Wisconsin Statutes, the State Department of Employee Trust Funds and the Group Insurance Board have program administration and oversight responsibilities under Wis. Stat. Sections 15.165(2) and 40.03(6). As of January 2011 (most recent actuarial valuation date), there were 57,934 active, and 7,021 retirees and beneficiaries participating in the plan.

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

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

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

**Funding Policy**

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

Contribution requirements are established and may be amended by the Group Insurance Board. For retirees that participate in the health insurance plan, premiums, for non-Medicare retirees, are based on an effective rate structure for the health care service provider selected. Rates range from \$560.70 to \$1,147.60 for single coverage and \$1,397.60 to \$2,865.60 for family coverage.

The annual required contribution of the employer (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. At June 30, 2012, the ARC was \$89.6 million while the employer contributions were \$38.4 million, and the ARC adjustment, with interest, was \$26.9 million.

**Annual OPEB Cost**

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

<b>Fiscal Year</b>	<b>Annual OPEB Cost</b>	<b>Employer Contributions</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
2012	\$ 77,432	\$38,396	49.6%	\$406,522
2011	128,437	52,826	41.1	367,486
2010	124,294	46,487	37.4	291,875
2009	158,699	48,795	30.8	214,068
2008	148,497	44,333	29.9	104,164

Interest on the net OPEB obligation was \$14.7 million while the net OPEB obligation increased \$39.0 million.

**Funded Status and Funding Progress**

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

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

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

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

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

### **Actuarial Methods and Assumptions**

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

In the January 1, 2011 actuarial valuation, the entry age normal actuarial cost method was used. Actuarial assumptions included a discount rate of 4.0 percent, determined using an underlying assumption of 3.0 percent for inflation plus 1.0 percent for high quality investments with durations of one year or less, and a 3.2 percent assumed annual payroll growth. The projected annual healthcare cost trend rate is (3.82) percent initially, adjusted by increments to an ultimate rate of 5.0 percent. Other assumptions used, such as mortality, disability and retirement rates for active members, are consistent with an actuarial valuation on the Wisconsin Retirement Plan dated December 31, 2010. In addition, a 30 year, level percent of pay, closed amortization period was used for the initial UAAL, while a 15 year, level percent of pay, closed amortization period was used for any future gains and losses.

Currently, the health insurance plan is not funded by assets held in a separate trust. The discount rate (discussed above) was

based on the State's general assets not earmarked for certain uses, such as building funds. The State's general assets are held in short-term fixed income investments. Therefore, the discount rate reflects that type of investment policy.

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

**NOTE 17. OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS**

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

**Plan Descriptions**

**State Retiree Health Insurance Fund**

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

**Duty Disability Fund**

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

Contributions are actuarially determined in accordance with Wis. Stats. Section 40.05 (2)(ar). All contributions are employer paid based on a graduated, experienced-rated formula. During Calendar Year 2011 contribution rates ranged from 1.9 percent to 6.7 percent of covered payroll based on employer experience.

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

**Retiree Life Insurance Fund**

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

Generally, members may enroll during a 30-day enrollment period once they satisfy a six-month waiting period. They may enroll

after the initial 30-day enrollment period with evidence of insurability. Members under evidence of insurability enrollment must enroll in group life insurance coverage before age 55 to be eligible for Basic or Supplemental coverage.

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

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

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

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

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

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

**Summary of Significant Accounting Policies****Basis of Accounting**

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

**Method Used to Value Investments****Duty Disability Fund**

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

**Retiree Life Insurance Fund**

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

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

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

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

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

Mortgage loans are carried at amortized cost less any valuation allowances. Premiums and discounts are amortized or accreted

over the terms of the mortgage loans based on the effective interest yield method.

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

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

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

Real estate is carried at cost less accumulated depreciation.

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

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

Policy loans are carried at the unpaid principal balance.

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

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

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

**Required Supplementary Information**

Required Supplementary Information about the OPEB plans is presented in the Department of Employee Trust Funds audited financial statements. The December 31, 2010 financial report is available at [www.etf.wi.gov](http://www.etf.wi.gov) and on request from:

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

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

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

The Department of Employee Trust Funds operates four public entity risk pools: group health insurance, group income continuation insurance, long-term disability insurance, and pharmacy benefits. The information provided in this note applies to the period ending December 31, 2011.

**A. Description of Funds**

The Health Insurance Fund offers group health insurance for current employees of the State government and of participating local public employers. All public employers in the State are eligible to participate. Approximately 371 local employers plus the State currently participate. The State and local government portions of the fund are accounted for separately and have separate contribution rates, benefits, and actuarial valuations. The fund includes both a self-insured, fee-for-service plan as well as various prepaid plans, primarily Health Maintenance Organizations (HMO's) and a self-insured plan that provides for pharmacy benefits of covered members.

The Income Continuation Insurance Fund offers disability wage continuation insurance for current employees of the State government and of participating local public employers. All public employers in the State are eligible to participate. Approximately 192 local employers plus the State currently participate. The State and local government portions of the fund are accounted for separately and have separate contribution rates, benefits, and actuarial valuations. The plan is self-insured.

The Long-term Disability Insurance Fund offers long-term disability benefits to participants in the Wisconsin Retirement System (WRS). The long-term disability benefits provided by this program are an alternative coverage to that currently provided by the WRS. All new WRS participants on or after October 15, 1992, are eligible only for the long-term disability insurance coverage, while participating employees active prior to October 15, 1992, may elect coverage through WRS or the long-term disability insurance program.

