STATE OF WISCONSIN
CONTINUING DISCLOSURE
ANNUAL REPORT

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

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

MASTER LEASE CERTIFICATES OF PARTICIPATION
(Base CUSIP 977087)

TRANSPORTATION REVENUE OBLIGATIONS
(Base CUSIP 977123)

CLEAN WATER REVENUE BONDS
(Base CUSIP 977092)

ENVIRONMENTAL IMPROVEMENT FUND REVENUE BONDS
(Base CUSIP 97709T)

PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS
(Base CUSIP 977109)

GENERAL FUND ANNUAL APPROPRIATION BONDS
(Base CUSIP 977100)

December 23, 2016

SCOTT WALKER
GOVERNOR

SCOTT A. NEITZEL
SECRETARY

Division of Executive Budget and Finance
Capital Finance Office
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December 23, 2016

Thank you for your interest in the State of Wisconsin.

This is the Continuing Disclosure Annual Report for the fiscal year ending June 30, 2016 (**2016 Annual Report**).

The 2016 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 2016 Annual Report with the Municipal Securities Rulemaking Board (**MSRB**) through its Electronic Municipal Market Access (**EMMA**) system. EMMA receives, and makes available to the public, continuing disclosure documents and related information that is provided by issuers and obligated persons.

Official Statements for securities that the State issues during calendar year 2017 may incorporate parts of this 2016 Annual Report by reference.

Organization of the 2016 Annual Report

The 2016 Annual Report is divided into nine parts. The first two parts present general information.

- **Part I** presents the **State's continuing disclosure undertakings**. A Master Agreement on Continuing Disclosure (Amended and Restated December 1, 2010) establishes a general framework. Separate addenda describe the information to be provided for specific types of securities.
- **Part II** presents **general information about the State**, including its operations and financial results. This part also provides information on the 2015-17 biennial budget and the results of the 2015-16 fiscal year.

  The State's audited general purpose external financial statements and independent auditor's report for the fiscal year ended June 30, 2016 are not available as of the date of the 2016 Annual Report. When available, the State's Comprehensive Annual Financial Report and the audited general purpose external financial statements section of the CAFR for the fiscal year ended June 30, 2016 will be filed within 10 business days with the MSRB through its EMMA system, and will be made a part of APPENDIX A to Part II of the 2016 Annual Report.

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

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

Ratings on the State's Securities

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

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

How to Get Additional Information

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

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

doa.wi.gov/capitalfinance

We welcome your comments or suggestions about the 2016 Annual Report. I can be reached at (608) 267-0374 or **DOACapitalFinanceOffice@wisconsin.gov**.

David R. Erdman
Capital Finance Director

SUMMARY OF OUTSTANDING STATE OF WISCONSIN OBLIGATIONS AS OF DECEMBER 15, 2016

	Principal Balance 12/15/2015	Principal Issued 12/15/2015 – 12/15/16	Principal Matured, Redeemed, or Defeased 12/15/2015 – 12/15/16	Principal Balance 12/15/2016
			GENERAL OBLIGATIONS [(a)]	
Total	**$7,988,224,416**	**$1,515,430,000**	**$1,432,346,836**	**$8,071,307,580**
General Purpose Revenue (GPR)	4,826,645,302	729,767,761	775,533,896	4,780,879,167
Self-Amortizing: Veterans	54,265,000	—	11,295,000	42,970,000
Self-Amortizing: Other	3,107,314,114	785,662,239	645,517,940	3,247,458,413
		MASTER LEASE CERTIFICATES OF PARTICIPATION		
Total	**$111,962,060**	**$33,645,000**	**$29,368,722**	**$116,238,338**
		TRANSPORTATION REVENUE OBLIGATIONS [(a)]		
Total	**$2,106,923,000**	**$0**	**$130,800,000**	**$1,976,123,000**
		CLEAN WATER REVENUE BONDS		
Total	**$698,160,000**	**$120,890,000**	**$184,235,000**	**$634,815,000**
		ENVIRONMENTAL IMPROVEMENT FUND REVENUE BONDS		
Total	**$43,380,000**	**$0**	**$3,245,000**	**$40,135,000**
		PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS [(a)]		
Total	**$112,560,000**	**$62,445,000**	**$98,950,000**	**$76,055,000**
		GENERAL FUND ANNUAL APPROPRIATION BONDS [(a)]		
Total	**$3,115,935,000**	**$600,660,000**	**$614,835,000**	**$3,101,760,000**

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

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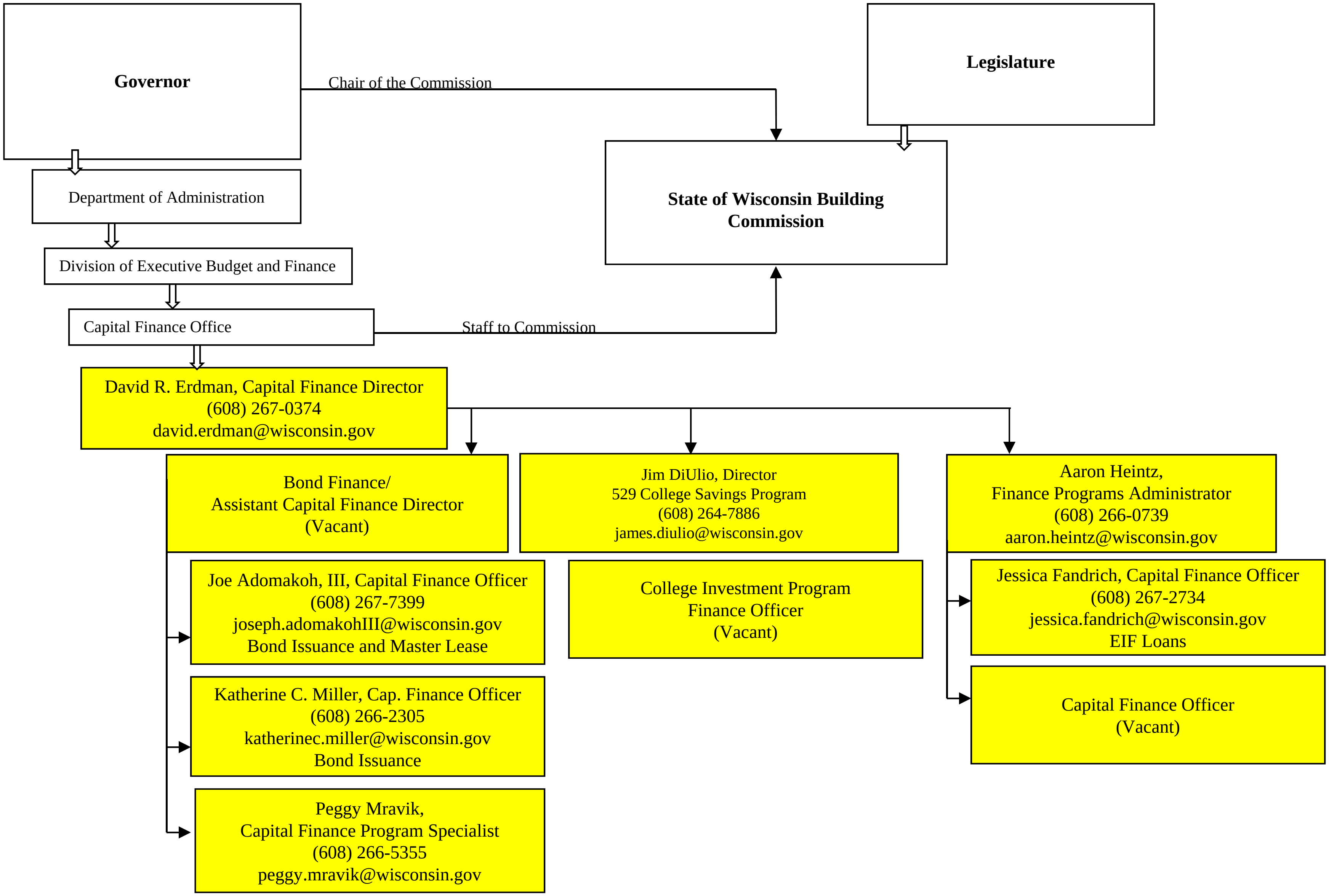
Capital Finance Office Staff (December 15, 2016)



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

BUILDING COMMISSION MEMBERS*

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

Nonvoting, Advisory Member	
Mr. Kevin Trinastic, State Ranking Architect Department of Administration	——

Building Commission Acting Secretary	
Ms. Naomi R. De Mers, Acting Administrator Division of Facilities Development Department of Administration	At the pleasure of the Building Commission and the Secretary of Administration

OTHER PARTICIPANTS

Mr. Brad D. Schimel State Attorney General	January 7, 2019
Mr. Scott A. Neitzel, 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 voting members. The Governor serves as the chairperson. Each house of the Wisconsin State Legislature appoints three members. State law provides for the two major political parties to be represented in the membership from each house. One citizen member is appointed by the Governor and serves at the Governor's pleasure.

PART II

GENERAL INFORMATION ABOUT THE STATE OF WISCONSIN

Part II of the 2016 Annual Report provides general information about the State of Wisconsin **(State)**. It describes the following:

- Revenues
- Expenditures
- Accounting and Financial Reporting
- Budgeting Process and Fiscal Controls
- Budgetary Results of 2015-16 Fiscal Year
- State Budget (including State Budget for 2015-17 Biennium)
- General Fund Information
- State Government Organization
- State Obligations
- Employee Pension Funds and Other Post-Employment Benefits
- Statistical Information

The State has provided an Additional/Voluntary filing with the Municipal Securities Rulemaking Board (**MSRB)**, through its Electronic Municipal Market Access **(EMMA)** system, providing notice that the audited general purpose external financial statements and independent auditor's report for the fiscal year ended June 30, 2016 are not available as of the date of this Part II to the 2016 Annual Report. When available, the Comprehensive Annual Financial Report (**CAFR**) and the audited general purpose external financial statements section of the CAFR for the fiscal year ended June 30, 2016 will be filed within 10 business days with the MSRB through its EMMA system, and made a part of APPENDIX A to this Part II of the 2016 Annual Report.

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

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

The State has independently provided, starting in July 2001, monthly reports on general fund financial information. The State did not provide these monthly reports from June 2013 through March 2014, and the frequency of the reports provided subsequent to March 2014 has been less than monthly. These reports are not required by any of the State's undertakings provided to permit compliance with Rule 15c2-12, adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934. These reports are available on the State's Capital Finance Office web site that is listed above and also filed as additional voluntary information with the MSRB through its EMMA system. These reports are not incorporated by reference into this Part II of the 2016 Annual Report. The State is not obligated to provide such reports at any time in the future.

This Part II of the 2016 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 2016 Annual Report.

The 2016 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 2016 Annual Report may differ from that of the same terms used in another part, and the total amount shown in a table may vary from the related sum due to rounding. No information or resource referred to in the 2016 Annual Report is part of the report unless expressly incorporated by reference.

Certain statements in this Part II of the 2016 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 2016 Annual Report, and the State undertakes no obligation to update such statements to reflect subsequent events or circumstances. Actual results could differ materially from the anticipated results.

REVENUES

Revenue Structure

The State raises revenues from diverse sources:

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

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

Table II-1

REVENUES (ALL SOURCES)[(a)]

	2015-16	2014-15	2013-14	2012-13	2011-12
State Collected Taxes					
Individual Income	$ 7,740,824,938	$ 7,325,816,775	$ 7,061,389,669	$ 7,496,854,246	$ 7,041,673,130
General Sales and Use	5,065,762,290	4,892,125,859	4,628,337,935	4,410,129,770	4,288,738,415
Corporate Franchise and Income	963,027,018	1,004,926,461	967,184,149	925,383,342	906,575,362
Public Utility	360,596,994	381,819,363	360,967,550	341,266,658	365,966,581
Excise	708,509,061	699,060,289	698,686,674	689,463,769	709,553,461
Inheritance and Gift	1,744,736	(112,267)	(77,722)	304,551	322,971
Insurance Companies	177,326,291	165,448,106	165,764,951	159,276,691	148,081,776
Motor Fuel	1,083,522,061	1,063,767,473	1,040,569,511	1,008,656,099	1,049,982,860
Forest	93,861,295	90,613,470	88,385,116	86,237,850	87,667,774
Miscellaneous	199,219,000	181,725,163	163,761,829	159,985,468	151,905,700
Subtotal	16,394,393,685	15,805,190,692	15,174,969,661	15,277,558,445	14,750,468,030
Federal Aid					
Medical Assistance	4,878,094,482	4,854,702,033	4,675,469,265	4,493,657,926	4,176,512,065
AFDC/W2	247,986,348	329,162,381	282,163,922	360,228,664	337,370,248
Transportation	906,033,490	990,580,399	888,220,243	1,000,025,145	929,187,710
Education	2,371,676,587	2,477,689,057	2,580,044,827	2,553,997,049	2,672,035,875
Other	2,642,332,824	2,690,819,415	2,752,701,021	2,860,170,174	3,045,940,968
Subtotal	11,046,123,732	11,342,953,284	11,178,599,277	11,268,078,959	11,161,046,866
Fees					
University of Wisconsin System	1,666,160,550	1,623,453,886	1,622,568,090	1,615,764,806	1,522,068,610
Other	692,248,631	668,384,323	628,539,901	648,748,261	654,889,710
Subtotal	2,358,409,181	2,291,838,209	2,251,107,991	2,264,513,067	2,176,958,320
Licenses and Permits					
Vehicles and Drivers	526,452,501	509,385,404	505,324,754	491,882,914	502,118,905
Hunting and Fishing	58,120,402	110,205,770	116,470,715	108,625,710	111,723,046
Other	1,231,663,425	1,115,655,149	1,113,707,662	1,122,321,862	1,117,340,087
Subtotal	1,816,236,328	1,735,246,322	1,735,503,130	1,722,830,486	1,731,182,038
Miscellany					
Service Charges	803,725,085	781,313,675	738,505,532	722,908,805	723,955,176
Sales of Products	1,026,863,635	935,521,722	922,241,810	924,093,491	911,024,131
Investment Income [(b)]	1,166,877,403	1,871,831,241	14,510,680,894	9,140,017,879	836,368,703
Gifts and Grants	596,605,495	612,224,426	563,269,277	616,858,189	567,649,555
Employee Benefit Contributions [(c)]	3,411,872,470	3,612,450,153	3,737,652,049	3,149,560,809	3,288,710,693
General Obligation Proceeds	981,570,885	1,298,902,695	828,217,375	1,219,324,725	1,379,104,679
Other Revenues	2,918,935,073	2,922,615,939	2,832,874,576	2,466,863,205	2,253,051,260
Subtotal	10,906,450,046	12,034,859,851	24,133,441,512	18,239,627,102	9,959,864,197
Summary					
TOTAL NET REVENUE	42,521,612,972	43,210,088,358	54,473,621,572	48,772,608,059	39,779,519,450
Transfers	1,402,823,022	1,508,789,439	1,459,009,937	1,249,254,506	737,889,533
Gross Revenue	$ 43,924,435,994	$ 44,718,877,797	$ 55,932,631,509	$ 50,021,862,565	$ 40,517,408,984

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

(b) Figures include investment income for all funds. Investment income for the Wisconsin Retirement System totaled $896,425,976 for fiscal year 2015-2016, $1,650,635,903 for fiscal year 2014-15, $14,249,209,345 for fiscal year 2013-14, $8,950,565,085 for fiscal year 2012-13, and $594,932,788 for fiscal year 2011-12.

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

Source: Wisconsin Department of Administration

Tax Structure

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

Individual Income Tax

The tax brackets and rates for the 2016 and 2017 tax years, which are shown in Table II-2, include the increase in the standard deduction for married filing jointly filers beginning with tax year 2016. The taxable income brackets have been indexed for changes in the Consumer Price Index.

Table II-2

INDIVIDUAL INCOME TAX BRACKETS AND RATES

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

2017 Taxable Income Brackets[a]		
Single	**Married Filing Jointly[b]**	**2017 Marginal Tax Rate**
0 to 11,230	0 to 14,980	4.00%
11,231 to 22,470	14,981 to 29,960	5.84
22,471 to 247,350	29,961 to 329,810	6.27
247,351+	329,811+	7.65

[a] Taxable income in dollars

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

General Sales and Use Tax

A 5 percent tax is imposed on the sale or use of services and all tangible personal property unless specifically exempted. The most notable exemptions are food, prescription drugs, and motor and heating fuel. In 2009, the State adopted the Streamlined Sales and Use Tax Agreement, which is a multi-state agreement intended to simplify and modernize sales and use tax administration and to promote the voluntary collection of sales tax by out-of-state businesses. As of November 2016, 24 states have adopted the agreement, representing approximately one third of the national population.

Corporate Income and Franchise Taxes

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

Public Utility Taxes

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

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

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

Excise Taxes on Tobacco and Alcohol

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

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

Estate, Inheritance, and Gift Taxes

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

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

Insurance Company Premium Tax

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

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

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

Motor Vehicle Fuel Tax

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

Forest Tax

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

Miscellaneous Taxes

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

Tax Credits

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

Manufacturing and Agriculture Tax Credit

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

Homestead Tax Credit

Property tax relief is provided to low-income homeowners and renters through a homestead tax credit. The maximum household income limit is $24,680. The maximum amount of aidable property taxes is $1,460, and the amount of farm acreage on which the property tax is based is 120 acres. For renters, the portion of rent allocated as property tax is 25 percent, or 20 percent if heat is included in rent. In the 2015-16 fiscal year, low-income homeowners and renters received nearly $100 million in homestead tax credit relief.

Earned Income Tax Credit

The earned income tax credit provides assistance to lower-income workers. The tax credit supplements the wages and self-employment income of such families. It offsets the impact of the social security tax and increases the incentive to work. As of August 1, 2016, the State was one of 26 states and the District of Columbia that offered an earned income tax credit. Twenty-three of those programs, including the State's, 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 percentage 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 2016 was $135 for one child, $613 for two children, and $2,131 for three or more children. In the 2015-16 fiscal year, low-income wage earners received $102 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 2015-16; one based on income and the other based on the number of acres and other criteria. Combined expenditures under Farmland Preservation Credit programs totaled nearly $20 million in fiscal year 2015-16.

School Levy Tax Credit

The school levy tax credit is distributed based on each municipality's share of statewide levies for school purposes and is provided to all classes of property taxpayers (residential, commercial, industrial, and others). For property taxes levied in December 2015, $853 million of school levy tax credits was distributed statewide. The first dollar credit, which offsets the school district property taxes paid on the first $6,500 on an improved parcel, provided an additional $148 million of property tax relief for property taxes levied in December 2015. These tax credits offset approximately 9.4 percent of all levies or 20.6 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 2015 tax year, the total lottery property tax credit was approximately $161 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 2015-16 fiscal year, the school property tax credit totaled approximately $412 million.

Tax Collection Procedure (Delinquencies)

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

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

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

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

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

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

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

An analysis of the overall delinquency rate for the income, franchise, gift 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 this Part II of the 2016 Annual Report. See "STATE GOVERNMENT ORGANIZATION; Description of Services Provided by State Government". The three types of expenditures are described below.

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

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

General Fund Expenditures

In the 2015-16 fiscal year, about 51% 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 (26%) and State operations and programs (23%), which included the University of Wisconsin System. For the 2016-17 fiscal year, these percentages are expected to be about 50% returned to local units of government, 25% for aids to individuals and organizations, and 25% for State operations and programs, which includes the University of Wisconsin System.

Table II-3

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

	2015-16	2014-15	2013-14	2012-13	2011-12
Commerce					
State Operations	$ 220,297,122	$ 251,812,554	$ 229,386,338	$ 230,498,660	$ 237,301,963
Aids to Individuals and Organizations [(b)]	25,056,868	36,164,193	37,092,716	39,257,204	($85,251,510)
Local Assistance	50,539,203	64,054,263	76,482,860	56,037,043	41,520,092
Subtotal	295,893,193	352,031,010	342,961,915	325,792,907	193,570,545
Education					
State Operations	6,188,774,127	6,166,780,064	6,243,833,208	6,005,424,862	5,700,997,759
Aids to Individuals and Organizations	518,366,096	497,227,676	457,347,628	431,783,064	406,797,858
Local Assistance	6,175,572,042	6,389,703,799	5,859,524,660	5,639,197,518	5,656,240,970
Subtotal	12,882,712,265	13,053,711,539	12,560,705,496	12,076,405,444	11,764,036,587
Environmental Resources					
State Operations	2,371,154,665	2,437,220,712	2,707,169,764	2,711,567,716	2,453,206,494
Aids to Individuals and Organizations	35,198,403	29,100,920	34,929,320	27,553,037	22,631,300
Local Assistance	1,059,845,591	1,223,204,106	1,156,224,236	1,165,514,898	1,097,975,192
Subtotal	3,466,198,659	3,689,525,738	3,898,323,320	3,904,635,650	3,573,812,986
Human Relations and Resources					
State Operations	2,796,248,129	2,789,044,549	2,733,416,164	2,664,971,784	2,622,841,588
Aids to Individuals and Organizations	12,255,382,618	12,059,458,300	11,541,177,302	10,744,126,690	10,217,914,514
Local Assistance	765,915,913	788,474,755	796,649,514	704,135,972	683,427,090
Subtotal	15,817,546,660	15,636,977,604	15,071,242,980	14,113,234,446	13,524,183,192
General Executive					
State Operations	8,198,790,546	8,287,821,942	7,692,753,618	6,885,875,587	7,285,111,297
Aids to Individuals and Organizations	489,636,943	465,241,942	458,594,192	467,821,376	557,776,217
Local Assistance	131,323,284	145,926,694	158,295,861	203,809,063	187,696,817
Subtotal	8,819,750,773	8,898,990,578	8,309,643,671	7,557,506,026	8,030,584,331
Judicial					
State Operations	106,815,611	107,969,106	104,815,737	105,624,208	108,823,889
Local Assistance	24,336,588	22,989,415	22,058,356	22,055,899	22,029,230
Subtotal	131,152,199	130,958,521	126,874,093	127,680,107	130,853,119
Legislative					
State Operations	66,951,115	65,595,364	65,525,903	64,552,205	64,463,115
Subtotal	66,951,115	65,595,364	65,525,903	64,552,205	64,463,115
General					
State Operations	1,102,216,739	1,301,160,305	1,232,746,769	965,930,734	945,014,871
Aids to Individuals and Organizations	341,233,254	332,178,675	343,230,101	328,033,500	344,406,145
Local Assistance	2,051,992,107	2,047,342,389	2,043,214,193	2,011,453,810	2,081,107,574
Subtotal	3,495,442,100	3,680,681,369	3,619,191,063	3,305,418,045	3,370,528,589
General Obligation Bond Program					
State Operations	911,485,053	790,116,321	1,093,559,790	1,089,901,357	885,773,517
Subtotal	911,485,053	790,116,321	1,093,559,790	1,089,901,357	885,773,517
Summary Totals					
State Operations	21,962,733,107	22,197,520,916	22,103,207,291	20,724,347,113	20,303,534,493
Aids to Individuals and Organizations	13,664,874,182	13,419,371,707	12,872,371,259	12,038,574,871	11,464,274,524
Local Assistance	10,259,524,728	10,681,695,421	10,112,449,680	9,802,204,203	9,769,996,966
GRAND TOTAL	$ 45,887,132,017	$ 46,298,588,044	$ 45,088,028,229	$ 42,565,126,187	$ 41,537,805,982

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

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

Source: Wisconsin Department of Administration

ACCOUNTING AND FINANCIAL REPORTING

Statutory Basis

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

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

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

Generally Accepted Accounting Principles

The State also accounts for and reports on its operations using generally accepted accounting principles (**GAAP**). Due in part to the implementation of the new enterprise resource planning system during the fiscal year, the State's CAFR and the audited general purpose external financial statements section of the CAFR for the fiscal year ended June 30, 2016 are not available as of the date of this Part II to the 2016 Annual Report. When available, the CAFR and the audited general purpose external financial statements will be filed within 10 business days with the MSRB through its EMMA system, and made a part of APPENDIX A to this Part II of the 2016 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. Using the CAFR and audited general purpose external financial statements for the fiscal year ended June 30, 2015 as an example, the undesignated, unreserved balance for the fiscal year ended June 30, 2015 was $136 million on a budgetary basis. However, under GAAP, the total fund balance of the General Fund for the fiscal year ended June 30, 2015 was a deficit of $1.779 billion. The difference results primarily because GAAP recognizes accrued liabilities that are not taken into account under the statutory basis. The single largest accrued liability for the fiscal year ended June 30, 2015 was $713 million and related to the State's individual income tax accruals.

New Enterprise Resource Planning System

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

BUDGETING PROCESS AND FISCAL CONTROLS

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

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

Budget Requests from Agencies

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

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

Executive Budget

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

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

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

Legislative Consideration

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

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

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

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

Governor's Partial Veto Power

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

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

Continuing Authority

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

The continuing authority of existing appropriations until a new budget is adopted helps to protect against the effect of a delay in the adoption of a budget. If an amount has been appropriated for the second fiscal year in one biennium, there will be continuing authority in the same amount until a new biennial budget is enacted or some other legislative action is taken to amend or repeal the appropriation. The 2015-17 biennial budget of the State was enacted on July 12, 2015, which was 11 days after the start of the biennium. Of the prior ten biennial budgets, the 2009-11, 2011-13 and 2013-15 biennial budgets were each enacted prior to the start of the respective biennium; however, each of the seven biennial budgets prior to the 2009-11 biennium was enacted after the start of the biennium, with the latest date after the start of a biennium being October 27, 1999 (for the 1999-2001 biennium), which was nearly four months after the start of the 1999-2000 fiscal year (the first fiscal year of that biennium).

General Fund Tax Increase

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

Fiscal Controls

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

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

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

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

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

Budget Stabilization Fund

Statutory provisions require, for each fiscal year, the transfer of 50% of general purpose revenues received over the original budget estimate to the State's Budget Stabilization Fund (which is a "rainy day fund"), provided that the statutory required General Fund balance for that fiscal year is maintained. As of June 30, 2016, the balance in the Budget Stabilization Fund was approximately $281 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 $809 million based on estimated General Fund expenditures for the 2016-17 fiscal year.

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

BUDGETARY RESULTS OF 2015-16 FISCAL YEAR

Pursuant to Wisconsin Statutes, the Annual Fiscal Report (budgetary basis) for the fiscal year ending June 30, 2016 was published October 15, 2016, and subsequently revised on November 21, 2016 to reflect final appropriation adjustments submitted by State agencies.

The Annual Fiscal Report provides that the State ended the 2015-16 fiscal year on a statutory and unaudited basis with an undesignated balance of $331 million. This amount is $234 million more than the projected ending balance for the fiscal year included in the budget for the 2015-17 biennium (2015 Wisconsin Act 55), and $112 million more than the projected ending balance that was included in the LFB Report dated January 21, 2016 **(January 2016 LFB Report)**. The State did not issue any operating notes during the 2015-16 fiscal year.

Table II-4 shows the final General Fund condition statement for the 2015-16 fiscal year. The table also includes, for comparison, the actual General Fund condition statement for the 2014-15 fiscal year, the estimated General Fund condition statements, for the 2015-16 fiscal year from the 2015-17 biennial budget (2015 Wisconsin Act 55), and the estimated General Fund condition statement presented in the January 2016 LFB Report.

The Annual Fiscal Report (budgetary basis) also provides final General Fund tax collections for the 2015-16 fiscal year. These General Fund tax revenue collections, on a budgetary basis, were $15.098 billion, compared to $14.541 billion for the 2014-15 fiscal year. This is an increase of approximately $556 million, or 3.8% more than collections from the 2014-15 fiscal year, but approximately $78 million less than the projections included in the January 2016 LFB Report.

Table II-5 provides a summary of the final General Fund tax revenues for the 2015-16 fiscal year. Table II-5 also includes, for comparison, the actual General Fund tax collections for the 2014-15 fiscal year, the projected General Fund tax collections as included in the 2015-17 biennial budget (2015 Wisconsin Act 55), and the General Fund tax collections as projected in the January 2016 LFB Report.

The Annual Fiscal Report for the 2015-16 fiscal year is not part of the 2016 Annual Report but has been filed with, and may be obtained from, the MSRB through its EMMA system or at the following address:

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

Table II-4

GENERAL FUND CONDITION STATEMENT
2015-16 FISCAL YEAR
(in Millions)

	2014-15 Annual Fiscal Report	2015-17 Biennial Budget	LFB January 2016	2015-16 Annual Fiscal Report
Revenues				
Opening Balance	$ 516.9	$ 0.3	$ 135.6	$ 135.6
Prior Year Designation	122.4			91.3
Taxes	14,541.2	15,207.9	15,175.6	15,097.5
Department Revenues				
Tribal Gaming		23.4	25.6	26.2
Other	549.9	516.1	518.0	491.4
Total Available	15,730.4	15,747.6	15,854.8	15,842.0
Appropriations				
Gross Appropriations	15,925.0	15,886.4	15,896.4	15,850.9
Sum Sufficient Reestimate	-	-	(40.2)	-
Transfers to Other Funds	169.6	38.0	38.0	38.0
Compensation Reserves	35.0	10.7	10.7	0.9
Less: Lapses	(534.8)	(349.2)	(334.1)	(378.9)
Net Appropriations	15,594.8	15,585.8	15,570.8	15,510.9
Balances				
Gross Balance	135.6	161.8	284.0	331.0
Less: Req. Statutory Balance	n/a	(65.0)	(65.0)	n/a
Net Balance, June 30	$ 135.6	$ 96.8	$ 219.0	$331.0

Table II-5

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

	2014-15 Actual	2015-17 Biennial Budget	LFB January 2016	2015-16 Actual
Individual Income	$ 7,325.8	$ 7,858.6	$ 7,810.0	$ 7,740.8
Sales and Use	4,892.1	5,054.1	5,050.9	5,065.8
Corp. Income & Franchise	1,004.9	994.0	990.0	963.0
Public Utility	381.8	366.8	370.7	360.6
Excise				
Cigarettes	569.5	551.0	571.0	573.4
Tobacco Products	71.9	71.4	76.4	76.1
Liquor & Wine	48.8	48.5	50.0	50.0
Beer	8.8	8.6	9.0	9.0
Insurance Company	165.3	181.0	168.0	177.3
Miscellaneous Taxes	72.0	73.9	79.5	81.5
TOTAL	$14,541.2	$15,207.9	$15,175.6	$15,097.5

STATE BUDGET

Budget for 2015-17 Biennium

The budget act for the 2015-17 biennium (2015 Wisconsin Act 55) was adopted by the Legislature on July 8, 2015, signed into law, with partial vetoes, by the Governor on July 12, 2015, and became effective on July 13, 2015 (except as otherwise provided in the act). Detailed information and summary tables and charts concerning the enacted budget for the 2015-17 biennium may be obtained from the following website (neither the following website nor the summaries available at such website are incorporated by reference into this Part II of the 2016 Annual Report):

https://docs.legis.wisconsin.gov/misc/lfb/budget/2015_17_biennial_budget

Budget for 2016-17 Fiscal Year

Table II-6 shows the estimated General Fund condition statement for the 2016-17 fiscal year as provided by DOA on November 21, 2016 (**November 2016 DOA Report**). Table II-6 also includes, for comparison purposes, the actual General Fund condition statement for the 2015-16 fiscal year, the projected General Fund condition statement from the 2015-17 biennial budget (2015 Wisconsin Act 55), and the General Fund condition statement as projected in the January 2016 LFB Report.

Table II-6

ESTIMATED GENERAL FUND CONDITION STATEMENT
2016-17 FISCAL YEAR
(in Millions)

	2015-16 Annual Fiscal Report	2016-17 Fiscal Year: 2015-17 Biennial Budget	2016-17 Fiscal Year: LFB January 2016	2016-17 Fiscal Year: DOA November 2016
Revenues				
Opening Balance	$ 135.6	$ 161.8	$ 284.0	$ 331.0
Prior-Year Designation	91.3	-	-	-
Taxes	15,097.5	15,791.6	15,655.7	15,440.2
Department Revenues				
Tribal Gaming	26.2	23.1	24.7	25.5
Other	491.4	513.5	514.0	484.7
Total Available	$ 15,842.0	$ 16,490.0	$ 16,478.4	$16,281.5
Appropriations				
Gross Appropriations	$ 15,850.9	$ 17,041.4	$ 17,058.4	$17,015.0
Sum Sufficient Reestimate	-	-	(46.9)	
Prelim. Debt Service Reestimates	-	-	-	(10.1)
Transfers	38.0	39.5	39.5	39.5
Compensation Reserves	0.9	18.6	18.6	18.6
Less: Lapses	(378.9)	(740.8)	(726.4)	(886.3)
Net Appropriations	$15,510.9	$ 16,358.7	$16,343.2	$16,176.7
Balances				
Gross Balance	331.0	131.4	135.2	104.8
Less: Req. Statutory Balance	n/a	(65.0)	(65.0)	(65.0)
Net Balance, June 30	$ 331.0	$ 66.4	$ 70.2	$ 39.7

Revenue Projections for 2016-17 Fiscal Year

The November 2016 DOA Report includes estimated General Fund tax revenues for the 2016-17 fiscal year of $15.440 billion. This estimated amount is $343 million (2.3%) more than the fiscal year 2015-16 actual revenues, but $216 million less than the projections in the January 2016 LFB Report. These estimates are summarized by tax source in Table II-7, which also includes, for comparison, actual General

Fund tax collections for the 2015-16 fiscal year, projected General Fund tax collections from the 2015-17 biennial budget (2015 Wisconsin Act 55), and projections provided in the January 2016 LFB Report.

Table II-7

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

	2015-16 Actual	2015-17 Biennial Budget	LFB January 2016	DOA November 2016
Individual Income	$ 7,740.8	$ 8,238.4	$ 8,050.0	$ 8,018.5
Sales and Use	5,065.8	5,224.0	5,217.5	5,172.3
Corp. Income & Franchise	963.0	1,015.7	1,045.0	888.5
Public Utility	360.6	373.4	382.4	377.5
Excise				
Cigarettes	573.4	545.5	565.5	575.4
Tobacco Products	76.1	73.6	79.6	79.8
Liquor & Wine	50.0	49.4	51.0	51.1
Beer	9.0	8.4	9.0	9.1
Insurance Company	177.3	187.0	172.0	184.0
Miscellaneous Taxes	81.5	76.3	83.7	84.0
TOTAL	$15,097.5	$ 15,791.6	$ 15,655.7	$15,440.2

Budget for the 2017-19 Biennium

Pursuant to the Wisconsin Statutes, the November 2016 DOA Report summarizes the amount of each agency's 2017-19 biennial budget request and includes estimated General Fund revenues, as compiled by DOR for the forthcoming biennium.

The November 2016 DOA Report includes a projected General Fund condition statement for the 2017-19 biennium, based on the estimates of General Fund tax revenues provided by DOR, 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, 2017; however, a later submission date may be allowed by the Legislature if requested by the Governor.

The estimates for general purpose tax revenues for the 2017-19 biennium, as included in the November 2016 DOA Report, are included in Table II-8. These estimates reflect annual growth of 2.9% and 3.0%, respectively.

Table II-8

ESTIMATED GENERAL FUND TAX REVENUE COLLECTIONS
2017-18 AND 2018-19 FISCAL YEARS
(in Millions)

	2017-18 Fiscal Year	2018-19 Fiscal Year
Individual Income	$ 8,320.3	$ 8,655.2
Sales and Use	5,308.4	5,459.3
Corp. Income & Franchise	897.8	881.8
Public Utility	380.1	382.2
Excise		
Cigarettes	564.3	555.5
Liquor & Wine	83.6	86.8
Tobacco Products	51.8	52.7
Beer	9.1	9.1
Insurance Company	185.9	199.3
Miscellaneous Taxes	86.8	88.2
TOTAL	$15,888.1	$16,370.1

Tobacco Settlement Revenues

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

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

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

Potential Effect of Litigation

The following is a description of various legal proceedings, claims, and tax refunds that may have a budgetary effect on the State.

Notice of Transferee Liability

In September 2008, the Internal Revenue Service made a claim against the State of Wisconsin Investment Board **(SWIB)** by issuing a notice of transferee liability. This claim seeks taxes, penalties, and interest relating to the sale of Shockley Communications Corporation (**SCC**) stock in 2001. The Internal Revenue Service asserts that the shareholders' sale of SCC stock should have been characterized as a sale of assets by SCC, on which SCC should have paid income taxes. The Internal Revenue Service asserts that the former SCC shareholders, including SWIB, would be liable for those taxes, plus penalties and interest. The SWIB liability, as a putative transferee of SCC assets, was estimated to be between $17 million and $50 million as of December 31, 2015. SWIB has accrued a loss of $17 million which represents the estimated minimum amount of the possible liability to which SWIB believes it may be exposed.

Enforcement Provisions of Master Settlement Agreement

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

An arbitration proceeding regarding the dispute for calendar year 2004 has begun. The arbitration panel has ordered the parties to produce all discovery documents by mid-January 2017. Depositions will follow, and individual state hearings are expected to commence in the summer or fall of 2017. Wisconsin will receive notice from the tobacco manufacturers by mid-May 2017 as to whether the State's diligence will be contested. If Wisconsin's diligence is not contested, the State will receive approximately $15 million of Master Settlement Agreement funds that have been withheld by the tobacco manufacturers.

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

This summary discusses employment relations within the executive branch under the authority of the Department of Administration. Since July 2015, the University of Wisconsin-Madison, and the remainder of the University of Wisconsin **(UW)** System combined, are independent civil service systems, with their own statutorily defined collective bargaining units and collective bargaining authority. Therefore, neither entity is included in the following summary.

The executive branch has approximately 25,032 full-time-equivalent **(FTE)** classified and unclassified employees in 18 statutorily-designated bargaining units. An additional 2,318 classified supervisors in two bargaining units may by statute also be considered for representation, but these supervisory units have never applied for representation. In 2016, three of these 18 bargaining units, covering 700 FTE employees, were represented by a union, statutorily limited to the ability to negotiate base wages only for fiscal year 2016-17. One additional bargaining unit, covering 408 FTE employees, was represented to negotiate wages, benefits, and working conditions. Thus, at the end of 2016, a total of 1,108 FTE employees were represented for some degree of collective bargaining.

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

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

No new labor agreements have yet been implemented for fiscal years 2015-16 or 2016-17 for any of the four represented bargaining units.

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

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

State Budget Assumptions

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

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

Economic Assumptions

DOR prepares forecasts of income and employment for the State. These forecasts focus on industry employment, housing trends, and income components for the State.

While the revenues for the 2015-17 biennial budget were based on the January 2015 tax revenue estimates from LFB, the tax revenue estimates from DOR included in the November 2016 DOA Report reflect certain projections presented in a national economic forecast by IHS Economics (**IHS**), which provides national economic forecasts, database support, and consulting services. Table II-9 contains excerpts from IHS' October 2016 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 IHS (Data Resources Inc.). DOR has periodically redesigned the Model to improve its performance and also to correspond to changes in national modeling concepts in the IHS macro model of the U.S. economy and to incorporate new data definitions as embodied in the national and regional income accounts.

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

The Model is similar to many economic models in that the economy is described by a set of mathematical equations. There are equations for employment, wages, property income, proprietary income, transfer payments, housing permits, and taxes, among others. The Model currently consists of 182 equations, 98 of which are econometric regressions.

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

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

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

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

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

Table II-9
ECONOMIC FORECASTS—U.S.

	Calendar Year				
	2015	**2016**	**2017**	**2018**	**2019**
Real GDP and its Components (Amounts in Billions of 2009 Dollars)					
GDP	$16,397.	$16,628.	$16,989.	$17,366.1	$17,748.2
Percent Change	2.6	1.4	2.2	2.2	2.2
GDP (Current Dollars)................	18,036.7	18,551.4	19,390.1	20,254.60	21,132.88
Percent Change	3.7	2.9	4.5	4.5	4.3
Employment and Prices					
Payroll Employment ($ in	141.8	144.3	146	147.2	148.7
Percent Change	2.1	1.7	1.2	0.9	1.0
Unemployment Rate (%)	5.3	4.9	4.8	4.6	4.6
Consumer Price Index (%	0.1	1.3	2.5	2.4	2.6
Employment Cost Index (%	2.1	2.2	2.7	3.0	3.1
Industrial Production (% Change)	0.3	-1.0	1.1	2.9	2.4
Retail Gasoline Prices ($/gallon) .	2.51	2.20	2.33	2.51	2.85
Financial Markets					
3-Month Treasury Bills (rate)......	0.1	0.3	0.7	1.4	2.2
30-Year Fixed Mortgage (rate)....	3.9	3.6	3.9	4.7	5.4
Income and Profits (Amounts in Billions)					
Personal Income..........................	$15,458.	$15,979.	$16,686.	$17,507.	$18,382.83
Percent Change.......................	4.4	3.4	4.4	4.9	5.0
Wages and Salaries	7,854.80	8,154.00	8,561.10	8,989.50	9,431.37
Percent Change.......................	5.1	3.8	5	5	4.9
Corporate Profits, Before Tax.....	2,088.10	2,019.40	2,098.80	2,213.20	2,247.45
Percent Change.......................	-3.0	-3.3	3.9	5.4	1.5

Source: IHS, October 2016

Table II-10

ECONOMIC FORECASTS—WISCONSIN

	Calendar Year				
	2015	**2016**	**2017**	**2018**	**2019**
Wisconsin Employment Forecast					
Annual Industry Detail Average (Thousands of Workers)					
Manufacturing	468.6	471.5	472.0	476.6	486.2
Percent Change	0.9	0.6	0.1	1.0	2.0
Trade, Transport & Utilities	532.0	544.0	545.7	544.8	544.9
Percent Change	1.4	2.3	0.3	-0.2	0.0
Government	410.1	412.4	410.0	412.6	415.9
Percent Change	-0.5	0.6	-0.6	0.6	0.8
Total Nonfarm	2,889.10	2,928.50	2,946.6	2,964.90	2,989.9
Percent Change	1.3	1.4	0.6	0.6	0.8
Wisconsin Income Forecast					
Components of Personal Income (Amounts in Billions)					
Total Personal Income	$264.988	$272.361	$282.574	$294.217	$307.461
Wages and Salaries	135.408	139.934	146.06	151.867	158.364
Supplements to Wages/Salaries	34.763	35.801	37.102	38.135	39.458
Proprietor's Income	19.077	18.983	19.688	20.641	21.616
Property Income	47.544	48.295	49.24	51.246	53.673
Personal Current Transfer	46.005	47.612	49.508	52.065	54.857
Contributions for Govt. Social	21.91	22.525	23.504	24.435	25.44
Personal Taxes	30.874	32.479	34.182	36.016	37.959
Disposable Personal Income	234.113	239.882	248.392	258.201	269.501
Related Income					
Measures (Chained 2009 Dollars)					
Personal Income (billions)	$241.921	$246.010	$250.776	$256.24	$262.138
Percent Change	3.3	1.7	1.9	2.2	2.3
Per Capita Income (thousands of	41.918	42.511	43.237	44.058	44.964
Percent Change	3.0	1.4	1.7	1.9	2.1
Per Capita Income (thousands of current $)	45.914	47.064	48.72	50.587	52.738
Percent Change	3.4	2.5	3.5	3.8	4.3

Source: Wisconsin Department of Revenue, October 2016

Budget Format

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

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

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

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

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

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

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

Impact of Federal Programs

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

Budget Sequestration Cuts

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

For the federal fiscal year that started October 1, 2016, the Bipartisan Budget Act of 2015 provides an increase in federal domestic spending of $15 billion over the amounts directed in the Budget Control Act of 2011. Due to this increase, Wisconsin does not expect to see any significant decrease in federal funds over the next fiscal year.

Supplemental Appropriations

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

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

GENERAL FUND INFORMATION

General Fund Cash Flow

Many of the budgetary tables presented thus far in this Part II of the 2016 Annual Report have reported information on a budgetary basis. The following tables present information primarily on a cash basis.

Table II-11 is presented over two pages and includes the detailed actual cash flow for the 2015-16 fiscal year and the detailed actual cash flow through October 31, 2016 and projected cash flow from November

1, 2016 through June 30, 2017 for the 2016-17 fiscal year. Table II-12 is also presented over two pages and provides, for both the 2015-16 fiscal year and the 2016-17 fiscal year, year-to-date receipts and disbursements 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, 2014 through October 31, 2016 and a projected summary for November 1, 2016 through June 30, 2017.

No operating notes were issued for the 2014-15 or 2015-16 fiscal years, and none have been issued for the current 2016-17 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 this Part II of the 2016 Annual Report, including "BUDGETING PROCESS AND FISCAL CONTROLS", "STATE BUDGET", and "STATE OBLIGATIONS; Operating Notes". As noted above, there have been and will continue to be differences in the amounts shown for the cash-flow basis and the budgetary basis presentations. For example, the cash-flow basis presentations in the following tables includes all tax receipts as revenues and tax refunds as disbursements, while the budgetary basis presentations in Tables II-4 and II-6 include tax revenues that are net of tax refunds.

The results, projections, or estimates for the 2016-17 fiscal year in the following tables reflect the enacted budget for the 2015-17 biennium (2015 Wisconsin Act 55) and the estimated General Fund tax revenues included in the January 2016 LFB Report.

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

The State has experienced and expects to continue to experience certain periods when the General Fund is in a negative cash position. The Wisconsin Statutes provide certain administrative remedies to deal with these periods. The Secretary of Administration may temporarily reallocate cash in other funds to the General Fund in an amount up to 9% of the general-purpose revenue appropriations then in effect approximately $1.531 billion for the 2016-17 fiscal year. In addition, the Secretary of Administration can also temporarily reallocate an additional amount of up to 3% of the general-purpose revenue appropriations then in effect (approximately $510 million for the 2016-17 fiscal year) for a period of up to 30 days. In aggregate, the limit on the amount available from temporary reallocations for the 2016-17 fiscal year is approximately$2.041 billion.

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

- All direct and indirect payments of principal and interest on State general obligation debt have first priority and may not be prorated or reduced.
- All direct and indirect payments of principal and interest on operating notes have second priority and may not be prorated or reduced.
- All State employee payrolls have third priority and may be prorated or reduced.
- All other payments shall be paid in a priority determined by the Secretary of Administration and may be prorated or reduced. The Secretary of Administration has covenanted to give high priority to payments due under the Master Lease Program, debt service due on the General Fund Annual Appropriation Bonds, and appropriations to the Wisconsin Center District in the approximate amount of $8 million to assist in the development and construction of a new arena in Milwaukee, Wisconsin, pursuant to contracts entered into in connection with the issuance of the related obligations.

Table II-14 presents the actual cash balances available for temporary reallocation from July 31, 2014 through October 31, 2016 and the projected balances for November 30, 2016 through June 30, 2017. The available cash balances are presented in two different tables; one table does not include balances in the Local Government Investment Pool **(LGIP)**, while the second table does include such balances. Though the LGIP is available for temporary reallocation, funds in the LGIP are deposited and withdrawn by local units of government and thus are outside the control of the State.

