PART II

GENERAL INFORMATION ABOUT THE STATE OF WISCONSIN

Part II of the 2018 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 2017-18 Fiscal Year
- State Budget (including State Budget for 2017-19 Biennium)
- General Fund Information
- State Government Organization
- State Obligations
- Employee Pension Funds and Other Post-Employment Benefits
- Statistical Information

APPENDIX A to this Part II of the 2018 Annual Report includes the audited general purpose external financial statements for the fiscal year ending June 30, 2018 and the independent auditor's report provided by the State Auditor.

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

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

As a result of the State general election held on November 6, 2018, the Honorable Tony Evers is the Governor-Elect and his term begins on January 7, 2019. Mr. Evers defeated incumbent Governor Scott Walker in this State-wide election. In addition, the Honorable Josh Kaul is the Attorney General-Elect and his term also begins on January 7, 2019. Mr. Kaul defeated incumbent Attorney General Brad Schimel in the same State-wide election.

The State independently provides monthly reports on general fund financial information. 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 are filed as additional voluntary information with the Municipal Securities Rulemaking Board (**MSRB**) through its Electronic Municipal Market Access (**EMMA**) system. These reports are not incorporated by reference into this Part II of the 2018 Annual Report.

This Part II of the 2018 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 in the 2018 Annual Report.

The 2018 Annual Report includes information and defined terms for different types of securities issued by the State. The context or meaning of a term used in one part of the 2018 Annual Report may differ from that of the same term 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 2018 Annual Report is part of the report unless expressly incorporated by reference.

Certain statements in this Part II of the 2018 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 2018 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 fiscal years. Future receipts may differ from historical data.

Table II-1
REVENUES (ALL SOURCES)[a]

	2017-18	2016-17	2015-16	2014-15	2013-14
State Collected Taxes					
Individual Income	$ 8,479,150,174	$ 8,039,505,946	$ 7,740,824,938	$ 7,325,816,775	$ 7,061,389,669
General Sales and Use	5,448,117,570	5,223,934,994	5,065,762,290	4,892,125,859	4,628,337,935
Corporate Franchise and Income	893,891,739	920,946,841	963,027,018	1,004,926,461	967,184,149
Public Utility	365,342,776	360,472,829	360,596,994	381,819,363	360,967,550
Excise	679,978,914	705,681,300	708,509,061	699,060,289	698,686,674
Inheritance and Gift	(32,556)	434,431	1,744,736	(112,267)	(77,722)
Insurance Companies	186,272,549	181,584,219	177,326,291	165,448,106	165,764,951
Motor Fuel	1,117,009,541	1,090,250,213	1,083,522,061	1,063,767,473	1,040,569,511
Forestry[b]	23,653,904	96,016,134	93,861,295	90,613,470	88,385,116
Miscellaneous	199,671,423	212,760,883	199,219,000	181,725,163	163,761,829
Subtotal	17,393,056,034	16,831,587,791	16,394,393,685	15,805,190,692	15,174,969,661
Federal Aid					
Medical Assistance	5,212,936,363	4,890,944,733	4,878,094,482	4,854,702,033	4,675,469,265
AFDC/W2	305,006,005	294,455,124	247,986,348	329,162,381	282,163,922
Transportation	892,286,137	662,502,937	906,033,490	990,580,399	888,220,243
Education	2,396,315,641	2,399,008,014	2,371,676,587	2,477,689,057	2,580,044,827
Other	2,342,928,533	2,959,676,942	2,642,332,824	2,690,819,415	2,752,701,021
Subtotal	11,149,472,679	11,206,587,749	11,046,123,732	11,342,953,284	11,178,599,277
Fees					
University of Wisconsin System	1,759,759,464	1,707,793,062	1,666,160,550	1,623,453,886	1,622,568,090
Other	788,562,912	724,040,345	692,248,631	668,384,323	628,539,901
Subtotal	2,548,322,377	2,431,833,407	2,358,409,181	2,291,838,209	2,251,107,991
Licenses and Permits					
Vehicles and Drivers	559,513,010	537,762,706	526,452,501	509,385,404	505,324,754
Hunting and Fishing	51,169,268	68,159,180	58,120,402	110,205,770	116,470,715
Other	1,168,724,587	1,240,979,221	1,231,663,425	1,115,655,149	1,113,707,662
Subtotal	1,779,406,864	1,846,901,107	1,816,236,328	1,735,246,322	1,735,503,130
Miscellany					
Service Charges	843,078,844	817,194,316	803,725,085	781,313,675	738,505,532
Sales of Products	1,065,918,078	987,235,893	1,026,863,635	935,521,722	922,241,810
Investment Income[c]	8,849,595,673	11,457,291,223	1,166,877,403	1,871,831,241	14,510,680,894
Gifts and Grants	667,539,496	643,012,621	596,605,495	612,224,426	563,269,277
Employee Benefit Contributions[d]	3,827,381,287	3,875,831,795	3,411,872,470	3,612,450,153	3,737,652,049
General Obligation Proceeds	703,622,841	834,445,069	981,570,885	1,298,902,695	828,217,375
Other Revenues	3,026,939,507	3,043,604,968	2,918,935,073	2,922,615,939	2,832,874,576
Subtotal	18,984,075,726	21,658,615,885	10,906,450,046	12,034,859,851	24,133,441,512
Summary					
TOTAL NET REVENUE	51,854,333,680	53,975,525,940	42,521,612,972	43,210,088,358	54,473,621,572
Transfers	1,502,566,855	1,700,574,365	1,402,823,022	1,508,789,439	1,459,009,937
Gross Revenue	$ 53,356,900,535	$ 55,676,100,305	$ 43,924,435,994	$ 44,718,877,797	$ 55,932,631,509

(a) The amounts shown are based on statutorily required accounting and not on GAAP. The amounts are unaudited.
(b) Tax repealed via 2017-19 biennial budget. Amounts reported were fiscal year 2017-18 accounts receivable.
(c) Figures include investment income for all funds. Investment income for the Wisconsin Retirement System totaled $8,493,275,354 for fiscal year 2017-18, $11,198,283,360 for fiscal year 2016-17, $896,425,976 for fiscal year 2015-16, $1,650,635,903 for fiscal year 2014-15, and $14,249,209,345 for fiscal year 2013-14.
(d) 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 2018 and 2019 tax years are shown in Table II-2. The taxable income brackets have been indexed for changes in the Consumer Price Index.

Table II-2

INDIVIDUAL INCOME TAX BRACKETS AND RATES

2018 Taxable Income Brackets[a]		
Single	**Married Filing Jointly[b]**	**2018 Marginal Tax Rate**
0 to 11,450	0 to 15,270	4.00%
11,451 to 22,900	15,271 to 30,540	5.84
22,901 to 252,150	30,541 to 336,200	6.27
252,151+	336,201+	7.65

2019 Taxable Income Brackets[a]		
Single	**Married Filing Jointly[b]**	**2019 Marginal Tax Rate**
0 to 11,760	0 to 15,680	4.00%
11,761 to 23,520	15,681 to 31,360	5.84
23,521 to 258,950	31,361 to 345,270	6.27
258,951+	345,271+	7.65

[a] Taxable income in dollars

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

2017 Wisconsin Act 368 was signed into law on December 14, 2018 and will reduce the individual income tax rates starting with tax year 2019 based on the amount of sales and use tax revenues that the State now collects from remote sellers. Provisions of 2017 Wisconsin Act 368 also provides a process for review and certification of the of sales and use tax revenues from remote sellers, prior to any reduction in the tax rates. See "STATE BUDGET; Budget for the 2019-21 Biennium".

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. The State has 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 2018, 24 states, representing approximately one third of the national population, have adopted the agreement.

Sales and Use Tax on Remote Sales

On June 21, 2018, the U.S. Supreme Court ruled that a state can require out-of-state sellers lacking a physical presence in that state, referred to as remote sellers, to collect and remit sales or use taxes on remote sales delivered into that state *(South Dakota v. Wayfair, Inc.).* Effective October 1, 2018, the State requires remote sellers to collect and remit sales or use taxes on sales of taxable products and services in the State. Administrative rules were developed by the Department of Revenue (**DOR**) for administering the sales tax imposed on remote sellers, and such rules are consistent with the Supreme Court ruling and include a small seller exception.

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 resulted in the continued elimination of State estate taxes for deaths occurring on or after January 1, 2008. 2013 Wisconsin Act 20 eliminated the State'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.

Forestry Tax

The forestry tax was the only State tax upon general property. It was a levy on all taxable property in the State. The tax rate for the 2016-17 fiscal year was $0.1697 per $1,000 in property value. The tax was collected by municipal treasurers and remitted to the State during property tax settlements. After its receipt in the General Fund, it was transferred to the segregated Conservation Fund. The 2017-19 biennial budget (2017 Wisconsin Act 59) repealed this tax beginning with the 2017-18 fiscal year and replaced it with a general fund transfer to the Conservation Fund equal to what would have been raised under the prior law tax.

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 manufacturing and agriculture tax credit provides tax relief to manufacturers and farmers. For individual income tax filers, the credit is equal to 7.5 percent 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 7.5 percent of the claimant's QPAI, apportioned income, or income taxable under combined reporting provisions. The credit was originally set at a 1.875 percent rate in tax year 2013 and phased in to its current 7.5 percent rate beginning with tax year 2016. The credit is nonrefundable, but unused credit amounts may be carried forward and used in future years. According to recent estimates by the Department of Revenue, the credit reduces annual State income tax revenues by approximately $320 million annually.

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 2017-18 fiscal year, low-income homeowners and renters received nearly $84 million in homestead tax credit relief.

Earned Income Tax Credit

The earned income tax credit provides financial 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 November 2018, the State was one of 29 states and the District of Columbia that offered an earned income tax credit. Twenty-four 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 2018 is $138 for one child, $629 for two children, and $2,187 for three or more children. In the 2017-18 fiscal year, low-income wage earners received $97 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. The credit is based on the number of qualifying acres, as well as certain other factors. Expenditures under the program were approximately $17 million in fiscal year 2017-18.

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 2017, $940 million of school levy tax credits was distributed statewide. The first dollar credit, which offsets the school district property taxes paid on the first $6,800 on an improved parcel, provided an additional $149 million of property tax relief for property taxes levied in December 2017. These tax credits offset approximately 9.9 percent of all levies or 22.0 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 2017-18 tax year, the total lottery property tax credit was approximately $172 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 2017-18 fiscal year, the school property tax credit totaled approximately $423 million.

Electronics and Information Technology Zone Tax Credit.

The statute that authorized creation of an electronics and information technology zone in southeast Wisconsin also provides for refundable tax credits for a business or businesses located in the zone. In November 2017, the State entered into a contract with a firm to provide up to $2.85 billion in tax credits to that firm to support the development of a manufacturing campus in Racine County. The amount of refundable tax credits to be provided to this firm depends on verified levels of capital investment and job creation. Payments under this tax credit will likely not begin until the 2019-20 fiscal year.

Tax Collection Procedure (Delinquencies)

If a taxpayer does not file a valid return when required, **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-30 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 2018 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 fiscal years.

Table II-3
EXPENDITURES BY FUNCTION AND TYPE (ALL FUNDS)(a)

	2017-18	2016-17	2015-16	2014-15	2013-14
Commerce					
State Operations	$ 254,899,919	$ 229,543,994	$ 220,297,122	$ 251,812,554	$ 229,386,338
Aids to Individuals and Organizations	37,256,622	22,699,946	25,056,868	36,164,193	37,092,716
Local Assistance	29,426,460	37,454,267	50,539,203	64,054,263	76,482,860
Subtotal	321,583,001	289,698,207	295,893,193	352,031,010	342,961,915
Education					
State Operations	6,400,771,156	6,243,487,558	6,188,774,127	6,166,780,064	6,243,833,208
Aids to Individuals and Organizations	549,666,619	524,440,457	518,366,096	497,227,676	457,347,628
Local Assistance	6,705,022,677	6,682,897,334	6,175,572,042	6,389,703,799	5,859,524,660
Subtotal	13,655,460,452	13,450,825,349	12,882,712,265	13,053,711,539	12,560,705,496
Environmental Resources					
State Operations	2,719,598,463	2,229,426,525	2,371,154,665	2,437,220,712	2,707,169,764
Aids to Individuals and Organizations	34,448,164	36,156,959	35,198,403	29,100,920	34,929,320
Local Assistance	1,120,538,244	1,067,527,992	1,059,845,591	1,223,204,106	1,156,224,236
Subtotal	3,874,584,870	3,333,111,476	3,466,198,659	3,689,525,738	3,898,323,320
Human Relations and Resources					
State Operations	2,839,950,956	2,829,118,753	2,796,248,129	2,789,044,549	2,733,416,164
Aids to Individuals and Organizations	12,649,084,653	12,535,406,350	12,255,382,618	12,059,458,300	11,541,177,302
Local Assistance	831,641,248	789,373,191	765,915,913	788,474,755	796,649,514
Subtotal	16,320,676,857	16,153,898,294	15,817,546,660	15,636,977,604	15,071,242,980
General Executive					
State Operations	8,529,427,427	8,442,288,631	8,198,790,546	8,287,821,942	7,692,753,618
Aids to Individuals and Organizations	526,218,033	498,079,428	489,636,943	465,241,942	458,594,192
Local Assistance	197,379,407	222,444,799	131,323,284	145,926,694	158,295,861
Subtotal	9,253,024,867	9,162,812,858	8,819,750,773	8,898,990,578	8,309,643,671
Judicial					
State Operations	116,441,644	114,332,068	106,815,611	107,969,106	104,815,737
Local Assistance	23,842,855	24,909,404	24,336,588	22,989,415	22,058,356
Subtotal	140,284,499	139,241,472	131,152,199	130,958,521	126,874,093
Legislative					
State Operations	68,767,606	68,574,267	66,951,115	65,595,364	65,525,903
Subtotal	68,767,606	68,574,267	66,951,115	65,595,364	65,525,903
General					
State Operations	1,089,706,582	970,740,737	1,102,216,739	1,301,160,305	1,232,746,769
Aids to Individuals and Organizations	411,577,547	320,231,365	341,233,254	332,178,675	343,230,101
Local Assistance	2,175,743,121	2,181,818,987	2,051,992,107	2,047,342,389	2,043,214,193
Subtotal	3,677,027,249	3,472,791,089	3,495,442,100	3,680,681,369	3,619,191,063
General Obligation Bond Program					
State Operations	887,394,459	920,645,582	911,485,053	790,116,321	1,093,559,790
Subtotal	887,394,459	920,645,582	911,485,053	790,116,321	1,093,559,790
Summary Totals					
State Operations	22,906,958,211	22,048,158,115	21,962,733,107	22,197,520,916	22,103,207,291
Aids to Individuals and Organizations	14,208,251,638	13,937,014,504	13,664,874,182	13,419,371,707	12,872,371,259
Local Assistance	11,083,594,012	11,006,425,975	10,259,524,728	10,681,695,421	10,112,449,680
GRAND TOTAL	$ 48,198,803,861	$ 46,991,598,593	$ 45,887,132,017	$ 46,298,588,044	$ 45,088,028,229

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

Source: Wisconsin Department of Administration

General Fund Expenditures

In the 2017-18 fiscal year, approximately 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 2017-19 biennium, these percentages were expected to be approximately 51% returned to local units of government, 25% for aids to individuals and organizations, and 24% for State operations and programs, which includes the University of Wisconsin System.

ACCOUNTING AND FINANCIAL REPORTING

Statutory Basis

The State accounts for, reports, and budgets its operations as set forth in the Wisconsin Statutes. The Annual Fiscal Report (which is unaudited) must be published each year on or before October 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 of bills applicable to the year ended June 30th and to deposit revenues applicable to such year, with the following exceptions: (1) amounts withheld for income taxes prior to July 1st and (2) taxes imposed on sales prior to July 1st are deemed to be accrued tax receipts as of the close of the fiscal year, provided such revenue is deposited on or before August 15th.
- On July 31st all outstanding encumbrances entered for the previous year must be transferred to the new fiscal year, and an equivalent prior year appropriation balance must also be forwarded to the new fiscal year.
- Revenues and expenditures are reported on a net basis. Overcollections refunded are deducted from revenues and current year overpayments made are deducted from expenditures.
- General Fund investments are carried at the lower of cost or par with discounts, premiums, and earnings recorded on an accrual basis.
- Encumbrances are treated as expenditures in the year of initiation.

Generally Accepted Accounting Principles

The State also accounts for and reports on its operations using generally accepted accounting principles (**GAAP**). For the fiscal year ended June 30, 2018 the State has prepared a Comprehensive Annual Financial Report (**CAFR**) in accordance with GAAP. The General Purpose External Financial Statements section of the CAFR for the fiscal year ended June 30, 2018 has been audited and is included as APPENDIX A to this Part II of the 2018 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, 2018, as an example, the undesignated, unreserved balance for the fiscal year ended June 30, 2018, was $589 million on a budgetary basis. However, under GAAP, the total fund balance of the General Fund for the fiscal year ended June 30, 2018 was a deficit of $1.254 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, 2018 was $884 million and related to the State's individual income tax accruals.

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**.** The State Department of Transportation commenced use of this system on July 1, 2016.

BUDGETING PROCESS AND FISCAL CONTROLS

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

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

Budget Requests from Agencies

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

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

Executive Budget

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

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

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

Legislative Consideration

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

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

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

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

Governor's Partial Veto Power

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

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

Continuing Authority

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

The continuing authority of existing appropriations until a new budget is adopted helps to protect against the effect of a delay in the adoption of a budget. The 2017-19 biennial budget of the State was enacted on September 21, 2017, which was 82 days after the start of the biennium. Of the ten prior biennial budgets, the 2013-15, 2011-13 and 2009-11 biennial budgets were each enacted prior to the start of their respective biennia; however the 2015-17 biennial budget and each of the six biennial budgets prior to the 2009-11 were enacted after the start of their respective biennia, 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-expenditure 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 was $65 million. State law currently requires that beginning with the 2017-18 fiscal year, the statutorily-required reserve will be an amount equal to the lesser of the prior fiscal year's required balance plus $5 million, or 2 percent 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. 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 percent 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, 2018, the balance in the Budget Stabilization Fund was approximately $322 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 percent of the estimated expenditures from the General Fund, which would be approximately $831 million based on estimated General Fund expenditures for the 2017-18 fiscal year.

2017 Wisconsin Act 368 was signed into law on December 14, 2018 and includes a provisions that would exclude for the 2018-19 fiscal year certain revenues from the determination of any transfer to the Budget Stabilization Fund. These excluded revenues would be the additional revenues received in that fiscal year attributable to an increase in sales and use tax revenues resulting from the collection of such taxes on remote sellers. The statutory provisions requiring transfers from the General Fund to the Budget Stabilization Fund were suspended for the 2013-14 and 2014-15 fiscal years.

BUDGETARY RESULTS OF 2017-18 FISCAL YEAR

Pursuant to Wisconsin Statutes, the Annual Fiscal Report (budgetary basis) for the fiscal year ending June 30, 2018 was published October 15, 2018.

The Annual Fiscal Report provides that the State ended the 2017-18 fiscal year on a statutory and unaudited basis with an undesignated balance of $589 million. This amount is $34 million more than the projected gross ending balance for the fiscal year included in the budget for the 2017-19 biennium **(2017 Wisconsin Act 59)**, $64 million less than the projected gross ending balance included in the LFB report dated January 17, 2018 **(January 2018 LFB Report)**, and $41 million more than the projected gross ending balance that was included in the summary provided in the LFB paper dated June 14, 2018 **(June 2018 LFB Paper)**. The State did not issue any operating notes during the 2017-18 fiscal year.

Table II-4 shows the General Fund condition statement for the 2017-18 fiscal year. The table also includes, for comparison, the General Fund condition statement for the 2016-17 fiscal year, the estimated General Fund condition statement included in 2017 Wisconsin Act 59, the estimated General Fund condition statement included in the January 2018 LFB Report, and the estimated General Fund condition statement included in the June 2018 LFB Paper.

The Annual Fiscal Report (budgetary basis) also provides final General Fund tax collections for the 2017-18 fiscal year. These General Fund tax revenue collections, on a budgetary basis, were $16.144 billion, compared to $15.518 billion for the 2016-17 fiscal year; this is an increase of approximately $627 million (or 4.0%).

Table II-5 provides a summary of the final General Fund tax revenues for the 2017-18 fiscal year. Table II-5 also includes, for comparison, the actual General Fund tax collections for the 2016-17 fiscal year, the projected General Fund tax collections as included in 2017 Wisconsin Act 59 and the General Fund tax collections as projected in the January 2018 LFB Report.

Table II-4

GENERAL FUND CONDITION STATEMENT
2017-18 FISCAL YEAR
(in Millions)

	2016-17 Annual Fiscal Report	2017-18 Fiscal Year: 2017 Wisconsin Act 59	2017-18 Fiscal Year: January 2018 LFB Report	2017-18 Fiscal Year: June 2018 LFB Paper	2017-18 Fiscal Year: Annual Fiscal Report
Revenues					
Opening Balance	$ 331.0	$ 579.0	$ 579.0	$ 579.0	$ 579.0
Prior-Year Designation	131.9	0	0	0	52.1
Taxes	15,517.6	16,077.5	16,125.9	16,125.8	16,144.2
Department Revenues					
Tribal Gaming	26.8	26.2	26.2	26.2	27.7
Other	520.7	493.1	485.9	485.9	528.7
Total Available	$ 16,528.1	$ 17,175.7	$17,217.0	$17,216.8	$17,331.6
Appropriations					
Gross Appropriations	$ 17,099.1	$ 16,893.3	$16,896.4	$16,946.9	$17,138.8
Sum Sufficient Reestimates	0	0	(47.6)	0	0
Transfers	39.5	40.2	64.4	64.4	73.3
Compensation Reserves	1.2	3.1	3.1	3.1	0.3
Less: Lapses	(1,190.7)	(318.5)	(351.5)	(344.8)	(469.3)
Net Appropriations	$ 15,949.1	$ 16,621.1	$16,564.9	$16,669.6	$16,743.1
Balances					
Gross Balance	$ 579.0	$ 554.7	$ 652.1	$ 547.3	$ 588.5
Less: Req. Statutory Balance	n/a	(70.0)	(70.0)	(70.0)	n/a
Net Balance, June 30	$ 579.0	$ 484.7	$ 582.1	$ 477.3	$ 588.5

Table II-5

GENERAL FUND TAX REVENUE COLLECTIONS
2017-18 FISCAL YEAR
(in Millions)

	2016-17 Annual Fiscal Report	2017-18 Fiscal Year: 2017 Wisconsin Act 59	2017-18 Fiscal Year: January 2018 LFB Report	2017-18 Fiscal Year: Annual Fiscal Report
Individual Income	$ 8,039.5	$ 8,379.8	$ 8,380.0	$ 8,479.2
Sales and Use	5,223.9	5,383.8	5,465.0	5,448.1
Corp. Income & Franchise	920.9	950.8	950.0	893.9
Public Utility	360.5	373.5	359.0	365.3
Excise				
Cigarettes	564.2	564.7	548.0	538.9
Tobacco Products	80.3	85.0	82.0	80.2
Liquor & Wine	52.1	52.0	52.0	52.0
Beer	9.1	8.9	8.9	8.9
Insurance Company	181.6	192.0	190.0	186.3
Miscellaneous Taxes	85.5	87.0	91.0	91.4
TOTAL	$ 15,517.6	$ 16,077.5	$16,125.9	$16,144.2

The Annual Fiscal Report for the 2017-18 fiscal year is not part of the 2018 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
doa.wi.gov/capitalfinance

STATE BUDGET

Budget for 2017-19 Biennium

The budget act for the 2017-19 biennium, 2017 Wisconsin Act 59, was enacted on September 21, 2017 with some vetoes. Detailed information and summary tables and charts concerning the enacted budget for the 2017-19 biennium may be obtained from the following web site (neither the following web site or the summaries available at such web site are incorporated by reference into this Part II of the 2018 Annual Report):

legis.wisconsin.gov/lfb

Information pertaining to 2017 Wisconsin Act 59 has also been filed with the MSRB on their EMMA system.

Budget for 2018-19 Fiscal Year

Fiscal year 2018-19 is the second year of the 2017-19 biennial budget. Table II-6 shows the estimated General Fund condition statement for the 2018-19 fiscal year, as provided by DOA on November 20, 2018 (**November 2018 DOA Report).** Table II-6 also includes, for comparison purposes, the actual General Fund condition statement for the 2017-18 fiscal year, the projected General Fund condition statement from the 2017-19 biennial budget, the General Fund condition statement as projected in the January 2018 LFB Report and the General Fund condition statement as projected in the June 2018 LFB Paper.

Revenue Projections for the 2018-19 Fiscal Year

The November 2018 DOA Report includes estimated General Fund tax revenues for the 2018-19 fiscal year of $16.816 billion. This estimated amount is $672 million (4.2%) more than the fiscal year 2017-18 actual revenues, and $137 million more than the projections in the January 2018 LFB Report. The estimates are summarized by tax source in Table II-7, which also includes, for comparison, the actual General Fund tax collections for the 2017-18 fiscal year, projected General Fund tax collections from 2017 Wisconsin Act 59, and projections provided in the January 2018 LFB Report.

Sales and Use Tax on Remote Sales

The estimates in the November 2018 DOA Report assume additional sales and use tax revenues from remote sellers collected as the result of the June 2018 U.S. Supreme Court ruling *(South Dakota v. Wayfair, Inc.)*. The DOR estimate for the 2018-19 fiscal year of these collections based on *Wayfair* is $45 million. 2017 Wisconsin Act 368 was signed into law on December 14, 2018 and replaces existing procedures and determinations for possible reduction in individual income tax rates, and directly offsets increases in tax collections resulting from *Wayfair* with individual income tax reductions starting in the tax year 2019; however, there is no expected impact on the General Fund revenue collections for the 2018-19 fiscal year.

Table II-6

ESTIMATED GENERAL FUND CONDITION STATEMENT
2018-19 FISCAL YEAR
(in Millions)

		2018-19 Fiscal Year			
	2017-18 Annual Fiscal Report	2017 Wisconsin Act 59	January 2018 LFB Report	June 2018 LFB Paper	November 2018 DOA Report
Revenues					
Opening Balance	$ 579.0	$ 554.7	$ 652.1	$ 547.3	$ 588.5
Prior-Year Designation	52.1				
Taxes	16,144.2	16,650.9	16,678.8	16,631.8	16,816.0
Department Revenues					
Tribal Gaming	27.7	26.1	26.1	26.1	26.2
Other	528.7	443.2	452.0	451.9	456.2
Total Available	$17,331.6	$17,674.8	$17,809.0	$17,656.9	$17,886.9
Appropriations					
Gross Appropriations	$17,138.8	$17,700.3	$17,700.4	$17,829.8	$17,706.8
Sum Sufficient Reestimate			(5.3)		
Transfers	73.3	41.6	55.6	41.6	124.2
Compensation Reserves	0.3	52.1	52.1	52.1	52.1
Prelim. Debt Service Reestimate					($16.8)
Less: Lapses	(469.3)	(441.8)	(453.9)	(448.2)	(601.7)
Net Appropriations	$16,743.1	$17,352.1	$17,348.8	$17,475.3	$17,264.3
Balances					
Gross Balance	$ 588.5	$ 332.7	$ 460.2	$ 181.7	$ 622.6
Less: Req. Statutory Balance	n/a	(75.0)	(75.0)	(75.0)	(75.0)
Net Balance, June 30	$ 588.5	$ 247.7	$ 385.2	$ 106.7	$ 547.6

Table II-7

ESTIMATED GENERAL FUND TAX REVENUE COLLECTIONS
2018-19 FISCAL YEAR
(in Millions)

		2018-19 Fiscal Year		
	2017-18 Annual Fiscal Report	2017 Wisconsin Act 59	January 2018 LFB Report	November 2018 DOA Report
Individual Income	$ 8,479.2	$ 8,720.0	$ 8,720.0	$ 8,817.8
Sales and Use	5,448.1	5,593.1	5,650.0	5,704.2
Corp. Income & Franchise	893.9	962.4	960.0	973.6
Public Utility	365.3	378.2	363.0	356.4
Excise				
Cigarettes	538.9	560.4	547.0	531.8
Tobacco Products	80.2	88.0	85.0	82.6
Liquor & Wine	52.0	53.0	53.0	54.3
Beer	8.9	8.8	8.8	8.9
Insurance Company	186.3	197.0	195.0	191.0
Miscellaneous Taxes	91.4	90.0	97.0	95.4
TOTAL	$16,144.2	$16,650.9	$16,678.8	$16,816.0

Budget for the 2019-21 Biennium

Pursuant to the Wisconsin Statutes, the November 2018 DOA Report summarizes the amount of each agency's 2019-21 biennial budget request and includes estimated General Fund revenues, as compiled by DOR for the forthcoming biennium. 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, 2019; however, a later submission date may be allowed by the Legislature if requested by the Governor, and such a submittal extension is expected for the 2019-21 biennial budget.

Revenue Projections for the 2019-20 and 2020-21 Fiscal Year

The estimates for general purpose tax revenues for the 2019-21 biennium, as included in the November 2018 DOA Report, are included in Table II-8. These estimates reflect annual growth of 3.5% and 2.5%, respectively.

Sales and Use Tax on Remote Sales

The estimates in the November 2018 DOA Report assume additional sales and use tax revenues collected as the result of the June 2018 U.S. Supreme Court ruling *(South Dakota v. Wayfair, Inc.)*. The DOR estimate for the 2019-20 and 2020-21 fiscal years of these additional collections based on *Wayfair* is $60 million for each fiscal year. 2017 Wisconsin Act 368 was signed into law on December 14, 2018 and replaces existing procedures and determinations for possible reduction with individual income tax rates, and directly offsets increases in tax collections resulting from *Wayfair* with individual income tax reductions starting in the tax year 2019. The impact of this offset on general purpose tax revenues is not reflected in the November 2018 DOA Report and would commence with the 2019-20 fiscal year

Table II-8

ESTIMATED GENERAL FUND TAX REVENUE COLLECTIONS
2019-20 AND 2020-21 FISCAL YEARS
(in Millions)

	2019-20 Fiscal Year	2020-21 Fiscal Year
Individual Income	$ 9,184.5	$ 9,579.0
Sales and Use	5,913.4	5,922.0
Corp. Income & Franchise	974.9	1,000.6
Public Utility	364.4	363.2
Excise		
Cigarettes	533.1	531.7
Tobacco Products	85.3	87.7
Liquor & Wine	53.3	54.4
Beer	8.9	8.9
Insurance Company	195.7	205.1
Miscellaneous Taxes	98.6	102.0
TOTAL	$17,412.1	$17,854.6

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 $52 million. 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 7 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. Wisconsin received notice from the tobacco manufacturers in June 2017 that they will contest the State's diligence. Wisconsin's hearing is currently scheduled to take place in January 2019. Therefore, pending resolution of the dispute, the State will not receive approximately $15 million of Master Settlement Agreement funds that have been withheld by 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 its ability to pay 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 had approximately 24,504 full-time-equivalent **(FTE)** classified and unclassified employees in 18 statutorily-designated bargaining units as of the end of 2017-18 fiscal year. An additional 2,395 classified supervisors in two bargaining units may by statute also be considered for representation, but these supervisory units have never applied for representation. During the 2017-18 fiscal year, two of these 18 bargaining units, covering 443 FTE employees, were represented by a union, statutorily limited to the ability to negotiate base wages only. One additional bargaining unit, covering 381 FTE employees, was represented by a union to negotiate wages, benefits, and working conditions. Thus, at the end of the 2017-18 fiscal year, a total of 824 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.

At the close of fiscal year 2017-18, there were only two collective bargaining agreements in force. The first was for public safety (State Patrol) and the second was for building trades.

Most classified and unclassified employees are also covered under the State compensation plan. The compensation plan, in conjunction with statutes, administrative rules, and policies, provides wages, hours, paid leave, and conditions of employment for all civil service employees, except as negotiable by unions. Fringe benefits including retirement and health and life insurance 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 2017-19 biennial budget were based on January 2017 estimates from LFB. Current tax revenue projections for the 2018-19 fiscal year are based on November 2018 estimates from DOR. See "STATE BUDGET". The estimates are based on the State tax structure and on assumptions about basic economic factors and their historical relationships to State tax receipts. Revenue sources other than taxes are estimated in the preparation of the budget. The all-funds budget establishes estimates of these nontax revenues and presumes that an equal amount of expenditures will be made. For that purpose, any variation from the 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.

The tax revenue estimates from DOR included in the November 2018 DOA Report reflect certain projections presented in a national economic forecast by IHS Markit (**IHS**), which provides national economic forecasts, database support, and consulting services. Table II-9 contains excerpts from IHS' November 2018 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 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 183 equations, 99 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 relationship 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				
	2017	**2018**	**2019**	**2020**	**2021**
Real GDP and its Components (Amounts in Billions of 2012 Dollars)					
GDP	$18,050.69	$18,574.73	$19,082.32	$19,479.66	$19,788.89
Percent Change	2.22	2.90	2.73	2.08	1.59
GDP (Current Dollars)	19,485.39	20,504.08	21,555.02	22,537.44	23,472.27
Percent Change	4.16	5.23	5.13	4.56	4.15
Employment and Prices					
Payroll Employment (in Millions)	146.6	149.0	151.3	153.0	153.8
Percent Change	1.6	1.6	1.5	1.1	0.6
Unemployment Rate (%)	4.35	3.87	3.43	3.45	3.64
Consumer Price Index (% Change)	2.1	2.5	2.5	1.9	2.2
Employment Cost Index (% Change)	2.5	2.9	3.2	3.5	3.6
Industrial Production (% Change)	1.6	3.7	2.7	2.2	1.5
Retail Gasoline Prices ($/gallon)	50.96	67.93	72.52	67.94	68.30
Financial Markets					
3-Month Treasury Bills (rate)	0.9	2.0	2.8	3.2	3.2
30-Year Fixed Mortgage (rate)	4.0	4.6	5.1	5.2	5.3
Income and Profits (Amounts in Billions)					
Personal Income	$16,830.94	$17,584.86	$18,377.95	$19,283.98	$20,130.92
Percent Change	4.38	4.48	4.51	4.93	4.39
Wages and Salaries	8,453.85	8,854.65	9,258.95	9,689.73	10,107.04
Percent Change	4.62	4.74	4.57	4.65	4.31
Corporate Profits, Before Tax	2,099.28	2,257.39	2,399.33	2,449.09	2,506.26
Percent Change	3.16	7.53	6.29	2.07	2.33

Source: IHS, November 2018

Table II-10
ECONOMIC FORECASTS—WISCONSIN

	Calendar Year				
	2017	**2018**	**2019**	**2020**	**2021**
Wisconsin Employment Forecast					
Annual Industry Detail Average (Thousands of Workers)					
Manufacturing	467.8	481.9	480.8	479.3	475.0
Percent Change	0.7	3.0	-0.2	-0.3	-0.9
Trade, Transport & Utilities	541.6	543.6	547.5	545.5	542.7
Percent Change	0.3	0.4	0.7	-0.4	-0.5
Government	407.6	410.0	409.9	412.1	414.5
Percent Change	-1.0	0.6	0.0	0.6	0.6
Total Nonfarm	2,945.2	2,977.8	3,006.1	3,028.1	3,038.3
Percent Change	0.6	1.1	1.0	0.7	0.3
Wisconsin Income Forecast					
Components of Personal Income (Amounts in Billions)					
Total Personal Income	$283.636	$295.127	$306.367	$319.946	$332.350
Wages and Salaries	143.412	149.855	155.675	162.114	168.272
Supplements to Wages/Salaries	26.881	27.606	28.382	29.555	30.677
Proprietor's Income	19.078	19.862	20.538	21.344	21.721
Property Income	54.032	56.115	58.431	61.446	64.088
Personal Current Transfer	48.659	50.694	52.642	55.125	57.573
Contributions for Govt. Social Ins.	23.248	24.392	25.216	26.123	27.033
Personal Taxes	33.600	35.042	36.643	38.327	39.997
Disposable Personal Income	250.036	260.085	269.724	281.619	292.353
Related Income					
Measures (Chained 2012 Dollars)					
Personal Income (billions)	$267.39	$272.51	$276.61	$283.32	$288.19
Percent Change	1.8	1.9	1.5	2.4	1.7
Per Capita Income (thousands of $)	46.165	46.894	47.444	48.436	49.108
Percent Change	1.6	1.6	1.2	2.1	1.4
Per Capita Income (thousands of current $)	48.970	50.785	52.549	54.698	56.632
Percent Change	3.4	3.7	3.5	4.1	3.5

Source: Wisconsin Department of Revenue, November 2018

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 Fund or the Conservation Fund)
- Federal funds that are estimated to be received and either paid into a specific fund (such as the Transportation Fund or the 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 has mandated across-the-board cuts to the federal budget, starting with the federal fiscal year that started October 1, 2012. The 2018 Bipartisan Budget Act set new spending caps on discretionary programs for Federal Fiscal Years 2018 and 2019. Due to this known cap, the State does not expect to see any significant decrease in federal funds during the 2018-19 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 2018 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 2017-18 fiscal year and the detailed actual cash flow through October 31, 2018 and projected cash flow from November 1, 2018 through June 30, 2019 for the 2018-19 fiscal year. Table II-12 provides a five-year history of general cash flows. Table II-13 is presented over two pages and provides, for the 2017-18 fiscal year and for the 2018-19 fiscal 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-14 presents a monthly summary of the General Fund from fiscal year 2016-17 through fiscal year 2018-19 and also provides actual expenditures and revenues from July 1, 2018 through October 31, 2018 and projected expenditures and revenues from November 1, 2018 through June 30, 2019.

No operating notes were issued for the 2016-17 or 2017-18 fiscal years, and none have been, or expected to be, issued for the current fiscal year.

Tables II-11, II-12, II-13 and II-14 should be read in conjunction with other information concerning the State budget set forth elsewhere in this Part II of the 2018 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 include 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 2018-19 fiscal year in the following tables reflect the enacted budget for the 2017-19 biennium (2017 Wisconsin Act 59) and the estimated General Fund tax revenues included in the January 2018 LFB Report and the June 2018 LFB Paper. These tables to not include the November 2018 DOA 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 $1.592 billion in the 2018-19 fiscal year). In addition, the Secretary of Administration can temporarily reallocate an additional amount of up to 3% of the general-purpose revenue appropriations then in effect (approximately $531 million in the 2018-19 fiscal year) for a period of up to 30 days. In aggregate, the limit on the amount available from temporary reallocations for the 2018-19 fiscal year is approximately $2.123 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-15 presents the actual cash balances available for temporary reallocation from July 31, 2016 through October 31, 2018 and the projected balances for November 30, 2018 through June 30, 2019. 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-16 and II-17 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 2017-18 fiscal year final as compared to the prior fiscal year, and July 1, 2018 to October 31, 2018 as compared to the period of July 1, 2017 to October 31, 2017. 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. There may be differences between the tax revenues shown in Table II-16 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, 2017 TO JUNE 30, 2018[(a)]

(Amounts in Thousands)

	July 2017	August 2017	September 2017	October 2017	November 2017	December 2017	January 2018	February 2018	March 2018	April 2018	May 2018	June 2018
BALANCES[(a)(b)]												
Beginning Balance	$ 1,369,479	$ 683,578	$ 774,773	$ 1,131,482	$ 2,252,934	$ 2,079,046	$ 1,552,921	$ 2,945,219	$ 2,931,857	$ 1,129,637	$ 1,782,589	$ 2,606,687
Ending Balance[(c)]	683,578	774,773	1,131,482	2,252,934	2,079,046	1,552,921	2,945,219	2,931,857	1,129,637	1,782,589	2,606,687	1,526,729
Lowest Daily Balance [(c)]	366,105	(43,568)	403,680	1,131,482	1,865,333	701,565	1,552,921	2,752,751	1,129,637	1,129,637	1,496,059	1,222,368
RECEIPTS												
TAX RECEIPTS												
Individual Income	$ 737,127	$ 582,634	$ 694,115	$ 938,898	$ 603,605	$ 744,074	$ 1,338,685	$ 658,839	$ 575,427	$ 1,655,155	$ 616,038	$ 693,145
Sales & Use	520,841	521,403	494,469	539,293	467,970	476,280	569,108	418,534	390,533	481,558	448,750	538,360
Corporate Income	42,449	25,114	186,257	34,644	35,199	177,397	43,449	22,005	110,988	148,904	44,509	199,964
Public Utility	57	31	102	13,169	203,434	400	47	25	30	5,098	193,907	106
Excise	68,987	59,845	63,536	57,450	62,778	52,984	52,882	51,808	49,595	52,871	53,287	63,630
Insurance	100	2,810	40,427	319	1,572	43,278	2,384	16,268	15,236	41,812	4,989	38,758
Subtotal Tax Receipts	$ 1,369,561	$ 1,191,837	$ 1,478,906	$ 1,583,773	$ 1,374,558	$ 1,494,413	$ 2,006,555	$ 1,167,479	$ 1,141,809	$ 2,385,398	$ 1,361,480	$ 1,533,963
NON-TAX RECEIPTS												
Federal	$ 875,292	$ 683,556	$ 816,059	$ 781,061	$ 773,440	$ 680,691	$ 890,581	$ 953,424	$ 831,917	$ 472,355	$ 960,628	$ 495,953
Other & Transfers	572,745	338,112	771,078	650,972	299,853	468,593	378,685	746,423	445,905	523,906	429,745	487,691
Note Proceeds	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal Non-Tax Receipts	$ 1,448,037	$ 1,021,668	$ 1,587,137	$ 1,432,033	$ 1,073,293	$ 1,149,284	$ 1,269,266	$ 1,699,847	$ 1,277,822	$ 996,261	$ 1,390,373	$ 983,644
TOTAL RECEIPTS	$ 2,817,598	$ 2,213,505	$ 3,066,043	$ 3,015,806	$ 2,447,851	$ 2,643,697	$ 3,275,821	$ 2,867,326	$ 2,419,631	$ 3,381,659	$ 2,751,853	$ 2,517,607
DISBURSEMENTS												
Local Aids	$ 1,382,827	$ 181,849	$ 768,273	$ 87,585	$ 917,068	$ 1,249,872	$ 162,999	$ 685,403	$ 1,644,011	$ 112,711	$ 155,670	$ 1,854,541
Income Maintenance	996,906	805,222	729,256	726,034	806,061	845,157	748,088	773,942	944,916	776,650	644,435	573,636
Payroll and Related	331,436	425,567	476,684	385,741	399,169	420,233	452,663	418,286	605,738	370,256	416,816	471,636
Tax Refunds	94,736	100,074	94,295	118,786	118,384	150,153	108,054	513,354	533,275	505,389	206,596	160,173
Debt Service	192,497	-	-	139,342	-	-	-	-	-	520,977	55,356	-
Miscellaneous	505,097	609,598	640,826	436,866	381,057	504,407	411,719	489,703	493,911	442,724	448,882	537,579
TOTAL DISBURSEMENTS	$ 3,503,499	$ 2,122,310	$ 2,709,334	$ 1,894,354	$ 2,621,739	$ 3,169,822	$ 1,883,523	$ 2,880,688	$ 4,221,851	$ 2,728,707	$ 1,927,755	$ 3,597,565

(a) The results in this table reflect the enacted budget for the 2017-19 biennium (2017 Wisconsin Act 59) along with agency reestimates, and the estimated General Fund tax revenues included in the January 2018 LFB Report and the June 2018 LFB Paper. Temporary reallocations of cash are not included.