**B. Accounting Policies for Risk Pools**

*Basis of Accounting* - All Public Entity Risk Pools are accounted for in enterprise funds using the full accrual basis of accounting and the flow of economic resources measurement focus.

*Valuation of Investments* - Assets of the Health Insurance Fund Income Continuation Insurance and Long-term Disability Insurance funds are invested in the Core Retirement Investment Trust. Investments are valued at fair value.

*Unpaid Claims Liabilities* - Claims liabilities are based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The estimate includes the effects of inflation and other societal and economic factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. Unpaid claims liability is presented at face value and is not discounted for health insurance. It is discounted using an interest rate of 7.2 percent for income continuation and long-term disability insurance. The liabilities for income continuation, long-term disability, and health insurance were determined by actuarial methods.

*Administrative Expenses* - All maintenance expenses are expensed in the period in which they are incurred. Acquisition costs are immaterial and are treated as maintenance expenses. Premium deficiencies are not calculated because acquisition costs are immaterial. Claim adjustment expenses are also immaterial.

*Reinsurance* - Health insurance plans provided by HMO's and health insurance for local government annuitants are fully insured by outside insurers. All remaining risk is self-insured with no reinsurance coverage.

*Risk Transfer* - Participating employers are not subject to supplemental assessments in the event of deficiencies. If the assets of the fund were exhausted, participating employers would not be responsible for the fund's liabilities.

*Premium Setting* - Premiums are established by the Group Insurance Board in consultation with actuaries.



**C. Unpaid Claims Liabilities**

As discussed in Section B of this Note, each fund establishes a liability for both reported and unreported insured events, which is an estimate of future payments of losses. The following represents changes in those aggregate liabilities for the nonreinsured portion of each fund during Calendar Year 2011 (in millions):

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

\* Total unpaid claims at the end of 2011 is the net of \$3.9 million in unpaid claims and \$10.0 million in rebates due from pharmaceutical companies; total unpaid claims at the end of 2010 is the net of \$4.0 million in unpaid claims and \$11.4 million in rebates due from pharmaceutical companies.

**D. Trend Information**

Historical trend information showing revenue and claims development information is presented in the Department of Employee Trust Funds audited financial statements. The separately issued financial report for the year ended December 31, 2010 is available at [www.etf.wi.gov](http://www.etf.wi.gov) and on request from:

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

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

**NOTE 19. SELF-INSURANCE**

It is the general policy of the State not to purchase commercial insurance for the risks of losses to which it is exposed. Instead, the State believes it is more economical to manage its risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The fund services most claims for risk of loss to which the State is exposed, including damage to State owned property, liability for property damages and injuries to third parties, and worker's compensation. All funds and agencies of the State participate in the Risk Management Fund.

**State Property Damage**

Property damages to State-owned properties are covered by the State's self-funded property program up to \$3.0 million per occurrence and \$4.0 million annual aggregate. When claims, which exceed \$100,000 per occurrence, total \$4.0 million, the State's private insurance becomes available. Losses to property occurring after the threshold are first subject to a \$100,000 deductible. The amount of loss in excess of \$100,000 is covered by the State's private insurance company. During Fiscal Year 2012, the excess insurance limits were written to \$300 million.

The liabilities for State property damage are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. The estimate for future benefits and loss liabilities is based on the reserves on open claims and paid claims. Losses incurred but not reported are expected to be immaterial. Claims incurred but not paid as of June 30, 2012 are estimated to total \$28.4 million.

**Property Damages and Bodily Injuries to Third Parties**

The State is self-funded for third party liability to a level of \$4.0 million per occurrence and purchases insurance in excess of this self-funded retention. The policy limit during Fiscal Year 2012 was \$49.0 million.

The liabilities for property damages and injuries to third parties are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. The estimate for future benefits and loss liabilities for the prior fiscal year was the reserves on open claims. The estimate for future benefits and loss liabilities is calculated by an actuary based on the reserves on open claims and prior experience. No liability is reported for environmental impairment liability claims either incurred or incurred but not reported because existing case law makes it unlikely the State would be held liable for material amounts. Because actual claims liabilities depend upon complex factors such as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Immaterial non-incremental claims adjustment expenses are not included as part

of the liability. Claims incurred but not paid as of June 30, 2012 are estimated to total \$20.7 million.

**Worker's Compensation**

The Worker's Compensation Program was created by Wisconsin Statutes Chapter 102 to provide benefits to workers injured on the job. All employees of the State are included in the program. An injury is covered under worker's compensation if it is caused by an accident that arose out of and in the course of employment.

The responsibility for claiming compensation is on the employee. A claim must be filed with the program within two years from the date of injury; otherwise the claim is not allowable.

The worker's compensation liability has been determined by an actuary using paid claims and current claims reserves. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities are affected by external factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims incurred but not paid as of June 30, 2012 are estimated to total \$71.4 million.

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

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

Settlements have not exceeded coverages for each of the past three fiscal years.