Tables II-15 and II-16 are each presented over two pages and include recorded revenues deposited into the General Fund and recorded expenditures made from the General Fund, as recorded by State agencies, for the periods of July 1, 2015 to June 30, 2016 as compared to the prior fiscal year and July 1, 2016 to October 31, 2016 as compared to the period of July 1, 2015 to October 31, 2015. 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, 2015 TO JUNE 30, 2016[(a)]

	July 2015	August 2015	September 2015	October 2015	November 2015	December 2015	January 2016	February 2016	March 2016	April 2016	May 2016	June 2016
BALANCES[(a)(b)]												
Beginning Balance	$ 1,370,554	$ 469,093	$ 729,166	$ 1,203,261	$ 1,557,648	$ 1,621,473	$ 1,199,444	$ 1,903,640	$ 2,030,976	$ 1,175,216	$ 1,088,634	$ 1,947,731
Ending Balance[(c)]	469,093	729,166	1,203,261	1,557,648	1,621,473	1,199,444	1,903,640	2,030,976	1,175,216	1,088,634	1,947,731	1,060,311
Lowest Daily Balance [(c)]	338,299	194,537	633,217	919,870	1,187,304	202,565	1,199,444	1,783,047	981,754	695,742	1,088,634	715,996
RECEIPTS												
TAX RECEIPTS												
Individual Income	$ 666,489	$ 522,178	$ 768,990	$ 478,412	$ 762,096	$ 604,664	$ 997,805	$ 840,499	$ 712,063	$ 1,091,582	$ 652,276	$ 961,295
Sales & Use	489,113	482,535	465,150	474,261	467,462	410,578	515,068	392,797	377,792	424,373	446,906	479,908
Corporate Income	92,451	39,285	213,589	28,566	21,600	204,579	29,461	29,030	228,456	52,730	30,653	202,706
Public Utility	26	23	202	10,969	206,709	2,397	25	510	134	6,276	177,186	363
Excise	65,577	60,991	63,906	60,550	59,908	61,016	59,381	41,528	57,488	58,042	55,869	66,486
Insurance	96	1,430	12,756	1	1	3	344	6,645	4,160	70	-	37,224
Subtotal Tax Receipts	$ 1,313,752	$ 1,106,442	$ 1,524,593	$ 1,052,759	$ 1,517,776	$ 1,283,237	$ 1,602,084	$ 1,311,009	$ 1,380,093	$ 1,633,073	$ 1,362,890	$ 1,747,982
NON-TAX RECEIPTS												
Federal	$ 803,301	$ 711,694	$ 947,952	$ 646,940	$ 844,109	$ 511,053	$ 885,584	$ 1,069,489	$ 741,764	$ 530,227	$ 1,070,593	$ 612,968
Other & Transfers	504,970	147,192	583,051	597,118	78,081	723,458	102,919	673,252	363,523	653,653	21,054	342,611
Note Proceeds	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal Non-Tax Receipts	$ 1,308,271	$ 858,886	$ 1,531,003	$ 1,244,058	$ 922,190	$ 1,234,511	$ 988,503	$ 1,742,741	$ 1,105,287	$ 1,183,880	$ 1,091,647	$ 955,579
TOTAL RECEIPTS	$ 2,622,023	$ 1,965,328	$ 3,055,596	$ 2,296,817	$ 2,439,966	$ 2,517,748	$ 2,590,587	$ 3,053,750	$ 2,485,380	$ 2,816,953	$ 2,454,537	$ 2,703,561
DISBURSEMENTS												
Local Aids	$ 1,319,758	$ 161,471	$ 837,873	$ 86,607	$ 823,030	$ 1,205,846	$ 167,920	$ 658,162	$ 1,222,230	$ 115,468	$ 185,910	$ 1,791,022
Income Maintenance	993,857	653,300	664,523	754,435	716,932	814,285	688,948	752,339	809,106	732,802	704,536	563,357
Payroll and Related	427,901	344,133	423,358	515,823	316,263	366,986	446,827	392,812	457,368	703,479	287,244	444,675
Tax Refunds	94,031	95,212	99,015	99,116	80,819	175,511	93,212	550,617	490,668	460,180	149,058	121,484
Debt Service	252,542	-	-	178,708	-	-	-	-	-	517,777	3,253	-
Miscellaneous	435,395	451,139	556,732	307,741	439,097	377,149	489,484	572,484	361,768	373,829	265,439	670,443
Note Repayment	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL DISBURSEMENTS	$ 3,523,484	$ 1,705,255	$ 2,581,501	$ 1,942,430	$ 2,376,141	$ 2,939,777	$ 1,886,391	$ 2,926,414	$ 3,341,140	$ 2,903,535	$ 1,595,440	$ 3,590,981

(a) The results, projections, or estimates in this table reflect the enacted budget for the 2015-17 biennium (2015 Wisconsin Act 55) and the estimated General Fund tax revenues included in the January 2016 LFB Report, but do not include any temporary reallocations of cash.

(b) The General Fund cash balances presented in this schedule are not based on generally accepted accounting principles (GAAP). The General Fund includes funds designated for operations and capital purposes of certain proprietary programs of the State's universities. Receipts and disbursements of such funds for the designated programs and the disbursement of such funds for other purposes are reflected in the cash flow. A use of the designated funds for purposes other than the proprietary programs is, in effect, a borrowing of such funds. Therefore, at any time that the balance in the General Fund is less than the balance of such designated funds, the State is obligated to replenish the designated funds to the extent of the shortfall. The ending monthly balances of designated funds ranged from $1.2 billion to $1.9 billion for the 2014-15 fiscal year, ranged from $1.1 billion to $2.4 billion for the 2015-16 and are estimated to range from $1.1 billion to $2.4 billion for the 2016-17 fiscal year. In addition, the General Fund holds deposits for several escrow accounts pursuant to court orders or federal rulings. These funds are expected to average approximately $25 million during the 2015-16 and 2016-17 fiscal years.

(c) The Wisconsin Statutes provide certain administrative remedies to deal with periods when the General Fund may be in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds to the General Fund in an amount up to 9% of the total general-purpose revenue appropriations then in effect with an additional amount up to 3% for a period of up to 30 days. The resulting amounts available for temporary reallocation in the 2015-16 fiscal year were approximately $1.4 billion and $477 million, respectively. If the amount available for temporary reallocation to the General Fund is not sufficient, then the Secretary of Administration is authorized to set priorities for payments from the General Fund and to prorate or defer certain payments.

Table II-11—(Continued)

ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2016 TO OCTOBER 31, 2016
PROJECTED GENERAL FUND CASH FLOW; NOVEMBER 1, 2016 TO JUNE 30, 2017[(a)]

	July 2016	August 2016	September 2016	October 2016	November 2016	December 2016	January 2017	February 2017	March 2017	April 2017	May 2017	June 2017
BALANCES[(a)(b)]												
Beginning Balance	$ 1,060,311	$ (146,310)	$ 818,825	$ 1,125,530	$ 1,903,622	$ 1,661,357	$ 977,757	$ 2,154,527	$ 2,062,449	$ 720,534	$ 1,052,884	$ 1,581,236
Ending Balance[(c)]	(146,310)	818,825	1,125,530	1,903,622	1,661,357	977,757	2,154,527	2,062,449	720,534	1,052,884	1,581,236	1,244,571
Lowest Daily Balance [(c)]	(217,092)	(147,381)	245,613	980,562	1,654,443	263,682	977,757	1,928,729	720,534	641,486	742,434	930,192
RECEIPTS												
TAX RECEIPTS												
Individual Income	$ 487,412	$ 798,604	$ 816,815	$ 767,801	$ 631,230	$ 474,836	$ 1,376,008	$ 689,051	$ 736,338	$ 1,207,584	$ 729,490	$ 828,497
Sales & Use	509,403	491,367	490,404	480,185	473,180	432,162	528,156	400,470	385,339	454,059	437,472	490,950
Corporate Income	31,799	28,898	190,159	41,838	24,818	218,386	35,572	35,255	251,371	67,181	35,149	220,362
Public Utility	25	26	301	16,001	213,176	2,472	26	526	138	1,289	186,150	1,029
Excise	65,149	61,593	65,727	62,193	61,905	56,870	60,345	47,014	52,545	58,501	57,580	60,912
Insurance	228	5,804	35,999	75	1	3	352	6,803	4,259	10,749	1,585	10,732
Subtotal Tax Receipts	$ 1,094,016	$ 1,386,292	$ 1,599,405	$ 1,368,093	$ 1,404,310	$ 1,184,729	$ 2,000,459	$ 1,179,119	$ 1,429,990	$ 1,799,363	$ 1,447,426	$ 1,612,482
NON-TAX RECEIPTS												
Federal	$ 755,424	$ 1,009,232	$ 852,227	$ 529,813	$ 732,709	$ 617,538	$ 957,811	$ 956,441	$ 732,013	$ 708,365	$ 750,023	$ 736,851
Other & Transfers	515,928	450,330	619,385	632,168	249,870	537,725	297,059	636,772	411,492	477,639	410,046	633,836
Note Proceeds	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal Non-Tax Receipts	$ 1,271,352	$ 1,459,562	$ 1,471,612	$ 1,161,981	$ 982,579	$ 1,155,263	$ 1,254,870	$ 1,593,213	$ 1,143,505	$ 1,186,004	$ 1,160,069	$ 1,370,687
TOTAL RECEIPTS	$ 2,365,368	$ 2,845,854	$ 3,071,017	$ 2,530,074	$ 2,386,889	$ 2,339,992	$ 3,255,329	$ 2,772,332	$ 2,573,495	$ 2,985,367	$ 2,607,495	$ 2,983,169
DISBURSEMENTS												
Local Aids	$ 1,604,248	$ 189,043	$ 793,131	$ 100,094	$ 940,392	$ 1,265,777	$ 167,818	$ 640,243	$ 1,565,458	$ 87,825	$ 174,901	$ 1,824,368
Income Maintenance	985,172	719,310	773,713	726,744	752,538	837,080	838,590	728,358	846,600	780,044	739,734	367,421
Payroll and Related	301,415	323,227	502,723	303,117	435,622	353,415	509,809	392,763	562,646	376,092	373,422	480,719
Tax Refunds	87,392	92,922	90,360	117,565	89,835	165,500	84,755	593,822	553,182	513,345	159,351	132,614
Debt Service	250,746	-	-	116,003	6,253	257	-	6,253	-	506,012	107,860	259
Miscellaneous	343,016	556,217	604,385	388,459	404,514	401,563	477,587	502,972	387,523	389,700	523,875	514,453
Note Repayment	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL DISBURSEMENTS	$ 3,571,989	$ 1,880,719	$ 2,764,312	$ 1,751,982	$ 2,629,154	$ 3,023,592	$ 2,078,559	$ 2,864,411	$ 3,915,409	$ 2,653,018	$ 2,079,143	$ 3,319,834

(a) The results, projections, or estimates in this table reflect the enacted budget for the 2015-17 biennium (2015 Wisconsin Act 55) and the estimated General Fund tax revenues included in the January 2016 LFB Report, but do not include any temporary reallocations of cash.

(b) The General Fund cash balances presented in this schedule are not based on generally accepted accounting principles (GAAP). The General Fund includes funds designated for operations and capital purposes of certain proprietary programs of the State's universities. Receipts and disbursements of such funds for the designated programs and the disbursement of such funds for other purposes are reflected in the cash flow. A use of the designated funds for purposes other than the proprietary programs is, in effect, a borrowing of such funds. Therefore, at any time that the balance in the General Fund is less than the balance of such designated funds, the State is obligated to replenish the designated funds to the extent of the shortfall. The ending monthly balances of designated funds ranged from $1.2 billion to $1.9 billion for the 2014-15 fiscal year, ranged from $1.1 billion to $2.4 billion for the 2015-16 fiscal year and are anticipated to range from $1.1 billion to $2.4 billion in the 2016-17 fiscal year. In addition, the General Fund holds deposits for several escrow accounts pursuant to court orders or federal rulings. These funds are expected to average approximately $25 million during the 2016-17 fiscal year.

(c) The Wisconsin Statutes provide certain administrative remedies to deal with periods when the General Fund may be in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds to the General Fund in an amount up to 9% of the total general-purpose revenue appropriations then in effect with an additional amount up to 3% for a period of up to 30 days. The resulting amounts available for temporary reallocation in the 2016-17 fiscal year are approximately $1.531 billion and $510 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 or defer certain payments.

Table II-12

GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS YEAR-TO-DATE COMPARED TO ESTIMATES AND PREVIOUS FISCAL YEAR[a]

(Cash Basis)

As of June 30, 2016 (2015-16 Fiscal Year)

	2014-15 Fiscal Year	2015-16 Fiscal Year				
	Actual	Actual [b]	Estimate[b]	Variance	Adjusted Variance[c]	Difference FY15 Actual to FY16 Actual
RECEIPTS						
Tax Receipts						
Individual Income	$ 8,834,854	$ 9,058,349	$ 9,273,088	$ (214,739)	$ (214,739)	$ 223,495
Sales	5,149,353	5,425,943	5,332,957	92,986	92,986	276,590
Corporate Income	1,167,126	1,173,106	1,238,683	(65,577)	(65,577)	5,980
Public Utility	373,082	404,820	363,929	40,891	40,891	31,738
Excise	705,796	710,742	711,899	(1,157)	(1,157)	4,946
Insurance	97,612	62,730	89,703	(26,973)	(26,973)	(34,882)
Inheritance	-	-	-	-	-	-
Total Tax Receipts	$ 16,327,823	$ 16,835,690	$ 17,010,259	$ (174,569)	$ (174,569)	$ 507,867
Non-Tax Receipts						
Federal	$ 9,195,173	$ 9,375,674	$ 9,825,689	$ (450,015)	$ (450,015)	$ 180,501
Other and Transfers	5,468,954	4,790,882	5,849,128	(1,058,246)	(1,058,246)	(678,072)
Note Proceeds	-	-	-	-	-	-
Total Non-Tax Receipts	$ 14,664,127	$ 14,166,556	$ 15,674,817	$ (1,508,261)	$ (1,508,261)	$ (497,571)
TOTAL RECEIPTS	$ 30,991,950	$ 31,002,246	$ 32,685,076	$ (1,682,830)	$ (1,682,830)	$ 10,296
DISBURSEMENTS						
Local Aids	$ 8,796,013	$ 8,575,297	$ 8,956,892	$ 381,595	$ 381,595	$ (220,716)
Income Maintenance	8,319,192	8,848,420	9,283,321	434,901	434,901	529,228
Payroll & Related	5,088,048	5,126,869	5,167,579	40,710	40,710	38,821
Tax Refunds	2,562,911	2,508,923	2,336,881	(172,042)	(172,042)	(53,988)
Debt Service	899,619	952,280	1,102,798	150,518	150,518	52,661
Miscellaneous	5,456,211	5,300,700	5,891,072	590,372	590,372	(155,511)
Note Repayment	-	-	-	-	-	-
TOTAL DISBURSEMENTS	$ 31,121,994	$ 31,312,489	$ 32,738,543	$ 1,426,054	$ 1,426,054	$ 190,495
2015-16 FISCAL YEAR VARIANCE				$ (256,776)	$ (256,776)	

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

(b) The results and estimates in this table for the 2015-16 fiscal year reflect the budget bill for the 2015-17 biennium (2015 Wisconsin Act 55) and the estimated General Fund tax revenues included in the January 2016 LFB Report. The projections and estimates in this table do not reflect the estimate General Fund tax revenues included in the November 2016 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-12—(Continued)

GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS YEAR-TO-DATE COMPARED TO ESTIMATES AND PREVIOUS FISCAL YEAR[(a)]

(Cash Basis)

As of October 31, 2016 (2016-17 Fiscal Year)

	2015-16 Fiscal Year through October 31, 2015	2016-17 Fiscal Year through October 31, 2016				
	Actual	Actual[(b)]	Estimate[(b)]	Variance	Adjusted Variance[(c)]	Difference FY16 Actual to FY17 Actual
RECEIPTS						
Tax Receipts						
Individual Income	$ 2,436,069	$ 2,870,632	$ 2,799,625	$ 71,007	$ 71,007	$ 434,563
Sales	1,911,059	1,971,359	1,981,922	(10,563)	(10,563)	60,300
Corporate Income	373,891	292,694	379,058	(86,364)	(86,364)	(81,197)
Public Utility	11,220	16,353	11,571	4,782	4,782	5,133
Excise	251,024	254,662	253,436	1,226	1,226	3,638
Insurance	14,283	42,106	14,623	27,483	27,483	27,823
Inheritance	-	-	-	-	-	-
Total Tax Receipts	$ 4,997,546	$ 5,447,806	$ 5,440,235	$ 7,571	$ 7,571	$ 450,260
Non-Tax Receipts						
Federal	$ 3,109,887	$ 3,146,696	$ 3,263,540	$ (116,844)	$ (116,844)	$ 36,809
Other and Transfers	1,832,331	2,217,811	1,938,146	279,665	279,665	385,480
Note Proceeds	-	-	-	-	-	-
Total Non-Tax Receipts	$ 4,942,218	$ 5,364,507	$ 5,201,686	$ 162,821	$ 162,821	$ 422,289
TOTAL RECEIPTS	$ 9,939,764	$ 10,812,313	$ 10,641,921	$ 170,392	$ 170,392	$ 872,549
DISBURSEMENTS						
Local Aids	$ 2,405,709	$ 2,686,516	$ 2,549,977	$ (136,539)	$ (136,539)	$ 280,807
Income Maintenance	3,066,115	3,204,939	3,310,677	105,738	105,738	138,824
Payroll & Related	1,711,215	1,430,482	1,574,076	143,594	143,594	(280,733)
Tax Refunds	387,374	388,239	381,266	(6,973)	(6,973)	865
Debt Service	431,250	366,749	425,162	58,413	58,413	(64,501)
Miscellaneous	1,751,007	1,892,077	1,839,525	(52,552)	(52,552)	141,070
Note Repayment	-	-	-	-	-	-
TOTAL DISBURSEMENTS	$ 9,752,670	$ 9,969,002	$ 10,080,683	$ 111,681	$ 111,681	$ 216,332
2016-17 FISCAL YEAR VARIANCE YEAR-TO-DATE				$ 282,073	$ 282,073	

(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 2016-17 fiscal year reflect the budget bill for the 2015-17 biennium (2015 Wisconsin Act 55) and the estimated General Fund tax revenues included in the January 2016 LFB Report. The projections and estimates in this table do not reflect the estimate General Fund tax revenues included in the November 2016 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[a]
July 1, 2014 through September 30, 2016 — Actual
October 1, 2016 through June 30, 2017 — Estimated[b]
(Amounts in Thousands)

	Starting Date	Starting Balance	Receipts[c]	Disbursements[c]
2014	July	$ 1,500,597	$ 2,523,202	$ 3,402,690
	August	621,109	1,925,561	1,790,500
	September	756,170	3,309,752	2,336,835
	October	1,729,087	2,397,552	2,054,160
	November	2,072,479	2,105,588	2,330,123
	December	1,847,944	2,469,466	3,115,458
2015	January	1,201,952	2,912,758	1,952,696
	February	2,162,014	2,554,751	2,832,186
	March	1,884,579	2,595,511	3,261,704
	April	1,218,386	3,028,756	2,745,526
	May	1,501,616	2,140,123	1,952,163
	June	1,689,576	3,028,930	3,347,952
	July	1,370,554	2,622,023	3,523,484
	August	469,093	1,965,328	1,705,255
	September	729,166	3,055,596	2,581,501
	October	1,203,261	2,296,817	1,942,430
	November	1,557,648	2,439,966	2,376,141
	December	1,621,473	2,517,748	2,939,777
2016	January	1,199,444	2,590,587	1,886,391
	February	1,903,640	3,053,750	2,926,414
	March	2,030,976	2,485,380	3,341,140
	April	1,175,216	2,816,953	2,903,535
	May	1,088,634	2,454,537	1,595,440
	June	1,947,731	2,703,561	3,590,981
	July	1,060,311 [d]	2,365,368	3,571,989
	August	(146,310) [d]	2,845,854	1,880,719
	September	818,825	3,071,017	2,764,312
	October	1,125,530	2,530,074	1,751,982
	November	1,903,622	2,386,889	2,629,154
	December	1,661,357	2,339,992	3,023,592
2017	January	977,757	3,255,329	2,078,559
	February	2,154,527	2,772,332	2,864,411
	March	2,062,448	2,573,495	3,915,409
	April	720,534	2,985,367	2,653,018
	May	1,052,883	2,607,495	2,079,143
	June	1,581,235	2,983,169	3,319,834

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

[b] The results, projections, or estimates in this table for the 2016-17 fiscal year reflect the enacted budget for the 2015-17 biennium (2015 Wisconsin Act 55) and the estimated General Fund tax revenues included in the January 2016 LFB Report. The projections and estimates in this table do not reflect the estimated General Fund tax revenues included in the November 2016 DOA Report.

[c] Operating notes have not been issued for the 2014-15 or 2015-16 fiscal years. It is not anticipated that operating notes will be issued for the 2016-17 fiscal year.

[d] At some period during this month, the General Fund was in a negative cash position. The Wisconsin Statutes provide certain administrative remedies for periods when the General Fund is in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds to the General Fund up to 9% of the total general purpose revenue appropriations then in effect. For the 2016-17 fiscal year this amount is projected to be $1.531 billion. In addition, the Secretary of Administration may also temporarily reallocate an additional amount of up to 3% of total general purpose revenue appropriations for a period of up to 30 days. For the 2016-17 fiscal year this amount is projected to be $510 million. If the amount available for temporary reallocation to the General Fund is insufficient, then the Secretary of Administration is authorized to set priorities for payments from the General Fund and to prorate and defer certain payments.

Source: Wisconsin Department of Administration

Table II-14
CASH BALANCES IN FUNDS AVAILABLE FOR TEMPORARY REALLOCATION[(a)]
July 31, 2014 to October 31, 2016 — Actual
November 31, 2016 to June 30, 2017 — 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 $2.157 billion during November 2012 to a high of $3.876 billion in August 2016. The Secretary of Administration may not exercise the authority to make temporary reallocation if doing so would jeopardize the cash flow of any fund or account from which the temporary reallocation would be made.

Available Balances; Does Not Include Balances in the LGIP

Month (Last Day)	2014	2015	2016	2017
January		$1,264	$1,613	$1,613
February		1,368	1,613	1,613
March		1,406	1,612	1,612
April		1,415	1,575	1,575
May		1,430	1,517	1,517
June		1,481	1,752	1,752
July	$1,396	1,245	1,597	
August	1,311	1,359	1,481	
September.........	1,373	1,674	1,622	
October	1,294	1,303	1,420	
November	1,266	1,277	1,277	
December	1,346	1,557	1,557	

Available Balances; Includes Balances in the LGIP

Month (Last Day)	2014	2015	2016	2017
January............		$4,198	$4,639	$4,639
February..........		4,464	4,871	4,871
March..............		4,688	5,177	5,177
April................		4,354	4,969	4,969
May..................		4,241	4,756	4,756
June.................		4,222	4,905	4,905
July	$4,588	4,642	5,803	
August.............	3,879	4,071	4,750	
September	3,821	4,249	4,663	
October	3,438	3,589	4,292	
November	3,440	3,621	3,621	
December.........	3,965	4,275	4,275	

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

Source: Wisconsin Department of Administration

Table II-15

GENERAL FUND RECORDED REVENUES[(a)]
(Agency-Recorded Basis)
July 1, 2015 to June 30, 2016 compared with previous year[(b)]

	Annual Fiscal Report Revenues 2014-15 Fiscal Year[(b)]	Projected Revenues 2015-16 Fiscal Year[(c)]	Recorded Revenues July 1, 2014 to June 30, 2015 [(d)]	Recorded Revenues July 1, 2015 to June 30, 2016 [(e)]
Individual Income Tax	$ 7,325,817,000	$ 7,858,620,000	$ 7,325,816,775	$ 7,742,095,770
General Sales and Use Tax	4,892,126,000	5,054,130,000	4,892,125,859	5,065,762,290
Corporate Franchise and Income Tax	- 1,004,926,000	994,020,000	0 1,004,926,461	- 963,027,018
Public Utility Taxes	381,819,000	366,800,000	381,819,363	360,596,994
Excise Taxes	699,060,000	679,475,000	699,060,289	708,730,601
Inheritance Taxes	(112,000)	-	-112,267	1,745,000
Insurance Company Taxes	165,448,000	181,000,000	165,448,106	177,326,291
Miscellaneous Taxes	72,117,000	73,900,000	100,676,423	119,958,510
SUBTOTAL	14,541,201,000	15,207,945,000	14,569,761,009	15,139,242,474
Federal and Other Inter-Governmental Revenues[(f)]	10,216,151,000	10,603,138,400	10,214,695,110	10,058,160,495
Dedicated and Other Revenues[(g)]	5,865,052,000	5,258,827,500	6,125,112,592	- 6,002,265,759
TOTAL	$ 30,622,404,000	$ 31,069,910,900	$ 30,909,568,711	$ 31,199,668,728

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

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

(c) The estimates included in this table on an agency-recorded basis reflect the 2015-17 biennial budget (2015 Wisconsin Act 55) and the estimated General Fund tax revenues included in the January 2016 LFB Report. The estimates in this table do not reflect the estimate General Fund tax revenues included in the November 2016 DOA Report.

(d) The amounts shown are 2014-15 fiscal year revenues as recorded by all State agencies. The amounts are as of June 30, 2015 and have been adjusted for additional revenues recorded by the State agencies during the months of July and August, 2015. There may be differences between the tax revenues shown in this table and those reported by DOR from time to time in its monthly general purpose revenue collections report; the DOR report only includes general purpose revenues or taxes that are actually collected by DOR.

(e) The amounts shown are 2015-16 fiscal year revenues as recorded by all State agencies. The amounts are as of June 30, 2016, and have been adjusted for additional revenues recorded by State agencies during the months of July, August, and September, 2016. There may be differences between the tax revenues shown in this table and those reported by DOR from time to time in its monthly general purpose revenue collections report; the DOR report only includes general purpose revenues or taxes that are actually collected by DOR.

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

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

Source: Wisconsin Department of Administration

Table II-15—(Continued)

GENERAL FUND RECORDED REVENUES[a]
(Agency-Recorded Basis)
July 1, 2016 to October 31, 2016 compared with previous year[b]

	Annual Fiscal Report Revenues 2015-16 Fiscal Year[b]	Projected Revenues 2016-17 Fiscal Year[c]	Recorded Revenues July 1, 2015 to October 31, 2015 [d]	Recorded Revenues July 1, 2016 to October 31, 2016 [e]
Individual Income Tax	$ 7,740,825,000	$ 8,238,400,000	$ 2,041,053,132	$ 2,342,895,330
General Sales and Use Tax	5,065,762,000	5,223,960,000	1,301,064,333	1,313,857,144
Corporate Franchise and Income Tax	963,027,000	1,015,700,000	247,824,041	205,388,374
Public Utility Taxes	360,597,000	373,400,000	11,716,545	16,121,635
Excise Taxes	708,509,000	676,850,000	190,135,575	191,946,914
Inheritance Taxes	1,745,000	-	0	77,430
Insurance Company Taxes	177,326,000	187,000,000	40,551,910	41,966,644
Miscellaneous Taxes	79,698,000	76,300,000	60,136,665	66,594,011
SUBTOTAL	15,097,489,000	15,791,610,000	3,892,482,201	4,178,847,482
Federal and Other Inter-Governmental Revenues[f]	10,009,068	10,668,877,300	3,212,206,277	3,196,285,112
Dedicated and Other Revenues[g]	16,064,687,932	6,718,222,600	2,027,735,621	2,187,905,918
TOTAL	$ 31,172,186,000	$ 33,178,709,900	$ 9,132,424,099	$ 9,563,038,512

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

(b) The amounts are from the restated Annual Fiscal Report (budgetary basis) for the 2015-16 fiscal year, dated October 15, 2016 and subsequently revised on November 21, 2016.

(c) The estimates in this table for the 2016-17 fiscal year reflect the enacted budget for the 2015-17 biennium (2015 Wisconsin Act 55). The estimates in this table do not reflect the estimated General Fund tax revenues included in the January 2016 LFB Report or the estimated General Fund tax revenues included in the November 2016 DOA Report.

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

(e) The amounts shown are 2016-17 fiscal year general purpose revenues and program revenue taxes collected across all State agencies. There may be differences between the tax revenues shown in this table and those reported by DOR from time to time in its monthly general purpose revenue collections report; the DOR report only includes general purpose revenues or taxes that are actually collected by DOR.

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

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

Source: Wisconsin Department of Administration

Table II-16

GENERAL FUND RECORDED EXPENDITURES BY FUNCTION[a]
(Agency-Recorded Basis)
July 1, 2015 to June 30, 2016 compared with previous year[b]

	Annual Fiscal Report Expenditures 2014-15 Fiscal Year[b]	Appropriations 2015-16 Fiscal Year[c]	Recorded Expenditures July 1, 2014 to June 30, 2015[d]	Recorded Expenditures July 1, 2015 to June 30, 2016[e]
Commerce	$ 231,274,000	$ 200,900,000	$ 230,177,534	$ 315,471,355
Education	12,965,215,000	13,042,874,200	12,984,123,453	12,787,670,879
Environmental Resources	331,465,000	348,785,900	334,716,022	304,565,917
Human Relations & Resources	13,881,927,000	13,729,644,600	13,886,821,512	14,115,447,623
General Executive	987,071,000	1,170,397,600	988,070,737	1,037,541,105
Judicial	130,748,000	137,494,300	130,744,284	130,929,112
Legislative	65,596,000	75,781,100	65,595,364	66,950,216
General Appropriations	2,267,905,000	2,364,033,200	2,267,904,909	2,347,783,905
TOTAL	$ 30,861,201,000	$ 31,069,910,900	$ 30,888,153,815	$ 31,106,360,112

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

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

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

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

(e) The amounts shown are 2015-16 fiscal year expenditures as recorded by all State agencies. The amounts shown include expenditures for the 2015-16 fiscal year that were recorded by State agencies during the months of July, August, and September, 2016.

Source: Wisconsin Department of Administration

Table II-16—(Continued)

GENERAL FUND RECORDED EXPENDITURES BY FUNCTION[a]
(Agency-Recorded Basis)
July 1, 2016 to October 31, 2016 compared with previous year[b]

	Annual Fiscal Report Expenditures 2015-16 Fiscal Year[b]	Appropriations 2016-17 Fiscal Year[c]	Recorded Expenditures July 1, 2015 to October 31, 2015[d]	Recorded Expenditures July 1, 2016 to October 31, 2016[e]
Commerce	$ 199,200,000	$ 208,732,100	$ 57,928,202	$ 60,621,397
Education	12,795,785,000	13,475,926,900	3,185,541,398	3,352,901,690
Environmental Resources	305,488,000	321,761,500	72,747,647	40,753,626
Human Relations & Resources	14,048,751,000	14,014,356,300	4,632,579,899	5,012,861,499
General Executive	1,005,715,000	1,545,987,600	474,233,529	494,676,442
Judicial	130,937,000	137,569,900	42,398,834	45,743,675
Legislative	66,951,000	75,617,400	18,448,103	18,240,793
General Appropriations	2,299,329,000	2,514,205,700	1,204,242,265	1,327,391,430
TOTAL	$ 30,852,156,000	$ 32,294,157,400	$ 9,688,119,877	$ 10,353,190,552

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

(b) The amounts are from the restated Annual Fiscal Report (budgetary basis) for the 2015-16 fiscal year, dated October 15, 2016 and subsequently revised on November 21, 2016.

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

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

(e) The amounts shown are 2016-17 fiscal year expenditures as recorded by all State agencies.

Source: Wisconsin Department of Administration

General Fund History

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

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

	2016	2015	2014	2013	2012
ASSETS					
Cash & Investment Pool Shares........	$ 1,236,220	$ 1,375,275	$ 1,505,307	$ 1,831,711	$ 979,659
Contingent Fund Advances.............	2,774	2,909	2,931	2,939	2,939
Receivables					
Accounts Receivable..................	1,753,176	1,418,149	1,410,134	1,458,430	1,384,328
Due from Other Funds................	85,276	160,950	206,976	182,348	45,172
Inventory................................	-	588	364	593	685
Prepayments............................	3,304	72,749	69,120	79,019	77,351
Other Assets............................	128,547	127,622	115,065	16,898	132,913
TOTAL ASSETS..........................	$ 3,209,297	$ 3,158,242	$ 3,309,897	$ 3,571,938	$ 2,623,047
LIABILITIES					
Accounts Payable.......................	$ 522,610	$ 591,323	$ 536,002	$ 513,857	$ 450,252
Due to Other Funds.....................	63,874	337,782	194,579	454,770	197,479
Tax and Other Deposits.................	40,672	28,271	20,476	21,189	12,308
Deferred Revenue.......................	197,133	185,747	175,201	163,382	173,646
TOTAL LIABILITIES....................	$ 824,289	$ 1,143,123	$ 926,258	$ 1,153,198	$ 833,685
FUND BALANCE					
Reserves					
Encumbrances & GPR Balances	$ 307,423	$ 236,915	$ 241,535	$ 138,845	$ 161,696
Program Revenue Balances...........	347,277	419,048	472,871	402,290	511,994
Total Reserves.........................	$ 654,700	$ 655,963	$ 714,406	$ 541,135	$ 673,690
Unreserved Balance-Undesignated....	1,730,308	1,359,156	1,669,233	1,987,605	1,115,672
TOTAL FUND BALANCE.............	$ 2,385,008	$ 2,015,119	$ 2,383,639	$ 2,528,740	$ 1,789,362
TOTAL LIABILITIES AND FUND BALANCE....................	$ 3,209,297	$ 3,158,242	$ 3,309,897	$ 3,681,938	$ 2,623,047

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

Source: Department of Administration

STATE GOVERNMENT ORGANIZATION

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

General Organization

Executive Branch

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

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

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

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

Legislative Branch

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

Judicial Branch

The judicial branch consists of:

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

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

Description of Services Provided by State Government

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

Commerce

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

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

Several State agencies participate in the field of commerce:

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

The *Wisconsin Economic Development Corporation* was created in 2011 to develop and implement economic and business development programs in the State. The Wisconsin Economic Development Corporation is a public body corporate and politic, has a 12-member board of directors whose chair is elected by the board from among the nonlegislative voting members, and receives appropriations from the State to fund its activities. Prior to 2011, the Wisconsin Department of Commerce provided economic development services.

Education

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

- *Primary and Secondary Schools.* There were 424 school districts in the State for the 2015-16 school year, which administer the elementary and secondary schools within those districts. There were approximately 854,402 students attending public elementary and secondary schools in the 2015-16 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 2015-16 academic year, 326,153 full- and part-time students were enrolled in the technical college system. The technical colleges are operated by district boards, with supervision of the system provided by the Technical College System Board.
- *University of Wisconsin System.* The University of Wisconsin System consists of its doctoral campus in Madison (the largest campus in the State), its doctoral campus in Milwaukee, 11 other four-year degree-granting institutions, 13 two-year colleges, and the University of Wisconsin Extension. The system's total enrollment in 2015-16 was 178,571 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, and the Higher Educational Aids Board (which manages and oversees of the State's student financial aid system for residents attending institutions of higher education).

Environmental Resources and Transportation

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

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

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

The State has an elaborate system of highways. It consists of interstate highways financed from Federal and State funds and of State highways, county trunk highways, town roads, city and village streets, and park and forest roads. Closely connected with the highway building functions of the State government and the aid granted to local units for streets and highways are the objects for which these roads are built—the motor vehicle and its occupants. While the State is concerned with the building and maintenance of an adequate number of roads of certain standards to meet the traffic demands, it is also concerned with the safety and convenience of the people who are using those roads. Over 6.14 million vehicles are currently registered.

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

Human Relations and Resources

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

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

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

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

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

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

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

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

To promote the general welfare of citizens and insure peaceable relations among them, the State seeks to protect citizens from lawless elements in society by maintaining those conditions of stability and order necessary for a well-functioning society. Law enforcement is largely a local matter, but the Department of Corrections is responsible for the safe custody and supervision of offenders using the best, most effective correctional policies and procedures, as well as keeping citizens protected, helping offenders succeed in the community and making every effort to reduce costs to taxpayers. The Department of Justice furnishes legal services to State agencies and provides technical assistance to local law enforcement agencies. The Office of the State Public Defender makes determinations of indigence and provides legal representation for specified defendants who are unable to afford a private attorney.

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

General Executive

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

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

Legislative

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

General Appropriations

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

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

STATE OF WISCONSIN BUILDING COMMISSION

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

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

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

DOA assists the Commission, with the Administrator of the Division of Facilities Development with the concurrence of the Secretary of Administration, serving as the Secretary to the Commission. As of the date of the 2016 Annual Report, the Acting Administrator for the DOA Division of Facilities Development serves as Acting Secretary to the Commission. The Secretary of Administration, and both the head of the engineering function and the ranking architect in the DOA Division of Facilities Development, serve as nonvoting advisory members. Employees of the DOA Division of Executive Budget and Finance, including the Capital Finance Director, serve as staff responsible for managing the State's various borrowing programs.

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

STATE OBLIGATIONS

General Obligations

The State, acting through the Commission, may issue general obligation bonds and notes or enter into loans that are secured by the State's full faith, credit, and taxing power. There is irrevocably appropriated, as a first charge upon all revenues of the State, a sum sufficient for the timely payment of State general obligations. As of December 15, 2016, the State had $8.071 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 2016 Annual Report for additional information on general obligations.

Operating Notes

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

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

As of December 15, 2016, the State had not issued operating notes in fiscal year 2016-17.

Master Lease Program

The State, acting by and through the Department of Administration, has entered into a master lease for the purpose of acquiring property (and in limited situations, prepaid service contracts) for State agencies through installment payments. The State's obligation to make lease payments is subject to annual appropriation by the Legislature. The full faith and credit of the State are not pledged to the lease payments; the State is not obligated to levy or pledge any tax to pay the lease payments. The State's obligation to make the lease payments does not constitute debt for purposes of the Wisconsin constitutional debt limit, and there is no limit to the amount of such obligations that the State can incur. Although an effort is made to use the master lease program for all property acquired by the State through nonappropriation leases, it is possible that State agencies may separately incur such obligations through other lease arrangements. Certificates of participation have been issued that evidence a proportionate interest in certain lease payments to be made by the State. As of December 15, 2016, the outstanding principal amount of the State's obligations under the master lease program was approximately $116 million. See Part IV of the 2016 Annual Report for additional information on master lease certificates of participation.

State Revenue Obligations

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

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

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

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

- *Transportation revenue bond program.* This program finances a portion of the costs of the State highways and related transportation facilities. The obligations are secured by motor vehicle registration fees and other registration-related fees. The Commission has issued 36 series of bonds (which include refunding bond issues) and three series of commercial paper notes for this program, which were outstanding in the aggregate amount of $1.976 billion as of December 15, 2016. See Part V of the 2016 Annual Report for additional information on transportation revenue obligations.
- *Clean water fund program.* This program makes loans to municipalities in the State for the construction or improvement of their water pollution control facilities. The Commission has authorized two revenue bond programs for the funding the clean water fund program. The first are clean water revenue bonds; the Commission has issued 28 series of bonds for this program (including refunding bond issues), which were outstanding in the amount of $635 million as of December 15, 2016. The State does not intend to issue any additional clean water revenue bonds other than potential refunding bonds. See Part VI of the 2016 Annual Report for additional information on clean water revenue bonds. The second are environmental improvement fund revenue bonds; the Commission issued its first series of such bonds on December 3, 2015, which were outstanding in the

amount of $40 million as of December 15, 2016. See Part VII of the 2016 Annual Report for additional information on environmental improvement fund revenue bonds.

- *Petroleum inspection fee revenue obligations program.* This program funds environmental remediation claims submitted under the Petroleum Environmental Cleanup Fund Award Program. Obligations issued for this program are secured by petroleum inspection fees. The Commission has issued six series of bonds (including refunding bond issues) and two series of extendible municipal commercial paper for this program, which only bonds were outstanding in the aggregate amount of $76 million as of December 15, 2016. See Part VIII of the 2016 Annual Report for additional information on petroleum inspection fee revenue obligations.

General Fund Annual Appropriation Bonds

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

The State has issued six series of general fund annual appropriation bonds (including refunding bond issues) to pay the State's unfunded accrued prior service (pension) liability, determined as of January 1, 2003, and the State's unfunded accrued liability for sick leave conversion, determined as of October 1, 2003. See "STATE OBLIGATIONS; Prior Service Pension Liabilities and Other Post-Employment Benefits". The general fund annual appropriation bonds issued for this purpose were outstanding in the aggregate amount of $1.623 billion as of December 15, 2016. With respect to the outstanding general fund annual appropriation bonds that are in the form of taxable floating rate notes, the State has hedged nearly all its variable-rate exposure by entering into interest rate exchange agreements (commonly called swap agreements).

The State has issued one series of general fund annual appropriation bonds to finance the purchase of tobacco settlement revenues that the State previously sold to BTASC. See "STATE BUDGET; Tobacco Settlement Revenues". The general fund annual appropriation bonds issued for this purpose were outstanding in the aggregate amount of $1.479 billion as of December 15, 2016.

See Part IX of the 2016 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 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, 2016, WHEDA had borrowing authority of approximately $600 million for programs secured by the capital reserve fund, excluding debt issued to refund other debt, the current outstanding balance for programs secured by the capital reserve fund was approximately $337 million, and in aggregate, WHEDA had $1.139 billion in outstanding notes and bonds. WHEDA has borrowing authority for several specific programs:

- *Programs secured by capital reserve fund.* Borrowing authority of $600 million, excluding debt issued to refund other debt, of which $403 million of borrowing authority was available on October 31, 2016.

- *Housing rehabilitation programs.* Borrowing authority of $100 million, of which $100 million of borrowing authority was available on November 30, 2016.

- *Single-family home ownership mortgage loan program.* WHEDA has issued $8.107 billion in such bonds as of November 30, 2016. In the one-year period ending November 30, 2016, one single-family issue of approximately $377 million was sold.

- *Residential facilities for the elderly and chronically disabled.* Borrowing authority of $99 million, and as of November 30, 2016, WHEDA had sold three bond issues totaling $5 million.

- *Economic development and agriculture loans.* Current borrowing authority of $167 million. From current and previous borrowing authority, as of November 30, 2016, WHEDA had sold 143 series of bonds for economic development and agriculture totaling $125 million, which are not general obligations of WHEDA, and 58 series of bonds, totaling $93 million, which are general obligations of WHEDA.

- *General programs not secured by capital reserve fund.* Approximately $3 million of obligations issued for this purpose remain outstanding as of November 30, 2016.

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

Wisconsin Health and Educational Facilities Authority

The Wisconsin Health and Educational Facilities Authority **(WHEFA)** provides revenue bond financing for all Wisconsin 501(c)(3) nonprofit organizations. It may finance any qualifying capital project and may refinance any qualifying outstanding indebtedness. As of June 30, 2016, WHEFA had outstanding 232 issues totaling approximately $9.109 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 hospitals in Wisconsin: the University of Wisconsin Hospital, American Family Children's Hospital, and The American Center Hospital. Hospitals in Illinois include: the Swedish American Hospital and the Swedish American Medical Center and a number of clinics in Wisconsin and Illinois. It provides instruction for medical and other health related professions, students, and sponsors. It also supports medical research and assists health care programs and personnel throughout the State. As of June 30, 2016, UWHCA had outstanding long-term debt totaling approximately $612 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 a sixteen-member board. Composition and selection of members are specified by Chapter 233 and Section 15.96 of the Wisconsin Statutes. The sixteen voting members consist of: Six persons appointed by the Governor for staggered five-year terms with the approval of the State Senate, two members either filled by or appointed by each co-chairperson of JCF, three members of the Board of Regents appointed by the President of the Board of Regents, the Chancellor of UW-Madison, Dean of the UW School of Medicine and Public Health (**UWSMPH**), a Chair of a department of the UWSMPH appointed by the Chancellor of UW-Madison, a Faculty member of a UW-Madison health professional school other than the UWSMPH appointed by the Chancellor of UW-Madison, and the Secretary of DOA or his/her designee. Financial reports can be obtained from the University of Wisconsin Hospitals and Clinics Authority, Room H4/893, 600 Highland Avenue, Madison, WI 53792-8360. The telephone number is (608) 265-7131.

Local Districts

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

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

Moral Obligations

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

- *Payments to reserve funds securing certain obligations of WHEDA.* As of June 30, 2016 there were eleven issues outstanding in the aggregate amount of $338 million that carry a moral obligation of the State.

Name of WHEDA Issue	Maturity Date	Principal Issued	Outstanding Balance
Housing Revenue Bonds			
1998 Series A, B & C	11/1/2018	$ 39,895,000	$ 240,000
2003 Series A-E	5/1/2044	41,975,000	9,940,000
2005 Series A-F	11/1/2045	179,535,000	97,080,000
2006 Series A-D	5/1/2047	28,580,000	22,305,000
2007 Series A-G	11/1/2042	42,570,000	15,190,000
2008 Series A-G	11/1/2033	56,155,000	14,975,000
2009 Series A	5/1/2042	14,045,000	8,805,000
2010 Series A-B	11/1/2043	42,775,000	31,445,000
2012 Series A-B	5/1/2055	53,540,000	52,670,000
2012 Series C	11/1/2044	16,670,000	-0-
2013 Series A-C	5/1/2045	21,270,000	12,825,000
2015 Series A-C	5/1/2052	73,170,000	72,330,000
Total			$337,805,000

- *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 $76 million.

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

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

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

Employee Pension Funds

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

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

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

WRS covers all full-time employees of the State. The total retirement contribution consists of a member (employee) contribution and an employer contribution, and an employer cannot fund any of the member's required contribution. As of June, 2016, employee and employer contributions for calendar year 2017 were set at the following rates:

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

Employee Classification	Employee Required	Employer Required
General, Executive & Elected Officials (including teachers)	6.80%	6.80%
Protected Occupation with Social Security	6.80	10.60
Protected Occupation without Social Security	6.80	14.90

(a)Effective date January 1, 2017

Source: Department of Employee Trust Funds

The contributions are actuarially determined each year by an independent actuarial firm. In addition, the State is also charged 0.3% of its protective payroll for special duty disability coverage. Prior to the enactment of 2011 Wisconsin Act 10, employers were permitted to fund all, or some of, the member's required contribution. With the enactment of 2011 Wisconsin Act 10, the total retirement contribution must be split equally between the employee required contribution and the employer required contribution (except in certain circumstances).

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

- The employee required contribution for protective occupations with Social Security and for protective occupations without Social Security is the same as for general employees. The employer required contribution for these groups is the difference between the total required contribution and the employee required contribution.
- The benefit adjustment contribution was eliminated.
- All new participants after July 1, 2011 were subjected to a five-year vesting requirement. Participants terminating before fully vesting are not eligible for a retirement benefit but can receive a separation benefit of member contributions and interest.

- The work requirement to be eligible to participate in the WRS was increased from 33%, to 67%, of full-time employment.
- Employee required contributions may not be paid by the employer on behalf of the employee.
- The formula multiplier for State executives, judges, and elected officials was reduced from 2.0% to 1.6%.

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

Annual adjustments are also made to annuities from the WRS based on investment performance. In calendar years 2009, 2010, 2011, 2012, and 2013 retirees in the WRS's Core Retirement Trust experienced reductions of up to 2.1%, 1.3%, 1.2%, 7.0%, and 9.6%, respectively, to their monthly annuity amounts. While these were the first negative adjustments for the Core Retirement Trust since the WRS was created, retirees in the Variable Retirement Investment Trust see annual adjustments, sometimes negative, that reflect changing market value on a year-by-year basis. In calendar years 2014, 2015 and 2016, retirees in the WRS's Core Retirement Trust experienced increases of 4.7%, 2.9%, and 0.5%, respectively, to their monthly annuity amounts.

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

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

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

Various reports and information relating to WRS and the Department of Employee Trust Funds, including the Wisconsin Retirement System Financial Report for Calendar Year 2015 and comprehensive annual financial reports for prior years for the Department of Employee Trust Funds (including WRS and other benefit plans and trust funds) are available from the State of Wisconsin Department of Employee Trust Funds publications web site at: etf.wi.gov/publications.htm. This web site, and the materials available on this web site, are not incorporated into, nor are they a part of, this Part II of the 2016 Annual Report.

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

GASB Pension Accounting Standards

The Governmental Accounting Standards Board **(GASB)** pension accounting standards require uniform calculations of pension expense and liabilities. Under these standards each participating employer in the WRS is required to report its proportionate share of this net pension liability (or asset) on its financial statements, if such statements are prepared in accordance with GAAP. Using the GASB pension accounting standards, the net pension liability of participating WRS employers as of December 31, 2015 was $1.6 billion.

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 28.5% 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 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 2003 fully funded both of these prior service liabilities, and the State currently has no prior service liabilities associated with these benefits.

Implied Subsidy of Group Health Insurance

In July 2016, the State received a report containing the results of an actuarial valuation (as of January 1, 2015) of the State of Wisconsin Retiree Health Program. The report shows a total unfunded liability for other post-employment benefits of $942 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 $893 million amount reported in May 2014 (as of January 1, 2013). Beginning January 1, 2012, prescription drug coverage for Medicare eligible retirees enrolled in the State group health insurance program is provided through a self-funded Medicare Part D Employer Group Waiver Plan, including a Medicare wrap. As a result, the State no longer receives the Retiree Drug Subsidy, and there is no longer a liability for any Medicare Part D subsidy.

Implied Subsidy of Retiree Life Insurance Program

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

Table II-18

WISCONSIN RETIREMENT SYSTEM
ACTUARIAL STATEMENT OF ASSETS AND LIABILITIES
December 31, 2015
(Amounts in Millions)

	12/31/2015	12/31/2014	Increase (Decrease)
Assets and Employer Obligations:			
Net Assets			
Cash, Investments & Receivables			
Less: Payables & Suspense Items			
Core Division	$84,865.4	$82,385.4	$ 2,480.0
Variable Division	6,636.9	6,975.0	6,612.8
Totals	91,502.3	89,360.4	9,092.8
Obligations of Employers			
Unfunded Accrued Liability	24.1	31.7	(7.6)
TOTAL ASSETS	$91,526.3	$89,392.1	$9,085.2
Reserves and Surplus:			
Reserves			
Actuarial Present Value of Projected Benefits Payable to Terminated Vested Participants and Active Members:			
Member Normal Contributions	$16,537.2	$16,243.3	$ 293.9
Member Additional Contributions	169.9	16.0	153.9
Employer Contributions	21,967.4	22,001.7	(34.3)
Total Contributions	$38,674.5	$38,261.0	$ 413.5
Actuarial Present Value of Projected Benefits Payable to Current Retirees And Beneficiaries:			
Core Annuities	$48,897.5	$45,790.7	$ 3,106.8
Variable Annuities	3,910.1	3,917.1	(7.0)
TOTAL ANNUITIES	52,807.6	49,707.8	3,099.8
TOTAL RESERVES	$91,482.1	$87,968.8	$ 3,513.3
Surplus			
Core Annuity Reserve Surplus	$ 249.5	$ 1,345.0	$ (1,095.5)
Variable Annuity Reserve Surplus	(205.3)	78.3	(283.6)
TOTAL SURPLUS	44.2	1,423.3	(1,379.1)
TOTAL RESERVES AND SURPLUS	$ 91,526.3	$ 89,392.1	$ 2,134.2

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, 2015 was $4.29 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 (6.8% of their salary) for calendar year 2017. 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, 2015 was $599 million, which consisted of $306 million or 7.1% of payroll from the employer and $293 million or 6.8% 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 Executives, 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 Executives and 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, 2015, had no unfunded liability. The total system unfunded liability of $24 million, as of December 31, 2015, 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, 2015 Comprehensive Annual Financial Report.