(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. These designated funds ranged from $1.1 billion to $1.8 billion during the 2016-17 and 2017-18 fiscal years. In addition, the General Fund holds deposits for several escrow accounts pursuant to court orders or federal rulings. These funds have averaged and are expected to continue to average approximately $25 million during each 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 2017-18 fiscal year were approximately $1.519 billion and $506 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.

Source: Wisconsin Department of Administration

Table II-11—(Continued)

ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2018 TO OCTOBER 31, 2018
PROJECTED GENERAL FUND CASH FLOW; NOVEMBER 1, 2018 TO JUNE 30, 2019[(a)]

	July 2018	August 2018	September 2018	October 2018	November 2018	December 2018	January 2019	February 2019	March 2019	April 2019	May 2019	June 2019
BALANCES[(a)(b)]												
Beginning Balance	$ 1,526,729	$ 750,443	$ 1,070,418	$ 1,854,217	$ 2,932,693	$ 2,526,551	$ 2,164,018	$ 3,292,899	$ 3,170,305	$ 1,550,182	$ 2,106,029	$ 2,419,960
Ending Balance[(c)]	750,443	1,070,418	1,854,217	2,932,693	2,526,551	2,164,018	3,292,899	3,170,305	1,550,182	2,106,029	2,419,960	1,869,560
Lowest Daily Balance [(c)]	464,426	291,854	1,025,879	1,816,162	2,299,551	1,324,058	1,968,733	2,800,647	1,550,182	1,445,109	1,785,069	1,336,475
RECEIPTS												
TAX RECEIPTS												
Individual Income	$ 946,437	$ 623,662	$ 764,292	$ 965,392	$ 637,611	$ 777,001	$ 1,299,387	$ 698,940	$ 616,735	$ 1,553,902	$ 691,696	$ 697,887
Sales & Use	563,067	535,268	530,238	545,064	500,922	474,852	579,846	435,412	416,620	488,150	483,580	540,447
Corporate Income	48,355	29,882	227,431	38,563	28,899	184,972	40,816	34,274	107,487	144,206	43,465	189,726
Public Utility	23	21	112	30,449	206,196	269	25	38	18	5,215	194,191	61
Excise	64,654	62,967	65,157	52,872	60,326	56,164	55,428	48,511	51,822	53,562	54,020	64,643
Insurance	210	3,979	40,143	366	3,180	42,503	1,407	16,707	17,479	41,826	5,350	40,596
Subtotal Tax Receipts	$ 1,622,746	$ 1,255,779	$ 1,627,373	$ 1,632,706	$ 1,437,134	$ 1,535,761	$ 1,976,909	$ 1,233,882	$ 1,210,161	$ 2,286,861	$ 1,472,302	$ 1,533,360
NON-TAX RECEIPTS												
Federal	$ 889,356	$ 938,015	$ 1,063,793	$ 788,053	$ 734,652	$ 726,287	$ 846,253	$ 951,041	$ 871,615	$ 600,692	$ 786,975	$ 740,084
Other & Transfers	496,251	349,670	700,462	602,067	376,624	500,423	425,313	738,811	430,711	559,467	438,043	606,661
Note Proceeds	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal Non-Tax Receipts	$ 1,385,607	$ 1,287,685	$ 1,764,255	$ 1,390,120	$ 1,111,276	$ 1,226,710	$ 1,271,566	$ 1,689,852	$ 1,302,326	$ 1,160,159	$ 1,225,018	$ 1,346,745
TOTAL RECEIPTS	$ 3,008,353	$ 2,543,464	$ 3,391,628	$ 3,022,826	$ 2,548,410	$ 2,762,471	$ 3,248,475	$ 2,923,734	$ 2,512,487	$ 3,447,020	$ 2,697,320	$ 2,880,105
DISBURSEMENTS												
Local Aids	$ 1,535,819	$ 131,890	$ 867,332	$ 94,199	$ 933,792	$ 1,281,034	$ 172,815	$ 633,598	$ 1,806,256	$ 98,935	$ 216,475	$ 1,987,409
Income Maintenance	1,035,825	809,475	790,309	734,697	942,651	854,960	934,266	888,751	842,419	893,299	879,725	357,528
Payroll and Related	363,142	525,119	333,522	421,793	536,816	322,888	478,236	438,910	456,598	437,069	545,162	414,618
Tax Refunds	122,592	115,625	79,356	127,622	118,139	168,403	93,391	554,009	542,965	500,218	180,149	143,871
Debt Service	175,927	-	-	136,268	4,529	-	-	4,529	-	528,212	80,657	-
Miscellaneous	551,334	641,380	537,310	429,771	418,625	497,719	440,886	526,531	484,372	433,441	481,221	527,079
TOTAL DISBURSEMENTS	$ 3,784,639	$ 2,223,489	$ 2,607,829	$ 1,944,350	$ 2,954,552	$ 3,125,004	$ 2,119,594	$ 3,046,328	$ 4,132,610	$ 2,891,174	$ 2,383,389	$ 3,430,505

(a) The results, projections, or estimates in this table reflect the enacted budget for the 2017-19 biennium (2017 Wisconsin Act 59) along with agency reestimates, and the estimated General Fund tax revenues included in the January 2018 LFB Report and the June 2018 LFB Paper. This table does not include information from the November 2018 DOA Report. Temporary reallocations of cash are not included.

(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. These designated funds ranged from $1.1 billion to $1.8 billion during the 2016-17 and 2017-18 fiscal years, and are anticipated to range from $1.1 billion to $1.8 billion during the 2018-19 fiscal year. In addition, the General Fund holds deposits for several escrow accounts pursuant to court orders or federal rulings. These funds have averaged and are expected to continue to average approximately $25 million during each 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 2018-19 fiscal year are approximately $1.592 billion and $531 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.

Source: Wisconsin Department of Administration

Table II-12
HISTORICAL GENERAL FUND CASH FLOW
ACTUAL FISCAL YEARS 2014-2015 TO 2017-2018[(a)]
ACTUAL AND PROJECTED GENERAL FUND CASH FLOW FISCAL YEAR 2018-2019[(a)(b)]

	Actual 2014-15 Fiscal Year	Actual 2015-16 Fiscal Year	Actual 2016-17 Fiscal Year	Actual 2017-18 Fiscal Year	Actual 7/1/2018 - 10/31/2018 Estimated 11/1/2018 - 6/30/2019
RECEIPTS					
Tax Receipts					
Individual Income	$ 8,834,854	$ 9,058,349	$ 9,487,657	$ 9,837,742	$ 10,272,942
Sales	5,149,353	5,425,943	5,549,486	5,867,099	6,093,466
Corporate Income	1,167,126	1,173,106	1,151,868	1,070,879	1,118,076
Public Utility	373,082	404,820	415,784	416,406	436,618
Excise	705,796	710,742	708,762	689,653	690,126
Insurance	97,612	62,730	204,510	207,953	213,746
Total Tax Receipts	$ 16,327,823	$ 16,835,690	$ 17,518,067	$ 18,089,732	$ 18,824,974
Non-Tax Receipts					
Federal	$ 9,195,173	$ 9,375,674	$ 9,396,361	$ 9,214,957	$ 9,936,816
Other and Transfers	5,468,954	4,790,882	5,673,340	6,113,708	6,224,503
Total Non-Tax Receipts	$ 14,664,127	$ 14,166,556	$ 15,069,701	$ 15,328,665	$ 16,161,319
TOTAL RECEIPTS	$ 30,991,950	$ 31,002,246	$ 32,587,768	$ 33,418,397	$ 34,986,293
DISBURSEMENTS					
Local Aids	$ 8,796,013	$ 8,575,297	$ 9,223,782	$ 9,202,809	$ 9,759,554
Income Maintenance	8,319,192	8,848,420	9,186,111	9,370,303	9,963,905
Payroll & Related	5,035,483	5,126,869	5,000,390	5,174,225	5,273,872
Tax Refunds	2,562,911	2,508,923	2,550,017	2,703,269	2,746,340
Debt Service	899,619	952,280	891,234	908,172	930,122
Miscellaneous	5,508,775	5,300,700	5,427,066	5,902,369	5,969,669
TOTAL DISBURSEMENTS	$ 31,121,993	$ 31,312,489	$ 32,278,600	$ 33,261,147	$ 34,643,462
NET CASH FLOW	$ (130,043)	$ (310,243)	$ 309,168	$ 157,250	$ 342,831

(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 for fiscal year 2018-19 (cash basis) reflect the enacted budget for the 2017-19 biennium (2017 Wisconsin Act 59) and the estimated General Fund tax revenues included in the January 2018 LFB Report and the June 2018 LFB Paper. The updates from the November 2018 DOA Report are not included.

Source: Wisconsin Department of Administration

Table II-13

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

	2016-17 Fiscal Year through June 30, 2017	2017-18 Fiscal Year through June 30, 2018				
	Actual	Actual[(b)]	Estimate[(b)]	Variance	Adjusted Variance[(c)]	Difference FY17 Actual to FY18 Actual
RECEIPTS						
Tax Receipts						
Individual Income	$ 9,487,657	$ 9,837,742	$ 9,703,549	$ 134,193	$ 134,193	$ 350,085
Sales	5,549,486	5,867,099	5,746,524	120,575	120,575	317,613
Corporate Income	1,151,868	1,070,879	1,203,062	(132,183)	(132,183)	(80,989)
Public Utility	415,784	416,406	424,737	(8,331)	(8,331)	622
Excise	708,762	689,653	704,773	(15,120)	(15,120)	(19,109)
Insurance	204,510	207,953	208,978	(1,025)	(1,025)	3,443
Total Tax Receipts	$ 17,518,067	$ 18,089,732	$ 17,991,623	$ 98,109	$ 98,109	$ 571,665
Non-Tax Receipts						
Federal	$ 9,396,361	$ 9,214,957	$ 9,303,880	$ (88,923)	$ (88,923)	$ (181,404)
Other and Transfers	5,673,340	6,113,708	6,168,307	(54,599)	(54,599)	440,368
Total Non-Tax Receipts	$ 15,069,701	$ 15,328,665	$ 15,472,187	$ (143,522)	$ (143,522)	$ 258,964
TOTAL RECEIPTS	$ 32,587,768	$ 33,418,397	$ 33,463,810	$ (45,413)	$ (45,413)	$ 830,629
DISBURSEMENTS						
Local Aids	$ 9,223,782	$ 9,202,809	$ 9,262,453	$ 59,644	$ 59,644	$ (20,973)
Income Maintenance	9,186,111	9,370,303	9,718,451	348,148	348,148	184,192
Payroll & Related	5,000,390	5,174,225	5,176,959	2,734	2,734	173,835
Tax Refunds	2,550,017	2,703,269	2,627,696	(75,573)	(75,573)	153,252
Debt Service	891,234	908,172	1,034,140	125,968	125,968	16,938
Miscellaneous	5,427,066	5,902,369	5,646,393	(255,976)	(255,976)	475,303
TOTAL DISBURSEMENTS	$ 32,278,600	$ 33,261,147	$ 33,466,092	$ 204,945	$ 204,945	$ 982,547
2017-18 FISCAL YEAR VARIANCE YEAR-TO-DATE				$ 159,532	$ 159,532	

(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 in this table for the 2017-18 fiscal year reflect the budget bill for the 2017-19 biennium (2017 Wisconsin Act 59) and the estimated General Fund tax revenues included in the January 2018 LFB Report and the June 2018 LFB Paper.

(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—(Continued)

GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS YEAR-TO-DATE COMPARED TO ESTIMATES AND PREVIOUS FISCAL YEAR[a]
(Cash Basis)
As of October 31, 2018

	2017-18 Fiscal Year through October 31, 2017	2018-19 Fiscal Year through October 31, 2018				
	Actual	Actual	Estimate[b]	Variance	Adjusted Variance[c]	Difference FY18 Actual to FY19 Actual
RECEIPTS						
Tax Receipts						
Individual Income	$ 2,952,774	$ 3,299,783	$ 3,187,825	$ 111,958	$ 111,958	$ 347,009
Sales	2,076,006	2,173,637	2,131,082	42,555	42,555	97,631
Corporate Income	288,464	344,231	308,306	35,925	35,925	55,767
Public Utility	13,359	30,605	15,033	15,572	15,572	17,246
Excise	249,818	245,650	248,072	(2,422)	(2,422)	(4,168)
Insurance	43,656	44,698	44,377	321	321	1,042
Total Tax Receipts	$ 5,624,077	$ 6,138,604	$ 5,934,695	$ 203,909	$ 203,909	$ 514,527
Non-Tax Receipts						
Federal	$ 3,155,968	$ 3,679,217	$ 3,300,199	$ 379,018	$ 379,018	$ 523,249
Other and Transfers	2,332,907	2,148,450	2,388,508	(240,058)	(240,058)	(184,457)
Total Non-Tax Receipts	$ 5,488,875	$ 5,827,667	$ 5,688,707	$ 138,960	$ 138,960	$ 338,792
TOTAL RECEIPTS	$ 11,112,952	$ 11,966,271	$ 11,623,402	$ 342,869	$ 342,869	$ 853,319
DISBURSEMENTS						
Local Aids	$ 2,420,534	$ 2,629,240	$ 2,664,484	$ 35,244	$ 35,244	$ 208,706
Income Maintenance	3,257,418	3,370,306	3,779,990	409,684	409,684	112,888
Payroll & Related	1,619,428	1,643,576	1,594,795	(48,781)	(48,781)	24,148
Tax Refunds	407,891	445,195	413,974	(31,221)	(31,221)	37,304
Debt Service	331,839	312,195	343,063	30,868	30,868	(19,644)
Miscellaneous	2,192,387	2,159,795	2,191,992	32,197	32,197	(32,592)
TOTAL DISBURSEMENTS	$ 10,229,497	$ 10,560,307	$ 10,988,298	$ 427,991	$ 427,991	$ 330,810
2018-19 FISCAL YEAR VARIANCE YEAR-TO-DATE				$ 770,860	$ 770,860	

(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 2018-19 fiscal year reflect the budget bill for the 2017-19 biennium (2017 Wisconsin Act 59) and the estimated General Fund tax revenues included in the January 2018 LFB Report and the June 2018 LFB Paper. The updates from the November 2018 DOA Report are not included.

(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-14

GENERAL FUND MONTHLY CASH POSITION[a]
July 1, 2016 through October 31, 2018 — Actual[b]
November 1, 2018 through June 30, 2019 — Estimated[b]
(Amounts in Thousands)

	Starting Date	Starting Balance	Receipts[c]	Disbursements[c]
2016	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	2,421,948	2,592,643
	December	1,732,927	2,589,461	3,045,467
2017	January	1,276,921	2,942,209	1,808,524
	February	2,410,606	2,721,016	2,857,261
	March	2,274,361	2,688,376	3,934,216
	April	1,028,521	2,832,722	2,591,412
	May	1,269,831	2,581,512	2,004,233
	June	1,847,110	2,998,211	3,475,842
	July	1,369,479	2,817,598	3,503,499
	August	683,578 [d]	2,213,505	2,122,310
	September	774,773	3,066,043	2,709,334
	October	1,131,482	3,015,806	1,894,354
	November	2,252,934	2,447,851	2,621,739
	December	2,079,046	2,643,697	3,169,822
2018	January	1,552,921	3,275,821	1,883,523
	February	2,945,219	2,867,326	2,880,688
	March	2,931,857	2,419,631	4,221,851
	April	1,129,637	3,381,659	2,728,707
	May	1,782,589	2,751,853	1,927,755
	June	2,606,687	2,517,607	3,597,565
	July	1,526,729	3,008,353	3,784,639
	August	750,443	2,543,464	2,223,489
	September	1,070,418	3,391,628	2,607,829
	October	1,854,217	3,022,826	1,944,350
	November	2,932,693	2,548,410	2,954,552
	December	2,526,551	2,762,471	3,125,004
2019	January	2,164,018	3,248,475	2,119,594
	February	3,292,899	2,923,734	3,046,328
	March	3,170,305	2,512,487	4,132,610
	April	1,550,182	3,447,020	2,891,174
	May	2,106,029	2,697,320	2,383,389
	June	2,419,960	2,880,105	3,430,505

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

(b) The results for the 2017-18 fiscal year and results and the projections and estimates for the 2018-19 fiscal year reflect the enacted budget for the 2017-19 biennium (2017 Wisconsin Act 59) and the estimated General Fund tax revenues included in the January 2018 LFB Report and the June 2018 LFB Paper. The updates from the November 2018 DOA Report are not included.

(c) Operating notes were not issued for the 2016-17 or 2017-18 fiscal years. It is not anticipated that operating notes will be issued for the 2018-19 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 (approximately $1.519 billion in the 2017-18 fiscal year and approximately $1.592 billion in the 2018-19 fiscal year) and may also temporarily reallocate an additional amount of up to 3% of total general purpose revenue appropriations in effect (approximately $506 million in the 2017-18 fiscal year and $531 million in the 2018-19 fiscal year) for a period of up to 30 days. 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-15
CASH BALANCES IN FUNDS AVAILABLE FOR TEMPORARY REALLOCATION[(a)(b)]
July 31, 2016 to October 31, 2018 — Actual[(c)]
November 30, 2018 to June 30, 2019 — Estimated[(c)]
(Amounts in Millions)

The following two tables show, the monthly cash balances available for temporary reallocation. The first table does not include balances in the 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 $2.19 billion during November 2014 to a high of $3.98 billion in August 2018. 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)	2016	2017	2018	2019
January		$1,442	$1,548	$1,548
February		1,305	1,620	1,620
March		1,356	1,633	1,633
April		1,302	1,681	1,681
May		1,361	1,403	1,403
June		1,289	1,507	1,507
July	1,597	1,388	1,383	
August	1,481	1,464	1,429	
September	1,622	1,624	1,524	
October	1,420	1,531	1,304	
November	1,390	1,444	1,444	
December	1,683	1,592	1,592	

Available Balances; Includes Balances in the LGIP

Month (Last Day)	2016	2017	2018	2019
January		$5,115	$5,205	$5,205
February		5,050	5,457	5,457
March		5,289	5,699	5,699
April		4,901	5,462	5,462
May		4,600	4,906	4,906
June		4,461	5,028	5,028
July	5,803	5,461	5,781	
August	4,750	4,762	5,058	
September	4,663	4,865	4,670	
October	4,292	4,624	4,103	
November	4,120	4,256	4,256	
December	4,902	4,761	4,761	

(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 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.

(c) The results for the 2017-18 fiscal years reflect the enacted budget reflect 2017 Wisconsin Act 59 and the January 2018 LFB Report. The results and projections for the 2018-19 fiscal year reflect 2017 Wisconsin Act 59 and the January 2018 LFB Report, but do not reflect the June 2018 LFB Paper and November 2018 DOA Report.

Source: Wisconsin Department of Administration

Table II-16

GENERAL FUND RECORDED REVENUES[(a)]
(Agency-Recorded Basis)
July 1, 2017 to June 30, 2018 compared with previous year[(b)]

	Annual Fiscal Report Revenues 2016-17 Fiscal Year[(b)]	Projected Revenues 2017-18 Fiscal Year[(c)]	Recorded Revenues July 1, 2016 to June 30, 2017[(d)]	Recorded Revenues July 1, 2017 to June 30, 2018[(e)]
Individual Income Tax	$ 8,039,506,000	$ 8,379,980,000	$ 8,040,565,460	$ 7,639,265,121
General Sales and Use Tax	5,223,935,000	5,383,804,900	5,223,935,061	4,778,515,334
Corporate Franchise and Income Tax	920,947,000	950,800,000	920,946,841	782,182,367
Public Utility Taxes	360,473,000	373,500,000	360,472,829	365,342,776
Excise Taxes	705,681,000	710,600,000	705,870,580	622,542,305
Inheritance Taxes	434,000	-	1,744,736	-32,063
Insurance Company Taxes	181,584,000	192,000,000	181,584,219	186,272,058
Miscellaneous Taxes	85,025,000	87,000,000	112,560,816	358,899,854
SUBTOTAL...........................	15,517,585,000	16,077,684,900	15,547,680,543	14,732,987,751
Federal and Other Inter-Governmental Revenues[(f)]	10,431,105,000	10,624,981,400	9,992,784,266	10,011,381,624
Dedicated and Other Revenues[(g)]	6,441,464,000	6,750,288,200	6,361,265,914	6,597,272,945
TOTAL..............................	$ 32,390,154,000	$ 33,452,954,500	$ 31,901,730,723	$ 31,341,642,320

(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 2016-17 fiscal year, dated October 15, 2017.

(c) The projections for the 2017-18 fiscal year (cash basis) reflect the 2017-19 biennial budget (2017 Wisconsin Act 59) but do not reflect the estimated General Fund tax revenues included in the January 2018 LFB Report or the June 2018 LFB Paper.

(d) The amounts shown are 2016-17 fiscal year general purpose revenues and program revenues taxes as recorded by all State agencies. The amounts shown are as of June 30, 2017 and do not include revenues for the 2016-17 fiscal year that were recorded by State agencies during the months of July, August and September 2017. 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 (i) only includes general purpose revenues or taxes that are actually collected by DOR (and not by other State agencies), and (ii) may include accruals or other adjustments that may not be recorded by State agencies until a subsequent month.

(e) The amounts shown are 2017-18 fiscal year general purpose revenues and program revenues taxes as recorded by all State agencies. The amounts shown are as of June 30, 2018 and do not include revenues for the 2017-18 fiscal year that were recorded by State agencies during the months of July, August and September 2018. 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 (i) only includes general purpose revenues or taxes that are actually collected by DOR (and not by other State agencies), and (ii) may include accruals or other adjustments that may not be recorded by State agencies until a subsequent month.

(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—(Continued)

GENERAL FUND RECORDED REVENUES[a]
(Agency-Recorded Basis)
July 1, 2018 to October 31, 2018 compared with previous year[b]

	Annual Fiscal Report Revenues 2017-18 Fiscal Year[b]	Projected Revenues 2018-19 Fiscal Year[c]	Recorded Revenues July 1, 2017 to October 31, 2017[d]	Recorded Revenues July 1, 2018 to October 31, 2018[e]
Individual Income Tax	$ 8,479,150,000	$ 8,719,966,000	$ 2,367,641,328	$ 2,509,261,967
General Sales and Use Tax	5,448,118,000	5,593,136,900	1,395,237,652	1,467,948,511
Corporate Franchise and Income Tax	893,892,000	961,795,000	193,804,842	266,454,190
Public Utility Taxes	365,343,000	378,200,000	9,920,120	30,714,732
Excise Taxes	679,979,000	710,200,000	184,696,911	185,740,284
Inheritance Taxes	(33,000)	-	-4,526	1,554
Insurance Company Taxes	186,273,000	197,000,000	43,655,157	44,388,273
Miscellaneous Taxes	91,445,000	90,000,000	66,296,480	70,904,202
SUBTOTAL........................	16,144,167,000	16,650,297,900	4,261,247,965	4,575,413,713
Federal and Other Inter-Governmental Revenues[f]	10,121,722,000	11,001,150,100	3,348,919,907	3,570,363,373
Dedicated and Other Revenues[g]	6,584,552,000	7,122,266,500	2,298,701,309	2,426,431,877
TOTAL..............................	$ 32,850,441,000	$ 34,773,714,500	$ 9,908,869,181	$ 10,572,208,964

(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 2017-18 fiscal year, dated October 15, 2018

(c) The estimates in this table for the 2018-19 fiscal year (cash basis) reflect the enacted budget for the 2017-19 biennial budget (2017 Wisconsin Act 59) but do not include estimated General Fund tax revenues included in the January 2018 LFB Report, the June 2018 LFB Paper, or the November 2018 DOA Report.

(d) The amounts shown are 2017-18 fiscal year general purpose revenues and program revenues taxes 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 (i) only includes general purpose revenues or taxes that are actually collected by DOR (and not by other State agencies), and (ii) may include accruals or other adjustments that may not be recorded by State agencies until a subsequent month.

(e) The amounts shown are 2018-19 fiscal year general purpose revenues and program revenues taxes 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 (i) only includes general purpose revenues or taxes that are actually collected by DOR (and not by other State agencies), and (ii) may include accruals or other adjustments that may not be recorded by State agencies until a subsequent month.

(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-17

GENERAL FUND RECORDED EXPENDITURES BY FUNCTION[(a)]
(Agency-Recorded Basis)
July 1, 2017 to June 30, 2018 compared with previous year[(b)]

	Annual Fiscal Report Expenditures 2016-17 Fiscal Year[(b)]	Appropriations 2017-18 Fiscal Year[(c)]	Recorded Expenditures July 1, 2016 to June 30, 2017 [(d)]	Recorded Expenditures July 1, 2017 to June 30, 2018 [(e)]
Commerce	$ 209,017,000	$ 200,578,100	$ 315,564,675	$ 190,985,133
Education	13,368,786,000	13,706,059,200	13,393,301,710	13,565,818,294
Environmental Resources	320,463,000	339,979,600	321,530,203	321,655,350
Human Relations & Resources	14,343,401,000	14,341,728,400	14,382,568,082	14,683,789,502
General Executive	1,075,321,000	1,146,065,800	1,090,842,210	1,052,080,868
Judicial	139,027,000	144,250,300	139,030,432	139,022,323
Legislative	68,575,000	76,520,900	68,575,061	68,581,318
General Appropriations	2,367,075,000	2,560,816,600	2,417,589,191	2,552,205,862
TOTAL	$ 31,891,665,000	$ 32,515,998,900	$ 32,129,001,565	$ 32,574,138,650

(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 2016-17 fiscal year, dated October 15, 2017.

(c) The estimates and projections for the 2017-18 fiscal year (cash basis) reflect the 2017-19 biennial budget (2017 Wisconsin Act 59), but do not include revisions provided in the January 2018 LFB Report or the June 2018 LFB Paper.

(d) The amounts shown are 2016-17 fiscal year expenditures as recorded by all State agencies. The amounts shown are as of June 30, 2017 and do not include expenditures for the 2016-17 fiscal year that were recorded by State agencies during the months of July, August and September 2017.

(e) The amounts shown are 2017-18 fiscal year expenditures as recorded by all State agencies. The amounts shown are as of June 30, 2018 and do not include expenditures for the 2017-18 fiscal year that were recorded by State agencies during the months of July, August and September 2018.

Source: Wisconsin Department of Administration

Table II-17—(Continued)

GENERAL FUND RECORDED EXPENDITURES BY FUNCTION[(a)]
(Agency-Recorded Basis)
July 1, 2018 to October 31, 2018 compared with previous year[(b)]

	Annual Fiscal Report Expenditures 2017-18 Fiscal Year[(b)]	Appropriations 2018-19 Fiscal Year[(c)]	Recorded Expenditures July 1, 2017 to October 31, 2017 [(d)]	Recorded Expenditures July 1, 2018 to October 31, 2018 [(e)]
Commerce	$ 204,677,000	$ 216,013,900	$ 60,923,550	$ 60,417,451
Education	13,568,444,000	14,045,685,600	3,323,984,676	3,347,457,558
Environmental Resources	333,501,000	329,414,100	81,400,291	52,427,739
Human Relations & Resources	14,770,671,000	14,955,387,100	4,925,632,032	5,303,043,914
General Executive	1,002,844,000	1,278,283,400	433,137,222	444,194,723
Judicial	140,080,000	144,334,000	47,520,833	51,045,238
Legislative	68,767,000	76,530,300	19,011,328	19,159,517
General Appropriations	2,596,485,000	2,775,383,400	1,357,348,981	1,415,305,221
TOTAL	$ 32,685,469,000	$ 33,821,031,800	$ 10,248,958,913	$ 10,693,051,361

(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 2017-18 fiscal year, dated October 15, 2018.

(c) The results and estimates included in this table reflect the 2017-19 biennial budget (2017 Wisconsin Act 59), but do not include revisions provided in the January 2018 LFB Report, the June 2018 LFB Paper or the November 2018 DOA Report.

(d) The amounts shown are 2017-18 fiscal year expenditures as recorded by all State agencies.

(e) The amounts shown are 2018-19 fiscal year expenditures as recorded by all State agencies.

Source: Wisconsin Department of Administration

General Fund History

Table II-18 presents the General Fund condition for the previous five years.

Table II-18
COMPARATIVE CONDITION OF GENERAL FUND[a]
(As of June 30; Amounts in Thousands)

	2018	2017	2016	2015	2014
ASSETS					
Cash & Investment Pool Shares	$ 1,531,487	$ 1,452,850	$ 1,216,363	$ 1,375,275	$ 1,505,307
Contingent Fund Advances	2,726	2,776	2,774	2,909	2,931
Investments	-	7	-	-	-
Receivables					
Accounts Receivable	1,671,524	1,485,932	1,885,869	1,418,149	1,410,134
Due from Other Funds	260,088	447,249	85,276	160,950	206,976
Inventory	-	-	-	588	364
Prepayments	1,245	4,017	3,304	72,749	69,120
Other Assets	134,825	111,211	128,547	127,622	115,065
TOTAL ASSETS	$ 3,601,895	$ 3,504,042	$ 3,322,133	$ 3,158,242	$ 3,309,897
LIABILITIES					
Accounts Payable	$ 556,116	$ 572,649	$ 675,754	$ 591,323	$ 536,002
Due to Other Funds	276,438	359,703	63,915	337,782	194,579
Tax and Other Deposits	58,267	80,895	40,672	28,271	20,476
Deferred Revenue	203,125	191,895	197,131	185,747	175,201
TOTAL LIABILITIES	$ 1,093,946	$ 1,205,142	$ 977,472	$ 1,143,123	$ 926,258
FUND BALANCE					
Reserves					
Encumbrances & GPR Balances	$ 386,065	$ 211,630	$ 323,747	$ 236,915	$ 241,535
Program Revenue Balances	376,911	368,218	364,849	419,048	472,871
Total Reserves	$ 762,976	$ 579,848	$ 688,596	$ 655,963	$ 714,406
Unreserved Balance-Undesignated	1,744,973	1,719,052	1,656,065	1,359,156	1,669,233
TOTAL FUND BALANCE	$ 2,507,949	$ 2,298,900	$ 2,344,661	$ 2,015,119	$ 2,383,639
TOTAL LIABILITIES AND FUND BALANCE	$ 3,601,895	$ 3,504,042	$ 3,322,133	$ 3,158,242	$ 3,309,897

(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. Governor-elect Evers is expected to appoint a new Superintendent after his inauguration on January 7, 2019.

The executive branch consists of 17 departments (including two headed by other constitutional officers), 11 independent agencies, and numerous other authorities.

Legislative Branch

The legislative branch consists of the Legislature and its subordinate service agencies. The Legislature is bicameral, composed of the Senate and the Assembly. The 33 members of the Senate serve staggered four-year terms, and the 99 members of the Assembly serve identical two-year terms. Both the Senate and the Assembly operate on a committee system. The Legislature's biennial session begins in odd-numbered years on the first Monday in January (or January 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.
- *Department of Financial Institutions* regulates securities transactions and supervises State-chartered banks, credit unions, and savings and loans. The department also administers the State's Section 529 College Savings Plans. Further information about these Section 529 College Savings Plans can be found at www.edvest.com or www.tomorrowsscholar.com or from info@edvest.com. These sites and materials are not incorporated into, nor are they a part of, the 2018 Annual Report.
- *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. Prior to 2011, the Wisconsin Department of Commerce provided economic development services. The Wisconsin Economic Development Corporation is a public body corporate and politic with a 14-member board of directors, whose chief executive officer is appointed by the Governor, and receives appropriations from the State to fund its activities. 2017 Wisconsin Act 369 was signed into law on December 14, 2018 and increases the membership of the board of directors to 18 members, with the additional four members being legislative appointments. 2017 Wisconsin Act 369 also specifies that the board of directors would appoint the chief executive officer, but that provision would not apply after September 1, 2019.

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 422 school districts in the State for the 2017-18 school year, which administer the elementary and secondary schools within those districts. There were approximately 855,329 students attending public elementary and secondary schools in the 2017-18 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 2017-18 academic year, 314,835 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 (**UW**) 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 UW Extension. The system is joining the two-year colleges with seven of the system's doctoral and four-year institutions, and placing the UW Extension under the administrative purview of UW-Madison. This restructuring is expected to be completed in 2020. The UW System's total enrollment in 2017-18 was 174,516 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 anglers 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 6.5 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 BadgerCare 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, personnel management, accounting, payroll, financial reporting, processing the receipt and disbursement of monies received or expended by the State, engineering, and facilities management and planning.
- *Elections Commission* administers and enforces Wisconsin election law, working with municipal clerks to carry out open, fair, and transparent elections.
- *Ethics Commission* administers and enforces the campaign finance, ethics, and lobbying law.
- *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.

The Administrator of the Division of Facilities Development and Management serves as Secretary to the Commission with the concurrence of the Secretary of Administration. Nonvoting advisory members of the Commission include the Secretary of Administration, and the ranking architect in the DOA Division of Facilities Development and Management. 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, 2018, the State had $7.752 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 2018 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, and must be repaid no later than the last day of the fiscal year in which they 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, 2018, the State had not issued, and does not intend to issue, operating notes in fiscal year 2018-19.

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, 2018, the outstanding principal amount of the State's obligations under the master lease program was approximately $101 million. See Part IV of the 2018 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. Three such programs have been authorized and are currently outstanding:

- *Transportation revenue bond program.* This program finances a portion of the costs of the State highways and related transportation facilities. The obligations are secured by motor vehicle registration fees and other registration-related fees. The Commission has issued 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 $1.768 billion as of December 15, 2018. See Part V of the 2018 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; clean

water revenue bonds and environmental improvement fund revenue bonds. Starting in 1991, the Commission issued 28 series of clean water revenue bonds (including refunding bond issues). In 2015, the Commission established the environmental improvement fund revenue bond program; therefore, no further issuance of clean water revenue bonds is expected. As of December 15, 2018, the outstanding principal amount of the State's clean water revenue bonds was $40 million. See Part VI of the 2018 Annual Report for additional information on clean water revenue bonds. The Commission has issued four series of environmental improvement fund revenue bonds: of which two series refunded clean water revenue bonds. As of December 15, 2018, the outstanding principal amount of the State's environmental improvement fund revenue bonds was $330 million. See Part VII of the 2018 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, of which only bonds were outstanding in the aggregate amount of $27 million as of December 15, 2018. See Part VIII of the 2018 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 seven 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 $1.499 billion as of December 15, 2018. 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 five series of general fund annual appropriation bonds (including refunding bond issues) 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 $1.529 billion as of December 15, 2018. In October 2018, the State entered into a forward delivery bond purchase agreement for a refunding bond issue that is expected to close in January 2019.

See Part IX of the 2018 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, 2018, 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 $344 million, and in aggregate, WHEDA had $1.532 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 $344 million of borrowing authority was available on October 31, 2018. A housing revenue bond issue of approximately $148 million is expected to close in December 2018.
- *Housing rehabilitation programs.* Borrowing authority of $100 million, of which $100 million of borrowing authority was available on November 30, 2018.
- *Single-family home ownership mortgage loan program.* WHEDA had issued $8.612 billion in such bonds as of November 30, 2018. In the one-year period ending November 30, 2018, two single-family issues totalling approximately $240 million were sold.
- *Residential facilities for the elderly and chronically disabled.* Borrowing authority of $99 million, and as of November 30, 2018, no bond issues remained outstanding.
- *Economic development and agriculture loans.* Current borrowing authority of $169 million. From current and previous borrowing authority, as of November 30, 2018, 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.

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 any Wisconsin 501(c)(3) nonprofit organizations. It may finance any qualifying capital project and may refinance any qualifying outstanding indebtedness. As of June 30, 2018, WHEFA had outstanding 237 issues totaling approximately $9.640 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, including the University of Wisconsin Hospital, American Family Children's Hospital, and The American Center Hospital, and hospitals in Illinois, including the Swedish American Hospital and the Swedish American Medical Center. UWHCA also operates 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, 2018, UWHCA had outstanding long-term debt totaling approximately $587 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 and to issue up to $203 million of obligations for costs related to sports and entertainment arena facilities. To date, one such district has been created (the Wisconsin Center District). For bonds issued 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. Obligations issued for costs related to a sports and entertainment arena facilities 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, 2018 there were thirteen issues outstanding in the aggregate amount of $439 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	$ 50,000
2003 Series A-E	5/1/2044	41,975,000	8,265,000
2005 Series A-F	11/1/2045	179,535,000	86,565,000
2006 Series A-D	5/1/2047	28,580,000	15,920,000
2007 Series A-G	11/1/2042	42,570,000	14,785,000
2008 Series A-G	11/1/2033	56,155,000	14,475,000
2009 Series A	5/1/2042	14,045,000	8,675,000
2010 Series A-B	11/1/2043	42,775,000	19,600,000
2012 Series A-B	5/1/2055	53,540,000	51,280,000
2013 Series A-C	5/1/2045	21,270,000	9,390,000
2015 Series A-C	5/1/2052	73,170,000	60,225,000
2016 Series A-C	5/1/2054	39,775,000	39,535,000
2017 Series A-C	11/1/2055	110,585,000	110,585,000
Total			$439,350,000

- *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 $27 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 $102 million that carries a moral obligation of the State. Two other local districts (the Southeast Wisconsin Professional Baseball Park District and the Green Bay-Brown County Professional Football Stadium District) each have authority to issue $160 million of revenue obligations that, subject to the Secretary of Administration's determination that certain conditions have been met, could carry a moral obligation of the State. Both districts have issued revenue obligations, but those obligations do not carry the moral obligation of the State.

- Payments for debt service on certain obligations issued by a local governmental unit in an electronics and information technology manufacturing zone, subject to the Secretary of Administration's designation and determination that certain conditions have been met. This moral obligation will be for up to 40 percent of a local governmental unit's aggregate municipal obligations issued to finance costs related to development occurring in, or for the benefit of, the electronics and information technology manufacturing zone. Currently there is one bond issue (by the Village of Mount Pleasant) that is outstanding in the amount of $120 million that carries the moral obligation of the State. In addition, the Secretary of Administration has entered into an agreement that allows this moral obligation to be designated, provided the required conditions are met, for another issuance of obligations expected in calendar year 2019 in the principal amount of approximately $24 million.
- *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 $29 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-19 through II-24.

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-25, II-26, and II-27.

The Department of Employee Trust Funds (**ETF**) 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 eligible 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 2018, employee and employer contributions for calendar year 2019 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)	6.55%	6.55%
Protective occupations with Social Security	6.55	10.55
Protective occupations without Social Security	6.55	14.95

[a] Effective January 1, 2019

Source: Department of Employee Trust Funds

The contributions are actuarially determined each year by an independent actuarial firm. In addition, the State is 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. Following 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, which was used to fund overall system benefit liabilities, 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%.

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

Monthly WRS benefits upon retirement at normal retirement age (65 for general employees, 62 for elected officials and for executive service retirement plan participants hired on or before December 31, 2016, 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.

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 (**Core Fund**) and the Variable Retirement Investment Trust (**Variable Fund)**. Investments are recorded pursuant to the Wisconsin Statutes as follows:

- The assets of the Core Fund 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 Fund assets are recorded at market value with all market adjustments included in current operations.