**Annuity Contracts**

The Risk Management Fund purchased annuity contracts in various claimants' names to satisfy claim liabilities. The likelihood that the fund will be required to make future payments on those claims is remote and, therefore, the fund is considered to have satisfied its primary liability to the claimants. Accordingly, the annuity contracts are not reported in, and the related liabilities are removed from, the fund's balance sheet. The aggregate outstanding amount of liabilities removed from the financial statements at June 30, 2012 is \$6.9 million.

**NOTE 20. INSURANCE FUNDS****A. Primary Government****1. Local Government Property Insurance Fund**

Created by the Legislature in 1911, the purpose of the Local Government Property Insurance Fund is to provide property insurance coverage to tax-supported local government units such as counties, towns, villages, cities, school districts and library boards. Property insured includes government buildings, schools, libraries and motor vehicles. Coverage is available on an optional basis. As of June 30, 2012 the Local Government Property Insurance Fund insured 1,076 local governmental units. The total amount of insurance in force as of June 30, 2012 was \$51.1 billion.

*Valuation of Cash Equivalents and Investments* - All investments of the Local Government Property Insurance Fund are managed by the State of Wisconsin Investment Board, as discussed in Note 5-B to the financial statements. At June 30, 2012, the fund had \$24.7 million of shares in the State Investment Fund which are considered cash equivalents.

*Premium* - Unearned premium reported as deferred revenue represents the daily pro rata portion of premium written which is applicable to the unexpired terms of the insurance policies in force. Policies are generally written for annual terms.

*Unpaid Loss Liabilities* - The Local Government Property Insurance Fund establishes the unpaid loss liability titled future benefits and loss liabilities on the financial statements based on estimates of the ultimate cost of losses (including future loss adjustment expenses) that have been reported but not settled, and of losses that have been incurred but not reported. Estimated amounts of excess-of-loss insurance recoverable on unpaid losses are deducted from the liability for unpaid losses. Loss liabilities are recomputed periodically to produce current estimates that reflect recent settlements, loss frequency, and other economic factors. Adjustments to future benefits and loss liabilities are charged or credited to expense in the periods in which they are made.

*Policy Acquisition Costs* - Since the Local Government Property Insurance Fund has no marketing staff and incurs no sales commissions, acquisition costs are minimal and charged to operations as incurred.

*Excess-of-Loss Insurance Coverage* - The Local Government Property Insurance Fund purchases excess-of-loss insurance coverage, the operation of which is analogous to "reinsurance," to reduce its exposure to large losses on all types of insured events. Excess-of-loss insurance permits recovery of a portion of losses from the excess-of-loss insurers, although it does not discharge the primary liability of the fund as direct insurer of the risks reinsured. The fund does not report excess-of-loss insured risks as liabilities unless it is probable that those risks will not be covered by excess-of-loss insurers. As of June 30, 2012 the fund had \$450.0 million of per occurrence excess of loss reinsurance in force with a \$2.0 million combined single limit retention for each occurrence, and an annual aggregate reinsurance contract with a \$22.0 million annual aggregate retention plus a per claim retention of \$5 thousand once the aggregate is met, as respects occurrences for the term of the agreement. Premiums ceded to excess-of-loss insurers, which is netted against premium revenue (charges for goods and services in the financial statements), amounted to \$6.4 million during the fiscal year. Excess-of-loss and adjusting expense recoveries earned would typically reduce claims paid (benefit expense on the financial statements). During the fiscal year the losses recovered through excess-of-loss insurance was \$(.1) million.

**Unpaid Loss Liabilities**

As discussed above, the Local Government Property Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related loss expenses. The following represents changes in those aggregate liabilities for the fund during the past two fiscal years (in thousands):

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

**Trend Information**

Historical trend information showing revenue and claims development information is presented in the Office of the Commissioner of Insurance June 30, 2012 financial statements. Copies of these statements may be requested from:

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

**2. State Life Insurance Fund**

The State Life Insurance Fund was created under Chapter 607, Wisconsin Statutes, to offer life insurance to residents of Wisconsin in a manner similar to private insurers. This fund functions much like a mutual life insurance company and is subject to the same regulatory requirements as any life insurance company licensed to operate in Wisconsin.

Premiums are reported as earned when due. Benefits and expenses are associated with earned premiums so as to result in recognition of profits over the life of the contracts. This association is accomplished by means of the provision for liabilities for future benefits and the amortization of acquisition costs.

The costs of policy issuance and underwriting, all of which vary with, and are primarily related to, the production of new business, have been deferred. These deferred acquisition costs are amortized over a forty year period, considered representative of the life of the contract. The amortization is in proportion to the ratio of annual in-force business to the amount of business issued. Such anticipated in-force business was estimated using similar assumptions to those used for computing liabilities for future policy benefits.

**Deferred Acquisition Cost Assumptions**

Issue Years	Interest Rate	Lapse Rate	Mortality
1913-1966	3.0%	2.0%	None
1967-1976	3.0	2.0	None
1977-1985	4.0	2.0	None
1986-1994	5.0	2.0	None
1995+	4.0	2.0	None

The State Life Insurance Fund does not pay commissions nor does it incur agent expenses.