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

Table II-19

WISCONSIN RETIREMENT SYSTEM
FUNDING RATIO
(Amounts in Thousands)

Year	A Net Real Assets	B Unfunded Actuarial Liability	C Reserve Requirement (A+B)	D Funding Ratio (A÷C)
2006	$73,415,300	$320,500	$73,735,800	99.6%
2007	79,791,900	287,800	80,079,700	99.6
2008	77,159,400	252,600	77,412,000	99.7
2009	78,911,300	193,300	79,104,600	99.8
2010	80,626,900	131,900	80,758,800	99.8
2011	78,940,000	99,300	79,039,300	99.9
2012	78,613,000	69,700	78,682,700	99.9
2013	85,276,100	52,600	85,328,700	99.9
2014	89,360,400	31,700	89,392,100	100.0
2015	91,502,400	24,100	91,526,500	100.0

Source: Department of Employee Trust Funds

Table II-20

WISCONSIN RETIREMENT SYSTEM
COVERED EMPLOYEES

Year	Active State	Active Local	Retired
2006	70,366	192,490	137,117
2007	71,162	192,219	142,906
2008	72,165	193,556	144,033
2009	72,415	194,878	150,671
2010	72,740	193,889	155,775
2011	70,391	186,863	167,453
2012	72,269	184,564	173,655
2013	73,091	183,697	180,056
2014	73,893	183,362	185,605
2015	73,036	183,041	191,795

Source: Department of Employee Trust Funds

Table II-21

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

	State		Local		Total	
Year	**Employee**	**Employer**	**Employee**	**Employer**	**Employee**	**Employer**
2006	$1,169	$368,020	$4,606	$863,256	$5,775	$1,231,276
2007	1,622	393,386	4,934	902,112	6,556	1,295,498
2008	1,748	421,936	5,217	937,406	6,965	1,359,342
2009	1,248	415,600	6,703	950,177	7,951	1,365,777
2010	3,602	444,538	8,099	1,006,560	11,701	1,451,098
2011	62,391	347,477	101,703	878,753	164,094	1,226,230
2012	213,447	263,731	398,207	697,435	611,654	961,166
2013	249,681	305,657	511,329	704,475	761.010	1,010,132
2014	279,067	328,856	612,781	689,606	891,848	1,018,462
2015	293,397	305,518	615,017	677,349	908,414	982,867

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

Source: Department of Employee Trust Funds

Table II-22

WISCONSIN RETIREMENT SYSTEM
REVENUES BY TYPE
(Amounts in Thousands)

Year	**Required Employee**	**Contributions Required Employer[(a)]**	**Additional Employee**	**Investment Income**	**Supplemental**	**Misc.**	**Total**
2006	$614,726	$653,849	$16,891	$10,962,280	$1,764	$127	$12,249,637
2007	688,044	646,615	18,462	6,495,914	1,422	401	7,850,858
2008	722,534	684,731	14,139	(22,744,110)	1,160	1,618	(21,319,928)
2009	728,181	705,257	9,249	13,024,986	912	205	14,468,790
2010	776,120	743,406	11,870	8,317,435	743	247	9,849,821
2011	783,609	781,064	14,760	699,546	602	1,897	2,281,478
2012	746,678	799,349	10,473	9,858,710	470	208	11,415,888
2013	863,079	914,698	8,180	11,343,231	342	190	13,129,720
2014	927,342	982,968	15,205	4,888,240	265	377	6,814,397
2015	921,963	969,318	16,019	(674,988)	210	38	1,232,560

(a) Amounts include payments from employee additional contributions.

Source: Department of Employee Trust Funds

Table II-23

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

Year	Separations	Death	Annuities	Supplemental[a]	Misc.	Total
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	29,124	3,758,389	912	36,543	3,843,300
2010	26,415	29,124	3,846,305	743	17,603	3,920,190
2011	28,006	33,129	4,103,321	601	18,620	4,183,677
2012	26,563	24,800	4,182,881	470	21,542	4,256,256
2013	33,271	37,972	4,186,386	342	22,858	4,280,829
2014	34,401	33,480	4,411,169	265	119,371	4,598,686
2015	37,642	31,746	4,748,334	210	66,005	4,883,937

[a] 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, 2017.

Table II-24

WISCONSIN RETIREMENT SYSTEM
SEPARATION BEFORE AGE AND SERVICE RETIREMENT

Select and Ultimate Withdrawal

% of Active Participants Terminating

Age & Service	Protective With Soc. Sec.	Protective Without Soc. Sec.	Public Schools Males	Public Schools Females	University Males	University Females	Executive &Elected	Others Males	Others Females
0	17.0%	4.0%	18.3%	16.0%	16.0%	16.0%	18.0%	16.8%	20.0%
1	8.0	3.5	11.0	10.8	14.0	15.0	14.0	12.7	14.1
2	5.0	1.5	7.8	7.7	12.0	13.0	12.0	9.0	11.0
3	4.3	1.3	5.9	5.8	10.0	10.0	10.0	7.3	8.9
4	3.8	1.2	4.9	5.0	8.5	9.9	10.0	7.0	8.5
5	3.1	1.1	3.6	4.3	8.0	8.4	8.0	4.8	6.7
6	3.0	1.0	3.2	3.8	7.5	6.4	7.0	4.3	5.6
7	2.9	0.9	2.6	3.4	5.7	5.7	6.0	4.2	5.0
8	2.5	0.8	2.6	2.8	4.6	4.7	6.0	3.4	4.7
9	2.2	0.7	2.4	2.5	4.0	4.2	6.0	3.1	4.5
10 & over									
25	2.0	0.7	1.3	2.2	4.0	5.0	6.0	2.5	4.5
30	1.8	0.7	1.3	1.9	3.9	4.6	5.1	2.5	4.3
35	1.6	0.7	1.3	1.6	3.6	4.2	4.3	2.4	3.5
40	1.3	0.6	1.3	1.3	3.1	3.4	4.1	2.1	2.7
45	1.1	0.6	1.3	1.1	2.3	2.6	3.2	1.8	2.2
50	1.0	0.5	1.3	1.0	1.9	2.1	2.5	1.5	1.9
55	1.0	0.5	1.3	1.0	1.8	2.0	2.4	1.5	1.8
60	1.0	0.5	1.3	1.0	1.8	2.0	2.4	1.5	1.8

Disability Rates

% of Active Participants Becoming Disabled

Age	Protective With Soc.Sec.	Protective Without Soc.Sec.	Public Schools Male	Public Schools Female	University Male	University Female	Exec. & Elected Male	Exec. & Elected Female	Others Male	Others Female
20	0.01%	0.04	0.01%	0.01%	0.00%	0.00%	0.00%	0.00%	0.01%	0.01%
25	0.01	0.04	0.01	0.01	0.00	0.00	0.00	0.00	0.01	0.01
30	0.01	0.04	0.01	0.01	0.00	0.00	0.00	0.00	0.01	0.02
35	0.02	0.04	0.01	0.01	0.0	0.02	0.01	0.01	0.01	0.03
40	0.02	0.06	0.01	0.02	0.01	0.03	0.01	0.01	0.03	0.04
45	0.03	0.11	0.03	0.05	0.01	0.03	0.01	0.01	0.06	0.06
50	0.06	0.64	0.08	0.1	0.02	0.06	0.02	0.02	0.13	0.09
55	0.87	0.48	0.16	0.14	0.05	0.09	0.09	0.09	0.24	0.16
60	1.46	0.14	0.26	0.21	0.07	0.13	0.11	0.11	0.43	0.23

Source: Department of Employee Trust Funds

Table II-25

WISCONSIN RETIREMENT SYSTEM
RETIREMENT PATTERNS

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

	% Retiring Next Year								
	General		Public Schools		University		Protective		
							With	Without	Executive
Age	Males	Females	Males	Females	Males	Females	Soc. Sec.	Soc. Sec.	& Elected
50	%	%	%	%	%	%	6%	4%	%
51							7	4	
52							9	5	
53							23	17	
54							19	25	
55							19	21	
56							19	27	
57	18	15	36	28	12	14	19	30	12
58	18	15	31	28	12	12	18	30	12
59	18	15	24	28	12	10	16	30	12
60	18	15	30	28	12	12	20	26	12
61	18	15	28	28	12	16	20	15	12
62	25	25	37	36	12	14	22	20	12
63	30	25	32	30	12	19	26	40	12
64	25	25	27	27	12	13	17	40	12
65	25	28	29	35	15	18	30	40	12
66	32	32	33	35	17	22	25	40	20
67	26	26	27	30	16	17	30	40	15
68	19	22	24	30	16	16	30	40	15
69	19	20	24	30	16	14	30	40	10
70	19	20	20	35	16	18	100	100	10
71	19	20	20	30	18	18	100	100	10
72	19	20	20	22	14	18	100	100	15
73	19	20	20	22	14	18	100	100	15
74	19	20	20	22	10	18	100	100	15
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 Table

Active & Retired Future Life Expectancy

Sample Attained	Active Future Life Expectancy (Years)		Retired Future Life Expectancy (Years)	
Ages	**Males**	**Females**	**Males**	**Females**
40	44.6	47.8	42.9	46.2
45	39.6	42.8	38.1	41.3
50	34.6	37.8	33.4	36.5
55	29.8	32.9	28.8	31.8
60	25.2	28.1	24.4	27.2
65	20.8	23.5	20.2	22.8
70	16.6	19.0	16.1	18.4
75	12.7	14.8	12.4	14.4
80	9.3	11.0	9.1	10.7
85	6.5	7.7	6.4	7.6

Salary Scale

	Merit & Longevity Increase in Next Year					
Age	**General**	**University Teachers**	**Teachers**	**Protective With S.S.**	**Protective w/o S.S.**	**Executive & Elected**
1	3.5%	3.0%	5.6%	4.8%	5.5%	2.5%
2	3.5	3.0	5.6	4.8	5.5	2.5
3	3.1	2.9	5.2	4.1	4.7	2.0
4	2.8	2.8	4.7	3.5	3.8	1.6
5	2.5	2.7	4.3	2.8	3.0	1.1
10	1.5	2.2	2.6	1.1	0.9	1.6
15	1.1	1.7	1.4	0.8	0.5	0.2
20	0.9	1.2	0.6	0.7	0.4	0.2
25	0.6	0.9	0.3	0.6	0.3	0.2
30	0.4	0.7	0.2	0.5	0.2	0.2

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

Future Annual Investment Return

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

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

Source: Department of Employee Trust Funds

STATE OF WISCONSIN INVESTMENT BOARD

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

The nine members of the Board of Trustees include:

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

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

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

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

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

- Safety of principal
- Liquidity
- Competitive 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. 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 the 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 that prohibit the use of derivatives, financial futures, and related options

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

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

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

Table II-27

STATE INVESTMENT FUND
(As of October 31, 2016)

HOLDINGS DETAIL REPORT

	Amortized Cost	Percent of Portfolio at Amortized Cost
U.S. Governments Agencies..................................	$7,788,064,000	73.6%
U.S. Repurchase Agreements	1,137,000,000	10.7
U.S. Bills and Notes	551,664,000	5.2
Certificates of Deposit and Bankers Acceptance.	77,576,000	0.7
Commercial Paper and Corporate Notes	1,024,501,000	1.0
	$10,578,805,000	100.0%

AVERAGE MATURITY FOR THE LAST SIX MONTHS

Reporting Date	Average Maturity (Days)	Reporting Date	Average Maturity (Days)
10/31/2016	71	7/31/2016	73
9/30/2016	75	6/30/2016	67
8/31/2016	78	5/31/2016	74

Summary of Investment Fund Participants
(As of October 31, 2016)

	Par Amount	Percent of Portfolio
Mandatory Participants		
State of Wisconsin and Agencies	$ 4,327,652,000	41.86%
State of Wisconsin Investment Board................	3,138,941,000	30.36
Elective Participants		
Local Government Investment Pool	2,872,226,000	27.78
	$10,338,819,000	100.0%

The difference between the total of the participants' share ($10,338,819,000, and the amortized cost of the State Investment Fund holdings detail report ($10,578,805,000) 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, 2016.

Source: State of Wisconsin Investment Board

STATISTICAL INFORMATION

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

Table II-28

STATE ASSESSMENT
(EQUALIZED VALUE)
OF TAXABLE PROPERTY

Calendar Year	Value of Taxable Property	Rate of Increase (Decrease)
2007	$497,920,348,700	6.2%
2008	514,393,963,700	3.3
2009	511,911,983,100	(0.5)
2010	495,904,192,300	(3.1)
2011	486,864,232,800	(1.8)
2012	471,092,529,200	(3.2)
2013	467,502,564,000	(0.8)
2014	479,479,968,800	2.6
2015	490,602,544,050	2.3
2016	505,124,328,250	3.0

Source: Department of Revenue

Table II-29

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

Fiscal Year	Total Revenues Expected (Amounts in Thousands)	Delinquent Balance[(a)] (Amounts in Thousands)	Delinquent Balance as a Percent of Total Revenues Expected
2007	$11,712,103	$794,238	5.45%
2008[(b)]	11,978,322	1,016,825	8.49
2009	10,957,071	1,128,139	10.30
2010	10,898,706	993,075	9.14
2011	11,662,010	914,671	7.84
2012	12,236,987	968,484	7.91
2013	12,832,365	971,303	7.57
2014	12,656,911	975,512	7.71
2015	13,222,872	928,244	7.02
2016	13,762,689	950,356	6.90

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

(b) Starting with the 2007-08 fiscal year, the delinquent balance reflects changes due to an 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 current system, accruing interest is posted each month to the delinquent accounts.

Source: Department of Revenue

Table II-30

POPULATION TREND

Year	Wisconsin Total (Amounts in Thousands)	Rank	%change Wisconsin	%change U.S.	Population Per Sq. Mile Wisconsin	Population Per Sq. Mile U.S.
1910	2,334	13	12.8	21.0	42.2	26.0
1920	2,632	13	12.8	15.0	47.6	29.9
1930	2,939	13	11.7	16.2	53.7	34.7
1940	3,138	13	6.8	7.3	57.3	37.2
1950	3,435	14	9.5	14.5	62.8	42.6
1960	3,952	15	15.1	18.5	72.6	50.6
1970	4,418	16	11.8	13.3	81.1	57.5
1980	4,706	16	6.5	11.4	86.5	64.0
1990	4,892	16	4.0	9.8	90.1	70.3
2000	5,364	18	9.6	13.2	98.8	79.6
2001	5,404	18	0.8	1.3	99.5	80.6
2002	5,439	20	0.6	1.0	100.2	81.4
2003	5,472	20	0.6	1.0	100.8	82.2
2004	5,504	20	0.6	1.0	101.4	83.0
2005	5,536	20	0.6	1.0	101.9	84.0
2006	5,557	20	0.9	0.9	103.0	85.0
2007	5,602	20	0.8	1.0	103.5	86.4
2008	5,628	20	0.5	0.9	103.9	87.1
2009	5,655	20	0.5	0.9	104.0	88.0
2010	5,690	20	0.6	0.4	105.0	87.4
2011	5,710	20	0.4	0.8	105.4	88.3
2012	5,726	20	0.3	0.8	105.7	88.9
2013	5,744	20	0.3	0.7	106.1	89.6
2014	5,759	20	0.3	0.8	106.3	90.3
2015	5,771	20	0.2	0.8	106.6	91.0

Source: U.S. Census Bureau Population and Housing Units Estimates http://www.census.gov/popzest/ and land area statistics from U.S. Census Bureau State and County Quick Facts
http://quickfacts.census.gov/qfd/states/55000.html

Table II-31

POPULATION CHARACTERISTICS

	Wisconsin	**U.S.**
% Urban (2010)	70.2%	80.7%
% Rural (2010)	29.8	19.3
% Foreign-born (2015)	4.8	13.5
Dependency Ratio [(a)]	61.3	60.7

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

	Wisconsin	**U.S.**
Grade School - 8 years	97.0%	94.5%
High School/equiv.	91.4	87.1
Bachelor's Degree	28.4	30.6

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

Source: **All U.S. Census Bureau web site, American FactFinder**
Urban/Rural: 2010 Census Summary File 1 Table P2
Foreign-Born: 2015 American Community Survey 1-Year Estimates Table S0501
Dependency Ratio: 2015 American Community Survey 1-Year Estimates Table S0101
Educational Attainment: 2015 American Community Survey 1-Year Estimates Table S1501

Table II-32

POPULATION BY AGE GROUP
(2015)

Age Group	Wisconsin	U.S.
Under 5	5.8%	6.2%
5-14	12.7	12.8
15-44	38.2	40.0
45-59	21.3	20.1
60 and over	22.0	20.9
Total	100.0	100.0

Note: Totals may not equal 100% due to rounding

Source: 2015 American Community Survey 1-Year Estimates Table S0101

Table II-33

ESTIMATED PERSONAL INCOME

Year	Wisconsin Total (Amounts in Millions)	Per Capita Wisconsin	Per Capita U.S.	Percentage Wisconsin to U.S.
2006	$ 202,289	$ 36,268	$ 38,144	95.1%
2007	211,378	37,674	39,821	94.6
2008	219,886	38,980	41,082	94.9
2009	217,247	38,320	39,376	97.3
2010	220,826	38,815	40,277	96.4
2011	233,132	40,837	42,453	96.2
2012	243,096	42,463	44,266	95.9
2013	245,438	42,737	44,438	96.2
2014	254,405	44,186	46,049	96.0
2015	255,753	44,406	46,414	95.7

Source: Table SA1 State and Local Area Income, Bureau of Economic Analysis, U.S. Department of Commerce, doa.wi.gov/capitalfinance

Table II-34

MEDIAN INCOME FOR FOUR-PERSON FAMILY

Year[a]	Wisconsin	U.S.	Percentage
2006	$69,010	$65,093	106.0%
2007	75,111	72,336	103.8
2008	78,742	75,648	104.1
2009	77,946	74,985	103.9
2010	77,829	74,964	103.8
2011	79,141	75,845	104.3
2012	80,612	76,365	105.6
2013	82,053	77,507	105.9
2014	83,145	79,784	104.2
2015	86,695	81,953	105.8

[a] Annual values are not adjusted for inflation.

Source: American Community Survey 1-Year Estimates Table B19019. The 2015 data is from the 2015 1-year estimates, the 2014 data is from the 2014 1-year estimates, and so forth.

Table II-35

DISTRIBUTION OF EARNINGS BY INDUSTRY
(By Place of Work)

	Wisconsin Distribution		U.S. Distribution	
	2014	**2015**	**2014**	**2015**
Farm Wage and Salary Disbursements	0.7%	0.6%	0.4%	0.3%
Forestry, Fishing, and Related	0.2	0.2	0.2	0.2
Mining	0.2	0.2	1.1	1.0
Utilities	0.8	0.8	0.7	0.7
Construction	4.6	4.8	4.7	4.8
Manufacturing	20.1	19.7	10.5	10.3
Durable Goods Manufacturing	12.7	12.3	7.0	6.8
Nondurable Goods Manufacturing	7.5	7.5	3.5	3.5
Wholesale Trade	5.8	5.8	5.7	5.6
Retail Trade	6.0	6.1	6.1	6.1
Transportation & Warehousing	3.2	3.2	3.2	3.3
Information	2.4	2.5	3.4	3.4
Finance and Insurance	6.8	6.9	7.8	7.8
Real Estate and Rental and Leasing	0.7	0.7	1.5	1.5
Professional, Scientific, and Technical	5.3	5.5	9.9	10.1
Management of Companies and Enterprises	4.3	4.5	3.3	3.3
Administrative and Waste Management	3.3	3.2	4.3	4.3
Educational Services	1.5	1.5	1.8	1.8
Health Care and Social Assistance	13.3	13.3	11.3	11.4
Arts, Entertainment, and Recreation	0.9	0.8	1.1	1.1
Accommodation and Food Services	2.7	2.9	3.6	3.7
Other Services, Except Public Administration	3.0	3.0	3.2	3.1
Government and Government Enterprises	14.1	13.8	16.3	16.0
Federal, Civilian	1.4	1.4	2.8	2.8
Military	0.3	0.3	1.3	1.2
State and Local	12.4	12.2	12.2	12.0

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 (2015 Annual Average)

	Wisconsin		U.S.	
	(Amounts in Thousands)	%	(Amounts in Thousands)	%
Natural Resources & Mining	4	0.1	820	0.6
Construction	110	3.8	6,446	4.5
Manufacturing	469	16.2	12,318	8.7
Retail Trade	305	10.6	15,641	11.0
Wholesale Trade	122	4.2	5,875	4.1
Transportation, Warehousing & Utilities	105	3.6	5403	3.8
Information	49	1.7	2,750	1.9
Financial Activities	151	5.2	8,124	5.7
Professional & Business Services	312	10.8	19,672	13.9
Educational & Health Services	436	15.1	22,055	15.5
Leisure & Hospitality	269	9.3	15,128	10.7
Other Services	148	5.1	5,625	4.0
Government	410	14.2	22,007	15.5
Total	2,888	100.0	141,865	100.0

Source: Department of Workforce Development

Table II-37

GENERAL STATISTICS OF MANUFACTURING [(a)]

	2013	2014
Total Capital Expenditures (millions)	$ 5,586	$ 5,034
Number of Employees (thousands)	434.3	428.8
Total Payroll (millions)	$ 22,175	$ 22,486
Number of Production Workers (thousands)	310.8	308.4
Value Added by Manufacturer (millions)	$ 83,725	$ 83,030
Value of Shipments (millions)	$ 179,294	$ 181,898

(a) Data is from the US Census Bureau's Annual Survey of Manufactures.

Source: U.S. Census Bureau Annual Survey of Manufactures, World Wide Web Site

Table II-38

TOTAL NEW HOUSING UNITS AUTHORIZED IN PERMIT ISSUING PLACES

		Percent Change	
Year[(a)]	**Wisconsin**	**Wisconsin**	**U.S.**
2006	27,329	(22.7%)	(14.7%)
2007	21,837	(20.1)	(24.0)
2008	15,509	(29.0)	(35.3)
2009	10,780	(30.5)	(35.6)
2010	10,864	0.8	3.7
2011	9,939	(8.5)	3.2
2012	12,041	21.1	32.9
2013	13,869	15.2	19.4
2014	14,741	6.3	6.2
2015	16,793	13.9	12.4

[(a)]Data from 2014 forward is discontinuous with data from 2013 and earlier, due to revised count methodology.

Source: U.S. Bureau of the Census, Building Permits Survey https://www.census.gov/construction/bps/

Table II-39

UNEMPLOYMENT RATE COMPARISON [a][b]
By Month 2011 To 2016
By Quarter 2007 To 2010

	2016		2015		2014		2013		2012		2011	
	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.
January	5.2	5.3	5.4	6.1	6.4	7.0	7.9	8.5	7.8	8.8	8.8	9.8
February	5.5	5.2	5.5	5.8	6.8	7.0	7.9	8.1	8.2	8.7	9.1	9.5
March	5.0	5.1	5.3	5.6	6.6	6.8	7.6	7.6	7.9	8.4	8.8	9.2
April	4.3	4.7	4.5	5.1	5.6	5.9	7.1	7.1	7.0	7.7	7.9	8.7
May	3.8	4.5	4.6	5.3	5.4	6.1	6.5	7.3	7.0	7.9	7.7	8.7
June	4.4	5.1	4.8	5.5	5.6	6.3	7.1	7.8	7.5	8.4	8.2	9.3
July	4.2	5.1	4.6	5.6	5.5	6.5	6.7	7.7	7.3	8.6	7.8	9.3
August	4.0	5.0	4.2	5.2	5.1	6.3	6.3	7.3	6.9	8.2	7.5	9.1
September..	3.5	4.8	4.0	4.9	4.6	5.7	5.9	7.0	6.1	7.6	7.0	8.8
October......	3.5	4.7	3.9	4.8	4.4	5.5	5.9	7.0	6.0	7.5	6.7	8.5
November..			4.2	4.8	4.5	5.5	6.0	6.6	6.2	7.4	6.7	8.2
December ..			4.2	4.8	4.5	5.4	6.0	6.5	6.6	7.6	6.9	8.3
Annual Average			4.6	5.3	5.4	6.2	6.7	7.4	7.0	8.1	7.8	8.9

2010 Quarters	WI	U.S.	2009 Quarters	WI	U.S.
I	10.3	10.4	I	8.6	8.8
II	8.7	9.5	II	8.7	9.1
III	8.1	9.5	III	8.5	9.6
IV	7.6	9.2	IV	8.5	9.5

2008 Quarters	WI	U.S.	2007 Quarters	WI	U.S.
I	5.3	5.3	I	5.6	4.8
II	4.5	5.2	II	4.9	4.4
III	4.6	6.0	III	4.5	4.7
IV	5.3	6.6	IV	4.1	4.6

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

[b] Historical information has been adjusted due to benchmarking through the Local Area Unemployment Statistics (LAUS).

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

APPENDIX A

GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS

(Updated April 7, 2017)

On December 23, 2016, the State of Wisconsin **(State)** provided an Additional/Voluntary filing with the Municipal Securities Rulemaking Board **(MSRB)**, through its Electronic Municipal Market Access **(EMMA)** system, that provided notice that the audited General Purpose External Financial Statements for the fiscal year ended June 30, 2016 would not be available as of the submittal date of this 2016 Annual Report, December 23, 2016.

On March 30, 2017, the Comprehensive Annual Financial Report (**CAFR**) and the audited General Purpose External Financial Statements section of the CAFR for the fiscal year ended June 30, 2016 were published. The State filed both documents with the MSRB through its EMMA system on March 31, 2017, and the General Purpose External Financial Statements are now part of this APPENDIX A to Part II of the 2016 Annual Report.

No other information in Part II of the 2016 Annual Report is being updated at this time. The revision of Part II of the 2016 Annual Report to include the audited General Purpose External Financial Statements does not create any implication that any other information in the 2016 Annual Report remains accurate at any time after its date.

The entire CAFR is available from the State Controller's Office, Department of Administration, P.O. Box 7864, Madison, WI 53707-7864 and also available on the internet at:

www.doa.wi.gov/capitalfinance

{This page number is the last sequential page number of the 2016 Annual Report to be used in this Part II of the 2016 Annual Report. The following uses page numbers from the General Purpose External Financial Statements. The sequential page numbers for the 2016 Annual Report continue in Part III.}

STATE OF
WISCONSIN

General Purpose External Financial Statements

For the fiscal year ended June 30, 2016

Scott Walker, Governor

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

Prepared by the State Controller's Office

General Purpose External Financial Statements
For the Fiscal Year Ended June 30, 2016

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WISCONSIN DEPARTMENT OF ADMINISTRATION

March 30, 2017

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, 2016. They are part of the audited Comprehensive Annual Financial Report and present financial information in conformity with generally accepted accounting principles.

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

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

The General Purpose External Financial Statements, as well as the Comprehensive Annual Financial Report, are on file at the office of the State Controller and will benefit users requiring summary information about our State's finances. The Comprehensive Annual Financial Report is available on the Department of Administration's website.

Sincerely,

Scott A. Neitzel
Secretary

Jeffery C. Anderson, CPA
State Controller

STATE OF WISCONSIN | Legislative Audit Bureau
22 East Mifflin St., Suite 500 ▪ Madison, WI 53703 ▪ (608) 266-2818 ▪ Hotline: 1-877-FRAUD-17 ▪ www.legis.wisconsin.gov/lab

Joe Chrisman
State Auditor

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

Honorable Members of the Legislature 	The Honorable Scott Walker, Governor

Report on the Financial Statements

We have audited the accompanying financial statements and the related notes of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Wisconsin, which collectively comprise the State's basic financial statements, as of and for the year ended June 30, 2016, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements for the following: the Environmental Improvement Fund, which is a major fund and represents 19 percent of the assets and 16 percent of the liabilities of the business-type activities; and the College Savings Program Trust, which represents 4 percent of the assets of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for these programs, are based solely on the reports of the other auditors. In addition, we did not audit the financial statements of the discretely presented component units. Our opinion on the aggregate discretely presented component units is based solely upon audit reports, prepared by other auditors and furnished to us, of the Wisconsin Housing and Economic Development Authority, the University of Wisconsin Hospitals and Clinics Authority, and the University of Wisconsin Foundation.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements for the following were audited by other auditors in accordance with these standards: the Environmental Improvement Fund, the College Savings Program Trust, the Wisconsin Housing and Economic Development Authority, and the University of Wisconsin Hospitals and Clinics Authority. The financial statements of the University of Wisconsin Foundation were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *Government Auditing Standards.*

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Wisconsin as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphases of Matter

The State implemented Governmental Accounting Standards Board (GASB) Statement Number 72, *Fair Value Measurements and Application*. This statement established standards for determining a fair value measurement for financial reporting and resulted in new footnote disclosures, as reflected in Note 5B. This standard has not yet been adopted for those funds presented on a fiscal year end December 31, as described in Note 1D. Our opinions are not modified with respect to this matter.

As discussed in Note 20C to the basic financial statements, the Injured Patients and Families Compensation Fund's loss liabilities related to medical malpractice claims are estimates based on recommendations of a consulting actuary. The Fund's Board of Governors and management believe the estimated loss liabilities are reasonable and represent the most probable estimate of the losses the Fund will pay for the claims incurred to date. However, there are inherent uncertainties in estimating the medical malpractice loss liabilities because of the Fund's unlimited liability coverage for economic damages, as well as the extended reporting and settlement periods. These uncertainties make it likely that amounts paid will ultimately differ from the reported estimated loss liabilities. These differences cannot be quantified. Our opinion for this Fund is not modified with respect to this matter.

As discussed in Note 5B to the financial statements, the financial statements include investments that do not have readily ascertainable market prices and are valued based on a variety of third-party pricing methods. However, because of the inherent uncertainty of valuation, those estimated values may differ from the values that would have been used had a ready market for the investments existed. Our opinions are not modified with respect to this matter.

Other Matter

Required Supplementary Information—Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and the following items in the required supplementary information section, as listed in the table of contents—the schedule of funding progress for the state retiree health insurance postemployment benefit plan, the schedule of the State's proportionate share of the net pension liability or asset, the schedule of the State's pension contributions, the infrastructure narrative, and the budgetary comparison schedules with related notes—be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, which considers it to be essential for placing the basic financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information that included inquiries of management about the methods of preparing the information. We further compared the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to do so.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also issued a report dated March 30, 2017, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering the State's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU

Joe Chrisman
State Auditor

March 30, 2017

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, 2016. It should be read in conjunction with the transmittal letter located at the front of this CAFR, and the State's financial statements, including the note disclosures which are an integral part of the statements, that follow this part of the CAFR.

FINANCIAL HIGHLIGHTS -- PRIMARY GOVERNMENT

Government-wide (Tables 2 and 3 on Pages 10 and 11)

- *Net Position.* The assets plus deferred outflows of resources of the State of Wisconsin exceeded its liabilities plus deferred inflows of resources at the close of Fiscal Year 2016 by $23.3 billion (reported as "net position"). Of this amount, $(7.9) billion was reported as "unrestricted net position". A positive balance in unrestricted net position would represent the amount available to be used to meet a government's ongoing obligations to citizens and creditors.
- *Changes in Net Position.* The State's total net position increased by $1.4 billion in Fiscal Year 2016. Net position of governmental activities increased by $924.7 million or 8.3 percent, while net position of the business-type activities showed an increase of $482.7 million or 4.5 percent.
- *Excess of Revenues over (under) Expenses -- Governmental Activities.* During Fiscal Year 2016, the State's total revenues for governmental activities of $28.6 billion were $1.8 billion more than total expenses (excluding transfers) for governmental activities of $26.8 billion. Of these expenses, $11.9 billion were covered by program revenues. General revenues, generated primarily from various taxes, totaled $16.7 billion.

Fund

- *Governmental Funds -- Fund Balances.* As of the close of Fiscal Year 2016, the State's governmental funds reported combined ending fund balances of $(53.5) million, an increase of $353.5 million in comparison with the prior year. Of this total amount, $(3.0) billion represents the unassigned fund balances.
- *General Fund -- Fund Balance*. At the end of the current fiscal year, total fund balance was $(1,722.6) million, a change of $18.5 million from a deficit of $(1,741.2) million reported in the prior year. The unassigned fund deficit for the General Fund was $(2.4) billion, or (10.3) percent of total General Fund expenditures.

Additional information regarding individual funds begins on Page 15.

Long-term Debt

- The State's total long-term debt obligations (bonds and notes payable) increased by $152.7 million during the current fiscal year which represents the net difference between new issuances, payments and refundings of outstanding debt. Increases in debt resulted from new borrowings in excess of repayments of existing debt. During the year issuances of new general obligations exceeded repayments and refundings of debt by $211.3 million. Revenue bonds outstanding increased by $21.1 million. Offsetting those increases, annual appropriation bonds totaling $79.7 million were repaid. Additional detail regarding these activities begins on Page 20.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

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

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

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

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

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

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

(Table 1, continued)

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

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

Additional Required Supplementary Information

In addition to this Management's Discussion and Analysis, which is required supplementary information, the basic financial statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements. The required supplementary information includes:

- Postemployment Benefits - State Health Insurance Program,
- State's Proportionate Share of the Net Pension Liability or Net Pension Asset,
- State's Pension Contributions,
- Infrastructure Assets Reported Using the Modified Approach, and
- Budgetary Comparison Schedule of the General and the Transportation funds (includes reconciliations between the statutory and GAAP fund balances at fiscal year-end).

Other Supplementary Information

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

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

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

Net Position

As presented in Table 2, total assets of the State on June 30, 2016 were $44.8 billion and deferred outflows of resources were $2.9 billion, while total liabilities were $23.4 billion and deferred inflows of resources were $985.4 million, resulting in combined net position (government and business-type activities) of $23.3 billion. The largest component of the State's total net position consists of $23.2 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 $8.0 billion of net position was restricted by external sources or the State Constitution or Statutes, and was not available to finance the day-to-day operations of the State.

The unrestricted net position, which, if positive, could be used at the State's discretion, showed a negative balance of $(7.9) billion. Therefore, based on this measurement, no funds were available for discretionary purposes. A contributing factor to the negative balance is that governments recognize a liability on the government-wide statement of net position as soon as an obligation is incurred. While financing focuses on when a liability will be paid, accounting is primarily concerned with when a liability is incurred. Accordingly, the State recognizes long-term liabilities (such as general obligation debt, compensated absences, and future benefits and loss liabilities – listed in Note 10 to the financial statements) on the statement of net position. In addition to the effect of reporting long-term liabilities when incurred, the General Fund's total deficit fund balance of $(1.7) billion at year-end, as discussed on Page 15, also contributed to the deficit unrestricted net position reported in the statement of net position.

During Fiscal Year 2016, the State issued $1.2 billion of general obligation bonds, primarily for the acquisition or improvement of land, water, property, highways, buildings, and equipment. At June 30, 2016 general obligation bonds and long term general obligation notes outstanding totaled $7.6 billion, outstanding annual appropriation bonds were $3.0 billion, and outstanding revenue bonds, which are not considered general obligation debt of the State, totaled $3.0 billion.

Table 2
Net Position
(in millions)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2016	2015*	2016	2015*	2016	2015*	2016-2015
Current and Other Assets	$ 6,554.0	$ 6,252.4	$ 8,802.8	$ 8,722.9	$ 15,356.9	$ 14,975.4	2.5 %
Capital Assets	23,230.6	22,271.2	6,223.3	6,235.3	29,453.9	28,506.5	3.3
Total Assets	29,784.6	28,523.6	15,026.2	14,958.3	44,810.8	43,481.9	3.1
Deferred Outflows of Resources	1,481.3	569.7	1,382.5	372.1	2,863.8	941.8	204.1
Long-term Liabilities	12,168.0	11,794.0	3,993.9	3,752.3	16,161.9	15,546.3	4.0
Other Liabilities	6,558.2	6,123.0	664.5	826.3	7,222.7	6,949.3	3.9
Total Liabilities	18,726.3	17,917.0	4,658.4	4,578.6	23,384.7	22,495.6	4.0
Deferred Inflows of Resources	459.9	21.3	525.5	9.7	985.4	31.1	3073.1
Net Position:							
Net investment In Capital Assets	18,613.5	18,051.7	4,562.9	4,566.1	23,176.4	22,617.8	2.5
Restricted	2,368.9	2,602.0	5,619.6	5,312.4	7,988.5	7,914.4	0.9
Unrestricted (deficit)	(8,902.7)	(9,498.8)	1,042.4	863.6	(7,860.4)	(8,635.1)	9.0
Total Net Position	$ 12,079.7	$ 11,155.0	$ 11,224.8	$ 10,742.1	$ 23,304.5	$ 21,897.1	6.4

* Amounts for the prior fiscal year include restatements of prior year's balances.

Changes in Net Position

The revenues and expenses information, as shown in Table 3, was derived from the government-wide statement of activities and reflects how the State's net position changed during the fiscal year. The State earned program revenues of $19.5 billion and general revenues of $16.7 billion for total revenues of $36.2 billion during Fiscal Year 2016. Expenses for the State during Fiscal Year 2016 were $34.8 billion. As a result of the excess of revenues over expenses, the total net position of the State increased $1.4 billion, net of contributions and transfers.

Table 3
Changes in Net Position
(in millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	2016	2015*	2016	2015*	2016	2015*	2016-2015
Program Revenues:							
Charges for Services	$ 2,338.5	$ 2,251.5	$ 7,072.8	$ 6,974.1	$ 9,411.3	$ 9,225.6	2.0 %
Operating Grants and Contributions	8,724.2	8,745.5	460.2	441.8	9,184.4	9,187.3	(0.0)
Capital Grants and Contributions	808.9	862.3	45.5	37.8	854.4	900.1	(5.1)
General Revenues:							
Income Taxes	8,582.4	8,355.7	-	-	8,582.4	8,355.7	2.7
Sales and Excise Taxes	5,781.2	5,590.9	-	-	5,781.2	5,590.9	3.4
Public Utility Taxes	368.7	368.9	-	-	368.7	368.9	(0.0)
Motor Fuel Taxes	1,091.8	1,067.8	-	-	1,091.8	1,067.8	2.2
Other Taxes	481.9	477.7	-	-	481.9	477.7	0.9
Other General Revenues	410.8	417.2	15.8	4.4	426.6	421.6	1.2
Total Revenues	28,588.3	28,137.4	7,594.3	7,458.1	36,182.5	35,595.4	1.6
Program Expenses:							
Commerce	237.5	265.2	-	-	237.5	265.2	(10.5)
Education	7,028.2	7,075.0	-	-	7,028.2	7,075.0	(0.7)
Transportation	2,121.7	2,225.7	-	-	2,121.7	2,225.7	(4.7)
Environmental Resources	469.2	476.1	-	-	469.2	476.1	(1.4)
Human Relations and Resources	13,299.0	12,988.4	-	-	13,299.0	12,988.4	2.4
General Executive	580.1	554.2	-	-	580.1	554.2	4.7
Judicial	131.9	127.3	-	-	131.9	127.3	3.6
Legislative	67.6	64.4	-	-	67.6	64.4	4.9
Tax Relief and Other General Expenditures	1,434.7	1,331.1	-	-	1,434.7	1,331.1	7.8
Intergovernmental - Shared Revenue	965.3	964.1	-	-	965.3	964.1	0.1
Interest on Long-term Debt	436.8	455.5	-	-	436.8	455.5	(4.1)
Injured Patients and Families Compensation	-	-	(50.7)	(88.6)	(50.7)	(88.6)	42.8
Environmental Improvement	-	-	44.9	48.5	44.9	48.5	(7.5)
University of Wisconsin System	-	-	4,938.5	4,725.6	4,938.5	4,725.6	4.5
Unemployment Reserve	-	-	520.8	628.4	520.8	628.4	(17.1)
Lottery	-	-	612.6	581.2	612.6	581.2	5.4
Health Insurance	-	-	1,399.7	1,361.7	1,399.7	1,361.7	2.8
Care and Treatment Facilities	-	-	377.6	370.4	377.6	370.4	2.0
Other Business-type	-	-	175.4	209.5	175.4	209.5	(16.2)
Total Expenses	26,772.0	26,527.2	8,018.9	7,836.7	34,790.9	34,363.9	1.2
Excess (deficiency) before Contributions and Transfers	1,816.3	1,610.2	(424.7)	(378.7)	1,391.6	1,231.5	
Contributions to Term and Permanent Endowments	-	-	4.4	4.0	4.4	4.0	
Contributions to Permanent Fund Principal	11.4	12.1	-	-	11.4	12.1	
Transfers	(903.0)	(1,096.0)	903.0	1,096.0	-	-	
Increase (decrease) in Net Position	924.7	526.3	482.7	721.3	1,407.5	1,247.6	
Net Position - Beginning (Restated)	11,155.0	10,628.6	10,742.1	10,020.8	21,897.1	20,649.4	
Net Position - Ending	$ 12,079.7	$ 11,155.0	$ 11,224.8	$ 10,742.1	$ 23,304.5	$ 21,897.1	6.4

* Amounts for the prior fiscal year include restatements of prior year's balances.

Governmental Activities

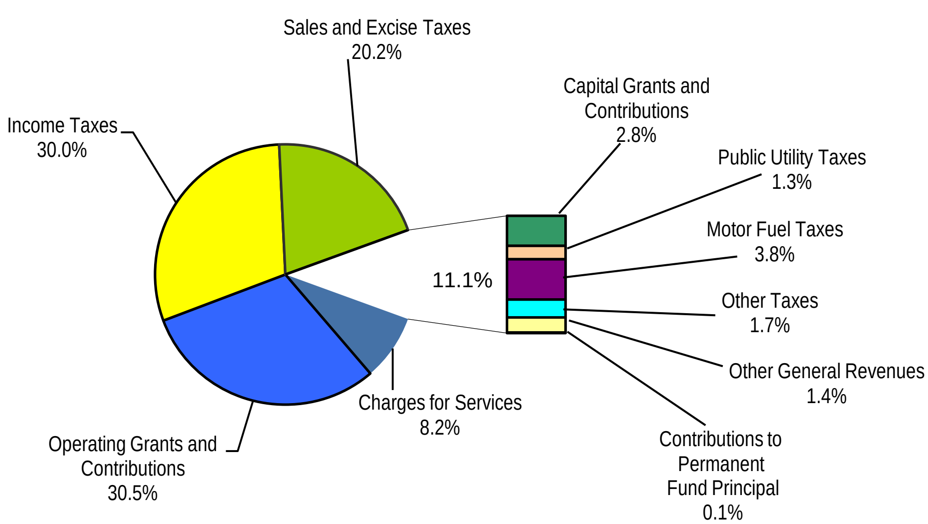
The net position of governmental activities increased $924.7 million in Fiscal Year 2016. Revenues for the governmental activities (including contributions to permanent fund principal) totaled $28.6 billion, while expenses and net transfers totaled $27.7 billion in Fiscal Year 2016.

General and program revenues of governmental activities increased $450.9 million during this fiscal year. Tax revenues increased $445.0 million primarily due to enhanced income and sales and excise taxes of $226.7 million and $190.3 million, respectively. Charges for goods and services increased by $87.0 million while motor fuel and other taxes also increased by $24.0 million and $4.1 million, respectively. Offsetting those increases were decreases of $53.4 million and $21.3 million in capital grants and operating grants, respectively.

The State's governmental activities program expenses increased $244.8 million to $26.8 billion during Fiscal Year 2016. Human relations and resources expenses increased by $310.5 million (2.4 percent) to a total of $13.0 billion. Tax relief and other general expenses increased by $103.6 million (7.8 percent) to $1.3 billion as a result of 2015 Wisconsin Act 55 which included an increase in the school levy aids. General executive expenditures also increased $25.8 million. Conversely, transportation, education, and commerce expenses decreased $104.0 million, $46.8 million and $27.7 million, respectively.

As shown in Table 4, below, approximately 57.0 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 30.5 percent of total revenues. Capital grants and contributions provided 2.8 percent, charges for services contributed 8.2 percent, while various other revenues provided 1.5 percent of the remaining governmental activity revenue sources.

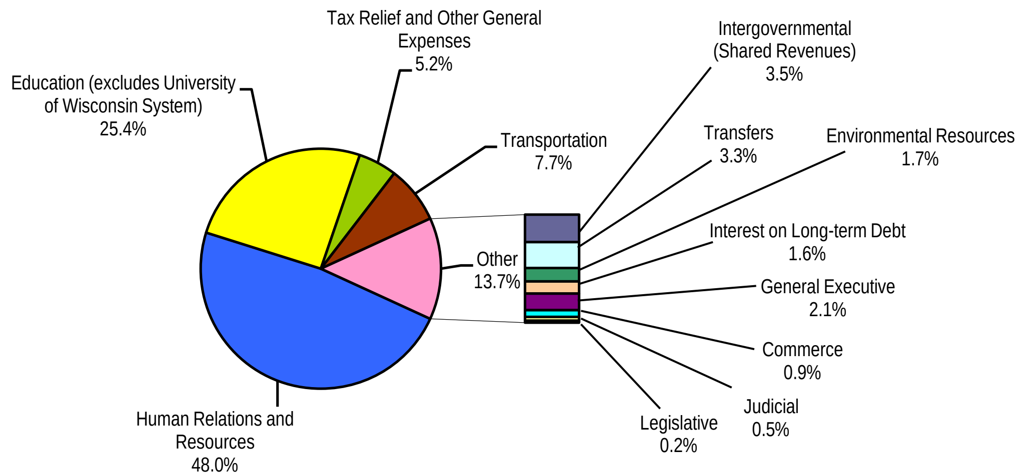
Table 4
Governmental Activities - 2016 Revenues



As shown in Table 5, below, expenses for human relations and resources programs make up the largest portion – 48.0 percent – of total governmental expenses and transfers. Included in this cost function are programs such as Medical Assistance and Temporary Assistance for Needy Families as well as costs for state correctional facilities and services.

Educational expenses, which include various school aids but exclude expenses of the University of Wisconsin System, make up 25.4 percent of total expenses. Tax relief and other general expenses and the municipal and county shared revenue program represent 8.7 percent of the total, while transportation expenses represent 7.7 percent. Net transfers to business-type activities, which include a general purpose revenue subsidy to the University of Wisconsin System, make up 3.3 percent of the total expenses and transfers. Remaining functional expenses totaled 5.3 percent while interest on long-term debt totaled 1.6 percent.

Table 5
Governmental Activities - 2016 Expenses



Business-Type Activities

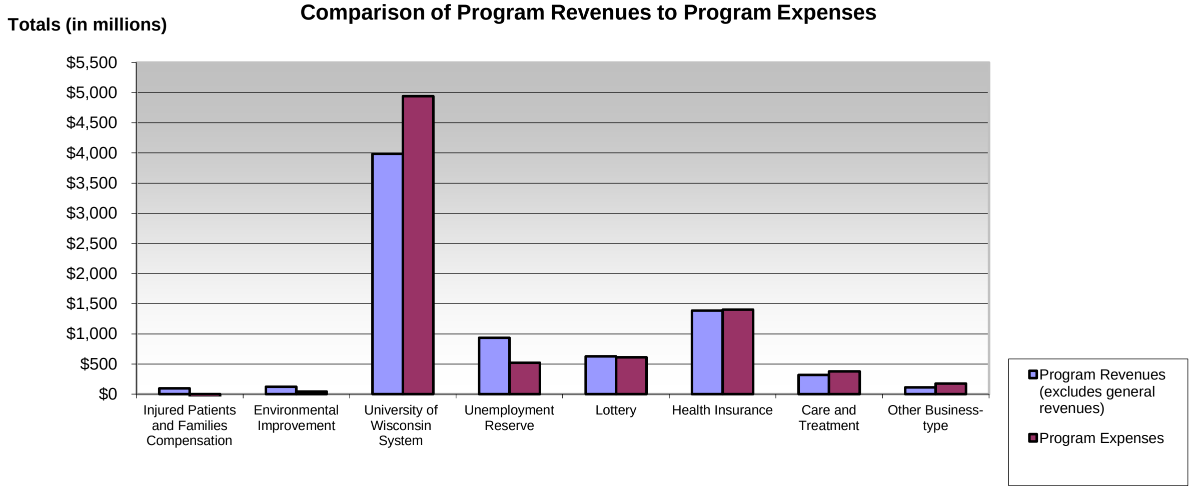
Net position of the State's business-type activities increased $482.7 million in Fiscal Year 2016.

Revenues of business-type activities totaled $7.6 billion for Fiscal Year 2016, an increase of $136.2 million from the prior year. Program revenues consisted of $7.1 billion of charges for services, $460.2 million of operating grants and contributions, and $45.5 million of capital grants and contributions. General revenues, contributions to endowments and permanent fund principal and net transfers totaled $15.8 million, $4.4 million, and $903.0 million, respectively.

The total expenses for business-type activities were $8.0 billion, an increase of $182.2 million from the prior fiscal year. The largest increase in program expenses, $212.9 million, related to increased expenses for the University of Wisconsin System. Expenses for the Health Insurance, Injured Patients and Family Compensation, and Lottery funds also increased by $38.0 million, $37.9 million and $31.3 million, respectively. Offsetting those increases was a decrease in the Unemployment Reserve Fund program expenses of $107.5 million and other business type program expenses of $34.0 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.