The Employee Trust Funds Board may periodically adjust annuity payments from the retirement system based on annual investment performance. An increase (or decrease) in annuity payments may result when investment gains (or losses), together with other actuarial experience factors, create a surplus (or shortfall) in the reserves, as determined by the system's consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core Fund annuities, decreases may be applied only to previously granted increases. By law, Core Fund annuities cannot be reduced to an amount below the original, guaranteed amount set at retirement.

The Core Fund and Variable Fund annuity adjustments granted during the past 10 years are as follows:

WISCONSIN RETIREMENT SYSTEM
SUMMARY OF ANNUITY ADJUSTMENTS

Year	Core Fund	Variable Fund
2008	6.6%	0.0%
2009	(2.1)	(42.0)
2010	(1.3)	22.0
2011	(1.2)	11.0
2012	(7.0)	(7.0)
2013	(9.6)	9.0
2014	4.7	25.0
2015	2.9	2.0
2016	0.5	(5.0)
2017	2.0	4.0

Various reports and information relating to WRS and the ETF, including the Comprehensive Annual Financial Report for the year ended December 31, 2017 for ETF (including WRS and other benefit plans and trust funds) are or will be available from the ETF publications web site at: etf.wi.gov/publications.htm. This web site, and the materials available on this web site, are not incorporated into, nor are they a part of, the 2018 Annual Report.

Table II-19 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 the net pension liability (or asset) on its financial statements, if such statements are prepared in accordance with GAAP. The net pension asset of participating WRS employers as of December 31, 2017 was $2.969 billion. The WRS plan fiduciary net position as a percentage of the total pension liability was 102.9%.

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 28.8% of active 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.

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.

Retiree Life Insurance OPEB

The State provides post-retirement life insurance coverage to retired plan participants over the age of 65 at no cost to the employee. Similar to pension, GASB standards now require uniform calculations of Other Post-Employment Benefits (**OPEB**) expense and liabilities. Under these standards, employers are required to report a total or net OPEB liability on their financial statements, if such statements are prepared in accordance with GAAP. As of December 31, 2017, the net OPEB liability for the State Retiree Life Insurance plan was $493 million. The plan fiduciary net position as a percentage of the total pension liability was 41.6%.

Implied Subsidy of Retiree Health Insurance

The State Retiree Health Insurance program provides post-employment health insurance coverage to all eligible retired employees of the State of Wisconsin. Through the program, the State offers certain retirees who are not yet eligible for Medicare benefits the option to continue participating in the State's Group Health Insurance program and to pay for coverage at the premium rate set for active State employees. Although the State does not directly pay any portion of the premium for retirees who choose to participate in the program, the State does pay higher premiums for its active employees than it otherwise would if retirees were excluded. Therefore, the State implicitly subsidizes the premiums paid by participating retirees by offering these individuals access to health insurance coverage at a lower rate than they might otherwise pay based upon their age. This subsidy, in turn, creates an OPEB liability, which the State must recognize and report under GASB standards. The State's net OPEB liability for Retiree Health Insurance as of June 30, 2018 was $642 million.

Table II-19

WISCONSIN RETIREMENT SYSTEM
ACTUARIAL STATEMENT OF ASSETS AND LIABILITIES
(Amounts in Millions)

	12/31/2017	12/31/2016	Increase (Decrease)
Assets and Employer Obligations:			
Net Assets			
Cash, Investments & Receivables			
Less: Payables & Suspense Items			
Core Division	$92,730.6	$88,484.6	$ 4,246.0
Variable Division	8,071.9	6,911.5	1,160.4
Totals	100,802.5	95,396.1	5,406.4
Obligations of Employers			
Unfunded Accrued Liability	16.8	17.8	(1.0)
TOTAL ASSETS	$100,819.3	$95,413.9	$5,405.4
Reserves and Surplus:			
Reserves			
Actuarial Present Value of Projected Benefits Payable to Terminated Vested Participants and Active Members:			
Member Normal Contributions	$ 18,237.3	$17,177.6	$1,059.7
Member Additional Contributions	197.1	184.0	13.1
Employer Contributions	23,160.0	22,288.3	871.7
Total Contributions	$ 41,594.4	$39,649.9	$1,944.5
Actuarial Present Value of Projected Benefits Payable to Current Retirees And Beneficiaries:			
Core Annuities	$ 53,590.0	$50,941.4	$2,648.6
Variable Annuities	3,682.1	3,645.1	37.0
TOTAL ANNUITIES	57,272.1	54,586.5	2,685.6
TOTAL RESERVES	$ 98,866.5	$94,236.4	$4,630.1
Surplus			
Core Annuity Reserve Surplus	$ 1,310.0	$ 1,030.6	$ 279.4
Variable Annuity Reserve Surplus	642.8	146.9	495.9
TOTAL SURPLUS	1,952.8	1,177.5	775.3
TOTAL RESERVES AND SURPLUS	$100,819.3	$ 95,413.9	$5,405.4

Source: Department of Employee Trust Funds

Notes to Wisconsin Retirement System

All eligible State of Wisconsin employees participate in the Wisconsin Retirement System **(System** or **WRS)**, 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, 2017 was $4.46 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 (6.7% of their salary) for calendar year 2018. 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, 2017 was $624 million, which consisted of $322 million or 7.2% of payroll from the employer and $302 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 WRS 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 for Executives and Elected Officials is reduced to 1.6% for service earned after June 29, 2011. 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, 2017, had no unfunded liability. The total system unfunded liability of $17 million, as of December 31, 2017, 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, 2017 Comprehensive Annual Financial Report.

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

Table II-20

WISCONSIN RETIREMENT SYSTEM
FUNDING RATIO
(Amounts in Thousands)

Year	A Actuarial Value of Assets	B Unfunded Actuarial Liability	C Reserve Requirement (A+B)	D Funding Ratio (A÷C)
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
2016	95,396,200	17,800	95,414,000	100.0
2017	100,802,500	16,800	100,819,300	100.0

Source: Department of Employee Trust Funds

Table II-21

WISCONSIN RETIREMENT SYSTEM
COVERED EMPLOYEES

Year	Active State	Active Local	Retired
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
2016	73,514	183,771	197,647
2017	74,085	183,328	203,300

Source: Department of Employee Trust Funds

Table II-22

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

	State		Local		Total	
Year	**Employee**	**Employer**	**Employee**	**Employer**	**Employee**	**Employer**
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
2016	286,523	301,931	609,879	662,244	896,402	964,175
2017	302,292	322,463	638,505	701,532	940,797	1,023,995

[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-23

WISCONSIN RETIREMENT SYSTEM
REVENUES BY TYPE[(a)]
(Amounts in Thousands)

Year	Employee Contributions[(b)]	Employer Contributions[(c)]	Investment Income	Other Income	Total Revenues
2008	$736,149	$683,520	$(22,744,110)	$1,618	$(21,322,822)
2009	736,689	705,997	13,024,986	1,117	14,468,790
2010	787,460	750,702	8,317,435	990	9,856,588
2011	797,856	789,244	664,151	849	2,252,100
2012	757,151	799,350	9,858,710	678	11,415,889
2013	871,260	914,698	11,343,231	532	13,129,721
2014	906,499	1,023,197	4,888,240	642	6,818,578
2015	937,225	977,734	(674,988)	248	1,240,219
2016	921,864	963,122	7,271,531	341	9,156,858
2017	965,453	1,017,559	14,868,726	5,558	16,857,296

(a) Employee required contributions made in accordance with statutory requirements. Employer required contributions were made in accordance with actuarially-determined contribution requirements.

(b) Employee contributions include all employee required, employee additional and benefit adjustment contributions, including those paid by the employer on behalf of the employee.

(c) Employer contributions include all employer required contributions, including contributions for unfunded actuarial accrued liability.

Source: Department of Employee Trust Funds

Table II-24

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

Year	Separations	Death	Annuities	Supplemental[(a)]	Misc.	Total
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
2016	39,276	30,366	4,921,126	158	91,697	5,082,623
2017	38,358	31,302	5,179,965	112	26,133	5,275,870

(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-25, II-26, and II-27 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-25

WISCONSIN RETIREMENT SYSTEM
SEPARATION BEFORE AGE AND SERVICE RETIREMENT

Select and Ultimate Withdrawal

% of Active Participants Terminating

	Protective		Public Schools		University			Others	
Age & Service	With Soc. Sec.	Without Soc. Sec.	Males	Females	Males	Females	Executive &Elected	Males	Females
0	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

	Protective		Public Schools		University		Exec. & Elected		Others	
Age	With Soc. Sec.	Without Soc. Sec.	Males	Females	Males	Females	Males	Females	Males	Females
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	0.00	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	0.10	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-26

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	0%	0%	0%	0%	0%	0%	6%	4%	0%
51	0	0	0	0	0	0	7	4	0
52	0	0	0	0	0	0	9	5	0
53	0	0	0	0	0	0	23	17	0
54	0	0	0	0	0	0	19	25	0
55	0	0	0	0	0	0	19	21	0
56	0	0	0	0	0	0	19	27	0
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-27

WISCONSIN RETIREMENT SYSTEM
OTHER ASSUMPTIONS

Mortality Table

Non-disabled Participants Future Life Expectancy

Sample Attained Ages	Future Life Expectancy Males	Females
40	44.7	47.9
45	39.7	42.8
50	34.7	37.8
55	29.9	32.9
60	25.3	28.2
65	20.9	23.5
70	16.7	19.0
75	12.8	14.8
80	9.4	11.0
85	6.5	7.8

Salary Scale

Merit & Longevity Increase in Next Year

Service	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	0.2
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 each year.

Future Annual Investment Return

For purposes of the above tables, the future annual investment 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. During calendar year 2018, the Trustees met nine times.

The Trustees appoint SWIB's Executive Director/Chief Investment Officer. The Executive Director/Chief Investment Officer 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.

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. 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 similar to a money market fund, but has the ability to have a longer average maturity than a registered 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. Neither the preceding web site nor the summaries available at such web site are incorporated by reference into this Part II of the 2018 Annual Report.

Table II-28 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 the 2018 Annual Report.

Table II-28

STATE INVESTMENT FUND
(As of October 31, 2018)

HOLDINGS DETAIL REPORT

	Amortized Cost	Percent of Portfolio at Amortized Cost
U.S. Governments & Agencies	$ 6,083,029,000	58.56%
U.S. Repurchase Agreements	3,163,227,000	30.45
Certificates of Deposit & Bankers Acceptance	284,602,000	2.74
Commercial Paper and Corporate Notes	857,025,000	8.25
	$10,387,883,000	100.00%

AVERAGE MATURITY FOR THE LAST SIX MONTHS

Reporting Date	Average Maturity (Days)	Reporting Date	Average Maturity (Days)
10/31/2018	28	7/31/2018	28
9/30/2018	25	6/30/2018	20
8/31/2018	30	5/31/2018	26

SUMMARY OF INVESTMENT FUND PARTICIPANTS
(As of October 31, 2018)

Participants	Par Amount ($000)	Percent of Portfolio
Mandatory Participants		
State of Wisconsin and Agencies	$ 5,420,376	52.74%
State of Wisconsin Investment Board	1,763,692	17.16
Elective Participants		
Local Government Investment Pool	3,092,809	30.10
TOTAL	$10,276,877	100.00%

The difference between the total of participant's unit shares ($10,276,877,000) and the total of the investments ($10,387,883,000) is the result of check float (checks written and posted at DOA that have not yet cleared the bank) and a timing delay in posting bank receipts at DOA which have already been invested by SWIB.

Source: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-29
STATE ASSESSMENT
(EQUALIZED VALUE)
OF TAXABLE PROPERTY

Calendar Year	Value of Taxable Property	Rate of Increase (Decrease)
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	479,023,957,200	2.5
2015	490,602,544,050	2.4
2016	505,124,328,250	3.0
2017	525,984,545,850	4.1
2018	549,532,691,500	4.5

Source: Department of Revenue

Table II-30
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
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
2017	14,184,390	1,019,961	7.19
2018	14,820,792	1,037,558	7.00

(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.

Source: Department of Revenue

Table II-31
POPULATION TRENDS

Year	Wisconsin Total (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
2010	5,690	20	0.6	0.4	105.0	87.4
2011	5,706	20	0.3	0.7	105.4	88.2
2012	5,721	20	0.3	0.8	105.6	88.9
2013	5,737	20	0.3	0.7	105.9	89.5
2014	5,751	20	0.2	0.8	106.2	90.2
2015	5,760	20	0.2	0.8	106.4	90.9
2016	5,773	20	0.2	0.7	106.6	91.6
2017	5,795	20	0.4	0.7	107.0	92.2

Source: U.S. Census Bureau Population and Housing Units Estimates and land area statistics from U.S. Census Bureau State and County Quick Facts

Table II-32
POPULATION CHARACTERISTICS

	Wisconsin	U.S.
% Urban (2010)	70.2%	80.7%
% Rural (2010)	29.8	19.3
% Foreign-born (2017)	5.0	13.7
Dependency Ratio [a]	62.8	61.8

(a) Dependency Ratio = (Population under 18) + (Population aged 65+) / (Population aged 18-64)

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

	Wisconsin	U.S.
Grade School - 8 years	97.4%	94.9%
High School/equivalent	92.4	88.0
Bachelor's Degree	30.4	32.0

Source: All U.S. Census Bureau web site, American FactFinder
Urban/Rural: 2010 Census Summary File 1 Table P2
Foreign-Born: 2017 American Community Survey 1-Year Estimates Table S0501
Dependency Ratio: 2017 American Community Survey 1-Year Estimates Table S0101
Educational Attainment: 2017American Community Survey 1-Year Estimates Table S1501

Table II-33
POPULATION BY AGE GROUP
(2017)

Age Group	Wisconsin	U.S.
Under 5	5.8%	6.1%
5-14	12.5	12.7
15-44	38.1	39.8
45-59	20.5	19.7
60 and over	23.2	21.8
Total	100.0	100.0

Note: Totals may not equal 100% due to rounding

Source: 2017 American Community Survey 1-Year Estimates Table S0101

Table II-34
ESTIMATED PERSONAL INCOME[a]

Year	Amount Total ($ in Millions)	Per Capita Wisconsin	Per Capita U.S.	Percentage Wisconsin to U.S.
2008	$219,283	$38,873	$41,082	94.9%
2009	215,499	38,012	39,376	96.5
2010	219,628	38,597	40,277	95.8
2011	232,664	40,749	42,461	96.0
2012	243,576	42,537	44,282	96.1
2013	245,382	42,728	44,493	96.0
2014	255,075	44,296	46,494	95.3
2015	265,094	45,960	48,451	94.9
2016	270,226	46,762	49,246	95.0
2017	283,636	48,941	51,640	94.8

[a] All dollar estimates are in current dollars (not adjusted for inflation).

Source: Table SAINC1 Personal Income Summary: Personal Income, Population, Per Capita Personal Income, Bureau of Economic Analysis, U.S. Department of Commerce

Table II-35
MEDIAN HOUSEHOLDS INCOME FOR FOUR-PERSON FAMILY[b]

Year[a]	Wisconsin	U.S.	Percentage WI to U.S.
2008	$80,530	$75,782	106.3%
2009	76,188	73,714	103.4
2010	76,117	72,767	140.6
2011	79,648	74,563	106.8
2012	80,198	76,049	105.5
2013	82,350	77,953	105.6
2014	85,859	80,545	106.6
2015	88,133	82,508	106.8
2016	93,500	86,877	107.6
2017	96,972	90,748	106.9

(a) Annual values are not adjusted for inflation.

(b) The values provided are based on the estimated "Median Income for Four-Person Family". Data included in prior continuing disclosure annual reports may have included a mix of family households and non-family households.

Source: American Community Survey 1-Year Estimates Table B19019. The 2017 data is from the 2017 1-year estimates, the 2016 data is from the 2016 1-year estimates, and so forth.

Table II-36
DISTRIBUTION OF EARNINGS BY INDUSTRY
(By Place of Work)

	Wisconsin Distribution		U.S. Distribution	
	2016	**2017**	**2016**	**2017**
Farm Wage and Salary Disbursements	0.7%	0.6%	0.3%	0.3%
Forestry, Fishing, and Related Activities	0.2	0.0	0.2	0.2
Mining	0.1	0.2	0.8	0.8
Utilities	0.7	0.7	0.7	0.7
Construction	5.0	5.1	5.1	5.2
Manufacturing	19.1	19.2	10.1	10.0
Durable Goods Manufacturing	11.8	11.9	6.7	6.6
Nondurable Goods Manufacturing	7.3	7.3	3.4	3.4
Wholesale Trade	5.8	5.9	5.5	5.4
Retail Trade	6.1	6.0	6.1	6.0
Transportation & Warehousing	3.2	3.2	3.3	3.4
Information	2.5	2.5	3.5	3.6
Finance and Insurance	6.9	6.9	7.7	7.9
Real Estate and Rental & Leasing Services	0.8	0.8	1.5	1.5
Professional, Scientific, and Technical Services.	5.6	5.6	10.2	10.2
Management of Companies and Enterprises	4.9	4.7	3.2	3.3
Administrative and Waste Management	3.3	3.3	4.3	4.4
Educational Services	1.5	1.5	1.8	1.8
Health Care and Social Assistance	13.4	13.5	11.6	11.6
Arts, Entertainment, and Recreation	0.9	0.9	1.1	1.1
Accommodation and Food Services	2.9	3.0	3.8	3.8
Other Services, Except Public Administration	3.0	3.0	3.1	3.1
Government and Government Enterprises	13.6	13.4	15.9	15.7
Federal, Civilian	1.3	1.3	2.8	2.7
Military	0.3	0.3	1.1	1.1
State and Local	12.0	11.8	12.0	11.9

Note: This table reflects NAICS.
Source: Bureau of Economic Analysis, U.S. Department of Commerce Table SA07

Table II-37
ESTIMATED EMPLOYEES IN WISCONSIN ON NONAGRICULTURAL PAYROLLS
(2017 Annual Average)

	Wisconsin		U.S.	
	(Amounts in Thousands)	%	(Amounts in Thousands)	%
Natural Resources & Mining	4	0.1	678	0.5
Construction	117	4.0	6,955	4.7
Manufacturing	468	15.9	12,444	8.5
Retail Trade	308	10.5	15,869	10.8
Wholesale Trade	126	4.3	5,904	4.0
Transportation, Warehousing & Utilities	108	3.7	5,721	3.9
Information	48	1.6	2,795	1.9
Financial Activities	153	5.2	8,455	5.8
Professional & Business Services	324	11.0	20,467	14.0
Educational & Health Services	451	15.3	23,186	15.8
Leisure & Hospitality	280	9.5	16,052	10.9
Other Services	151	5.1	5,776	3.9
Government	408	13.9	22,322	15.2
Total	2,945	100.0	146,624	100.0

Source: Department of Workforce Development

Table II-38
GENERAL STATISTICS OF MANUFACTURING [(a)]

	2016	2015
Total Capital Expenditures (millions)	$ 4,921	$ 5,085
Number of Employees (thousands)	435.9	435.5
Total Payroll (millions)	$ 23,662	$ 23,253
Number of Production Workers (thousands)	310.1	311.4
Value Added by Manufacturer (millions)	$ 78,972	$ 80,588
Value of Shipments (millions)	$ 168,601	$ 175,215

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

Source: U.S. Census Bureau Annual Survey of Manufactures

Table II-39

TOTAL NEW HOUSING UNITS AUTHORIZED IN PERMIT ISSUING PLACES

Year[a]	Wisconsin	Percent Change Wisconsin	Percent Change U.S.
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
2016	19,274	14.8	2.0
2017	19,545	1.4	6.2

[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

Table II-40
UNEMPLOYMENT RATE COMPARISON [a][b][c]
2013 To 2018

	2018 Wis.	2018 U.S.	2017 Wis.	2017 U.S.	2016 Wis.	2016 U.S.	2015 Wis.	2015 U.S.	2014 Wis.	2014 U.S.	2013 Wis.	2013 U.S.
January	3.1	4.5	4.0	5.1	4.6	5.3	5.4	6.1	6.4	7.0	7.8	8.5
February	3.3	4.4	4.2	4.9	4.8	5.2	5.5	5.8	6.8	7.0	7.9	8.1
March	3.2	4.1	3.7	4.6	4.6	5.1	5.3	5.6	6.6	6.8	7.5	7.6
April	2.7	3.7	3.1	4.1	4.0	4.7	4.5	5.1	5.6	5.9	7.1	7.1
May	2.6	3.6	3.1	4.1	3.8	4.5	4.5	5.3	5.3	6.1	6.5	7.3
June	3.4	4.2	3.6	4.5	4.4	5.1	4.9	5.5	5.6	6.3	7.1	7.8
July	3.2	4.1	3.4	4.6	4.0	5.1	4.6	5.6	5.5	6.5	6.7	7.7
August	3.1	3.9	3.3	4.5	3.9	5.0	4.2	5.2	5.1	6.3	6.4	7.3
September	3.0	3.6	2.9	4.1	3.6	4.8	3.9	4.9	4.6	5.7	5.9	7.0
October		3.7	2.7	3.9	3.5	4.7	3.9	4.8	4.4	5.5	5.9	7.0
November			2.8	3.9	3.4	4.4	4.0	4.8	4.5	5.5	6.0	6.6
December			2.7	3.9	3.3	4.5	4.1	4.8	4.6	5.4	6.0	6.5
Annual Average			3.3	4.4	4.0	4.9	4.5	5.3	5.4	6.2	6.7	7.4

[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).

[c] The Bureau of Labor Standards no longer reports prior year quarterly data, as appear in the 2017 Continuing Disclosure Annual Report dated December 22, 2017. This table will now only reflect actual monthly data for the current year and the prior five years.

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

APPENDIX A

GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS

The following material is a reprint of the “General Purpose External Financial Statements” section of the audited CAFR for the fiscal year ended June 30, 2018. Any web sites listed in the General Purpose External Financial Statements are not incorporated by reference into this Part II of the 2018 Annual Report.

The entire CAFR is available from the State Controller’s Office, Department of Administration, P.O. Box 7864, Madison, WI 53707-7864. The entire CAFR has also been filed with the MSRB through its EMMA system and is available on the Capital Finance website:

doa.wi.gov/capitalfinance

{This page number is the last sequential page number of the 2018 Annual Report to be used in this Part II of the 2018 Annual Report. The following uses page numbers from the General Purpose External Financial Statements. The sequential page numbers for the 2018 Annual Report continue in Part III.}

STATE OF
WISCONSIN

General Purpose External Financial Statements

For the fiscal year ended June 30, 2018

Scott Walker, Governor

Department of Administration
Ellen Nowak, 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, 2018

Table of Contents

STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION
Scott Walker, Governor
Ellen Nowak, Secretary
Waylon Hurlburt, Division Administrator

December 20, 2018

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, 2018. 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,

Ellen E. Nowak

Ellen Nowak
Secretary

Jeffery C. Anderson

Jeffery C. Anderson, CPA
State Controller

Executive Budget and Finance, State Controller's Office, PO Box 7932, Madison, WI 53707-7932
Phone: (608) 266-1694 | DOA.WI.GOV
WISCONSIN IS OPEN FOR BUSINESS

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 make up the State's basic financial statements, as of and for the year ended June 30, 2018, 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 University of Wisconsin (UW) System Fund or, the Environmental Improvement Fund, both of which are major funds and represent 69 percent of the assets and 70 percent of the liabilities of the business-type activities. We also did not audit the College Savings Program Trust Fund, 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 funds, 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, for the Wisconsin Housing and Economic Development Authority, the UW Hospitals and Clinics Authority, and the UW 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 UW System Fund, the Environmental Improvement Fund, the College Savings Program Trust Fund, the Wisconsin Housing and Economic Development Authority, and the UW Hospitals and Clinics Authority. The financial statements of the UW 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 entity'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 entity'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 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, 2018, and the respective changes in its financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphases of Matter

As discussed in Note 1D, the State implemented Governmental Accounting Standards Board (GASB) Statement Number 74, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. These statements changed presentation and disclosure requirements for employers that offer other postemployment benefits.

As described in Notes 1E and 7, UW System changed its method of accounting for library holdings. Library holdings are now reported as depreciable capital assets.

As discussed in Note 5B, 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.

As discussed in Note 5B to the financial statements, as of June 30, 2018, the State Investment Fund held $1.6 billion in a repurchase agreement with the Wisconsin Retirement System. The State Investment Fund and the Wisconsin Retirement System are both administered by the State of Wisconsin Investment Board.

Certain account balances cannot be measured precisely but must be estimated, particularly actuarially accrued liabilities and infrastructure assets reported in the financial statements and notes. Notes 14, 17, 18, and 20 include a discussion of estimates used by funds that accrue liabilities based upon actuarial information, including assumptions used in their calculation, and other sources. Note 1E includes information related to the estimated historical cost of infrastructure assets constructed prior to July 1, 2000. Because estimates are based upon information available when the financial statements are prepared, actual values may differ from the estimated amounts. These differences cannot be quantified.

Our opinions are not modified with respect to these matters.

Other Matters

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—Postemployment Benefits–State Health Insurance Program, Postemployment Benefits–State Life Insurance Program, State's Proportionate Share of Net Pension Liability or Net Pension (Asset), State's Pension Contributions, Infrastructure Assets Reported Using the Modified Approach, Budgetary Comparison Schedule–General Fund, Budgetary Comparison Schedule–Transportation Fund, and Notes to Required Supplementary Information—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 express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 20, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering the State's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU

Joe Chrisman
State Auditor

December 20, 2018

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, 2018. 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 2018 by $24.9 billion (reported as "net position"). Of this amount, $(8.2) 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 $1.7 billion in Fiscal Year 2018. Net position of governmental activities increased by $1.1 billion or 8.2 percent, while net position of the business-type activities showed an increase of $658.0 million or 6.4 percent.
- *Excess of Revenues over (under) Expenses -- Governmental Activities.* During Fiscal Year 2018, the State's total revenues for governmental activities of $30.1 billion were $2.1 billion more than total expenses (excluding transfers) for governmental activities of $28.0 billion. Of these expenses, $12.2 billion were covered by program revenues. General revenues, generated primarily from various taxes, totaled $17.8 billion.

Fund

- *Governmental Funds -- Fund Balances.* As of the close of Fiscal Year 2018, the State's governmental funds reported combined ending fund balances of $1.3 billion, an increase of $927.4 million in comparison with the prior year. Of this total amount, $(2.1) billion represents the unassigned fund balances.
- *General Fund -- Fund Balance*. At the end of the current fiscal year, total fund balance was $(1.3) billion, a change of $372.4 million from a deficit of $(1.6) billion reported in the prior year. The unassigned fund deficit for the General Fund was $(1.8) billion, or 7.6 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 $257.8 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, and the continued reporting of crossover refunded debt. The state issued crossover refunding bonds during Fiscal Year 2018 to refund $530.4 million in certain general obligation and transportation revenue bonds. The outstanding refunded bonds will continue to be reported as a liability and resources provided by the refunding are held in escrow and reported as assets until the crossover dates. At the crossover dates those assets will be sufficient to redeem the $530.4 million of refunded bonds. During the year issuances of new general obligations exceeded repayments and refundings of debt by $352.6 million. Revenue bonds outstanding decreased by $24.9 million. Annual appropriation bonds totaling $69.9 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 and State Life 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, 2018 were $48.2 billion and deferred outflows of resources were $1.9 billion, while total liabilities were $23.4 billion and deferred inflows of resources were $1.8 billion, resulting in combined net position (government and business-type activities) of $24.9 billion. The largest component of the State's total net position consists of $23.4 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 $9.7 billion of net position was restricted by external sources or the State Constitution or Statutes, and was not available to finance the day-to-day operations of the State.

The unrestricted net position, which, if positive, could be used at the State's discretion, showed a negative balance of $(8.2) billion. Therefore, based on this measurement, no funds were available for discretionary purposes. A contributing factor to the negative balance is that governments recognize a liability on the government-wide statement of net 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, other postemployment benefits 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 $(1.3) 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 2018, the State issued $1.9 billion of general obligation bonds, primarily for the acquisition or improvement of land, water, property, highways, buildings, and equipment. At June 30, 2018 general obligation bonds and long term general obligation notes outstanding totaled $8.2 billion, outstanding annual appropriation bonds were $3.0 billion, and outstanding revenue bonds, which are not considered general obligation debt of the State, totaled $2.7 billion.

Table 2
Net Position
(in millions)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2018	2017*	2018	2017*	2018	2017*	2018-2017
Current and Other Assets	$ 8,153.6	$ 6,789.5	$ 10,141.0	$ 9,070.7	$ 18,294.6	$ 15,860.2	15.3 %
Capital Assets	24,502.2	24,004.3	5,371.0	6,247.3	29,873.1	30,251.6	(1.3)
Total Assets	32,655.7	30,793.8	15,512.0	15,318.0	48,167.7	46,111.8	4.5
Deferred Outflows of Resources	1,050.1	1,195.2	877.7	955.4	1,927.9	2,150.6	(10.4)
Long-term Liabilities	12,768.3	12,354.1	3,714.2	3,591.0	16,482.5	15,945.2	3.4
Other Liabilities	6,192.4	6,184.3	764.8	616.5	6,957.2	6,800.8	2.3
Total Liabilities	18,960.7	18,538.4	4,479.0	4,207.5	23,439.7	22,746.0	3.0
Deferred Inflows of Resources	814.1	354.6	945.4	400.4	1,759.5	754.9	133.1
Net Position:							
Net investment In Capital Assets	19,685.4	19,181.1	3,709.6	4,578.7	23,395.0	23,759.8	(1.5)
Restricted	2,787.8	2,279.9	6,899.6	6,154.2	9,687.5	8,434.1	14.9
Unrestricted (deficit)	(8,542.1)	(8,365.0)	356.1	932.5	(8,186.0)	(7,432.5)	10.1
Total Net Position	$ 13,931.1	$ 13,095.9	$ 10,965.4	$ 11,665.5	$ 24,896.5	$ 24,761.4	0.5

* Amounts for the prior fiscal year include restatements of prior year's balances, except for those related to the implementation of GASB Statement No. 75, library holdings and a loan liability adjustment.

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 $19.8 billion and general revenues of $17.9 billion for total revenues of $37.7 billion during Fiscal Year 2018. Expenses for the State during Fiscal Year 2018 were $36.0 billion. As a result of the excess of revenues over expenses, the total net position of the State increased $1.7 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
	2018	2017*	2018	2017*	2018	2017*	2018-2017
Program Revenues:							
Charges for Services	$ 2,400.5	$ 2,375.5	$ 6,693.7	$ 6,778.8	$ 9,094.2	$ 9,154.3	(0.7) %
Operating Grants and Contributions	9,087.5	8,737.8	812.5	610.1	9,900.0	9,347.8	5.9
Capital Grants and Contributions	760.6	601.1	45.2	22.6	805.8	623.7	29.2
General Revenues:							
Income Taxes	9,450.7	8,928.2	-	-	9,450.7	8,928.2	5.9
Sales and Excise Taxes	6,046.5	5,931.2	-	-	6,046.5	5,931.2	1.9
Public Utility Taxes	361.7	357.8	-	-	361.7	357.8	1.1
Motor Fuel Taxes	1,121.8	1,101.7	-	-	1,121.8	1,101.7	1.8
Other Taxes	404.7	516.1	-	-	404.7	516.1	(21.6)
Other General Revenues	444.6	415.5	22.1	8.8	466.8	424.4	10.0
Total Revenues	30,078.5	28,965.0	7,573.5	7,420.3	37,652.1	36,385.3	3.5
Program Expenses:							
Commerce	266.2	248.9	-	-	266.2	248.9	7.0
Education	7,442.1	7,237.5	-	-	7,442.1	7,237.5	2.8
Transportation	2,379.9	2,139.4	-	-	2,379.9	2,139.4	11.2
Environmental Resources	473.3	458.1	-	-	473.3	458.1	3.3
Human Relations and Resources	13,599.5	13,396.2	-	-	13,599.5	13,396.2	1.5
General Executive	626.3	675.5	-	-	626.3	675.5	(7.3)
Judicial	143.1	142.6	-	-	143.1	142.6	0.3
Legislative	69.3	70.3	-	-	69.3	70.3	(1.5)
Tax Relief and Other General Expenditures	1,612.8	1,428.6	-	-	1,612.8	1,428.6	12.9
Intergovernmental - Shared Revenue	972.1	967.0	-	-	972.1	967.0	0.5
Interest on Long-term Debt	440.1	450.1	-	-	440.1	450.1	(2.2)
Injured Patients and Families Compensation	-	-	23.7	(56.9)	23.7	(56.9)	(141.7)
Environmental Improvement	-	-	43.1	74.1	43.1	74.1	(41.8)
University of Wisconsin System	-	-	4,973.2	5,005.3	4,973.2	5,005.3	(0.6)
Unemployment Reserve	-	-	411.7	471.3	411.7	471.3	(12.7)
Lottery	-	-	661.3	616.6	661.3	616.6	7.3
Health Insurance	-	-	1,287.4	1,290.5	1,287.4	1,290.5	(0.2)
Care and Treatment Facilities	-	-	391.7	395.7	391.7	395.7	(1.0)
Other Business-type	-	-	135.2	169.6	135.2	169.6	(20.3)
Total Expenses	28,024.8	27,214.2	7,927.3	7,966.2	35,952.1	35,180.4	2.2
Excess (deficiency) before Contributions, Special Items and Transfers	2,053.8	1,750.8	(353.8)	(545.9)	1,700.0	1,204.9	
Contributions to Term and Permanent Endowments	-	-	1.1	2.0	1.1	2.0	
Contributions to Permanent Fund Principal	12.3	12.6	-	-	12.3	12.6	
Special Item - (Surrender)/Cancellation of GO Bonds	-	148.9	-	(169.4)	-	(20.5)	
Transfers	(1,010.6)	(905.1)	1,010.6	905.1	-	-	
Increase (decrease) in Net Position	1,055.4	1,007.1	658.0	191.8	1,713.4	1,198.9	
Net Position - Beginning (Prior Year Ending)	13,095.9	12,088.9	11,665.5	11,473.6	24,761.4	23,562.5	
Change in Accounting Principle	(16.5)		(1,110.9)		(1,127.4)		
Effect of Implementation of GASB Statement No. 75	(203.8)	-	(247.1)	-	(450.9)	-	
Net Position - Beginning (Restated)	12,875.7	12,088.9	10,307.4	11,473.6	23,183.1	23,562.5	
Net Position - Ending	$ 13,931.1	$ 13,095.9	$ 10,965.4	$ 11,665.5	$ 24,896.5	$ 24,761.4	0.5

* Amounts for the prior fiscal year include restatements of prior year's balances, except for those related to the implementation of GASB Statement No. 75, library holdings and a loan liability adjustment.

Governmental Activities

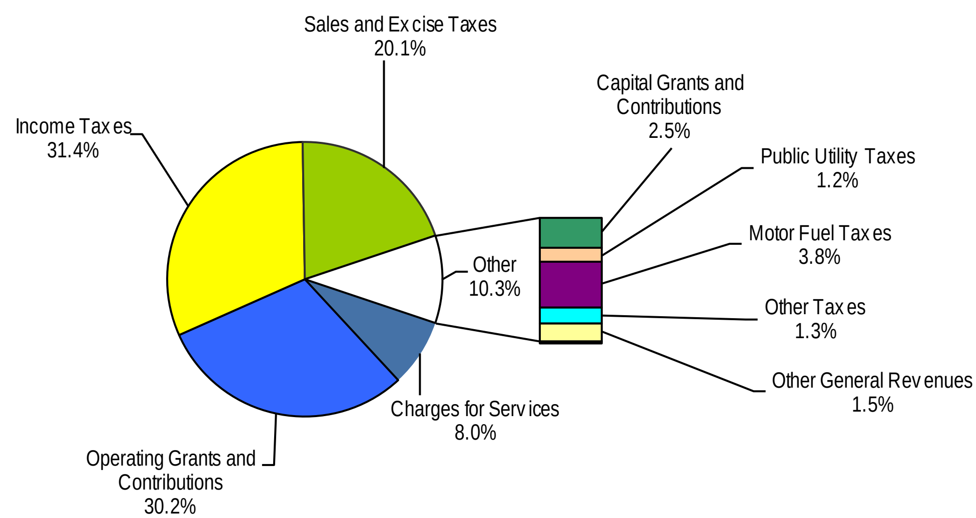
The net position of governmental activities increased $1.1 billion in Fiscal Year 2018. Revenues for the governmental activities (including contributions to permanent fund principal) totaled $30.1 billion, while expenses and net transfers totaled $29.0 billion in Fiscal Year 2018.

General and program revenues of governmental activities increased $1.1 billion during this fiscal year. Tax revenues increased $550.2 million primarily due to enhanced income and sales and excise taxes of $522.4 million and $115.3 million, respectively, while other taxes decreased $111.5 million from the prior year. Operating grants increased by $349.8 million, while capital grants also increased by $159.5 million. In addition, other general revenues and charges for goods and services increased $29.1 million and $25.0 million, respectively.

The State's governmental activities program expenses increased $810.5 million to $28.0 billion during Fiscal Year 2018. Human relations and resources expenses increased by $203.3 million (1.5 percent) to a total of $13.6 billion. Education expenses increased by $204.6 million (2.8 percent) to $7.4 billion due in part to increase in per pupil aid. Transportation expenses increased $240.5 million (11.2 percent) to $2.4 billion as the result of increased operating costs to maintain and preserve infrastructure. A one-time Child Sales Tax Rebate caused tax relief and other general expenses to increase $184.2 million (12.9 percent) to $1.6 billion. Commerce and environmental resource expenses increased $17.3 million and $15.2 million, respectively. Conversely, general executive expenses decreased $49.1 million, while interest on long-term debt also decreased $10.1 million.

As shown in Table 4, below, approximately 57.8 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 30.2 percent of total revenues. Capital grants and contributions provided 2.5 percent, charges for services contributed 8.0 percent, while various other revenues provided 1.5 percent of the remaining governmental activity revenue sources.

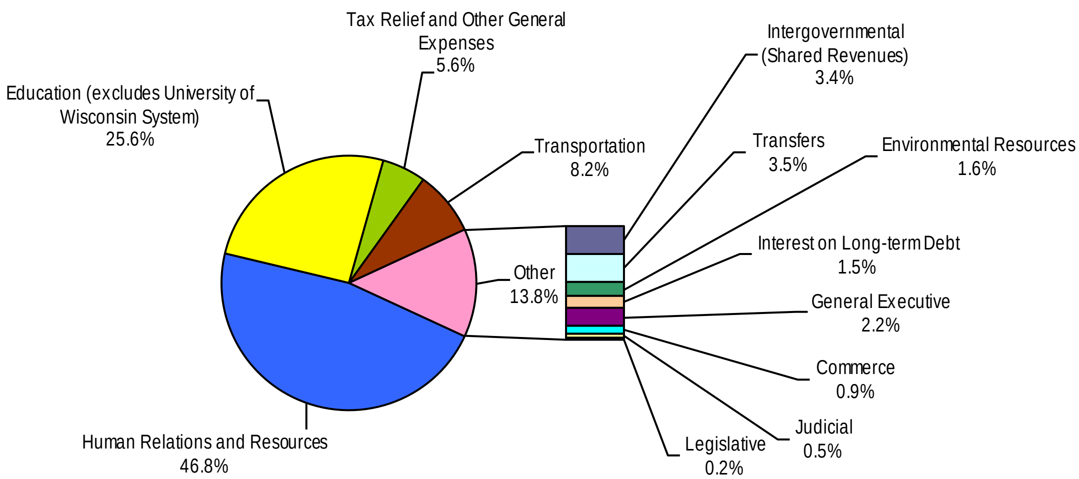
Table 4
Governmental Activities - 2018 Revenues



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

Educational expenses, which include various school aids but exclude expenses of the University of Wisconsin System, make up 25.6 percent of total expenses. Tax relief and other general expenses and the municipal and county shared revenue program represent 9.0 percent of the total, while transportation expenses represent 8.2 percent. Net transfers to business-type activities, which include a general purpose revenue subsidy to the University of Wisconsin System, make up 3.5 percent of the total expenses and transfers. Remaining functional expenses totaled 5.4 percent while interest on long-term debt totaled 1.5 percent.