Future benefits and loss liabilities have been computed by the net level premium method based upon estimated future investment yield and mortality. The composition of liabilities and the more material assumptions pertinent thereto are presented below (in thousands):

Issue Year	Ordinary Life Insurance in Force	Amount of Policy Liability
1913-1966	\$ 8,894	\$ 6,820
1967-1976	29,848	16,473
1977-1985	72,074	24,139
1986-1994	49,192	9,053
1995-2008	40,788	5,808
2009+	4,687	257
	<u>\$ 205,483</u>	<u>\$ 62,550</u>

**Bases of Assumptions**

Issue Year	Interest Rate	Mortality
1913-1966	3.0%	American Experience, ANB*
1967-1976	3.0	1958 CSO, ALB, Unisex
1977-1985	4.0	1958 CSO, ALB, Female Setback 3 years
1986-1994	5.0	1980 CSO, ALB, Aggregate
1995-2008	4.0	1980 CSO, ALB, Aggregate
2009-2012	4.0	2001 CSO, ALB, Aggregate

\* Age Next Birthday

All of the State Life Insurance Fund's life insurance in force is participating. This fund is required by statute to maintain surplus at a level between 7 percent and 10 percent of statutory admitted assets as far as practicably possible. All excess surplus is to be returned to the policyholders in the form of policyholder dividends. Policyholder dividends are declared each year in order to achieve the required level of surplus.

The statutory assets at December 31, 2011 were \$94.5 million and the statutory capital and surplus was \$9.6 million, and the fund equity at June 30, 2012 was \$34.3 million.

**3. Injured Patients and Families Compensation Fund**

The Injured Patients and Families Compensation Fund was created in 1975 for the purpose of providing excess medical malpractice coverage for claims exceeding the legal primary insurance limits prescribed in Wis. Stat. Section 655.23(4), or the maximum liability limit for which the health care provided is insured, whichever limit is greater. Management of the Injured Patients and Families Compensation Fund is vested with a 13-member Board of Governors, which is chaired by the Commissioner of Insurance. Most health care providers permanently practicing or operating in the State of Wisconsin are required to pay Injured Patients and Families Compensation Fund assessment fees. Risk of loss is retained by the fund.

The Future Benefits and Loss Liability account includes individual case estimates for reported losses and estimates for incurred but not reported losses based upon the projected ultimate losses recommended by a consulting actuary. Individual case estimates of the liability for reported losses and net losses paid from inception of the Injured Patients and Families Compensation Fund are deducted from the projected ultimate loss liabilities to determine the liability for incurred but not reported losses as of June 30, 2012 as follows (in thousands):

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

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

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

In accordance with Section Ins. 17.27(3), Wis. Adm. Code, the liability for reported losses, liability for incurred but not reported losses, and liability for loss adjustment expense are maintained on a present value basis with the difference from full value being reported as a contra account to these estimated loss liabilities. These estimated loss liabilities are discounted only to the extent that they are matched by cash and invested assets. Using the actuarially determined discount factor of 0.841, which is based on an investment yield assumption of 5.0 percent approved by the Board of Governors, the discounted loss liability would be as follows as of June 30, 2012 (in thousands):

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

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

Once every three years, the Office of the Commissioner of Insurance contracts for an actuarial audit of the Injured Patients and Families Compensation Fund. This audit includes a review by another actuary of the reasonableness of the actuarial methodology and assumptions used in developing estimates of the Fund's liabilities. The actuarial audits have concluded that the Fund's loss liability estimates are reasonable, although conservative. The Fund's contracted actuary has considered the recommendations made in the actuarial audits and appropriately incorporated any necessary changes based on those recommendations into the actuarial methodology and assumptions used to calculate the Fiscal Year 2012 liabilities estimate.

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

that may be incurred on the claim. This amount is held as a liability to the Fund until a payment on the claim is made.

The breakdown of Future Benefit and Loss Liabilities, including the portions that are estimated as current and noncurrent as of June 30, 2012 (in thousands), is as follows:

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

The uncertainties inherent in projecting the frequency and severity of large claims because of the Injured Patients and Families Compensation Fund's unlimited liability coverage and extended reporting and settlement periods makes it likely that the amounts ultimately paid will differ from the recorded estimated loss liabilities. These differences cannot be quantified.

The estimated amounts included in the balance of Future Benefits and Loss Liabilities are continually reviewed and adjusted as the Injured Patients and Families Compensation Fund gains additional experience. Such adjustments are reflected in current operations. Because of the changes in these estimates, the benefit expense for the fiscal year is not necessarily indicative of the loss experience for the year.

The following is a reconciliation of the change in the balance of Future Benefits and Loss Liabilities during FY 2012 (in thousands):

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

**B. Component Units**

**Wisconsin Health Care Liability Insurance Plan**

The Wisconsin Health Care Liability Insurance Plan (the Plan) is a statutory unincorporated association established by rule of the Commissioner of Insurance of the State of Wisconsin as mandated by the State of Wisconsin legislature. The Plan provides health care liability insurance and liability coverages normally incidental to health care liability insurance to eligible health care providers in the State of Wisconsin calling for payment of premium prior to the effective date of the policy. All insurers authorized to write personal injury liability insurance in the State of Wisconsin, with certain minor exceptions, are required to be members of the Plan.

The Plan generates its premium written revenue by selling medical malpractice insurance. Rates are calculated in accordance with generally accepted actuarial principles. The rates are set so that the Plan will be self-supporting. Profit is not the intent of the Plan.

Since the inception of the Plan in 1975, the health care liability coverage limits have increased from \$200 thousand per occurrence and \$600 thousand annual aggregate to the current limits of \$1.0 million per occurrence and \$3.0 million annual aggregate. A general liability coverage is also available to participating health care providers with limits of \$1.0 million per occurrence and \$3.0 million annual aggregate. The Plan is not covered under any reinsurance contracts.