Table 6
Fiscal Year 2016
Business-Type Activities
Comparison of Program Revenues to Program Expenses



FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

Governmental Funds

At the end of Fiscal Year 2016, the State's governmental funds reported a negative combined fund balance of $(53.5) 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, 2016, the State's General Fund reported a total fund deficit of $(1.7) billion. The net change in fund balance during Fiscal Year 2016 was $18.5 million, in contrast to $(375.4) million in Fiscal Year 2015. Major revenue, expenditure and other sources/uses contributing to the change in fund balance are as follows:

Revenues

Revenues of the General Fund totaled $24.9 billion in Fiscal Year 2016, an increase of $405.8 million (1.7 percent) from the prior year. Factors contributing to this change included the following:

- Revenues from taxes increased $429.5 million. The increases relate to income and sales taxes, which increased $228.2 million and $185.7 million, respectively, from Fiscal Year 2015. Sales tax revenue increases were driven by increased consumer expenditures for taxable goods, while the increase in income taxes was the result of growth in personal income.
- Intergovernmental revenues (i.e. federal assistance) decreased $36.5 million in Fiscal Year 2016. Revenues for education and general executive programs decreased $69.3 million and $40.9 million respectively, while the human relations and resources program reported increased revenues of $62.4 million.

Expenditures

2015 Wisconsin Act 55 established spending authority for the State of Wisconsin for Fiscal Year 2016. Expenditures of the General Fund totaled $23.3 billion in Fiscal Year 2016, an increase of $183.3 million from Fiscal Year 2015. Factors contributing to the change include the following:

- Human relations and resources expenditures increased by $186.9 million (1.5 percent) to $13.0 billion. These costs comprise 56.0 percent of General Fund expenditures.
- 2015 Wisconsin Act 55 budgeted for an increase in school levy aids. As a result, tax relief and other general expenditures increased $109.3 million to $1.4 billion.
- Education expenditures, which comprised 29.8 percent of General Fund expenditures, declined by $44.4 million (0.63 percent) to a total of $6.9 billion. Similarly, commerce and environmental resources expenditures decreased $33.6 million and $13.4 million from the previous year. In addition, capital outlay expenditures decreased by $20.4 million.

Other Financing Sources and Uses

Other financing sources/uses totaled a net $(1.6) billion in Fiscal Year 2016, compared to $(1.8 billion) in Fiscal Year 2015. The components of this included the following:

- Transfers out of the General Fund totaled $1.7 billion, a decrease of $192.2 million from the prior year.
    - The GPR supplement comprises a large portion of the transfers out and is provided to various enterprise funds. The supplement totaled $890.5, a decrease of $93.0 million from the prior year. The University of Wisconsin System, which receives the majority of the GPR supplement, received $802.7 million in Fiscal Year 2016, a decrease of $93.9 million.

- Transfers out to the Transportation Fund were $38.4 million in Fiscal Year 2016, a decrease from the prior year. Under the requirements of 2013 Wisconsin Act 20, the General Fund made a one-time transfer of $133.3 million in Fiscal Year 2015.
- Transfers out for debt service payments to the Bond Security and Redemption Fund totaled $522.3 million in Fiscal Year 2016 compared to $512.3 million in Fiscal Year 2015.

- Transfers in to the General Fund increased $7.8 million (from $69.9 million in Fiscal Year 2015 to $77.7 million in Fiscal Year 2016). The University of Wisconsin System transferred $30.1 million while non-major governmental funds transferred $18.6 million. In addition, an excess subsidy of $14.0 million was transferred from the Environmental Improvement Fund. Internal service and non-major enterprise funds transferred $7.6 million and $4.2 million, respectively.

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

As of June 30, 2016, the General Fund reported an unassigned fund balance deficit of $(2.4) billion, a reduction of the deficit of $44.1 million from the prior year. 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 $4.4 billion increase in appropriations. Contributing to the variance is the fact that several of the State's programs and various transfers (see the items denoted with *, below) are not included in the original budget. In addition, numerous adjustments to spending estimates were needed as the year progressed because of changing circumstances (spending needs can change dramatically over a one-year period). The largest variances occurred in the following appropriations (in millions):

Program	Variance
Food Stamps, Electronic Benefit Transfer*	$ 1,200.0
Federal Aid Medical Assistance	810.8
UW System, General Program Operations (part of Statutory General Fund)	232.9
Medical Assistance Refunds and Collections	110.2
Federal Aid UW System	81.8

Actual charges to appropriations (expenditures) were $4.5 billion below the final budgeted estimates. Large positive expenditure variances were reported in the Medical Assistance Federal Aid ($1.2 billion) and the Food Stamps Benefits ($252.2 million) appropriations.

During the past fiscal year, the budgetary-based fund balance increased $337.6 million for the statutory General Fund, in part, because of increased general purpose revenues for taxes. Net transfers from other funds totaled $17.6 million in Fiscal Year 2016 compared to $(102.4) million in the prior fiscal year.

Transportation Fund

In Fiscal Year 2016, the Transportation Fund's fund balance decreased $60.2 million (7.7 percent) from $777.5 million to $717.3 million. A constitutional amendment restricts use of state resources deposited into the Fund for state transportation purposes. As such, $689.1 million or 96.1 percent of fund balance is reported as restricted for Fiscal Year 2016. Remaining fund balance is reported as nonspendable and correlates to prepaid and inventory assets.

Revenues of the Fund increased by $2.7 million (0.1 percent) to a total of $2.6 billion. Primary revenue sources of the fund include motor fuel taxes, intergovernmental, and license and permit revenue sources, as well as interfund transfers in.

Expenditures decreased slightly in Fiscal Year 2016 by $11.6 million, to a total of $2.6 billion. In addition to the expenditures reported in the Transportation Fund, long term debt-funded transportation expenditures of $53.7 million and $173.3 million were reported in the Capital Improvement Fund and Transportation Revenue Bonds Fund, respectively. Transportation-related expenditures of these two funds decreased $73.2 million and $34.9 million, respectively in the current year.

Transfers in to the Transportation Fund decreased $127.9 million from $193.6 million to $65.7 million in Fiscal Year 2016. An on-going transfer equal to 0.25 percent of general fund taxes as published in the general fund condition statement is made annually with that amount being $38.0 million in Fiscal Year 2016. In addition, $27.3 million was transferred from the Petroleum Inspection special revenue fund. The decline in transfers in from the prior fiscal year pertains to 2013 Wisconsin Act 20 which required a one-time transfer of $133.3 million from the General Fund to the Transportation Fund.

Transfers out of the Fund increased $22.0 million to $146.0 million. Transfers out to the Bond Security and Redemption Fund for debt service comprise the majority increasing by $19.8 million to $102.1 million in Fiscal Year 2016.

Capital Improvement Fund

Fund balance of the Capital Improvement Fund increased by $211.4 million from $(735.7) million to $(524.4) million. Assets of the Fund, which are comprised of cash and receivables, increased $11.9 million to $80.6 million. Short-term notes payable and amounts owed to the Transportation Fund for reimbursement of transportation-related projects comprise the majority of Fund liabilities. Liabilities totaled $605.0 million, a decrease of $199.5 million from the prior year.

Two issues of long-term debt totaling $528.2 million were made during Fiscal Year 2016, a decrease of $32.2 million from the prior fiscal year. During the year, debt and premium proceeds funded $329.2 million of capital outlay expenditures in the Fund, a decrease of $42.6 million. Capital outlay expenditures reflect capital assets, such as buildings and highways, which were either in progress or completed during the fiscal year and will be used on a long-term basis. Debt proceeds also funded $107.5 million of maintenance and repair expenditures on state owned assets that are reported as functional expenditures. Transportation related functional costs were $53.7 million, a decrease of $73.2 million from the prior year, and comprised 50.0 percent of functional expenditures reported in the Fund.

Transfers In to the Capital Improvement Fund for debt service payments on outstanding notes payable increased $94.8 million to $112.1 million. A short term note was paid off in Fiscal Year 2016, increasing the amount of the debt service payments. Transfers Out of the Capital Improvement Fund, which are also funded from debt proceeds, decreased $98.5 million to $87.4 million, because less debt was issued and subsequently distributed to proprietary funds.

Proprietary Funds

Proprietary funds provide the same type of information found in the government-wide financial statements but in more detail. Significant changes to balances of major proprietary funds from Fiscal Year 2015 to Fiscal Year 2016 include the following:

Environmental Improvement

Fund net position of the Environmental Improvement Fund increased $59.4 million to $2.1 billion. Total assets of the Fund increased by $47.2 million while liabilities increased by $3.9 million. Assets increased to $2.8 billion as a result of a $68.4 million reduction in loans to local governments and an increase of $108.2 million in cash.

Operating income of the Fund, which is comprised primarily of interest on loans, remained steady from the prior fiscal year with a total of $13.6 million in Fiscal Year 2016. Non-operating revenue increased by $13.9 million due to an increase in investment income, which increased by $24.3 million to $28.9 million. This increase in investment income was offset by a decrease of $12.8 million in federal grant funds to $43.0 million.

Injured Patients and Families Compensation

Fund net position of the Injured Patients and Families Compensation Fund increased by $145.0 million from $733.3 million to $878.3 million at June 30, 2016. Total assets of the Fund, which increased $91.9 million to $1.3 billion, are primarily comprised of investments. Fund liabilities, which decreased by $53.0 million to $437.4 million, are comprised primarily of actuarially-determined future benefits and loss liabilities of $424.5 million.

Operating revenue of the Fund consisted of assessment income which decreased by $11.2 million (33.3 percent) to $22.4 million. The reduced revenue resulted from a 34.0 percent decrease in assessment rates and changes in the number of participating providers. Non-operating income consists solely of investment and interest income which increased by $41.8 million to $71.9 million due to increased investments and improved investment performance.

Fund operating expenses consist primarily of benefit expenses. Benefit expenses, which are determined by an actuary, were negative $51.7 million for Fiscal Year 2016 compared to negative $89.4 million the prior year. Benefit payments totaled $9.8 million, down $11.3 million from Fiscal Year 2015 payments of $21.1 million.

Unemployment Reserve

Fund net position of the Unemployment Reserve Fund increased by $415.2 million from $819.2 million to $1.2 billion at June 30, 2016. Benefit expenses decreased $104.8 million from $618.5 million to $513.8 million in Fiscal Year 2016, a decrease of 16.9 percent. The decrease in benefit expenses is the result of the average unemployment rate falling from 4.89 percent during Fiscal Year 2015 to 4.44 percent during Fiscal Year 2016. While revenues of the Fund decreased, expenses also declined, resulting in an increase in net position.

Operating revenues decreased by $194.9 million from $1.1 billion to $917.5 million in Fiscal Year 2016. Employer contributions, which comprise the majority of operating revenue, decreased $180.4 million (17.1 percent) to $873.3 million. The decrease in employer contributions was caused by a decrease in the average tax rate on taxable wages compared to the prior fiscal year.

University of Wisconsin System

Fund net position decreased by $110.2 million to $6.6 billion. Assets, which consist primarily of capital assets and cash, decreased $281.9 million to $8.6 billion. Liabilities consist mostly of bonds and short term payables, and increased by $261.9 million to $2.7 billion.

Operating revenues of the University of Wisconsin System increased $234.1 million or approximately 6.9 percent to $3.6 billion. Student tuition, and federal grants and contracts of $1.2 billion and $895.6 million, respectively, comprise 58.5 percent of operating revenues. Other operating revenues increased by $109.1 million (32.8 percent) while increases of $62.5 million (5.3 percent), $61.4 million (30.1 percent) and $16.3 million (4.1 percent) were reported for student tuition and fees, local and private grants and contracts and sales and services of auxiliary enterprises, respectively. Conversely, revenues decreased by $10.7 million (3.3 percent) and $7.0 million (0.8 percent), for sales and services of educational activities and federal grants and contracts, respectively. Operating expenses increased $179.3 million or 3.9 percent, primarily from an increase in personal services of $159.8 million (5.3 percent).

Transfers in to the University of Wisconsin System decreased by $172.5 million to a total of $928.2 million in Fiscal Year 2016. The general purpose revenue supplement received from the State's General Fund, which comprises the majority of the amount transferred in, was $802.7 million a decrease of $93.9 million. The Capital Improvement Fund also transferred $59.3 million of bond and note proceeds to the University of Wisconsin System a decrease of $120.7 million from the prior year. Bond proceeds transferred in are a function of on-going capital projects funded with those bonds.

GOVERNMENT-WIDE CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the close of Fiscal Year 2016, the State reported $29.5 billion invested in capital assets, net of accumulated depreciation of $6.0 billion. This represents an increase of $854.0 million, or 3.0 percent, from Fiscal Year 2015. Depreciation charges totaled $190.4 million and $321.9 million for governmental and business-type activities, respectively, in Fiscal Year 2016. The details of these assets are presented in Table 7, below. Additional information about the State's capital assets is presented in Note 7 to the financial statements.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Land and Land Improvements	$ 2,824	$ 2,770	$ 171	$ 171	$ 2,995	$ 2,941
Buildings and Improvements	1,364	1,328	4,378	4,277	5,743	5,605
Library Holdings	74	76	1,124	1,145	1,198	1,221
Machinery and Equipment	343	320	309	328	652	648
Infrastructure	15,433	14,975	-	-	15,433	14,975
Construction and Software in Progress	3,192	2,896	240	313	3,432	3,209
Totals	$ 23,231	$ 22,365	$ 6,223	$ 6,235	$ 29,454	$ 28,600

The major capital asset additions completed or acquired during Fiscal Year 2016 included the:

- Armed Forces Reserve Center $33.0 million
- Femrite Data Center Purchase $21.6 million
- Waupun Central Generating Plant $15.4 million
- West Campus Cogeneration Facility Addition and Chiller UW-Madison $43.7 million
- Memorial Theater Wing Renovation UW-Madison $95.3 million
- Social Science and Nurse Education UW-Oshkosh $24.8 million
- University Housing Renovation UW-Madison $15.0 million
- Liz Waters Hall Renovation UW-Madison $11.5 million
- Harvey Hall Renovation UW-Stout $27.5 million
- Residence Hall Renovation UW-Whitewater $19.6 million
- Residence Hall Renovation UW-Platteville $14.9 million
- North Debot Residence Hall Renovation UW-Stevens Point $13.3 million
- Wisconsin Historical Society Learning Visitor Center $10.9 million
- Department of Military Affairs OMS #13 Construct Main Shop $10.9 million

In addition to these completed projects, construction and software in progress as of June 30, 2016 for governmental and business-type activities totaled $3.2 billion and $240.2 million, respectively. A list of those projects is provided in Note 7. The State's continuing or proposed major capital projects for Fiscal Year 2016 and future years include:

- I-94 North South Freeway Project (Completion in 2022) $1.7 billion
- Zoo Interchange (Completion in 2021) $1.7 billion
- US 41 Winnebago and Brown Counties (Completion in 2016) $1.5 billion
- St. Croix Crossing (Completion in 2018) $647.0 million
- Hoan Bridge (Completion in 2017) $251.4 million
- Highway 12 Lake Delton to Sauk City (Completion in 2018) $208.8 million
- Verona Road (Completion in 2019) $294.3 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, 2016 was $7.7 billion, as shown in Table 8. During Fiscal Year 2016, $1.2 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 and long term notes issued in the current year, $284.3 million was to be used for University of Wisconsin System academic and self-amortizing facilities; $511.4 million for transportation projects, $90.6 million for environmental programs, $34.6 million for correctional and mental health facilities and $259.8 million for various other projects.

In Fiscal Year 2004, the State issued $1.8 billion of annual appropriation bonds to pay the State's unfunded accrued prior service (pension) liability and its unfunded accrued liability for sick leave conversion credits. In Fiscal Year 2009, the State issued $1.5 billion of annual appropriation bonds to purchase the future right, title, and interest in the Tobacco Settlement Revenues (TSRs) from Badger Tobacco Asset Securitization Corporation (BTASC) as well as pay any issuance expenses. As of June 30, 2016, $3.0 billion of these bonds were outstanding.

Chapter 18 of the Wisconsin Statutes authorizes the State to issue revenue obligations. These obligations, which are not general obligation debt of the State, are secured by a pledge of revenues or property derived from the operations of a program funded by the issuance of the obligations. Revenue bonds of the primary government totaled $3.0 billion outstanding at June 30, 2016, as shown in Table 8. These bonds included $2.2 billion of Transportation Revenue Bonds, $41.6 million of Petroleum Inspection Revenue Bonds, and $759.5 million of Environmental Improvement Revenue Bonds.

Table 8
Outstanding Debt as of June 30, 2016 and 2015
(in millions)

	Governmental Activities		Business-Type Activities		Total	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
General obligations:						
Bonds and long term notes	$6,055.0	$5,850.3	$1,605.8	$1,599.2	$7,660.8	$7,449.5
Annual appropriation bonds	3,032.4	3,112.1	--	--	3,032.4	3,112.1
Revenue bonds	2,256.8	2,236.4	759.5	758.7	3,016.3	2,995.1
Totals	$11,344.2	$11,198.9	$2,365.3	$2,357.9	$13,709.5	$13,556.8

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, 2016, State of Wisconsin general obligation fixed rate bonds had a rating of AA from Fitch Ratings, AA from Kroll Bond Rating Agency, Aa2 from Moody's Investors Services, and AA from Standard and Poor's Rating Services. General obligation variable notes had a rating of F1+ from Fitch Investors Services, L.P, P-1 from Moody's, and A-1+ from Standard and Poor's Corporation.

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

INFRASTRUCTURE -- MODIFIED APPROACH

The State reports infrastructure (i.e., roads, bridges, and buildings considered an ancillary part of roads) as capital assets. Infrastructure assets exclude right-of-way costs. The State has elected to report its infrastructure assets (11,200 centerline miles of roads and 5,200 bridges with a combined value of $15.4 billion) using the modified approach. Under this method, infrastructure assets are not required to be depreciated if the State manages its eligible infrastructure assets using an asset management system designed to maintain and preserve these assets at a condition level established and disclosed by the State.

All infrastructure assets constructed prior to July 1, 2000 have been recorded at estimated historical cost. Historical cost was determined by calculating current costs of a similar asset and deflating that cost, using the Federal Highway Administration's composite index for federal-aid highway construction, to the estimated average construction date. All infrastructure assets constructed after July 1, 2000 have been recorded at historical cost.

In order to adequately serve the traveling public and support the State economy, it is the State's policy to ensure at least 85 percent of the state-owned roads and bridges are in good or fair condition. As of June 30, 2016, 91.1 percent of the roads and 96.9 percent of bridges were in good or fair condition, consistent with State policies. This compares to 92.7 percent of the roads and 96.8 percent of bridges as of June 30, 2015.

For the fiscal year ended June 30, 2016, actual maintenance and preservation costs for the State's road network were $564.7 million or $52.9 million less than the estimated amount. On the same date, actual maintenance and preservation costs for the State's bridge network were $128.3 million or $49.7 million more than the estimated amount. In developing estimated costs at the beginning of the fiscal year, it is difficult to predict the types of projects that will actually incur costs during the year. In addition, the State of Wisconsin, Department of Transportation's multi-year contracting process, allowing encumbrances to carry forward, makes a comparison of actual to estimated amounts difficult since expenditures for the current year may have been budgeted and committed to a project in prior years.

ECONOMIC FACTORS

During calendar year 2015, the Wisconsin economy continued its expansion.

Wisconsin employment continued to grow throughout 2015. According to the federal Bureau of Labor Statistics, total nonfarm employment in Wisconsin increased 1.0 percent in 2013, 1.5 percent in 2014 and 1.3 percent during 2015. This performance generally followed national employment trends. Nationally, employment grew 1.6 percent in 2013, 1.9 percent in 2014 and 2.1 percent in 2015.

More recently, Wisconsin's growth in employment has moderated, similar to the nation as a whole. Between October 2015 and October 2016, Wisconsin employment has increased 1.0 percent. Nationally, employment is up 1.7 percent over the same period, representing a slowdown from 2015. However, Wisconsin's seasonally adjusted unemployment rate in October 2016 was 4.1 percent, well below the 4.9 percent national unemployment rate.

Reflecting the continuing recovery, Wisconsin's state nominal gross domestic product increased 3.5 percent in 2015, slightly trailing the national growth rate of 3.7 percent. Wisconsin's 2015 growth followed growth rates of 2.8 percent and 4.2 percent in 2013 and 2014, respectively. These figures compare with the 50-state total gross domestic product increases of 3.3 percent in 2013 and 4.2 percent in 2014. Since 2007, Wisconsin's gross domestic product increased by a similar magnitude to the national average at 24.0 percent compared to 24.5 percent nationally.

Steady growth in output has spurred gains in personal income. Wisconsin personal income grew 0.7 percent, 4.2 percent and 3.6 percent in 2013, 2014 and 2015, respectively. Nationally, personal income grew 1.2 percent, 5.2 percent and 4.5 percent in the same years. On a per capita basis, Wisconsin's income performance is similar to the nation's. Per capita income in Wisconsin increased by 0.4 percent, 3.9 percent and 3.4 percent in 2013, 2014 and 2015, respectively. This compares to growth of 0.4 percent, 4.4 percent and 3.7 percent in the same years nationally. Relative to the national average, Wisconsin per capita income has remained in approximately the same range for the past three years at 96.1 percent, 95.7 percent and

95.4 percent of the national average in 2013, 2014 and 2015, respectively. This represents an improvement from 2008 when Wisconsin per capita income was only 94.6 percent of the national average.

Wisconsin's statewide total property value increased again in 2016 for the third straight year following five years of declines from 2009 through 2013. The recovery in values has been broad-based, reflecting improvements in all major sectors. In 2016, total property value increased 3.0 percent, with residential property value growing at 2.9 percent. In addition, commercial real estate values grew 3.8 percent and manufacturing values grew 2.7 percent. Manufacturing values have now increased for five consecutive years.

CONTACTING THE STATE'S FINANCIAL MANAGEMENT

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

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

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

* * * *

Statement of Net Position
June 30, 2016

(In Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Assets				
Cash and Cash Equivalents	$ 1,234,041	$ 3,649,802	$ 4,883,843	$ 736,181
Investments	542,695	2,035,626	2,578,321	1,314,444
Cash and Investments with Other Component Units	-	-	-	204,411
Receivables (net of allowance)	4,134,142	3,024,713	7,158,856	1,952,055
Internal Balances	123,575	(123,575)	-	-
Inventories	49,989	50,582	100,571	39,408
Prepaid Items	51,050	30,868	81,919	27,229
Capital Leases Receivable - Component Units	-	211	211	-
Restricted and Limited Use Assets:				
Cash and Cash Equivalents	253,362	128,608	381,970	258,855
Investments	150,394	-	150,394	3,016,661
Other Assets	14,766	6,000	20,766	159,993
Capital Assets:				
Depreciable	1,591,310	4,697,280	6,288,589	1,097,486
Nondepreciable:				
Infrastructure	15,433,292	-	15,433,292	-
Other	6,205,955	1,526,065	7,732,019	97,883
Total Assets	29,784,570	15,026,181	44,810,751	8,904,605
Deferred Outflows of Resources	1,481,289	1,382,533	2,863,821	352,190
Liabilities				
Accounts Payable and Other Accrued Liabilities	1,309,881	315,028	1,624,909	501,008
Due to Other Governments	2,500,654	33,475	2,534,129	72,599
Tax Refunds Payable	1,263,180	-	1,263,180	-
Tax and Other Deposits	66,949	25,624	92,573	82,133
Amounts Held in Trust by Component Unit for Other Component Units	-	-	-	194,533
Amounts Held in Trust by Component Unit for Others	-	-	-	37,609
Unearned Revenue	340,794	206,763	547,557	835
Interest Payable	117,203	14,188	131,391	8,563
Short-term Notes Payable	742,829	69,406	812,235	-
Other Liabilities	216,753	-	216,753	57,394
Long-term Liabilities:				
Current Portion	855,404	347,069	1,202,473	75,282
Noncurrent Portion	11,312,626	3,646,836	14,959,462	2,034,847
Total Liabilities	18,726,272	4,658,390	23,384,662	3,064,803
Deferred Inflows of Resources	459,887	525,478	985,365	120,477
Net Position				
Net Investment in Capital Assets	18,613,522	4,562,881	23,176,403	594,157
Restricted for:				
Human Relations and Resources	166,440	-	166,440	-
Conservation Related	112,025	-	112,025	-
General Executive	126,586	-	126,586	-
Transportation	689,091	-	689,091	-
Debt Service	70,787	-	70,787	-
Capital Projects	21,502		21,502	
Unemployment Compensation	-	1,234,384	1,234,384	-
Environmental Improvement	-	2,035,171	2,035,171	-
Permanent Trusts:				
Expendable	15,765	283,578	299,343	10,929
Nonexpendable	1,061,923	181,685	1,243,608	8,615
Future Benefits	-	1,102,633	1,102,633	36,886
Other Purposes	104,771	782,149	886,919	3,694,281
Unrestricted	(8,902,713)	1,042,364	(7,860,350)	1,726,647
Total Net Position	$ 12,079,699	$ 11,224,845	$ 23,304,544	$ 6,071,515

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

Statement of Activities
For the Fiscal Year Ended June 30, 2016

(In Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants, Contributions and Restricted Interest	Program Revenues: Capital Grants, Contributions and Restricted Interest
Primary Government:				
Governmental Activities:				
Commerce	$ 237,466	$ 273,093	$ 28,943	$ -
Education	7,028,238	16,992	946,207	-
Transportation	2,121,715	771,525	130,979	798,993
Environmental Resources	469,164	240,006	84,281	-
Human Relations and Resources	13,298,962	697,972	7,334,288	9,927
General Executive	580,095	236,956	129,933	-
Judicial	131,871	46,952	750	-
Legislative	67,604	1,715	-	-
Tax Relief and Other General Expenses	1,434,733	-	68,772	-
Intergovernmental - Shared Revenue	965,324	53,312	-	-
Interest on Debt	436,832	-	-	-
Total Governmental Activities	26,772,005	2,338,523	8,724,152	808,920
Business-type Activities:				
Injured Patients and Families Compensation	(50,687)	22,381	71,935	-
Environmental Improvement	44,895	51,423	71,886	-
University of Wisconsin System	4,938,522	3,648,741	295,564	43,664
Unemployment Reserve	520,839	911,598	22,885	-
Lottery	612,571	627,299	(250)	-
Health Insurance	1,399,727	1,386,532	(1,502)	-
Care and Treatment Facilities	377,615	313,541	550	1,762
Other Business-type	175,432	111,252	(845)	25
Total Business-type Activities	8,018,915	7,072,768	460,223	45,452
Total Primary Government	$ 34,790,920	$ 9,411,292	$ 9,184,375	$ 854,372
Component Units:				
Housing and Economic Development Authority	$ 251,182	$ 94,051	$ 176,353	$ -
Health Care Liability Insurance Plan	129	1,753	1,220	-
University Hospitals and Clinics Authority	2,833,525	2,860,878	-	-
University of Wisconsin Foundation	278,331	2,399	543,597	-
Wisconsin Economic Development Corp	49,015	184	30,144	-
Total Component Units	$ 3,412,182	$ 2,959,265	$ 751,314	$ -

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

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

Total General Revenues, Contributions, and Transfers

Change in Net Position

Net Position - Beginning

Net Position - Ending

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

	Net (Expense) Revenue and Changes in Net Position			
	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
	$ 64,570		$ 64,570	
	(6,065,040)		(6,065,040)	
	(420,218)		(420,218)	
	(144,877)		(144,877)	
	(5,256,775)		(5,256,775)	
	(213,206)		(213,206)	
	(84,170)		(84,170)	
	(65,889)		(65,889)	
	(1,365,961)		(1,365,961)	
	(912,012)		(912,012)	
	(436,832)		(436,832)	
	(14,900,409)		(14,900,409)	
		$ 145,004	145,004	
		78,414	78,414	
		(950,552)	(950,552)	
		413,645	413,645	
		14,478	14,478	
		(14,697)	(14,697)	
		(61,762)	(61,762)	
		(65,000)	(65,000)	
	-	(440,471)	(440,471)	
	(14,900,409)	(440,471)	(15,340,881)	
				$ 19,222
				2,845
				27,353
				267,665
				(18,687)
				298,398
	8,582,394	-	8,582,394	-
	5,781,190	-	5,781,190	-
	368,724	-	368,724	-
	302,104	-	302,104	-
	1,091,758	-	1,091,758	-
	179,760	-	179,760	-
	3,940	15,807	19,747	28,295
	406,826	-	406,826	11,984
	-	4,437	4,437	50
	11,434	-	11,434	-
	(902,973)	902,973	-	-
	15,825,157	923,217	16,748,374	40,329
	924,748	482,745	1,407,493	338,726
	11,154,951	10,742,100	21,897,051	5,732,788
	$ 12,079,699	$ 11,224,845	$ 23,304,544	$ 6,071,515

Balance Sheet - Governmental Funds
June 30, 2016

(In Thousands)

	General	Transportation	Capital Improvement	Nonmajor Governmental	Total Governmental
Assets and Deferred Outflows of Resources					
Assets:					
Cash and Cash Equivalents	$ 150,066	$ 543,092	$ 55,529	$ 470,818	$ 1,219,505
Investments	751	-	-	541,944	542,695
Receivables (net of allowance):					
Taxes	1,222,427	102,571	-	22,708	1,347,707
Loans to Local Governments	-	-	-	403,875	403,875
Other Loans Receivable	11,756	14,852	-	-	26,608
Other Receivables	617,488	13,537	34	78,008	709,066
Due from Other Funds	226,938	140,556	25,084	29,547	422,126
Interfund Receivables	71,814	-	-	-	71,814
Due from Other Governments	1,318,781	240,013	-	16,511	1,575,305
Inventories	16,697	27,232	-	962	44,891
Prepaid Items	33,202	988	-	11,449	45,639
Restricted and Limited Use Assets:					
Cash and Cash Equivalents	-	-	-	253,362	253,362
Investments	-	-	-	150,394	150,394
Other Assets	14,764	-	-	2	14,766
Total Assets	3,684,685	1,082,841	80,647	1,979,579	6,827,752
Deferred Outflows of Resources	-	142	-	-	142
Total Assets and Deferred Outflows of Resources	$ 3,684,685	$ 1,082,983	$ 80,647	$ 1,979,579	$ 6,827,894
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities:					
Accounts Payable and Other Accrued Liabilities	$ 1,042,753	$ 179,838	$ 12,727	$ 29,878	$ 1,265,196
Due to Other Funds	127,581	42,976	53,980	63,418	287,954
Due to Component Units	388	-	-	-	388
Interfund Payables	-	-	-	1,980	1,980
Due to Other Governments	2,394,505	101,728	1,767	2,654	2,500,654
Tax Refunds Payable	1,258,876	3,154	-	1,149	1,263,180
Tax and Other Deposits	50,430	190	-	16,329	66,949
Unearned Revenue	298,521	37,488	-	4,490	340,499
Interest Payable	-	-	-	50,690	50,690
Advances from Other Funds	710	-	-	6,238	6,948
Short-term Notes Payable	-	-	536,528	188,278	724,806
Revenue Bonds and Notes Payable	-	-	-	130,195	130,195
Total Liabilities	5,173,764	365,374	605,002	495,300	6,639,440
Deferred Inflows of Resources	233,549	298	-	8,138	241,985
Fund Balances:					
Nonspendable	49,858	28,220	-	1,072,967	1,151,046
Restricted	339,107	689,091	-	280,136	1,308,334
Committed	281,347	-	-	170,475	451,822
Unassigned	(2,392,941)	-	(524,354)	(47,437)	(2,964,732)
Total Fund Balances	(1,722,629)	717,311	(524,354)	1,476,141	(53,531)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 3,684,685	$ 1,082,983	$ 80,647	$ 1,979,579	$ 6,827,894

(Continued)

Balance Sheet - Governmental Funds
June 30, 2016

(Continued)

			Total Governmental
Reconciliation to the Statement of Net Position:			
Total Fund Balances - Governmental Funds (from previous page)		$	(53,531)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:			
Infrastructure	15,433,292		
Other Capital Assets	8,933,118		
Accumulated Depreciation	(1,485,201)		
			22,881,208
Other long-term assets and deferred outflows and inflows of resources that are not available to pay for current period expenditures and, therefore, are not recognized in the funds.			797,002
Deferred outflows of resources used to accumulate decreases in fair values of hedging derivatives that are not reported in the governmental funds.	216,753		
Derivative instruments (interest rate swaps) that also are not reported in the governmental funds.	(216,753)		
			0
Some of the State's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and, therefore, are not recognized in the funds.			241,691
Internal service funds are used by management to charge the costs of certain activities, such as telecommunications and insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.			25,416
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the fund statements. These liabilities, however, are included in the Statement of Net Position.			
Revenue Bonds Payable	(2,126,588)		
Appropriation Bonds Payable	(3,032,415)		
General Obligation Bonds and Notes Payable	(5,905,219)		
Accrued Interest on Bonds	(66,512)		
Capital Leases	(80,153)		
Installment Contracts	(472)		
Compensated Absences	(150,946)		
Pollution Remediation	(7,700)		
Claims and Judgments	(581)		
Net Pension Liability	(206,066)		
Other Postemployment Benefits Liability	(235,434)		
			(11,812,086)
Net Position of Governmental Activities as reported on the Statement of Net Position (See page 23)		$	12,079,699

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, 2016

(In Thousands)

	General	Transportation	Capital Improvement	Nonmajor Governmental	Total Governmental
Revenues:					
Taxes					
Income	$ 8,580,069	$ -	$ -	$ -	$ 8,580,069
Sales and Excise	5,778,988	-	-	-	5,778,988
Public Utility	368,724	-	-	-	368,724
Other General Purpose	302,048	-	-	-	302,048
Motor Fuel	-	1,091,629	-	-	1,091,629
Other Dedicated	-	-	-	179,760	179,760
Intergovernmental	8,373,123	926,480	-	74,523	9,374,125
Licenses and Permits	809,934	517,505	-	646,611	1,974,050
Charges for Goods and Services	283,909	17,632	-	24,446	325,987
Investment and Interest Income	1,401	1,327	144	53,923	56,795
Fines and Forfeitures	42,288	575	-	18,237	61,100
Gifts and Donations	5,657	20	-	15,789	21,466
Miscellaneous:					
Tobacco Settlement	133,676	-	-	-	133,676
Other	257,095	17,358	3,281	7,468	285,202
Total Revenues	24,936,912	2,572,526	3,425	1,020,756	28,533,619
Expenditures:					
Current Operating:					
Commerce	162,506	-	4,297	69,109	235,912
Education	6,939,286	-	787	44,991	6,985,064
Transportation	10,681	1,987,158	53,747	183	2,051,770
Environmental Resources	100,351	-	21,977	314,792	437,121
Human Relations and Resources	13,039,322	-	9,802	23,464	13,072,588
General Executive	479,477	-	959	102,945	583,382
Judicial	128,272	-	-	214	128,487
Legislative	65,506	-	-	-	65,506
Tax Relief and Other General	1,418,160	-	15,918	802	1,434,880
Intergovernmental - Shared Revenue	914,310	-	-	51,013	965,324
Capital Outlay	61,364	566,712	329,188	192,414	1,149,679
Debt Service:					
Principal	-	-	-	651,302	651,302
Interest	-	-	1,159	520,868	522,027
Other Expenditures	-	-	976	1,636	2,612
Total Expenditures	23,319,239	2,553,870	438,811	1,973,734	28,285,654
Excess of Revenues Over (Under) Expenditures	1,617,673	18,656	(435,386)	(952,978)	247,965
Other Financing Sources (Uses):					
Long-term Debt Issued	-	-	528,243	312,709	840,952
Long-term Debt Issued - Refunding Bonds	-	-	-	222,323	222,323
Payments to Refunding Bond Escrow Agent	-	-	-	(273,679)	(273,679)
Premium on Bonds	-	-	93,281	106,659	199,940
Transfers In	77,676	65,701	112,059	1,018,785	1,274,221
Transfers Out	(1,689,237)	(146,035)	(87,399)	(249,800)	(2,172,472)
Capital Lease Acquisitions	14,862	2,626	-	-	17,488
Installment Purchase Acquisitions	-	-	575	-	575
Total Other Financing Sources (Uses)	(1,596,699)	(77,708)	646,759	1,136,998	109,349
Net Change in Fund Balances	20,974	(59,053)	211,372	184,020	357,314
Fund Balances, Beginning of Year	(1,741,163)	777,486	(735,727)	1,292,409	(406,994)
Increase (Decrease) in Inventories	(2,440)	(1,122)	-	(288)	(3,850)
Fund Balances, End of Year	$ (1,722,629)	$ 717,311	$ (524,354)	$ 1,476,141	$ (53,531)

(Continued)

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Fiscal Year Ended June 30, 2016

(Continued)

			Total Governmental
Reconciliation to the Statement of Activities:			
Net Change in Fund Balances (from previous page)		$	357,314
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.			(3,850)
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. In the current period, these amounts are:			
Capital Outlay/Functional Expenditures	1,148,558		
Depreciation Expense	(155,384)		
			993,174
In the Statement of Activities, only the gain/(loss) on the sale/disposal of capital assets is reported, while in the governmental funds, any proceeds from the sale increases financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the capital assets sold/disposed.			(50,740)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.			8,213
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.			
Bonds Issued	(1,063,276)		
Payments to Refunding Bond Escrow Agent	273,679		
Repayment of Bond Principal	651,302		
Bond Premium	(199,940)		
Prepaid Bond Insurance Costs (Amortization)	(16)		
			(338,251)
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	98,065		
Decrease (increase) in Capital Leases	(5,607)		
Decrease (increase) in Installment Contracts	426		
Decrease (increase) in Compensated Absences	2,553		
Decrease (increase) in Pollution Remediation Liabilities	(210)		
Decrease (increase) in Claims and Judgments	(26)		
Change in net pension assets, net pension liabilties, and pension-related deferred outflows and inflows of resources	(128,911)		
Decrease (increase) in Postemployment Benefit Liabilities	(17,183)		
			(50,892)
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.			9,782
Changes in Net Position of Governmental Activities as reported on the Statement of Activities (See page 25)		$	924,748

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

Statement of Net Position
Proprietary Funds
June 30, 2016

(In Thousands)

	Business-type Activities - Enterprise Funds			
	Injured Patients and Families Compensation	Environmental Improvement	University of Wisconsin System	Unemployment Reserve
Assets				
Current Assets:				
Cash and Cash Equivalents	$ 26,122	$ 473,558	$ 1,642,563	$ 984,711
Investments	-	45,550	-	-
Loans to Local Governments (net of allowance)	-	176,315	-	-
Other Loans Receivable (net of allowance)	-	-	29,478	-
Other Receivables (net of allowance)	18,940	309	135,806	230,166
Due from Other Funds	-	111	27,797	406
Due from Component Units	-	-	4,739	-
Interfund Receivables	-	-	-	-
Due from Other Governments	-	10,638	76,207	2,299
Inventories	1	-	41,880	-
Prepaid Items	-	17	29,790	-
Capital Leases Receivable - Component Units	-	-	35	-
Other Assets	-	-	-	-
Total Current Assets	45,063	706,498	1,988,295	1,217,583
Noncurrent Assets:				
Investments	1,237,083	187,050	415,470	-
Loans to Local Governments (net of allowance)	-	1,794,104	-	-
Other Loans Receivable (net of allowance)	-	-	166,958	-
Other Receivables	-	-	919	57,496
Prepaid Items	-	117	-	-
Advances to Other Funds	-	6,238	-	-
Capital Leases Receivable - Component Units	-	-	176	-
Restricted and Limited Use Assets:				
Cash and Cash Equivalents	32,339	93,918	-	2,352
Other Assets	-	-	-	-
Depreciable Capital Assets (net of accumulated depreciation)	1,015	-	4,495,841	-
Nondepreciable Capital Assets	-	-	1,502,354	-
Total Noncurrent Assets	1,270,437	2,081,427	6,581,718	59,848
Total Assets	1,315,500	2,787,925	8,570,013	1,277,430
Deferred Outflows of Resources	288	30,608	1,181,486	-
Total Assets and Deferred Outflows of Resources	$ 1,315,788	$ 2,818,533	$ 9,751,498	$ 1,277,430
Liabilities				
Current Liabilities:				
Accounts Payable and Other Accrued Liabilities	$ 10,229	$ 220	$ 121,402	$ 12,273
Due to Other Funds	427	3,960	146,736	1,948
Due to Component Units	-	-	2,046	-
Interfund Payables	-	-	-	-
Due to Other Governments	-	3	3,848	28,824
Tax and Other Deposits	-	-	2,101	-
Unearned Revenue	2,096	171	178,391	-
Interest Payable	-	2,743	10,740	-
Short-term Notes Payable	-	-	67,907	-
Current Portion of Long-term Liabilities:				
Future Benefits and Loss Liabilities	52,262	-	-	-
Capital Leases	-	-	4,030	-
Compensated Absences	14	143	65,214	-
General Obligation Bonds and Notes Payable	-	-	74,933	-
Revenue Bonds and Notes Payable	-	54,105	-	-
Total Current Liabilities	65,028	61,346	677,346	43,046
Noncurrent Liabilities:				
Accounts Payable and Other Accrued Liabilities	-	-	-	-
Due to Other Governments	-	623	-	-
Noncurrent Portion of Long-term Liabilities:				
Future Benefits and Loss Liabilities	372,221	-	-	-
Capital Leases	-	-	30,109	-
Installment Contracts Payable	-	-	-	-
Compensated Absences	36	412	66,307	-
Net Pension Liability	54	30	220,460	-
Other Postemployment Benefits	52	29	267,867	-
General Obligation Bonds and Notes Payable	-	-	1,437,969	-
Revenue Bonds and Notes Payable	-	705,383	-	-
Total Noncurrent Liabilities	372,363	706,478	2,022,712	-
Total Liabilities	437,391	767,824	2,700,058	43,046
Deferred Inflows of Resources	115	64	472,582	-
Net Position:				
Net Investment in Capital Assets	1,015	-	4,383,248	-
Restricted for Unemployment Compensation	-	-	-	1,234,384
Restricted for Environmental Improvement	-	2,035,171	-	-
Restricted for Expendable Trusts	-	-	283,578	-
Restricted for Nonexpendable Trusts	-	-	181,685	-
Restricted for Future Benefits	877,267	-	-	-
Restricted for Other Purposes	-	-	689,152	-
Unrestricted	-	15,473	1,041,195	-
Total Net Position	878,282	2,050,645	6,578,859	1,234,384
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 1,315,788	$ 2,818,533	$ 9,751,498	$ 1,277,430

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

Business-type Activities - Enterprise Funds: Nonmajor Enterprise	Business-type Activities - Enterprise Funds: Totals	Governmental Activities - Internal Service Funds
$ 522,848	$ 3,649,802	$ 14,537
6,141	51,691	-
307	176,621	-
2,314	31,793	-
115,565	500,787	2,826
62,155	90,469	37,555
-	4,739	-
91,337	91,337	-
8,784	97,928	142
8,700	50,582	4,803
945	30,752	4
-	35	-
342	342	-
819,439	4,776,878	59,867
144,332	1,983,935	-
2,061	1,796,165	-
42,804	209,762	-
197	58,612	-
-	117	494
710	6,948	-
-	176	-
-	128,608	-
5,658	5,658	-
200,424	4,697,280	304,268
23,711	1,526,065	45,080
419,897	10,413,326	349,842
1,239,336	15,190,204	409,709
170,151	1,382,533	24,801
$ 1,409,487	$ 16,572,737	$ 434,509
$ 109,084	$ 253,208	$ 15,975
27,319	180,390	25,002
-	2,046	-
24,967	24,967	44,867
177	32,853	477
23,524	25,624	-
26,105	206,763	-
705	14,188	1,015
1,499	69,406	18,023
82,634	134,896	37,295
90	4,120	11,051
5,143	70,515	1,277
8,501	83,434	10,237
-	54,105	-
309,747	1,156,513	165,217
20,637	20,637	-
-	623	-
394,415	766,636	62,081
36	30,145	19,796
-	-	-
8,487	75,243	3,195
24,774	245,318	4,084
33,817	301,765	3,712
84,377	1,522,347	139,533
-	705,383	-
566,544	3,668,096	232,401
876,291	4,824,610	397,618
52,717	525,478	9,279
178,618	4,562,881	153,555
-	1,234,384	-
-	2,035,171	-
-	283,578	-
-	181,685	-
225,366	1,102,633	-
92,996	782,149	-
(16,501)	1,040,167	(125,943)
480,479	11,222,649	27,612
$ 1,409,487	$ 16,572,737	$ 434,509

Total Net Position Reported Above	$ 11,222,649
Adjustment to Reflect the Consolidation of Internal Service Activities Related to Enterprise Funds	2,196
Net Position of Business-type Activities	$ 11,224,845

Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds
For the Fiscal Year Ended June 30, 2016

(In Thousands)

	Business-type Activities - Enterprise Funds			
	Injured Patients and Families Compensation	**Environmental Improvement**	**University of Wisconsin System**	**Unemployment Reserve**
Operating Revenues:				
Charges for Goods and Services	$ 22,381	$ -	$ -	$ -
Participant and Employer Contributions	-	-	-	873,261
Tuition and Fees	-	-	1,231,770	-
Federal Grants and Contracts	-	-	895,597	-
Local and Private Grants and Contracts	-	-	265,753	-
Sales and Services of Educational Activities	-	-	317,062	-
Sales and Services of Auxiliary Enterprises	-	-	418,106	-
Sales and Services to UW Hospital Authority	-	-	66,904	-
Investment and Interest Income	-	51,398	-	-
Interest Income Used as Security for Revenue Bonds	-	-	-	-
Miscellaneous:				
Federal Aid for Unemployment Insurance Program	-	-	-	5,872
Reimbursing Financing Revenue	-	-	-	34,767
Other	-	25	441,414	3,570
Total Operating Revenues	22,381	51,423	3,636,607	917,470
Operating Expenses:				
Personal Services	609	5,180	3,194,138	-
Supplies and Services	187	3,082	1,177,889	-
Lottery Prize Awards	-	-	-	-
Scholarships and Fellowships	-	-	149,709	-
Depreciation	230	-	303,909	-
Benefit Expense	(51,713)	-	-	513,768
Interest Expense	-	29,539	-	7,070
Other Expenses	-	-	5,980	-
Total Operating Expenses	(50,687)	37,800	4,831,625	520,839
Operating Income (Loss)	73,068	13,623	(1,195,018)	396,632
Nonoperating Revenues (Expenses):				
Operating Grants	-	42,986	-	-
Investment and Interest Income	71,935	28,919	(3,380)	17,013
Investment Income Used as Security for Revenue Bonds	-	-	-	-
Gain (Loss) on Disposal of Capital Assets	-	-	(46,668)	-
Interest Expense	-	-	(60,946)	-
Gifts and Donations	-	-	303,129	-
Miscellaneous Revenues	-	-	12,135	-
Other Expenses:				
Property Tax Credits	-	-	-	-
Grants Disbursed	-	(7,095)	-	-
Federal Settlement	-	-	-	-
Other	-	-	-	-
Total Nonoperating Revenues (Expenses)	71,935	64,810	204,270	17,013
Income (Loss) Before Contributions and Transfers	145,004	78,433	(990,749)	413,645
Capital Contributions	-	-	43,664	-
Additions to Endowments	-	-	4,437	-
Transfers In	-	3,124	928,246	2,000
Transfers Out	(15)	(22,153)	(95,805)	(438)
Change in Net Position	144,989	59,404	(110,207)	415,207
Total Net Position, Beginning of Year	733,293	1,991,241	6,689,065	819,177
Total Net Position, End of Year	$ 878,282	$ 2,050,645	$ 6,578,859	$ 1,234,384

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
$ 984,954	$ 1,007,335		$ 277,990
1,446,613	2,319,874		-
-	1,231,770		-
-	895,597		-
-	265,753		-
-	317,062		-
-	418,106		-
-	66,904		-
3,343	54,741		-
-	-		-
-	5,872		-
-	34,767		-
2,059	447,069		1,088
2,436,970	7,064,851		279,078
315,159	3,515,086		47,716
187,198	1,368,356		147,548
372,558	372,558		-
-	149,709		-
17,796	321,935		33,559
1,493,013	1,955,068		26,433
3,392	40,001		-
11,821	17,802		6
2,400,938	7,740,514		255,262
36,032	(675,663)		23,816
1,310	44,297		179
7,388	121,875		32
-	-		-
(31)	(46,699)		(2,318)
(1,536)	(62,481)		(5,995)
561	303,689		-
1,952	14,086		996
(160,106)	(160,106)		-
(2,108)	(9,203)		-
-	-		(743)
(962)	(962)		(992)
(153,532)	204,496		(8,841)
(117,500)	(471,167)		14,975
1,787	45,452		-
-	4,437		-
114,791	1,048,161		5,217
(26,778)	(145,188)		(9,360)
(27,699)	481,694		10,833
508,178	10,740,955		16,779
$ 480,479	$ 11,222,649		$ 27,612

Change in Net Position Reported Above	$ 481,694
Consolidation Adjustment of Internal Services Activities Related to Enterprise Funds	1,051
Change in Net Position of Business-Type Activities	$ 482,745

Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2016

(In Thousands)