Table 5
Governmental Activities - 2018 Expenses



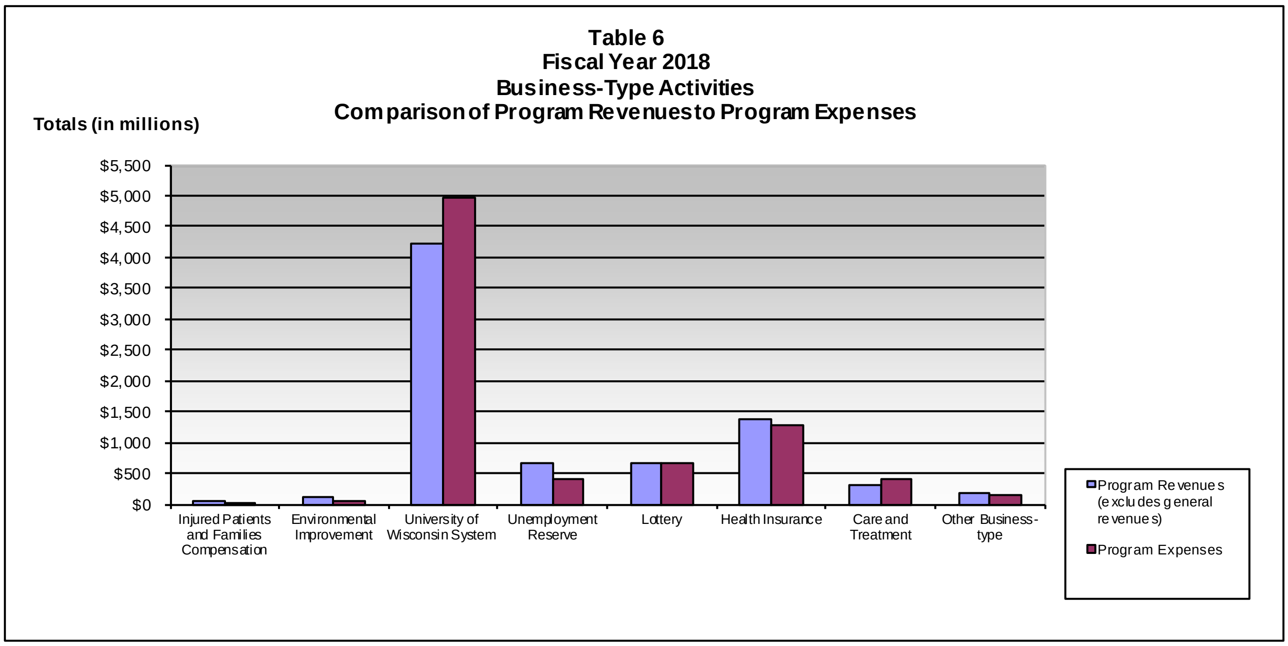
Business-Type Activities

Net position of the State's business-type activities increased $658.0 million in Fiscal Year 2018.

Revenues of business-type activities totaled $7.6 billion for Fiscal Year 2018, an increase of $153.3 million from the prior year. Program revenues consisted of $6.7 billion of charges for services, $812.5 million of operating grants and contributions, and $45.2 million of capital grants and contributions. General revenues, contributions to endowments and permanent fund principal and net transfers totaled $22.1 million, $1.1 million, and $1.0 billion, respectively.

The total expenses for business-type activities were $7.9 billion, a decrease of $38.8 million from the prior fiscal year. The largest decrease in program expenses, $59.7 million, related to decreased expenses for the Unemployment Reserve. Expenses for the University of Wisconsin System, Environmental Improvement and other business type program expenses also decreased $32.1 million, $31.0 million and $34.4 million, respectively. Offsetting those decreases were increases in Injured Patients and Family Compensation and Lottery funds of $80.7 million and $44.7 million, respectively.

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



FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

Governmental Funds

At the end of Fiscal Year 2018, the State's governmental funds reported a combined fund balance of $1.3 billion. 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, 2018, the State's General Fund reported a total fund deficit of $(1.3) billion. The net change in fund balance during Fiscal Year 2018 was $372.4 million, in contrast to $96.7 million in Fiscal Year 2017. Major revenue, expenditure and other sources/uses contributing to the change in fund balance are as follows:

Revenues

Revenues of the General Fund totaled $26.4 billion in Fiscal Year 2018, an increase of $960.7 million (3.8 percent) from the prior year. Factors contributing to this change included the following:

- Revenues from taxes increased $634.7 million. The increases relate to income and sales taxes, which increased $526.3 million and $116.4 million, respectively, from Fiscal Year 2017. 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) increased $317.9 million to $8.7 billion in Fiscal Year 2018. Human relations and resources programs (e.g. Medicaid) reported increased revenues of $331.8 million. Because costs are split between federal and State sources, revenues associated with Medicaid related programs increase as costs increase.

Expenditures

2017 Wisconsin Act 59 established spending authority for the State of Wisconsin for Fiscal Year 2018. Expenditures of the General Fund totaled $24.3 billion in Fiscal Year 2018, an increase of $602.7 million from Fiscal Year 2017. Factors contributing to the change include the following:

- Human relations and resources expenditures increased by $261.5 million to $13.4 billion, primarily the result of increased medical assistance costs. These costs comprise 55.2 percent of General Fund expenditures.

- Education expenditures increased $203.6 million to $7.4 billion, due in part to an increase in per pupil aid in Fiscal Year 2018. These costs comprise 30.2 percent of General Fund expenditures.

- Tax relief and other general expenditures increased by $181.3 million to a total of $1.6 billion primarily the result of a one-time Child Sales Tax Rebate in Fiscal Year 2018.

Other Financing Sources and Uses

Other financing sources/uses totaled a net $(1.7) billion in Fiscal Year 2018, an $84.0 million increase from Fiscal Year 2017. The components of this included the following:

- Transfers out of the General Fund totaled $1.8 billion, an increase of $43.4 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 $909.4 million, an increase of $38.7 million from the prior year. The University of Wisconsin System, which receives the majority of the GPR supplement, had $838.8 million in GPR expenses in Fiscal Year 2018, an increase of $30.6 million.

- Transfers out for debt service payments to the Bond Security and Redemption Fund totaled $466.9 million in Fiscal Year 2018 compared to $514.8 million in Fiscal Year 2017.

- Transfers out to nonmajor enterprise funds, the Capital Improvement Fund and Transportation Fund were $101.2 million, $83.4 million and $43.4 million, respectively.

- Transfers in to the General Fund decreased $42.0 million (from $99.6 million in Fiscal Year 2017 to $57.6 million in Fiscal Year 2018). Non-major enterprise funds transferred $22.4 million while non-major governmental funds and the University of Wisconsin System transferred $19.0 million and $13.3 million, respectively.

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

As of June 30, 2018, the General Fund reported an unassigned fund balance deficit of $(1.8) billion, a reduction of the deficit of $310.9 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 $3.7 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	544.1
UW System, General Program Operations (part of Statutory General Fund)	197.8
Federal Aid Local Assistance	145.1
Child Sales Tax Rebate*	122.1

Actual charges to appropriations (expenditures) were $3.6 billion below the final budgeted estimates. Large positive expenditure variances were reported in the Medical Assistance Federal Aid ($637.2 million) and the Food Stamps Benefits ($368.0 million) appropriations.

During the past fiscal year, the budgetary-based fund balance increased $212.4 million for the statutory General Fund, in part, because of increased general purpose revenues for taxes. Net transfers from other funds totaled $47.4 million in Fiscal Year 2018 compared to $20.0 million in the prior fiscal year.

Transportation Fund

In Fiscal Year 2018, the Transportation Fund's fund balance increased $73.5 million (12.6 percent) from $582.4 million to $655.9 million. The state constitution restricts use of state resources deposited into the Fund for transportation purposes. As such, $637.7 million or 97.2 percent of fund balance is reported as restricted for Fiscal Year 2018. Remaining fund balance is reported as nonspendable and correlates to prepaid and inventory assets.

Primary revenue sources of the fund include motor fuel taxes, intergovernmental, and license and permit revenue sources, as well as interfund transfers in. Additional federal and local funding in Fiscal Year 2018 caused revenues of the fund to increase $248.4 million (10.3 percent) to a total of $2.7 billion. Use of external sources of funding for projects, rather than state resources such as taxes and licenses, contributes to revenue fluctuations between years.

An increase in transportation functional expenditures of $240.4 million, offset by a reduction in capital outlay expenditures of $205.6 million, resulted in total expenditures increasing by $34.8 million to $2.5 billion. The change in the types of expenditures reported in the fund was the result of a higher proportion of maintenance and preservation projects versus capitalizable projects. In addition to the expenditures reported in the Transportation Fund, long term debt-funded transportation expenditures of $163.7 million and $72.2 million were reported in the Capital Improvement Fund and Transportation Revenue Bonds Fund, respectively. In the current year, transportation-related expenditures decreased $170.6 million in the Capital Improvement Fund, while also decreasing $8.4 million in the Transportation Revenue Bonds Fund.

Transfers in increased slightly from $67.1 million to $73.7 million in Fiscal Year 2018. 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 $40.2 million in Fiscal Year 2018. In addition, $30.3 million was transferred from the Petroleum Inspection special revenue fund. Transfers out increased $13.8 million to $173.6 million. Transfers out to the Bond Security and Redemption Fund for debt service were $136.3 million, while transfers out to the Conservation Fund were $20.0 million in Fiscal Year 2018.

Capital Improvement Fund

Fund balance of the Capital Improvement Fund increased by $23.3 million from $(261.5) million to $(238.2) million. Assets of the Fund, which are comprised of cash and receivables, decreased $69.4 million to $126.7 million. Short-term notes payable and amounts owed to the Transportation Fund for reimbursement of transportation-related projects comprise most Fund liabilities. Liabilities totaled $364.9 million, a decrease of $92.7 million from the prior year.

Two issues of long-term debt totaling $324.3 million were made during the year, a decrease of $293.0 million from the prior fiscal year. During the year, debt and premium proceeds funded $147.4 million of capital outlay expenditures, a decrease of $156.5 million and the result of less transportation related projects funded by the Capital Improvement Fund. 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 $117.9 million of maintenance and repair expenditures on state owned assets that are reported as functional expenditures. Transportation related functional costs were $57.0 million, a decrease of $25.8 million, and comprised 48.3 percent of functional expenditures. Environmental resource related expenditures were $26.3 million and 22.3 percent of functional expenditures.

Transfers in to the Capital Improvement Fund for debt service payments on outstanding notes payable decreased $9.4 million to $95.4 million. Transfers Out of the Capital Improvement Fund, which are also funded from debt proceeds, increased $49.0 million to $170.2 million, because more debt was 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 2017 to Fiscal Year 2018 include the following:

Environmental Improvement

Fund net position of the Environmental Improvement Fund increased $75.9 million to $2.0 billion. Total assets of the Fund decreased by $17.9 million, while total liabilities decreased $95.9 million. Assets decreased to $2.3 billion as the result of a

$42.1 million reduction in loans to local governments and a cash increase of $27.5 million. Conversely, liabilities decreased to $271.1 million due to a $97.1 million reduction in revenue bonds payable.

Operating income of the Fund increased by $39.2 million to $30.1 million in Fiscal Year 2018. Operating revenues, which consists primarily of investment and interest income of $48.5 million, remained steady in Fiscal Year 2018. Operating expenses decreased $40.5 million in Fiscal Year 2018, the result of a $40.9 million reduction in interest expense. The defeasance of $583.0 million of clean water revenue bonds in the prior year reduced the amount of interest expense for Fiscal Year 2018.

Injured Patients and Families Compensation

Net position of the Injured Patients and Families Compensation Fund increased by $10.0 million, from $999.4 million to $1.0 billion at June 30, 2018. Total assets of the Fund, which increased $18.1 million to $1.4 billion, are primarily comprised of investments. Fund liabilities, which increased by $8.0 million to $382.1 million, are comprised primarily of actuarially-determined future benefits and loss liabilities of $366.5 million, an increase of $9.4 million from the prior year.

Operating revenue of the Fund consisted of assessment income which decreased $4.3 million (27.5 percent) to $11.5 million. The reduced revenue was the result of a 30.0 percent decrease in assessment rates and changes in the number of participating providers. Non-operating revenue consists solely of investment and interest income of $22.4 million in Fiscal Year 2018.

Fund operating expenses consist primarily of benefit expenses. Benefit expenses, which are determined by an actuary, were $22.4 million for Fiscal Year 2018 compared to negative $58.2 million the prior year. Fiscal Year 2018 benefit payments totaled $12.9 million, compared to $9.1 million the prior year.

Unemployment Reserve

Net position of the Unemployment Reserve Fund increased by $250.4 million during Fiscal Year 2018 from $1.5 billion at June 30, 2017 to $1.8 billion at June 30, 2018. Benefit expenses decreased from $465.8 million in Fiscal Year 2017 to $407.3 million in Fiscal Year 2018, a decrease of $58.5 million (12.6 percent). The decrease in benefits is the result of the average unemployment rate falling from 3.6 percent during Fiscal Year 2017 to 3.0 percent during Fiscal Year 2018.

Total operating revenues decreased by $115.7 million from $744.6 million in Fiscal Year 2017 to $628.9 million in Fiscal Year 2018. Employer contributions decreased from $706.9 million in Fiscal Year 2017 to $597.1 million in Fiscal Year 2018, a decrease of $109.8 million (15.5 percent). The average tax rate on taxable wages decreased from 2.06% during Calendar Year 2017 to an estimated 1.72% in Calendar Year 2018.

University of Wisconsin System

Fund net position increased $198.4 million to $5.4 billion. Assets, which consist primarily of capital assets and cash, increased $709.9 million to $8.4 billion. A restricted net pension asset of $399.1 million was reported in Fiscal Year 2018 compared to a net pension liability of $(112.7 million) in the prior year. Liabilities, which consist mostly of bonds payable and OPEB, decreased by $42.8 million to $2.9 billion. Deferred outflows of resources decreased $81.8 million to $750.5 million, while deferred inflows of resources increased $489.7 million to $849.6 million. The changes in deferred outflows and inflows were primarily related to changes in pension related amounts.

Operating revenues decreased $90.4 million or 2.5 percent to $3.6 billion. Student tuition, and federal grants and contracts of $1.3 billion and $748.2 million, respectively, comprise 56.7 percent of operating revenues. Increases of $21.1 million, $15.9 million and $58.8 million were reported for tuition and fees, sales and services of auxiliary enterprises and other income, respectively. Conversely, revenues decreased by $161.3 million (17.7 percent) and $9.2 million (3.6 percent), for federal grants and contracts and local and private grants and contracts, respectively. The federal grants and contracts account previously included federal Pell grants. Beginning in Fiscal Year 2018, however, Pell grants of $162.7 million are reported as nonoperating revenue. Sales and services of educational activities revenues also declined by $16.1 million or 4.8 percent. Operating expenses decreased $3.8 million or 0.1 percent. Personal services expense declined by $66.7 million (2.0 percent) while other expenses declined by $12.6 million. These were offset by an increase in supplies and services, scholarship and fellowship, and depreciation expenses of $31.4 million, $12.4 million, and $31.5 million, respectively. Nonoperating investment and interest income declined $11.2 million while gifts and donations declined $8.1 million. Offsetting those declines was an increase in other revenues caused by reporting Pell grants as non-operating revenue beginning in Fiscal Year 2018.

Transfers in to the University of Wisconsin System totaled $1.0 billion in Fiscal Year 2018. The general purpose revenue supplement received from the State's General Fund was $838.8 million an increase of $30.6 million. The Capital Improvement Fund also transferred $142.4 million of bond and note proceeds to the University of Wisconsin System an increase of

$39.0 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 2018, the State reported $29.9 billion invested in capital assets, net of accumulated depreciation of $7.8 billion. This represents an increase of $599.0 million, or 2.0 percent, from Fiscal Year 2017. Depreciation charges totaled $156.4 million and $339.9 million for governmental and business-type activities, respectively, in Fiscal Year 2018. 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	
	2018	**2017***	**2018**	**2017***	**2018**	**2017***
Land and Land Improvements	$ 2,925	$ 2,893	$ 172	$ 171	$ 3,097	$ 3,065
Buildings and Improvements	1,612	1,387	4,216	4,387	5,828	5,774
Library Holdings	59	59	155	159	214	218
Machinery and Equipment	369	333	311	307	680	640
Infrastructure	16,955	15,843	-	-	16,955	15,843
Construction and Software in Progress	2,582	3,473	516	262	3,098	3,735
Totals	$ 24,502	$ 23,988	$ 5,371	$ 5,286	$ 29,873	$ 29,274

*Amounts for the prior fiscal year have been restated

The major capital asset additions completed or acquired during Fiscal Year 2018 included the:

- USH 12: Lake Delton – Sauk City $182.7 million
- Hill Farms Building A and B Replacement $158.2 million
- Preservation Storage Building $34.9 million
- Wisconsin Housing and Economic Development Authority Building Purchase $29.1 million
- Capitol Heat and Power Plant Facility Renovation and Upgrade $21.1 million
- Wisconsin Resource Center Female Treatment Center $16.0 million
- UW Milwaukee Children Center Renovation $10.4 million

In addition to these completed projects, construction and software in progress as of June 30, 2018 for governmental and business-type activities totaled $2.6 billion and $516.2 million, respectively. A list of those projects is provided in Note 7. The State's continuing or proposed major capital projects for Fiscal Year 2018 and future years include:

- I-94 North South Freeway Project (Completion in 2021) $1.6 billion
- Zoo Interchange (Completion in 2023) $1.5 billion
- I39/90: USH 12 to Illinois (Completion 2020) $1.2 billion
- US 10 / State Highway 441 (Completion in 2019) $390.1 million
- St. Croix Bridge Crossing (Completion in 2019) $304.5 million
- USH18/151 Verona Road (Completion in 2019) $269.8 million
- USH 53 La Crosse Corridor (Completion TBD) $162.8 million
- STH 23 / State Highway 67 / US 41 (Completion in 2021) $153.1 million
- STH 15 / STH 76 New London (Completion in 2023) $143.8 million
- STH 50 / I94 43rd Avenue (Completion 2023) $104.5 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, 2018 was $8.2 billion, as shown in Table 8. During Fiscal Year 2018, $1.9 billion of general obligation bonds were issued to provide for the acquisition or improvement of land, water, property, highways, buildings, equipment, or facilities for public purposes or to refund outstanding bonds. Of the bonds issued in the current year, $647.2 million was to be used for University of Wisconsin System academic and self-amortizing facilities; $472.0 million for transportation projects, $154.9 million for environmental programs, and $79.2 million for correctional and mental health facilities. The remaining proceeds from new bonds issued were used 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 of June 30, 2018, $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 $2.7 billion outstanding at June 30, 2018, as shown in Table 8. These bonds included $2.3 billion of Transportation Revenue Bonds, $56.1 million of Petroleum Inspection Revenue Bonds, and $265.0 million of Environmental Improvement Revenue Bonds.

Table 8
Outstanding Debt as of June 30, 2018 and 2017
(in millions)

	Governmental Activities		Business-Type Activities		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
General obligations:						
Bonds and long-term notes	$6,478.1	$6,190.4	$1,685.4	$1,620.5	$8,163.5	$7,810.8
Annual appropriation bonds	3,044.0	3,113.9	--	--	3,044.0	3,113.9
Revenue bonds	2,386.8	2,314.7	265.0	362.0	2,651.8	2,676.7
Totals	$11,908.9	$11,618.9	$1,950.4	$1,982.5	$13,859.2	$13,601.4

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, 2018, State of Wisconsin general obligation fixed rate bonds had a rating of AA+ from Fitch Ratings, AA+ from Kroll Bond Rating Agency, Aa1 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 $17.0 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, 2018, 92.6 percent of the roads and 97.0 percent of bridges were in good or fair condition, consistent with State policies. This compares to 92.6 percent of the roads and 96.9 percent of bridges as of June 30, 2017.

For the fiscal year ended June 30, 2018, actual maintenance and preservation costs for the State's road network were $616.7 million, or $131.3 million less than the estimated amount. On the same date, actual maintenance and preservation costs for the State's bridge network were $89.9 million, or $2.2 million less than the estimated amount. In developing estimated costs at the beginning of the fiscal year, it is difficult to predict the types of projects that will actually incur costs during the year. In addition, the State of Wisconsin, Department of Transportation's multi-year contracting process, allowing encumbrances to carry forward, makes a comparison of actual to estimate 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 2017, the Wisconsin economy continued its strong expansion.

Wisconsin employment continued to grow throughout 2017. According to the federal Bureau of Labor Statistics, total nonfarm employment in Wisconsin increased 1.4 percent in 2015, 1.2 percent in 2016 and 0.6 percent during 2017. This performance generally followed national employment trends. Nationally, employment grew 2.1 percent in 2015, 1.8 percent in 2016 and 1.6 percent in 2017. Wisconsin employment growth is somewhat constrained due to a lower unemployment rate and a slower overall population growth than the nation as a whole.

More recently, Wisconsin's growth in employment has slightly accelerated along with national employment growth. Between September 2017 and September 2018, Wisconsin employment has increased 1.4 percent. Nationally, employment is up 1.7 percent over the same period, in line with 2017 employment growth. In addition, Wisconsin's seasonally adjusted unemployment rate in September 2018 was 3.0 percent, well below the 3.7 percent national unemployment rate.

Reflecting the continuing expansion, Wisconsin's state nominal gross domestic product increased 3.1 percent in 2017, tracking national growth of 4.1 percent. Wisconsin's 2017 growth followed growth rates of 4.3 percent and 3.4 percent in 2015 and 2016, respectively. These figures compare with the 50-state total gross domestic product increases of 4.0 percent in 2015 and 2.8 percent in 2016. Since 2007, Wisconsin's gross domestic product increased by a similar magnitude as the country as a whole with 33.0 percent cumulative growth versus 33.9 percent nationally.

Steady growth in output has spurred gains in personal income. Wisconsin personal income grew 4.1 percent, 2.1 percent and 3.6 percent in 2015, 2016 and 2017, respectively. Nationally, personal income grew 4.9 percent, 2.6 percent and 4.4 percent in the same years. On a per capita basis, Wisconsin's income performance is similar to the nation's. Per capita income in Wisconsin increased by 4.0 percent, 1.8 percent and 3.2 percent in 2015, 2016 and 2017, respectively. This compares to growth of 4.1 percent, 1.8 percent and 3.6 percent in the same years nationally. Relative to the national average, Wisconsin per capita income has remained in approximately the same range for the past three years at 95.2 percent, 95.2 percent and 94.8 percent of the national average in 2015, 2016 and 2017, respectively.

Wisconsin's statewide total property value increased again in 2018 for the fifth 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 2018, total property values increased 4.5 percent, with residential property value growing at 5.1 percent. In addition, commercial real estate values grew 6.8 percent and manufacturing values grew 4.5 percent. Manufacturing values have now increased for seven 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 State of Wisconsin Investment Board, 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.

* * * *

State of Wisconsin

Statement of Net Position
June 30, 2018

(In Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Assets				
Cash and Cash Equivalents	$ 1,695,483	$ 4,957,784	$ 6,653,267	$ 914,992
Investments	631,343	1,862,282	2,493,625	1,947,365
Cash and Investments with Other Component Units	-	-	-	215,243
Receivables (net of allowance)	4,507,902	2,751,848	7,259,749	1,818,695
Internal Balances	38,560	(38,560)	-	-
Inventories	40,106	38,095	78,201	46,658
Prepaid Items	18,362	19,090	37,452	35,888
Capital Leases Receivable - Component Units	-	162	162	-
Restricted and Limited Use Assets:				
Cash and Cash Equivalents	303,779	99,700	403,480	130,917
Investments	520,868	-	520,868	3,860,699
Net Pension Asset	381,863	444,231	826,094	112,565
Cash and Investments with Other Component Units	-	-	-	-
Other Restricted Assets	203	-	203	-
Other Assets	15,120	6,379	21,500	164,598
Capital Assets:				
Depreciable	1,863,039	4,692,324	6,555,363	1,116,725
Nondepreciable:				
Infrastructure	16,955,242	-	16,955,242	-
Other	5,683,876	678,666	6,362,543	94,484
Total Assets	32,655,747	15,512,001	48,167,748	10,458,828
Deferred Outflows of Resources	1,050,120	877,735	1,927,855	226,083
Liabilities				
Accounts Payable and Other Accrued Liabilities	1,284,165	316,384	1,600,548	555,895
Due to Other Governments	2,478,390	162,380	2,640,770	108,967
Tax Refunds Payable	1,374,074	-	1,374,074	-
Tax and Other Deposits	75,135	31,823	106,957	94,881
Amounts Held in Trust by Component Unit for Other Component Units	-	-	-	202,371
Amounts Held in Trust by Component Unit for Others	-	-	-	76,858
Unearned Revenue	338,489	196,984	535,473	942
Interest Payable	114,260	12,797	127,057	11,206
Short-term Notes Payable	419,953	44,418	464,370	-
Other Liabilities	107,902	-	107,902	17,858
Long-term Liabilities:				
Current Portion	892,417	394,546	1,286,964	92,900
Noncurrent Portion	11,875,885	3,319,665	15,195,550	2,336,720
Total Liabilities	18,960,669	4,478,996	23,439,665	3,498,598
Deferred Inflows of Resources	814,106	945,357	1,759,463	254,325
Net Position				
Net Investment in Capital Assets	19,685,400	3,709,619	23,395,019	636,460
Restricted for:				
Human Relations and Resources	72,707	-	72,707	-
Conservation Related	145,538	-	145,538	-
General Executive	134,718	-	134,718	-
Transportation	637,693	-	637,693	-
Debt Service	110,837	-	110,837	-
Capital Projects	37,247		37,247	
Unemployment Compensation	-	1,783,909	1,783,909	-
Environmental Improvement	-	1,966,118	1,966,118	-
Permanent Trusts:				
Expendable	26,542	307,351	333,892	12,960
Nonexpendable	1,110,711	188,178	1,298,889	9,681
Future Benefits	-	1,466,386	1,466,386	43,190
Pensions	381,863	444,231	826,094	56,055
Other Purposes	129,975	743,466	873,441	4,415,917
Unrestricted	(8,542,138)	356,126	(8,186,013)	1,757,726
Total Net Position	$ 13,931,092	$ 10,965,383	$ 24,896,475	$ 6,931,988

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

Statement of Activities
For the Fiscal Year Ended June 30, 2018

(In Thousands)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants, Contributions and Restricted Interest**	**Capital Grants, Contributions and Restricted Interest**
Primary Government:				
Governmental Activities:				
Commerce	$ 266,247	$ 276,882	$ 16,678	$ -
Education	7,442,098	13,097	933,637	-
Transportation	2,379,940	794,358	191,652	749,356
Environmental Resources	473,257	242,907	89,888	180
Human Relations and Resources	13,599,471	686,802	7,606,341	11,076
General Executive	626,327	280,739	177,796	-
Judicial	143,115	50,457	686	-
Legislative	69,280	1,768	-	-
Tax Relief and Other General Expenses	1,612,835	-	70,862	-
Intergovernmental - Shared Revenue	972,110	53,462	-	-
Interest on Debt	440,077	-	-	-
Total Governmental Activities	28,024,757	2,400,473	9,087,540	760,612
Business-type Activities:				
Injured Patients and Families Compensation	23,723	11,424	22,383	-
Environmental Improvement	43,119	48,578	60,511	-
University of Wisconsin System	4,973,217	3,625,793	556,901	45,144
Unemployment Reserve	411,682	625,859	36,266	-
Lottery	661,297	667,541	(144)	-
Health Insurance	1,287,380	1,332,776	28,952	-
Care and Treatment Facilities	391,698	305,424	393	50
Other Business-type	135,190	76,335	107,197	-
Total Business-type Activities	7,927,307	6,693,730	812,458	45,194
Total Primary Government	$ 35,952,064	$ 9,094,203	$ 9,899,999	$ 805,806
Component Units:				
Housing and Economic Development Authority	$ 284,833	$ 106,179	$ 184,675	$ -
Health Care Liability Insurance Plan	(1,205)	2,001	1,300	-
University Hospitals and Clinics Authority	3,090,751	3,213,518	-	1,930
University of Wisconsin Foundation	343,104	267,470	313,184	-
Wisconsin Economic Development Corp	44,722	150	60,325	-
Total Component Units	$ 3,762,205	$ 3,589,318	$ 559,485	$ 1,930

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
$ 27,313		$ 27,313	
(6,495,364)		(6,495,364)	
(644,575)		(644,575)	
(140,281)		(140,281)	
(5,295,252)		(5,295,252)	
(167,791)		(167,791)	
(91,972)		(91,972)	
(67,511)		(67,511)	
(1,541,972)		(1,541,972)	
(918,648)		(918,648)	
(440,077)		(440,077)	
(15,776,132)		(15,776,132)	
	$ 10,085	10,085	
	65,970	65,970	
	(745,379)	(745,379)	
	250,442	250,442	
	6,100	6,100	
	74,347	74,347	
	(85,831)	(85,831)	
	48,342	48,342	
-	(375,925)	(375,925)	
(15,776,132)	(375,925)	(16,152,056)	
			$ 6,021
			4,506
			124,697
			237,550
			15,753
			388,527
9,450,658	-	9,450,658	-
6,046,474	-	6,046,474	-
361,696	-	361,696	-
300,111	-	300,111	-
1,121,780	-	1,121,780	-
104,563	-	104,563	-
35,699	22,147	57,847	63,042
408,919	-	408,919	13,629
-	1,145	1,145	-
12,281	-	12,281	-
(1,010,615)	1,010,615	-	-
16,831,565	1,033,908	17,865,473	76,671
1,055,434	657,983	1,713,417	465,197
12,875,658	10,307,399	23,183,058	6,466,791
$ 13,931,092	$ 10,965,383	$ 24,896,475	$ 6,931,988

Balance Sheet - Governmental Funds
June 30, 2018

(In Thousands)

	General	Transportation	Capital Improvement	Nonmajor Governmental	Total Governmental
Assets and Deferred Outflows of Resources					
Assets:					
Cash and Cash Equivalents	$ 593,025	$ 488,197	$ 121,298	$ 444,679	$ 1,647,198
Investments	594	-	-	630,749	631,343
Receivables (net of allowance):					
Taxes	1,551,220	104,506	-	268	1,655,994
Loans to Local Governments	-	-	-	490,881	490,881
Other Loans Receivable	5,454	16,967	-	-	22,421
Other Receivables	715,979	4,308	-	71,825	792,112
Due from Other Funds	134,065	76,897	5,426	37,748	254,137
Interfund Receivables	74,732	-	-	-	74,732
Due from Other Governments	1,158,176	274,043	-	37,399	1,469,619
Inventories	15,115	17,246	-	2,725	35,086
Prepaid Items	3,473	942	-	9,522	13,937
Restricted and Limited Use Assets:					
Cash and Cash Equivalents	-	-	-	299,943	299,943
Investments	-	-	-	520,868	520,868
Other Restricted Assets	-	-		203	203
Other Assets	14,658	-	-	462	15,120
Total Assets	4,266,492	983,106	126,723	2,547,273	7,923,594
Deferred Outflows of Resources	-	142	-	-	142
Total Assets and Deferred Outflows of Resources	$ 4,266,492	$ 983,248	$ 126,723	$ 2,547,273	$ 7,923,737
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities:					
Accounts Payable and Other Accrued Liabilities	$ 1,049,421	$ 161,860	$ 4,912	$ 25,048	$ 1,241,241
Due to Other Funds	103,295	34,319	10,520	41,455	189,589
Due to Component Units	205	-	-	16,631	16,836
Interfund Payables	-	-	-	2,171	2,171
Due to Other Governments	2,354,076	119,656	772	3,886	2,478,390
Tax Refunds Payable	1,371,275	2,611	-	188	1,374,074
Tax and Other Deposits	58,274	-	-	16,861	75,135
Unearned Revenue	312,878	8,543	-	4,984	326,405
Interest Payable	-	-	-	53,855	53,855
Advances from Other Funds	759	-	-	6,352	7,112
Short-term Notes Payable	-	-	348,715	58,808	407,523
Revenue Bonds and Notes Payable	-	-	-	131,170	131,170
Total Liabilities	5,250,184	326,988	364,919	361,408	6,303,500
Deferred Inflows of Resources	269,834	379	-	8,212	278,425
Fund Balances:					
Nonspendable	18,576	18,188	-	1,121,781	1,158,545
Restricted	257,577	637,693	-	833,523	1,728,793
Committed	320,054	-	-	228,193	548,247
Unassigned	(1,849,733)	-	(238,196)	(5,844)	(2,093,773)
Total Fund Balances	(1,253,527)	655,881	(238,196)	2,177,653	1,341,812
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 4,266,492	$ 983,248	$ 126,723	$ 2,547,273	$ 7,923,737

(Continued)

Balance Sheet - Governmental Funds
June 30, 2018

(Continued)

			Total Governmental
Reconciliation to the Statement of Net Position:			
Total Fund Balances - Governmental Funds (from previous page)		$	1,341,812
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:			
Infrastructure	16,955,242		
Other Capital Assets	8,685,219		
Accumulated Depreciation	(1,680,164)		
			23,960,297
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.			507,900
Deferred outflows of resources used to accumulate decreases in fair values of hedging derivatives that are not reported in the governmental funds.	107,902		
Derivative instruments (interest rate swaps) that also are not reported in the governmental funds.	(107,902)		
			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.			278,425
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.			16,838
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	(2,255,665)		
Appropriation Bonds Payable	(3,043,979)		
General Obligation Bonds and Notes Payable	(6,105,940)		
Accrued Interest on Bonds	(60,405)		
Capital Leases	(67,625)		
Compensated Absences	(152,011)		
Pollution Remediation	(5,725)		
Claims and Judgments	(479)		
Other Postemployment Benefits Liability	(482,351)		
			(12,174,180)
Net Position of Governmental Activities as reported on the Statement of Net Position (See page 23)		$	13,931,092

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, 2018

(In Thousands)

	General	Transportation	Capital Improvement	Nonmajor Governmental	Total Governmental
Revenues:					
Taxes					
Income	$ 9,444,927	$ -	$ -	$ -	$ 9,444,927
Sales and Excise	6,039,831	-	-	-	6,039,831
Public Utility	361,696	-	-	-	361,696
Other General Purpose	300,116	-	-	-	300,116
Motor Fuel	-	1,121,768	-	-	1,121,768
Other Dedicated	-	-	-	104,563	104,563
Intergovernmental	8,683,685	938,217	-	88,973	9,710,876
Licenses and Permits	811,281	546,106	-	642,385	1,999,772
Charges for Goods and Services	322,747	19,442	-	22,290	364,479
Investment and Interest Income	11,845	6,389	2,281	42,237	62,751
Fines and Forfeitures	42,943	524	-	17,388	60,854
Gifts and Donations	8,307	1	-	17,340	25,648
Miscellaneous:					
Tobacco Settlement	122,469	-	-	-	122,469
Other	260,872	18,438	3,730	2,879	285,919
Total Revenues	26,410,721	2,650,886	6,010	938,054	30,005,671
Expenditures:					
Current Operating:					
Commerce	161,364	-	6,060	95,236	262,660
Education	7,351,071	-	3,317	46,329	7,400,716
Transportation	14,264	2,210,602	56,985	1,292	2,283,143
Environmental Resources	97,976	-	26,294	323,184	447,454
Human Relations and Resources	13,406,649	-	7,423	32,598	13,446,670
General Executive	519,029	-	388	112,150	631,568
Judicial	134,175	-	-	201	134,376
Legislative	67,482	-	-	-	67,482
Tax Relief and Other General	1,595,592	-	17,435	546	1,613,573
Intergovernmental - Shared Revenue	920,081	-	-	52,029	972,110
Capital Outlay	38,261	262,900	147,350	88,826	537,336
Debt Service:					
Principal	-	-	-	605,401	605,401
Interest	-	-	4,303	505,976	510,279
Other Expenditures	-	-	624	7,545	8,170
Total Expenditures	24,305,945	2,473,502	270,180	1,871,313	28,920,940
Excess of Revenues Over (Under) Expenditures	2,104,776	177,383	(264,170)	(933,259)	1,084,731
Other Financing Sources (Uses):					
Long-term Debt Issued	-	-	324,322	-	324,322
Long-term Debt Issued - Refunding Bonds	-	-	-	1,248,221	1,248,221
Payments to Refunding Bond Escrow Agent	-	-	-	(1,014,508)	(1,014,508)
Premium on Bonds	-	-	37,896	263,122	301,018
Transfers In	57,599	73,693	95,441	1,034,370	1,261,103
Transfers Out	(1,791,877)	(173,623)	(170,207)	(140,841)	(2,276,548)
Capital Lease Acquisitions	1,817	-	-	-	1,817
Total Other Financing Sources (Uses)	(1,732,461)	(99,930)	287,452	1,390,364	(154,575)
Net Change in Fund Balances	372,314	77,454	23,282	457,105	930,155
Fund Balances, Beginning of Year	(1,625,920)	582,376	(261,478)	1,719,394	414,372
Increase (Decrease) in Inventories	79	(3,949)	-	1,154	(2,715)
Fund Balances, End of Year	$ (1,253,527)	$ 655,881	$ (238,196)	$ 2,177,653	$ 1,341,812

(Continued)

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Fiscal Year Ended June 30, 2018

(Continued)

			Total Governmental
Reconciliation to the Statement of Activities:			
Net Change in Fund Balances (from previous page)		$	930,155
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.			(2,715)
Governmental funds report the acquisition or construction of capital assets as expenditures, while governmental activities report depreciation expense to allocate the cost of these assets over their estimated useful life. Donated assets are set up at acquisition value with a corresponding amount of revenue recognized. In the current period, these amounts are:			
Capital Outlay/Functional Expenditures	534,600		
Depreciation Expense	(114,434)		
Grants and Contributions (Donated Assets)	180		
			420,346
Transfers of capital assets between governmental and business-type activities results in the movement of those assets on the Statement of Net Assets and corresponding recognition of the related transfer in/out on the Statement of Activities.			972
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.			(76,814)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.			15,307
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	(1,572,543)		
Payments to Refunding Bond Escrow Agent	1,014,508		
Repayment of Bond Principal	605,401		
Bond Premium	(301,018)		
Prepaid Bond Insurance Costs (Amortization)	(16)		
			(253,668)
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	93,621		
Decrease (increase) in Capital Leases	5,413		
Decrease (increase) in Compensated Absences	(3,434)		
Decrease (increase) in Pollution Remediation Liabilities	2,257		
Decrease (increase) in Claims and Judgments	77		
Change in net pension assets, net pension liabilities, and pension-related deferred outflows and inflows of resources	(49,502)		
Decrease (increase) in Postemployment Benefit Liabilities	(35,856)		
			12,575
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.			9,276
Changes in Net Position of Governmental Activities as reported on the Statement of Activities (See page 25)		$	1,055,434

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

State of Wisconsin

Statement of Net Position
Proprietary Funds
June 30, 2018

(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	$ 21,238	$ 271,060	$ 1,868,379	$ 1,623,907
Investments	20,709	-	-	-
Loans to Local Governments (net of allowance)	-	184,811	-	-
Other Loans Receivable (net of allowance)	-	-	29,655	-
Other Receivables (net of allowance)	22,043	192	130,038	157,960
Due from Other Funds	-	6,935	19,693	248
Due from Component Units	-	-	-	-
Interfund Receivables	50	-	-	-
Due from Other Governments	-	9,441	109,549	1,733
Inventories	1	-	30,407	-
Prepaid Items	-	17	18,432	-
Capital Leases Receivable - Component Units	-	-	22	-
Restricted and Limited Use Assets:				
Cash and Cash Equivalents	-	-	66,255	-
Other Assets	-	-	-	-
Total Current Assets	64,042	472,457	2,272,430	1,783,848
Noncurrent Assets:				
Investments	1,295,108	-	419,501	-
Loans to Local Governments (net of allowance)	-	1,772,088	-	-
Other Loans Receivable (net of allowance)	-	-	167,754	-
Other Receivables	-	-	495	34,419
Due from Component Units	-	-	-	-
Due from Other Governments	-	-	-	-
Prepaid Items	-	83	-	-
Advances to Other Funds	-	6,352	-	-
Capital Leases Receivable - Component Units	-	-	140	-
Restricted and Limited Use Assets:				
Cash and Cash Equivalents	31,401	-	-	2,015
Net Pension Asset	100	76	399,080	-
Other Assets	-	-	-	-
Depreciable Capital Assets (net of accumulated depreciation)	898	-	4,499,702	-
Nondepreciable Capital Assets	-	-	640,369	-
Total Noncurrent Assets	1,327,507	1,778,599	6,127,040	36,434
Total Assets	1,391,549	2,251,056	8,399,470	1,820,282
Deferred Outflows of Resources	176	2,303	750,469	-
Total Assets and Deferred Outflows of Resources	$ 1,391,724	$ 2,253,359	$ 9,149,939	$ 1,820,282
Liabilities				
Current Liabilities:				
Accounts Payable and Other Accrued Liabilities	$ 14,011	$ 93	$ 122,507	$ 14,295
Due to Other Funds	71	4,336	64,987	2,066
Due to Component Units	-	-	-	-
Interfund Payables	-	-	-	-
Due to Other Governments	-	26	3,589	9,328
Tax and Other Deposits	-	-	5,370	-
Unearned Revenue	1,247	-	172,327	-
Interest Payable	-	991	11,127	-
Short-term Notes Payable	-	-	43,481	-
Current Portion of Long-term Liabilities:				
Future Benefits and Loss Liabilities	68,822	-	-	-
Capital Leases	-	-	1,267	-
Compensated Absences	5	157	69,905	-
General Obligation Bonds and Notes Payable	-	-	93,515	-
Revenue Bonds and Notes Payable	-	84,080	-	-
Total Current Liabilities	84,156	89,683	588,076	25,690
Noncurrent Liabilities:				
Accounts Payable and Other Accrued Liabilities	-	-	-	-
Due to Other Governments	-	-	138,737	10,683
Noncurrent Portion of Long-term Liabilities:				
Future Benefits and Loss Liabilities	297,728	-	-	-
Capital Leases	-	-	28,454	-
Compensated Absences	41	480	69,658	-
Other Postemployment Benefits	152	74	525,240	-
General Obligation Bonds and Notes Payable	-	-	1,525,155	-
Revenue Bonds and Notes Payable	-	180,879	-	-
Total Noncurrent Liabilities	297,921	181,433	2,287,242	10,683
Total Liabilities	382,077	271,116	2,875,318	36,373
Deferred Inflows of Resources	206	134	849,615	-
Net Position:				
Net Investment in Capital Assets	898	-	3,519,597	-
Restricted for Unemployment Compensation	-	-	-	1,783,909
Restricted for Environmental Improvement	-	1,966,118	-	-
Restricted for Expendable Trusts	-	-	307,351	-
Restricted for Nonexpendable Trusts	-	-	188,178	-
Restricted for Future Benefits	1,008,444	-	-	-
Restricted for Pensions	100	76	399,080	-
Restricted for Other Purposes	-	-	653,392	-
Unrestricted	-	15,915	357,408	-
Total Net Position	1,009,441	1,982,110	5,425,006	1,783,909
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 1,391,724	$ 2,253,359	$ 9,149,939	$ 1,820,282