In the event that sufficient funds are not available for the sound financial operation of the Plan, all members shall, on a temporary basis, contribute to the financial needs of the Plan. Members shall participate in the contributions in the proportion of their respective premiums to the aggregate premiums written by all members of the Plan. Such assessments shall be recouped by rate increases applied prospectively. There were no assessments for the year ended December 31, 2011.

The future benefits and loss liability includes amounts determined from individual reported losses (case reserves) and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on estimates and, while management believes that the amounts are adequate, the ultimate liability will differ from the amounts provided. The methods for making such estimates and for establishing the resulting liability are annually reviewed, and any adjustments are reflected in income currently. Specific account balances as of December 31, 2010, and December 31, 2011, are as follows (in thousands):

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

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

**NOTE 21. SEGMENT INFORMATION AND CONDENSED FINANCIAL DATA****Primary Government**

The State issues revenue bonds to finance the Leveraged Loan Program, which is accounted for as part of the Environmental Improvement Fund. Investors in those bonds rely solely on the revenue generated within the Leveraged Loan Program. Assets of this program are used primarily for loans for Wisconsin municipal waste water projects. Condensed financial statement information of the Leveraged Loan Program as of and for the year ended June 30, 2012 is presented below (in thousands):

**Condensed Balance Sheet**

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

**Condensed Statement of Revenues, Expenses and Changes in Fund Equity**

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

**Condensed Statement of Cash Flows**

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



**NOTE 22. COMPONENT UNITS – CONDENSED FINANCIAL INFORMATION**

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

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

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

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

The following reconciliations summarize restatements of the end-of-year fund balance/fund equity/net assets as reported in the 2011 Comprehensive Annual Financial Report to the beginning-of-year amounts reported for Fiscal Year 2012 (in thousands):

**A. Fund Statements – Governmental Funds**

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

**B. Fund Statements – Proprietary Funds**

	<u>Major Funds</u>						
	<b>Injured Patients and Families Compensation</b>	<b>Environmental Improvement</b>	<b>University of Wisconsin System</b>	<b>Unemployment Reserve</b>	<b>Nonmajor Funds</b>	<b>Total Enterprise</b>	<b>Internal Service Funds</b>
Fund Equity June 30, 2011 as reported in the 2011 Comprehensive Annual Financial Report	\$ 294,439	\$ 1,631,839	\$ 5,269,914	\$ (926,111)	\$ 497,374	\$ 6,767,456	\$ 6,330
Other adjustments of assets and liabilities as of June 30, 2011	-	-	-	-	(2,031)	(2,031)	1,293
Fund Equity July 1, 2011 as restated	<u>\$ 294,439</u>	<u>\$ 1,631,839</u>	<u>\$ 5,269,914</u>	<u>\$ (926,111)</u>	<u>\$ 495,343</u>	<u>\$ 6,765,425</u>	<u>\$ 7,623</u>
Effect of adjustments on the amount of net change in fund equity of Fiscal Year 2011	\$ -	\$ -	\$ -	\$ -	\$ (2,031)	\$ (2,031)	-

**C. Fund Statements – Fiduciary Funds**

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

**D. Government-wide Statements**

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

**NOTE 24. LITIGATION, CONTINGENCIES AND COMMITMENTS**

assets or net income in future years. Due to uncertainty in predicting an outcome, a liability has not been recorded.

**A. Litigation and Contingencies**

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

The State accrues liabilities related to legal proceedings, if a loss is probable and reasonably estimable. Such losses, totaling \$2.0 million on June 30, 2012 reported in the governmental activities, are discussed below:

*Other Claims -- Work Injury Supplemental Benefits* - The Work Injury Supplemental Benefit Fund, administered by the Department of Workforce Development, provides compensatory payments to survivors of fatally injured employees or disabled employees with work-related injuries. The liability for annuities to be paid totaled \$.8 million at June 30, 2012.

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

**Other Claims, Judgments, and Contingencies**

The State is also named as a party in other legal proceedings where the ultimate disposition and consequence are not presently determinable. The potential liability amount relating to an unfavorable outcome for certain of these proceedings could not be reasonably determined at this time. However, the ultimate dispositions and consequences of any single legal proceeding or all legal proceedings collectively should not have a material adverse effect on the State's financial position.

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

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

The SWIB believes that the loss, if any, resulting from the claim being upheld will not have a material impact on net investment

**B. Commitments**

**Primary Government**

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

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

*The Environmental Improvement Fund* (the Fund) was established to administer the Clean Water Fund Loan Program. Loans are made to local units of government for wastewater treatment projects for terms of up to 20 years. These loans are made at a number of prescribed interest rates based on environmental priority. The loans contractually are revenue obligations or general obligations of the local governmental unit. Additionally, various statutory provisions exist which provide further security for payment. The Fund has made financial assistance commitments of \$253.6 million as of June 30, 2012. These loan commitments are expected to be met through additional federal grants and proceeds from issuance of revenue obligations.

In addition, the revenue obligation bonds of the Leveraged Loan Program in the Fund are collateralized by a security interest in all the assets of the Leveraged Loan Program. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the Fund’s revenue obligation bonds. However, as the loans granted to local units of government are at an interest rate less than the revenue bond rate, the State is obligated by the Fund’s General Resolution to fund, at the time each loan is made, a reserve which subsidizes the Leveraged Loan Program in an amount which offsets this interest disparity.