	Business-type Activities - Enterprise Funds			
	Injured Patients and Families Compensation	**Environmental Improvement**	**University of Wisconsin System**	**Unemployment Reserve**
Cash Flows from Operating Activities:				
Cash Receipts from Customers	$ 22,678	$ -	$ -	$ 924,513
Cash Payments to Suppliers for Goods and Services	(338)	(3,534)	(1,141,446)	-
Cash Payments to Employees for Services	(604)	(1,833)	(3,007,519)	-
Tuition and Fees	-	-	1,212,440	-
Grants and Contracts	-	-	1,166,498	-
Cash Payments for Lottery Prizes	-	-	-	-
Cash Payments for Loans Originated	-	(112,053)	(37,188)	-
Collection of Loans	-	180,499	35,663	-
Interest Income	-	51,776	-	-
Cash Payments for Benefits	(9,843)	-	-	(540,554)
Sales and Services of Educational Activities	-	-	312,458	-
Sales and Services of Auxiliary Enterprises	-	-	421,219	-
Sales and Services to UW Hospital Authority	-	-	67,167	-
Scholarships and Fellowships	-	-	(149,709)	-
Other Operating Revenues	-	25	430,300	76,677
Other Operating Expenses	-	-	-	(7,221)
Other Sources of Cash	-	-	-	-
Other Uses of Cash	-	-	-	-
Net Cash Provided (Used) by Operating Activities	11,893	114,881	(690,116)	453,415
Cash Flows from Noncapital Financing Activities:				
Operating Grants Receipts	-	40,457	-	-
Grants for Loans to Governments	-	(7,095)	-	-
Grants Disbursed	-	-	-	-
Proceeds from Issuance of Debt	-	50,850	-	-
Repayment of Bonds and Notes	-	(63,180)	-	-
Interest Payments	-	(32,032)	-	-
Property Tax Credit Payments	-	-	-	-
Noncapital Gifts and Grants	-	-	307,566	-
Interfund Loans Received	-	-	-	-
Interfund Loans Repaid	-	-	-	-
Interfund Borrowings to Other Funds	-	-	-	-
Transfers In	-	3,124	1,026,692	2,000
Transfers Out	(15)	(22,153)	(95,668)	(612)
Student Direct Lending Receipts	-	-	711,024	-
Student Direct Lending Disbursements	-	-	(705,594)	-
Other Cash Inflows from Noncapital Financing Activities	-	-	13,384	-
Other Cash Outflows from Noncapital Financing Activities	-	(15)	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	(15)	(30,044)	1,257,404	1,388
Cash Flows from Capital and Related Financing Activities:				
Proceeds from Issuance of Debt	-	-	140,869	-
Capital Contributions	-	-	89,053	-
Repayment of Bonds and Notes	-	-	(262,621)	-
Interest Payments	-	-	(144,387)	-
Transfers In	-	-	-	-
Capital Lease Obligations	-	-	-	-
Proceeds from Sale of Capital Assets	-	-	-	-
Payments for Purchase of Capital Assets	(372)	-	(350,080)	-
Other Cash Inflows from Capital Financing Activities	-	-	43,521	-
Other Cash Outflows from Capital Financing Activities	-	-	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(372)	-	(483,645)	-
Cash Flows from Investing Activities:				
Proceeds from Sale and Maturities of Investment Securities	944,723	8,292	90,863	-
Purchase of Investment Securities	(989,127)	-	(82,337)	-
Cash Payments for Loans Originated	-	-	-	-
Collection of Loans	-	-	-	-
Investment and Interest Receipts	33,988	10,162	13,611	17,013
Net Cash Provided (Used) by Investing Activities	(10,416)	18,454	22,137	17,013
Net Increase (Decrease) in Cash and Cash Equivalents	1,090	103,291	105,780	471,816
Cash and Cash Equivalents, Beginning of Year	57,371	464,185	1,536,784	515,247
Cash and Cash Equivalents, End of Year	$ 58,461	$ 567,476	$ 1,642,563	$ 987,063

Business-type Activities - Enterprise Funds			
	Nonmajor Enterprise	Totals	Governmental Activities - Internal Service Funds
	$ 2,341,091	$ 3,288,282	$ 273,163
	(150,785)	(1,296,102)	(158,787)
	(306,866)	(3,316,822)	(46,058)
	-	1,212,440	-
	-	1,166,498	-
	(387,838)	(387,838)	-
	(486)	(149,727)	-
	14,771	230,932	-
	3,667	55,443	-
	(1,488,480)	(2,038,877)	(34,096)
	-	312,458	-
	-	421,219	-
	-	67,167	-
	-	(149,709)	-
	7,456	514,458	11
	(57,288)	(64,509)	-
	26,522	26,522	1,235
	(5,137)	(5,137)	(679)
	(3,373)	(113,300)	34,789
	3,379	43,836	-
	-	(7,095)	-
	(2,474)	(2,474)	-
	-	50,850	-
	(11,295)	(74,475)	-
	(3,425)	(35,456)	(185)
	(158,096)	(158,096)	-
	-	307,566	-
	-	-	3,084
	(14,647)	(14,647)	(2,291)
	(11,569)	(11,569)	-
	112,916	1,144,733	5,217
	(25,404)	(143,852)	(9,380)
	-	711,024	-
	-	(705,594)	-
	666	14,050	65
	(3,726)	(3,742)	-
	(113,675)	1,115,058	(3,491)
	1,275	142,144	8,127
	1,787	90,841	-
	(4,222)	(266,843)	947
	(1,802)	(146,189)	(6,889)
	3,010	3,010	-
	(304)	(304)	(7,569)
	-	-	640
	(12,835)	(363,287)	(34,404)
	22	43,544	179
	(570)	(570)	(128)
	(13,638)	(497,656)	(39,095)
	17,334	1,061,211	-
	(15,466)	(1,086,930)	-
	(147)	(147)	-
	249	249	-
	4,680	79,454	1
	6,650	53,838	1
	(124,036)	557,940	(7,797)
	646,884	3,220,470	22,333
	$ 522,848	$ 3,778,411	$ 14,537

(Continued)

Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2016

(Continued)

	Business-type Activities - Enterprise Funds			
	Injured Patients and Families Compensation	**Environmental Improvement**	**University of Wisconsin System**	**Unemployment Reserve**
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operations:				
Operating Income (Loss)	$ 73,068	$ 13,623	$ (1,195,018)	$ 396,632
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	230	-	303,909	-
Provision for Uncollectible Accounts	-	-	-	(9,385)
Operating Income (Investment Income) Classified as Investing Activity	-	-	-	-
Operating Expense (Interest Expense) Classified as Noncapital Financing Activity	-	28,968	-	-
Miscellaneous Nonoperating Income (Expense)	-	-	-	-
Changes in Assets, Deferred Outflows, Liabilities, and Deferred Inflows:				
Decrease (Increase) in Receivables	103	68,825	(33,140)	70,309
Decrease (Increase) in Due from Other Funds	-	(377)	(4,124)	27
Decrease (Increase) in Due from Component Units	-	-	263	-
Decrease (Increase) in Due from Other Governments	-	-	13,580	576
Decrease (Increase) in Inventories	1	-	(777)	-
Decrease (Increase) in Prepaid Items	7	20	45,089	-
Decrease (Increase) in Net Pension Assets	68	82	330,167	-
Decrease (Increase) in Other Assets	-	-	-	-
Decrease (Increase) in Deferred Outflows of Resources	(218)	(127)	(897,035)	-
Increase (Decrease) in Accounts Payable and Other Accrued Liabilities	166	70	(60,118)	1,711
Increase (Decrease) in Due to Other Funds	(134)	3,454	93,343	(23)
Increase (Decrease) in Due to Component Units	-	-	543	-
Increase (Decrease) in Due to Other Governments	-	(221)	1,288	(6,431)
Increase (Decrease) in Tax and Other Deposits	-	-	-	-
Increase (Decrease) in Unearned Revenue	3	-	6,785	-
Increase (Decrease) in Interest Payable	-	-	-	-
Increase (Decrease) in Compensated Absences	(14)	470	1,794	-
Increase (Decrease) in Net Pension Liability	54	30	220,460	-
Increase (Decrease) in Postemployment Benefits	2	-	19,423	-
Increase (Decrease) in Future Benefits and Loss Liability	(61,556)	-	-	-
Increase (Decrease) in Deferred Inflows of Resources	114	63	463,452	-
Total Adjustments	(61,175)	101,258	504,902	56,783
Net Cash Provided (Used) by Operating Activities	$ 11,893	$ 114,881	$ (690,116)	$ 453,415
Noncash Investing, Capital and Financing Activities:				
Assets Acquired through Capital Leases	$ -	$ -	$ 1,762	$ -
Net Change in Unrealized Gains and Losses	(10,830)	18,730	(27,058)	-
Other	-	22,842	3,438	-

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
$	36,032	$ (675,663)	$	23,816
	17,796	321,935		33,559
	317	(9,068)		-
	(243)	(243)		-
	3,392	32,360		-
	(138)	(138)		(1,727)
	48	106,144		(1,732)
	3,518	(957)		(1,515)
	-	263		-
	(15)	14,141		(18)
	811	34		(631)
	6,065	51,182		543
	26,918	357,235		5,842
	48	48		-
	(94,899)	(992,278)		(16,699)
	(1,523)	(59,693)		2,621
	(10,310)	86,330		(13,553)
	-	543		-
	(382)	(5,745)		(668)
	1,416	1,416		-
	(102,232)	(95,444)		-
	-	-		-
	1,583	3,832		(325)
	24,774	245,318		4,084
	2,984	22,410		407
	28,617	(32,939)		(7,664)
	52,049	515,678		8,449
	(39,406)	562,362		10,973
$	(3,373)	$ (113,300)	$	34,789
$	-	$ 1,762	$	13,387
	1,365	(17,793)		-
	782	27,061		4

Statement of Fiduciary Net Position
June 30, 2016

(In Thousands)

	Pension and Other Employee Benefit Trust	Investment Trust	Private-Purpose Trust	Agency
Assets				
Cash and Cash Equivalents	$ 3,462,676	$ 3,249,593	$ 58,840	$ 39,428
Securities Lending Collateral	1,177,769	-	-	-
Prepaid Items	30,273	-	-	-
Receivables (net of allowance):				
Prior Service Contributions Receivable	25,978	-	-	-
Benefits Overpayment Receivable	2,477	-	-	-
Due from Other Funds	83,066	-	2,166	2,967
Due from Component Units	5,564	-	-	-
Due from Other Governments	127,730	-	12,582	1,091
Due from Employers	-	-	-	18,640
Interest and Dividends Receivable	226,909	-	-	-
Investment Sales Receivable	1,041,414	-	-	-
Other Receivables	3,092	-	30,384	1,681
Total Receivables	1,516,229	-	45,132	24,380
Investments:				
Fixed Income	24,955,170	-	-	-
Stocks	47,185,254	-	-	-
Options	(1,179)	-	-	-
Financial Futures Contracts and Swaps	9,507	-	-	-
Limited Partnerships	10,679,849	-	-	-
Preferred Securities	178,666	-	-	-
Real Estate	1,119,024	-	-	-
Investments of Private Purpose Trust Funds	-	-	4,055,569	-
Investments of Agency Funds	-	-	-	59
Multi-asset Investments	4,102,892	-	-	-
External Investment Pool	605,967	-	-	-
Foreign Currency Contracts	3,274	-	-	-
Total Investments	88,838,424	-	4,055,569	59
Capital Assets	13,897	-	-	-
Other Assets	-	-	-	316,323
Total Assets	95,039,267	3,249,593	4,159,541	$ 380,189
Deferred Outflows of Resources	-	-	39	
Liabilities				
Accounts Payable and Other Accrued Liabilities	65,903	-	17,961	$ 44,211
Reverse Repurchase Agreements	809,678	-	-	-
Securities Lending Collateral Liability	1,177,769	-	-	-
Annuities Payable	337,069	-	-	-
Due to Other Funds	138,870	121	5,323	276
Interfund Payables	76	-	91,261	-
Tax and Other Deposits	-	-	-	335,702
Future Benefits and Loss Liabilities	-	-	4,959	-
Short Sales of Securities	166,161	-	-	-
Investment Payable	355,519	-	-	-
Unearned Revenue	75	-	64	-
Compensated Absences Payable	2,410,050	-	-	-
Net Pension Liability	-	-	7	-
Other Postemployment Benefits	-	-	10	-
Total Liabilities	5,461,170	121	119,586	$ 380,189
Deferred Inflows of Resources	-	-	16	
Net Position				
Held in Trust for Pension Benefits, Pool Participants and Other Purposes	$ 89,578,097	$ 3,249,472	$ 4,039,979	

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

Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2016

(In Thousands)

	Pension and Other Employee Benefit Trust	Investment Trust	Private-Purpose Trust
Additions			
Contributions:			
Employer Contributions	$ 1,054,678	$ -	$ -
Employee Contributions	977,359	-	-
Other	-	-	-
Total Contributions	2,032,038	-	-
Deposits	-	9,348,356	441,710
Premiums	-	-	231,225
Federal Subsidy	-	-	21,311
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	(2,328,202)	-	-
Interest	550,054	-	-
Dividends	1,206,311	-	-
Securities Lending Income	35,068	-	-
Other	188,537	-	-
Investment Income of Investment, Private Purpose, and Other Employee Benefit Trust Funds	303	7,307	61,156
Less:			
Investment Expense	(350,036)	(595)	(6,713)
Securities Lending Rebates and Fees	(2,867)	-	-
Investment Income Distributed to Other Funds	26,147	-	-
Net Investment Income	(674,685)	6,713	54,444
Interest on Prior Service Receivable	1,617	-	-
Miscellaneous Income	169	-	123
Total Additions	1,359,140	9,355,069	748,812
Deductions			
Retirement Benefits and Refunds:			
Retirement, Disability, and Beneficiary	4,780,080	-	-
Separations	37,642	-	-
Total Retirement Benefits and Refunds	4,817,722	-	-
Distributions	29,790	8,934,020	337,925
Other Benefit Expense	308,774	-	254,422
Administrative Expense	27,801	121	10,919
Miscellaneous Expense	-	-	-
Transfers Out	-	-	2
Total Deductions	5,184,087	8,934,141	603,268
Net Increase (Decrease)	(3,824,947)	420,928	145,545
Net Position - Beginning of Year	93,403,044	2,828,544	3,894,434
Net Position - End of Year	$ 89,578,097	$ 3,249,472	$ 4,039,979

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

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Detailed Disclosures Regarding Liabilities and Expenses/Expenditures

Other Note Disclosures

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

B. Financial Reporting Entity

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

The decision to include a potential component unit in the State's reporting entity is based on the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity,* GASB Statement No. 39*, Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14,* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34.* GASB Statement No. 14 criteria include the ability to appoint a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State. GASB Statement No. 39 provisions relate to separately legal, tax-exempt organizations and include: (1) the economic resources received or held are entirely or almost entirely for the direct benefit of the State, (2) the State is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and (3) the economic resources received or held by an individual organization that the State is entitled to, or has the ability to otherwise access, are significant to the State. GASB Statement No. 61 modifies certain requirements for inclusion in the financial reporting entity, especially in regards to the fiscal dependency criterion where a financial benefit or burden relationship is now required. It also amends the "blending" criteria for component units and clarifies the reporting of equity interests in legally separate organizations.

Based upon the application of the criteria contained in GASB Statement No. 14, as amended by GASB Statement No. 39, the Wisconsin Public Broadcasting Foundation, Inc. is reported as a blended component unit; and the Wisconsin Housing and Economic Development Authority, the Wisconsin Health Care Liability Insurance Plan, the University of Wisconsin Hospital and Clinics Authority, the Wisconsin Economic Development Corporation and the University of Wisconsin Foundation, are presented as discrete component units, as discussed below.

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

Wisconsin Public Broadcasting Foundation Inc.
Wisconsin Educational Communications Board
3319 West Beltline Highway
Madison, WI 53713
http://www.ecb.org

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

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

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

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

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

Blended Component Unit

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

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

Discretely Presented Component Units

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

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

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

University of Wisconsin Hospital and Clinics Authority – The University of Wisconsin Hospital and Clinics Authority (Hospital) is a not-for-profit academic medical center. The Hospital operates an acute-care hospital with 566 beds, numerous specialty clinics, and six intensive care units with a total of 83 beds, and it provides comprehensive health care to patients, education programs, research and community service. Prior to June 1996, the Hospital was a unit of the University of Wisconsin-Madison. In June 1996, in accordance with legislation enacted by the State Legislature, the Hospital was restructured as a Public Authority, a public body corporate and politic created by State statutes. The State appoints a majority of the Hospital's Board of Directors and a financial benefit/burden relationship exists between the Hospital and the State. The Hospital reports on a June 30 fiscal year-end.

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

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

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

University of Wisconsin Foundation – The University of Wisconsin Foundation (the Foundation) is a legally separate, tax-exempt component unit of the State. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available mostly to the University of Wisconsin-Madison (UW-Madison) as well as several other units of the University of Wisconsin System in support of its programs. These include scientific, literary, athletic and educational program purposes. The University of Wisconsin System is reported as an enterprise fund of the State. 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 UW-Madison by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the UW-Madison and several other units of the University of Wisconsin System, the Foundation is considered a component unit of the State. The Foundation reports on a fiscal year ended December 31.

Related Organizations

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

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

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

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

C. Government-wide and Fund Financial Statements

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

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

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

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

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

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

In reporting the financial activity of its enterprise funds and business-type activities, the State applies all applicable GASB pronouncements.

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

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

The University of Wisconsin Foundation and Wisconsin Health Care Liability Insurance Plan are reported as component units. The Foundation financial statements are prepared using accounting standards promulgated by the Financial Accounting Standards Board as they apply to not-for-profit corporations. The

Plan financial statements are prepared using prescribed statutory accounting practices included in the National Association of Insurance Commissioner's Accounting Practices and Procedures Manual. Statutory accounting practices vary somewhat from United States GAAP but are expected to be immaterial.

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

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

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

The State reports the following major funds:

Major Governmental Funds

- *General Fund* – the primary operating fund of the State, accounts for all financial transactions except those required to be accounted for in another fund.
- *Transportation Fund* – a special revenue fund, accounts for the proceeds from motor fuel taxes, vehicle registrations, licensing fees, and federal and local governments which are used to supply and support safe, efficient and effective transportation in Wisconsin.
- *Capital Improvement Fund* - a capital projects fund, accounts for the proceeds received from general obligation bonds and notes, and associated interest earnings. Resources of the fund are used for the acquisition or construction of major capital facilities and for repair and maintenance projects.

Major Enterprise Funds

- *Injured Patients and Families Compensation Fund* – accounts for the program to provide excess medical malpractice insurance for Wisconsin health care providers. The revenues to finance this insurance are primarily derived from assessments charged to health care providers.
- *Environmental Improvement Fund* – accounts for financial resources generated and used for clean water projects. Federal capitalization grants, interest earnings, revenue bond proceeds, and general obligation bond proceeds are its primary funding sources.
- *University of Wisconsin System Fund* – accounts for the 13 universities, 13 two-year colleges, the University of Wisconsin Extension and System Administration.
- *Unemployment Reserve Fund* – accounts for unemployment contributions made by employers, federal program receipts, benefit payment recoveries and unemployment benefits paid to laid off workers in the State.

In addition, the State reports the following fund types:

Governmental Funds

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

Proprietary Funds

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

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

Fiduciary Funds

- *Pension and Other Employee Benefit Trust Funds* – used to account for resources that are required to be held in trust for members and beneficiaries for public employee retirement or other benefit plans e.g. Wisconsin Retirement System and duty disability.

- *Investment Trust Funds* – account for assets invested on a commingled basis by the State on behalf of other governmental entities e.g. local government pooled investments.

- *Private-purpose Trust Funds* – account for all other trust arrangements which benefit individuals, private organizations, or other governments e.g. the state-sponsored college savings program.

- *Agency Funds* – account for those assets for which the State acts solely in a custodial capacity e.g. the collection and disbursement of court-ordered child support payments.

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

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

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

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

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

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

1. Cash and Cash Equivalents

Cash balances of most funds are deposited with the Department of Administration where the available balances beyond immediate needs are pooled in the State Investment Fund for short-term investment purposes. Balances pooled are restricted to legally stipulated investments valued consistent with GASB Statement No. 72, *Fair Value Measurement and Application*. 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, repurchase agreements and individual funds' shares in the State Investment Fund.

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

2. Investments

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

Investments of the primary government are reported at fair value consistent with the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*. 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.

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

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

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

3. Mortgage and Other Loans

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

4. Forestation State Tax

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

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

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

5. Interfund Assets/Liabilities

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

Balances that exist between the primary government and component units are classified as “Due to/from Primary Government” and, correspondingly, “Due to/from Component Units”.

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

6. Inventories and Prepaid Items

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

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

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

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

7. Capital Assets

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

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

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

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

Buildings and improvements	6 - 40 years
Equipment, machinery and furnishings	3 - 15 years

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

8. Restricted and Limited Use Assets

Assets that are required to be held and/or used as specified in Wisconsin statutes, bond indentures, bond resolutions, trustee agreements, board resolutions, and donor specifications have been reported as Restricted and Limited Use Assets.

9. Local Assistance Aids

Municipal and County Shared Revenue Program

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

At June 30, 2016, 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 $440.1 million representing one-half of the total appropriated amount is reported at June 30, 2016 as Due to Other Governments.

State Property Tax Credit Program

At June 30, 2016, 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, 2016.

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, 2016.

The aggregated State Property Tax Credit Program liability of $749.1 million is reported in the General Fund as Due to Other Governments. Of that amount, $638.1 million relates to the school levy tax credit and $111.0 million relates to the first dollar tax credit.

The lottery property tax credit is accounted for in the Lottery Fund, an enterprise fund that records revenues and expenses on the accrual basis. The State pays municipal treasurers for lottery credits who distribute the moneys to the various taxing jurisdictions. For credits reducing the calendar year 2016 property tax bills, the State made this payment in March 2016. 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 2016, while the remaining portion represents advanced payments. The resulting deferred outflow of resources reported within the Lottery Fund totals $39.8 million at June 30, 2016.

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, 2016, the State was liable to various local governments and other taxing jurisdictions for unpaid exempt computer aid payments of $62.4 million.

10. Long-term Debt Obligations

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

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

On the government-wide financial statements, bond premiums and discounts related to the Transportation Revenue Bonds and the Petroleum Inspection Fee Obligation Revenue Bonds (which finance programs in a capital projects fund and a special revenue fund, respectively) are amortized ratably over the life of the obligations to which they relate. Results from the use of this method do not vary materially from those that would be obtained by use of the effective interest rate method.

11. Compensated Absences

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

Annual Leave

Full-time employees' annual leave days are credited on January 1 of each calendar year in general at a minimum of 15 or 13 days per year, depending on Fair Labor Standards Act (FLSA) status. There is no requirement to use annual leave. However, unused leave is lost unless approval to carry over the unused portion is obtained from the employing agency. 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, personal holiday hours, and Saturday/legal hours earned and vested during January through June. The liability is reported in the government-wide, proprietary fund types and fiduciary funds.

Sick Leave

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

12. Unearned Revenue

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

Unearned revenue of the University of Wisconsin System consists of payments received but not earned at June 30, 2016, primarily for summer session tuition, tuition and room deposits for the next fall term, advance ticket sales for upcoming intercollegiate athletic events, and amounts received from grant and contract sponsors that have not yet been earned under the terms of the agreement.

13. Self-Insurance

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

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

14. Deferred Outflows of Resources and Deferred Inflows of Resources

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

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

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

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

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

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

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

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

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

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

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

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

15. Fund Balance Classification and Restricted Net Position

Fund Balance Classification

In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the state is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balance is reported as restricted when constraints placed on the use of the resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or, imposed by law through constitutional provisions or enabling legislation.

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

Amounts that are constrained by the state's intent to be used for specific purposes, but are neither restricted nor committed, are classified as assigned fund balances. Intent is expressed by state officials to whom the state has delegated the authority to assign amounts to be used for specific purposes. Unassigned fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. Nonspendable fund balances include amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

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

Restricted Net Position

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

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

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

During the year ended June 30, 2016, the following adjustments and reclassifications were necessary to reconcile the information from the fund-based Balance Sheet – Governmental Funds to the amounts presented in the governmental activities section of the Statement of Net Position (in thousands). The differences result primarily from the long-term economic focus of the Statement of Net Position compared to the current financial focus of the Balance Sheet – Governmental Funds.

	Total Governmental Funds	Long-term Assets and Liabilities (1)	Internal Service Funds (2)	Reclassifications and Eliminations (3)	Total Amount for Statement of Net Position
Assets:					
Cash and Cash Equivalents	$ 1,219,505	$ -	$ 14,537	$ -	$ 1,234,041
Investments	542,695	-	-	-	542,695
Receivables (net of allowance):					
Taxes	1,347,707	-	-	(1,347,707)	-
Loans to Local Governments	403,875	-	-	(403,875)	-
Other Loans Receivable	26,608	-	-	(26,608)	-
Other Receivables	709,066	2,810	2,968	3,419,298	4,134,142
Due from Other Funds	422,126	-	37,555	(459,681)	-
Interfund Receivables	71,814	-	-	(71,814)	-
Due from Other Governments	1,575,305	-	-	(1,575,305)	-
Internal Balances	-	-	(2,196)	125,771	123,575
Inventories	44,891	295	4,803	-	49,989
Prepaid Items	45,639	4,913	498	-	51,050
Restricted Assets:					
Cash and Cash Equivalents	253,362	-	-	-	253,362
Investments	150,394	-	-	-	150,394
Other Assets	14,766	-	-	-	14,766
Depreciable Capital Assets	-	1,287,042	304,268	-	1,591,310
Infrastructure	-	15,433,292	-	-	15,433,292
Other Non-depreciable Capital Assets	-	6,160,875	45,080	-	6,205,955
Total Assets	6,827,752	22,889,226	407,512	(339,920)	29,784,570
Deferred Outflows of Resources	142	1,456,346	24,801	-	1,481,289
Total Assets and Deferred Outflows	$ 6,827,894	$ 24,345,571	$ 432,313	$ (339,920)	$ 31,265,858
Liabilities:					
Accounts Payable and Other Accrued Liabilities	1,265,196	-	17,466	27,219	1,309,881
Due to Other Funds	287,954	-	69,868	(357,823)	-
Due to Component Units	388	-	-	(388)	-
Interfund Payables	1,980	-	-	(1,980)	-
Due to Other Governments	2,500,654	-	-	-	2,500,654
Tax Refunds Payable	1,263,180	-	-	-	1,263,180
Tax and Other Deposits	66,949	-	-	-	66,949
Unearned Revenue	340,499	295	-	-	340,794
Interest Payable	50,690	66,512	-	-	117,203
Advances from Other Funds	6,948	-	-	(6,948)	-
Short-term Notes Payable	724,806	-	18,023	-	742,829
Other Liabilities	-	216,753	-	-	216,753
Long-term Liabilities:					
Current Portion	130,195	665,349	59,860	-	855,404
Noncurrent Portion	-	11,080,225	232,401	-	11,312,626
Total Liabilities	6,639,440	12,029,134	397,618	(339,920)	18,726,272
Deferred Inflows of Resources	241,985	208,623	9,279	-	459,887
Fund Balances/Net Position	(53,531)	12,107,814	25,416	-	12,079,699
Total Liabilities, Deferred Inflows, and Fund Balances/Net Position	$ 6,827,894	$ 24,345,571	$ 432,313	$ (339,920)	$ 31,265,858

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

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

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

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

During the year ended June 30, 2016, the following adjustments and reclassifications were necessary to reconcile the information from the fund-based Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the amounts presented in the governmental section of the Statement of Activities (in thousands). The differences result primarily from the long-term economic focus of the Statement of Activities compared to the current financial focus of the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds.

	Total Governmental Funds	Long-term Revenues and Expenses (1)	Capital-Related Items (2)
Revenues:			
Taxes			
Income Taxes	$ 8,580,069	$ 2,324	$ -
Sales & Excise Taxes	5,778,988	2,202	-
Public Utility Taxes	368,724	-	-
Other Taxes	302,048	56	-
Motor Fuel (Transportation) Taxes	1,091,629	129	-
Other Dedicated Taxes	179,760	-	-
Intergovernmental	9,374,125	-	-
Operating Grants	-	-	-
Capital Grants	-	-	-
Licenses and Permits	1,974,050	-	-
Charges for Goods and Services	325,987	3,502	-
Investment and Interest Income	56,795	-	-
Fines and Forfeitures/Contributions to Permanent Fund	61,100	-	-
Gifts and Donations	21,466	-	-
Miscellaneous:		-	(6,778)
Tobacco Settlement	133,676	-	-
Other	285,202	-	-
Total Revenues	28,533,619	8,213	(6,778)
Expenditures/Expenses:			
Current Operating:			
Commerce	235,912	5,433	2,105
Education	6,985,064	4,722	6,063
Transportation	2,051,770	17,547	53,840
Environmental Resources	437,121	12,395	20,327
Human Relations and Resources	13,072,588	83,236	101,280
General Executive	583,382	276	15,286
Judicial	128,487	1,818	1,566
Legislative	65,506	2,240	-
Tax Relief and Other General Expenditures	1,434,880	-	-
Intergovernmental - Shared Revenue	965,324	-	-
Capital Outlay	1,149,679	-	(1,149,679)
Debt Service:			
Principal	651,302	-	-
Interest and Other Charges	524,639	2,990	-
Total Expenditures/Expenses	28,285,654	130,658	(949,211)
Excess of Revenues Over (Under) Expenditures/Expenses	247,965	(122,445)	942,433
Other Financing Sources (Uses):			
Net Transfers	(898,251)	-	-
Long-term Debt Issued	1,063,276	-	-
Premium/Discount on Bonds	199,940	-	-
Payments to Refunding Bond Escrow Agent	(273,679)	-	-
Capital Lease Acquisitions	17,488	(17,488)	-
Installment Purchase Acquisitions	575	(575)	-
Total Other Financing Sources (Uses)	109,349	(18,063)	-
Net Change in Fund Balance/Net Position	357,314	$ (140,508)	$ 942,433
Change in Inventories	(3,850)		
Net Change for the Year	$ 353,464		

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

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

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

Internal Service Funds (3)	Long-term Debt Transactions (4)	Eliminations (5)	Revenue/Expense Reclassifications (6)	Total Amount for Statement of Activities
$ -	$ -	$ -	$ -	$ 8,582,394
-	-	-	-	5,781,190
-	-	-	-	368,724
-	-	-	-	302,104
-	-	-	-	1,091,758
-	-	-	-	179,760
-	-	-	(9,374,125)	-
-	-	(714,397)	9,438,549	8,724,152
-	-	798,993	9,927	808,920
-	-	-	(1,974,050)	-
(7,712)	-	(6,971)	2,023,717	2,338,523
32	-	-	(52,887)	3,940
-	-	-	(49,665)	11,434
-	-	-	(21,466)	-
-	-	(5,852)	419,456	406,826
-	-	-	(133,676)	-
-	-	-	(285,202)	-
(7,680)	-	71,772	579	28,599,725
(165)	-	(5,852)	34	237,466
(3,007)	-	34,534	861	7,028,238
(3,275)	743	-	1,090	2,121,715
(1,139)	210	-	250	469,164
(9,690)	26	50,063	1,458	13,298,962
(10,181)	-	(6,971)	(1,696)	580,095
-	-	-	-	131,871
(142)	-	-	-	67,604
-	-	-	(147)	1,434,733
-	-	-	-	965,324
-	-	-	-	(0)
-	(651,302)	-	-	-
5,995	(98,793)	-	2,000	436,832
(21,604)	(749,115)	71,772	3,850	26,772,005
13,924	749,115	-	(3,272)	1,827,720
(4,143)	-	-	(579)	(902,973)
-	(1,063,276)	-	-	-
-	(199,940)	-	-	-
-	273,679	-	-	-
-	-	-	-	-
-	-	-	-	-
(4,143)	(989,537)	-	(579)	(902,973)
$ 9,782	$ (240,422)	$ 0	(3,850)	924,748
			3,850	-
			$ (0)	$ 924,748

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

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

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

NOTE 3. BUDGETARY CONTROL

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

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

NOTE 4. DEFICIT FUND BALANCE/FUND NET POSITION, RESTRICTED NET POSITION, BUDGET STABILIZATION ARRANGEMENT, MINIMUM FUND BALANCE POLICY, AND FUND BALANCE OF GOVERNMENTAL FUNDS

A. Deficit Fund Balance/Fund Net Position

In addition to the General and Capital Improvement Funds, funds reporting a deficit fund balance or net position at June 30, 2016 are (in thousands):

Special Revenue:		
Petroleum Inspection	$	41,491
Dry Cleaner Environmental Response		5,945
Enterprise:		
Northern Developmental Disabilities Center		16,817
Long Term Disability Insurance		127,987
Internal Service:		
Risk Management		90,961
Pension and Other Employee Benefit Trust		
Accumulated Sick Leave		111,920
Private-Purpose Trust:		
Retiree Health Insurance		74,243

B. Restricted Net Position

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, which amends GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* provides guidance for determining when net assets have been restricted to a particular use by the passage of enabling legislation and how those net assets should be reported in financial statements when there are changes in the circumstances surrounding such legislation. Net position restricted by enabling legislation was as follows on June 30, 2016 (in thousands):

Governmental Activities:	
Net Position Restricted by Enabling Legislation	49,693
Business-type Activities:	
Net Position Restricted by Enabling Legislation	188,768

C. Budget Stabilization Arrangement

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

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

The balance of the budget stabilization arrangement as of June 30, 2016 was $281.3 million.

D. Minimum Fund Balance

Wisconsin Statutes 20.003(4) establishes a minimum General Fund balance. Under the statutes, no bill directly or indirectly affecting general purpose revenues as defined in Wisconsin Statues 20.001(2)(a) may be enacted by the legislature if the bill would cause the estimated General Fund balance on June 30 of any fiscal year to be an amount equal to or less than the amount specified for that fiscal year. The minimum required balance for the fiscal year ending June 30, 2016 was $65.0 million.

E. Fund Balance for Governmental Funds

Governmental funds reported the following categories of fund balance as of June 30, 2016 (in thousands):

	General	Transportation	Capital Improvement	Nonmajor Governmental	Total Governmental
Nonspendable for:					
Inventory, Prepaid and Long-term Receivables	49,858	28,220	-	12,411	90,490
Legal or Contractual Purposes (Permanent Fund Principal)	-	-	-	1,060,556	1,060,556
Restricted for:					
Commerce	36,173	-	-	32	36,205
Education	8,691	-	-	36,018	44,709
Transportation	-	689,091	-	-	689,091
Environmental Resources	735	-	-	112,025	112,760
Human Relations and Resources	166,440	-	-	29,573	196,013
General Executive	126,586	-	-	7,625	134,210
Judicial	81	-	-	-	81
Tax Relief and Other General Expenditures	403	-	-	-	403
Intergovernmental - Shared Revenue	-	-	-	2,573	2,573
Debt Service	-	-	-	70,787	70,787
Capital Projects	-	-	-	21,502	21,502
Committed to:					
Commerce	-	-	-	43,125	43,125
Education	-	-	-	640	640
Environmental Resources	-	-	-	56,878	56,878
Human Relations and Resources	-	-	-	25,670	25,670
General Executive	-	-	-	20,437	20,437
Judicial	-	-	-	55	55
Tax Relief and Other General Expenditures	281,347	-	-	-	281,347
Capital Projects	-	-	-	23,670	23,670
Unassigned	(2,392,941)	-	(524,354)	(47,437)	(2,964,732)
Total Fund Balance	(1,722,629)	717,311	(524,354)	1,476,141	(53,531)

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, 2016, $351.5 million of the primary government's bank balance of $378.1 million was exposed to custodial credit risk as follows (in millions):

Uninsured and uncollateralized	$	351.5

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, 2016 are immaterial. The primary government does not have a formal policy specifically related to foreign currency risk.

The State’s Unemployment Reserve Fund had $986.7 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.

Certificates of Deposit are carried at cost as they are considered nonparticipating interest-earning investment contracts. Because they are valued at cost, they are not included in the fair value hierarchy established by GASB Statement 72, Fair Value Measurement and Application.

2. Wisconsin Retirement System (WRS)

As of December 31, 2015, WRS cash deposits totaled $834.8 million. Of the total deposits, $358.9 million was collateralized by the securities borrowed. Additionally, a portion of the total deposits were uninsured and uncollateralized. These represented balances held in foreign currencies in the custodian’s nominee name, cash posted as collateral for derivatives transactions and cash collateral posted in excess of the market value of securities borrowed for short sales. The sum of uninsured and uncollateralized deposits amounted to $431.3 million at December 31, 2015.

B. Investments

1. Primary Government

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

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

- Primary government, excluding the University of Wisconsin System, the Wisconsin Retirement System and the State Investment Fund. The primary government portfolios include Various Funds managed by the State of Wisconsin Investment Board consisting of the following:
  - -- Local Government Property Insurance Fund (LGPIF)
  - -- State Life Insurance Fund (SLF)
  - -- Injured Patients and Families Compensation Fund (IPFCF)
  - -- Historical Society Fund
  - -- Tuition Trust Fund
- University of Wisconsin System (UWS)
- Wisconsin Retirement System (WRS)
- State Investment Fund (SIF) -- functions as the State's cash management fund by "pooling" the idle cash balances of all State funds and other public institutions. Investments of the SIF are discussed in section B2 of this note disclosure.

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

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

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

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

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

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

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

University of Wisconsin System (UWS)

The University of Wisconsin System (UWS) investment policies and guidelines are governed and authorized by the Board of Regents. The current approved asset allocation policy for long-term funds sets a general target of 35.0 percent marketable equities, 30.0 percent fixed income, and 35.0 percent alternatives. The approved asset allocation for intermediate term funds is 15.0 percent marketable equities, 70.0 percent fixed income, 10.0 percent alternatives and 5.0 percent cash. These target allocations were last affirmed/approved by the Board of Regents in December 2015.

Wisconsin Retirement System (WRS)

All assets of the WRS are invested by the State of Wisconsin Investment Board (the Board). The WRS consists of shares in the Core Retirement Investment Trust and the Variable Retirement Investment Trust.

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

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

Valuation

Investments of the State are reported at Fair Value as defined by GASB Statement Number 72 – Fair Value Measurement and Application and are categorized based on the investment valuation hierarchy established by GASB. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 Inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

The fair value of investments are obtained or estimated using information provided by custodial banks and brokerages. A variety of independent pricing sources are used to price assets based on type, class or issue, including published quotations from active markets, pricing models and other methods deemed acceptable by industry standards.

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

The following tables present fair value measurements as of June 30, 2016, in millions.

Primary Government (excluding the Various Funds)

		Fair Value Measurement Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level:				
U.S. Government & Agency Securities	$ 306.0	$ 181.2	$ 124.8	
State & Municipal Bonds & Notes	575.1		575.1	
Corporate Bonds	0.3		0.3	
Stocks	14.8	14.8		
Total By Fair Value Level	$ 896.3	$ 196.0	$ 700.3	
Investments Valued at Net Asset Vaue (NAV):				
Mutual Funds	$ 3,918.2			
Money Market Funds	265.5			
Investments Valued at Cost:				
Forward Delivery Agreement	$ 45.6			
Guaranteed Investment Contracts	145.5			
US Savings Bonds	0.4			
Total	**$ 5,271.5**			

The following tables present fair value measurements as of June 30, 2016 for the Various Funds, in millions.

Various Funds	Fair Value	Fair Value Measurement Using Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
SLF				
Investments by Fair Value Level:				
U.S. Government and Agency Securities	$ 51.0	$ 1.2	$ 49.7	
Corporate Bonds	68.7		68.7	
Total SLF	**$ 119.7**	**$ 1.2**	**$ 118.4**	
IPFCF				
Investments by Fair Value Level:				
U.S. Government and Agency Securities	$ 528.8	$ 1.0	$ 527.8	
Corporate Bonds	430.2		430.2	
Municipal Bonds	27.9		27.9	
Foreign Governments	23.5		23.5	
Preferred Securities	1.6		1.6	
Total Investments by Fair Value Level	$ 1,012.0	$ 1.0	$ 1,011.0	
Investments Valued at Net Asset Value (NAV):				
Equity Index Funds	$ 224.8			
Short-Term Investment Fund	$ 6.6			
Total IPFCF	**$ 1,243.4**			
Historical Society				
Investments Reported at Net Asset Value (NAV):				
U.S. Equity Index Fund	$ 11.0			
U.S. Fixed Income Fund	3.4			
Total Historical Society	**$ 14.4**			
Tuition Trust				
Debt Securities				
U.S. Government and Agency Bonds	$ 2.9		$ 2.0	$ 1.0
Corporate Bonds	0.3		0.3	
Tuition Trust Total	**$ 3.3**		**$ 2.3**	**$ 1.0**

Securities categorized as Level 1 are valued using prices quoted in active markets for those securities.

Debt securities categorized as Level 2 are valued by third party pricing services using a matrix-pricing technique that values securities based on their relationship to quoted market prices for securities with similar interest rates, maturities and credit ratings.

Debt securities categorized as Level 3 for the Tuition Trust are certain U.S. Treasury STRIPS that are valued by a third party pricing company based on historic direct observation of transactions.

The Injured Patients and Families Compensation fund holds Investments in the amount of $6.6 million in the Short-Term Investment Fund, a short-term investment pool. Investments of the Short-Term Investment Fund are reported at net asset value (NAV).

Fair values of investments in equity and fixed income co-mingled index funds, mutual funds and money market funds are based on the investments' published NAV per share (or its equivalent) provided by the investee. These investments are considered Level 1 in the GASB fair value hierarchy.

Investments Valued at Cost or Amortized Cost — Certain investments are valued at cost or amortized cost. Investments valued at cost are not included in the GASB fair value hierarchy.

The Environmental Improvement Fund holds $45.6 million of Treasury Notes purchased in connection with Forward Delivery Agreements. This investment is reported at cost rather than at fair value because management believes that the difference between cost and fair value does not have a material impact on the financial statements.

The College Savings Fund has a $145.5 million investment in a Guaranteed Investment Contract, a non-participating interest earning contract which is valued at cost.

US Government Savings Bonds in the amount of $0.4 million are held at amortized cost.

University of Wisconsin System (UWS)

The following schedule presents fair value measurements at June 30, 2016 (fair values in millions):

UWS	Fair Value	Fair Value Measurement Using Level 1 Inputs	Level 2 Inputs
Investments by Fair Value Level:			
Custodial Pooled Cash & Cash Equivalents	$ 28.9	$ 28.9	$ -
U.S. Government Securities	33.3	31.9	1.4
U.S. Agency Securities	15.8		15.8
Bonds & Preferred Stock	22.2		22.2
Pooled Fixed Income Fund	37.8	33.3	4.5
Common Stock & Convertible Securities	47.5	47.5	
Pooled Equity Funds	92.8	50.7	42.1
Pooled Allocation Fund	79.0	79.0	
Total By Fair Value Level	$ 357.3	$ 271.2	$ 86.0
Investments Valued at Net Asset Vaue (NAV):			
Limited Partnerships	$ 87.6		
Total	**$ 444.8**		

Credit Risk

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

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

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

Regarding the Various Funds, investment guidelines for State Life, Historical Society and IPFCF require that the bond portfolios shall maintain an average quality rating of A- or better at time of purchase. For the Tuition Trust and LGPIF, guidelines require that all issues be rated A- or better, using the lower of split ratings at the time of purchase.

Investment credit quality ratings as of June 30, 2016, from Standard and Poor's, Moody's Investors Service, and Fitch 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	$ 290.4
AA	787.1
A	17.7
Not Rated	1,617.1
Total	$ 2,712.3

The following schedule displays the credit ratings at June 30, 2016, for the Various Funds (fair values in millions):

Various Funds	SLF	IPFCF	Historical Society	Tuition Trust
AAA	$ 1.3	$ 27.0	$ --	$ 2.9
AA	55.4	552.6	--	
A	38.0	133.2	--	
BBB	22.8	261.1	--	0.3
BB	2.1	29.8	--	--
B	--	7.4	--	--
CCC	--	0.9	--	--
Short-term Investment Fund (Not Rated)	--	6.6	--	--
Bond Fund (Not Rated)	--	--	3.4	--
Totals	$ 119.7	$ 1,018.6	$ 3.4	$ 3.3

University of Wisconsin System (UWS)

UWS asset allocation targets and guidelines limit the percentage of the overall portfolio that may be invested in fixed income securities of broadly defined credit quality classifications. Additionally, fund level asset allocation constraints can further limit credit risk exposures to targeted levels based on the credit ratings of independent credit ratings agencies.

The following schedule displays the credit ratings as provided by Moody's Investor Service for debt securities held as of June 30, 2016 (in millions). Obligations of the United States and obligations explicitly guaranteed by the U.S. government have been included in the Aaa rating.

UWS Ratings	Fair Value
Aaa	$ 61.2
Aa2	1.8
Aa3	0.8
A1	2.0
A2	2.3
A3	1.9
Baa1	4.4
Baa2	4.0
Baa3	0.8
Ba1	0.6
Ba2	11.0
Ba3	0.4
B1	0.3
B2	13.2
B3	0.1
Caa2	2.2
Caa3	0.1
No Rating	0.4
Unrated Pooled Cash	30.3
Total	$ 138.0

Wisconsin Retirement System (WRS)

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

The following schedule displays the lowest credit rating assigned by nationally recognized statistical rating organizations on debt securities held as of December 31, 2015 (in millions).

WRS Rating	Fair Value
P-2 or A-2	$ 303.4
AAA/Aaa	493.1
AA/Aa	12,112.2
A	2,430.4
BBB/Baa	2,529.7
BB/Ba	690.4
B	562.2
CCC/Caa	180.0
Commingled Fixed Income Funds	6,990.5
Not rated	1,447.7
Total	$ 27,739.5

Reverse Repurchase Agreements

Wisconsin Retirement System (WRS)

SWIB held $809.7 million in reverse repurchase agreements at December 31, 2015. Investment guidelines permit certain portfolios to enter into reverse repurchase agreements, which are a sale of securities with a simultaneous agreement to repurchase the securities in the future at the same price plus a stated rate of interest. The market value of the securities underlying reverse repurchase agreements exceeds the cash received, providing the counterparty a margin against a decline in market value of the securities. If the counterparty defaults on their obligations to sell these securities back to SWIB or provide cash of equal value, SWIB could suffer an economic loss equal to the difference between the market value of the underlying securities plus accrued interest and the agreement obligation, including accrued interest. This credit exposure at December 31, 2015 was $12.0 million.

SWIB enters into reverse repurchase agreements with various counterparties and such transactions are governed by Master Repurchase Agreements (MRA) MRAs are negotiated contracts and contain terms in which SWIB seeks to minimize counterparty credit risk. SWIB also controls credit exposures by limiting trades with any one counterparty to stipulated amounts. In the case of one MRA, SWIB's agent retains full control of the underlying securities, effectively eliminating the possibility of rehypothecation of the securities. The counterparty credit exposure is monitored daily and managed through the transfer of margin, in the form of cash or securities, between SWIB and the counterparty.

The cash proceeds from reverse repurchase agreements are reinvested by the Board. The maturities of the purchases made with the proceeds of reverse repurchase agreements are not necessarily matched to the maturities of the agreements. The agreed-upon yields earned by the counterparty were between 0.41 percent and 0.75 percent. The reverse repurchase agreements had open maturities, whereby a maturity date is not established upon entering into the agreement; however, interest rates on the agreements are negotiated daily. The agreements can be terminated at the will of either SWIB or the counterparty.

Custodial Credit Risk

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

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

The primary government, including the Various Funds, does not have an investment policy specifically for custodial credit risk. As of June 30, 2016, the primary government did not have any direct investment securities exposed to custodial credit risk.

University of Wisconsin System (UWS)

The UWS's investments are registered in the name of the UWS and the UWS does not participate in any securities lending programs through its custodian bank. Investment securities underlying the UWS's investment in shares of external investment pools or funds are in custody at those entities. The shares owned in these external investment pools are registered in the name of the UWS. The University does not have a formal policy for custodial credit risk.

Wisconsin Retirement System (WRS)

The WRS's custodial credit risk policy addresses the primary risks associated with safekeeping and custody. It requires that custodial institutions be selected through a competitive bid process and that the institution be designated a 'Systemically Important Financial Institution' by the U.S. Federal Reserve. The policy also requires that the WRS be reflected as beneficial owner on all securities entrusted to the custodian and that the WRS have access to safekeeping and custody accounts. The custodian is also required to be insured for errors and omissions and must provide the WRS with an annual report on internal controls The WRS's current custodial bank was selected in accordance with these guidelines and meets all requirements stipulated in the custodial credit risk policy.

As of December 31, 2015, the WRS held 9 repurchase agreements totaling $804.9 million. All of these repurchase agreements were tri-party agreements held in short-term cash management portfolios managed by SWIB's custodian. The underlying securities for these repurchase agreements were held by the tri-party's agent, not in SWIB's name.

Concentration of Credit Risk

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

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

Although the primary government, except for the Various Funds discussed later, does not have a formal policy on limiting the exposure to concentrations of credit risk, it is the primary government's policy to comply with the provisions contained within the general resolutions of revenue bond indentures and other program policy investment criteria.