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
$ 1,173,199	$ 4,957,784	$ 48,285
4,520	25,229	-
253	185,064	-
1,798	31,453	-
81,379	391,612	3,413
20,416	47,292	16,788
-	-	585
54	104	-
8,105	128,828	524
7,687	38,095	5,019
558	19,007	4
-	22	-
29	66,284	3,837
556	556	-
1,298,554	5,891,330	78,454
122,443	1,837,053	-
1,628	1,773,717	-
24,362	192,116	-
-	34,915	-
-	-	-
-	-	-
-	83	494
759	7,112	-
-	140	-
-	33,416	-
44,976	444,231	7,329
5,824	5,824	-
191,724	4,692,324	513,965
38,298	678,666	27,895
430,013	9,699,594	549,684
1,728,567	15,590,924	628,139
124,787	877,735	16,771
$ 1,853,354	$ 16,468,659	$ 644,909
$ 100,376	$ 251,282	$ 10,935
35,079	106,539	2,244
434	434	-
25,266	25,266	47,346
17	12,961	-
26,453	31,823	-
23,410	196,984	12,084
678	12,797	2,658
936	44,418	12,430
66,998	135,820	42,165
141	1,408	8,623
5,296	75,363	1,251
4,360	97,875	16,455
-	84,080	-
289,444	1,077,048	156,190
13,238	13,238	-
-	149,420	-
553,223	850,950	68,171
1,423	29,877	18,080
7,748	77,926	3,038
67,046	592,512	9,916
62,367	1,587,521	355,658
-	180,879	-
705,044	3,482,322	454,864
994,487	4,559,371	611,054
95,402	945,357	15,565
189,125	3,709,619	134,020
-	1,783,909	-
-	1,966,118	-
-	307,351	-
-	188,178	-
457,941	1,466,386	-
44,976	444,231	7,329
90,073	743,466	-
(18,649)	354,674	(123,059)
763,465	10,963,931	18,290
$ 1,853,354	$ 16,468,659	$ 644,909

Total Net Position Reported Above	$ 10,963,931
Adjustment to Reflect the Consolidation of Internal Service Activities Related to Enterprise Funds	1,451
Net Position of Business-type Activities	$ 10,965,383

Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds
For the Fiscal Year Ended June 30, 2018

(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	$ 11,424	$ -	$ -	$ -
Participant and Employer Contributions	-	-	-	597,072
Tuition and Fees	-	-	1,279,301	-
Federal Grants and Contracts	-	-	748,228	-
Local and Private Grants and Contracts	-	-	248,736	-
Sales and Services of Educational Activities	-	-	319,510	-
Sales and Services of Auxiliary Enterprises	-	-	445,365	-
Sales and Services to UW Hospital Authority	-	-	69,725	-
Investment and Interest Income	-	48,533	-	-
Interest Income Used as Security for Revenue Bonds	-	-	-	-
Miscellaneous:				
Federal Aid for Unemployment Insurance Program	-	-	-	3,065
Reimbursing Financing Revenue	-	-	-	27,384
Other	-	46	467,880	1,403
Total Operating Revenues	11,424	48,578	3,578,745	628,924
Operating Expenses:				
Personal Services	579	5,650	3,190,142	-
Supplies and Services	187	3,268	1,237,603	-
Lottery Prize Awards	-	-	-	-
Scholarships and Fellowships	-	-	157,604	-
Depreciation	524	-	323,984	-
Benefit Expense	22,433	-	-	407,270
Interest Expense	-	9,543	-	-
Other Expenses	-	-	12,343	4,413
Total Operating Expenses	23,723	18,461	4,921,676	411,682
Operating Income (Loss)	(12,299)	30,117	(1,342,931)	217,241
Nonoperating Revenues (Expenses):				
Operating Grants	-	56,650	162,691	-
Investment and Interest Income	22,383	3,914	45,053	33,201
Gain (Loss) on Disposal of Capital Assets	-	-	(2,055)	-
Interest Expense	-	-	(50,557)	-
Gifts and Donations	-	-	370,022	-
Miscellaneous Revenues	-	-	47,047	-
Other Expenses:				
Property Tax Credits	-	-	-	-
Grants Disbursed	-	(24,658)	-	-
Federal Settlement	-	-	-	-
Other	-	-	-	-
Total Nonoperating Revenues (Expenses)	22,383	35,907	572,201	33,201
Income (Loss) Before Contributions and Transfers	10,085	66,024	(770,730)	250,442
Capital Contributions	-	-	45,144	-
Additions to Endowments	-	-	1,145	-
Transfers In	-	17,880	1,004,117	-
Transfers Out	(14)	(8,011)	(81,283)	(9)
Change in Net Position	10,071	75,893	198,394	250,433
Total Net Position, Beginning of Year	999,371	1,906,217	5,226,612	1,533,476
Total Net Position, End of Year	$ 1,009,441	$ 1,982,110	$ 5,425,006	$ 1,783,909

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
$ 1,002,813	$ 1,014,237	$ 280,341
1,365,755	1,962,827	-
-	1,279,301	-
-	748,228	-
-	248,736	-
-	319,510	-
-	445,365	-
-	69,725	-
1,892	50,425	-
-	-	-
-	3,065	-
-	27,384	-
5,910	475,238	3,979
2,376,370	6,644,042	284,320
317,510	3,513,882	47,337
206,721	1,447,779	145,565
404,447	404,447	-
-	157,604	-
15,406	339,914	41,963
1,332,535	1,762,237	33,745
1,731	11,273	-
20,948	37,704	35
2,299,297	7,674,840	268,645
77,073	(1,030,798)	15,674
1,270	220,611	174
135,704	240,255	317
(157)	(2,212)	(1,250)
(1,388)	(51,945)	(7,695)
624	370,646	-
5,734	52,781	1,377
(173,515)	(173,515)	-
(1,687)	(26,345)	-
-	-	(105)
(21)	(21)	(2,034)
(33,438)	630,255	(9,215)
43,636	(400,544)	6,459
50	45,194	-
-	1,145	-
124,663	1,146,660	7,949
(46,728)	(136,044)	(3,560)
121,620	656,411	10,848
641,845	10,307,520	7,442
$ 763,465	$ 10,963,931	$ 18,290

Change in Net Position Reported Above	$ 656,411
Activities Related to Enterprise Funds	1,572
Change in Net Position of Business-Type Activities	$ 657,983

Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2018

(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	$ 11,300	$ -	$ -	$ 628,326
Cash Payments to Suppliers for Goods and Services	(281)	(3,630)	(1,242,974)	-
Cash Payments to Employees for Services	(827)	(4,117)	(3,135,657)	-
Tuition and Fees	-	-	1,278,250	-
Grants and Contracts	-	-	969,088	-
Cash Payments for Lottery Prizes	-	-	-	-
Cash Payments for Loans Originated	-	(148,226)	(38,867)	-
Collection of Loans	-	190,356	34,860	-
Interest Income	-	48,976	-	-
Cash Payments for Benefits	(12,964)	-	-	(426,547)
Sales and Services of Educational Activities	-	-	331,980	-
Sales and Services of Auxiliary Enterprises	-	-	449,794	-
Sales and Services to UW Hospital Authority	-	-	67,963	-
Scholarships and Fellowships	-	-	(157,604)	-
Other Operating Revenues	-	46	445,151	53,535
Other Operating Expenses	-	-	-	(4,490)
Other Sources of Cash	-	-	-	-
Other Uses of Cash	-	-	-	-
Net Cash Provided (Used) by Operating Activities	(2,772)	83,404	(998,016)	250,824
Cash Flows from Noncapital Financing Activities:				
Operating Grants Receipts	-	66,342	162,691	-
Grants for Loans to Governments	-	-	-	-
Grants Disbursed	-	(24,658)	-	-
Proceeds from Issuance of Debt	-	-	-	-
Repayment of Bonds and Notes	-	(90,550)	-	-
Escrow Deposit	-	-	-	-
Interest Payments	-	(13,276)	-	-
Property Tax Credit Payments	-	-	-	-
Noncapital Gifts	-	-	371,156	-
Interfund Loans Received	-	-	-	-
Interfund Loans Repaid	-	-	-	-
Repayment of Interfund Borrowings	-	-	-	-
Transfers In	-	11,047	1,081,000	-
Transfers Out	(14)	(8,011)	(96,578)	-
Student Direct Lending Receipts	-	-	660,691	-
Student Direct Lending Disbursements	-	-	(662,240)	-
Other Cash Inflows from Noncapital Financing Activities	-	-	46,005	-
Other Cash Outflows from Noncapital Financing Activities	-	(82)	(23,526)	-
Net Cash Provided (Used) by Noncapital Financing Activities	(14)	(59,188)	1,539,199	-
Cash Flows from Capital and Related Financing Activities:				
Proceeds from Issuance of Debt	-	-	283,954	-
Capital Contributions	-	-	142,360	-
Repayment of Bonds and Notes	-	-	(346,218)	-
Interest Payments	-	-	(134,558)	-
Transfers In	-	-	-	-
Capital Lease Obligations	-	-	-	-
Proceeds from Sale of Capital Assets	-	-	-	-
Payments for Purchase of Capital Assets	(447)	-	(366,419)	-
Other Cash Inflows from Capital Financing Activities	-	-	59,992	-
Other Cash Outflows from Capital Financing Activities	-	-	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(447)	-	(360,889)	-
Cash Flows from Investing Activities:				
Proceeds from Sale and Maturities of Investment Securities	211,809	-	606,555	-
Purchase of Investment Securities	(253,321)	-	(574,779)	-
Cash Payments for Loans Originated	-	-	-	-
Collection of Loans	-	-	-	-
Investment and Interest Receipts	33,993	3,260	56,477	33,201
Net Cash Provided (Used) by Investing Activities	(7,519)	3,260	88,253	33,201
Net Increase (Decrease) in Cash and Cash Equivalents	(10,752)	27,475	268,547	284,025
Cash and Cash Equivalents, Beginning of Year	63,391	243,586	1,666,087	1,341,898
Cash and Cash Equivalents, End of Year	$ 52,639	$ 271,060	$ 1,934,634	$ 1,625,922

Business-type Activities - Enterprise Funds		Governmental Activities - Internal Service Funds
Nonmajor Enterprise	Totals	
$ 2,396,627	$ 3,036,253	$ 294,754
(176,068)	(1,422,953)	(146,348)
(315,337)	(3,455,939)	(41,320)
-	1,278,250	-
-	969,088	-
(408,254)	(408,254)	-
-	(187,093)	-
7,467	232,683	-
1,850	50,826	-
(1,362,453)	(1,801,964)	(36,329)
-	331,980	-
-	449,794	-
-	67,963	-
-	(157,604)	-
15,128	513,859	3,945
(59,403)	(63,893)	(1)
53,939	53,939	1,253
(29)	(29)	(1,450)
153,466	(513,095)	74,505
1,305	230,338	-
-	-	-
(2,901)	(27,559)	-
-	-	-
(5,836)	(96,386)	-
-	-	-
(1,776)	(15,052)	(18)
(170,200)	(170,200)	-
-	371,156	-
1,520	1,520	981
(1,655)	(1,655)	(5,157)
(27)	(27)	-
116,238	1,208,284	5,811
(43,031)	(147,634)	(9,197)
-	660,691	-
-	(662,240)	-
1,004	47,009	28
227	(23,381)	-
(105,133)	1,374,864	(7,552)
3,162	287,116	174,078
50	142,410	-
(7,399)	(353,617)	(29,452)
(1,417)	(135,975)	(9,666)
6,406	6,406	-
(32)	(32)	(13,544)
68	68	13,786
(19,686)	(386,553)	(204,596)
3,289	63,280	26,549
(43)	(43)	(1,956)
(15,602)	(376,939)	(44,802)
32,695	851,059	-
(24,556)	(852,655)	-
-	-	-
-	-	-
140,315	267,246	308
148,454	265,650	308
181,184	750,479	22,459
992,044	4,307,005	29,663
$ 1,173,228	$ 5,057,484	$ 52,121

(Continued)

Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2018

(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)	$ (12,299)	$ 30,117	$ (1,342,931)	$ 217,241
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	524	-	323,984	-
Provision for Uncollectible Accounts	-	-	-	(4,357)
Operating Income (Investment Income) Classified as Investing Activity	-	-	-	-
Operating Expense (Interest Expense) Classified as Noncapital Financing Activity	-	8,780	-	-
Miscellaneous Nonoperating Income (Expense)	-	-	-	-
Changes in Assets, Deferred Outflows, Liabilities, and Deferred Inflows:				
Decrease (Increase) in Receivables	-	42,610	13,949	43,805
Decrease (Increase) in Due from Other Funds	-	(1,311)	4,025	57
Decrease (Increase) in Due from Component Units	-	-	-	-
Decrease (Increase) in Due from Other Governments	-	-	(38,248)	262
Decrease (Increase) in Inventories	-	-	12,175	-
Decrease (Increase) in Prepaid Items	-	17	14,359	-
Decrease (Increase) in Net Pension Assets	(100)	(76)	(399,080)	-
Decrease (Increase) in Other Assets	-	-	-	-
Decrease (Increase) in Deferred Outflows of Resources	15	(21)	82,972	-
Increase (Decrease) in Accounts Payable and Other Accrued Liabilities	(125)	(31)	(35,978)	(2,008)
Increase (Decrease) in Due to Other Funds	18	3,132	-	127
Increase (Decrease) in Due to Component Units	-	-	-	-
Increase (Decrease) in Due to Other Governments	-	25	(11,208)	(4,303)
Increase (Decrease) in Tax and Other Deposits	-	-	-	-
Increase (Decrease) in Unearned Revenue	(424)	-	1,749	-
Increase (Decrease) in Interest Payable	-	-	-	-
Increase (Decrease) in Compensated Absences	-	67	1,516	-
Increase (Decrease) in Net Pension Liability	(26)	(11)	(112,699)	-
Increase (Decrease) in Postemployment Benefits	88	17	(2,593)	-
Increase (Decrease) in Future Benefits and Loss Liability	9,437	-	-	-
Increase (Decrease) in Deferred Inflows of Resources	120	89	489,991	-
Total Adjustments	9,527	53,287	344,915	33,582
Net Cash Provided (Used) by Operating Activities	$ (2,772)	$ 83,404	$ (998,016)	$ 250,824
Noncash Investing, Capital and Financing Activities:				
Assets Acquired through Capital Leases	$ -	$ -	$ 608	$ -
Special Item: Surrender of General Obligation Bonds Held as Investments	-	-	-	-
Net Change in Unrealized Gains and Losses	9,707	-	2,220	-
Other	-	-	3,530	-

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**
$ 77,073	$ (1,030,798)		$ 15,674
15,406	339,914		41,963
(269)	(4,627)		-
-	-		-
2,067	10,846		-
5,580	5,580		1,004
17,210	117,574		(810)
17,622	20,394		16,253
-	-		(585)
2,338	(35,649)		(470)
(418)	11,756		(481)
255	14,631		-
(44,976)	(444,231)		(7,329)
(691)	(691)		-
10,021	92,987		684
1,893	(36,249)		850
2,302	5,578		(1,471)
-	-		-
11	(15,474)		(387)
1,949	1,949		-
(2,056)	(732)		-
6	6		-
(406)	1,177		(256)
(12,652)	(125,388)		(2,004)
2,164	(323)		5,778
3,981	13,417		(2,583)
55,056	545,256		8,677
76,393	517,703		58,830
$ 153,466	$ (513,095)		$ 74,505
$ 791	$ 1,399		$ 13,818
-	-		-
(3,596)	8,331		-
4	3,535		61

Statement of Fiduciary Net Position
June 30, 2018

(In Thousands)

	Pension and Other Employee Benefit Trust	Investment Trust	Private-Purpose Trust	Agency
Assets				
Cash and Cash Equivalents	$ 2,312,162	$ 3,719,427	$ 78,010	$ 42,804
Securities Lending Collateral	1,576,662	-	-	-
Prepaid Items	42,087	-	-	-
Receivables (net of allowance):				
Prior Service Contributions Receivable	17,199	-	-	-
Benefits Overpayment Receivable	2,664	-	-	-
Due from Other Funds	60,612	-	18,357	2,900
Due from Component Units	6,233	-	-	-
Interfund Receivables	290,222	-	-	-
Due from Other Governments	128,286	-	7,427	1,081
Due from Employers	-	-	-	-
Interest and Dividends Receivable	314,112	-	-	-
Investment Sales Receivable	1,279,158	-	-	-
Other Receivables	3,431	69	39,041	2,168
Total Receivables	2,101,916	69	64,825	6,149
Investments:				
Fixed Income	30,709,368	-	-	-
Stocks	63,241,061	-	-	-
Options	(3,830)	-	-	-
Financial Futures Contracts and Swaps	51,251	-	-	-
Limited Partnerships	12,212,410	-	-	-
Preferred Securities	241,674	-	-	-
Convertible Securities	196	-	-	-
Real Estate	1,368,583	-	-	-
Investments of Private Purpose Trust Funds	-	-	5,059,125	-
Investments of Agency Funds	-	-	-	57
Multi-asset Investments	4,701,121	-	-	-
Investment Contract	596,204	-	-	-
Foreign Currency Contracts	(1,131)	-	-	-
To Be Announced Securities	95,489	-	-	-
Total Investments	113,212,394	-	5,059,125	57
Capital Assets	33,895	-	-	-
Other Assets	-	-	20	342,594
Total Assets	119,279,115	3,719,496	5,201,980	$ 391,603
Deferred Outflows of Resources	-	-	34	
Liabilities				
Accounts Payable and Other Accrued Liabilities	61,918	-	31,062	$ 23,859
Reverse Repurchase Agreements	6,114,256	-	-	-
Securities Lending Collateral Liability	1,576,662	-	-	-
Annuities Payable	360,589	-	-	-
Advance Contributions	-	-	-	-
Due to Other Funds	73,503	117	11,328	1,597
Interfund Payables	290,275	-	-	-
Tax and Other Deposits	-	-	-	366,147
Future Benefits and Loss Liabilities	-	-	4,940	-
Short Sales of Securities	2,722,194	-	-	-
Investment Payable	467,189	-	-	-
Unearned Revenue	43	-	18,355	-
Compensated Absences Payable	2,558,709	-	-	-
Net Pension Liability	-	-	-	-
Other Postemployment Benefits	-	-	18	-
Total Liabilities	14,225,339	117	65,702	$ 391,603
Deferred Inflows of Resources	-	-	36	
Net Position				
Held in Trust for Pension Benefits, Pool Participants and Other Purposes	$ 105,053,776	$ 3,719,379	$ 5,136,275	

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, 2018

(In Thousands)

	Pension and Other Employee Benefit Trust	Investment Trust	Private-Purpose Trust
Additions			
Contributions:			
Employer Contributions	$ 1,078,916	$ -	$ -
Employee Contributions	1,002,902	-	-
Other	-	-	-
Total Contributions	2,081,818	-	-
Deposits	-	10,300,723	534,095
Premiums	-	-	242,651
Federal Subsidy	-	-	20,339
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	13,831,016	-	-
Interest	569,459	-	-
Dividends	1,243,516	-	-
Securities Lending Income	37,868	-	-
Other	213,128	-	-
Investment Income of Investment, Private Purpose, and Other Employee Benefit Trust Funds	385,506	75,470	346,996
Less:			
Investment Expense	(487,384)	(509)	(8,261)
Securities Lending Rebates and Fees	(8,220)	-	-
Investment Income Distributed to Other Funds	(530,657)	-	-
Net Investment Income	15,254,233	74,961	338,735
Interest on Prior Service Receivable	1,130	-	-
Miscellaneous Income	5,724	-	5,192
Total Additions	17,342,905	10,375,685	1,141,012
Deductions			
Retirement Benefits and Refunds:			
Retirement, Disability, and Beneficiary	5,211,267	-	-
Separations	38,358	-	-
Total Retirement Benefits and Refunds	5,249,625	-	-
Distributions	36,240	10,012,417	405,504
Other Benefit Expense	286,673	-	257,949
Administrative Expense	29,935	160	15,286
Miscellaneous Expense	-	-	-
Transfers Out	-	-	5
Total Deductions	5,602,473	10,012,577	678,744
Net Increase (Decrease)	11,740,432	363,107	462,268
Net Position - Beginning of Year	93,313,344	3,356,271	4,674,006
Net Position - End of Year	$ 105,053,776	$ 3,719,379	$ 5,136,275

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

Index

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

B. Financial Reporting Entity

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

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

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

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

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

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

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

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

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

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

Blended Component Unit

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

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

Discretely Presented Component Units

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

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

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

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

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

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

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

University of Wisconsin Foundation – The University of Wisconsin Foundation (the Foundation) is a legally separate, tax-exempt component unit of the State. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available 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 June 30.

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, 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.
- *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.

GASB Standards Implemented During the Fiscal Year

Effective for Fiscal Year 2018, the State implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement establishes standards of accounting and financial reporting for defined benefit other postemployment benefits (OPEB) and defined contribution OPEB that are provided to the employees of state and local governmental employers.

The State also implemented GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans.* This statement establishes reporting standards for other postemployment benefits included in the general purpose external financial reports of state and local governmental OPEB plans.

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 (DOA) 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 DOA 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

2017 Wis. Act 59 (the Budget Act) ended the forestry mill tax, the only property tax that had been levied by the State. The proceeds of the tax had been paid to the Conservation Fund. The tax ended effective with the January 1, 2017 property tax assessments (property taxes levied in 2017 for payment in 2018).

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 more than one year. 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 which 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, and infrastructure. In addition, depreciation is not recorded for certain other capital assets including the State Capitol, Executive Residence and associated furnishings, and the Historical Society library collection. Generally, estimated useful lives are as follows:

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

In Fiscal Year 2018, the University of Wisconsin System elected to change the accounting method for library holdings. Library holdings will be treated as a composite asset and depreciated over a 15-year average life. In prior years, those assets were not depreciated. The new accounting method, which was applied prospectively, is common with other peer university systems. The University of Wisconsin System financial statements for Fiscal Year 2018 include a prior period adjustment of $961.0 million for accumulated depreciation.

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, 2018, 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 $441.7 million representing one-half of the total appropriated amount is reported at June 30, 2018 as Due to Other Governments.

State Property Tax Credit Program

At June 30, 2018, 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, 2018.

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, 2018.

The aggregated State Property Tax Credit Program liability of $811.0 million is reported in the General Fund as Due to Other Governments. Of that amount, $700.0 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 2018 property tax bills, the State made this payment in March 2018. 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 2018, while the remaining portion represents advanced payments. The resulting deferred outflow of resources reported within the Lottery Fund totals $43.5 million at June 30, 2018.

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, 2018, the State was liable to various local governments and other taxing jurisdictions for unpaid exempt computer aid payments of $65.7 million.

State Aid for Exempt Personal Property

2017 Wis. Act 59 (the Budget Act) exempted machinery, tools, and patterns, not including such items considered manufacturing property under current law, from the property tax effective with property assessed as of January 1, 2018 (the 2018(19) property tax levy). The Act also created a state aid program administered by DOR to make payments to each local taxing jurisdiction, including tax increment districts, that imposed property taxes on those items that were not manufacturing property in 2017(18).
Upon certification by DOR, payments will be made to local taxing jurisdictions on or before the first Monday in May. Under the Act, the first aid payment is scheduled to be made in May 2019.

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, 2018, 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 position by the government that is applicable to a future reporting period. Deferred inflows of resources are an acquisition of net position 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 experience with regard to economic and demographic factors in the measurement of the pension and OPEB liabilities 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 or OPEBs through the applicable plans.

Changes of assumptions about future economic or demographic factors, or of other inputs in the measurement of the pension or OPEB liabilities 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 or OPEBs through the applicable plans.

Differences between projected and actual earnings on the State's proportionate share of pension or OPEB plan investments, if any, 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 pension or OPEB liabilities 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 or OPEBs through the applicable plans.

Contributions to the pension or OPEB plans from the State subsequent to the measurement date of the pension or OPEB liabilities 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.

This page left intentionally blank.

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, 2018, 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	$ 1,647,198	$ -	$ 48,285	$ -	$ 1,695,483
Investments	631,343	-	-	-	631,343
Receivables (net of allowance):					
Taxes	1,655,994	-	-	(1,655,994)	-
Loans to Local Governments	490,881	-	-	(490,881)	-
Other Loans Receivable	22,421	-	-	(22,421)	-
Other Receivables	792,112	2,674	4,522	3,708,593	4,507,902
Due from Other Funds	254,137	-	16,788	(270,925)	-
Interfund Receivables	74,732	-	-	(74,732)	-
Due from Other Governments	1,469,619	-	-	(1,469,619)	-
Internal Balances	-	-	(1,451)	40,012	38,560
Inventories	35,086	-	5,019	-	40,106
Prepaid Items	13,937	3,927	498	-	18,362
Restricted Assets:					
Cash and Cash Equivalents	299,943	-	3,837	-	303,779
Investments	520,868	-	-	-	520,868
Net Pension Asset	-	374,534	7,329	-	381,863
Other Restricted Assets	203	-	-	-	203
Other Assets	15,120	-	-	-	15,120
Depreciable Capital Assets	-	1,349,074	513,965	-	1,863,039
Infrastructure	-	16,955,242	-	-	16,955,242
Other Non-depreciable Capital Assets	-	5,655,981	27,895	-	5,683,876
Total Assets	7,923,594	24,341,432	626,687	(235,967)	32,655,747
Deferred Outflows of Resources	142	1,033,207	16,771	-	1,050,120
Total Assets and Deferred Outflows	$ 7,923,737	$ 25,374,639	$ 643,458	$ (235,967)	$ 33,705,867
Liabilities:					
Accounts Payable and Other Accrued Liabilities	1,241,241	-	13,592	29,332	1,284,165
Due to Other Funds	189,589	-	49,590	(239,180)	-
Due to Component Units	16,836	-	-	(16,836)	-
Interfund Payables	2,171	-	-	(2,171)	-
Due to Other Governments	2,478,390	-	-	-	2,478,390
Tax Refunds Payable	1,374,074	-	-	-	1,374,074
Tax and Other Deposits	75,135	-	-	-	75,135
Unearned Revenue	326,405	-	12,084	-	338,489
Interest Payable	53,855	60,405	-	-	114,260
Advances from Other Funds	7,112	-	-	(7,112)	-
Short-term Notes Payable	407,523	-	12,430	-	419,953
Other Liabilities	-	107,902	-	-	107,902
Long-term Liabilities:					
Current Portion	131,170	692,753	68,495	-	892,417
Noncurrent Portion	-	11,421,022	454,864	-	11,875,885
Total Liabilities	6,303,500	12,282,081	611,054	(235,967)	18,960,669
Deferred Inflows of Resources	278,425	520,116	15,565	-	814,106
Fund Balances/Net Position	1,341,812	12,572,441	16,838	-	13,931,092
Total Liabilities, Deferred Inflows, and Fund Balances/Net Position	$ 7,923,737	$ 25,374,639	$ 643,458	$ (235,967)	$ 33,705,867

(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, 2018, 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	$ 9,444,927	$ 5,731	$ -
Sales & Excise Taxes	6,039,831	6,642	-
Public Utility Taxes	361,696	-	-
Other Taxes	300,116	(5)	-
Motor Fuel (Transportation) Taxes	1,121,768	12	-
Other Dedicated Taxes	104,563	-	-
Intergovernmental	9,710,876	-	-
Operating Grants	-	-	-
Capital Grants	-	-	180
Licenses and Permits	1,999,772	-	-
Charges for Goods and Services	364,479	2,927	-
Investment and Interest Income	62,751	-	-
Fines and Forfeitures/Contributions to Permanent Fund	60,854	-	-
Gifts and Donations	25,648	-	-
Miscellaneous:		-	-
Tobacco Settlement	122,469	-	-
Other	285,919	-	-
Total Revenues	30,005,671	15,307	180
Expenditures/Expenses:			
Current Operating:			
Commerce	262,660	3,301	333
Education	7,400,716	2,428	6,064
Transportation	2,283,143	10,406	84,593
Environmental Resources	447,454	7,406	20,673
Human Relations and Resources	13,446,670	47,759	63,683
General Executive	631,568	(1,749)	15,512
Judicial	134,376	6,675	2,066
Legislative	67,482	1,891	-
Tax Relief and Other General Expenditures	1,613,573	-	-
Intergovernmental - Shared Revenue	972,110	-	-
Capital Outlay	537,336	-	(536,276)
Debt Service:			
Principal	605,401	-	-
Interest and Other Charges	518,449	3,445	-
Total Expenditures/Expenses	28,920,940	81,563	(343,352)
Excess of Revenues Over (Under) Expenditures/Expenses	1,084,731	(66,256)	343,532
Other Financing Sources (Uses):			
Net Transfers	(1,015,445)	-	972
Long-term Debt Issued	1,572,543	-	-
Premium/Discount on Bonds	301,018	-	-
Payments for Refunded Bonds	-	-	-
Payments to Refunding Bond Escrow Agent	(1,014,508)	-	-
Capital Lease Acquisitions	1,817	(1,817)	-
Total Other Financing Sources (Uses)	(154,575)	(1,817)	972
Net Change in Fund Balance/Net Position	930,155	$ (68,073)	$ 344,504
Change in Inventories	(2,715)		
Net Change for the Year	$ 927,440		

(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
$ -	$ -	$ -	$ -	$ 9,450,658
-	-	-	-	6,046,474
-	-	-	-	361,696
-	-	-	-	300,111
-	-	-	-	1,121,780
-	-	-	-	104,563
-	-	-	(9,710,876)	-
-	-	(665,276)	9,752,816	9,087,540
-	-	749,356	11,076	760,612
-	-	-	(1,999,772)	-
(7,598)	-	(7,682)	2,048,346	2,400,473
317	-	-	(27,368)	35,699
-	-	-	(48,574)	12,281
-	-	-	(25,648)	-
-	-	-	408,919	408,919
-	-	-	(122,469)	-
-	-	-	(285,919)	-
(7,281)	-	76,398	531	30,090,806
(109)	-	-	61	266,247
(1,987)	-	36,001	(1,123)	7,442,098
(2,164)	16	-	3,946	2,379,940
(753)	(2,257)	-	733	473,257
(6,667)	(77)	48,079	23	13,599,471
(8,089)	-	(7,682)	(3,234)	626,327
-	-	-	(2)	143,115
(94)	-	-	-	69,280
-	-	-	(738)	1,612,835
-	-	-	-	972,110
-	-	-	(1,060)	0
-	(605,401)	-	-	-
7,695	(93,621)	-	4,109	440,077
(12,168)	(701,339)	76,398	2,715	28,024,757
4,887	701,339	0	(2,184)	2,066,049
4,389	-	-	(531)	(1,010,615)
-	(1,572,543)	-	-	-
-	(301,018)	-	-	-
-	-	-	-	-
-	1,014,508	-	-	-
-	-	-	-	-
4,389	(859,053)	-	(531)	(1,010,615)
$ 9,276	$ (157,713)	$ 0	(2,715)	1,055,434
			2,715	-
			$ (0)	$ 1,055,434

(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, 2018 are (in thousands):

Special Revenue:		
Dry Cleaner Environmental Response	$	5,843
Enterprise:		
Northern Developmental Disabilities Center		11,088
Central Developmental Disabilities Center		819
Local Government Property Insurance		833
Internal Service:		
Risk Management		100,654

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, 2018 (in thousands):

Governmental Activities:		
Net Position Restricted by Enabling Legislation	$	442,760
Business-type Activities:		
Net Position Restricted by Enabling Legislation		882,751

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, 2018 was $320.1 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, 2018 was $70.0 million.

E. Fund Balance for Governmental Funds

Governmental funds reported the following categories of fund balance as of June 30, 2018 (in thousands):

	General	Transportation	Capital Improvement	Nonmajor Governmental	Total Governmental
Nonspendable for:					
Inventory, Prepaid and Long-term Receivables	18,576	18,188	-	12,247	49,011
Legal or Contractual Purposes (Permanent Fund Principal)	-	-	-	1,109,534	1,109,534
Restricted for:					
Commerce	34,448	-	-	33	34,480
Education	9,741	-	-	54,839	64,581
Transportation	-	637,693	-	-	637,693
Environmental Resources	5,511	-	-	145,538	151,049
Human Relations and Resources	72,707	-	-	37,010	109,717
General Executive	134,718	-	-	11,506	146,223
Judicial	44	-	-	-	44
Tax Relief and Other General Expenditures	408	-	-	-	408
Intergovernmental - Shared Revenue	-	-	-	4,154	4,154
Debt Service	-	-	-	543,197	543,197
Capital Projects	-	-	-	37,247	37,247
Committed to:					
Commerce	-	-	-	63,402	63,402
Education	-	-	-	477	477
Environmental Resources	-	-	-	92,984	92,984
Human Relations and Resources	-	-	-	22,121	22,121
General Executive	-	-	-	20,327	20,327
Judicial	-	-	-	97	97
Tax Relief and Other General Expenditures	320,054	-	-	-	320,054
Capital Projects	-	-	-	28,785	28,785
Unassigned	(1,849,733)	-	(238,196)	(5,844)	(2,093,773)
Total Fund Balance	(1,253,527)	655,881	(238,196)	2,177,653	1,341,812

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 also carry out investment activities separate from the Board.

The State of Wisconsin Investment Board also issues separate financial reports for the investments they manage, including the State Investment Fund, and the Wisconsin Retirement System. Copies of the separately issued financial reports may be obtained at www.swib.state.wi.us or by writing to:

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

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, 2018, $158.6 million of the primary government's bank balance of $135.0 million was exposed to custodial credit risk as follows (in millions):

Uninsured and uncollateralized	$	135.0

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, 2018 are immaterial. The primary government does not have a formal policy specifically related to foreign currency risk.

The State's Unemployment Reserve Fund had $1.6 billion 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, 2017, WRS cash deposits totaled $1,900.1 million. Of the total deposits, $1,512.1 million was collateralized by the securities borrowed. Depository insurance covered another $24.9 million of the total. 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 $363.1 million at December 31, 2017. In addition to cash deposits, the WRS also held $57.8 million in certificates of deposit, all of which were covered by depository insurance.

3. State Investment Fund

As of June 30, 2018, the SIF held Certificates of Deposit (CDs) with a value of $42.5 million invested pursuant to the Wisconsin Certificate of Deposit Program, all of which is insured through FDIC insurance. Investment guidelines provide that to be accepted into this program, banks must accept deposits in Wisconsin and meet credit-screening criteria designed to assure the safety of the deposits.

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 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:
  -- The University of Wisconsin System (UWS)
  -- Local Government Property Insurance Fund (LGPIF)
  -- State Life Insurance Fund (SLF)
  -- Injured Patients and Families Compensation Fund (IPFCF)
  -- Historical Society Fund
  -- Tuition Trust Fund
- 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 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 University of Wisconsin System (UWS), 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”.

The UWS Board of Regents authorize and govern the UWS investment policies and guidelines. The UWS Board of Regents has delegated investment management authority to SWIB and is responsible for monitoring its delegation of this investment management authority. SWIB determines and sets UWS asset allocation targets which are reviewed quarterly.

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.

The UWS also issues separate financial reports. Copies of these separately issued financial reports may be obtained at www.wisconsin.edu or by writing to:

Office of Financial Administration
780 Regent Street, Suite 255
Madison, WI 53715

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 Wisconsin Retirement System (WRS), and the State Investment Fund (SIF)*

The following tables present fair value measurements as of June 30, 2018, in millions.

		Measurement Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level:				
U.S. Government & Agency Securities	$ 573.6	$ 291.6	$ 282.1	$ -
State & Municipal Bonds & Notes	262.5		262.5	
Closed-End Funds	1.9	1.9		
Exchange Traded Funds	21.7	21.7		
Stocks	16.2	16.2		
Limited Partnership	3.4			3.4
Total By Fair Value Level	$ 879.3	$ 331.4	$ 544.6	$ 3.4
Investments Valued at Net Asset Vaue (NAV):				
Mutual Funds	$ 4,891.0			
Money Market Funds	235.2			
Investments Valued at Cost:				
Guaranteed Investment Contracts	$ 181.9			
Private Placement	25.5			
US Treasury SLGs	248.3			
US Savings Bonds	0.2			
Total	**$ 6,461.4**			

The following tables present fair value measurements as of June 30, 2018 for the Various Funds, in millions.

Various Funds	Total	Fair Value Measurement Using Level 1	Level 2
UWS			
Investments Valued at Net Asset Value (NAV)			
Equity Index Funds	$ 141.3		
Fixed Income Index Funds	202.2		
Real Estate Index Fund	11.1		
Private Equity	64.9		
Total UW System	**$ 419.5**		
IPFCF			
Investments by Fair Value Level:			
U.S. Government and Agency Securities	$ 597.9		$ 597.9
Corporate Bonds	428.1		428.1
Municipal Bonds	21.0		21.0
Foreign Governments	40.6		40.6
Total by Fair Value Level	$ 1,087.7		$ 1,087.7
Investments Valued at Net Asset Value (NAV):			
Equity Index Funds	$ 228.1		
Short-Term Investment Fund	8.4		
Total IPFCF	**$ 1,324.2**		
Historical Society			
Investments Reported at Net Asset Value (NAV):			
Equity Index Fund	$ 13.3		
Fixed Income Fund	3.7		
Total Historical Society	**$ 17.0**		
Tuition Trust			
Debt Securities			
U.S. Government Bonds	**$ 1.1**		**$ 1.1**
SLF			
Investments by Fair Value Level:			
U.S. Government and Agency Securities	$ 45.5		$ 45.5
Corporate Bonds	62.5		62.5
Total SLF	**$ 108.0**		**$ 108.0**

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.

The University of Wisconsin System (UWS) holds an investment in the amount of $64.9 million in a fund-of-funds private equity limited partnership. This investment is illiquid and is generally not resold or redeemed. Distributions from the fund will be received over the life of the investment as the underlying investments are liquidated. The estimated remaining life of the underlying investments are between 0-11 years. The UWS has unfunded capital commitments for private equity investments in the amount of $23.6 million.

Securities categorized as Level 3 include certain Limited Partnership interests in the amount of $3.4 million held by the Common School fund. These limited partnerships invest in small non-public companies. The Common School fund has committed to invest up to $30.0 million in limited partnerships as of June 30, 2018.

The Injured Patients and Families Compensation fund holds Investments in the amount of $8.4 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 Transportation Revenue Bond Debt Service fund holds investments in escrow in the amount of $248.3 million in U.S. Treasury State and Local Government Series Certificates (SLGs). SLGs are special purpose securities issued to government entities to assist in compliance with certain Internal Revenue Service regulations. There is no secondary market for SLGs and these investments are valued at cost.

The College Savings Fund has a $181.9 million investment in a Guaranteed Investment Contract, a non-participating interest earning contract which is valued at cost.

The Common School Fund holds investments issued by the Wisconsin Housing and Economic Development Authority (WHEDA) in the amount of $25.5 million which are secured by revenues from certain WHEDA loans, and which are valued at cost. The investments were issued in a private placement transaction and are not marketable on a secondary market.

US Government Savings Bonds in the amount of $0.2 million are held at amortized cost.