The *Injured Patients and Families Compensation Fund* may be required to purchase an annuity as a result of a claim settlement. Under specific annuity arrangements, the fund may have ultimate responsibility for annuity payments if the annuity company defaults on annuity payments. One of the fund’s annuity providers defaulted on \$106 thousand in annuity payments through June 30, 2012, which the fund subsequently paid. The annuity provider is currently making the majority of these annuity payments, but the fund continues to make monthly annuity payments to cover defaulted payments. The fund has received reimbursement for these payments, including interest of \$93 thousand through June 30, 2012. It is unclear when the annuity provider will be able to make the remaining annuity

payments and whether the fund will be able to recover the remaining annuity payments made on the behalf of the annuity provider. The total estimated replacement value of the fund’s annuities as of June 30, 2012 was \$32.8 million. The replacement value calculation includes only annuities where the Fund remains the owner. Annuities with qualified assignments are no longer included. The fund reserves the right to pursue collection from State guarantee funds.

*State Public Deposit Guarantee* - As required by Wis. Stat. Sec. 34.08, the State is to make payments to public depositors for proofs of loss (e.g., loss resulting from a bank failure) up to \$400 thousand per depositor above the amount of federal insurance. This statutory requirement guarantees that the State will make payments in favor of the public depositor that has submitted a proof of loss. Payments would be made in the order in which satisfactory proofs of loss are received by the State’s Department of Financial Institutions, until the designated appropriation is exhausted. At June 30, 2012, the appropriation available totaled \$47.4 million. Losses become fixed as of the date of the loss. A public depositor experiencing a loss must assign its interest in the deposit, to the extent of the amount paid, to the Department of Financial Institutions. Any recovery made by the Department of Financial Institutions under the assignment is to be repaid to the appropriation. The possibility of a material loss resulting from payments to and recovery from public depositors is remote.

**Component Units**

*The Wisconsin Housing and Economic Development Authority’s* Wisconsin Development Reserve Fund Program represents funds appropriated to subsidize interest and provide guarantees of principal balances of qualifying loans. The Authority is authorized to make loan guarantees up to \$49.5 million. At June 30, 2012, outstanding loan guarantees totaled \$26.3 million.

In April 2003, the Authority approved the Neighborhood Business Revitalization Guarantee program. The guarantee program will provide up to \$12.0 million in loan guarantees for revitalization in targeted urban commercial communities with populations greater than 35,000. As of June 30, 2012, \$6.2 million of loan guarantees had been approved with outstanding loan guarantees of \$3.9 million.

**NOTE 25. SUBSEQUENT EVENTS**

**Primary Government**

**Long-term Debt**

*General Obligation Bonds* - In November 2012, the State issued \$293.1 million of 2012 Series B general obligation bonds to be used for the acquisition, construction, development, extension, enlargement, or improvement of land, water, property, highways, buildings, equipment, or facilities for public purposes. The interest rates ranged from 2.6 percent to 5.0 percent payable semiannually, beginning May 1, 2013. The bonds mature beginning May 1, 2022 through 2033.

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

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

**Short-term Debt**

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

**Component Units**

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

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

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

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

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## **Required Supplementary Information**

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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):

<b>Actuarial Valuation Date</b>	<b>Actuarial Valuation Of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) – Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b – a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b – a) / c)</b>
1/1/2011	\$ 0	\$ 953,110	\$ 953,110	0.0%	\$ 3,244,518	29.4%
1/1/2009	\$ 0	\$ 1,329,526	\$ 1,329,526	0.0%	\$ 3,053,972	43.5%
1/1/2007	\$ 0	\$ 1,472,774	\$ 1,472,774	0.0%	\$ 2,842,917	51.8%



**Required Supplementary Information**

**Infrastructure Assets Reported Using the Modified Approach**

The State has adopted the modified approach for reporting infrastructure assets. Under the modified approach, infrastructure assets are not depreciated as long as the State can demonstrate that these assets are properly managed and are being preserved at or above an established condition level. Instead of depreciation, the costs to maintain and preserve infrastructure assets are expensed, while additions and improvements are capitalized. The State owns approximately 11,200 centerline miles of roads and 5,100 bridges.

**Road Network**

Condition assessments are completed on a two-year cycle with the most current results reported for each State road. Numerous measures are used to assess the condition of the State's road network. The State has adopted the International Roughness Index (IRI), as defined by the Federal Highway Administration, as its primary condition measure. IRI is measured on a scale of 0 to 5, with an IRI of 2.69 or greater being defined as a "poor" ride. Roads with a "poor" IRI assessment cause negative impacts for the traveling public by decreasing driver comfort and increasing the damage to vehicles and goods. It is the State's policy to ensure no more than 15 percent of its roads receive a "poor" IRI assessment.