Debt securities issued by the State of Wisconsin represent the largest concentration of investments in a single issuer. In total $363.2 million of the reported investments of the primary government were issued by the State of Wisconsin which represents 13.0 percent of total investments. Of that amount $187.0 million belongs to the Environmental Improvement Fund, and represents 80.4 percent of that fund's investments. The non-major governmental funds in aggregate hold investments of $176.1 million issued by the State of Wisconsin representing 24.3 percent of investments. The non-major governmental funds also hold investments in debt securities issued by the Farm Credit System, and the Federal National Mortgage Association totaling $124.8 million and $58.1 million respectively. The dollar figures represent 17.2 percent, and 8.0 percent of non-major governmental funds' investments respectively.

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

Excluding investments issued or explicitly guaranteed by the U.S. government and pooled investments, as of June 30, 2016, none of the Various Funds had more than 5 percent of their total investments in a single issuer.

University of Wisconsin System (UWS)

Actively-managed, fixed income separate accounts are limited to holding no more than 7.0 percent in any one issuer (U.S. Government/Agencies are exempted).

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.

The WRS did not hold any investments with a single issuer, exclusive of investments issued or explicitly guaranteed by the U.S. government, representing 5% or more of the value of the total WRS investments' value at December 31, 2015.

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, 2016, the primary government's investments were (in millions):

Primary Government (excluding the Various Funds, UWS, WRS, SIF, and investments in an external investment pool)

Investment Type	Investment Maturities: Less Than 1 Year	1 to 5 Years	6 to 10 years	More Than 10 Years	Fair Value
U.S. Government and U.S. agency holdings	$ 156.8	$ 67.4	$ 6.2	$ 76.0	$ 306.4
State and municipal bonds and notes	31.7	71.4	103.7	368.3	575.1
Corporate notes and bonds	--	0.3	--	--	0.3
Forward delivery agreements	45.6	--	--	--	45.6
Money market funds	265.5	--	--	--	265.5
Mutual funds – open ended	0.6	343.9	1,152.7	0.1	1,497.3
Guaranteed Investment Contracts	--	145.5	--	--	145.5
Total	$ 500.3	$ 628.5	$ 1,262.7	$ 444.4	$ 2,835.9

The Various Funds, which are managed by the Board, use the duration method to identify and manage interest rate risk. Three of the Various Funds have investment guidelines relating to interest rate risk. The LGPIF guidelines require that a bond's maturity must not exceed ten years. The SLF guidelines require the Weighted Average Maturity (WAM) of the portfolio, including cash, to be a minimum of ten years. The IPFCF guidelines require that effective duration of the bond portfolio shall remain within 15% of the assigned benchmark's duration.

As of June 30, 2016, the Various Funds had interest rate risk statistics as detailed below (in millions):

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

Investment Type	SLF Fair Value	SLF WAM	IPFCF Fair Value	IPFCF Duration	Historical Society Fair Value	Historical Society Duration	Tuition Trust Fair Value	Tuition Trust Duration
Govt/Agency	$ 51.0	11.66	$ 530.4	5.09	$ --	--	$ 2.9	1.43
Corporate	68.7	10.63	481.6	7.78	--	--	0.3	0.96
Bond Fund	--	--	--	--	3.4	6.37	--	--
Short-Term Investment Fund	--	--	6.6	0.20	--	--	--	--
Total/Wtd Ave	$ 119.7	11.07	$ 1,018.6	6.33	$ 3.4	6.37	$ 3.3	1.38

External Investment Pools

The Injured Patients and Families Compensation Fund, has investments totaling $6.6 million at June 30th 2016 in the Short-Term Investment Fund, a pooled short-term investment fund. This balance is reported as cash and cash equivalents on the Statement of Net Position. The weighted average maturity of this external investment pool is 0.20 years.

Investments of the Retiree Life Insurance Fund and the Local Retiree Life Insurance Fund (reported as pension and other employee benefit trust funds) are held in an external investment pool with the investment objective of maintaining levels in its general account sufficient to guarantee principal amounts of reserves. The interest rate exposure of this pool expressed in terms of duration and the weighted average life is 6.74 and 9.75 years, respectively.

University of Wisconsin System (UWS)

The UWS uses the option adjusted modified duration method to analyze interest rate risk. As of June 30, 2016, the UWS had interest rate risk statistics as detailed below (in millions):

UWS

Fixed Income Sector	Fair Value	Effective Duration
Treasury Inflation Protected Securities	$ 18.6	5.09
Government	18.3	4.11
U.S. Government Mortgages	6.3	4.35
Corporates and Other Credit	15.7	2.97
Collateralized Mortgage Obligations: U.S. Agencies	4.2	1.00
Commercial Mortgage Backed Securities	3.3	0.92
U.S. Private Placements	4.7	2.67
Asset Backed Securities	0.2	0.03
Total	$ 71.3	

Fixed Income Commingled Funds	Fair Value	Modified Duration
Seix Advisors High Yield Fund	$ 28.5	3.23
IT Fund Multi Asset	9.3	2.51
Total	$ 37.8	

Wisconsin Retirement System (WRS)

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

Short term portfolios' interest rate risk is analyzed using the weighted average maturity (to next reset). Weighted average maturity is the maturity of each position in a portfolio weighted by the dollar value of the position to compute an average maturity for the portfolio as a whole. This measure indicates a portfolio's sensitivity to interest rate changes: a longer weighted average maturity implies greater volatility in response to interest rate changes.

SWIB's investment guidelines related to interest rate risk vary by portfolio. Some fixed income portfolios are required to be managed within a range of a targeted duration, while others are required to maintain a weighted average maturity at or below a specified number of days or years.

Aggregated interest rate risk exposure as of December 31, 2015, stated in terms of modified duration (for long term instruments) and weighted average maturity (for repurchase agreements and short term pooled investments), is presented below (in millions):

WRS

Investment Type	Fair Value	Modified Duration (Years)
Asset Backed Securities	$ 48.0	1.8
Commercial Paper	322.5	< 1
Corporate Bonds & Private Placements	4,787.8	5.7
Foreign Government/Agency Bonds	3,524.2	8.1
Municipal Bonds	118.6	9.7
U.S. Government Agencies	284.4	3.8
U.S. Treasury Inflation Protected Securities	6,704.4	7.7
U.S. Treasury Securities	4,154.2	5.0
Commingled Funds:		
Domestic Fixed Income	4,726.9	6.3
Emerging Market Fixed Income	527.5	5.9
Exchange Traded Funds	1.0	4.0
Exchange Traded Funds – Short Positions	(1.0)	4.4
Global Fixed Income	470.3	4.5
Subtotal	$ 25,669.0	

Investment Type	Fair Value	Weighted Average Maturity (days)
Repurchase Agreements	$ 804.9	1
Commingled Funds:		
Short Term Cash Management	1,265.72	67
Subtotal	$ 2,070.6	
Total	$ 27,739.5	

*Excludes Derivatives which are separately disclosed

Foreign Currency Risk

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

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

The primary government, except for the Various Funds discussed later, does not have a formal policy to limit foreign currency risk, however, certain funds such as the Environmental Improvement Fund are not permitted to invest in foreign currency based on provisions contained in its bond indenture general resolution. However, foreign currency risk of the Retiree Life Insurance Fund is minimized by utilizing short-duration spot forward contracts to minimize the adverse impact of foreign currency exchange rate risks inherent in the elapsed time between trade processing and trade settlement. At June 30, 2016, the primary government, excluding the Various Funds, did not own any issues denominated in a foreign currency.

The Various Funds' investment guidelines do not specifically address foreign currency risk with the exception that the SLF only allows investments in U.S. dollar denominated instruments. As of June 30, 2016, the Various Funds did not directly own any issues denominated in a foreign currency.

University of Wisconsin System (UWS)

As of June 30, 2016, the Long Term and Intermediate Term Funds held equity securities denominated in foreign currencies within pooled investment vehicles only, with market values totaling $98.0 million and $5.4 million, respectively. Some of the trades for such foreign positions will not settle in foreign currencies until after the fiscal year end. For the Long Term and Intermediate Term Funds, it is generally expected and desired that foreign currency exposure is not hedged, as this enhances the diversification benefits from non-U.S. investments.

Wisconsin Retirement System (WRS)

The WRS held foreign currency denominated cash and securities directly in designated actively managed portfolios and indirectly through its investment in certain commingled invest funds. As of December 31, 2015, the WRS had the following currency exposure (all assets stated in millions of United States Dollars):

Currency Exposures by Investment Type

Currency	Cash & Cash Equivalents	Stocks	Fixed Income	Limited Partnerships	Preferred Securities	Short Sales	Options & Futures	Total
Australian Dollar	$ 6.8	$ 1,026.9	$ 52.2	$ -	$ -	$ -	$ 1.6	$ 1,087.5
Brazilian Real	1.3	46.8	17.5	-	15.9	-	-	81.4
British Pound Sterling	28.2	3,313.8	335.7	71.4	-	(0.7)	2.2	3,750.6
Canadian Dollar	14.7	1,247.7	55.2	-	-	-	0.3	1,317.9
Colombian Peso	-	-	1.6	-	-	-	-	1.6
Danish Krone	2.9	300.7	24.8	-	-	-	-	328.4
Deutsche Mark	-	-	0.7	-	-	-	-	0.7
Euro Currency Unit	43.8	5,002.7	1,547.1	626.7	90.9	(27.1)	0.7	7,284.9
Hong Kong Dollar	6.3	676.9	-	-	-	-	-	683.3
Hungarian Forint	-	-	7.6	-	-	-	-	7.6
Indian Rupee	-	111.7	-	-	-	-	-	111.7
Indonesian Rupiah	0.3	14.3	15.1	-	-	-	-	29.7
Israeli New Shekel	0.9	80.0	-	-	-	-	-	80.9
Japanese Yen	171.0	3,798.3	920.0	-	-	(15.8)	(1.1)	4,872.4
Malaysian Ringgit	0.6	35.1	22.5	-	-	-	-	58.2
Mexican New Peso	1.7	18.3	79.7	-	-	-	-	99.8
New Zealand Dollar	0.3	37.8	11.2	-	-	-	-	49.4
Norwegian Krone	0.9	106.1	1.5	-	-	-	-	108.5
Peruvian Nuevo Sol	-	-	5.7	-	-	-	-	5.7
Philippine Peso	0.1	4.1	-	-	-	-	-	4.2
Polish Zloty	-	27.4	29.9	-	-	-	-	57.2
Russian Ruble	-	-	5.7	-	-	-	-	5.7
Singapore Dollar	2.0	187.0	13.0	-	-	(0.1)	-	201.9
South African Rand	0.6	38.6	20.9	-	-	-	-	60.1
South Korean Won	0.1	197.2	-	-	-	-	-	197.2
Swedish Krona	4.7	385.8	16.4	15.5	-	(0.1)	-	422.2
Swiss Franc	2.2	1,515.5	-	-	-	(4.5)	0.1	1,513.3
Taiwan New Dollar	-	110.9	-	-	-	-	-	110.9
Thailand Baht	-	58.9	-	-	-	-	-	58.9
Turkish Lira	-	35.2	-	-	-	-	-	35.2
U.S. Dollar	2,156.4	28,807.5	21,765.5	9,966.3	71.9	(117.9)	(5.2)	62,644.4
Uruguayan Peso	-	-	5.5	-	-	-	-	5.5
Total	$2,445.8	$ 47,185.3	$ 24,955.2	$ 10,679.8	$ 178.7	$ (166.2)	$ (1.4)	$ 85,277.1

Securities Lending Transactions

Wisconsin Retirement System (WRS)

Securities Lending Transactions – State statutes and Board policies permit the use of investments of the WRS to enter into securities lending transactions. These transactions involve the lending of securities to broker-dealers and other entities in exchange for collateral, in the form of cash or securities, with the simultaneous agreement to return the collateral for identical securities in the future. The securities custodian is an agent in lending the domestic and international securities. When securities are delivered to a borrower as part of a securities lending agreement, the borrower is required to place collateral equal to 102 percent of the loaned securities' fair value, including interest accrued, as of the delivery date with the lending agent. In the event that securities are loaned against collateral denominated in a different currency, the borrower is required to place collateral totaling 105 percent of the loaned securities' fair value, including interest accrued, as of the delivery date with the lending agent. Collateral is marked to market daily and adjusted as needed to maintain the required minimum level. On December 31, 2015, the fair value of the securities on loan was approximately $13.4 billion.

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

At December 31, 2015, minimal credit risk exposure to borrowers existed because the amounts owed the borrowers exceeded the amounts the borrowers owed. The contract with the lending agent requires it to indemnify the WRS if the borrowers fail to return the loaned securities and the collateral is inadequate to replace the securities lent. Losses resulting from violations of investment guidelines are also indemnified.

The majority of security loans are open-ended and can be terminated on demand. The risk that SWIB would be unable to return collateral to securities borrowers upon termination of the loan is low because the majority of investments made with cash collateral mature in one to two business days. The average maturities of the loans and the average maturity of the assets held in collateral reinvestment pools did not materially differ at December 31, 2015.

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

Derivative Instruments

Wisconsin Retirement System (WRS)

Derivatives may be used to implement investment strategies for the Core and Variable Funds. All derivative instruments are subjected to risk analysis and monitoring processes at the portfolio, asset class and fund levels. Investment guidelines define allowable derivative activity for each portfolio and are based on the investment objectives which have been approved by the Board. Where derivatives are permitted, guidelines stipulate allowable instruments and the manner and degree to which they are to be used.

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

SWIB seeks to mitigate counterparty credit risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring techniques. Additionally, policies have been established which seek to implement master netting arrangements with counterparties that permit the closeout and netting of transactions with the same counterparty. Agreements may also require daily collateral postings to further mitigate credit risk. At December 31, 2015, SWIB had no cash posted as collateral to uncleared OTC counterparties. No securities were pledged relating to uncleared OTC positions.

Certain investments and cash deposits were posted as collateral for exchange-traded and cleared OTC derivatives positions. At December 31, 2015, the Core and Variable Funds posted $138.2 million in cash and $263.9 million in securities as collateral with exchange clearing brokers.

The aggregate fair value of receivables relating to OTC derivative contracts at December 31, 2015 was $2.8 billion. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. This maximum exposure is reduced to zero when counterparty collateral and master netting arrangements are taken into account.

The table below summarizes, by credit rating, the retirement fund's exposure to OTC derivative instruments' counterparty credit risk as of December 31, 2015 (in millions), without respect to any collateral or netting arrangement.

OTC Derivative Investments Subject to Counterparty Credit Risk

Counterparty Credit Rating	Payable	Receivable	Fair Value
AA	$ (59.5)	$ 58.6	$(0.8)
A	(1,157.8)	1,160.3	2.6
BBB	(1,542.9)	1,554.1	11.3
Total	$(2,760.2)	$2,773.1	$12.9

Foreign Currency Spot and Forward Contracts — Foreign Currency Spot and Forward contracts are OTC agreements between two counterparties to exchange designated currencies at a specific time in the future. No cash is exchanged when a foreign exchange spot or forward contract is initiated. Amounts due are paid or received on the contracted settle date.

Currency exposure management is permitted through the use of currency derivative instruments. Direct hedging of currency exposure back to the U. S. dollar is permitted when consistent with the strategy of the portfolio. Cross-currency exposure management to transfer out of an exposed currency and into a benchmark currency is permitted. In some portfolios, currencies of non-benchmark countries may be held through the use of forward contracts, provided that the notional value of any single non-benchmark currency does not exceed 5 percent of the market value of the portfolio. Discretionary currency overlay strategies at the total fund and asset class level may be employed when currency market conditions suggest such strategies are warranted.

The net receivable or payable for spot and forward contracts is included in Foreign Currency Contracts on the Statement of Fiduciary Net Position. Losses may arise from future changes in the value of the underlying currency, or if the counterparties do not perform under the terms of the contract. Spot and forward contracts are valued daily with the changes in fair value included in the Net Appreciation (Depreciation) in Fair Value of Investments on the Statement of Changes in Fiduciary Net Position.

During the year, currency exposure management involved the use of foreign currency spot and forward contracts. The following table presents the fair value of foreign currency spot and forward contract assets and liabilities held as of December 31, 2015 (in millions):

Foreign Currency Spot and Forward Contracts

	Foreign Currency Contract Receivables			Foreign Currency Contract Payables		
Currency	Notional (local currency)	Fair Value $US	Unrealized Gain/(Loss) $US	Notional (local currency)	Fair Value $US	Unrealized Gain/(Loss) $US
Australian Dollar	159.3	115.9	(0.2)	(35.8)	(26.1)	--
Brazilian Real	--	--	--	(40.4)	(10.1)	0.3
British Pound Sterling	62.3	91.8	(2.1)	(152.0)	(224.1)	4.7
Canadian Dollar	168.6	121.4	(3.6)	(52.7)	(37.9)	0.3
Chilean Peso	5,563.0	7.8	(0.1)	--	--	--
Colombian Peso	--	--	--	(4,763.5)	(1.5)	(0.1)
Danish Krone	198.0	28.8	0.4	(343.0)	(49.9)	(1.1)
Euro Currency Unit	249.3	270.8	2.4	(290.8)	(316.0)	(3.5)
Hong Kong Dollar	242.4	31.3	--	(246.8)	(31.8)	--
Indian Rupee	2,688.5	40.4	0.4	(801.8)	(12.1)	(0.1)
Indonesian Rupiah	58,075.0	4.1	0.1	(93,520.2)	(6.7)	(0.1)
Israeli New Shekel	27.5	7.1	--	(28.7)	(7.4)	--
Japanese Yen	35,378.1	294.1	4.0	(14,716.9)	(122.3)	(1.0)
Malaysian Ringgit	2.0	0.5	--	--	--	--
Mexican New Peso	236.2	13.6	(0.2)	(259.3)	(15.0)	0.3
New Zealand Dollar	4.8	3.3	0.1	(10.1)	(6.9)	(0.1)
Norwegian Krone	284.7	32.2	(1.1)	(181.3)	(20.5)	0.5
Peruvian Nuevo Sol	--	--	--	(20.2)	(5.9)	0.1
Polish Zloty	--	--	--	(21.9)	(5.5)	--
Russian Ruble	356.4	4.8	(0.2)	(47.8)	(0.6)	0.1
Singapore Dollar	33.3	23.5	(0.1)	(31.0)	(21.9)	0.1
South African Rand	6.0	0.4	--	(22.6)	(1.5)	0.1
Swedish Krona	1,066.5	126.5	2.8	(309.3)	(36.7)	(0.7)
Swiss Franc	62.8	62.7	1.1	(25.0)	(24.9)	(0.2)
United States Dollar	983.0	983.0	--	(1,275.5)	(1,275.5)	--
Totals		2,264.0	3.8		(2,260.8)	(0.5)
Net Foreign Currency Contract Receivable / (Payable)					3.3	3.3

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

The fair value of futures contracts represents the unrealized gain/(loss) on the contracts, since trade inception, and is reflected as a portion of Financial Futures Contracts and Swaps on the Statement of Fiduciary Net Position. Futures contracts are marked to market daily, based upon the closing market price of the contract at the board of trade or exchange on which they are traded. Gains and losses resulting from investments in futures contracts are included in the Net Appreciation (Depreciation) in the Fair Value of Investments on the Statement of Changes in Fiduciary Net Position.

The following table presents the investments in futures contracts as of December 31, 2015 (in millions).

Futures Contracts

Futures Contract Description	Expiration	Notional Amount	Fair Value*
Long Positions:			
Commodity	Jan - Mar 16	$ 1,766.1	$ (5.7)
Currency	Mar 16	11.8	--
Equity	Mar 16	3,021.5	13.3
Fixed Income	Mar 16	6,106.1	(7.8)
Short Positions:			
Equity	Mar 16	(10.7)	(0.1)
Fixed Income	Mar 16	(1.6)	--
Total		$10,893.3	$ (0.2)

* Fair Value includes foreign currency gains/(losses).

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

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

Swap Contracts - Swaps are negotiated contractual agreements between two counterparties which can be cleared on uncleared OTC investments. Throughout the calendar year, the WRS held positions in Total Return Swaps (TRS), Interest Rate Swaps (IRS) and Credit Default Swaps (CDS).

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

The following table presents the investments in open Swap Positions as of December 31, 2015 (in millions).

Open Swap Positions

Description / Reference Rates	Maturity Date	Notional Amount	Fair Value
Total Return Swap Pay 3-month LIBOR, Receive Equity Index Return	Sept 2016	$ 499.4	$ 9.6
Interest Rate Swap* Pay Fixed 2.08, Receive 3-month LIBOR	Jan 2025	1.1	--
Interest Rate Swap* Pay Fixed 2.14, Receive 3-month LIBOR	Jan 2025	2.5	--
Interest Rate Swap* Pay Fixed 2.34, Receive 3-month LIBOR	Feb 2045	2.2	0.1
Total		$ 505.2	$ 9.8

* Denotes an instrument that is highly sensitive to interest rate changes

IRS positions represent cleared OTC contracts where fair value is determined using the closing price as reported by the applicable clearing house. TRS positions represent uncleared OTC contracts where fair value is determined based on the change in quoted market price of the underlying equity index.

The fair value of swaps represents the unrealized gain/(loss) on the contracts, since trade inception, and is reflected in "Financial Futures Contracts and Swaps" on the Statement of Fiduciary Net Position. Any interest owed but not yet paid relating to TRS contracts is reported within the category "Other Liabilities" on the Statement of Fiduciary Net Position. Gains and losses resulting from investments in all swap are included in the Net Increase

(Decrease) in the Fair Value of Investments on the Statement of Changes in Fiduciary Net Position. Interest Expense relating to TRS contracts is reported as "Investment Expense" on the Statement of Changes in Fiduciary Net Position.

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

Rebalancing policies and portfolio investment guidelines permit the use of exchange-traded and over-the-counter options. Options may be used to improve market exposure efficiency, enhance expected returns, or provide market exposure hedges. Exchange rules require that the seller of exchange-traded call option contracts cover these positions either by collateral deposits in the form of cash or securities or by pledging, in escrow, the actual securities that would be transferred to the option purchaser in the event the option contract were exercised.

The fair value of option contracts is based upon the closing market price of the contract and is reflected as Options on the Statement of Fiduciary Net Position. Gains and losses as a result of investments in option contracts are included in the Net Appreciation (Depreciation) in the Fair Value of Investments on the Statement of Changes in Fiduciary Net Position.

The table below presents the fair value of option contracts as of December 31, 2015 (in millions):

Option Contracts

Security Description	Contract Type	Position	Exchange-Traded vs. OTC	Expiration	Notional	Fair Value	Unrealized Gain (Loss)
Commodity	Call	Long	Exchange	April 2016	$ 1.7	--	$ (0.1)
	Call	Short	Exchange	April 2016	(0.9)	(0.1)	--
Currency	Call	Short	Exchange	January 2016	(55.9)	(0.1)	0.2
	Put	Short	Exchange	January 2016	(44.8)	(0.3)	(0.1)
Equity	Call	Long	Exchange	Jan 16 - Jan 17	33.2	0.4	(1.0)
	Call	Long	OTC	March 2016	4.0	0.2	--
	Call	Short	Exchange	January 2016	(22.5)	(0.3)	0.4
	Call	Short	OTC	March 2016	(2.5)	--	--
	Put	Short	Exchange	Jan 16 - Mar 16	(148.8)	(0.9)	0.6
	Put	Short	OTC	Jan 16 - Mar 16	(145.2)	(0.1)	0.7
Total Option Contracts					$ (381.7)	$ (1.2)	$ 0.6

Short Sell Obligations

Wisconsin Retirement System (WRS)

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

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

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

Except in the case of borrowings within the same trust fund, the WRS is required to post collateral to the lender, at the required rate of 102% for in-currency loans and 105% for cross-currency loans. At December 31, 2015, the WRS posted $372.7 million in collateral to security lenders. This represented $13.8 million in excess of the fair market value of the securities borrowed. If the security lender recalled the security and SWIB was not able to supply the lender with the security, the lender would be permitted to use SWIB's collateral to fund the purchase of the security.

Multi Asset

Wisconsin Retirement System (WRS)

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

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

The WRS invests in a diversified set of hedge fund strategies, invested across multiple asset classes. In general, a hedge fund is a private investment fund that seeks to produce absolute returns using a broad range of strategies with low to moderate levels of volatility, typically employing both long and short positions. An allocation to a diversified hedge fund portfolio is intended to have low correlation to traditional publicly traded equities and contribute to overall total fund diversification.

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

At December 31, 2015, the majority of SWIB's risk parity and hedge fund investments are reflected within the "Multi Asset" category on the Statement of Fiduciary Net Position.

Unfunded Capital Commitments

University of Wisconsin System (UWS)

The UWS has unfunded limited partnership commitments of $24.3 million for the fiscal year ending June 30, 2016.

Wisconsin Retirement System (WRS)

The Board has entered into a number of agreements that commit the WRS to make investment purchases up to predetermined amounts over certain investment time periods. The unfunded capital commitments for private equity, real estate and multi-asset investments not reported on the Statement of Fiduciary Net Position total $6.4 billion as of December 31, 2015.

2. State Investment Fund

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

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

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

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

Finally, per GASB No. 31, all short-term investments with remaining maturities of over ninety days (certain U.S. Government/Agency securities) are valued at fair value as determined by quoted market prices, if available. Because quoted market prices for SIF securities are often not available, at month end BNY Mellon, as SWIB's custodial bank, compiles fair values from third party pricing services which use matrix pricing models to determine fair market value.

For purposes of calculating earnings to each participant, all investments are valued at amortized cost. Specifically, income is distributed to pool participants monthly, based on their average daily share balance. Distributions include interest income based on stated rates (both paid and accrued), amortization of discounts and premiums on a straight-line basis, realized investment gains and losses calculated on an amortized cost basis, and investment expenses. This method does not distribute to participants any unrealized gains and losses generated by the pool's investments.

Fair Value Reporting

The SIF categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. Investments held at cost or amortized cost are not reported within the fair value hierarchy.

The following table presents the recurring fair value measurements as of June 30, 2016 (in millions).

		Fair Value Measurement Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level:				
Government & Agencies	$ 3,356.8	$ 149.9	$ 3,206.9	
Total By Fair Value Level	$ 3,356.8	$ 149.9	$ 3,206.9	
Short- Term Reported at Cost or Amortized Cost:				
Repurchase Agreements	$ 1,110.0			
Government & Agencies	5,035.5			
Certificates of Deposit	60.5			
Banker's Acceptances	7.9			
Commercial Paper	170.0			
Total	**$ 9,740.7**			

Debt securities categorized as Level 2 are valued by third party pricing services using a matrix-pricing technique that values securities based on their relationship to quoted market prices for securities with similar interest rates, maturities, and credit ratings.

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.

The SIF's custodial credit risk policy addresses the primary risks associated with safekeeping and custody. It requires that custodial institutions be selected through a competitive bid process and that the institution be designated a 'Systemically Important Financial Institution' by the U.S. Federal Reserve. The policy also requires that the SIF be reflected as beneficial owner on all securities entrusted to the custodian and that the SIF have access to safekeeping and custody accounts. The custodian is also required to be insured for errors and omissions and must provide the SIF with an annual report on internal controls The SIF's current custodial bank was selected in accordance with these guidelines and meets all requirements stipulated in the custodial credit risk policy.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment in a single issuer. The SIF's investment guidelines limit concentrations of credit risk by establishing maximum issuer and/or issue exposure limits based on credit rating. These guidelines do not place a limit on maximum exposure for any U.S. Treasury or Agency securities. As of June 30, 2016 the SIF has more than five percent of its investments in FHLB (26.5 percent), FHLMC (26.4 percent), FNMA (26.7 percent), U.S. Treasury Bills (6.6 percent) and Repurchase Agreement collateral (11.4 percent) consisting of various securities issued by these same U.S. Agencies. Since the Repurchase Agreements generally mature each day, new collateral, consisting of a different blend of U.S. Treasury and Agency securities, is assigned each night.

Credit Quality Risk

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

The following table presents these credit ratings and aggregate exposures by investment type as of June 30, 2016 (in millions):

Investment Type	Ratings	Fair Value	Percent
Repurchase Agreements (Collateral):			
U.S. Government Debt & Agencies	AA	1,110.0	11.4
U.S. Treasury:			
Short-Term (Bills)	A-1+	644.7	6.6
Government Sponsored Entity U.S. Agency:			
Federal Home Loan Bank (FHLB)	A-1+	2,580.0	26.5
Federal Home Loan Mortgage Corporation (FHLMC)	A-1+	2,571.5	26.4
Federal National Mortgage Association (FNMA)	A-1+	2,596.1	26.7
Certificates of Deposit:			
U.S. Bank	A-1+	30.0	0.3
Non-Negotiable (Wisconsin CD Program)	NR	30.5	0.3
Banker's Acceptances	A-1+	7.9	0.1
Commercial Paper	A-1+	170.0	1.7
Total Investments		$ 9,740.7	100.0

Interest Rate Risk

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

At June 30, 2016, the following table shows the investments by investment type, amount and the weighted average maturities (in millions):

Investment Type	Fair Value	Weighted Average Maturity (Days)
Repurchase Agreements	$ 1,110.0	3
Government & Agencies	8,392.3	77
Certificates of Deposit	60.5	60
Banker's Acceptances	7.9	45
Commercial Paper	170.0	12
Total Investments	$ 9,740.7	
Portfolio Weighted Average Maturity (Days)		67

Foreign Currency Risk

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

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

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

3. Lottery Investments and Related Future Prize Obligations

Investments of the State Lottery Fund totaling $30.8 million are held to finance grand prizes payable over a 20-year or 25-year period. The investments in prize annuities are debt obligations of the U.S. government backed by its full faith and credit as to both principal and interest. Liabilities related to the future prize obligations are presented at their present value and included in Accounts Payable and Other Accrued Liabilities.

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

Fiscal Year	Amount
2017	6.3
2018	5.6
2019	4.6
2020	4.1
2021	3.7
Thereafter	8.4
Total future value	32.7
Less: Present value adjustment	(5.9)
Present value of payments	$ 26.8

NOTE 6. RECEIVABLES AND NET REVENUES

A. Receivables

Receivables at June 30, 2016 were as follows (in thousands):

		Loans to	Other Loans Receivable					Due From	Due From	
		Local	Student	Veterans	Mortgage	Other	Other	Other	Component	Total
	Taxes	Governments	Loans	Loans	Loans	Loans	Receivables	Governments	Units	Receivables
Governmental Activities:										
General	$ 1,222,427	$ -	$ -	$ -	$ -	$ 11,756	$ 617,488	$ 1,318,781	$ -	$ 3,170,453
Transportation	102,571	-	-	-	-	14,852	13,537	240,013	-	370,973
Capital Improvement	-	-	-	-	-	-	34	-	-	34
Nonmajor Governmental	22,708	403,875	-	-	-	-	78,008	16,511	-	521,101
Total Governmental:	1,347,707	403,875	-	-	-	26,608	709,066	1,575,305	-	4,062,561
Government-wide Adjustments:										
Internal Service Funds	-	-	-	-	-	-	2,826	142	-	2,968
Accrual Adjustments	-	-	-	-	-	-	2,810	-	-	2,810
Fiduciary Receivables	-	-	-	-	-	-	65,804	-	-	65,804
Total – Governmental Activities	$ 1,347,707	$ 403,875	$ -	$ -	$ -	$ 26,608	$ 780,506	$ 1,575,447	$ -	$ 4,134,142
Related revenue not recognized in the funds because it is not available	$ 193,323	$ -	$ -	$ -	$ -	$ -	$ 20,245	$ -	$ -	$ 213,567
Business-type Activities:										
Current:										
Injured Patients and Families Compensation	$ -	$ -	$ -	$ -	$ -	$ -	$ 18,940	$ -	$ -	$ 18,940
Environmental Improvement	-	176,315	-	-	-	-	309	10,638	-	187,262
University of Wisconsin System	-	-	29,478	-	-	-	135,806	76,207	4,739	246,230
Unemployment Reserve	-	-	-	-	-	-	230,166	2,299	-	232,465
Nonmajor Enterprise	-	307	-	380	1,934	-	115,565	8,784	-	126,971
Total Current:	-	176,621	29,478	380	1,934	-	500,787	97,928	4,739	811,868
Noncurrent:										
Environmental Improvement	-	1,794,104	-	-	-	-	-	-	-	1,794,104
University of Wisconsin System	-	-	166,958	-	-	-	919	-	-	167,877
Unemployment Reserve	-	-	-	-	-	-	57,496	-	-	57,496
Nonmajor Enterprise	-	2,061	-	863	38,579	3,362	197	-	-	45,062
Total Noncurrent	-	1,796,165	166,958	863	38,579	3,362	58,612	-	-	2,064,539
Government-wide Adjustments:										
Fiduciary Receivables	-	-	-	-	-	-	148,306	-	-	148,306
Total – Business-type Activities	$ -	$ 1,972,786	$ 196,436	$ 1,243	$ 40,513	$ 3,362	$ 707,705	$ 97,928	$ 4,739	$ 3,024,713

B. Net Revenues

Certain revenues of the University of Wisconsin System are reported net of scholarship allowances. For Fiscal Year 2016, these scholarship allowances totaled as follows (in thousands):

Student Tuition and Fees	$ 209,183
Sales and Services of Auxiliary Enterprises	36,664
Total	$ 245,847

NOTE 7. CAPITAL ASSETS

Primary Government

Capital asset activity for the fiscal year ended June 30, 2016 was as follows (in thousands):

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and Land Improvements	$ 2,708,571	$ 64,271	$ (87)	$ 2,772,756
Buildings and Improvements	166,331	604	-	166,934
Library Holdings	73,401	908	-	74,310
Equipment	7	220	(95)	132
Construction and Software in Progress	2,872,376	959,294	(639,847)	3,191,823
Infrastructure	14,984,406	493,583	(44,698)	15,433,292
Total capital assets, not being depreciated	20,805,092	1,518,881	(684,727)	21,639,246
Capital assets, being depreciated:				
Land Improvements	172,683	3,252	(176)	175,759
Buildings and Improvements	2,181,067	118,414	(8,367)	2,291,114
Equipment	812,064	151,404	(27,261)	936,206
Totals	3,165,814	273,070	(35,804)	3,403,080
Less accumulated depreciation for:				
Land Improvements	101,728	22,456	-	124,185
Buildings and Improvements	1,020,591	77,496	(4,325)	1,093,762
Equipment	526,275	90,478	(22,929)	593,824
Totals	1,648,594	190,430	(27,254)	1,811,770
Total Capital Assets, being depreciated, net	1,517,220	82,640	(8,550)	1,591,310
Governmental activities capital assets, net	$ 22,322,312	$ 1,601,520	$ (693,277)	$ 23,230,556
Business-type activities:				
Capital assets, not being depreciated:				
Land and Land Improvements	$ 161,485	$ 262	$ -	$ 161,747
Library Holdings	1,145,326	20,432	(41,624)	1,124,134
Construction and Software in Progress	313,875	135,512	(209,202)	240,184
Total Capital Assets, not being depreciated	1,620,686	156,205	(250,826)	1,526,065
Capital assets, being depreciated:				
Land Improvements	21,877	594	-	22,471
Buildings	7,356,818	338,084	(7,055)	7,687,848
Equipment	1,166,692	77,541	(41,316)	1,202,916
Totals	8,545,386	416,219	(48,371)	8,913,235
Less accumulated depreciation for:				
Land Improvements	12,154	1,014	-	13,168
Buildings	3,079,750	231,494	(1,876)	3,309,368
Equipment	838,744	89,429	(34,754)	893,419
Totals	3,930,648	321,937	(36,630)	4,215,955
Total Capital Assets, being depreciated, net	4,614,738	94,282	(11,740)	4,697,280
Business-type activities capital assets, net	$ 6,235,424	$ 250,488	$ (262,567)	$ 6,223,344

In addition to the capital assets reported by governmental and business-type activities, the fiduciary funds reported gross capital assets of $16.8 million, with accumulated depreciation totaling $2.9 million.

Depreciation Expense

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

Governmental Activities		
Commerce	$	2,100
Education		5,561
Transportation		13,423
Environmental Resources		19,734
Human Relations and Resources		99,965
General Executive		14,524
Judicial		1,566
Internal Service Funds		33,559
Total depreciation expense - governmental activities	$	190,430

Business-type Activities		
University of Wisconsin System	$	303,909
Lottery		16
Veterans Mortgage Loan Repayment		11
Injured Patients and Families Compensation		230
Environmental Improvement		-
Other Business-Type		17,768
Total depreciation expense - business-type activities	$	321,935

Construction and Software in Progress

Construction and software in progress of the primary government reported in the government-wide statement of net position at June 30, 2016 included the following projects (in thousands):

Governmental Activities	Allotments	Expended to June 30, 2016	Encumbrances Outstanding	Unencumbered Allotment Balance
Reported through capital projects funds:				
BCPL Land Sale/Transfer To DNR	$ 14,000	$ 10,908	$ -	$ 3,092
CCI Segregation Unit Expansion	12,472	514	487	11,471
Capitol Heating and Power Plant - Facility Renovate & Upgrade	28,268	27,956	99	235
General Land Acquisition	69,470	53,230	1,887	14,355
General Land Acquisition – 2010	38,300	36,942	-	1,358
Interstate 94 North &South Corridor Reconstruction	10,589	10,589	-	-
Preservation Storage Building	46,723	12,810	36,884	1,447
Stillwater/St Croix Crossing Bridge	50,681	50,681	-	-
Wisconsin Resource Center - Female Treatment Center	16,105	15,993	26	87
Zoo Interchange	358,292	358,292	-	-
Other projects with allotments totaling less than $10 million		96,777		
Subtotal		674,692		
Projects funded through sources other than capital projects funds:				
Transportation-related		2,468,631		
Department of Natural Resources		7,542		
Department of Health Services		11,683		
Department of Children and Families		25,020		
Other agency projects		4,255		
Total construction and software in progress – governmental activities		3,191,823		
Business-type Activities				
Reported through capital projects funds - University of Wisconsin System:				
Science Labs Building – LaCrosse	82,000	4,134	62,777	15,093
Student Center – LaCrosse	53,300	41,471	5,838	7,938
Children Center Renovation – Milwaukee	11,981	9,363	318	2,442
Babcock Hall Renovation – Madison	34,420	1,441	1,219	31,760
Lot 75 Parking Lot – Madison	32,670	16,868	2,041	15,054
Meat Science & Muscle Biology Lab – Madison	45,777	1,853	2,010	41,914
Multi-Building Energy Conservation – Madison	12,032	9,192	1,154	1,991
Music Performance Facility – Madison	55,800	4,813	3,903	47,084
Fletcher Hall Renovation – Oshkosh	23,500	1,422	20,532	1,546
Falcon Center for Health and Education - River Falls	68,199	42,735	8,796	20,473
Chemistry Biology Building - Stevens Point	74,756	6,263	2,196	66,297
Projects with allotments totaling less than $10 million:				
University of Wisconsin System		81,000		
Other projects with allotments totaling less than $10 million		19,629		
Total construction and software in progress – business type activities		$ 240,184		

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 $220.6 million and $19.6 million as of June 30, 2016, respectively.

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NOTE 8. ENDOWMENTS

Primary Government

University of Wisconsin System

The University of Wisconsin System invests its trust funds, principally gifts and bequests designated as endowments or quasi-endowments, in two of its own investment pools: the Long Term Fund and the Intermediate Term Fund. Benefiting University of Wisconsin System entities receive quarterly distributions from the Long Term Fund, principally endowed assets, based on an annual spending rate applied to a 12-quarter moving average market value of the fund. The annual spending rate is currently 4.0 percent. Distributions from the Intermediate Term Fund, principally quasi-endowments and unspent income distributions, consist of interest earnings distributed quarterly. Spending rate and interest distributions from both of these funds are transferred to the State Investment Fund, pending near-term expenditures. At June 30, 2016, net appreciation of $106.2 million was available to meet spending rate distributions, of which $16.5 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, 2016 was $444.8 million including an unrealized gain of $38.6 million when fair values as of June 30, 2016 are compared to asset acquisition costs.

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

At June 30, 2016, 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	$ 250.9
Realized Gains – Undistributed	155.3
Book Value	406.2
Unrealized Net Gains/Losses - Undistributed	38.6
Fair Value	$ 444.8

On June 30, 2016, the portfolio at market, for the Long Term Fund, contained 35.5 percent in common stock and convertible securities, 12.1 percent in bonds and preferred stock, 22.4 percent in alternative assets, 21.8 percent in tactical allocation strategies, 6.4 percent in short-term investments, and 1.8 percent in real assets. The total return (loss) on the principal Long Term Fund including capital appreciation was (2.6) percent.

On June 30, 2016, the portfolio at market, for the Intermediate Fund, contained 14.1 percent in common stock and convertible securities, 79.2 percent in bonds and preferred stock, and 6.7 percent in short-term investments. The total return on the principal Intermediate Fund including capital appreciation was 2.7 percent.

External investment counsel was furnished for funds representing 89.6 percent of market value principal.

NOTE 9. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances as of or for the year ended June 30, 2016 consists of the following (in thousands):

A. Due from/to Other Funds:

Due from Other Funds and the Due to Other Funds represent short-term interfund accounts receivable and payable. The balances in these accounts at June 30, 2016 were as follows (in thousands):

Due from Other Funds:	Due to Other Funds: General	Transportation	Capital Improvement	Nonmajor Governmental	Injured Patients and Families Compensation	Environmental Improvement	University of Wisconsin System	Unemployment Reserve	Nonmajor Enterprise	Internal Service	Fiduciary	Total
General	$ -	$ 21,801	$ 3	$ 8,490	$ 427	$ 2,333	$ 118,024	$ 1,939	$ 7,985	$ 1,417	$ 64,521	$ 226,938
Transportation	40,269	-	53,977	45,795	-	-	348	-	-	167	-	140,556
Capital Improvement	-	-	-	-	-	-	-	-	2,236	22,849	-	25,084
Nonmajor Governmental	12,861	10,630	-	2,981	-	1,609	15	10	1,442	-	-	29,547
Environmental Improvement	6	-	-	106	-	-	-	-	-	-	-	111
University of Wisconsin System	24,729	1,362	-	1,679	-	18	-	-	1	8	-	27,797
Unemployment Reserve	406	-	-	-	-	-	-	-	-	-	-	406
Nonmajor Enterprise	2,643	-	-	0	-	-	-	-	2,543	-	56,176	61,362
Internal Service	26,000	5,954	-	1,864	-	-	1,930	-	394	130	1,283	37,555
Fiduciary	20,667	3,229	-	2,503	-	-	26,419	-	12,718	432	25,066	91,034
Total	$ 127,581	$ 42,976	$ 53,980	$ 63,418	$ 427	$ 3,960	$ 146,736	$ 1,948	$ 27,318	$ 25,002	$ 147,046	$ 640,391

The balances in the Due from Other Funds and Due to Other Funds accounts typically result from the time lag between the dates that

(1) interfund goods and services were provided and when the payments occurred, and

(2) interfund transfers were accrued and when the liquidations occurred.

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

B. Interfund Receivables/Payables

Interfund Receivables/Payables represent short-term loans from one fund to another to cover cash overdrafts. Interfund receivables/payables at June 30, 2016 were as follows (in thousands):

	Interfund Receivable:		
	General	Nonmajor Enterprise	Total
Interfund Payables:			
Nonmajor Governmental	$ 1,980	$ -	$ 1,980
Nonmajor Enterprise	24,967	-	$ 24,967
Internal Service	44,867	-	44,867
Fiduciary	-	91,337	91,337
Total	$ 71,814	$ 91,337	$ 163,151

C. Advances to/from Other Funds

Advances to/from Other Funds represent long-term loans to one fund from another fund. Advances at June 30, 2016 were as follows (in thousands):

	Advances from Other Funds (liability):		
	General	Nonmajor Governmental	Total
Advances to Other Funds (asset):			
Environmental Improvement	$ -	$ 6,238	$ 6,238
Nonmajor Enterprise	710	-	710
Total	$ 710	$ 6,238	$ 6,948

D. Interfund Transfers

Interfund Transfers in and out that occurred during Fiscal Year 2016 were as follows (in thousands):

	Transfers In:									
	General	Transportation	Capital Improvement	Nonmajor Governmental	Environmental Improvement	University of Wisconsin System	Unemployment Reserve	Nonmajor Enterprise	Internal Service	Total
Transfers Out:										
General	$ -	$ 38,442	$ 1,444	$ 711,268	$ -	$ 836,539	$ -	$ 97,025	$ 4,519	$ 1,689,237
Transportation	2,542	-	12,391	131,102	-	-	-	-	-	146,035
Capital Improvement	-	-	-	-	3,124	80,295	-	3,943	37	87,399
Nonmajor Governmental	18,649	27,259	98,071	90,586	-	11,407	2,000	1,823	6	249,800
Injured Patients and Families Compensation	-	-	-	15	-	-	-	-	-	15
Environmental Improvement	14,144	-	-	8,009	-	-	-	-	-	22,153
University of Wisconsin System	30,143	-	137	65,525	-	-	-	-	-	95,805
Unemployment Reserve	438	-	-	-	-	-	-	-	-	438
Nonmajor Enterprise	4,187	-	-	10,591	-	-	-	12,000	-	26,778
Internal Service	7,573	-	16	1,111	-	5	-	-	654	9,360
Fiduciary	-	-	-	579	-	-	-	-	-	579
Total	$ 77,676	$ 65,701	$ 112,059	$ 1,018,785	$ 3,124	$ 928,246	$ 2,000	$ 114,791	$ 5,217	$ 2,327,599

Transfers are typically used to move: (1) revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, (3) unrestricted revenues collected in one fund to finance various programs accounted for in other funds in accordance with statute or budgetary authorizations, and (4) accumulated surpluses from other funds to the General Fund when authorized by statute.

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

Nonroutine and Other Transfers

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

Transfer out from the General Fund:

Funds Reporting the Transfer In	Amount
Transportation	$ 38,010
Environmental	11,144
Local Government Property Insurance	8,400

Transfers in to the General Fund:

Funds Reporting the Transfer Out	Amount
University of Wisconsin System	$ 12,987
Facilities Operations and Maintenance	5,218
Financial Services	1,173

Transfers out from the Petroleum Inspection Fund:

Fund Reporting the Transfer In	Amount
Transportation	$ 21,000

NOTE 10. CHANGES IN LONG-TERM LIABILITIES

During the year ended June 30, 2016, the following changes occurred in long-term liabilities (in thousands):

Primary Government

Governmental Activities	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Amounts Due Within One Year
Bonds and Long Term Notes Payable:					
General Obligation Bonds & Notes for:					
Governmental Funds	$ 5,290,463	$ 838,276	$ 681,930	$ 5,446,809	$ 508,095
Internal Service Funds	151,567	9,605	20,066	141,106	10,237
Annual Appropriation Bonds	3,115,935	-	79,585	3,036,350	80,460
Revenue Bonds	2,028,835	225,000	222,630	2,031,205	148,015
Less: Issuance Premiums and Discounts	612,067	202,587	125,936	688,717	-
Total Bonds and Long Term Notes Payable	11,198,867	1,275,468	1,130,148	11,344,187	746,807
Other Liabilities:					
Future Benefits and Loss Liability	107,040	29,204	36,868	99,376	37,295
Capital Leases	99,271	30,876	19,147	111,000	18,169
Installment Contracts	898	575	1,001	472	472
Compensated Absences	158,297	50,224	53,103	155,418	52,461
Net Pension Liability	-	210,150	-	210,150	-
Other Postemployment Benefits	221,556	17,590	-	239,146	-
Claims, Judgments and Commitments	555	26	-	581	-
Pollution Remediation Obligations	7,490	510	300	7,700	200
Total Governmental Activities Long-term Liabilities	$ 11,793,974	$ 1,614,624	$ 1,240,568	$ 12,168,030	$ 855,404

Repayment of the general obligation bonds and notes is made from the Bond Security and Redemption Fund. The amount presented in this fund represents the liability to be paid from resources accumulated to provide debt service payments in Fiscal Year 2016. Repayment of the revenue bonds principal and interest is made from the appropriate debt service fund with payments secured by registration and inspection fees collected by the appropriate program. Most of the compensated absences and other postemployment benefits liabilities are attributed to the General, Transportation and Conservation funds. Long-term liabilities for claims, judgments and commitments are generally liquidated with resources of the governmental activities.