Wisconsin Retirement System (WRS)

The following schedules presents fair value measurements at December 31, 2017 (fair values in millions):

WRS		Fair Value Measurement Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level:				
Cash Equivalents				
Certificates of Deposit	$ 41.4	$ -	$ 4.4	$ 37.0
Commercial Paper	397.9	-	-	397.9
U.S. Treasury Securities	104.9	104.9	-	-
Total Cash Equivalents	544.1	104.9	4.4	434.8
Equities				
Domestic	36,137.1	36,000.8	-	136.3
International	20,264.3	20,263.0	-	1.3
Total Equities	56,401.4	56,263.8	-	137.6
Fixed Income				
Asset Backed Securities	71.8	-	54.5	17.3
Corporates & Private Placements	4,726.5	-	4,621.7	104.8
Foreign Government / Agency Bonds	2,511.5	-	2,506.4	5.0
Municipal Bonds	122.4	-	122.4	-
U.S. Government Agencies	215.9	-	215.9	-
U.S. Treasury Inflation Protected Securities	12,780.8	-	12,780.8	-
U.S. Treasury Securities	3,595.7	115.7	3,480.1	-
Total Fixed Income	24,024.6	115.7	23,781.8	127.1
Real Estate	1,368.6			1,368.6
Preferred Securities				
Domestic	97.7	-	43.8	53.9
International	144.0	131.1	12.9	-
Total Preferred Securities	241.7	131.1	56.7	53.9
Convertibles	0.2			0.2
Derivatives				
Foreign Exchange Contracts	(1.1)	-	(1.1)	
Futures	47.1	47.1	-	
Options	(3.8)	(3.8)	-	
Swaps	4.2	-	4.2	
To Be Announced Securities	95.5	-	95.5	
Total Derivatives	141.8	43.2	98.5	
Equity Short Sales	(2,722.2)	(2,662.1)	(60.1)	
Total	**$ 80,000.1**	**$ 53,996.6**	**$ 23,881.3**	**$ 2,122.2**

WRS	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period (8)
Investments Measured at NAV:				
Cash (1)	$ 875.0	$ -	Daily	Same Day
Fixed Income (2)	6,960.0	228.6	Daily, Monthly, Quarterly, N/A	2-90 days, N/A
Private Equity Limited Partnerships (3)	7,407.5	5,300.6	N/A	N/A
Equities (4)	6,839.7	-	Daily, Monthly	2-30 days
Real Estate Limited Partnerships (5)	4,804.9	1,287.6	N/A, Quarterly	N/A, 30-90 days
Hedge Funds (6)	4,701.1	91.1	Various (see Multi Asset)	Various (see Multi Asset)
Total (7)	$ 31,588.2	$ 6,908.0		

(1) This category consists of short term cash funds with the investment objective of safety of principal and liquidity while earning a competitive money market rate of return. The short-term cash funds have daily liquidity with same day notice.

(2) Corporate and government bond index funds make up a significant portion of this category (82%) and have the investment objective of approximating as closely as practicable the return of a given segment of the markets for publicly traded investments. The corporate and government index funds have daily liquidity with 2 days' notice. An additional 15% of this category represents long-only fixed income managers, which can invest across the credit quality spectrum, in varying geographies, and can include derivatives, high yield and structured securities. These long-only managers require a redemption notice period between one and two weeks and have daily or monthly liquidity. One of these funds also has an investor level gate, limiting daily withdrawals to $2 million per day or 5% of the portfolio's net asset value. The remaining 3% of this category includes LLCs which invest in private real estate debt. The majority of these LLC investments distribute earnings over the life of the investment and have an average remaining life of less than 5 years. The private real estate debt LLC's that do not distribute earnings over the life of the fund permit quarterly redemptions with 90 days' notice.

(3) Private Equity Limited Partnerships include direct, co-investments with existing SWIB general partners, direct secondary investments and fund of funds. These investments are illiquid and are generally not resold or redeemed. Distributions from each fund will be received as the underlying investments are liquidated.

(4) This category includes emerging markets equity index funds (54%) with an investment strategy designed to track the return of the given segment of the emerging equity markets. These investments can be redeemed daily with 2 days' notice. An additional 46% of this category represents long-only equity managers with various fundamental, quantitative and other approaches spanning various styles, geographies and market cap weights. These long-only manager investments can be redeemed monthly, with between 10 and 30 days' notice.

(5) This category includes funds that invest directly in real estate and real estate related assets. Approximately 68% of these investments are generally not resold or redeemed. Distributions from each fund will be received as the underlying investments are liquidated. The remaining 32% of this category consists of open-ended funds that invest directly in real estate and real estate related assets. Such investments can be redeemed quarterly with between 30 and 90 days' notice.

(6) Hedge Fund investments are private investment funds that seek to produce absolute returns using a broad range of strategies. In certain instances, Hedge fund investments are structured as limited partnerships, whereby participants receive distributions over the life of the fund. Estimated remaining life of funds structured as limited partnerships is estimated to be between 5-10 years. Additional information relating to Hedge Funds can be found in Note 4(D).

(7) SWIB had additional unfunded commitments of approximately $10.2 million, relating to assets not valued using NAV.

(8) Redemption terms described for NAV investments reflect contractual agreements and assume withdrawals are made without adverse market impact and under normal market conditions.

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 $6.9 billion as of December 31, 2017.

Private Equity and Real Estate Limited Partnerships

Limited partnerships are generally structured to provide distributions to participants of the fund as the holdings of the partnership are liquidated over time. In general, the Private Equity Limited Partnerships participated in the following investment strategies at December 31, 2017:

Buyout – This strategy acquires shares of a private company to gain a controlling interest.

Mezzanine – Provides mezzanine debt to finance leveraged buyouts, recapitalizations, and corporate acquisitions.

Special Situations – This strategy can invest in public and private companies undergoing financial distress, a turnaround in business operations, or which are believed to be undervalued because of a discrete extraordinary event.

Venture Capital – This strategy invests in companies with potential for significant growth (generally small to early stage emerging firms).

The Real Estate Limited Partnerships generally consisted of the following investment strategies at December 31, 2017:

Core – Core investments are expected to deliver a significant percentage of their return from income and should demonstrate lower volatility than Opportunistic and Value investments due to lower leverage, higher occupancy, and asset location.

Value – Value investments typically have significant near-term leasing, repositioning, and/or renovation risk. This strategy is expected to have modest initial operating revenues with potential for substantial income growth and will likely encounter greater volatility than Core strategies, but lower volatility than Opportunistic strategies.

Opportunistic – Opportunistic investments usually have significant development, lease-up, financial restructuring, and/or liquidity risk with little or no initial operating income. This strategy typically uses the highest leverage, is expected to achieve most of its return from future capital gains, and is likely to encounter greater volatility than Core and Value strategies.

Hedge Funds

Hedge Fund investments are private investment funds that seek to produce absolute returns using a broad range of strategies. When redeeming Hedge Fund investments, the agreements governing the investment vehicle oftentimes require advanced notice and may restrict the timing of withdrawals. Hedge Fund agreements can also include "lock-up" periods, which restrict investors from redeeming their investment during a specified time frame. The lock-up period helps portfolio managers avoid liquidity problems. Lock-ups can be "hard," where redemptions are not permitted for a specified time period, or "soft," where redemptions are permitted provided the investor pays a penalty. In certain instances, a fund may have both hard and soft lock-up restrictions in place. In addition, hedge fund managers can also institute a "rolling" lock-up. A fund with a rolling lock-up period requires investors to commit to an initial lock-up period, and, if the investor does not submit a redemption notice within a set time prior to expiration of the lock-up, the lock-up is reset.

The Retirement Funds participated in the following Hedge Fund strategies at December 31, 2017:

Equity Long-Short – This strategy invests both long and short in publicly-traded stocks. These managers vary in their use of short selling and leverage.

Event-Driven– The funds in this strategy seek to gain an advantage from pricing inefficiencies that may occur before or after a corporate action or related event, such as a merger, spinoff, earnings call, bankruptcy, or restructuring.

Global Macro – The funds in this category invest their holdings in indexes, commodities, interest rate instruments, and currencies as a result of relative value or directional forecasts from a systematic or discretionary approach.

Market Neutral/Arbitrage – This strategy uses a range of fixed income, convertible instruments, and/or statistical arbitrage strategies that seek to hedge market-related risks to earn consistent returns.

Multistrategy – The funds in this category employ a wide range of strategies and instruments in managing assets.

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 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 require that the bond portfolios shall maintain an average quality rating of A- or better at time of purchase, using the lower of split ratings at the time of purchase.

Investment credit quality ratings as of June 30, 2018, 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, WRS and SIF)

Credit Quality Ratings	Fair Value
AAA	$ 189.0
AA	537.6
A	22.0
Not Rated	1,914.7
Total	$ 2,663.2

The following schedule displays the credit ratings at June 30, 2018, for the Various Funds (fair values in millions):

Various Funds

	UW System	IPFCF	Historical Society	Tuition Trust	SLF
AAA	$ -	$ 27.4	$ -	$ 1.1	$ 1.1
AA		631.5			50.5
A		121.8			30.8
BBB		275.0			23.9
BB		31.9			1.7
Short-term Investment Fund (Not Rated)		8.4			
Bond Fund (Not Rated)	141.3		3.7		
Totals	$ 141.3	$ 1.096.1	$ 3.7	$ 1.1	$ 108.0

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, 2017 (in millions).

WRS

Rating	Fair Value
F1/A-1	$ 0.1
AAA/Aaa	259.9
AA/Aa	17,397.5
A	1,872.7
P-2/A-2	328.6
BBB/Baa	2,090.0
BB/Ba	925.5
B	824.4
CCC/Caa or below	310.5
Commingled Fixed Income Funds	7,633.1
Not Rated	790.4
Total	$ 32,433.3

Reverse Repurchase Agreements

Wisconsin Retirement System (WRS)

SWIB held $6.1 billion in reverse repurchase agreements at December 31, 2017. 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, 2017 was $87.8 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. 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 1.18 percent and 1.82 percent. Portfolio guidelines require agreements to mature between one and 90 days.

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 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, 2018, the primary government did not have any direct investment securities exposed to 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, 2017, the WRS held 2 repurchase agreements totaling $14.2 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 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 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 $138.9 million of the reported investments of the non-major governmental funds were issued by the State of Wisconsin which represents 12.1 percent of total investments.

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, 2018, none of the Various Funds had more than 5 percent of their total investments in a single issuer.

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, 2017.

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 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, 2018, the primary government's investments were (in millions):

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

	Investment Maturities				
Investment Type	**Less Than 1 Year**	**1 to 5 Years**	**6 to 10 years**	**More Than 10 Years**	**Fair Value**
U.S. Government and U.S. agency holdings	$ 287.2	$ 257.0	$ 3.8	$ 274.0	$ 822.0
State and municipal bonds and notes	4.0	4.5	67.8	186.2	262.5
Money market funds	235.2	--	--	--	235.2
Mutual funds – open ended	0.1	638.4	1,181.9	--	1,820.4
Private Placement	0.4	1.8	3.0	20.3	25.5
Guaranteed Investment Contracts	--	181.9	--	--	181.9
Total	$ 527.0	$ 1,083.6	$ 1,256.5	$ 480.6	$ 3,347.7

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, 2018, 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	UW System Fair Value	UW System Duration	IPFCF Fair Value	IPFCF Duration	Historical Society Fair Value	Historical Society Duration	Tuition Trust Fair Value	Tuition Trust Duration	SLF Fair Value	SLF WAM
Govt/Agency	$ -		$ 597.9	5.33	$ -		$ 1.1	0.41	$ 45.5	14.24
Corporate Bonds			428.1	7.22					62.5	15.5
Municipal Bonds			21.0	11.92						
Foreign Bonds (Govt/Agency)			40.6	4.49						
Bond Fund	141.3	7.01			3.7	6.35				
Short-Term Investment Fund			8.4	0.13						
Total	$141.3		$1,096.1		$ 3.7		$ 1.1		$108.0	

External Investment Pools

The Injured Patients and Families Compensation Fund, has investments totaling $8.4 million at June 30th, 2017 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.

Investments for the Retiree Life Fund and Local Retiree Life Fund are held with the insurance carrier. Interest is calculated and credited to the Retiree Life Insurance Funds based on the rate of return for a segment of the insurance carrier's general fund, specifically 10 Year A- Bonds (as a proxy and not tied to any specific investments). The funds invested during the year earn interest based on that year's rate of return for 10 Year A- Bonds. The overall aggregate interest rate is calculated using a tiered approach based on the year the funds were invested and the rate of return for that year. Investment interest is credited based on the aggregate rate of return and assets are not adjusted to fair market value. Furthermore, the insurance carrier guarantees the principal amounts of the reserves, including all interest previously credited thereto.

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, 2017, 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	$ 71.8	4.1
Corporate Bonds & Private Placements	4,985.2	6.3
Foreign Government / Agency Bonds	2,511.5	8.0
Municipal Bonds	122.4	10.3
U.S. Government Agencies	215.9	4.2
U.S. Treasury Inflation Protected Securities	12,780.8	7.6
U.S. Treasury Securities	3,700.6	5.0
Commingled Funds:		
Domestic Fixed Income	5,699.4	7.9
Emerging Market Fixed Income	1,058.7	6.1
Subtotal	$ 31,146.3	

Investment Type	Fair Value	Weighted Average Maturity (days)
Commercial Paper	$ 397.9	15
Repurchase Agreements	14.2	2
Commingled Funds:		
Short Term Cash Management	875.0	62
Subtotal	1,287.0	
Total	$ 32,433.3	

*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 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, 2018, 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, 2018, the Various Funds did not directly own any issues denominated in a foreign currency.

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, 2017, 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	Futures & Options	Total
Argentina Peso	$ -	$ -	$ 0.3	$ -	$ -	$ -	$ -	$ 0.3
Australia Dollar	11.1	1,173.7	34.9	-	-	(28.8)	-	1,191.0
Brazil Real	0.8	45.5	-	-	16.9	-	-	63.2
Canada Dollar	13.2	1,691.3	32.2	-	-	(44.5)	(0.1)	1,692.2
Chile Peso	-	2.4	-	-	-	-	-	2.4
Colombia Peso	-	0.5	-	-	-	-	-	0.5
Czech Republic Koruna	-	0.3	-	-	-	-	-	0.3
Denmark Krone	0.8	347.4	12.5	-	-	(12.8)	-	347.9
Euro Currency Unit	36.9	5,754.5	958.0	851.6	114.1	(154.0)	(2.5)	7,558.7
Hong Kong Dollar	6.0	850.9	-	-	-	-	-	856.8
Hungary Forint	-	0.5	-	-	-	-	-	0.5
India Rupee	0.2	87.3	-	-	-	-	-	87.4
Indonesia Rupiah	0.6	25.2	0.1	-	-	-	-	25.9
Israel Shekel	0.6	37.7	-	-	-	(0.7)	-	37.6
Japan Yen	84.2	4,319.2	477.4	-	-	(174.1)	0.6	4,707.4
Malaysia Ringgit	1.0	31.6	8.2	-	-	-	-	40.8
Mexico Peso	0.9	4.1	23.6	-	-	-	-	28.5
New Zealand Dollar	0.5	33.7	2.6	-	-	-	-	36.8
Norway Krone	1.0	123.9	5.4	-	-	(5.4)	-	124.9
Philippines Peso	-	1.2	-	-	-	-	-	1.2
Poland Zloty	1.4	32.7	17.5	-	-	-	-	51.6
Singapore Dollar	2.1	243.9	6.9	-	-	(14.6)	-	238.4
South African Rand	1.0	56.3	20.0	-	-	-	-	77.4
South Korea Won	0.2	217.3	-	-	-	-	-	217.5
Sweden Krona	5.1	447.2	8.5	6.9	-	(26.2)	-	441.5
Switzerland Franc	2.9	1,382.7	-	-	-	(12.4)	-	1,373.2
Taiwan New Dollar	-	93.9	-	-	-	-	-	93.9
Thailand Baht	0.2	71.1	-	-	-	-	-	71.3
Turkey Lira	0.3	69.0	-	-	-	-	-	69.3
United Kingdom Pound	29.9	3,122.7	162.0	150.7	-	(57.4)	1.0	3,408.9
Total	$ 201.0	$ 20,267.8	$ 1,770.2	$ 1,009.2	$ 131.0	$ (530.9)	$ (1.0)	$ 22,847.3

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, 2016, the fair value of the securities on loan to counterparties was approximately $10.8 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, 2017, minimal credit risk exposure to borrowers existed because loans are collateralized in excess of 100%. 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 mitigated by the highly liquid nature of investments held in the collateral reinvestment pools. The average maturities of the loans and the average maturity of the assets held in collateral reinvestment pools were similar at December 31, 2017.

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.

As of December 31, 2017, there were 12 counterparties making up the WRS's exposure to counterparty credit risk for uncleared OTC derivative contracts. The exposure of the WRS to counterparty credit risk relating to these was as follows (in millions of United States Dollars):

OTC Derivatives Subject to Counterparty Credit Risk

	Counterparty Credit Rating		
FX Receivables:	AA	$	0.7
	A		2,002.5
	BBB		479.6
To Be Announced Securities	A		0.2
Warrants	Not Rated		3.9
Total			2,486.9
Less Collateral and MNA Offsets			2,482.8
Total OTC Counterparty Credit Risk		$	4.2

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, 2017 (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
Argentina Peso	57.9	3.1	(0.2)	--	--	--
Australia Dollar	95.1	74.4	0.5	(92.5)	(72.4)	(0.2)
Brazil Real	78.2	23.5	(0.2)	--	--	--
Canada Dollar	93.8	74.9	0.6	(138.4)	(110.5)	(0.6)
Chile Peso	3,184.4	5.2	0.1	(1,994.4)	(3.2)	(0.1)
China Yuan Reminbi	33.7	5.2	0.1	(21.2)	(3.2)	(0.1)
Colombia Peso	14,407.8	4.8	--	(13,281.1)	(4.4)	(0.1)
Czech Republic Koruna	149.3	7.0	0.2	(91.0)	(4.3)	(0.1)
Denmark Krone	148.9	24.0	0.2	(167.8)	(27.1)	(0.1)
Euro Currency Unit	113.1	136.0	1.2	(414.1)	(498.1)	(3.8)
Hong Kong Dollar	67.0	8.6	--	(321.9)	(41.2)	--
Hungary Forint	1,549.6	6.0	0.1	(501.9)	(1.9)	(0.1)
Indian Rupee	2,554.9	40.0	0.9	--	--	--
Indonesia Rupiah	328,435.9	24.2	0.2	(92,928.5)	(6.9)	--
Israel Shekel	27.3	7.9	--	(34.2)	(9.9)	(0.1)
Japan Yen	15,039.3	133.7	0.4	(34,374.3)	(305.4)	(0.7)
Malaysia Ringgit	5.3	1.3	--	--	--	--
Mexico Peso	527.3	26.8	(0.8)	(143.0)	(7.3)	0.1
New Zealand Dollar	6.7	4.7	--	(6.6)	(4.7)	(0.1)
Norway Krone	338.6	41.4	0.2	(213.3)	(26.1)	(0.3)
Peru Sol	21.9	6.8	--	(19.2)	(5.9)	(0.1)
Philippines Peso	352.3	7.1	0.1	(492.3)	(9.9)	(0.1)
Poland Zloty	35.8	10.3	0.2	(41.6)	(12.0)	(0.5)
Russia Ruble	2,143.8	37.1	0.8	(583.5)	(10.1)	(0.3)
Singapore Dollar	33.7	25.2	--	(21.8)	(16.3)	(0.1)
South Africa Rand	77.8	6.3	0.7	(112.5)	(9.0)	(0.2)
South Korea Won	12,183.2	11.4	0.2	(2,988.2)	(2.8)	(0.1)
Sweden Krona	542.0	66.3	1.0	(310.5)	(38.0)	(0.3)
Switzerland Franc	56.8	58.4	0.7	(72.9)	(74.9)	(0.5)
Taiwan New Dollar	89.3	3.0	--	(675.2)	(22.9)	(0.3)
Thailand Baht	150.0	4.6	0.1	(196.7)	(6.0)	(0.1)
Turkey Lira	95.5	25.0	0.6	--	--	--
United Kingdom Pound	73.5	99.5	0.8	(109.8)	(148.6)	(1.1)
United States Dollar	1,469.4	1,469.4	--	(1,000.9)	(1,000.9)	--
Totals		2,482.8	8.8		(2,484.0)	(9.8)
Net Foreign Currency Contract Receivable / (Payable)					(1.1)	(1.0)

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, 2017 (in millions).

Futures Contracts

Futures Contract Description	Expiration	Notional Amount	Fair Value*
Long Positions:			
Commodity	Jan - Dec 18	$ 2,045.2	$ 67.9
Currency	Mar-18	13.6	0.1
Equity	Jan - Mar 18	1,374.2	7.7
Fixed Income	Mar-18	9,561.2	(19.2)
Short Positions:			
Commodity	Jan - Dec 18	$ (44.3)	$ 0.3
Currency	Jan - Mar 18	(96.0)	(1.2)
Equity	Mar 18	(752.4)	(8.9)
Fixed Income	Mar-18	(147.5)	0.2
Total		$ 11,954.0	$ 47.1

* 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.

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.

Throughout the year, the WRS held positions in Total Return Swaps and Credit Default Swaps (CDS). The following table presents the investments in open Swap Positions as of December 31, 2017 (in millions).

Open Swap Positions

Description / Reference Rates	Maturity Date	Notional Amount	Fair Value
Credit Default Bond Index	Dec 2022	$ 175.0	$ 4.2

The open CDS contracts at December 31, 2017 represent cleared OTC positions where SWIB sold credit protection. Under the terms of the contracts, the WRS receives periodic payments and, in exchange agrees to pay a formula-determined amount to counterparties for losses incurred if stipulated credit events occur. CDS spreads are sensitive to credit spread and interest rate changes.

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.

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.

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, 2017 (in millions):

Option Contracts

Security Description	Contract Type	Position	Exchange-Traded vs. OTC	Expiration	Notional	Fair Value	Unrealized Gain (Loss)
Currency	Call	Short	Exchange	Jan 18	$ (0.2)	$ -	$ -
Equity	Call	Long	Exchange	Mar 18 - Apr 18	2.7	0.1	(0.2)
	Call	Short	Exchange	Jan 18 - Mar 18	(71.9)	(2.6)	(1.2)
	Call	Short	OTC	Jan 18	(3.9)	-	-
	Put	Long	Exchange	Jan 18 - Sep 18	16.8	0.3	(0.2)
	Put	Short	Exchange	Jan 18 - Sep 18	(146.6)	(1.4)	0.4
	Put	Short	OTC	Jan 18	(6.4)	(0.2)	-
Volatility	Call	Long	Exchange	Feb 18	0.8	0.1	-
	Call	Short	Exchange	Feb 18	(0.8)	-	-
	Put	Short	Exchange	Feb 18	(0.8)	-	-
Total Option Contracts					$ (210.3)	$ (3.8)	$ (1.2)

To Be Announced Securities — In 2017, the WRS began trading to be announced mortgage-backed (TBA) securities. These commitments are uncleared OTC forward contracts consisting of mortgage-backed securities (MBS) issued by Government National Mortgage Association, a government entity, and by government-sponsored enterprises such as, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corp. The term TBA is derived from the fact that the actual MBS that will be delivered to fulfill a TBA trade is not designated at the time the trade is made. Instead, the specific pool of mortgages making up the MBS is announced 48 hours prior to the established trade settlement date. Eligibility rules and standards for MBS pools deliverable into TBA contracts ensure that delivered MBS pools are fungible. Payment for TBA securities is not made until the settlement date.

Certain portfolio investment guidelines allow for both long and short TBA positions. To mitigate counterparty credit risk, guidelines establish minimum credit ratings and require master netting agreements which include provisions for collateral exchanges.

TBAs, much like their underlying MBS securities, may be highly sensitive to interest rate changes. This is because the MBS pool on which these forward contracts are based can be subject to early payment in a period of declining interest rates. The price of TBAs can fluctuate as the marketplace predicts changes in timing, or possible reductions in expected cash flows, associated with a change in interest rates.

The table below presents the fair value of TBA securities as of December 31, 2017 (in millions):

TBA Contracts

Position / Maturity	Fair Value	Unrealized Gain / (Loss)	Weighted Average Duration (years)
Long Jan 18	$ 239.2	$ -	4.8
Short Jan 18	(143.7)	(0.2)	3.6
Total	$ 95.5	$ (0.2)	

The fair value of TBAs is reflected in “To Be Announced Securities” on the Statement of Fiduciary Net Position. The unrealized gain/loss associated with these contracts is included within the “Net Increase (Decrease) in the Fair Value of Investments” on the Statement of Changes in Fiduciary Net Position.

Warrants — A warrant is a contract that entitles the holder to buy the underlying stock of the issuing company at a specified price. Warrants and options are similar in that the two instruments allow the holder special rights to buy securities. However, warrants differ from options in that they provide additional financing to the issuing company when exercised.

As of December 31, 2017, SWIB held warrant contracts giving SWIB the right to purchase 190,780 shares of preferred stock at a price of 1 Euro per share. SWIB was issued these warrants in 2017 in conjunction with an investment in a privately held company. The $4.2 million fair value of these warrants is based upon third-party valuations and is included in the “Equities” section on the Statement of Fiduciary Net Position. The associated unrealized gain of $3.9 million is included in the “Net Increase (Decrease) in the Fair Value of Investments” on the Statement of Changes in Fiduciary Net Position.

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 in various ways, such as: limiting the total value of short sales as a percentage of portfolio value, establishing portfolio vs. benchmark tracking error limits, and monitoring other statistical and economic risk measures of the portfolio. 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, 2017, the WRS posted $1,556.1 million in cash and $410.9 million in securities as collateral to security lenders. This represented $64.6 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.

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. 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.

All remaining short-term debt investments (U.S. Government/Agency securities, Banker's Acceptances, Commercial Paper, and negotiable Certificates of Deposit) are carried at fair value. 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 estimate a security's fair 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.

SIF pool shares are bought and redeemed at $1.00 based on the amortized cost of the investments in the SIF. The State of Wisconsin does not provide any legally binding guarantees to support the value of pool shares.

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, 2018 (in millions).

		Fair Value Measurement Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level:				
Government & Agencies	$ 5,246.2	$ 668.1	$ 4,578.2	$ --
Commercial Paper	364.6		364.6	
Certificates of Deposit (negotiable)	80.0		80.0	
Banker's Acceptances	19.8			19.8
Total By Fair Value Level	$ 5,710.7	$ 668.1	$ 5,022.8	$ 19.8
Short- Term Reported at Cost or Amortized Cost:				
Repurchase Agreements	$ 3,725.7			
Certificates of Deposit	42.5			
Total	**$ 9,478.8**			

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. The majority of debt securities are classified as Level 2 because they are generally traded using a dealer market, with lower trading volumes than Level 1 securities.

Level 3 investments are generally valued using significant inputs that are unobservable to the marketplace. Banker's Acceptances included in Level 3 represent securities that derive their fair value from cost. Typically, due to their short-term nature, cost approximates fair value for these investments. Investments held at cost (Repurchase Agreements and non-negotiable Certificates of Deposit) are not reported within the fair value hierarchy.

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 held six repurchase agreements totaling $3.7 billion as of June 30, 2018. Five of the repurchase agreements totaling $2.1 billion, were tri-party agreements. The underlying securities (collateral) for these repurchase agreements were held by the tri-party's agent, not in SWIB's name. The remaining repurchase agreement, totaling 1.6 billion, was a related-party, bilateral agreement with the WRS. The underlying securities for this repurchase agreement were held by SWIB's custodian, in SWIB's name.

The related party repurchase transaction with the WRS was an overnight agreement collateralized with U.S. Treasury securities. The WRS is also a participant in the SIF, with an investment totaling 2.0 billion at June 30, 2018.

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 discount notes. As of June 30, 2018, the SIF has more than five percent of its investments in FNMA (15.6 percent), FHLB (17.6 percent), FHLMC (11.1 percent), U.S. Treasury (11.0 percent) and Repurchase Agreement collateral (39.3 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, 2018 (in millions):

Investment Type	Ratings	Fair Value
Repurchase Agreements (Collateral):		
U.S. Government Debt & Agencies	AA	3,725.7
U.S. Treasury:		
Short-Term (Bills)	A-1+	867.7
Long Term (Note)	AA	179.3
Government Sponsored Entity U.S. Agency:		
Federal Home Loan Bank (FHLB)	A-1+	1,673.8
Federal Home Loan Mortgage Corporation (FHLMC)	A-1+	1,024.7
Federal Home Loan Mortgage Corporation (FHLMC)	AA	25.0
Federal National Mortgage Association (FNMA)	A-1+	1,475.6
Certificates of Deposit:		
Negotiable	A-1+	55.0
Negotiable	A-1	25.0
Non-Negotiable (Wisc. CD program)	NR	42.5
Banker's Acceptances	A-1+	19.8
Commercial Paper	A-1+	310.7
Commercial Paper	A-1	53.9
Total Investments		$ 9,478.8

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, 2018, 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	$ 3,725.7	2
Government & Agencies	5,246.2	32
Certificates of Deposit	122.5	70
Banker's Acceptances	19.8	67
Commercial Paper	364.6	19
Total Investments	$ 9,478.8	
Portfolio Weighted Average Maturity (Days)		20

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.

3. Lottery Investments and Related Future Prize Obligations

Investments of the State Lottery Fund totaling $19.0 million are held to finance grand prizes payable over a 20-year, 25-year or 30-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
2019	4.6
2020	4.1
2021	3.7
2022	2.7
2023	2.4
Thereafter	3.2
Total future value	20.8
Less: Present value adjustment	(3.1)
Present value of payments	$ 17.7

This page left intentionally blank.

NOTE 6. RECEIVABLES AND NET REVENUES

A. Receivables

Receivables at June 30, 2018 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	$ 1,551,220	$ -	$ -	$ -	$ -	$ 5,454	$ 715,979	$ 1,158,176	$ -	$ 3,430,829
Transportation	104,506	-	-	-	-	16,967	4,308	274,043	-	399,824
Capital Improvement	-	-	-	-	-	-	-	-	-	-
Nonmajor Governmental	268	490,881	-	-	-	-	71,825	37,399	-	600,374
Total Governmental:	1,655,994	490,881	-	-	-	22,421	792,112	1,469,619	-	4,431,027
Government-wide Adjustments:										
Internal Service Funds	-	-	-	-	-	-	3,413	524	585	4,522
Accrual Adjustments	-	-	-	-	-	-	2,674	-	-	2,674
Fiduciary Receivables	-	-	-	-	-	-	69,679	-	-	69,679
Total – Governmental Activities	$ 1,655,994	$ 490,881	$ -	$ -	$ -	$ 22,421	$ 867,878	$ 1,470,142	$ 585	$ 4,507,902
Related revenue not recognized in the funds because it is not available	$ 223,188	$ -	$ -	$ -	$ -	$ -	$ 21,399	$ -	$ -	$ 244,587
Business-type Activities:										
Current:										
Injured Patients and Families Compensation	$ -	$ -	$ -	$ -	$ -	$ -	$ 22,043	$ -	$ -	$ 22,043
Environmental Improvement	-	184,811	-	-	-	-	192	9,441	-	194,444
University of Wisconsin System	-	-	29,655	-	-	-	130,038	109,549	22	269,264
Unemployment Reserve	-	-	-	-	-	-	157,960	1,733	-	159,693
Nonmajor Enterprise	-	253	-	149	1,649	-	81,379	8,105	-	91,535
Total Current:	-	185,064	29,655	149	1,649	-	391,612	128,828	22	736,979
Noncurrent:										
Environmental Improvement	-	1,772,088	-	-	-	-	-	-	-	1,772,088
University of Wisconsin System	-	-	167,754	-	-	-	495	-	140	168,388
Unemployment Reserve	-	-	-	-	-	-	34,419	-	-	34,419
Nonmajor Enterprise	-	1,628	-	361	20,962	3,039	-	-	-	25,990
Total Noncurrent	-	1,773,717	167,754	361	20,962	3,039	34,915	-	140	2,000,886
Government-wide Adjustments:										
Fiduciary Receivables	-	-	-	-	-	-	14,144	-	-	14,144
Total – Business-type Activities	$ -	$ 1,958,781	$ 197,408	$ 510	$ 22,611	$ 3,039	$ 440,670	$ 128,828	$ 162	$ 2,752,009

B. Net Revenues

Certain revenues of the University of Wisconsin System are reported net of scholarship allowances. For Fiscal Year 2018, these scholarship allowances totaled as follows (in thousands):

Student Tuition and Fees	$ 231,391
Sales and Services of Auxiliary Enterprises	39,909
Total	$ 271,300

NOTE 7. CAPITAL ASSETS

Primary Government

Capital asset activity for the fiscal year ended June 30, 2018 was as follows (in thousands):

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and Land Improvements	$ 2,843,045	$ 33,611	$ (1,608)	$ 2,875,048
Buildings and Improvements	166,977	584	-	167,561
Library Holdings	58,555	320	-	58,875
Equipment	164	-	-	164
Construction and Software in Progress	3,473,023	609,172	(1,499,967)	2,582,228
Infrastructure	15,843,112	1,184,735	(72,605)	16,955,242
Total capital assets, not being depreciated	22,384,876	1,828,422	(1,574,179)	22,639,119
Capital assets, being depreciated:				
Land Improvements	183,030	8,076	-	191,105
Buildings and Improvements	2,380,595	297,167	(22,222)	2,655,540
Equipment	993,760	116,874	(35,976)	1,074,657
Totals	3,557,384	422,116	(58,198)	3,921,302
Less accumulated depreciation for:				
Land Improvements	132,620	8,664	-	141,285
Buildings and Improvements	1,160,637	70,082	(19,292)	1,211,427
Equipment	661,193	77,651	(33,293)	705,551
Totals	1,954,451	156,397	(52,585)	2,058,263
Total Capital Assets, being depreciated, net	1,602,933	265,719	(5,613)	1,863,039
Governmental activities capital assets, net	$ 23,987,809	$ 2,094,141	$ (1,579,792)	$ 24,502,158
Business-type activities:				
Capital assets, not being depreciated:				
Land and Land Improvements	$ 162,398	$ 41	$ -	$ 162,439
Construction and Software in Progress	261,842	313,963	(59,577)	516,228
Total Capital Assets, not being depreciated	424,240	314,004	(59,577)	678,666
Capital assets, being depreciated:				
Land Improvements	23,062	1,498	(26)	24,534
Library Holdings	1,120,152	18,654	(15,954)	1,122,852
Buildings	7,929,604	67,806	(231)	7,997,179
Equipment	1,225,584	85,234	(49,191)	1,261,627
Totals	10,298,402	173,193	(65,402)	10,406,193
Less accumulated depreciation for:				
Land Improvements	14,121	1,073	(26)	15,168
Buildings	3,542,762	238,258	(160)	3,780,860
Equipment	918,524	78,201	(46,292)	950,433
Library Holdings	960,980	22,382	(15,954)	967,408
Totals	5,436,387	339,914	(62,432)	5,713,869
Total Capital Assets, being depreciated, net	4,862,014	(166,721)	(2,970)	4,692,324
Business-type activities capital assets, net	$ 5,286,254	$ 147,283	$ (62,547)	$ 5,370,990

In addition to the capital assets reported by governmental and business-type activities, the fiduciary funds reported gross capital assets of $37.7 million, with accumulated depreciation totaling $3.8 million.

Depreciation Expense

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

Governmental Activities			Business-type Activities		
Commerce	$	315	University of Wisconsin System	$	323,984
Education		5,310	Lottery		29
Transportation		12,147	Veterans Mortgage Loan Repayment		5
Environmental Resources		16,364	Injured Patients and Families Compensation		524
Human Relations and Resources		63,290	Environmental Improvement		-
General Executive		14,942	Other Business-Type		15,371
Judicial		2,066	Total depreciation expense - business-type activities	$	339,914
Internal Service Funds		41,963			
Total depreciation expense - governmental activities	$	156,397			

Construction and Software in Progress

Construction and software in progress of the primary government reported in the government-wide statement of net position at fiscal year end included the following projects:

Governmental Activities	Allotments	Expended to June 30, 2018	Encumbrances Outstanding	Unencumbered Allotment Balance
Reported through capital projects funds:				
I94 N-S Corridor Reconstruction	$ 74,068,325	$ 74,068,325	$ -	$ -
General Land Acquisition-2010	38,300,000	36,942,197	-	1,357,803
General Land Acquisition	16,581,125	16,573,675	7,450	-
Waupun Cntrl Generating Plant	15,597,100	15,570,827	16,971	9,302
General Land Acquisition	18,300,233	18,300,233	-	-
Stillwater/St Croix Crossing Bridge	60,777,387	60,777,387	-	-
Zoo Interchange	530,476,901	530,476,901	-	-
General Land Acquisition	10,968,480	10,715,040	253,440	-
CCI Segregation Unit Expansion	12,026,281	6,547,685	4,185,706	1,298,912
Major Highway and Rehabilitation	76,556,422	76,556,422	-	-
Willow River State Park Little Falls Dam Renovation	19,041,700	848,621	12,479,789	5,715,131
Kettle Moraine Springs Hatchery Renovation	26,600,000	1,201,197	39,712	25,359,090
BCPL Land Sale/Transfer to DNR	14,000,000	10,908,050	-	3,091,950
Other Projects with Allotments Totaling Less Than $10 Million		68,516,960	-	-
Subtotal		$928,003,520		
Projects funded with sources other than capital projects funds:				
Transportation-related		$1,633,349,676		
Department of Natural Resources		5,375,816		
Department of Health Services		13,430,984		
Other agency projects		2,067,687		
Total construction and software in progress – governmental		$2,582,227,683		
Business-type Activities				
MSN Music Performance Facility	$ 55,800,000	$ 23,863,850	$ 21,488,214	$ 12,222,687
MSN Lot 75 Parking Lot	32,670,000	26,459,430	30,141	6,181,363
EAU New Residence Hall	35,000,000	7,584,634	23,441,573	5,673,271
MSN Multi-Bldg Energy Conservation	12,032,400	10,798,029	573,370	938,733
RVF Rodi Hall Renovation	15,100,000	866,646	263,169	13,970,186
EAU Garfield Corridor Improvement	12,424,000	8,499,732	2,423,276	1,726,281
MSN Babcock Hall Renovation	46,920,000	2,889,861	40,140,486	3,889,653
OSH Fletcher Hall Renovation	26,412,500	25,076,799	88,395	1,254,194
STP Chemistry Biology Building	72,255,885	59,155,509	5,873,917	10,805,498
MSN Chemistry Addition & Renovation	133,100,000	6,913,766	1,556,450	124,629,783
LAC Science Labs Building	79,500,000	64,505,575	9,235,946	7,345,653
MSN Meat Sci & Muscle Bio Lab	50,077,000	31,771,552	12,775,031	7,209,850
MSN Sellery & Witte Renovation	52,797,000	32,847,406	17,482,499	7,336,945
EAU Towers Hall Renovation	35,969,000	19,154,632	14,092,911	4,191,617
LAC Wittich Hall Renovation	26,746,000	1,618,098	442,699	24,685,204
STO North Hall Add and Renovation	21,744,000	1,481,674	17,702,525	3,371,956
PLT Williams Field House Addition	15,272,000	6,488,028	6,486,363	4,151,785
MSN SERF Facility Replacement	96,541,000	16,701,893	56,169,248	27,018,752
STP Debot Dining Renovation	16,848,000	1,153,844	11,796,070	3,990,272
MSN South Campus Utilities	17,175,000	829,046	321,867	16,024,087
WTW Design-New Residence Hall	34,000,000	4,108,262	25,554,270	5,426,774
WTW Chiller Plant Upgrade	28,600,000	1,024,845	3,519,539	24,067,731
Mendota Lorenz HL Secure Treatment Units	24,706,000	4,419,507	3,039,364	17,383,67
Veterans Homes Moses Skilled Nursing Facility-King	81,230,000	3,309,233	1,611,513	76,309,254
Projects with allotments totaling less than $10 million:				
University of Wisconsin System		129,557,336		
Other projects with allotments totaling less than $10 million		25,148,504		
Total construction and software in progress – business type		$516,227,692		

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 $483.4 million and $32.9 million, respectively.

Beginning in Fiscal Year 2018, DOT capital projects are reported as completed infrastructure when the project is 100 percent complete. Prior to Fiscal Year 2018, DOT capital projects were reported as completed infrastructure when the project was estimated to be 80 percent complete. Construction in progress and infrastructure are both reported as non-depreciable capital assets. As a result, the impact on CAFR reporting is limited to the timing of when assets move from the Nondepreciable Other account to the Nondepreciable Infrastructure account in the Statement of Net Position.

Beginning in Fiscal Year 2018, University of Wisconsin System library holdings are reported as depreciable capital assets with applicable depreciation expense reflected in the financial statements. A prior period adjustment was made to reflect the reduction in beginning equity for the University of Wisconsin System fund related to the change.

NOTE 8. ENDOWMENTS

Primary Government

University of Wisconsin System

Through March 2018, the University of Wisconsin System invested 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. Effective April 1, 2018, the University of Wisconsin System transferred its investment management responsibilities to the State of Wisconsin Investment Board (SWIB). As a result of this transfer, the Intermediate Term Fund was eliminated as a separate investment pool. 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 that occurred in 2018 from the Intermediate Term Fund, principally quasi-endowments and unspent income distributions, consisted 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, 2018, net appreciation of $141.9 million was available to meet spending rate distributions, of which $16.7 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 are governed and authorized by the Board of Regents. The approved asset allocation for the new SWIB-managed Long Term Fund has a target to public markets of the following: 57.0 percent public equities, 20.0 percent fixed income, and 23.0 percent inflation sensitive securities. Private markets are not included in the target asset allocation. The legacy private markets investments will self-liquidate as distributions are made from existing funds with no new commitments intended.

The fair value of Endowments as of June 30, 2018 was $419.6 million including an unrealized gain of $2.6 million when fair values as of June 30, 2018 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, 2018, 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	$ 279.6
Realized Gains – Undistributed	137.4
Book Value	417.0
Unrealized Net Gains/Losses - Undistributed	2.6
Fair Value	$ 419.6

On June 30, 2018, the portfolio at market, for the Long Term Fund, contained 40.7 percent in global equities, 16.9 percent in Treasury Inflation Protection Securities (TIPS), 16.7 percent in investment grade government/credit, 5.2 percent in hedged non-U.S. equities, 2.7 percent in real estate investment trusts, 2.3 percent in emerging markets equities, and 15.5 percent in private markets. The total return on the Long Term Fund including capital appreciation was 8.10 percent for the year. The total return on the Intermediate find, including capital appreciation, was 1.2% for the nine months ending March 31, 2018, when the fund was liquidated. As of April 2018, all funds are externally managed, compared to 89.8% in fiscal year 2017.