Recent condition assessment results are as follows:

Year Ended June 30	Miles of Road	Percent Rated "Poor"	Established Percent	Variance Favorable/ (Unfavorable)
2012	11,200	7.0*	15.0	8.0
2011	11,200	12.0**	15.0	3.0
2010	11,200	9.3**	15.0	5.7
2009	11,200	6.9	15.0	8.1
2008	11,200	6.9	15.0	8.1
2007	11,200	6.4	15.0	8.6
2006	11,200	5.4	15.0	9.6
2005	11,200	5.8	15.0	9.2
2004	11,200	6.1	15.0	8.9
2003	11,200	4.3	15.0	10.7

\*The 2012 decrease in the percentage of roads rated poor is due to inclusion of new construction in the scope of condition assessment. Without such inclusion, the percentage of poor

roads would have been equivalent to the 2011 level. New construction was included because efficiencies were gained from a new van used to capture condition assessment data, resulting in new construction being included in the assessment closer to the completion date. In prior years, new construction was generally not included in condition assessments until the following year.

\*\* The 2011 and 2010 increase in the percentage of roads rated poor compared to previous years is partially attributable to the new equipment used in assessing the IRI. For 2011, all of the miles were tested using the new equipment. For 2010, approximately half of the miles were tested using the new equipment. DOT officials believe the current data collection methods provide a more accurate view of existing ride quality because of improvements in equipment and methodology.

Each year the State estimates the costs to maintain and preserve the road network at, or above, the established condition level. Actual maintenance/preservation costs compare to estimates as follows:

Year Ended June 30	Estimated Costs (In millions)	Actual Costs (In millions)	Variance (In millions) Favorable/ (Unfavorable)
2012	\$ 611.0	\$ 585.3	\$ 25.7
2011	606.7	705.7	(99.0)
2010	660.7	669.1	(8.4)
2009	647.7	624.4	23.3
2008	531.8	537.3	(5.5)
2007	501.8	441.6	60.2
2006	495.7	367.5	128.2
2005	366.6	333.8	32.8
2004	450.8	341.1	109.7
2003	420.9	336.7	84.2

Estimated costs are developed at the beginning of the fiscal year based on projects planned for the current and future years. The types of projects ultimately contracted and incurring costs during the year are often very different. In addition, the State of Wisconsin, Department of Transportation's multi-year contracting process, allowing encumbrances to carry forward, makes a comparison of actual to estimated amounts difficult since expenditures for the current year may have been budgeted and committed to a project in prior years. Estimated costs for 2005 and actual costs for 2005 through 2008 have been restated from amounts reported in prior years due to an error in classification of costs on a capital project as maintenance/preservation costs.

**Bridge Network**

Condition assessments are completed on a two-year cycle, with more frequent inspections completed if warranted. The most current assessment results are reported for each State bridge, making the overall assessment a blend of measures completed in the current fiscal year and those completed in the prior year.

The structural condition rating is a broad measure of the condition of a bridge. Each bridge is rated using three National Bridge Inventory (NBI) condition codes and two NBI appraisal ratings. The three NBI condition codes are Deck Condition, Superstructure Condition, and Substructure Condition. The two NBI appraisal ratings are Structural Evaluation and Waterway Adequacy. The NBI uses a 10-point scale for condition codes and appraisal ratings. A bridge is considered "structurally deficient" if any condition code is 4 or less, or if either appraisal code is 2 or less.

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

Recent condition assessment results are as follows:

Year Ended June 30	Number of Bridges	Percent Structurally Deficient	Established Percent	Variance Favorable/ (Unfavorable)
2012	5,100	3.3	15.0	11.7
2011	5,100	3.6	15.0	11.4
2010	5,000	4.1	15.0	10.9
2009	5,000	3.8	15.0	11.2
2008	4,900	4.5	15.0	10.5
2007	4,900	4.1	15.0	10.9
2006	4,900	4.3	15.0	10.7
2005	4,900	5.1	15.0	9.9
2004	4,900	5.4	15.0	9.6
2003	4,900	6.2	15.0	8.8

Each year the State estimates the costs to maintain and preserve the bridge network at, or above, the established condition level. Actual maintenance/preservation costs compare to estimates as follows:

Year Ended June 30	Estimated Costs (In millions)	Actual Costs (In millions)	Variance (In millions) Favorable/ (Unfavorable)
2012	\$ 101.9	\$ 61.1	\$ 40.8
2011	42.4	64.2	(21.8)
2010	91.7	93.0	(1.3)
2009	55.9	56.9	(1.0)
2008	61.0	46.2	14.8
2007	36.0	46.9	(10.9)
2006	42.4	31.3	11.1
2005	28.3	38.6	(10.3)
2004	47.8	52.3	(4.5)
2003	46.4	45.7	0.7

Estimated costs are developed at the beginning of the fiscal year based on projects planned for the current and future years. The types of projects ultimately contracted and incurring costs during the year are often very different. The State of Wisconsin, Department of Transportation's multi-year contracting process, allowing encumbrances to carry forward, makes a comparison of actual to estimated amounts difficult since expenditures for the current year may have been budgeted and committed to a project in prior years.