Business-type Activities	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Amounts Due Within One Year
Bonds Payable:					
General Obligation Bonds	$ 1,505,003	$ 138,186	$ 138,811	$ 1,504,377	$ 83,434
Revenue Bonds	706,345	297,505	328,900	674,950	54,105
Less: Issuance Premiums and Discounts	146,539	83,550	44,147	185,941	-
Total Bonds Payable	2,357,887	519,240	511,858	2,365,269	137,539
Other Liabilities:					
Future Benefits and Loss Liability	934,470	116,365	149,304	901,531	134,896
Capital Leases	37,209	1,742	4,687	34,265	4,120
Compensated Absences	143,386	68,328	65,957	145,757	70,515
Net Pension Liability	-	245,318	-	245,318	-
Other Postemployment Benefits	279,324	22,440	-	301,765	-
Total Business-type Activities Long-term Liabilities	$ 3,752,277	$ 973,434	$ 731,806	$ 3,993,905	$ 347,069

NOTE 11. BONDS, NOTES AND OTHER DEBT OBLIGATIONS

The following schedule summarizes outstanding bonds and long-term notes payable at June 30, 2016 (in thousands):

Primary Government		
Governmental Activities:		
General Obligation Bonds and Notes	$	6,054,989
Annual Appropriation Bonds		3,032,415
Revenue Bonds:		
Transportation		2,215,104
Petroleum Inspection		41,679
Total Governmental Activities		11,344,187
Business-type Activities:		
General Obligation Bonds and Notes:		
University of Wisconsin System		1,512,902
Other Business-type		92,879
Revenue Bonds:		
Environmental Improvement		759,488
Total Business-type Activities		2,365,269
Total Primary Government	$	13,709,456

A. General Obligation Bonds

The State of Wisconsin Building Commission, an agency of the State, is empowered by law to consider, act upon, authorize, issue and sell all debt obligations of the State. To date, the Commission has authorized and issued general obligation bonds and notes primarily to provide funds for the acquisition or improvement of land, water, property, highways, buildings, equipment or facilities for public purposes. Occasionally, general obligation bonds are also issued for the purpose of providing funds for veterans housing loans and to refund general obligation bonds. All general obligation bonds and notes authorized and issued by the State are secured by a pledge of the full faith, credit and taxing power of the State of Wisconsin and are customarily repaid over a period of twenty to thirty years.

Article VIII of the Wisconsin Constitution and Wis. Stat. Section 18.05 set limits on the amount of debt that the State can contract in total and in any calendar year. In total, debt outstanding cannot exceed five percent of the value of all taxable property in the State. Annual debt issued cannot exceed the lesser of three-quarters of one percent or five percent of the value of all taxable property in the State less net indebtedness at January 1.

At June 30, 2016, $4.4 billion of general obligation bonds were authorized but unissued.

General obligation bonds issued and outstanding as of June 30, 2016 were as follows (in thousands):

Fiscal Year Issued	Series	Dates	Interest Rates	Maturity Through	Amount Issued	Amount Outstanding
1999	1998 Series 1	8/98	5.5	11/16	$ 157,580	$ 8,320
2001	2001 Series A	2/01	7.0	5/31	15,000	1,255
2002	2002 Series B, D	3/02; 6/02	6.25	5/33	35,000	3,275
2003	2002 Series E, F, and H; 2003 Series 2	9/02; 9/02; 12/02; 4/03	4.25 to 5.25	5/33	43,740	6,560
2004	2003 Series B, and 3; 2004 Series CWGBC	7/03; 10/03; 4/04	0 to 5.0	11/33	214,731	66,223
2005	2004 Series C; 2005 Series C	8/04; 4/05	5.15 to 5.65	5/35	6,000	860
2007	2006 Series B, and C; 2007 Series AW, BW, and 1;	7/06; 8/06; 2/07; 2/07; 2/07;	4.25 to 5.65	5/37	382,690	239,826
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	4.13 to 6.26	5/38	385,480	71,815
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 5.4	5/30	521,875	131,810
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	4.0 to 5.9	5/40	1,016,483	601,708
2011	2010 Series C, D, and BW; 2011 Series A, and 1	9/10; 9/10;12/10; 2/11; 6/11	3.45 to 5.25	5/41	1,175,535	822,975
2012	2011 Series 2, B, and C; 2012 Series 1 ,2, AW and A	10/11; 8/11; 12/11; 3/12; 5/12; 4/12; 6/12	1.28 to 5.0	5/42	1,359,920	1,099,400
2013	2012 Series B; 2013 Series A	11/12; 5/13	2.55 to 5.0	5/33	703,320	645,845
2014	2013 Series 1; 2014 Series 1, 2, A, and AW	11/13; 2/14; 4/14; 2/14; 4/14	0.2 to 5.0	5/34	1,071,155	954,975
2015	2014 Series 3, 4 and B; 2015 Series 1, A, and B	9/14; 1/15; 7/14 4/15; 2/15; 6/15	2.0 to 5.0	5/35	1,318,765	1,180,200
2016	2015 Series C; 2016 Series 1 and A	9/15; 3/16; 3/16	1.75 to 5.0	5/36	977,435	977,435
Total					9,384,709	6,812,482
Premiums/Discounts					--	568,477
Total General Obligation Bonds					$ 9,384,709	$ 7,380,959

As of June 30, 2016, general obligation bond debt service requirements for principal and interest for governmental activities and business - type activities are as follows (in thousands):

Fiscal Year	Governmental Activities		Business-Type Activities	
Ended June 30	Principal	Interest	Principal	Interest
2017	$ 363,379	$ 253,569	$ 59,656	$ 69,336
2018	377,840	235,192	60,730	66,367
2019	409,943	217,187	67,914	63,415
2020	390,237	197,535	68,481	60,132
2021	357,946	177,507	66,257	56,208
2022-2026	1,658,355	641,622	416,643	226,628
2027-2031	1,249,780	296,396	421,026	127,432
2032-2036	533,434	62,968	240,706	41,428
2037-2041	--	--	64,965	10,393
2042	--	--	5,190	208
Total	5,340,914	2,081,976	1,471,569	721,546
Premiums/Discounts	467,074	--	101,403	
Total	$ 5,807,988	$ 2,081,976	$ 1,572,972	$ 721,546

Qualified Build America Bonds

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

With respect to the direct payments the State expects to receive, since such payments are not program Income and not pledged to the payment on the Bonds, there is no direct impact on the Bonds with these direct payments being subject to the mandated across-the-board cuts to the Federal budget for the federal fiscal year that started October 1, 2015 and ends September 30, 2016. The impact of these cuts for the current federal fiscal year is a 6.8% reduction in the direct payment amount that the State expected to receive.

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

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

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

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

B. General Obligation Long-term Notes

In April 2015, the State issued $279.8 million of General Obligation Long-term Notes Payable for the purpose of refunding General Obligation Bonds. The face value of the notes are reported as part of General Obligation Bonds and Notes in the Statements of Net Position and bear interest at rates from 1.94 percent to 3.43 percent, payable semi-annually on each May 1 and November 1 until their maturity dates. Principal outstanding at year end totaled $279.8 million.

As of June 30, 2016, long-term general obligation note debt service requirements for principal and interest for governmental activities and business-type activities are as follows (in millions):

Fiscal Year	Governmental Activities		Business-Type Activities	
Ended June 30	Principal	Interest	Principal	Interest
2017	$ 69,727	$ 6,396	$ 6,178	$ 887
2018	72,664	5,025	10,216	765
2019	34,241	3,279	5,079	519
2020	45,387	2,320	6,073	377
2021	24,983	869	5,262	183
Total	$ 247,001	$ 17,889	$ 32,809	$ 2,731

C. Annual Appropriation Bonds

2003 Annual Appropriation Bonds

In December 2003, the State issued $1.8 billion of General Fund Annual Appropriation Bonds consisting of Series A (Taxable Fixed Rate) and Series B (Taxable Auction Rate Certificates). These appropriation obligations were authorized by Wisconsin Statutes to obtain proceeds to pay the State's anticipated unfunded accrued prior service (pension) liability under Wis. Stat. Section 40.05(2)(b) and its unfunded accrued liability for sick leave conversion credits under Wis. Stat. Section 40.05(4)(b), (bc), and (bw) and Subchapter IX of Chapter 40. In April and June 2008, the State issued $1.0 billion of General Fund Annual Appropriation Refunding Bonds to refund the Series B (Taxable Auction Rate Certificates) that were issued in 2003. The 2008 issuance consisted of Series A (Taxable Fixed Rate) and Series B and C (Taxable Floating Rate Notes). In November 2012, the State issued $251.6 million bonds to refund a portion of the 2003 Series A bonds.

These appropriation obligations are not general obligations of the State, and do not constitute "public debt" of the State as that term is used in the Constitution and in the State Statutes. The payment of the principal of, and premium, if any, and interest on the obligations is subject to annual appropriation; that is, payments due in any fiscal year of the State will be made only to the extent sufficient amounts are appropriated by the Legislature. The State is not legally obligated to appropriate any amounts for payment of debt service. The Legislature, recognizing its moral obligation to make timely appropriations from the General Fund sufficient to pay debt service on such obligations, expresses in Wis. Stat. Section 16.527(10) its expectation and aspiration that it will do so. The Legislature's recognition of a moral obligation, however, does not create a legally enforceable obligation.

The General Fund Annual Appropriation Bonds of 2003, Series A (Taxable Fixed Rate) in the outstanding principal amount of $568.7 million ("2003 Series A Bonds"), bear interest at rates from 5.20 percent to 5.70 percent computed on the basis of a 30 day month and a 360-day year, payable semiannually on each May 1 and November 1 until their maturity dates.

The General Fund Annual Appropriation Refunding Bonds of 2008, Series A (Taxable Fixed Rate) in the outstanding principal amount of $363.0 million ("2008 Series A Bonds"), bear interest at rates from 5.05 percent to 5.238 percent computed on the basis of a 30-day month and a 360-day year, payable semiannually on each May 1 and November 1 until their maturity dates.

The General Fund Annual Appropriation Bonds of 2008, Series B (Taxable Floating Rate Notes), in the outstanding principal amount of $300.0 million, bear interest at rates 120 basis points over the one-month LIBOR, computed on the basis of a 360-day year and for the number of days actually elapsed, payable monthly on the first business day of the month.

The General Fund Annual Appropriation Bonds of 2008, Series C (Taxable Floating Rate Notes), ("2008 Series C Bonds") in the outstanding principal amount of $188.5 million, bear interest at rates 110 basis points over the one-month LIBOR computed on the basis of a 360-day year and for the number of days actually elapsed, payable monthly on the first business day of the month.

The General Fund Annual Appropriation Refunding Bonds of 2012, Series A (Taxable Fixed Rate) in the outstanding principal amount of $217.0 million ("2012 Series A Bonds"), bear interest at rates from 1.077 percent to 4.019 percent computed on the basis of a 30-day month and a 360-day year, payable semiannually on May 1 and November 1 until their maturity dates.

As of June 30, 2016, the debt service requirements for principal and interest on these bonds are as follows (in millions):

Fiscal Year Ended June 30	Principal	Interest
2017	$ 58.3	$ 86.9
2018	429.0	85.2
2019	41.0	64.3
2020	51.8	62.0
2021	36.4	59.0
2022 – 2026	472.7	246.4
2027 – 2031	460.6	89.4
2032	36.2	2.0
Total	1,585.9	695.2
Unamortized Prem./Discount	(0.7)	--
Total, net	$ 1,585.2	$ 695.2

The principal due in the fiscal year ended June 30, 2018 includes $363.0 million maturity that the State intends to refund prior to the May 1, 2018 maturity date.

Derivatives

The State has entered into interest rate exchange agreements, or swap agreements, to modify interest rates for nearly all of the 2008 Series B bonds and 2008 Series C bonds. All interest rate agreements at June 30, 2016, are classified as effective cash flow hedges. Since the interest rate exchange agreements qualify as an effective hedge, changes to fair value are not reported in the Statement of Activities. The State has contracted with a third party advisor to provide estimates of the fair value of the aggregate swap agreements as of June 30, 2016.

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, 2016, interest rate exchange agreements remain to reduce the interest rate risk in connection with $479.2 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 $479.2 million as of June 30, 2016. 2008 Series B Bonds and Series C Bonds mature and a related notional amount of the related interest rate exchange agreements decline from May 1, 2016 through 2032. Based on the interest rate exchange agreements, the State owes to the counterparties an amount calculated at fixed rates ranging from 4.661 percent to 5.47 percent and the counterparties owe the State interest on an amount based on a variable rate, which is the one-month LIBOR. The net amount is paid monthly.

Fair Value – As of June 30, 2016, the aggregate fair value of the interest exchange agreements was negative $216.8 million, a decrease of $58.4 million compared to the aggregate fair value of negative $158.4 million reported as of June 30, 2015. Since the interest rate exchange agreements qualify as effective cash flow hedges, a deferred outflow of resources and a liability are reported in the statement of net position for the fair value of the swap agreements. Changes in the fair value are not reported in the statement of activities.

The fair value was determined 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, 2016, debt service requirements are presented for the 2008 Series B Bonds and 2008 Series C Bonds that are subject to the interest rate exchange agreements and the net swap payments assuming that interest rates remain the same for their term. As rates vary, interest payments on the floating rate notes and net swap payments will vary.

(in millions)

Fiscal Year Ended June 30	Principal	Interest	Interest Rate Swaps, Net	Totals
2017	1.1	7.9	23.5	32.5
2018	1.1	7.9	23.5	32.5
2019	1.1	7.9	23.4	32.4
2020	1.1	7.9	23.4	32.3
2021	8.5	7.8	23.3	39.6
2022 – 2026	87.4	36.7	110.0	234.1
2027 – 2031	343.0	18.8	56.4	418.2
2032	35.8	0.5	1.5	37.8
	$ 479.2	$ 95.4	$ 284.9	$ 859.5

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, 2016, 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, 2016, A1 by Moody's, A by Standard & Poor's, and A by Fitch Ratings. Under the interest rate exchange agreements and to mitigate the potential for credit risk, if any of the counterparties' credit quality falls below A2 by Moody's Investors Service or A- by either Standard & Poor's or Fitch Ratings, the fair value of the interest rate exchange agreement for that respective counterparty will be fully collateralized by that counterparty. In addition, an event of termination occurs if any of the counterparties' credit quality falls below Baa2 by Moody's Investors service or BBB by either Standard & Poor's or Fitch Ratings.

Basis Risk – The interest rate exchange agreements expose the State to basis risk (i.e., a shortfall or surplus between the variable interest rate received on the interest rate exchange agreements and the interest rate paid on the floating rate notes), however this risk is fixed at the spreads for the respective series.

Termination Risk – The interest rate exchange agreements may be terminated by the State, upon two business days' written notice, designating to the counterparty the termination date. In addition, the State or the counterparties may terminate the interest rate exchange agreements if the other party fails to perform under the terms of the interest rate exchange agreements or if other various events occur. As of June 30, 2016, 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, 2016, the debt service requirements for principal and interest on these bonds are as follows (in millions):

Fiscal Year Ended June 30	Principal	Interest
2017	22.2	83.6
2018	24.8	82.6
2019	32.7	81.4
2020	28.1	79.8
2021	31.3	78.3
2022 – 2026	202.8	364.6
2027 – 2031	352.9	295.2
2032 – 2036	613.1	159.8
2037	142.6	8.9
Total	1,450.5	1,234.1
Unamortized Premium/Discount	(3.2)	--
Total, net	$ 1,447.3	$ 1,234.1

D. Revenue Bonds

Chapter 18, Wisconsin Statutes, authorizes the State to issue revenue obligations secured by a pledge of revenues or property derived from the operation of a program funded by the issuance of these obligations. The resulting bond obligations are not general obligations of the State.

Transportation Revenue Bonds

Transportation Revenue Bonds are issued to finance part of the costs of certain transportation facilities and major highway projects. Chapter 18, Subchapter II of the Wisconsin Statutes as amended, Wis. Stat. Sec. 84.59 and a general bond resolution and series resolutions authorize the issuance of these bonds.

The Department of Transportation is authorized to issue a total of $3.9 billion of revenue bonds. Presently, there are fourteen issues of Transportation Revenue Bonds outstanding totaling $2.0 billion. Debt service payments are secured by driver and vehicle registration fees and the program resolution provides for a reserve fund, which if funded, will be used in the event that a deficiency exists in the redemption fund.

The Transportation Revenue Bonds issued and outstanding as of June 30, 2016 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2015 A	12/15	3.0 to 5.0	7/36	$ 225,000	$ 225,000
2015 1	4/15	1.0 to 5.0	7/29	$ 207,240	$ 207,240
2014 2	12/14	5.0	7/27	94,130	94,130
2014 1	4/14	2.0 to 5.0	7/34	339,745	224,465
2013 1	3/13	4.0 to 5.0	7/33	259,680	259,680
2012 2	6/12	4.0 to 5.0	7/24	116,400	116,400
2012 1	4/12	3.5 to 5.0	7/32	343,725	272,235
2010 B	12/10	4.7 to 6.0	7/31	123,925	123,925
2010 A	12/10	5.0	7/21	76,075	50,005
2009 B	10/09	2.23 to 3.8	7/30	147,130	140,740
2008 A	8/08	5.0	7/29	185,000	23,640
2007 1	3/07	4.35 to 5.0	7/22	206,900	200,070
2005 A	3/05	5.0 to 5.25	7/21	235,585	43,440
1998 A	8/98	5.5	7/16	130,590	8,825
				2,691,125	1,989,795
Unamortized Premium / Discount				--	225,309
Total				$ 2,691,125	$ 2,215,104

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, 2016, PIF Bonds outstanding are $41.4 million. Debt service payments are secured by petroleum inspection fees.

The PIF revenue bonds issued and outstanding as of June 30, 2016 were as follows (in thousands):

Issue	Issue Date	Interest Rate	Maturity Through	Issued	Outstanding
2009-1	10/09	3.0 to 5.0	7/17	$ 117,460	$ 41,410
Unamortized Premium / Discount				--	269
Total				$ 117,460	$ 41,679

Environmental Improvement Fund 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 Clean Water Revenue Bonds and Environmental Improvement Fund Revenue Bonds up to an amount of $2.5 billion in total.

The Clean Water revenue bonds are collateralized by a security interest in all assets of the Leveraged Loan Portfolio. At June 30, 2016, the total assets of the Leveraged Loan Portfolio were $923,853,799. As these loans granted to municipalities are at an interest rate which is less than the Clean Water revenue bond rate, the State is obligated by the Clean Water Fund General Resolution to fund, prior to each loan disbursement, a reserve, which subsidizes the Leveraged Loan Portfolio in an amount to offset this interest rate disparity. Clean Water revenue bonds are payable only from revenues derived from 1) pledged loan repayments, 2) amounts in the Loan Fund, Loan Credit Reserve Fund, and Subsidy Fund, and 3) all other pledged receipts.

Environmental Improvement Fund revenue bonds are payable only from revenues derived from 1) pledged loan amounts, 2) amounts in the Loan Fund, Reserve Fund (if any), and 3) all other pledged receipts.

The Environmental Improvement Fund has pledged future loan revenues, net of specified operating expenses, to repay outstanding revenue bonds. Proceeds from the bonds provided financing for loans to municipalities to construct or improve water and wastewater projects.

At June 30, 2016, there were fourteen issues of Clean Water Revenue Bonds outstanding totaling $634.8 million and one issue of Environmental Improvement Fund Revenue Bonds outstanding in the amount of $40.1 million.

Bonds issued and outstanding for the Environmental Improvement Fund as of June 30, 2016 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2016-1	4/16	2.0 to 5.0	6/31	$ 120,890	$ 120,890
2015-A	12/15	3.0 to 5.0	6/30	43,380	40,135
2015-1	7/15	5.0	6/28	133,235	133,235
2013-1	3/13	3.75 to 5.0	6/27	82,845	78,495
2012-2	7/12	2.63 to 5.0	6/24	92,450	83,220
2012-1	7/12	2.0 to 5.0	6/33	55,000	49,035
2010-5	11/10	5.0	6/23	36,760	36,760
2010-4	11/10	2.0 to 5.0	6/31	116,290	19,250
2010-3	2/10	3.96 to 5.44	6/25	49,690	49,690
2010-2	2/10	5.0	6/21	14,070	14,070
2008-3	12/08	3.0 to 5.5	6/26	92,210	13,685
2008-2	2/08	5.0	6/18	27,335	21,965
2008-1	2/08	4.0 to 5.0	6/28	100,000	8,855
1998-2	8/99	4.0 to 5.5	6/17	104,360	5,665
				1,068,515	674,950
Unamortized Premium / Discount				--	84,538
Total				$ 1,068,515	$759,488

As of June 30, 2016, revenue bond debt service requirements for principal and interest for governmental activities and business-type activities are as follows (in thousands):

	Governmental Activities				Business-Type Activities	
	Transportation Revenue Bonds		Petroleum Inspection Fee Revenue Bonds		Environmental Improvement Fund Revenue Bonds	
Fiscal Year Ended June 30	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 102,395	$ 96,419	$ 27,800	$ 1,270	$ 54,105	$ 32,919
2018	103,350	91,117	13,610	290	63,005	30,348
2019	119,605	85,719	--	--	57,935	27,255
2020	124,735	79,752	--	--	57,535	24,412
2021	131,990	73,444			53,850	21,585
2022-2026	629,315	270,494	--	--	242,770	70,389
2027-2031	489,250	131,705	--	--	139,600	20,028
2032-2036	289,155	30,231	--	--	6,150	411
Total	1,989,795	858,881	41,410	1,559	674,950	227,346
Unamortized Premium / Discount	225,309	--	269	--	84,538	--
Total	$ 2,215,104	$ 858,881	$ 41,679	$ 1,559	$ 759,488	$ 227,346

Qualified Build America Bonds

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

With respect to the direct payments the State expects to receive, since such payments are not Program Income and not pledged to the payment on the Bonds, there is no direct impact on the Bonds with these direct payments being subject to the mandated across-the-board cuts to the Federal budget for the federal fiscal year that started October 1, 2015 and ends September 30, 2016. The impact of these cuts for the current federal fiscal year is a 6.8% reduction in the direct payment amount that the State expected to receive.

The interest rates on the 2009 Series B (taxable) Transportation Revenue Bonds in the amount of $140.7 million range from 4.0 percent to 5.8 percent payable semiannually on January 1 and July 1 beginning with the first interest payment date of July 1, 2010. These bonds are callable at par on July 1, 2019 or any date thereafter. The bonds mature beginning July 1, 2015 through 2030.

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

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

E. Refundings, Exchanges and Early Extinguishments

Refunding Provisions of GASB Statement No. 23

The State implemented the provisions of GASB Statement No. 23. *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities* beginning with Fiscal Year 1996. This Statement requires proprietary activities to adopt certain accounting and reporting changes for both current refunding and advance refunding resulting in defeasance of debt. GASB Statement No. 23 permits, but does not require, retroactive application of its provisions. The State has chosen not to apply the provisions retroactively to previously issued financial statements.

Current Fiscal Year Refundings/General Obligation Bonds

In March 2016, the State issued $295.2 million of general obligation refunding bonds (2016 Series 1), the proceeds of $363.6 million were deposited in an escrow account to provide for future debt service payments and redemption of $308.3 million of various general obligation bonds outstanding at the time of the refunding. As a result of the advance refunding, the $308.3 million of various general obligation bonds for which future debt service payments and redemption are paid from the escrow account are considered defeased and the associated liability removed from the financial statements. The refunding resulted in a decrease in total debt service payments by $26.2 million and an economic gain of $20.2 million.

Prior Year Refundings/General Obligation Bonds

Government Accounting Standards Board Statement No. 7 *Advance Refundings Resulting in Defeasance of Debt*, provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. At June 30, 2016, $949.0 million of general obligation bond principal has been defeased.

Current Fiscal Year Refundings/Revenue Bonds

In March 2016, the State issued $120.9 million of clean water refunding bonds (2016 Series 1), the proceeds of $144.4 million were deposited in an escrow account to provide for future debt service payments and redemption of $124.3 million of various clean water bonds outstanding at the time of the refunding. As a result of the advance refunding, the $124.3 million of various clean water bonds for which future debt service payments and redemption are paid from the escrow account are considered defeased and the associated liability removed from the financial statements. The refunding resulted in a decrease in total debt service of $10.9 million and an economic gain of $7.2 million.

Prior Year Refundings/Revenue Bonds

For financial reporting purposes, the following primary government revenue bonds have been defeased, and therefore, removed as a liability from the balance sheet:

- Environmental Improvement Fund revenue bonds – At June 30, 2016, revenue bonds outstanding of $237.7 million have been defeased.
- Transportation Revenue Bonds – At June 30, 2016, revenue bonds outstanding of $220.1 million have been defeased.

F. Short-term Financing

The State of Wisconsin Building Commission, an agency of the State, is empowered by law to consider, authorize, issue, and sell debt obligations of the State. To date, the Commission has authorized the issuance of notes. When this short-term debt does not meet long-term financing criteria, it is classified among fund liabilities.

General Obligation Commercial Paper Notes

The State has authorized General Obligation Commercial Paper Notes for the acquisition, construction, development, extension, enlargement, or improvement of land, waters, property, highway, buildings, equipment or facilities. Periodically, additional commercial paper notes are issued to pay for maturing commercial paper notes.

The State intends to make annual May 1 payments on the outstanding commercial paper notes that reflect principal amortization of the notes. The State also intends to make regular payments to the issuing and paying agent that will be used to pay interest due on maturing notes. On June 30, 2016, the amount of commercial paper notes outstanding was $138.3 million which had interest rates ranging from 0.40 percent to 0.51 percent and maturities ranging from July 6, 2016 to September 1, 2016.

Short-term debt activity for the year ended June 30, 2016 for general obligation commercial paper notes was as follows (in millions):

Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016
$ 146.9	$ --	$ 8.6	$ 138.3

General Obligation Extendible Municipal Commercial Paper

The State has authorized General Obligation extendible municipal commercial paper for the acquisition, construction, development, extension, enlargement, or improvement of land, waters, property, highway, buildings, equipment or facilities. Periodically, additional extendible municipal commercial papers are issued to pay for maturing extendible municipal commercial paper. The State intends to make annual May 1 payments on the outstanding commercial paper notes that reflect principal amortization of the paper. The State also intends to make regular payments to the issuing and paying agent that will be used to pay the interest due on the maturing notes. At June 30, 2016, the amount of extendible municipal commercial paper outstanding was $485.7 million which had interest rates ranging from 0.55 percent to 0.67 percent and maturities from July 6, 2016, to August 4, 2016.

Short-term debt activity for the year ended June 30, 2016 for general obligation extendible municipal commercial paper was as follows (in millions):

Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016
$ 612.6	$ --	$ 126.9	$ 485.7

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, 2016, the amount of petroleum inspection fee revenue extendible commercial paper outstanding was $71.2 million which had interest rates ranging from 0.55 percent to 0.63 percent and maturities ranging from July 6 to July 25, 2016.

Short-term debt activity for the year ended June 30, 2016 for the petroleum inspection fee revenue extendible municipal commercial paper was as follows (in millions):

Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016
$ 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, 2016, the amount of transportation revenue commercial paper notes outstanding was $117.1 million which had interest rates of 0.48 percent and maturities ranging from July 5 to July 20, 2016.

Short-term debt activity for the year ended June 30, 2016 for the transportation revenue commercial paper notes was as follows (in millions):

Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016
$ 144.1	$ --	$ 27.0	$ 117.1

G. 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 between the State acting by and through the Department of Administration and U.S. Bank National Association. Lease purchase obligations under the Master Lease are not general obligations of the State, but are payable from appropriations of State agencies participating in the Master Lease Program, subject to annual appropriation. The interest component of each lease/purchase payment is subject to a separate determination.

Pursuant to the terms and conditions of this agreement, the trustee for the facility issues parity Master Lease certificates of participation that evidence proportionate interest of the owners thereof in lease payments. A common pool of collateral ratably secures all Master Lease certificates. Title in the property and service items purchased under the facility remains with the State and the State grants to the Trustee, for the benefit of all Master Lease certificate holders, a first security interest in the leased items.

The outstanding balance as of June 30, 2016 was as follows:

Balance Due	**Average Life (Weighted Term)**
$101.9 million	4.32 Years

At June 30, 2016, the following parity Master Lease certificates were outstanding:

- Master Lease Certificates of Participation of 2006, Series A, in the amount of $1.8 million. This series of Master Lease certificates has an interest rate of 4.0 percent and matures semi-annually through September 1, 2016.

- Master Lease Certificates of Participation of 2013, Series A (Revolving Credit Agreement – Taxable) in the amount of $31.9 million. This Master Lease certificate evidences the State's obligation to repay advances under a Revolving Credit Agreement, dated September 1, 2013, as amended between U.S. Bank National Association (as trustee), the State of Wisconsin, acting by and through its Department of Administration, as lessee, and PNC Bank National Association. The scheduled termination date under the Revolving Credit Agreement, as amended, is September 1, 2016. This Master Lease certificate shall bear interest at the rates and mature on the dates provided for in the Revolving Credit Agreement. The balance of this Master Lease certificate may include some accrued interest that will be payable at the next semi-annual interest payment date.

- Master Lease Certificates of Participation of 2010, Series B, in the amount of $0.1 million. This series of Master Lease certificates has interest rates ranging from of 3.0 percent to 4.0 percent and matures semi-annually through September 1, 2017.

- Master Lease Certificates of Participation of 2012, Series A, in the amount of $1.8 million. This series of Master Lease certificates has interest rates ranging from 3.0 percent to 4.0 percent and matures semi-annually through September 1, 2017.

- Master Lease Certificates of Participation of 2014, Series A, in the amount of $24.3 million. This series of Master Lease certificates has interest rates ranging from 2.75 percent to 5.0 percent and matures semi-annually through March 1, 2023.

- Master Lease Certificates of Participation of 2014, Series B in the amount of $29.9 million. This series of Master Lease certificates has interest rates ranging from 1.65 to 5.00 percent and matures semi-annually through March 1, 2023.

- Master Lease Certificates of Participation of 2015, Series A in the amount of $35.0 million. This series of Master Lease certificates has interest rates ranging from 3.0 to 5.0 percent and matures semi-annually through March 1, 2023.

The Third Amended and Restated Master Lease 1992-1 provides that certain lease schedules to the facility can be terminated if the State deposits with the Trustee an amount that is equal to the outstanding amount of the lease schedule, or in amounts that are sufficient to purchase investments that mature on dates and in amounts to make the lease payments when due. At June 30, 2016, the State has not deposited with the Trustee amounts, that when invested, will terminate lease schedules.

H. Arbitrage Rebate

The Tax Reform Act of 1986 requires that governmental entities issuing tax-exempt debt subsequent to August 1986, calculate and rebate arbitrage earnings to the federal government. Specifically, the excess of the aggregated amount earned on investments purchased with bond proceeds over the amount that would have been earned if the proceeds were invested at a rate equal to the bond yield, is to be rebated to the federal government. As of June 30, 2016, a liability for arbitrage rebate did not exist.

I. Moral Obligation Debt

Through legislation enacted in 1999, the State authorized the creation of local districts. These districts (Wisconsin Center District, Southeast Wisconsin Professional Baseball Park District, and the Green Bay/Brown County Professional Football Stadium District) are authorized to issue bonds for their respective purpose, and if the State determines that certain conditions are satisfied, the State may have a moral obligation to appropriate moneys to make up deficiencies in the districts' special debt service reserve funds. To date, the Wisconsin Center District has the authority to issue up to $200.0 million in bonds and has issued one series with an outstanding balance of $117.7 million that is subject to the moral obligation. The two other local districts each have authority to issue $160.0 million of revenue obligations that, subject to the Secretary of Administration’s determination that certain conditions have been met, could carry a moral obligation of the State. All of the districts have issued revenue obligations that do not carry the moral obligation of the State.

Through legislation enacted in 1999, the State authorized the issuance of up to $170.0 million principal amount of bonds to finance the development or redevelopment of sites and facilities to be used for public schools. If certain conditions are satisfied, and if a special debt service reserve fund is created for the bonds, the State will provide a moral obligation pledge, which would restore the special debt reserve fund established for the bonds to an amount not to exceed the maximum annual debt service on the bonds. Three bond issues with an aggregate outstanding balance of $75.9 million have been issued that have a special debt service reserve fund secured by the State’s moral obligation.

J. Credit Agreements

The State has entered into a credit agreement that provides the State a line of credit for liquidity support for up to $275.0 million of general obligation commercial paper notes. As of June 30, 2016, $275.0 million was unused and available. The line of credit expires in March, 2019, but is subject to termination and renewal as provided for in the credit agreement. The cost of this line of credit is 0.225 percent per year.

The State has entered into a credit agreement to provide the State a line of credit for liquidity support for its transportation revenue commercial paper program. The amount of the line of credit is $120.0 million. As of June 30, 2016, $120.0 million was unused and available. This line of credit expires in April, 2019, but is subject to termination and renewal as provided for in the credit agreement. The cost of this line of credit is 0.33 percent per year.

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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, 2016 for capital leases (in thousands):

	Governmental Activities	
Fiscal Year	**Principal**	**Interest**
2017	$ 18,169	$ 4,353
2018	19,228	4,028
2019	13,140	3,279
2020	8,665	2,801
2021	7,698	2,395
2022 - 2026	44,100	3,915
2027 - 2031	-	-
2032 - 2036	-	-
2037 - 2041	-	-
2042 - 2046	-	-
Total minimum future payments	111,000	-
Total minimum interest payments	$ -	20,771

	Business-type Activities	
Fiscal Year	**Principal**	**Interest**
2017	$ 4,120	$ 2,291
2018	1,834	2,171
2019	795	2,094
2020	652	2,048
2021	550	2,009
2022 - 2026	2,942	9,422
2027 - 2031	4,218	8,146
2032 - 2036	6,047	6,316
2037 - 2041	8,670	3,694
2042 - 2046	4,437	509
Total minimum future payments	34,265	-
Total minimum interest payments	$ -	38,699

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, 2016 (in thousands):

	Governmental Activities	Business-type Activities
Land and Land Improvements	$ -	$ -
Buildings and Improvements	-	99,150
Machinery and Improvements	149,986	13,845
Construction in Progress		
Less: Accumulated Depreciation	(23,662)	(57,647)
Carrying Amount	$ 126,324	$ 55,348

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 2016 were $84.3 million. Of this amount, $84.2 million relates to minimum rental payments stipulated in lease agreements, $52.8 thousand pertains to contingent rental payments and $19.4 thousand relates to sub rental payments.

The following is an analysis of the future minimum rental payments due under operating leases (in thousands):

Fiscal Year	Governmental Activities	Business-type Activities
2017	$ 40,689	$ 23,448
2018	29,540	21,950
2019	20,208	19,319
2020	12,582	17,756
2021	8,653	16,552
2022 - 2026	16,960	49,290
2027 - 2031	511	43,312
2032 - 2036	507	9,831
2037 - 2041	432	70
2042 - 2046	436	11
2047 - 2051	337	-
2052 - 2056	160	-
Thereafter	13	-
Minimum lease payments	$ 131,028	$ 201,537

C. Installment Purchases

The State has entered into installment purchase agreements. The following is an analysis of the gross minimum installment payments, along with the present value of the minimum installment payments, as of June 30, 2016 for installment purchases (in thousands):

Fiscal Year	Governmental Activities Principal	Governmental Activities Interest
2017	$ 472	5
2018	-	-
2019	-	-
2020	-	-
2021	-	-
Total minimum future installment payments	$ 472	-
Total interest payments	$ -	5

Fiscal Year	Business-type Activities Principal	Business-type Activities Interest
2017	$ 16	1
2018	12	1
2019	4	1
2020	5	-
2021	-	-
Total minimum future installment payments	$ 37	-
Total interest payments	$ -	3

NOTE 13. POLLUTION REMEDIATION OBLIGATIONS

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

Measurement of Obligations

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

During fiscal year 2016, the State recognized $0.5 million of additional estimated liabilities for pollution remediation. The State expended $0.3 million to clean up sites in fiscal year 2016; therefore, the beginning liability of $7.5 million increased to $7.7 million. There were no recoveries received from other responsible parties during fiscal year 2016 and none are expected for the identified obligations.

Identified Remediation Obligations:

Pollution remediation liabilities are updated annually and are based on engineering studies and the judgment of agency officials. The following table shows liabilities included in the Statement of Net Position as of June 30, 2016 (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	$ .2	--
Voluntary commencement by the State to clean up heavy metal contamination of canal near former industrial site	7.5	--
Total estimated obligations	$7.7	--

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

NOTE 14. RETIREMENT PLAN

The Wisconsin Retirement System (WRS) was established and is administered by the State of Wisconsin to provide pension benefits for State and local government public employees. The WRS consists of the Core Retirement Investment Trust, the Variable Retirement Investment Trust, and the Police and Firefighters Trust. Although separated for accounting purposes, the assets of these trust funds can be used to pay benefits for any member of the WRS, and are reported as one pension plan.

The WRS is considered part of the State of Wisconsin's financial reporting entity. Copies of the separately issued financial report that includes audited financial statements and required supplementary information for the year ending December 31, 2015, is available at: http://etf.wi.gov.

Plan Description

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

As of December 31, 2015, the number of participating employers was:

State Agencies	58
Cities	152
Counties	71
4th Class Cities	36
Villages	264
Towns	247
School Districts	424
Wisconsin Technical College System Board Districts	16
Cooperative Educational Service Agencies	12
Other	207
Total Employers	1,487

For employees beginning participation on or after January 1, 1990 and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 and prior to July 1, 2011 are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011 must have five years of creditable service to be vested. Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Vested employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions, plus interest, and forfeit all rights to any subsequent benefits, or may leave contributions on deposit and defer application until eligible to receive a retirement benefit. The WRS also provides death and disability benefits for employees.

The Employee Trust Funds Board may periodically adjust annuity payments from the WRS based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase (or decrease) in annuity payment may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the WRS' consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core Retirement Investment Trust fund annuities cannot be reduced to an amount below the original, guaranteed amount set at retirement.

Accounting Policies and Plan Asset Matters

The financial statements of the WRS have been prepared in accordance with generally accepted accounting principles, using the flow of economic resources measurement focus and a full accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Plan member contributions are recognized in the period in which contributions are paid. Employer contributions to the plan are recognized in the accounting period in which the underlying earnings on which the contributions are based are paid and the employer has made a formal commitment to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

All assets of the WRS are invested by the State of Wisconsin Investment Board. The retirement fund assets consist of shares in the Variable Retirement Investment Trust and the Core Retirement Investment Trust. The Variable Retirement Investment Trust consists primarily of equity securities. The Core Retirement Investment Trust is a balanced investment fund made up of fixed income securities and equity securities. Shares in the Core Retirement Investment Trust are purchased as funds are made available from retirement contributions and investment income, and sold when funds for benefit payments and other expenses are needed.

The assets of the Core and Variable Retirement Investment Trusts are carried at fair value with all market value adjustments recognized in current operations. Investments are revalued monthly to current market value. The resulting valuation gains or losses are recognized as income, although revenue has not been realized through a market-place transaction.

The WRS does not have any investments (other than those issued or guaranteed by the U.S. Government) in any one organization that represent 5.0 percent or more of plan net position.

Contributions Required

Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for general category employees, including teachers, and executives and elected officials. Required contributions for protective contributions are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement. Contribution rates as of June 30, 2016 are:

	Employee	Employer
General (including teachers)	6.6%	6.6%
Executives & Elected Officials	6.6%	6.6%
Protective with Social Security	6.6%	9.4%
Protective without Social Security	6.6%	13.2%

Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

State of Wisconsin Net Pension Liability, Pension Contributions, Pension Expenses, and Deferred Outflows and Inflows of Resources

At June 30, 2016, the State reported a net pension liability of $455.5 million for its proportionate share of the WRS' net pension liability. It is presented as a net pension liability on the Statement of Net Position for proprietary and fiduciary funds. On the government-wide Statement of Net Position, it is included in the noncurrent portion of long-term liabilities.

The net pension liability was measured as of December 31, 2015, and the total pension liability was based on an actuarial valuation as of December 31, 2014. Update procedures were used to roll forward the total pension liability to the measurement date. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date.

The State's proportionate share of the net pension liability was determined based on the average of the State's contributions to the WRS over the three most recent calendar years relative to the average contributions of all employers for the same period. At December 31, 2015, the State's proportionate share was 28.1 percent, which is an increase of 0.1 percent from its proportionate share as of December 31, 2014.

For calendar year 2015, State employers made $271.0 million in contributions recognized by the WRS.

For the year ended June 30, 2016, the State recognized pension expense of $548.5 million. At June 30, 2016, the State reported deferred outflows and inflows of resources related to pensions of $2,389.4 million and $970.9 million, respectively. More information about deferred outflows and inflows related to pensions, including the types and the amounts applicable to each type, can be found in Note 21.

A schedule presenting multi-year trend information of the State's proportionate share of the net pension liability or asset is presented as required supplementary information following the notes to the financial statements.

Actuarial Valuation

The pension measurements as of December 31, 2015 were based upon the following actuarial assumptions.

Actuarial Valuation Date	December 31, 2014
Measurement Date of Net Pension Asset	December 31, 2015
Actuarial Cost Method	Entry Age
Asset Valuation Method	Fair Value
Long-Term Expected Rate of Return	7.2%
Discount Rate	7.2%
Salary Increases	
Inflation	3.2%
Seniority/Merit	0.2% - 5.6%
Mortality	Wisconsin 2012 Mortality Table
Post-retirement Adjustments*	2.1%

* Post-retirement adjustments are not guaranteed. Actual adjustments are based on recognized investment return, actuarial experience, and other factors. The assumed annual adjustment based on the investment return assumption and the post-retirement discount rate is 2.1%.

Actuarial assumptions are based upon an experience study conducted in 2012 using experience from 2009-2011.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on WRS investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return, net of WRS investment expense and inflation, are developed for each major asset class. The ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The long-term expected rate of return is reviewed every three years in conjunction with the WRS experience study. For each major asset class that is included in the Core Retirement Investment Trust fund's target asset allocation as of December 31, 2015, these best estimates of geometric long-term real rates of return were used:

Asset Class	Target Allocation	Rate of Return
Domestic Equity	23.0%	4.7%
International Equity	22.0	5.6
Fixed Income	37.0	1.6
Inflation Sensitive	20.0	1.4
Real Estate	7.0	3.6
Private Equity/Debt	7.0	6.5
Multi-asset	4.0	3.8
Cash	(20.0)	0.9

For each major asset class that is included in the Variable Retirement Investment Trust fund's target asset allocation as of December 31, 2015, these best estimates of geometric long-term real rates of return were used:

Asset Class	Target Allocation	Rate of Return
Domestic Equity	70.0%	4.7%
International Equity	30.0	5.6

The money-weighted rates of return on pension plan investment for the Core and Variable funds for the calendar year ended 2015 were (.63%) and (1.11%), respectively. The money-weighted rate of return expresses investment performance, net of pension plan expenses, adjusted for the changing amounts actually invested.

Discount Rate

A single discount rate of 7.2% was used to measure the total pension liability. This rate was based on the expected rate of return on pension plan investments of 7.2% and a long term bond rate of 3.57%. Because of the unique structure of the WRS, the 7.2% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the State's proportionate share of the net pension (liability) asset, calculated using a single discount rate of 7.2%, as well as what the State's net pension (liability) asset would be if it were calculated using a single discount rate that is 100 basis points lower or 100 basis points higher:

	State's share of the net pension (liability) asset
1% Decrease (6.2%)	$ (3,198,876,166)
Current Rate (7.2%)	$ (455,475,378)
1% Increase (8.2%)	$ 1,687,169,490

NOTE 15. MILWAUKEE RETIREMENT SYSTEM

The Milwaukee Retirement System (MRS) is reported as an Investment Trust Fund. MRS participants provide assets to the State of Wisconsin, Department of Employee Trust Funds (DETF) for investing in its Core Retirement Investment Trust Fund (Core Fund) and the Variable Retirement Investment Trust Fund (Variable Fund) of the Wisconsin Retirement System. Participation of the MRS in the Core Fund and Variable Fund is described in the DETF Administrative Code, Chapter 10.12. The State of Wisconsin Investment Board (SWIB) manages the Core Fund and Variable Fund with oversight by a Board of Trustees as authorized in Wis. Stat. 25.14 and 25.17. SWIB is not registered with the Securities and Exchange Commission as an investment company.

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

Investments are revalued monthly to fair value, with unrealized gains and losses reflected in income.

Monthly, the DETF distributes a pro-rata share of the total Core Fund and Variable Fund earnings less administrative expenses to the MRS accounts. The MRS accounts are adjusted to fair value and gains/losses are recorded directly in the accounts per DETF Administrative Code, Chapter 10.12(2). Neither State statute, a legal provision nor a legally binding guarantee exists to support the value of shares.

Copies of the separately issued financial report that includes audited financial statements along with the accompanying footnote disclosures and supplementary information for the Core Fund and the Variable Fund is available at 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 2015 (most recent actuarial valuation date), there were 55,780 active, and 8,167 retirees and beneficiaries participating in the plan.

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

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

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

Funding Policy

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

Contribution requirements are established and may be amended by the Group Insurance Board. For retirees that participate in the health insurance plan, premiums, for non-Medicare retirees, are based on an effective rate structure for the health care service provider selected. Monthly Rates range from $602.60 to $1,331.50 for single coverage and $1,497.80 to $3,323.40 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, 2016, the ARC was $94.5 million while the employer contributions were $36.7 million, and the ARC adjustment, with interest, was $35.5 million.

Annual OPEB Cost

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

Fiscal Year	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2016	$ 76,803	$36,650	47.7%	$542,712
2015	70,510	41,802	59.3	502,559
2014	69,740	41,649	59.7	473,851

Interest on the net OPEB obligation was $17.9 million while the net OPEB obligation increased $40.2 million.

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2015 (most recent actuarial valuation date) was as follows (in thousands):

Actuarial accrued liability (AAL)	$ 942,314
Actuarial value of plan assets	0
Unfunded actuarial accrued liability (UAAL)	$ 942,314
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	$3,126,936
UAAL as a percentage of covered payroll	30.1%

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

As result of the implementation of the EGWP + Wrap, the State no longer receives the Retiree Drug Subsidy; therefore, there is no liability for the State associated with their Medicare retirees.

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

Actuarial Methods and Assumptions

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

In the January 1, 2015 actuarial valuation, the entry age normal actuarial cost method was used. Actuarial assumptions included an investment rate of return of 3.56 percent, which is equal to the average 20-year AA or better municipal bond rate as of the valuation date as reported by the Federal Reserve, an inflation rate of 3.20 percent, and projected salary increases of 3.20 percent. The initial projected annual rate is (6.00) percent for medical costs and 5.50 percent for prescription drug costs. Both of these are adjusted to increments to an ultimate trend of 5.00 percent. The dental claims cost rate is 4.0% annually, and the administrative cost rate is 3.0% annually. 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, 2014. 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 3.56% discount rate (discussed above) was based on the average 20-year AA or better municipal bond rate as of the valuation date as reported by the Federal Reserve.

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 2015 contribution rates ranged from 0.13 percent to 6.48 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, <u>or</u>
- At least 20 years from their WRS creditable service as of January 1, 1990, plus their years of group life insurance coverage after 1989, or
- At least 20 years on the payroll of their last employer.

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

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

Summary of Significant Accounting Policies

Basis of Accounting

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

Method Used to Value Investments

Duty Disability Fund

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

Retiree Life Insurance Fund

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

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

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

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

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

Mortgage loans are carried at amortized cost less any valuation allowances. Premiums and discounts are amortized or accreted over the terms of the mortgage loans based on the effective interest yield method. Impairments are determined by specific identification. A mortgage loan is considered impaired if it is probable that amounts due for principal and interest will not be collected in accordance with the contractual terms. Impaired mortgage loans are valued at the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the underlying collateral, if the loan is collateral dependent.

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

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

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

Real estate is carried at cost less accumulated depreciation and an allowance for estimated losses.

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

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

For interest-only securities and mortgage-backed securities not of high credit quality, the Company recognizes the excess of all cash flows, including estimated prepayments, attributable to the security estimated at the acquisition date over the initial investment using the effective yield method with adjustments made as a result of subsequent cash flow information recorded prospectively. If the fair value of the security has declined below its carrying amount, the Company will write the security down to fair value if the decline is deemed other-than-temporary.

Policy loans are carried at the unpaid principal balance.

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

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

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

Required Supplementary Information

Required Supplementary Information about the OPEB plans is presented in the Department of Employee Trust Funds audited financial statements. The December 31, 2014 financial report is available at www.etf.wi.gov and on request from:

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

The December 31, 2015 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, 2015.

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 362 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 211 local employers plus the State currently participate. The State and local government portions of the fund are accounted for separately and have separate contribution rates, benefits, and actuarial valuations. The plan is self-insured.

The Long-term Disability Insurance (LTDI) Fund offers long-term disability benefits to participants in the Wisconsin Retirement System (WRS). The long-term disability benefits provided by this program are an alternative coverage to that currently provided by the WRS. All new WRS participants on or after October 15, 1992, are eligible only for the long-term disability insurance coverage, while participating employees active prior to October 15, 1992, may elect coverage through WRS or the long-term disability insurance program. Since January 2014, WRS collects actuarially-determined premiums paid by employers participating in the LTDI program and remits them to the Group Insurance Board for LTDI coverage.

B. Accounting Policies for Risk Pools

Basis of Accounting - All Public Entity Risk Pools are accounted for in enterprise funds using the full accrual basis of accounting and the flow of economic resources measurement focus.

Valuation of Investments - Assets of the Health Insurance Fund Income Continuation Insurance and Long-term Disability Insurance funds are invested in the Core Retirement Investment Trust. Investments are valued at fair value.

Unpaid Claims Liabilities - Claims liabilities are based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The estimate includes the effects of inflation and other societal and economic factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. Unpaid claims liability is presented at face value and is not discounted for health insurance. It is discounted using an interest rate of 7.2 percent for income continuation and long-term disability insurance. The liabilities for income continuation, long-term disability, and health insurance were determined by actuarial methods.

Administrative Expenses - All maintenance expenses are expensed in the period in which they are incurred. Acquisition costs are immaterial and are treated as maintenance expenses.