For fiscal year 2017, $488.2 million of endowment investments were reported. A large portion of the decline in the total value of investments is due to the elimination and liquidation of the of the former Intermediate Term Fund as of March 31, 2018. The proceeds from the liquidation of these investments ($86.2 million) were transferred to the SIF, holdings of which are not classified as investments in the above table.

NOTE 9. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances as of or for the year ended June 30, 2018 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, 2018 were as follows (in thousands):

Due from Other Funds:	Due to Other Funds: General	Trans-portation	Capital Improvement	Nonmajor Govern-mental	Injured Patients and Families Compensation	Environ-mental Improve-ment	University of Wisconsin System	Unemploy-ment Reserve	Nonmajor Enterprise	Internal Service	Fiduciary	Total
General	$ -	$ 15,989	$ 2	$ 3,082	$ 69	$ 3,003	$ 37,804	$ 2,065	$ 1,573	$ 1,048	$ 69,431	$ 134,065
Transportation	41,164	-	3,620	31,995	-	-	-	-	-	119	-	76,897
Capital Improvement	-	-	-	-	-	-	-	-	4,619	806	-	5,426
Nonmajor Governmental	20,495	11,862	-	2,090	-	1,281	-	1	2,019	-	-	37,748
Environmental Improvement	37	-	6,834	64	-	-	-	-	-	-	-	6,935
University of Wisconsin System	16,465	799	65	2,265	-	48	-	-	1	50	1	19,693
Unemployment Reserve	248	-	-	-	-	-	-	-	-	-	-	248
Nonmajor Enterprise	5,105	-	-	-	-	-	-	-	1,221	-	12,816	19,142
Internal Service	9,621	4,378	-	1,111	-	-	1,120	-	286	25	248	16,788
Fiduciary	10,160	1,291	-	849	2	4	26,063	-	24,510	195	6,328	69,402
Total	$ 103,295	$ 34,319	$ 10,520	$ 41,455	$ 71	$ 4,336	$ 64,987	$ 2,066	$ 34,228	$ 2,244	$ 88,823	$ 386,344

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, 2018 were as follows (in thousands):

	Interfund Receivable:				
	General	Injured Patients and Families Compensation	Nonmajor Enterprise	Fiduciary	Total
Interfund Payables:					
Nonmajor Governmental	$ 2,121	$ 50	$ -	$ -	$ 2,171
Nonmajor Enterprise	25,266				25,266
Internal Service	47,346		-		47,346
Fiduciary	-	-	54	290,222	290,276
Total	$74,732	$ 50	$ 54	$290,222	$365,058

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, 2018 were as follows (in thousands):

	Advances from Other Funds (liability):		
	General	Nonmajor Governmental	Total
Advances to Other Funds (asset)			
Environmental Improvement	$ -	$ 6,352	$ 6,352
Nonmajor Enterprise	759	-	759
Total	$ 759	$ 6,352	$ 7,111

D. Interfund Transfers

Interfund Transfers in and out that occurred during Fiscal Year 2018 were as follows (in thousands):

Transfers In:

Transfers Out:	General	Transportation	Capital Improvement	Nonmajor Governmental	Environmental Improvement	University of Wisconsin System	Nonmajor Enterprise	Internal Service	Total
General	$ -	$ 43,435	$ 83,411	$ 700,037	$ -	$ 859,091	$ 101,198	$ 4,706	$ 1,791,877
Transportation	1,761	-	8,198	163,665	-	-	-	-	173,623
Capital Improvement	-	-	-	-	17,880	142,360	8,684	1,283	170,207
Nonmajor Governmental	19,044	30,259	3,489	84,093	-	2,646	46	1,263	140,841
Injured Patients and Families Compensation	-	-	-	14	-	-	-	-	14
Environmental Improvement	-	-	-	8,011	-	-	-	-	8,011
University of Wisconsin System	13,266	-	302	67,715	-	-	-	-	81,283
Unemployment Reserve	9	-	-	-	-	-	-	-	9
Nonmajor Enterprise	23,390	-	7	8,597	-	-	14,734	-	46,728
Internal Service	1,096	-	34	1,713	-	20	-	697	3,560
Fiduciary	5	-	-	526	-	-	-	-	531
Total	$ 58,571	$ 73,693	$ 95,441	$ 1,034,370	$ 17,880	$ 1,004,117	$ 124,663	$ 7,949	$ 2,416,683

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. In addition, the transfer of capital assets between governmental and enterprise funds will result in an inconsistency.

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	$ 42,965
Environmental	7,990
Local Government Property Insurance	5,200

Transfers in to the General Fund:

Funds Reporting the Transfer Out	Amount
University of Wisconsin System	$ 3,809
Local Government Property Insurance	13,136

Transfers out from the Petroleum Inspection Fund:

Fund Reporting the Transfer In	Amount
Transportation	$ 24,000

NOTE 10. CHANGES IN LONG-TERM LIABILITIES

During the year ended June 30, 2018, the following changes occurred in long-term liabilities (in thousands):

Primary Government

Governmental Activities	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Amounts Due Within One Year
Bonds and Long Term Notes Payable:					
General Obligation Bonds & Notes for:					
Governmental Funds	$ 5,486,525	$ 1,203,948	$ 1,132,043	$ 5,558,430	$ 538,914
Internal Service Funds	184,758	172,877	25,325	332,311	16,455
Annual Appropriation Bonds	3,096,995	-	69,060	3,027,935	43,505
Revenue Bonds	2,075,650	368,595	323,705	2,120,540	180,212
Issuance Premiums and (Discounts)	775,014	327,949	233,311	869,652	-
Total Bonds and Long Term Notes Payable	11,618,942	2,073,369	1,783,443	11,908,868	779,086
Other Liabilities:					
Future Benefits and Loss Liability	112,920	40,976	43,559	110,336	42,165
Capital Leases	97,708	15,635	19,015	94,328	16,478
Compensated Absences	153,122	55,185	52,007	156,300	54,464
Net Pension Liability	107,399	-	107,399	-	-
Other Postemployment Benefits	474,509	40,656	22,898	492,267	-
Claims, Judgments and Commitments	556	-	77	479	-
Pollution Remediation Obligations	7,982	-	2,257	5,725	225
Total Governmental Activities Long-term Liabilities	$ 12,573,138	$ 2,225,821	$ 2,030,656	$ 12,768,303	$ 892,417

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 2018. 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, pension 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, 2017	Additions	Reductions	Balance June 30, 2018	Amounts Due Within One Year
Bonds Payable:					
General Obligation Bonds	$ 1,502,852	$ 259,150	$ 210,497	$ 1,551,505	$ 97,875
Revenue Bonds	328,435	-	90,550	237,885	84,080
Issuance Premiums and (Discounts)	151,195	49,819	40,048	160,966	-
Total Bonds Payable	1,982,482	308,968	341,095	1,950,355	181,955
Other Liabilities:					
Future Benefits and Loss Liability	853,832	288,459	155,520	986,770	135,820
Capital Leases	31,061	932	708	31,285	1,408
Compensated Absences	152,111	74,089	72,910	153,290	75,363
Net Pension Liability	125,388	-	125,388	-	-
Other Postemployment Benefits	592,753	37,103	37,344	592,512	-
Total Business-type Activities Long-term Liabilities	$ 3,737,626	$ 709,550	$ 732,965	$ 3,714,211	$ 394,546

NOTE 11. BONDS, NOTES AND OTHER DEBT OBLIGATIONS

The following schedule summarizes outstanding bonds and long-term notes payable at June 30, 2018 (in millions):

Primary Government		
Governmental Activities:		
General Obligation Bonds and Notes	$	6,478.1
Annual Appropriation Bonds		3,044.0
Revenue Bonds:		
Transportation		2,330.8
Petroleum Inspection		56.1
Total Governmental Activities		11,908.9
Business-type Activities:		
General Obligation Bonds and Notes:		
University of Wisconsin System		1,618.7
Other Business-type		66.7
Revenue Bonds:		
Environmental Improvement		265.0
Total Business-type Activities		1,950.4
Total Primary Government	$	13,859.2

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, 2018, $4.0 billion of general obligation bonds were legislatively authorized but unissued.

General obligation bonds issued and outstanding as of June 30, 2018 were as follows (in thousands):

Fiscal Year Issued	Series	Dates	Interest Rates	Maturity Through	Amount Issued	Amount Outstanding
2001	2001 Series A	2/01	7.0	5/31	$ 15,000	$ 1,095
2002	2002 Series B, D	3/02; 6/02	6.25	5/33	35,000	2,940
2003	2002 Series F, and H; 2003 Series 2	9/02; 12/02; 4/03	4.65 to 5.25	5/33	41,740	3,140
2004	2003 Series B, and 3;	7/03; 10/03;	4.35 to 5.0	11/33	97,890	7,855
2005	2004 Series C; 2005 Series C	8/04; 4/05	5.15 to 5.4	5/35	6,000	595
2007	2006 Series B, and C; 2007 Series 1;	7/06; 8/06; 2/07	4.8 to 5.65	5/31	362,690	135,470
2008	2007 Series 2; 2008 Series 1,and B	10/07; 6/08; 5/08	4.38 to 4.9	5/38	39,155	6,865
2009	2009 Series B	6/09	5.15 to 5.4	5/30	54,535	54,535
2010	2009 Series C, D; 2010 Series 1, A and B	9/09; 9/09; 3/10; 4/10; 4/10	4.0 to 5.9	5/40	946,885	481,005
2011	2010 Series C, and D; 2011 Series A, and 1	9/10; 9/10; 2/11; 6/11	3.45 to 5.1	5/41	1,160,535	521,980
2012	2011 Series 2, B, and C; 2012 Series 1 ,2, and A	10/11; 8/11; 12/11; 3/12; 5/12; 6/12	2.45 to 5.0	5/42	1,347,620	638,835
2013	2012 Series B; 2013 Series A	11/12; 5/13	2.55 to 5.0	5/33	703,320	462,275
2014	2013 Series 1; 2014 Series 1, 2, and A	11/13; 2/14; 4/14; 2/14	1.5 to 5.0	5/34	1,060,455	624,930
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	11/29	1,318,765	774,010
2016	2015 Series C; 2016 Series 1 and A	9/15; 3/16; 3/16	1.75 to 5.0	5/36	977,435	871,880
2017	2016 Series B, C, D, 2; 2017 Series A	7/16; 7/16, 10/16, 8/16; 3/17	1.0 to 5.0	5/37	1,124,280	1,097,835
2018	2017 Series B, 1, 2, 3; 2018 Series A	11/17; 7/17, 11/17, 12/17; 3/18	2.0 to 5.0	5/38	1,635,975	1,635,975
Total					10,927,280	7,321,220
Premiums/Discounts					--	721,205
Total General Obligation Bonds					$ 10,927,280	$ 8,042,425

As of June 30, 2018, 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
2019	$ 416,438	$ 267,626	$ 69,357	$ 70,277
2020	427,327	247,908	73,263	66,568
2021	418,101	233,174	73,059	65,109
2022	415,270	211,254	77,260	61,316
2023	439,375	190,574	88,835	57,514
2024-2028	1,859,549	670,969	528,301	216,269
2029-2033	1,248,658	289,909	443,852	100,429
2034-2038	561,412	69,506	137,198	28,036
2039-2042	--	--	43,965	4,379
Total	5,786,130	2,180,920	1,535,090	669,898
Premiums/Discounts	587,313		133,892	
Total	$ 6,373,443	$ 2,180,920	$ 1,668,982	$ 669,898

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, 2017 and ends September 30, 2018. The impact of these cuts for the current federal fiscal year is a 6.6% 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.

In November 2017, the State issued General Obligation Refunding Bonds (2017 Series 2), which included a crossover refunding of certain outstanding general obligation bonds that are “qualified Build America Bonds”. A portion of the proceeds of the bonds were deposited in escrow to provide for future interest payments on the 2017 Series 2 bonds until the crossover dates (May 1, 2019 and May 1, 2020), at which time the escrow resources to retire $46.5 million of 2009 Series B bonds, $128.2 million of 2009 Series D Bonds, and $119.1 million of 2010 Series B Bonds. Until the respective crossover dates, the refunded bonds are not considered defeased, and both the 2017 Series 2 Bonds and refunded bonds are reported as liabilities of the State.

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. These notes were issued pursuant to a Term Loan Agreement with JPMorgan Chase Bank, NA. Pursuant to provisions of the Term Loan Agreement, interest rates on the outstanding maturities were increased effective January 1, 2018 as a result of the enactment on December 22, 2017 of the Federal Tax Cuts and Jobs Act (which decreased the federal corporate tax rate).

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 4.17 percent, payable semi-annually on each May 1 and November 1 until their maturity dates. Principal outstanding at year end totaled $121.0 million.

As of June 30, 2018, long-term general obligation note 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
2019	$ 34,241	$ 3,985	$ 5,079	$ 631
2020	45,387	2,820	6,073	459
2021	24,983	1,056	5,262	222
Total	$ 104,611	$ 7,861	$ 16,414	$ 1,312

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. In August 2016, the State issued $400.1 million of General Fund Annual Appropriation Refunding Bonds (Taxable) to refund the May 2018 maturities of the 2008 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 $500.0 million ("2003 Series A Bonds"), bear interest at a rate of 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 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 $185.0 million, bear interest at rates 110 basis points over the one-month LIBOR computed on the basis of a 360-day year and for the number of days actually elapsed, payable monthly on the first business day of the month.

The General Fund Annual Appropriation Refunding Bonds of 2012, Series A (Taxable Fixed Rate) in the outstanding principal amount of $113.6 million ("2012 Series A Bonds"), bear interest at rates from 3.669 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.

The General Fund Annual Appropriation Refunding Bonds of 2016, Series A (Taxable) in the outstanding principal amount of $400.1 million (2016 Series A Bonds), bear interest at rates from 1.45 percent to 2.48 percent computed on the basis of a 30-day month and a 360-day year and for the number of days actually elapsed, payable semiannually on May 1 and November 1 until their maturity dates.

As of June 30, 2018, the debt service requirements for principal and interest on these bonds are as follows (in millions):

Fiscal Year Ended June 30	Principal	Interest
2019	$ 41.0	$ 72.2
2020	99.0	70.0
2021	107.8	66.2
2022	118.3	63.0
2023	130.1	59.1
2024 – 2028	693.2	193.4
2029 – 2032	309.3	40.4
Total	1,498.7	564.5
Unamortized Prem./Discount	(0.5)	--
Total, net	$ 1,498.2	$ 564.5

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, 2018, 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, 2018.

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, 2018, interest rate exchange agreements remain to reduce the interest rate risk in connection with $477.0 million in floating rate notes.

Terms – Nearly all of the outstanding 2008 Series B Bonds and 2008 Series C Bonds are subject to the interest rate exchange agreements with a notional amount totaling $477.0 million as of June 30, 2018. 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, 2018, the aggregate fair value of the interest exchange agreements was negative $107.9 million, an improvement of $42.6 million compared to the aggregate fair value of negative $150.5 million reported as of June 30, 2017. 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, 2018, 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
2019	$ 1.1	$ 15.7	$ 15.6	$ 32.4
2020	1.1	15.7	15.5	32.3
2021	8.5	15.6	15.4	39.6
2022	10.1	15.3	15.2	40.7
2023	10.1	15.0	15.0	40.1
2024 – 2028	211.1	64.3	64.7	340.0
2029 – 2032	235.0	17.1	17.3	269.4
	$ 477.0	$ 158.8	$ 158.7	$ 794.5

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, 2018, 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, 2018, 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, 2018, 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. In August 2016, January 2017, and May 2017, the State issued an aggregate $1.1 billion of General Fund Annual Appropriation Refunding Bonds (Taxable and Tax Exempt) to refund a portion of the appropriation obligations issued in 2009.

The 2009 General Fund Annual Appropriation Bonds bear interest rates from 4.60 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.

The 2016 Series B (Taxable) General Fund Annual Appropriation Bonds bear interest rates from 1.45 percent to 3.29 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 2017 Series A Taxable General Fund Annual Appropriation Bonds bear interest rates from 1.87 percent to 3.95 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 2017 Series B General Fund Annual Appropriation Bonds bear interest rates from 4.00 percent to 5.00 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 2017 Series C (Taxable) General Fund Annual Appropriation Bonds bear interest rates from 1.52 percent to 3.15 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, 2018, the debt service requirements for principal and interest on these bonds are as follows (in millions):

Fiscal Year Ended June 30	Principal	Interest
2019	$ 2.5	$ 62.2
2020	36.9	62.2
2021	40.3	60.6
2022	40.9	58.8
2023	44.6	57.0
2024 – 2028	663.3	235.1
2029 – 2033	139.2	122.2
2034 – 2037	561.6	53.3
Total	1,529.2	711.5
Unamortized Premium/Discount	16.6	
Total, net	$ 1,545.8	$ 711.5

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 $4.1 billion of revenue bonds. Presently, there are fourteen issues of Transportation Revenue Bonds outstanding totaling $2.1 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, 2018 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2017 2	12/17	5.0	7/32	$ 368,595	$ 368,595
2017 1	5/17	5.0	7/37	284,520	284,520
2015 A	12/15	3.0 to 5.0	7/36	225,000	222,520
2015 1	4/15	5.0	7/29	207,240	166,430
2014 2	12/14	5.0	7/27	94,130	94,130
2014 1	4/14	4.5 to 5.0	7/34	339,745	79,065
2013 1	3/13	4.0 to 5.0	7/33	259,680	169,515
2012 2	6/12	4.0 to 5.0	7/24	116,400	105,065
2012 1	4/12	3.5 to 5.0	7/32	343,725	150,435
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	8,935
2009 B	10/09	4.44 to 5.84	7/30	147,130	127,245
2007 1	3/07	5.0	7/22	206,900	136,455
2005 A	3/05	5.0	7/21	235,585	28,575
				3,028,650	2,065,410
Unamortized Premium / Discount				--	265,354
Total				$ 3,028,650	$ 2,330,764

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, 2018, PIF Bonds outstanding are $55.1 million. Debt service payments are secured by petroleum inspection fees.

The PIF revenue bonds issued and outstanding as of June 30, 2018 were as follows (in thousands):

Issue	Issue Date	Interest Rate	Maturity Through	Issued	Outstanding
2016-1	10/16	4.0 to 5.0	7/19	$ 62,445	$ 55,130
Unamortized Premium / Discount					941
Total					$ 56,071

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.

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, 2018, there were two issues of Environmental Improvement Fund Revenue Bonds outstanding totaling $237.9 million.

Bonds issued and outstanding for the Environmental Improvement Fund as of June 30, 2018 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2017-A	6/17	3.0 to 5.0	6/35	218,705	202,415
2015-A	12/15	3.0 to 5.0	6/30	43,380	35,470
				262,085	237,885
Unamortized Premium / Discount				--	27,074
Total				$ 262,085	$ 264,959

As of June 30, 2018, 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
2019	$ 103,235	$ 90,204	$ 27,935	$ 1,647	$ 84,080	$ 11,894
2020	227,150	87,124	27,195	544	9,375	7,690
2021	246,730	86,309	--	--	8,790	7,222
2022	133,820	82,334	--	--	9,230	6,782
2023	133,385	75,024	--	--	9,690	6,320
2024-2028	562,620	271,342			50,365	24,300
2029-2033	468,455	109,895			66,355	12,834
2034-2038	190,015	16,649			--	--
2039					--	--
Total	2,065,410	818,881	55,130	2,191	237,885	77,042
Unamortized Premium / Discount	265,354	--	941	--	27,074	--
Total	$ 2,330,764	$ 818,881	$ 56,071	$ 2,191	$ 264,959	$ 77,042

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, 2017 and ends September 30, 2018. The impact of these cuts for the current federal fiscal year is a 6.6% 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 $127.2 million range from 4.44 percent to 5.84 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 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.

In December 2017, the State issued Transportation Revenue Refunding Bonds (2017 Series 2), which included a crossover refunding of certain outstanding transportation revenue bonds that are "qualified Build America Bonds". A portion of the proceeds of the bonds were deposited in an escrow to provide for future interest payments on the 2017 Series 2 bonds until the crossover dates (July 1, 2019 and July 1, 2020), at which time the escrow has resources to retire $112.6 million of 2009 Series B bonds and $123.9 million of 2010 Series B bonds. Until the respective crossover dates, the refunded bonds are not considered to be defeased, and both the 2017 Series 2 bonds and refunded bonds are reported as liabilities of the State.

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 July 2017, the State issued $345.3 million of general obligation refunding bonds (2017 Series 1), the proceeds of $422.4 million were deposited in an escrow account to provide for future debt service payments and redemption of $374.9 million of various general obligation bonds outstanding at the time of the refunding. As a result of the advance refunding, the $374.9 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 $34.9 million and an economic gain of $25.0 million.

In December 2017, the State issued $382.7 million of General Obligation Refunding Bonds (2017 Series 2), which was a combination advance refunding and crossover refunding. The proceeds of 462.6 million were deposited in an escrow account to provide for (i) future debt service and redemption of $135.7 million of various general obligation bonds outstanding at the time of the refunding, resulting in the $135.7 million of various general obligation bonds being considered defeased and the associated liability removed from the financial statements, and (ii) future interest payments on the 2017 Series 2 bonds until the crossover dates (May 1, 2019 and May 1, 2020), at which time the escrow has resources to retire $293.9 million of various general obligation bonds that are NOT considered to be defeased until the respective crossover refunding date, with both the 2017 Series 2 bonds and crossover refunded bonds reported as liabilities of the State until such date. The refunding resulted in a decrease in total debt service payments by $32.1 million and an economic gain of $27.9 million.

In December 2017, the State issued $347.0 million of general obligation refunding bonds (2017 Series 3), the proceeds of $416.7 million were deposited in an escrow account to provide for future debt service payments and redemption of $365.9 million of various general obligation bonds outstanding at the time of the refunding. As a result of the advance refunding, the $365.9 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 $31.7 million and an economic gain of $21.6 million.

Prior Year Refundings/General Obligation Bonds

Government Accounting Standards Board Statement No. 7 *Advance Refundings Resulting in Defeasance of Debt*, provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. At

June 30, 2018, $1,571.4 million of general obligation bond principal has been defeased.

Current Fiscal Year Refundings/Revenue Bonds

In December 2017, the State issued $368.6 million of Transportation Revenue Refunding Bonds (2017 Series 2), which was a combination advance refunding and crossover refunding. The proceeds of $439.6 million were deposited in an escrow account to provide for (i) future debt service payments and redemption of $169.5 million of various transportation revenue bonds outstanding at the time of the refunding, resulting in the $169.5 million of various transportation revenue bonds being considered defeased and the associated liability removed from the financial statements, and (ii) future interest payments on the 2017 Series 2 bonds until the crossover dates (July 1, 2019 and July 1, 2020), at which time the escrow has resources to retire $236.5 million of various transportation revenue bonds that are NOT considered to be defeased until the respective crossover refunding date, with both the 2017 Series 2 bonds and crossover refunded bonds reported as liabilities of the State until such date.. The refunding resulted in a decrease in total debt service payments by $22.5 million and an economic gain of $21.3 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, 2018, revenue bonds outstanding of $646.7 million have been defeased.
- Transportation Revenue Bonds – At June 30, 2018, revenue bonds outstanding of $561.9 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, 2018, the amount of commercial paper notes outstanding was $181.9 million which had interest rates ranging from 1.12 percent to 1.66 percent and maturities ranging from July 2, 2018 to September 6, 2018.

Short-term debt activity for the year ended June 30, 2018 for general obligation commercial paper notes was as follows (in millions):

Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018
$ 218.7	$ --	$ 36.8	$ 181.9

General Obligation Extendible Municipal Commercial Paper

The State has authorized General Obligation extendible municipal commercial paper for the acquisition, construction, development, extension, enlargement, or improvement of land, waters, property, highway, buildings, equipment or facilities. Periodically, additional extendible municipal commercial papers are issued to pay for maturing extendible municipal commercial paper. The State intends to make annual May 1 payments on the outstanding commercial paper notes that reflect principal amortization of the paper. The State also intends to make regular payments to the issuing and paying agent that will be used to pay the interest due on the maturing notes. At June 30, 2018, the amount of extendible municipal commercial paper outstanding was $223.7 million which had interest rates ranging from 1.38 percent to 1.72 percent and maturities from July 9, 2018, to August 6, 2018.

Short-term debt activity for the year ended June 30, 2018 for general obligation extendible municipal commercial paper was as follows (in millions):

Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018
$ 288.2	$ --	$ 64.5	$ 223.7

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, 2018, the amount of transportation revenue commercial paper notes outstanding was $58.8 million which carries interest rates ranging from 1.33 percent to 1.70 percent and maturities ranging from August 2, 2018 to September 6, 2018.

Short-term debt activity for the year ended June 30, 2018 for the transportation revenue commercial paper notes was as follows (in millions):

Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018
$ 88.7	$ --	$ 29.9	$ 58.8

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, 2018 was as follows:

Balance Due	Average Life (Weighted Term)
$109.6 million	2.91 Years

At June 30, 2018, the following parity Master Lease certificates were outstanding:

- Master Lease Certificates of Participation of 2013, Series A (Revolving Credit Agreement – Taxable) in the amount of $30.1 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, 2018. 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 2014, Series A, in the amount of $17.2 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 $19.4 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 $24.3 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.

- Master Lease Certificates of Participation of 2016, Series A in the amount of $18.6 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, 2018, 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, 2018, 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 $108.3 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 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. One bond issue with an outstanding balance of $29.1 million has been issued that have a special debt service reserve fund secured by the State's moral obligation.

Through legislation enacted in 2017, subject to the Secretary of Administration's designation and determination of certain conditions being met, the State may provide a moral obligation pledge for up to 40% of a local governmental unit's aggregate municipal obligations issued to finance costs related to development occurring in, or for the benefit of, the electronics and information technology manufacturing zone. In October 2018, the Secretary of Administration designated the State's moral obligation pledge on $120.0 million of Village of Mount Pleasant Tax Increment Revenue Bonds.

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, 2018, $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 $63.0 million. As of June 30, 2018, $63.0 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 0.35 percent per year.

This page left intentionally blank.

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, 2018 for capital leases (in thousands):

	Governmental Activities	
Fiscal Year	**Principal**	**Interest**
2019	$ 16,478	$ 4,358
2020	13,431	3,612
2021	12,704	2,966
2022	10,596	2,393
2023	40,408	1,942
2024-2028	711	52
2029-2033	-	-
2034-2038	-	-
2039-2043	-	-
2044-2048	-	-
Total minimum future payments	94,328	-
Total minimum interest payments	$ -	15,323

	Business-type Activities	
Fiscal Year	**Principal**	**Interest**
2019	$ 1,147	$ 2,162
2020	1,021	2,125
2021	881	2,078
2022	733	2,025
2023	706	1,973
2024-2028	4,179	9,067
2029-2033	4,872	7,492
2034-2038	6,985	5,379
2039-2043	10,766	2,356
2044-2048	-	-
Total minimum future payments	31,289	-
Total minimum interest payments	$ -	34,656

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, 2018 (in thousands):

	Governmental Activities	Business-type Activities
Land and Land Improvements	$ -	$ -
Buildings and Improvements	-	29,287
Machinery and Improvements	176,377	3,029
Construction in Progress		
Less: Accumulated Depreciation	(55,749)	(5,143)
Carrying Amount	$ 120,628	$ 27,172

B. Operating Leases

Operating leases, those leases not recorded as capital leases, are not recorded in the statement of net position. 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 2018 were $92.9 million. Of this amount, $92.8 million relates to minimum rental payments stipulated in lease agreements, and $49.1 thousand pertains to contingent 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
2019	$	40,702	$	25,213
2020		29,014		24,687
2021		22,895		21,635
2022		10,942		15,630
2023		7,445		14,318
2024 - 2028		11,400		63,037
2029 - 2033		1,077		54,932
2034 - 2038		848		39,150
2039 - 2043		733		24,721
2044- 2048		521		14,820
2049 - 2053		240		-
2054 - 2058		228		-
Thereafter		76		-
Minimum lease payments	$	126,120	$	298,144

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, 2018 for installment purchases (in thousands):

Fiscal Year		Business-type Activities Principal	Interest
2019	$	401	6
2020		401	5
2021		401	3
2022		-	-
2023		-	-
Total minimum future installment payments	$	1,203	-
Total interest payments	$	-	13

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 the fiscal year, the State recognized $(2.1) million of additional estimated liabilities for pollution remediation. The State expended $0.2 million to clean up sites. Therefore, the beginning liability of $8.0 million decreased to $5.7 million. There were no recoveries received from other responsible parties during the fiscal year 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, 2018 (in millions):

Nature and Source of Pollution	Estimated Liability	Estimated Recovery
Contract agreement with EPA to clean up Superfund site for former wood treatment facility	$0.2	
Voluntary commencement by the State to clean up heavy metal contamination of canal near former industrial site	5.5	--
Total estimated obligations	$5.7	--

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, 2017, is available at www.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, 2017, the number of participating employers was:

State Agencies	57
Cities	152
Counties	71
4th Class Cities	36
Villages	268
Towns	257
School Districts	422
Wisconsin Technical College System Board Districts	16
Cooperative Educational Service Agencies	12
Other	208
Total Employers	1,499

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 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. In 2016, executives & elected officials' contributions rates were changed to match General. 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, 2018 are:

	Employee	Employer
General (including teachers)	6.7%	6.7%
Executives & Elected Officials	6.7%	6.7%
Protective with Social Security	6.7%	10.7%
Protective without Social Security	6.7%	14.9%

Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

State of Wisconsin Net Pension Asset, Pension Contributions, Pension Expenses, and Deferred Outflows and Inflows of Resources

At June 30, 2018, the State reported a net pension asset of $826.1 million for its proportionate share of the WRS' net pension asset. It is presented as a net pension asset on the Statement of Net Position for proprietary and fiduciary funds and on the government-wide Statement of Net Position.

The net pension asset was measured as of December 31, 2017, and the total pension asset was based on an actuarial valuation as of December 31, 2016. Update procedures were used to roll forward the total pension asset to the measurement date. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date.

The State's proportionate share of the net pension asset was determined based on the average of the State's contributions to the WRS over the three most recent calendar years relative to the average contributions of all employers for the same period. At December 31, 2017, the State's proportionate share was 27.8 percent, which is a decrease of 0.15 percent from its proportionate share as of December 31, 2016.

For calendar year 2017, State employers made $280.5 million in contributions recognized by the WRS.

For the year ended June 30, 2018, the State recognized pension expense of $357.0 million. At June 30, 2018, the State reported deferred outflows and inflows of resources related to pensions of $1.22 billion and $1.64 billion, 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, 2017 were based upon the following actuarial assumptions:

Actuarial Valuation Date	December 31, 2016
Measurement Date of Net Pension Asset	December 31, 2017
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Fair Value
Long-Term Expected Rate of Return	7.20%
Discount Rate	7.20%
Salary Increases	
Inflation	3.20%
Seniority/Merit	0.2% - 5.6%
Mortality	Wisconsin 2012 Mortality Table
Post-retirement Adjustments*	2.10%

* 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 2015 using experience from 2012-2014.

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, 2017, these best estimates of geometric long-term real rates of return were used:

Asset Class	Target Allocation	Rate of Return
Global Equities	50.0%	5.3%
Fixed Income	24.5	1.4
Inflation Sensitive	15.5	1.0
Real Estate	8.0	3.6
Private Equity/Debt	8.0	6.5
Multi-asset	4.0	3.6

For each major asset class that is included in the Variable Retirement Investment Trust fund's target asset allocation as of December 31, 2017, these best estimates of geometric long-term real rates of return were used:

Asset Class	Target Allocation	Rate of Return
Domestic Equity	70.0%	4.6%
International Equity	30.0	4.9

The money-weighted rates of return on pension plan investment for the Core and Variable funds for the calendar year ended 2017 were 15.85% and 23.27%, respectively. The money-weighted rate of return expresses investment performance, net of pension plan expenses, adjusted for the changing amount 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 of 7.2% and a long-term bond rate of 3.31%. 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 1% lower or 1% higher:

	State's share of the net pension liability (asset)
1% Decrease (6.2%)	$ 2,137,438,692
Current Rate (7.2%)	$ (826,113,891)
1% Increase (8.2%)	$ (3,078,505,537)

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. OTHER POSTEMPLOYMENT BENEFIT (OPEB) PROGRAMS

Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures in financial reports of state and local governmental employers. GASB statement 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, establishes reporting standards for other postemployment benefits included in the general purpose external financial reports of state and local governmental OPEB plans.

Under Chapter 40 of Wisconsin Statutes, the Department of Employee Trust Funds (ETF) and Group Insurance Board (GIB) have statutory authority for program administration and oversight of post-employment benefits. ETF administers postemployment benefit plans other than pension plans for the Retiree Health Insurance and Retiree Life Insurance plans (for retired state employees). ETF also administers the Local Retiree Health Insurance and the Local Retiree Life Insurance plans (for retired local government employees). The plans are reported as fiduciary funds in the State's CAFR.

ETF's separately issued financial statements contain further information. ETF's report may be obtained at www.etf.wi.gov and on request from:

The Department of Employee Trust Funds
4822 Madison Yards Way
Madison, Wisconsin 53705-9100

Basis of Accounting

The OPEB plans are reported in accordance with GASB standards and accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. The OPEB liability, deferred outflows of resources and deferred inflows of resources, OPEB expense, and fiduciary net position, if any, have been determined on the same basis. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments, if any, are reported at fair value.

Retiree Health Insurance Funds

The Retiree Health Insurance plans offer group health insurance to retired State of Wisconsin and local government employees. Retirees pay the full premium amount. The State Retiree Health Insurance Fund includes the State, the University of Wisconsin, and other component units of the State. The Local Government Retiree Health Insurance Fund includes 354 local government employers. The plans are not administered through a trust. The Retiree Health Insurance Funds contain certain non-OPEB components relating to post-Medicare pharmacy and health insurance benefits. ETF and the GIB have statutory authority for program administration and oversight under Wisconsin Statutes Chapters 15.165 (2) and 40.03 (6).

State of Wisconsin and local government employees participating in the State Health Insurance Plan or the Wisconsin Public Employers Insurance Plan (local government plans) are eligible to continue their health insurance coverage after leaving covered employment. Membership as of December 31, 2017, included 26,692 former state employees or their beneficiaries and 1,987 former local government employees and beneficiaries.

Employees may choose between self-insured health plans and alternate health plans with specific provider networks (i.e., HMOs). The HMOs follow GIB guidelines for eligibility and program requirements. All HMOs offer a prescribed benefit package called Uniform Benefits and participate in a yearly competitive premium rate bid process. The Standard Plan and State Maintenance Plan are self-insured by the GIB and administered by WPS Health Insurance. Self-insured coverage for health insurance was discontinued as of December 31, 2017. The Standard Plan is a preferred provider plan. The pharmacy benefit is self-insured by the GIB and administered by Navitus Health Solutions.

Effective January 1, 2012, prescription drug coverage for Medicare eligible retirees enrolled in the State group health insurance program is provided by 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."

Retiree Life Insurance Funds

The State Retiree Life Insurance Fund includes the State, the University of Wisconsin, and other component units of the State, and is considered a single-employer defined benefit OPEB plan. The Local Government Retiree Life Insurance Fund included 738 local government employers as of December 31, 2017 and is considered a cost-sharing multiple-employer defined benefit OPEB plan. The plans are administered through a trust.

The plans provide post-employment life insurance coverage to all eligible employees of participating employers. The plans are established by Wisconsin Statutes Chapter 40.70. ETF contracts with Securian Financial Group, Inc (Securian) as a third party administrator for the Retiree Life Insurance plans. Benefit terms may be modified by the GIB, subject to state and federal legislative constraints.

Generally, members may enroll during a 30-day enrollment period after their date of hire. Members may also 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.

Contributions

The GIB approves contribution rates annually, based on recommendations from the insurance carrier. Recommended rates are based on an annual valuation, taking into consideration an estimate of the present value of future benefits and the present value of future contributions. A portion of employer contributions made during a member's working lifetime funds a post-retirement benefit.

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 the employee premium
25 percent post retirement coverage	N/A	20 percent of employee premium

Employee contributions are based upon nine age bands through age 69 and an additional eight age bands for those age 70 and over. Participating employees must pay monthly contribution rates per $1,000 of coverage until the age of 65 (age 70 if active). The employee contribution rates in effect for the year ended December 31, 2017 are as listed below:

Attained Age	State Basic	State Supple-mental	Local Basic	Local Supple-mental
Under 30	$0.04	$0.04	$0.05	$0.05
30-34	0.04	0.04	0.06	0.06
35-39	0.04	0.04	0.07	0.07
40-44	0.06	0.06	0.08	0.08
45-49	0.10	0.10	0.12	0.12
50-54	0.16	0.16	0.22	0.22
55-59	0.22	0.22	0.39	0.39
60-64	0.30	0.30	0.49	0.49
65-69	0.39	0.39	0.57	0.57

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

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

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

Benefits and Membership

After retirement, basic coverage is continued for life in amounts for the insurance in force before retirement:

Age	State	Local
Before age 65	100%	100%
While age 65	75%	75%
While age 66	50%	50%
After age 66	50%	50%/25% Employer Election

After retirement, supplemental and 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 is terminated.

Membership as of December 31, 2017, included:

	State	Local	Total
Active*	51,438	75,719	127,157
Inactive Pre-Age 65 Annuitants	7,032	10,195	17,227
Inactive Post-Age 64 Annuitants	24,973	33,644	58,617
Totals	83,443	119,558	203,001

* Active membership includes disabled

NOTE 17. OTHER POSTEMPLOYMENT BENEFIT PLANS

A. State Retiree Health Insurance OPEB

The State Retiree Health Insurance program provides postemployment health insurance coverage to all eligible retired employees of the State, the University of Wisconsin, University of Wisconsin Hospital and Clinics Authority, Wisconsin Housing and Economic Development Authority and Wisconsin Economic Development Corporation. The employers do not directly pay any portion of the premium for participating retirees. However, because retirees pay the same premium rate set for active employees, an implicit rate subsidy exists for employers. This implicit rate subsidy is reported as an OPEB liability. At age 65, when eligible, retirees are required to enroll in Medicare. No assets have accumulated because there is no trust.

Retiree Health Insurance Plan Description

GASB standards classify the State Retiree Health Insurance program as a single employer defined benefit OPEB plan with multiple participating employers. Medical, prescription drug and dental benefits are provided to eligible retirees.

Retirees pay the full premium until age 65 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 GIB. Premiums for non-Medicare retirees are based on an effective rate structure for the health care service provider selected. Monthly rates range from $543 to $1,400 for single coverage and $1,331 to $3,495 for family coverage.

As of January 1, 2017 (most recent actuarial valuation date), membership consisted of:

Member Type	Number
Retired members or beneficiaries receiving OPEB benefits	5,996
Vested terminated members not yet receiving OPEB benefits	1,537
Active members	61,952
Total	69,485

Inclusion of OPEB Information for Component Units

GASB standards require the presentation of OPEB related amounts and information in the State’s financial statements for both the State of Wisconsin (the primary government) and the component units. The component units are responsible for their share of the OPEB liabilities. Reported amounts related to the OPEB liability, OPEB expense and related deferred inflows and outflows for the OPEB plans may vary by an immaterial amount from the final amounts due to the timing of available information.

Total Retiree Health OPEB Liability

The actuarial valuation was based on the plan of retiree benefits and was made for purposes of fulfilling GASB accounting standards which require recognition of the employer cost of postemployment benefits over an employee’s career. The total cost of providing postemployment benefits is projected, considering relevant assumptions, then discounted to determine the total OPEB liability.

To determine the total OPEB liability for the program, the actuary performed an actuarial valuation as of January 1, 2017 and adjusted for changes such as interest earned, contributions paid, and benefits paid through June 30, 2017. Based on this, the actuary determined the OPEB liability totaled $719.3 million.

The total OPEB liability was allocated to participating employers based on their proportionate share of health insurance premiums contributed for active employees. Amounts by participating employers as of a June 30, 2018 reporting date, are indicated in the table below (in millions):

Participating Employer	OPEB Liability
Primary Government	
State of Wisconsin	$ 326.0
University of Wisconsin System	315.7
Component Units	
UW Hospital and Clinics Authority	75.3
WI Housing & Economic Development Authority	1.4
WI Economic Development Corp.	0.9
Total OPEB Liability	$719.3

Changes in the Total OPEB Liability

Changes to the total OPEB plan liability during the fiscal year include the following (in millions):

	Amount
Total OPEB Liability June 30, 2016	$ 775.4
Changes for the Year	
Service cost	72.1
Interest	23.6
Difference between expected & actual experience	(4.1)
Changes of assumptions	(109.3)
Benefit payments*	(38.4)
Net Change in Total OPEB Liability	(56.0)
Total OPEB Liability June 30, 2017	$719.3

* Employer benefit payments of $38.4 million were actuarially determined and pertain to the implicit rate subsidy.

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.