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

(In Thousands)

	Original Budget	Final Budget	Actual Amounts
Unexpended Budgetary Fund Balances, Beginning of Year			\$ 1,092,271
<b>Revenues and Transfers (Inflows):</b>			
Taxes	\$ 13,324,446	\$ 13,415,211	13,541,842
Departmental:			
Tribal Gaming	26,538	27,154	24,252
Other	15,343,826 (A)	15,342,731 (A)	14,991,320
Transfers from:			
Transportation Fund	(A)	(A)	-
Nonmajor Governmental Funds	(A)	(A)	83,047
Nonmajor Enterprise Funds	(A)	(A)	-
<b>Total Revenues and Transfers (Inflows)</b>	<b>28,694,810</b>	<b>28,785,096</b>	<b>28,640,461</b>
Amounts Available for Appropriation			29,732,732
<b>Appropriations (Outflows):</b>			
Commerce	255,413	413,038	212,106
Education	11,580,748	12,233,994	11,675,168
Environmental Resources	181,747	230,845	178,063
Human Relations and Resources	10,979,882	13,812,707	11,812,731
General Executive	1,149,713	1,670,315	1,114,003
Judicial	138,688	143,627	131,384
Legislative	75,227	75,296	64,528
Tax Relief and Other General	2,445,331	2,425,653	2,368,153
Transfers to:			
Transportation Fund	22,500	22,500	22,500
Nonmajor Governmental Funds	240,000	284,530	364,735
<b>Total Appropriations (Outflows)</b>	<b>\$ 27,069,248</b>	<b>\$ 31,312,506</b>	<b>27,943,370</b>
Fund Balances, End of Year			1,789,362
Less Encumbrances Outstanding at June 30, 2012			(601,317)
Fund Balances, End of Year Budgetary Basis			<b>\$ 1,188,045</b>
Reconciliation of the End of Year, Budgetary Basis, Fund Balance to the Detail Reported in the Annual Fiscal Report:			
General Purpose:			
Designated			\$ 72,373
Undesignated			342,088
Total General Purpose			414,460
Program Revenue			773,584
Fund Balances, End of Year Budgetary Basis			<b>\$ 1,188,045</b>

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

*State of Wisconsin*

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

(In Thousands)

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

Notes To Required Supplementary Information

NOTE 1. BUDGETARY INFORMATION

A. Budgetary – GAAP Reporting Reconciliation

The accompanying Budgetary Comparison Schedule compares the legally adopted budget (more fully described in RSI Note 1-B) with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on the budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of basis and perspective differences as of June 30, 2012 is presented below (in thousands):

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

## B. Budgetary Basis of Accounting

The State's biennial budget is prepared using a modified cash basis of accounting. The final budget is primarily a general purpose revenue and expenditure budget. General purpose revenues consist of general taxes and miscellaneous receipts which are paid into the General Fund, lose their identity, and are then available for appropriation by the Legislature. The remaining revenues consist of program revenues, which are credited by law to an appropriation to finance a specified program or State agency, and segregated revenues which are paid into separate identifiable funds.

While State departments and agencies are required to submit estimates of expected revenues for program revenue and segregated revenue categories, these estimates are not formally incorporated into the adopted budget except for revenue estimates of the Lottery Fund. As a result, legally budgeted revenues for these categories are not available and, consequently, actual amounts are reported in the budget column of the Budgetary Comparison Schedules.

Expenditure budgeting differs for the various types of appropriations. For most appropriations, budgeted expenditures equal the amount from the adopted budget plus any subsequent legislative or administrative revisions. Various supplemental appropriations were approved during the year and have been incorporated into the budget figures.

While State statutes prohibit spending beyond budgetary authority, a provision is made to include the value of accounts receivable, inventories and work in process in identifying available revenues. The State also utilizes nonbudget accounts for which no budget is established but expenditures may be incurred. As a result, actual expenditures may exceed budgeted amounts in certain categories.

The budgetary basis of accounting required by State law differs materially from the basis used to report revenues and expenditures in accordance with GAAP. Other variances arise because the State's biennial budget is developed according to the statutory required fund structure which differs extensively from the fund structure used in the GAAP basis financial statements. This difference is primarily caused by the elimination of the University of Wisconsin System, and various fiduciary, proprietary and other governmental fund activity from the statutory General and Transportation funds. In addition, funds such as the Medical Assistance Trust, Hospital Assessment, Budget Stabilization and Permanent Endowment, special revenue funds under statutory reporting, are included as part of the General Fund under GAAP reporting. As a consequence of these differences, a reconciliation between budgetary basis and GAAP basis is provided in Note 1-A of the notes to the required supplementary information.

The Budgetary Comparison Schedules for the General and the Transportation Fund present both the original and final

appropriated budgets, as well as the actual inflows, outflows, and fund balance on the budgetary basis. The supplementary budget comparison schedule provides this same information (with the exception of the original budget data) for the nonmajor governmental funds with annual budgets. The capital project and debt service funds are excluded from this schedule because no comprehensive budget is approved for these funds. One special revenue fund, the Wisconsin Public Broadcasting Foundation, has been excluded from reporting because it is a blended component unit that is neither budgeted nor included under statutory reporting. Of the permanent funds, only the Historical Society Fund and a portion of the Common School and Normal School funds are budgeted.

The State's biennial budget was enacted and published on June 30, 2011. This legislation is recognized by State officials as the original budget and is treated as such on the Budgetary Comparison Schedules.

While the legal level of budgetary control for the reported funds is maintained at the appropriation line as specified by the Legislature in Chapter 20 of the Wisconsin Statutes, this level of detail is impractical for inclusion in the Comprehensive Annual Financial Report. Accordingly, a supplementary report is available upon request which provides budgetary comparisons at the legal level of control.

Appropriation unexpended balances lapse at year-end or forward to the subsequent fiscal year depending on the type of appropriation involved:

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- *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.
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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.