Reinsurance - Health insurance plans provided by HMO's and health insurance for local government annuitants are fully insured by outside insurers. All remaining risk is self-insured with no reinsurance coverage.

Risk Transfer - Participating employers are not subject to supplemental assessments in the event of deficiencies. If the assets of the fund were exhausted, participating employers would not be responsible for the fund's liabilities.

Premium Setting - Premiums are established by the Group Insurance Board in consultation with actuaries.

C. Unpaid Claims Liabilities

As discussed in Section B of this Note, each fund establishes a liability for both reported and unreported insured events, which is an estimate of future payments of losses. The following represents changes in those aggregate liabilities for the nonreinsured portion of each fund during Calendar Year 2015 (in millions):

	Health Insurance		Income Continuation Insurance		Long-term Disability Insurance		Pharmacy Benefits	
	2015	2014	2015	2014	2015	2014	2015	2014
Unpaid claims at beginning of the calendar year	$ 2.3	$ 2.3	$ 82.9	$ 90.7	$ 292.5	$ 233.6	$ (9.9)	$ (7.6)
Incurred claims and claim adjustment expense:								
Provision for insured events of the current calendar year	14.9	17.7	22.8	20.5	44.4	47.6	162.6	163.5
Changes in provision for insured events of prior calendar years	(1.0)	(0.9)	5.2	(8.7)	44.8	54.0	0.0	(0.7)
Total incurred claims and claim adjustment expense	13.9	16.8	27.9	11.8	89.2	101.5	162.6	162.8
Payments:								
Claims and claim adjustment expenses attributable to insured events of the current calendar year	13.0	15.4	6.6	5.9	2.1	2.1	182.1	173.4
Claims and claim adjustment expenses attributable to insured events of prior calendar years	1.3	1.4	17.1	13.7	56.1	40.5	(9.9)	(8.3)
Total payments	14.3	16.8	23.7	19.6	58.2	42.6	172.2	165.1
Total unpaid claims and claim adjustment expenses at end of the calendar year	$ 1.9	$ 2.3	$ 87.1	$ 82.9	$ 323.5	$ 292.5	$ (19.5)*	$ (9.9)*

* Total unpaid claims at the end of 2015 are the net of $5.1 million in unpaid claims and $24.6 million in rebates due from pharmaceutical companies; unpaid claims at the end of 2014 are the net of $4.5 million in unpaid claims and $14.4 million in rebates due from pharmaceutical companies.

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, 2014 is available at www.etf.wi.gov and on request from:

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

The December 31, 2015 financial report will be available at a later date.

NOTE 19. SELF-INSURANCE

It is the general policy of the State not to purchase commercial insurance for the risks of losses to which it is exposed. Instead, the State believes it is more economical to manage its risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The fund services most claims for risk of loss to which the State is exposed, including damage to State owned property, liability for property damages and injuries to third parties, and worker's compensation. All funds and agencies of the State participate in the Risk Management Fund.

State Property Damage

Property damages to State-owned properties are covered by the State's self-funded property program up to $3.0 million per occurrence and $5.0 million annual aggregate. When claims, which exceed $100,000 per occurrence, total $5.0 million, the State's private insurance becomes available. Losses to property occurring after the threshold are first subject to a $100,000 deductible. The amount of loss in excess of $100,000 is covered by the State's private insurance company. During Fiscal Year 2016, 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, 2016 are estimated to total $3.8 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 2016 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, 2016 are estimated to total $17.5 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, 2016 are estimated to total $79.5 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):

	2016	2015
Beginning of fiscal year liability	$ 107,040	$ 105,036
Current year claims and changes in estimates	29,205	39,140
Claim payments	(35,503)	(30,796)
	100,742	113,380
Excess insurance reimbursable	(1,365)	(6,340)
Balance at fiscal year-end	$ 99,377	$ 107,040

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, 2016 is $5.8 million.

NOTE 20. INSURANCE FUNDS

A. Local Government Property Insurance Fund

The purpose of the Local Government Property Insurance Fund is to provide property insurance coverage to tax-supported local government units such as counties, towns, villages, cities, school districts and library boards. Property insured includes government buildings, schools, libraries and motor vehicles. Coverage is available on an optional basis. As of June 30, 2016 the Local Government Property Insurance Fund insured 219 local governmental units. The total amount of insurance in force as of June 30, 2016 was $3.5 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, 2016, the fund had $234.0 thousand shares in the State Investment Fund which are considered cash equivalents.

Premium - Unearned premium reported as unearned revenue represents the daily pro rata portion of premium written which is applicable to the unexpired terms of the insurance policies in force. Policies are generally written for annual terms.

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

Policy Acquisition Costs - Since the Local Government Property Insurance Fund has no marketing staff and incurs no sales commissions, acquisition costs are minimal and charged to operations as incurred.

Excess-of-Loss Insurance Coverage - The Local Government Property Insurance Fund purchases excess-of-loss insurance coverage, the operation of which is analogous to “reinsurance,” to reduce its exposure to large losses on all types of insured events. Excess-of-loss insurance permits recovery of a portion of losses from the excess-of-loss insurers, although it does not discharge the primary liability of the fund as direct insurer of the risks reinsured. The fund does not report excess-of-loss insured risks as liabilities unless it is probable that those risks will not be covered by excess-of-loss insurers. As of June 30, 2016 the fund had a $1.0 million combined single limit retention for each occurrence. Only loss occurrences over $10.0 thousand are included in the recoverable calculation. Premiums ceded to excess-of-loss insurers, which is netted against premium revenue (charges for goods and services in the financial statements), amounted to $7.8 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 $(2.3) 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):

	2016	2015
Unpaid loss liabilities		
at beginning of the year	$23,733	$30,364
Less: Excess-of-loss insurance		
recoverable	11,366	16,920
Net unpaid loss liabilities at beginning		
of year	12,367	13,444
Incurred losses and loss		
expenses:		
Provision for insured events of the		
current year	5,824	21,923
Increase (decrease) in provision for		
insured events of prior years	(3,923)	(1,491)
Total incurred losses and loss		
expenses	1,901	20,432
Payments:		
Losses and loss		
expenses attributable to insured		
events of the current year	2,159	10,485
Losses and loss		
expenses attributable to insured		
events prior years	5,771	11,024
Total payments	7,930	21,509
Net unpaid loss liabilities		
at end of year	6,338	12,367
Plus: Excess-of-loss liabilities		
recoverable	5,699	11,366
Total unpaid loss liabilities		
at end of year	$12,037	$23,733

Trend Information

Historical trend information showing revenue and claims development information is presented in the Office of the Commissioner of Insurance June 30, 2016 financial statements. Copies of these statements may be requested from:

Office of the Commissioner of Insurance
125 South Webster Street
Madison, Wisconsin 53703

B. State Life Insurance Fund

The State Life Insurance Fund was created under Chapter 607, Wisconsin Statutes, to offer life insurance to residents of Wisconsin in a manner similar to private insurers. This fund functions much like a mutual life insurance company and is subject to the same regulatory requirements as any life insurance company licensed to operate in Wisconsin.

Premiums are reported as earned when due. Benefits and expenses are associated with earned premiums so as to result in recognition of profits over the life of the contracts. This association is accomplished by means of the provision for liabilities for future benefits and the amortization of acquisition costs.

The State Life Insurance Fund does not pay commissions nor does it incur agent expenses.

Future benefits and loss liabilities have been computed by the net level premium method based upon estimated future investment yield and mortality. The composition of liabilities and the more material assumptions pertinent thereto are presented below (in thousands):

Issue Year	Ordinary Life Insurance in Force	Amount of Policy Liability
1913-1966	$ 7,535	5,660
1967-1976	26,905	15,959
1977-1985	66,701	24,919
1986-1994	46,751	9,890
1995-2012	44,740	7,542
2013+	2,599	268
	$ 195,231	$ 64,238

Bases of Assumptions

Issue Year	Interest Rate	Mortality
1913-1966	3.0%	American Experience, ANB*
1967-1976	3.0	1958 CSO, ALB, Unisex
1977-1985	4.0	1958 CSO, ALB, Female Setback 3 years
1986-1994	5.0	1980 CSO, ALB, Aggregate
1995-2008	4.0	1980 CSO, ALB, Aggregate
2009-2012	4.0	2001 CSO, ALB, Aggregate
2013+	3.5	2001 CSO, ALB, Aggregate

* Age Next Birthday

All of the State Life Insurance Fund's life insurance in force is participating. This Fund is required by statute to maintain surplus at a level between 7 percent and 10 percent of statutory admitted assets as far as practicably possible. All excess surplus is to be returned to the policyholders in the form of policyholder dividends. Policyholder dividends are declared each year in order to achieve the required level of surplus.

The statutory assets at December 31, 2015 were $101.4 million and statutory capital and surplus was $9.3 million. Fund equity at June 30, 2016 was $32.0 million.

C. Injured Patients and Families Compensation Fund

The Injured Patients and Families Compensation Fund was created in 1975 for the purpose of providing excess medical malpractice coverage for claims exceeding the legal primary insurance limits prescribed in Wis. Stat. Section 655.23(4), or the maximum liability limit for which the health care provider is insured, whichever limit is greater. Management of the Fund is vested with a 13-member Board of Governors, which is chaired by the Commissioner of Insurance. Most health care providers permanently practicing or operating in the State of Wisconsin are required to pay Injured Patients and Families Compensation Fund assessment fees. Risk of loss is retained by the Fund.

The Future Benefits and Loss Liability account includes individual case estimates for reported losses and estimates for incurred but not reported losses based upon the projected ultimate losses recommended by a consulting actuary. The liability for incurred but not reported losses as of June 30, 2016, is determined by deducting individual case estimates of the liability for reported losses and net losses paid from inception of the Fund, and adding a risk margin to the projected ultimate loss liabilities, as follows (in thousands):

Projected ultimate loss liability	$ 1,170,603
Less: Net loss paid from inception	(861,026)
Less: Liability for reported losses	(20,999)
Risk Margin	77,394
Liability for incurred but not reported losses	$ 365,972

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, 2016. The percentage used in the financial statements will differ slightly, since the actuary's estimate will be adjusted to reflect actual LAE payments. Specifically, the loss adjustment expenses paid from the inception of the Fund through June 30, 2016, are deducted from the projected ultimate LAE to determine the liability for LAE as June 30, 2016 as follows (in thousands):

Projected ultimate LAE liability	$ 149,330
Less: LAE paid from inception	(95,859)
Risk Margin	13,367
Liability for LAE	$ 66,838

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 0.8619, which is based on an investment yield assumption of 4.0 percent approved by the Board of Governors, the discounted loss liability would be as follows as of June 30, 2016 (in thousands):

Estimated liability for incurred but not reported losses	$ 365,972
Estimated liability for reported losses	20,999
Estimated liability for loss adjustment expense	66,838
Total estimated loss liabilities	453,809
Less: Amount representing interest	(62,665)
Discounted loss liabilities	$ 391,144

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

The Office of the Commissioner of Insurance contracts for an actuarial audit of the Fund. This audit includes a review by another actuary of the reasonableness of the actuarial methodology and assumptions used in developing estimates of the Fund's liabilities. The actuarial audits have concluded that the Fund's loss liability estimates are reasonable, although conservative. The Fund's contracted actuary has considered the recommendations made in the actuarial audits and appropriately incorporated any necessary changes based on those recommendations into the actuarial methodology and assumptions used to calculate the Fiscal Year 2016 liabilities estimate.

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

The breakdown of Future Benefit and Loss Liabilities, including the portions that are estimated as current and noncurrent as of June 30, 2016 (in thousands), is as follows:

Discounted loss liabilities	$ 391,144
Future medical expense liability	32,339
Contributions being held liability	1,000
Total estimated loss liabilities	424,483
Current portion	(52,262)
Noncurrent portion	$ 372,221

The uncertainties inherent in projecting the frequency and severity of large claims because of the Injured Patients and Families Compensation Fund's unlimited liability coverage and extended reporting and settlement periods makes it likely that the amounts ultimately paid will differ from the recorded estimated loss liabilities. These differences cannot be quantified.

The estimated amounts included in the balance of Future Benefits and Loss Liabilities are continually reviewed and adjusted as the Fund gains additional experience. Such adjustments are reflected in current operations. Because of the changes in these estimates, the benefit expense for the fiscal year is not necessarily indicative of the loss experience for the year.

The following is a reconciliation of the change in the balance of Future Benefits and Loss Liabilities during Fiscal Year 2016 (in thousands):

Liability at the beginning of the year	$ 486,039
Incurred claims and related expenses for the current year and the change in estimated amounts for claims incurred in prior years	(51,713)
Less: current year payments attributable to claims incurred in current and prior years	(9,843)
Liability at the end of the year	$ 424,483

NOTE 21. DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

Deferred outflows and resources and deferred inflows of resources at June 30, 2016 were as follows (in thousands):

	General	Transportation	Capital Improvement	Nonmajor Governmental	Internal Service	Full Accrual Adjustments	Total Governmental Activities
Deferred Outflows of Resources							
Accumulated Decreases in the Fair Value of Hedging Derivatives	$ -	$ -	$ -	$ -	$ -	$ 216,753	$ 216,753
Debt Refunding	-	-	-	-	3,433	145,655	149,088
Advances by the State	-	142	-	-	-	-	142
Differences Between Expected and Actual Pension Experience	-	-	-	-	632	35,449	36,082
Changes of Pension Assumption	-	-	-	-	2,862	144,392	147,254
Net Difference Between Projected and Actual Earnings on Pension Investments	-	-	-	-	16,544	846,744	863,287
Changes in Proportion and Differences Between Actual and Proportionate Share of Contributions	-	-	-	-	125	6,977	7,101
Pension Contributions Subsequent to the Measurement Date	-	-	-	-	1,205	60,376	61,581
Total Deferred Outflows of Resources	$ -	$ 142	$ -	$ -	$ 24,801	$ 1,456,346	1,481,289

	General	Transportation	Capital Improvement	Nonmajor Governmental	Internal Service	Full Accrual Adjustments	Total Governmental Activities
Deferred Inflows of Resources							
Debt Refunding	$ -	$ -	$ -	$ -	$ 606	$ 12,676	$ 13,282
Unavailable Revenue	233,549	298	-	8,138	-	(241,985)	0
Differences Between Expected and Actual Pension Experience	-	-	-	-	8,607	434,322	442,930
Changes in Proportion and Differences Between Actual and Proportionate Share of Contributions	-	-	-	-	65	3,610	3,675
Total Deferred Inflows of Resources	$ 233,549	$ 298	$ -	$ 8,138	$ 9,279	$ 208,623	$ 459,887

	Injured Patients and Family Compensation	Environmental Improvement	University of Wisconsin System	Unemployment Reserve	Nonmajor Enterprise	Total Business-Type Activities
Deferred Outflows of Resources						
Debt Refunding	$ -	$ 30,433	$ 37,136	$ -	$ 1,043	$ 68,613
Advances by the State	-	-	-	-	39,822	39,822
Differences Between Expected and Actual Pension Experience	9	8	36,952	-	3,822	40,790
Changes of Pension Assumption	38	21	154,478	-	17,359	171,896
Net Difference Between Projected and Actual Earnings on Pension Investments	221	132	902,669	-	100,320	1,003,343
Changes in Proportion and Differences Between Actual and Proportionate Share of Contributions	2	2	-	-	755	758
Pension Contributions Subsequent to the Measurement Date	17	12	50,251	-	7,030	57,310
Total Deferred Outflows of Resources	$ 288	$ 30,608	$ 1,181,486	$ -	$ 170,151	$ 1,382,533

	Injured Patients and Family Compensation	Environmental Improvement	University of Wisconsin System	Unemployment Reserve	Nonmajor Enterprise	Total Business-Type Activities
Deferred Inflows of Resources						
Debt Refunding	$ -	$ -	$ 1,073	$ -	$ 106	$ 1,180
Differences Between Expected and Actual Pension Experience	114	63	464,659	-	52,216	517,052
Changes in Proportion and Differences Between Actual and Proportionate Share of Contributions	1	1	6,850	-	395	7,246
Total Deferred Inflows of Resources	$ 115	$ 64	$ 472,582	$ -	$ 52,717	$ 525,478

The $118,892 thousand in deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a decrease to the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as pension expenses as follows (in thousands):

Fiscal Year Ended June 30	Amount
2017	$ 354,234
2018	354,234
2019	354,234
2020	257,466
2021	(20,537)
	$ 1,299,631

NOTE 22. SEGMENT INFORMATION AND CONDENSED FINANCIAL DATA

Primary Government

The State issues revenue bonds to finance the Leveraged Loan Program, which is accounted for as part of the Environmental Improvement Fund. Investors in those bonds rely solely on the revenue generated within the Leveraged Loan Program. Assets of this program are used primarily for loans for Wisconsin municipal waste water projects. Condensed financial statement information of the Leveraged Loan Program as of and for the year ended June 30, 2016 is presented below (in thousands):

Condensed Statement of Net Position

Assets:		
Current Assets	$	99,510
Other Assets		824,344
Total Assets		923,854
Deferred Outflows of Resources		30,433
Total Assets and Deferred Outflows of Resources	$	954,287
Liabilities:		
Due to Other Funds	$	1,965
Other Current Liabilities (Including Current Portion of Long-term Debt)		54,542
Noncurrent Liabilities		661,695
Total Liabilities		718,201
Net position:		
Restricted		236,086
Total Net Position		236,086
Total Liabilities and Net Position	$	954,287

Condensed Statement of Revenues, Expenses and Changes in Net Position

Operating Revenues (Expenses):		
Interest Income used as Security for Revenue Bonds	$	17,055
Interest Expense		(28,544)
Other Operating Expenses		(2,362)
Operating Income (Loss)		(13,851)
Nonoperating Revenues (Expenses):		
Investment Income		27,999
Income (Loss) before Transfers		14,147
Transfers In (Out)		(14,144)
Change in Net Position		3
Beginning Net Position		236,083
Ending Net Position	$	236,086

Condensed Statement of Cash Flows

Net Cash Provided (Used) by:		
Operating Activities	$	80,109
Noncapital Financing Activities		(104,368)
Investing Activities		17,609
Net Increase (Decrease)		(6,650)
Beginning Cash and Cash Equivalents		89,096
Ending Cash and Cash Equivalents	$	82,446

NOTE 23. COMPONENT UNITS – CONDENSED FINANCIAL INFORMATION

Significant financial data for the State's discretely presented component units for the year ended December 31, 2015 or June 30, 2016 is presented below (in thousands):

	Wisconsin Housing and Economic Development Authority	Wisconsin Health Care Liability Insurance Plan	University of Wisconsin Hospitals and Clinics Authority	Wisconsin Economic Development Corporation	University of Wisconsin Foundation	Total
Condensed Statement of Net Position						
Assets:						
Cash, Investments and Other Assets	$ 2,015,956	$ 51,601	$ 1,838,064	$ 115,540	$ 3,472,211	$ 7,493,372
Due from Primary Governments	-	-	11,454	-	-	11,454
Cash and Investments with Other Component Units	-	-	204,411	-	-	204,411
Capital Assets, net	12,698	-	1,160,834	1,112	20,724	1,195,368
Total Assets	2,028,654	51,601	3,214,763	116,652	3,492,935	8,904,605
Deferred Outflows of Resources	53,798	-	294,405	3,987	-	352,190
Total Assets and Deferred Outflows	$ 2,082,452	$ 51,601	$ 3,509,168	$ 120,639	$ 3,492,935	$ 9,256,795
Liabilities:						
Accounts Payable and Other Current Liabilities	$ 90,696	$ 5,552	$ 444,452	$ 7,411	$ 74,917	$ 623,028
Due to Primary Government	-	-	79,719	-	-	79,719
Amounts Held for Other Component Units	-	-	-	-	194,533	194,533
Other Liabilities	47,649	-	9,745	-	-	57,394
Long-term Liabilities (Current and Noncurrent portions)	1,241,758	9,164	808,540	3,905	46,762	2,110,129
Total Liabilities	1,380,103	14,716	1,342,456	11,316	316,213	3,064,803
Deferred Inflows of Resources	2,459	-	116,166	1,852	-	120,477
Net Position:						
Net Investment in Capital Assets	9,358	-	562,963	1,112	20,724	594,157
Restricted	685,240	36,886	19,544	30,075	2,978,966	3,750,711
Unrestricted	5,292	-	1,468,039	76,284	177,032	1,726,647
Total Net Position	699,890	36,886	2,050,546	107,471	3,176,722	6,071,515
Total Liabilities, Deferred Inflows and Net Position	$ 2,082,452	$ 51,601	$ 3,509,168	$ 120,639	$ 3,492,935	$ 9,256,795
Condensed Statement of Activities						
Program Expenses:						
Depreciation	$ 900	$ -	$ 108,327	$ 537	$ 1,728	$ 111,493
Payments to Primary Government	-	-	182,301	-	220,615	402,916
Other	250,282	129	2,542,897	48,478	55,988	2,897,773
Total Program Expenses:	251,182	129	2,833,525	49,015	278,331	3,412,182
Program Revenues:						
Charges for Goods and Services	6,512	1,753	2,750,033	184	-	2,758,482
Investment and Interest Income	71,430	1,220	-	-	(5,101)	67,550
Operating Grants and Contributions	176,353	-	-	30,144	543,597	750,094
Capital Grants and Contributions	-	-	-	-	-	-
Miscellaneous	16,109	-	110,845	-	7,500	134,454
Total Program Revenues	270,404	2,973	2,860,878	30,328	545,996	3,710,579
Net Program Revenue/(Expense)	19,222	2,845	27,353	(18,687)	267,665	298,398
General Revenues:						
Interest and Investment Earnings	19,309	-	7,475	1,511	-	28,295
Miscellaneous	-	-	11,604	380	-	11,984
Contributions to Endowments	-	-	50	-	-	50
Change in Net Position	38,531	2,845	46,482	(16,796)	267,665	338,726
Net Position, Beginning of Year	661,359	34,041	2,004,064	124,267	2,909,058	5,732,788
Net Position, End of Year	$ 699,890	$ 36,886	$ 2,050,546	$ 107,471	$ 3,176,722	$ 6,071,515

NOTE 24. RESTATEMENTS OF BEGINNING FUND BALANCES/NET POSITIONS AND OTHER CHANGES

The following reconciliations summarize restatements of the end-of-year fund balance and net position amounts as reported in the 2015 Comprehensive Annual Financial Report to the beginning-of-year amounts reported for Fiscal Year 2016 (in thousands):

A. Fund Statements – Governmental Funds

	Major Funds				
	General	Transportation	Capital Improvement	Nonmajor Funds	Total Governmental
Fund Balances June 30, 2015 as reported in the 2015 Comprehensive Annual Financial Report	$ (1,779,409)	$ 777,486	$ (735,727)	$ 1,299,685	$ (437,965)
DHS Correct Overstated Expenditures and Intergovernmental Revenues	38,246	-	-	-	38,246
DNR Correct Overstated Revenues	-	-	-	(7,276)	(7,276)
Fund Balances July 1, 2015 as restated	$ (1,741,163)	$ 777,486	$ (735,727)	$ 1,292,409	$ (406,994)
Effect of adjustments on the amount of excess revenues and other sources over expenditures and other uses of Fiscal Year 2015	$ 38,246	$ -	$ -	$ (7,276)	$ 30,970

B. Fund Statements – Proprietary Funds

	Major Funds						
	Injured Patients and Families Compensation	Environmental Improvement	University of Wisconsin System	Unemploy-ment Reserve	Nonmajor Funds	Total Enterprise	Internal Service Funds
Net Positions June 30, 2015 as reported in the 2015 Comprehensive Annual Financial Report	$ 733,293	$ 1,991,241	$ 6,689,065	$ 819,177	$ 507,925	$ 10,740,701	$ 16,998
Adjustments of assets and liabilities as of June 30, 2015	-	-	-	-	254	254	(218)
Net Positions July 1, 2015 as restated	$ 733,293	$ 1,991,241	$ 6,689,065	$ 819,177	$ 508,178	$ 10,740,955	$ 16,779
Effect of adjustments on the amount of net change in net position of Fiscal Year 2015	$ -	$ -	$ -	$ -	$ 254	$ 254	$ (218)

C. Fund Statements – Fiduciary Funds

	Pension and Other Employee Benefit Trust	Investment Trust	Private Purpose Trust	Total Fiduciary
Net Positions June 30, 2015 as reported in the 2015 Comprehensive Annual Financial Report	$ 93,403,044	$ 2,828,544	$ 3,894,434	$ 100,126,023
Changes reported for fiduciary funds	-	-	-	-
Net Positions July 1, 2015 as restated	$ 93,403,044	$ 2,828,544	$ 3,894,434	$ 100,126,023
Effect of prior period adjustments on the amount of net increase (decrease) in net positions of Fiscal Year 2015	$ -	$ -	$ -	$ -

D. Government-wide Statements

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
Net Positions June 30, 2015 as reported in the 2015 Comprehensive Annual Financial Report	$ 11,217,748	$ 10,741,847	$ 21,959,595
Capital projects corrections	(69,368)		(69,368)
Transportation capital asset corrections	(15,631)	-	(15,631)
Other adjustments of assets and liabilities as of June 30, 2015	22,201	254	22,455
Net Positions July 1, 2015 as restated	$ 11,154,951	$ 10,742,100	$ 21,897,051
Effect of adjustments on the amount of net increase (decrease) in net positions of Fiscal Year 2015	$ (62,797)	$ 254	$ (62,544)

NOTE 25. LITIGATION, CONTINGENCIES AND COMMITMENTS

A. Litigation and Contingencies

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

The State accrues liabilities related to legal proceedings, if a loss is probable and reasonably estimable. Such losses, totaling $57.2 million on June 30, 2016 reported in the governmental activities, are discussed below:

The Work Injury Supplemental Benefit Fund, administered by the Department of Workforce Development, provides compensatory payments to survivors of fatally injured employees or disabled employees with work-related injuries. The liability for annuities to be paid totaled $.6 million at June 30, 2016.

The Administration for Children and Families (ACF), an office under the U.S. Department of Health and Human Services, provides federal funding to the State through the Title IV-E Foster Care and Adoption Assistance programs. In a final letter dated September 13, 2016, the ACF notified the State's Department of Children and Family Services of unallowable grant costs. The State accepted ACF's Title IV-E Adoption Assistance and Foster Care disallowance of $38.7 million and $1.5 million respectively, or $40.2 million in total. A liability for $40.0 million is reported in the General Fund for the amount still owed. The State reduced the Title IV-E claim by this amount for the quarter ending September 30, 2016.

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. SWIB filed a petition in the United States Tax Court contesting the proposed IRS assessment for the taxes, plus penalties and interest. In 2015, the Tax Court found that the principal shareholders of SCC were liable as putative transferees for the tax, penalties and interest owed by SCC related to its sale.

Although SWIB plans to continue to aggressively contest the IRS' assertions, the estimated minimum possible loss of $16.6 million has been accrued. The potential liability is estimated to be between $16.6 million and $49.8 million.

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 loss 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.

The Local Government Property Insurance Fund reported a loss estimated at $20.0 million resulting from a fire at the Milwaukee County Courthouse in July 2013. The fund maintains excess-of-loss insurance to limit its exposure. For this loss the fund paid a deductible of $1.8 million and received $5.0 million from the excess-of-loss provider. The fund expects to be reimbursed by the provider for most of the remaining amount, however, there is a dispute as to the cause of the loss. The State has filed a lawsuit against the provider seeking recovery of amounts paid by the fund to Milwaukee County and for loss adjustment expenses. The Statement of Net Position reflects $11.5 million of receivables as of June 30, 2016 related to these costs. Net position of $4.7 million was reported as of June 30, 2016.

B. Commitments

Primary Government

As of June 30, 2016, encumbrances of the General Fund totaled $558.1 million, encumbrances of the Transportation Fund totaled $1.2 billion, and encumbrances of other non-major governmental funds totaled $419.6 million. Obligations at June 30, 2016 representing multi-year, long-term commitments included (in thousands):

Transportation Fund	$ 337,067
Capital Improvement Fund – WisDOT Harbors, Rails and Highway Programs	103,935
Transportation Revenue Bonds Capital Projects Fund	20,664
General Fund – Housing Programs	15,960

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 $230.3 million as of June 30, 2016. These loan commitments are expected to be met through proceeds from issuance of revenue obligations and additional federal grants.

In addition, the revenue obligation bonds of the Leveraged Loan Program in the Fund are collateralized by a security interest in all the assets of the Leveraged Loan Program. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the Fund’s revenue obligation bonds. However, as the loans granted to local units of government are at an interest rate less than the revenue bond rate, the State is obligated by the Fund’s General Resolution to fund, at the time each loan is made, a reserve which subsidizes the Leveraged Loan Program in an amount which offsets this interest disparity.

The *Injured Patients and Families Compensation Fund* may be required to purchase an annuity as a result of a claim settlement. Under specific annuity arrangements, the Fund may have ultimate responsibility for annuity payments if the annuity company defaults on annuity payments. One of the Fund's annuity providers defaulted on $113 thousand in annuity payments through June 30, 2016, 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, 2016. 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, 2016 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, 2016, the appropriation available totaled $57.9 million. Losses become fixed as of the date of the loss. A public depositor experiencing a loss must assign its interest in the deposit, to the extent of the amount paid, to the Department of Financial Institutions. Any recovery made by the Department of Financial Institutions under the assignment is to be repaid to the appropriation. The possibility of a material loss resulting from payments to and recovery from public depositors is remote.

NOTE 26. SUBSEQUENT EVENTS

Primary Government

Long-term Debt

General Obligation Bonds – In August 2016, the State issued $370.8 million of 2016 Series 2 refunding general obligation bonds to be used for advance refunding of certain principal of previously issued general obligation bonds. The interest rates associated with these bonds were set at 1.5 to 5.0 percent payable semiannually beginning November 1, 2016. The bonds mature annually beginning November 1, 2021 through November 1, 2030.

In July 2016, the State issued $93.7 million of general obligation bonds. Of the $93.7 million, $83.9 million was issued as tax exempt obligations (Series B) and $9.7 million was issued as taxable obligations (Series C). The bonds of both series are 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 associated with the Series B bonds were set at 4.0 to 5.0 percent payable semiannually beginning November 1, 2016 and the interest rates associated with the Series C bonds were set at 0.80 to 2.00 percent payable semiannually beginning November 1, 2016. The Series B bonds mature annually beginning May 1, 2018 through May 1 2023, and the Series C bonds mature annually beginning May 1, 2018 through May 1, 2026.

On October 2016, the State issued $324.4 million of general obligation bonds (Series D). The bonds are 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 associated with the Series D bonds were set at 4.0 to 5.0 percent, payable semiannually beginning May 1, 2017. The Series D bonds mature annually beginning May 1, 2018 through May 1, 2037.

In March 2017, the State issued $335.3 million of General Obligation bonds (Series A). The bonds are 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 associated with the Series A bonds were set at 4.0 to 5.0 percent payable semiannually beginning November 1, 2017. The Series A bonds mature annually beginning May 1, 2022 through May 1 2037.

Annual Appropriation Bonds – In August 2016, the State issued $600.7 million of general fund annual appropriation refunding bonds (taxable) in the form of two series. The 2016 Series A bonds are being issued to refund the May 1, 2018 maturities of the State's general fund annual appropriation refunding bonds of 2008, Series A (Taxable Fixed Rate). The 2016 Series B bonds are being issued to advance refund all or a portion of certain maturities of the State's general fund annual appropriation bonds of 2009, Series A. The interest rates associated with the 2016 Series A bonds were set at 1.44 to 2.48 percent payable semiannually beginning May 1, 2017. The 2016 Series A bonds mature annually beginning May 1, 2020 through May 1, 2027. The interest rates associated with the 2016 Series B bonds were all at 1.44 to 3.29 percent payable semiannually beginning May 1, 2017. The 2016 Series B bonds mature annually beginning May 1, 2020 through May 1, 2037.

In January 2017, the State issued $529.8 million of general fund annual appropriation refunding bonds, both taxable and tax exempt, in two series. The 2017 Series A (taxable) and 2017 Series B (tax-exempt) bonds are being issued to advance refund all or a portion of the 2009 bonds. The interest rates associated with the 2017 Series A bonds were set at 1.87 to 3.95 percent payable semiannually beginning November 1, 2017. The 2017 Series A bonds mature annually beginning May 1, 2020 through May 1, 2036. The interest rates associated with the 2017 Series B bonds were set at 4.00 to 5.00 percent payable semiannually beginning May 1, 2017. The 2017 Series B bonds mature annually beginning May 1, 2020 through May 1, 2036.

Revenue Bonds – In October 2016, the State issued $62.4 million of 2016 Series 1 petroleum inspection fee revenue refunding bonds to be used for the funding of petroleum inspection fee revenue extendible municipal commercial paper previously issued. The interest rate was set at 4.00 percent to 5.0 percent payable semiannually beginning January 1, 2017 and the bonds mature annually beginning July 1, 2017 through July 1, 2019.

Certificates of Participation

In July 2016, the State issued $34.0 million of 2016 Series A master lease certificates of participation to be used for the acquisition of tangible property and sometimes, intangible property for various State agencies. The interest rates were set at 2.0 to 5.0 percent payable semiannually beginning September 1, 2016. The certificates mature semi-annually beginning September 1, 2016 through March 1, 2023.

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Required Supplementary Information

Postemployment Benefits - State Health Insurance Program

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

Actuarial Valuation Date	Actuarial Valuation Of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a) / c)
1/1/2015	$ 0	$ 942,314	$ 942,314	0.0%	$ 3,126,936	30.1%
1/1/2013	$ 0	$ 892,844	$ 892,844	0.0%	$ 3,108,942	28.7%
1/1/2011	$ 0	$ 953,110	$ 953,110	0.0%	$ 3,244,518	29.4%

State's Proportionate Share of the Net Pension Liability or Net Pension (Asset)

The State's proportionate share of the net pension liability (NPL) or net pension (asset) (NPA) of the Wisconsin Retirement System is provided below:

Fiscal Year*	State's Proportion of the NPL/(NPA) (a)	State's Proportionate Share of the NPL/(NPA) (b)	State's Covered Payroll (c)	State's Share of the NPL/(NPA) as a Percentage of Covered Payroll (b / c)	WRS' Net Position as a Percentage of the Total Pension Liability (d)
2016	28.1%	$ 455,475,378	$3,790,475,424	12.0%	98.2%
2015	(28.0%)	$(686,873,469)	$3,735,598,305	(18.4%)	102.7%

* The amounts presented were measured as of the calendar year-end or for the calendar year ended that occurred within the fiscal year listed.

GASB standards require the presentation of 10 years of information. Because fiscal year 2015 was the first year for reporting this information, a full 10-year schedule will not be available until fiscal year 2024.

State's Pension Contributions

The State's pension contributions to the Wisconsin Retirement System are provided below:

Fiscal Year*	State's Actuarially Determined Contributions (a)	State's Contributions Made (b)	Contribution Excess/ (Deficiency) (b - a)	State's Covered Payroll (c)	State's Contributions Made as a Percentage of Covered Payroll (b / c)
2016	$270,985,300	$270,985,300	$ -	$3,790,475,424	7.2%
2015	$275,968,183	$275,968,183	$ -	$3,735,598,305	7.4%

* The amounts presented were measured for the calendar year ended that occurred within the fiscal year listed.

GASB standards require the presentation of 10 years of information. Because fiscal year 2015 was the first year for reporting this information, a full 10-year schedule will not be available until fiscal year 2024.

Infrastructure Assets Reported Using the Modified Approach

The State has adopted the modified approach for reporting infrastructure assets. Under the modified approach, infrastructure assets are not depreciated as long as the State can demonstrate that these assets are properly managed and are being preserved at or above an established condition level. Instead of depreciation, the costs to maintain and preserve infrastructure assets are expensed, while additions and improvements are capitalized. The State owns approximately 11,200 centerline miles of road and 5,200 bridges.

Road Network

Condition assessments are completed on a two-year cycle with the most current results reported for each State road. The State completes the assessment of the Eastern half of the State in one year and the Western half of the State in the next. Numerous measures are used to assess the condition of the State's road network. The State has adopted the International Roughness Index (IRI), as defined by the Federal Highway Administration, as one of its condition measures. IRI is a direct measure of road roughness, with an IRI of 2.69 mm/m (170 inches/mile) or greater being defined as a "poor" ride. Roads with a "poor" IRI assessment may cause negative impacts for the traveling public by decreasing driver comfort and potentially increasing the damage to vehicles and goods. It is the State's policy to ensure no more than 15 percent of its roads receive a "poor" IRI assessment.

Recent condition assessment results are as follows:

Year Ended June 30	Miles of Road	Percent Rated "Poor"	Established Percent	Variance Favorable/ (Unfavorable)
2016	11,200	8.9	15.0	6.1
2015	11,200	7.3	15.0	7.7
2014	11,200	8.3	15.0	6.7
2013	11,200	6.2	15.0	8.8
2012	11,200	7.0*	15.0	8.0
2011	11,200	12.0**	15.0	3.0
2010	11,200	9.3**	15.0	5.7
2009	11,200	6.9	15.0	8.1
2008	11,200	6.9	15.0	8.1
2007	11,200	6.4	15.0	8.6

* The 2012 decrease in the percentage of roads rated poor is due to inclusion of new construction in the scope of the 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)
2016	$617.6	$564.7	$ 52.9
2015	$603.4	$643.3	$ (39.9)
2014	$619.4	$605.9	$ 13.5
2013	580.9	561.8	19.1
2012	611.0	585.3	25.7
2011	606.7	705.7	(99.0)
2010	660.7	669.1	(8.4)
2009	647.7	624.4	23.3
2008	531.8	537.3	(5.5)
2007	501.8	441.6	60.2

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. Actual costs for 2007 and 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)
2016	5,200	3.1	15.0	11.9
2015	5,200	3.2	15.0	11.8
2014	5,100	3.3	15.0	11.7
2013	5,100	3.1	15.0	11.9
2012	5,100	3.3	15.0	11.7
2011	5,100	3.6	15.0	11.4
2010	5,000	4.1	15.0	10.9
2009	5,000	3.8	15.0	11.2
2008	4,900	4.5	15.0	10.5
2007	4,900	4.1	15.0	10.9

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)
2016	$78.6	$128.3	$(49.7)
2015	57.1	164.4	(107.3)
2014	261.2	131.0	130.2
2013	123.2	115.3	7.9
2012	101.9	61.1	40.8
2011	42.4	64.2	(21.8)
2010	91.7	93.0	(1.3)
2009	55.9	56.9	(1.0)
2008	61.0	46.2	14.8
2007	36.0	46.9	(10.9)

Estimated costs are developed at the beginning of the fiscal year based on projects planned for the current and future years. The types of projects ultimately contracted and incurring costs during the year are often very different. The State of Wisconsin, Department of Transportation's multi-year contracting process, allowing encumbrances to carry forward, makes a comparison of actual to estimated amounts difficult since expenditures for the current year may have been budgeted and committed to a project in prior years. Estimated and actual costs for 2014 have been restated from amounts reported in prior years due to an error in classification of costs on a capital project as maintenance/preservation costs.

Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2016

(In Thousands)

	Original Budget	Final Budget	Actual Amounts
Unexpended Budgetary Fund Balances, Beginning of Year			$ 2,015,119
Revenues and Transfers (Inflows):			
Taxes	$ 15,245,686	$ 15,217,196	15,139,330
Departmental:			
Tribal Gaming	23,278	25,605	26,167
Other	16,247,890 (A)	16,249,877 (A)	16,006,689
Transfers from:			
Nonmajor Governmental Funds	(A)	(A)	85,723
Nonmajor Enterprise Funds	(A)	(A)	-
Total Revenues and Transfers (Inflows)	31,516,854	31,492,678	31,257,909
Amounts Available for Appropriation			33,273,028
Appropriations (Outflows):			
Commerce	200,637	232,945	199,047
Education	12,994,275	13,494,677	12,774,444
Environmental Resources	307,106	357,258	305,068
Human Relations and Resources	13,713,199	17,262,224	14,075,466
General Executive	1,169,831	1,421,511	1,008,932
Judicial	137,494	138,627	130,929
Legislative	76,208	76,636	66,950
Tax Relief and Other General	2,314,750	2,337,990	2,299,374
Transfers to:			
Transportation Fund	38,010	38,010	38,010
Nonmajor Governmental Funds	-	-	19,745
Nonmajor Enterprise Funds	-	-	10,400
Total Appropriations (Outflows)	$ 30,951,511	$ 35,359,878	30,928,366
Fund Balances, End of Year			2,344,661
Less Encumbrances Outstanding at June 30, 2016			(556,633)
Fund Balances, End of Year Budgetary Basis			$ 1,788,028

Reconciliation of the End of Year, Budgetary Basis, Fund Balance to the Detail Reported in the Annual Fiscal Report:	
General Purpose:	
Designated	$ 131,963
Undesignated	331,038
Total General Purpose	463,001
Program Revenue	1,325,027
Fund Balances, End of Year Budgetary Basis	$ 1,788,028

(A) Interfund transfers to the General Fund were budgeted under departmental revenue during Fiscal Year 2016.

State of Wisconsin

Budgetary Comparison Schedule
Transportation Fund
For the Fiscal Year Ended June 30, 2016

(In Thousands)

	Original Budget	Final Budget	Actual Amounts
Unexpended Budgetary Fund Balances, Beginning of Year			$ 655,894
Revenues (Inflows):			
Taxes	$ 1,091,644	$ 1,091,644	1,091,644
Departmental	1,679,520	1,679,520	1,679,521
Transfers from:			
General Fund	38,010	38,010	38,010
Nonmajor Governmental Funds	21,000	21,000	21,000
Total Revenues (Inflows)	2,830,174	2,830,174	2,830,175
Amounts Available for Appropriation			3,486,069
Appropriations and Transfers (Outflows):			
Environmental Resources	2,752,723	4,914,284	2,838,953
General Executive	1,930	1,930	1,701
Tax Relief and Other General	23,036	23,186	22,888
Total Appropriations and Transfers (Outflows)	$ 2,777,689	$ 4,939,400	2,863,542
Fund Balances, End of Year			622,527
Less Encumbrances Outstanding at June 30, 2016			(1,576,831)
Fund Balances, End of Year Budgetary Basis			$ (954,304)

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, 2016 is presented below (in thousands):

	General Fund	Transportation Fund
Fund balance June 30, 2016 (budgetary basis – budgetary fund structure):		
General Purpose Revenue – fund balance per budgetary basis *Annual Fiscal Report*		
Undesignated fund balance	$ 331,038	
Designated fund balance	131,963	
Total General Purpose Revenue fund balance	463,001	
Program Revenue – fund balance per budgetary basis *Annual Fiscal Report*	1,325,027	
Fund balance June 30, 2016 (budgetary basis – budgetary fund structure) as reported on the budgetary comparison schedule	1,788,028	$ (954,304)
Reclassifications:		
To eliminate encumbrances reported as expenditures under budgetary reporting (*basis difference)*	556,633	1,576,831
To include activities of funds such as the Medical Assistance Trust, Hospital Assessment, Critical Hospital Assessment, Budget Stabilization, and Permanent Endowment Funds (reported as special revenue funds under budgetary reporting) as part of the General Fund (*perspective difference*)	345,186	--
To remove activities reported in another GAAP fund type (*perspective differences*):		
Enterprise funds (except for the University of Wisconsin System)	(71,315)	--
University of Wisconsin System	(1,202,851)	--
Internal Service funds	11,898	--
Fiduciary funds	(4,537)	--
Transportation Revenue Bonds capital project fund	--	(15)
Fund balance June 30, 2016 (GAAP fund structure – budgetary basis, excluding encumbrances treated as expenditures at year end)	1,423,041	622,512
Adjustments (*basis differences*):		
To accrue receivables and establish payables for individual income taxes (net)	(838,689)	--
To defer revenues for gross receipts public utility taxes	(271,476)	--
To adjust revenues and expenditures for tax-related items and other tax credit/aid programs (net)	(429,682)	(1,233)
To adjust expenditures for the municipal and county shared revenue program	(502,462)	--
To adjust expenditures for State property tax credit program	(749,103)	--
To accrue unpaid Medicaid payments to providers (net of receivable from federal government)	(233,104)	--
To adjust revenues and expenditures for certain major Health Services, and Children and Families human services payments to local governments	(168,576)	--
To accrue receivable for Medicaid drug rebates (net of payable to federal government)	166,112	--
To adjust expenditures/revenues for other Health Services, Workforce Development, Children and Families, and Corrections accruals and deferrals	(21,264)	--
To recognize the tobacco settlement revenue receivable	69,546	--
To accrue State educational aids payments deferred until the subsequent year	(201,590)	--
To accrue a payable to the federal government for unallowable Title IV-E Foster Care and Adoption Assistance costs	(40,006)	--
To adjust expenditures and revenues for State Energy Program and other revolving loan programs	11,944	
To adjust revenues and expenditures for other items (net)	62,687	96,032
Fund balance June 30, 2016 (GAAP fund structure – GAAP basis) as reported on the governmental fund statements	$(1,722,629)	$717,311

B. Budgetary Basis of Accounting

The State's biennial budget is prepared using a modified cash basis of accounting. The final budget is primarily a general purpose revenue and expenditure budget. General purpose revenues consist of general taxes and miscellaneous receipts which are paid into the General Fund, lose their identity, and are then available for appropriation by the Legislature. The remaining revenues consist of program revenues, which are credited by law to an appropriation to finance a specified program or State agency, and segregated revenues which are paid into separate identifiable funds.

While State departments and agencies are required to submit estimates of expected revenues for program revenue and segregated revenue categories, these estimates are not formally incorporated into the adopted budget except for revenue estimates of the Lottery Fund. As a result, legally budgeted revenues for these categories are not available and, consequently, actual amounts are reported in the budget column of the Budgetary Comparison Schedules.

Expenditure budgeting differs for the various types of appropriations. For most appropriations, budgeted expenditures equal the amount from the adopted budget plus any subsequent legislative or administrative revisions. Various supplemental appropriations were approved during the year and have been incorporated into the budget figures.

While State statutes prohibit spending beyond budgetary authority, a provision is made to include the value of accounts receivable, inventories and work in process in identifying available revenues. The State also utilizes nonbudget accounts for which no budget is established but expenditures may be incurred. As a result, actual expenditures may exceed budgeted amounts in certain categories.

The budgetary basis of accounting required by State law differs materially from the basis used to report revenues and expenditures in accordance with GAAP. Other variances arise because the State's biennial budget is developed according to the statutory required fund structure which differs extensively from the fund structure used in the GAAP basis financial statements. This difference is primarily caused by the elimination of the University of Wisconsin System, and various fiduciary, proprietary and other governmental fund activities from the statutory General and Transportation funds. In addition, funds such as the Medical Assistance Trust, Hospital Assessment, Budget Stabilization and Permanent Endowment, special revenue funds under statutory reporting, are included as part of the General Fund under GAAP reporting. As a consequence of these differences, a reconciliation between budgetary basis and GAAP basis is provided in Note 1-A of the notes to the required supplementary information.

The Budgetary Comparison Schedules for the General and the Transportation Fund present both the original and final appropriated budgets, as well as the actual inflows, outflows, and fund balance on the budgetary basis. The supplementary budget comparison schedule provides this same information (with the exception of the original budget data) for the nonmajor governmental funds with annual budgets. The capital project and debt service funds are excluded from this schedule because no comprehensive budget is approved for these funds. One special revenue fund, the Wisconsin Public Broadcasting Foundation, has been excluded from reporting because it is a blended component unit that is neither budgeted nor included under statutory reporting. Of the permanent funds, only the Historical Society Fund and a portion of the Common School and Normal School funds are budgeted.

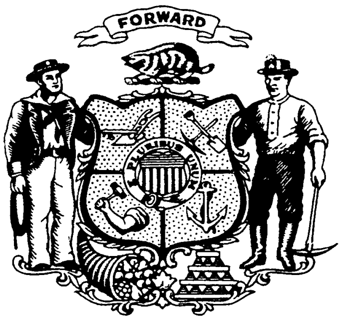
The State's biennial budget was enacted on July 12, 2015 and published on July 13, 2015. This legislation is recognized by State officials as the original budget and is treated as such on the Budgetary Comparison Schedules.

While the legal level of budgetary control for the reported funds is maintained at the appropriation line as specified by the Legislature in Chapter 20 of the Wisconsin Statutes, this level of detail is impractical for inclusion in the Comprehensive Annual Financial Report. Accordingly, a supplementary report is available upon request which provides budgetary comparisons at the legal level of control.

Appropriation unexpended balances lapse at year-end or forward to the subsequent fiscal year depending on the type of appropriation involved:

- *Continuing* - unexpended balances automatically forward to ensuing years until fully depleted or repealed by subsequent action of the Legislature.
- *Annual*:
  - *General Purpose Revenue* - unencumbered balances lapse at year end.
  - *Program Revenue* - unexpended cash balances may be forwarded to the next fiscal year.
- *Biennial* - unexpended balances or deficits automatically forward to the second year. At the end of the second year all unencumbered general purpose revenue balances lapse.
- *Sum sufficient* - moneys are appropriated and expended in the amounts necessary to accomplish the purpose specified.

Encumbrances may be carried over to the next fiscal year as a revision to the budgetary appropriation with Department of Administration approval. Under budgetary reporting, encumbrances are treated like expenditures and are shown as a reduction of fund balance.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