The total OPEB liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Actuarial Valuation Date	January 1, 2017
Measurement Date of Total OPEB Liability	June 30, 2017
Actuarial cost method	Entry age level percent of pay
Asset Valuation Method	N/A
Inflation	3.2%
Salary increases	Vary by service and employee class, including inflation
Discount Rate	Discount rate was changed to 3.58% for the June 30, 2017 measurement from 2.85% for the June 30, 2016 measurement. The 2015 valuation used a discount rate of 3.56%
Health care cost trend rates (calendar year basis from January 1, 2017)	
Medical	2.33% for one year then 5.25% graded to 4.5% over three years
Prescription drug	-4.9% for one year then 8.5% graded to 4.5% over seven years
Dental	3.5% for one year then 4.0%
Administrative costs	4.8% for one year then 3.0%
Benefit Changes	None
Participation Rate	Decreased from 95% to 85%
Assumed Claims	Costs were changed to reflect the expected claims in effect for 2017
Disability Rates	Rates for General and Executive and Elected employees were changed to match the pension valuation as of December 31, 2014
Withdrawal Rate	Withdrawal rate for General female employees with 0 years of service was changed to match the pension valuation as of December 31, 2014
Trend Rates	Trend rates were re-established to adjust to the claims experience for 2018. Both medical and prescription coverages were assumed to have an ultimate trend of 4.50%
Benefit End Date	Benefits end when participants turn 65 years old

Actuarial assumptions are based on the Wisconsin Retirement System experience study conducted in 2015 using experience from 2012 to 2014. Valuation assumption changes decreased the liability by $109.3 million due to raising the discount rate to 3.58 percent from 2.85 percent based on the Bond Buyer, 20-year, general obligation municipal bond index rate closest to the measurement date (but not beyond). In addition, the assumed participation rate was lowered from 95 percent to 85 percent to account for actual historic participation rates.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents each employer's proportionate share of the total liability and what it would be if it were calculated using a discount rate that is 1-percentage-point lower or higher than the current discount rate (in millions):

	1% Decrease in Discount Rate (2.58%)	Current Discount Rate (3.58%)	1% Increase in Discount Rate (4.58%)
Primary Government			
State of Wisconsin	$348.7	$326.0	$304.4
University of WI System	337.6	315.7	294.7
Component Units			
UW Hospital and Clinics	80.5	75.3	70.3
WI Housing & Economic Development Authority	1.5	1.4	1.3
WI Economic Development Corp.	1.0	0.9	0.9
Total OPEB Liability	$769.3	$719.3	$671.6

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents each employer's proportionate share of the total liability and what it would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower or higher than the current healthcare trend rate (in millions):

	1% Decrease in Healthcare Trend Rate	Current Healthcare Trend Rate	1% Increase in Healthcare Trend Rate
Primary Government			
State of Wisconsin	$288.4	$326.0	$370.8
University of WI System	279.3	315.7	359.0
Component Units			
UW Hospital and Clinics	66.6	75.3	85.6
WI Housing & Economic Development Authority	1.2	1.4	1.6
WI Economic Development Corp.	0.8	0.9	1.1
Total OPEB Liability	$636.3	$719.3	$818.1

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, OPEB expense of $47.0 million was recognized by participating employers:

	Amount
Primary Government	
State of Wisconsin	$21,087,125
University of WI System	19,869,251
Component Units	
UW Hospital and Clinics	5,856,688
WI Housing & Economic Development Authority	92,508
WI Economic Development Corp	61,944
Total	$46,967,516

At June 30, 2018, deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources were reported:

	Outflows	Inflows
Primary Government		
State of Wisconsin		
Difference between Expected and Actual Experience	-	$ (1,671,562)
Changes of Assumptions	-	(45,019,512)
Changes in Proportion	-	(2,010,508)
Subtotal	-	$(48,701,582)
University of WI System		
Difference between Expected and Actual Experience	-	$ (1,618,483)
Changes of Assumptions	-	(43,589,956)
Changes in Proportion	-	(7,429,371)
Subtotal	-	$(52,637,810)
Component Units		
UW Hospital and Clinics		
Difference between Expected and Actual Experience	-	$ (385,937)
Changes of Assumptions	-	(10,394,275)
Changes in Proportion	$9,415,939	
Subtotal	$9,415,939	$(10,780,212)
WI Housing & Economic Development Authority		
Difference between Expected and Actual Experience	-	$ (7,175)
Changes of Assumptions	-	(193,250)
Changes in Proportion	$11,272	
Subtotal	$11,272	$(200,425)
WI Economic Development Corp.		
Difference between Expected and Actual Experience	-	$ (4,764)
Changes of Assumptions	-	(128,319)
Changes in Proportion	$12,668	
Subtotal	$12,668	$(133,083)
Total All Employers	$9,439,879	$(112,453,112

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in future OPEB expense as follows:

	Amount
Primary Government	
State of Wisconsin	
FY 2019	$ (4,870,158)
FY 2020	(4,870,158)
FY 2021	(4,870,158)
FY 2022	(4,870,158)
FY 2023	(4,870,158)
Thereafter	(24,350,791)
University of WI System	
FY 2019	$ (5,263,781)
FY 2020	(5,263,781)
FY 2021	(5,263,781)
FY 2022	(5,263,781)
FY 2023	(5,263,781)
Thereafter	(26,318,905)
Component Units	
UW Hospital and Clinics	
FY 2019	$ (136,427)
FY 2020	(136,427)
FY 2021	(136,427)
FY 2022	(136,427)
FY 2023	(136,427)
Thereafter	(682,136)
WI Housing & Economic Development Authority	
FY 2019	$ (18,915)
FY 2020	(18,915)
FY 2021	(18,915)
FY 2022	(18,915)
FY 2023	(18,915)
Thereafter	(94,577)
WI Economic Development Corp.	
FY 2019	$ (12,042)
FY 2020	(12,042)
FY 2021	(12,042)
FY 2022	(12,042)
FY 2023	(12,042)
Thereafter	(60,208)

The Schedule of Changes in the Total OPEB Liability and Related Ratios is presented as required supplementary information following the notes to the financial statements.

B. State Retiree Life Insurance OPEB

The State Retiree Life Insurance program provides postemployment health insurance coverage to all eligible retired employees of the State, the University of Wisconsin, University of Wisconsin Hospital and Clinics Authority, Wisconsin Housing and Economic Development Authority and Wisconsin Economic Development Corporation. Each employer's proportionate share of the net OPEB liability and collective OPEB expense, deferred inflows and outflows is based on the employer's contribution for the most recent calendar year compared to the total contributions of all employers.

Inclusion of OPEB Information for Component Units

GASB standards require the presentation of OPEB related amounts and information in the State's financial statements for both the State of Wisconsin (the primary government) and the component units. The component units are responsible for their share of the OPEB liabilities. Reported amounts related to the OPEB liability, OPEB expense and related deferred inflows and outflows for the OPEB plans may vary by an immaterial amount from the final amounts due to the timing of available information.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the State, including the University of Wisconsin System, reported a liability of $447.9 million for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of December 31, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as January 1, 2017 rolled forward to December 31, 2017. The State's proportion of the net OPEB liability was based on the State's share of contributions to the OPEB plan relative to the contributions of all participating employers. At December 31, 2017, the State's proportion was 90.8 percent which was a decrease of 0.4 percent from its proportion of 91.2 percent measured as of December 31, 2016.

Net OPEB liability amounts, by participating employers as of a June 30, 2018 reporting date, are indicated in the table below (in millions):

Participating Employer	Net OPEB Liability
Primary Government	
State of Wisconsin	$ 238.4
University of Wisconsin System	209.6
Component Units	
UW Hospital and Clinics Authority	43.7
WI Housing & Economic Development Authority	1.3
Wisconsin Economic Development Corporation	0.5
Total Net OPEB Liability	$493.5

For the year ended June 30, 2018, OPEB expense of $47.5 million was recognized by participating employers:

	Amount
Primary Government	
State of Wisconsin	$23,772,096
University of WI System	19,135,391
Component Units	
UW Hospital and Clinics	4,443,657
WI Housing & Economic Development Authority	130,048
WI Economic Development Corp	57,350
Total	$47,538,544

For the year ended June 30, 2018, contributions of $1.4 million were recognized by the plan from participating employers:

	Amount
Primary Government	
State of Wisconsin	$687,380
University of WI System	565,951
Component Units	
UW Hospital and Clinics	118,171
WI Housing & Economic Development Authority	3,545
WI Economic Development Corp	1,437
Total	$1,376,484

Changes in the Net OPEB Liability

Changes to the total OPEB plan liability during the fiscal year include the following (in millions):

	Amount
Total OPEB Liability December 31, 2016	$762.6
Changes for the Year	
Service cost	26.2
Interest	30.7
Difference between expected & actual experience	(5.3)
Changes of assumptions	49.0
Benefit payments	(17.7)
Net Change in Total OPEB Liability	82.9
Total OPEB Liability December 31, 2017	$845.5
Plan Fiduciary Net Position December 31, 2016	$357.4
Changes for the Year	
Contributions from employers	1.4
Net investment income	11.6
Administrative expense	(.7)
Benefit payments	(17.7)
Net change in Plan Fiduciary Net Position	(5.4)
Plan Fiduciary Net Position December 31, 2017	$352.0
Collective Net OPEB Liability December 31, 2016	$405.1
Net change in Collective Net OPEB Liability	88.4
Collective Net OPEB Liability December 31, 2017	$493.5

At June 30, 2018, deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources were reported:

	Outflows	Inflows
Primary Government		
State of Wisconsin		
Difference between Expected and Actual Experience	-	$2,181,173
Changes of Assumptions	$20,300,117	
Change in Proportion Share	4,875,029	
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	2,288,588	
Subtotal	$27,463,734	$2,181,173
University of WI System		
Difference between Expected and Actual Experience	-	$1,917,278
Changes of Assumptions	$17,844,053	
Change in Proportion Share	-	6,313,448
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	2,011,697	
Subtotal	$19,855,750	$8,230,726
Component Units		
UW Hospital and Clinics		
Difference between Expected and Actual Experience	-	$400,328
Changes of Assumptions	$3,725,842	
Change in Proportion Share	1,379,813	
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	420,043	
Subtotal	$5,525,698	$400,328
WI Housing & Economic Development Authority		
Difference between Expected and Actual Experience	-	$12,009
Changes of Assumptions	$111,764	
Change in Proportion Share	21,836	
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	12,600	
Subtotal	$146,200	$12,009
WI Economic Development Corp.		
Difference between Expected and Actual Experience	-	$4,867
Changes of Assumptions	$45,301	
Change in Proportion Share	36,771	
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	5,107	
Subtotal	$87,179	$4,867
Total All Employers	$53,078,561	$10,829,103

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in future OPEB expense as follows:

	Amount
Primary Government	
State of Wisconsin	
FY 2019	$4,309,920
FY 2020	4,309,920
FY 2021	4,309,920
FY 2022	4,309,920
FY 2023	3,751,729
Thereafter	3,826,761
University of WI System	
FY 2019	$2,072,492
FY 2020	2,072,492
FY 2021	2,072,492
FY 2022	2,072,492
FY 2023	1,581,835
Thereafter	1,613,474
Component Units	
UW Hospital and Clinics	
FY 2019	$996,502
FY 2020	996,502
FY 2021	996,502
FY 2022	996,502
FY 2023	865,158
Thereafter	882,463
WI Housing & Economic Development Authority	
FY 2019	$22,919
FY 2020	22,919
FY 2021	22,919
FY 2022	22,919
FY 2023	19,845
Thereafter	20,244
WI Economic Development Corp.	
FY 2019	$13,810
FY 2020	13,810
FY 2021	13,810
FY 2022	13,810
FY 2023	12,565
Thereafter	12,815
Total All Employers	$42,249,458

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents participating employer's proportionate share of the total OPEB liability and what the liability would be if it were calculated using a discount rate that is 1-percentage-point lower and 1-percentage-point higher than the current discount rate:

	1% Decrease in Discount Rate (2.6%)	Current Discount Rate (3.6%)	1% Increase in Discount Rate (4.6%)
Primary Government			
State of Wisconsin	$324,570,627	$238,395,161	$171,508,313
University of WI System	285,301,586	209,552,288	150,757,923
Component Units			
UW Hospital and Clinics	59,571,031	43,754,562	31,478,286
WI Housing & Economic Development Authority	1,786,949	1,312,503	944,252
WI Economic Development Corp.	724,306	531,999	382,735
Total Net OPEB Liability	$671,954,499	$493,546,513	$355,071,509

Single Discount Rate

A single discount rate of 3.60% was used to measure the total OPEB liability for the current year as opposed to 3.94% for the prior year. The Plan's fiduciary net position was projected to be insufficient to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the Total OPEB Liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payments to the extent that the plan's fiduciary net position is projected to be insufficient. The source of the municipal bond rate used is the Bond Buyers GO Index. The plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through December 31, 2034. Therefore, the long-term expected rate of return on plan investments was applied through 2034 and the municipal bond index rate was applied for all remaining periods of projected benefit payments to determine the Total OPEB Liability.

Long-term expected Return on Plan Assets

The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. Investments for the retiree life insurance plans are held with Securian, the insurance carrier. Interest is calculated and credited to the plans based on the rate of return for a segment of the insurance carriers' general fund, specifically 10-year A- Bonds (as a proxy, and not tied to any specific investments). The overall aggregate interest rate is calculated using a tiered approach based on the year the funds were originally invested and the rate of return for that year. Investment interest is credited based on the aggregate rate of return and assets are not adjusted to fair market value. Furthermore, the insurance carrier guarantees the principal amounts of the reserves, including all interest previously credited thereto.

Asset allocation targets and expected returns as of December 31, 2017 were:

Asset Class	Index	Target Allocation	Long-Term Expected Geometric Real Rate of Return
US Government Bonds	Barclays Government	1%	1.13%
US Credit Bonds	Barclays Credit	65%	2.61%
US Long Credit Bonds	Barclays Long Credit	3%	3.08%
US Mortgages	Barclays MB	31%	2.19%
Inflation			2.30%
Long-Term Expected Rate of Return			5.00%

Actuarial assumptions

Actuarial assumptions are based on the Wisconsin Retirement System experience study conducted in 2015 using experience from 2012 to 2014. The projections of cash flows used to determine the single discount rate assumed that employer contributions will be made according to the current employer contributions schedule and that contributions are made by plan members retiring prior to age 65. The total OPEB liability in the January 1, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	January 1, 2017
Measurement Date of Net OPEB Liability:	December 31, 2017
Actuarial Cost Method:	Entry Age Normal
20 Year Tax-Exempt Municipal Bond Yield:	3.44%
Long-Term Expected Rated of Return:	5.00%
Discount Rate:	3.60%
Salary Increases Inflation: Seniority/Merit:	 3.20% 0.2% - 5.6%
Mortality:	WI 2012 Mortality Table

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in separately issued financial statements from ETF. The report can be obtained at www.etf.wi.gov and on request from:

The Department of Employee Trust Funds
4822 Madison Yards Way
Madison, Wisconsin 53705-9100

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, duty disability insurance, and life insurance. ETF's separately issued financial statements, which contain historical trend, revenue, and claims development information, are available at www.etf.wi.gov and on request from:

Wisconsin Department of Employee Trust Funds
PO Box 7931
Madison, WI 53707-7931
1-877-533-5020

The information provided in this note applies to the period ending December 31, 2017.

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 354 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 219 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 Duty Disability Fund offers special disability insurance for State of Wisconsin and local WRS participants in protective occupations. Participation in the program is mandatory for all WRS employers with protective occupation employees. The State of Wisconsin and 494 local employers currently participate. The plan is self-insured, and the risk is shared between the State of Wisconsin and local government employers in the plan. Contributions are actuarially determined and are employer paid. Contributions are based on a graduated, experience-rated formula.

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 Duty 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 duty disability insurance. The liabilities for income continuation, duty 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 GIB (Health Insurance and ICI) and ETF Board for Duty Disability 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 2017 (in millions):

	Income Continuation Insurance		Duty Disability Insurance **		Health Insurance		Pharmacy Benefits		Dental	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Unpaid claims and claim adjustment expenses at beginning of the calendar year	$ 93.5	$ 87.1	$ 453.4	$ 418.9	$ 2.0	$ 1.9	$ (15.0)	$ (19.5)	$ 1.9	$ 0.0
Incurred claims and claim adjustment expenses:										
Provision for insured events of the current calendar year	17.7	20.7	19.2	11.9	16.0	15.1	164.5	156.0	44.4	44.1
Changes in provision for insured events of prior calendar years	1.1	6.8	27.2	57.0	(0.2)	(0.6)	(4.9)	14.4	(0.1)	0.0
Total incurred claims and claim adjustment expenses	18.8	27.5	46.4	68.9	15.8	14.5	159.6	170.4	44.3	44.1
Payments:										
Claims and claim adjustment expenses attributable to insured events of the current calendar year	4.6	5.6	0.0	0.1	14.2	13.1	183.3	171.0	43.4	42.2
Claims and claim adjustment expenses attributable to insured events of prior calendar years	15.0	15.6	35.0	34.3	1.8	1.3	(19.9)	(5.1)	1.8	0.0
Total payments	19.6	21.2	35.0	34.4	16.0	14.4	163.4	165.9	45.2	42.2
Total unpaid claims and claim adjustment expenses at end of the calendar year	$ 92.7	$ 93.4	$ 464.8	$ 453.4	$ 1.8	$ 2.0	$ (18.8) *	$ (15.0) *	$ 1.0	$ 1.9

* Total unpaid claims at the end of 2017 is the net of $4.4 million in unpaid claims and $23.2 million in rebates due from pharmaceutical companies; unpaid claims at the end of 2016 is the net of $4.5 million in unpaid claims and $19.5 million in rebates due from pharmaceutical companies.

** Prior to 2017, the Duty Disability fund was reported as a fiduciary fund rather than a proprietary (i.e. risk pool) fund. The beginning year value noted above was the result of a prior period adjustment to restate the Duty Disability fund as a risk pool.

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 annual aggregate 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 2018, the excess insurance limits were written to $500 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, 2018 are estimated to total $7.1 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 2018 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, 2018 are estimated to total $29.6 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, 2018 are estimated to total $78.2 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):

	2018	2017
Beginning of fiscal year liability	$ 112,920	$ 99,377
Current year claims and changes in estimates	40,976	55,401
Claim payments	(38,977)	(32,745)
	114,919	122,033
Excess insurance reimbursable	(4,583)	(9,113)
Balance at fiscal year-end	$ 110,336	$ 112,920

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, 2018 is $5.5 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, 2018, the Local Government Property Insurance Fund insured 30 local governmental units. The total amount of insurance in force as of June 30, 2018 was $.2 billion.

The dissolution of the fund was included in 2017 Wis. Act 59, the State's biennial budget act, enacted in September 2017. The fund will continue to provide coverage through December 31, 2018.

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, 2018, the fund had $1.29 million 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, 2018, the fund had a $0.5 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 $261.0 thousand 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 $(2.6) 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):

	2018	2017
Unpaid loss liabilities		
at beginning of the year	$7,184	$12,037
Less: Excess-of-loss insurance recoverable	4,532	5,699
Net unpaid loss liabilities at beginning of year	2,652	6,338
Incurred losses and loss expenses:		
Provision for insured events of the current year	3,059	2,215
Increase (decrease) in provision for insured events of prior years	(276)	1,723
Total incurred losses and loss expenses	2,783	3,938
Payments:		
Losses and loss expenses attributable to insured events of the current year	2,064	574
Losses and loss expenses attributable to insured events prior years	2,701	7,050
Total payments	4,765	7,624
Net unpaid loss liabilities at end of year	670	2,652
Plus: Excess-of-loss liabilities recoverable	4,828	4,532
Total unpaid loss liabilities at end of year	$5,498	$7,184

Trend Information

Historical trend information showing revenue and claims development information is presented in the Office of the Commissioner of Insurance June 30, 2018 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	$ 6,333	5,086
1967-1976	24,556	15,540
1977-1985	61,986	25,339
1986-1994	44,529	10,210
1995-2012	43,383	8,143
2013+	5,511	434
	$ 186,298	$ 64,752

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, 2017 were $111.9 million and statutory capital and surplus was $7.9 million. Fund equity at June 30, 2018 was $19.5 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, 2018, 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	$ 1,108,669
Less: Net loss paid from inception	(874,412)
Less: Liability for reported losses	(16,995)
Risk Margin	58,564
Liability for incurred but not reported losses	$ 275,826

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 estimated the liability for LAE as 34 percent of the estimated unpaid losses as of June 30, 2018. The percentage used in the financial statements was different, since the actuary's estimate was adjusted to reflect actual LAE payments. Specifically, the loss adjustment expenses paid from the inception of the Fund through June 30, 2018, are deducted from the projected ultimate LAE to determine the liability for LAE as June 30, 2018 as follows (in thousands):

Projected ultimate LAE liability	$ 155,691
Less: LAE paid from inception	(103,001)
Risk Margin	13,173
Liability for LAE	$ 65,863

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 0.9343, which is based on an investment yield assumption of 2.0 percent approved by the Board of Governors, the discounted loss liability would be as follows as of June 30, 2018 (in thousands):

Estimated liability for incurred but not reported losses	$	275,826
Estimated liability for reported losses		16,995
Estimated liability for loss adjustment expense		65,863
Total estimated loss liabilities		358,684
Less: Amount representing interest		(23,536)
Discounted loss liabilities	$	335,148

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 periodic actuarial audits 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 2018 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, 2018 (in thousands), is as follows:

Discounted loss liabilities	$	335,148
Future medical expense liability		31,402
Total estimated loss liabilities		366,550
Current portion		(68,822)
Noncurrent portion	$	297,728

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 2018 (in thousands):

Liability at the beginning of the year	$	357,113
Incurred claims and related expenses for the current year and the change in estimated amounts for claims incurred in prior years		22,337
Less: current year payments attributable to claims incurred in current and prior years		(12,900)
Liability at the end of the year	$	366,550

NOTE 21. DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

Deferred outflows and resources and deferred inflows of resources at June 30, 2018 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	$ -	$ -	$ -	$ -	$ -	$ 107,902	$ 107,902
Debt Refunding	-	-	-	-	3,739	257,549	261,288
Advances by the State	-	142	-	-	-	-	142
Differences Between Expected and Actual Pension Experience	-	-	-	-	9,264	476,284	485,549
Changes of Pension Assumption	-	-	-	-	1,446	74,004	75,450
Changes in Proportion and Differences Between Actual and Proportionate Share of Contributions	-	-	-	-	154	8,263	8,417
Pension Contributions Subsequent to the Measurement Date	-	-	-	-	1,265	69,061	70,326
Other (includes Life and Health OPEBs)	-	-	-	-	903	40,144	41,047
Total Deferred Outflows of Resources	$ -	$ 142	$ -	$ -	$ 16,771	$ 1,033,207	1,050,120

	General	Transportation	Capital Improvement	Nonmajor Governmental	Internal Service	Full Accrual Adjustments	Total Governmental Activities
Deferred Inflows of Resources							
Debt Refunding	$ -	$ -	$ -	$ -	$ 331	$ 11,715	$ 12,046
Unavailable Revenue	269,834	379	-	8,212	-	(278,425)	-
Differences Between Expected and Actual Pension Experience	-	-	-	-	4,349	222,601	226,949
Actual Earnings on Pension Investments	-	-	-	-	10,074	514,762	524,835
Changes in Proportion and Differences Between Actual and Proportionate Share of Contributions	-	-	-	-	112	5,783	5,895
Other (includes Life and Health OPEBs)	-	-	-	-	701	43,680	44,380
Total Deferred Inflows of Resources	$ 269,834	$ 379	$ -	$ 8,212	$ 15,565	$ 520,116	$ 814,106

	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	$ -	$ 2,175	$ 50,910	$ -	$ 931	$ 54,016
Advances by the State	-	-	-	-	43,466	43,466
Differences Between Expected and Actual Pension Experience	126	97	507,041	-	56,761	564,025
Changes of Pension Assumption	19	7	78,850	-	8,895	87,772
Net Difference Between Projected and Actual Earnings on Pension Investments	-	-	25	-	-	25
Changes in Proportion and Differences Between Actual and Proportionate Share of Contributions	2	2	-	-	910	914
Pension Contributions Subsequent to the Measurement Date	15	16	74,807	-	8,260	83,098
Other (includes Life and Health OPEBs)	14	6	38,836	-	5,563	44,419
Total Deferred Outflows of Resources	$ 176	$ 2,303	$ 750,469	$ -	$ 124,787	$ 877,735

	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	$ -	$ -	$ 576	$ -	$ 59	$ 635
Differences Between Expected and Actual Pension Experience	56	22	237,177	-	26,757	264,012
Actual Earnings on Pension Investments	137	104	548,498	-	61,815	610,554
Changes in Proportion and Differences Between Actual and Proportionate Share of Contributions	2	1	4,967	-	657	5,626
Other (includes Life and Health OPEBs)	12	6	58,398	-	6,114	64,530
Total Deferred Inflows of Resources	$ 206	$ 134	$ 849,615	$ -	$ 95,402	$ 945,357

The $153,424 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, 2018. 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
2018	$ 87,986
2019	(8,293)
2020	(283,258)
2021	(214,146)
2022	1,984
	$ (415,727)

Additional detail for OPEB-related deferred outflows of resources and deferred inflows of resources is available in Note 17 Other Postemployment Benefit Plans.

NOTE 22. SEGMENT INFORMATION AND CONDENSED FINANCIAL DATA

Primary Government

The State issues revenue bonds as a component of the total funding for the Direct Loan Portfolio, which is accounted for as part of the Environmental Improvement Fund. The Direct Loan Portfolio is also funded by grants from the U.S. Environmental Protection Agency (the "EPA"). Loans in this portfolio are made for water and wastewater projects. Repayments from loans in this portfolio, grants and revenue bond proceeds are used to fund new loans.

The Environmental Improvement Fund has pledged future loan revenues, net of specified operating expenses, to repay outstanding revenue bonds. Investors in these revenue bonds rely solely on the revenues generated from the loans within the Direct Loan Portfolio. Condensed financial statement information of the Direct Loan Portfolio as of and for the year ended June 30, 2018 is presented below (in thousands):

Condensed Statement of Net Position

Assets:		
Current Assets	$	312,607
Other Assets		1,482,499
Total Assets		1,795,106
Deferred Outflows of Resources		2,175
Total Assets and Deferred Outflows of Resources	$	1,797,281
Liabilities:		
Due to Other Funds	$	4,816
Other Current Liabilities (Including Current Portion of Long-term Debt)		85,075
Noncurrent Liabilities		180,879
Total Liabilities		270,770
Net position:		
Restricted		1,526,511
Total Net Position		1,526,511
Total Liabilities and Net Position	$	1,797,281

Condensed Statement of Revenues, Expenses and Changes in Net Position

Operating Revenues (Expenses):		
Loan Interest	$	25,302
Interest Income used as Security for Revenue Bonds		16,880
Miscellaneous Other		26
Interest Expense		(9,467)
Other Operating Expenses		(3,858)
Operating Income (Loss)		28,883
Nonoperating Revenues (Expenses):		
Investment Income		1,481
Investment Income used as security for Revenue Bonds		522
Intergovernmental Grants		42,170
Grants Awarded		(10,192)
Income (Loss) before Transfers		33,981
Transfers In (Out)		(8,000)
Change in Net Position		54,864
Beginning Net Position		1,471,647
Ending Net Position	$	1,526,511

Condensed Statement of Cash Flows

Net Cash Provided (Used) by:		
Operating Activities	$	94,667
Noncapital Financing Activities		(77,590)
Investing Activities		1,451
Net Increase (Decrease)		18,528
Beginning Cash and Cash Equivalents		128,710
Ending Cash and Cash Equivalents	$	147,238

NOTE 23. COMPONENT UNITS – CONDENSED FINANCIAL INFORMATION

Significant financial data for the State's discretely presented component units for the year ended December 31, 2017 or June 30, 2018 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	$ 2,454,729	$ 55,217	$ 2,214,697	$ 129,199	$ 4,156,041	$ 9,009,883
Due from Primary Governments	-	-	22,494	-	-	22,494
Cash and Investments with Other Component Units	-	-	215,243	-	-	215,243
Capital Assets, net	420	-	1,190,846	1,015	18,927	1,211,208
Total Assets	2,455,149	55,217	3,643,280	130,214	4,174,968	10,458,828
Deferred Outflows of Resources	17,612	-	205,959	2,512	-	226,083
Total Assets and Deferred Outflows	$ 2,472,761	$ 55,217	$ 3,849,239	$ 132,726	$ 4,174,968	$ 10,684,911
Liabilities:						
Accounts Payable and Other Current Liabilities	$ 106,087	$ 2,981	$ 515,367	$ 5,159	$ 162,819	$ 792,413
Due to Primary Government	-	-	56,336	-	-	56,336
Amounts Held for Other Component Units	-	-	-	-	202,371	202,371
Other Liabilities	13,940	-	3,918	-	-	17,858
Long-term Liabilities (Current and Noncurrent portions)	1,591,614	9,046	780,829	3,532	44,599	2,429,620
Total Liabilities	1,711,641	12,027	1,356,450	8,691	409,789	3,498,598
Deferred Inflows of Resources	4,145	-	246,957	3,223	-	254,325
Net Position:						
Net Investment in Capital Assets	420	-	616,098	1,015	18,927	636,460
Restricted	729,241	43,190	75,107	54,412	3,635,852	4,537,802
Unrestricted	27,314	-	1,554,627	65,385	110,400	1,757,726
Total Net Position	756,975	43,190	2,245,832	120,812	3,765,179	6,931,988
Total Liabilities, Deferred Inflows and Net Position	$ 2,472,761	$ 55,217	$ 3,849,239	$ 132,726	$ 4,174,968	$ 10,684,911
Condensed Statement of Activities						
Program Expenses:						
Depreciation	$ 691	$ -	$ 118,863	$ 361	$ 2,185	$ 122,100
Payments to Primary Government	-	-	80,486	-	279,542	360,028
Other	284,142	(1,205)	2,891,402	44,361	61,377	3,280,077
Total Program Expenses:	284,833	(1,205)	3,090,751	44,722	343,104	3,762,205
Program Revenues:						
Charges for Goods and Services	7,787	2,001	3,132,546	150	-	3,142,484
Investment and Interest Income	62,983	1,300	-	-	261,360	325,643
Operating Grants and Contributions	184,675	-	-	60,325	313,184	558,185
Capital Grants and Contributions	-	-	1,930	-	-	1,930
Miscellaneous	35,409	-	80,972	-	6,110	122,491
Total Program Revenues	290,854	3,301	3,215,448	60,475	580,654	4,150,732
Net Program Revenue/(Expense)	6,021	4,506	124,697	15,753	237,550	388,527
General Revenues:						
Interest and Investment Earnings	27,870	-	33,430	1,742	-	63,042
Miscellaneous	-	-	12,831	798	-	13,629
Contributions to Endowments	-	-	-	-	-	-
Change in Net Position	33,891	4,506	170,958	18,293	237,550	465,197
Net Position, Beginning of Year	723,084	38,684	2,074,874	102,520	3,527,629	6,466,791
Net Position, End of Year	$ 756,975	$ 43,190	$ 2,245,832	$ 120,812	$ 3,765,179	$ 6,931,988

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 2017 Comprehensive Annual Financial Report to the beginning-of-year amounts reported for Fiscal Year 2018 (in thousands):

A. 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, 2017 as reported in the 2017 Comprehensive Annual Financial Report	$ 999,442	$ 1,906,238	$ 6,558,456	$ 1,533,476	$ 508,233	$ 11,505,845	$ 12,699
Adoption of GASB Statement No. 75	(72)	(21)	(220,920)	-	(26,136)	(247,148)	(5,137)
Fund structure reclassifications:							
Duty Disability reclassified from Fiduciary					139,377	139,377	
Long-term Disability moved to WRS					109,388	109,388	
Eliminate Interfund Rec/Pay between Retiree Health Ins funds and Health Ins Fund	-	-	-	-	(87,302)	(87,302)	-
University of Wisconsin System restatement of Library Holdings	-	-	(959,524)	-	-	(959,524)	-
University of Wisconsin System Perkins Loan Liability change in accounting principle			(151,400)			(151,400)	
Other adjustments of assets and liabilities as of June 30, 2017	-	-	-	-	(1,715)	(1,715)	(120)
Net Positions July 1, 2017 as restated	$ 999,371	$ 1,906,217	$ 5,226,612	$ 1,533,476	$ 641,845	$ 10,307,520	$ 7,442
Effect of adjustments on the amount of net change in net position of Fiscal Year 2017	$ (72)	$ (21)	$ (1,331,844)	$ -	$ (115,153)	$ (1,447,090)	$ (5,137)

B. Fund Statements – Fiduciary Funds

	Pension and Other Employee Benefit Trust	Investment Trust	Private Purpose Trust	Total Fiduciary
Net Positions June 30, 2017 as reported in the 2017 Comprehensive Annual Financial Report	$ 93,673,160	$ 3,356,271	$ 4,606,674	$ 101,636,105
Fund structure reclassifications:				
Long-Term Disability moved to WRS	233,692			
Duty Disability reclassified to proprietary	(592,825)			
Adoption of GASB Statement No. 75	-	-	(2)	(2)
Other adjustments of assets and liabilities as of June 30, 2017	(682)	-	67,334	66,652
Net Positions July 1, 2017 as restated	$ 93,313,344	$ 3,356,271	$ 4,674,006	$ 101,343,622
Effect of prior period adjustments on the amount of net increase (decrease) in net positions of Fiscal Year 2017	$ (682)	$ -	$ 67,333	$ 66,651

C. Government-wide Statements

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
Net Positions June 30, 2017 as reported in the 2017 Comprehensive Annual Financial Report	$ 13,099,538	$ 11,505,724	$ 24,605,262
Capital projects corrections	(1,003)		(1,003)
Capital asset correction	(16,505)		(16,505)
Transportation capital asset corrections	(2,477)	-	(2,477)
Adoption of GASB Statement No. 75	(198,638)	(247,148)	(445,786)
Fund structure reclassifications		248,765	248,765
Eliminate Interfund Rec/Pay between Retiree Health Ins funds and Health Ins Fund		(87,302)	(87,302)
University of Wisconsin System restatement of Library Holdings		(959,524)	(959,524)
University of Wisconsin System Perkins Loan Liability change in accounting principle	-	(151,400)	(151,400)
Other adjustments of assets and liabilities as of June 30, 2017	(5,257)	(1,716)	(6,973)
Net Positions July 1, 2017 as restated	$ 12,875,658	$ 10,307,399	$ 23,183,058
Effect of adjustments on the amount of net increase (decrease) in net positions of Fiscal Year 2017	$ (223,759)	$ (1,447,090)	$ (1,670,849)

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 $17.2 million on June 30, 2018 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 $0.6 million at June 30, 2018.

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. In October 2017 the 11th Circuit Court of Appeals upheld the 2015 opinion.

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 $53.8 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.

Volkswagen Group of America and certain related entities admitted to violating the federal Clean Air Act from 2009 through 2016. Volkswagen partially settled its civil liability for these Clean Air Act violations by entering into judicial consent decrees. These judicial settlements require Volkswagen to pay more than $2.9 billion into an Environmental Mitigation Trust Fund administered by Wilmington Trust, N.A. The State of Wisconsin is a designated beneficiary and will receive $67.1 million over ten years.

2017 Wisconsin Act 59, appropriated $42 million of Wisconsin's share of the Volkswagen trust funds for replacement of eligible state fleet vehicles and establishment of a transit capital assistance grant program. The Department of Administration created a competitive statewide grant program to award trust funds to eligible applicants for the replacement of public transit vehicles. Expenditures funded from the trust are first expected in FY 2019.

The University of Wisconsin Hospital and Clinics Authority (UWHCA) makes annual payments to the Department of Administration (DOA) for pension and sick leave conversion amounts for certain former state employees. UWHCA claims that DOA has charged too much and, since 2016, it has stop making payments. UWHCA claims it is entitled to a substantial refund. DOA asserts that UWHCA still must make annual payments through 2032. The parties will be mediating the dispute in December 2018.

In August 2018, the Department of Health Services (DHS) received notification from the U.S. Department of Health and Human Services (DHHS) recommending a $27.6 million disallowance related to the Medicaid program. DHHS concluded DHS did not refund the full federal share of Medicaid-related settlements and judgements from October 2008 through September 2016. In September 2018, DHS asserted in a letter to DHHS the amount to be refunded is $6.1 million.

B. Commitments

Primary Government

As of June 30, 2018, encumbrances of the General Fund totaled $524.4 million, encumbrances of the Transportation Fund totaled $1.6 billion, and encumbrances of other non-major governmental funds totaled $192.8 million. Obligations at June 30, 2018 representing multi-year, long-term commitments included (in thousands):

Transportation Fund	$ 277,729
Capital Improvement Fund – WisDOT Harbors, Rails and Highway Programs	15,900
Transportation Revenue Bonds Capital Projects Fund	22,138
General Fund – Housing Programs	23,715

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 $166.7 million as of June 30, 2018. These loan commitments are expected to be met through proceeds from issuance of revenue obligations and additional federal grants.

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. The total estimated replacement value of the Fund's annuities as of June 30, 2018 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, 2018, the appropriation available totaled $63.9 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. Tax Abatements

Wisconsin statutes authorize tax abatements to encourage economic development and other actions beneficial to the State or its citizens resulting in a reduction in tax revenue the State would otherwise be entitled to collect. GASB Statement No. 77, *Tax Abatement Disclosures,* requires disclosure of tax abatement agreements entered into by a reporting government, along with agreements entered into by other governments, which reduce the reporting government's tax revenues. Most tax abatement programs meeting the criteria for disclosure in the State's CAFR are certified by the Wisconsin Economic Development Corporation (WEDC), a separate legal entity also reported as a component unit in the CAFR. WEDC enters into the abatement agreements and administers the programs. The Wisconsin Department of Revenue (DOR) is responsible for ensuring the certified tax abatements were properly applied when processing income tax returns filed by recipients. The table below describes abatement programs that impact tax revenues for the State of Wisconsin.

State Agency Programs	Authority	Purpose	Tax Abated	Primary Criteria	Mechanism	Abatement Calculation	Recapturing Abatements
Historical Homeowners Tax Credit - Administered by Wisconsin Historical Society	Wis. Stats. 44.02(24)	Preserving or rehabilitating historic property located in Wisconsin	Income Tax	Own and occupy as personal residence property Costs must relate only to preservation or rehabilitation work done Costs must be more than $10,000	Nonrefundable state income tax credit	25% of qualified expenditures for the current year for individuals	DOR may recover all or a portion of the credit if the claimant has not complied with all requirements
WHEDA Programs	**Authority**	**Purpose**	**Tax Abated**	**Primary Criteria**	**Mechanism**	**Abatement Calculation**	**Recapturing Abatements**
Low Income Housing Tax Credit Administered by Wisconsin Housing and Economic Development Authority	Wis. Stats. 234.45	Low-income housing tax credits	Income Tax	Person has an ownership interest in the qualified development The tax credit is necessary for financial feasibility of the qualified development Maintenance and operation as a qualified development for the compliance period and in compliance with Title VIII of the federal Civil Rights Act of 1968, as amended The allocation certificate is issued in accordance with the qualified allocation plan	Nonrefundable state income tax credit	A claimant may claim as a credit against the taxes imposed, up to the amount of the tax, the amount allocated by the authority	DOR may recover the credit based on the amount determined under section 42(j) of the Internal Revenue Code

WEDC Programs	Authority	Purpose	Tax Abated	Primary Criteria	Mechanism	Abatement Calculation	Recapturing Abatements
Business Development Credit (also includes the Economic Development and Jobs Tax Credit programs)	Wis. Stats. 238.308	Provides incentives for job creation, capital investment, training, and corporate location or retention for new and current businesses in Wisconsin	Income Tax	Person increases net employment in the state from net employment in the state during the year before certification	Refundable state income tax credit or offset against economic development surcharge	Up to 10% of eligible employee wages Up to 5% of additional eligible employee wages in economically distressed area Up to 50% of eligible training costs For investments of $1.0 million or greater or investments of less than $1.0 million but at least $10,000 per eligible employee: Up to 3% of personal property investment and up to 5% of real property investment Certain percentage of wages paid to eligible headquarters employees	WEDC may require repayment of tax benefits claimed for a year in which the person failed to employ an eligible employee required by the agreement
Development Opportunity Zone Tax Credit	Wis. Stats. 238.395	Incent new and expanding businesses in the cities of Beloit, Janesville, and Kenosha Incent the creation of jobs for target group members	Income Tax	Business located in or relocating to, Beloit, Janesville, or Kenosha	Nonrefundable state income tax credit	Credits ranging from $6,000 to $8,000 per job for an FTE paying at least 150% of federal minimum wage Up to 3% of all eligible capital investments Up to 50% of eligible environmental remediation costs	WEDC may revoke tax benefits if false or misleading information is provided, if the business ceases to operate in the zone or moves outside the development zone
Enterprise Zone Tax Credit	Wis. Stats. 238.399	Incent expansion of existing Wisconsin businesses or relocation of major business operations from other states to Wisconsin	Income Tax	Businesses located in, or relocating to, an enterprise zone in Wisconsin Business that begins or expands operations in an enterprise zone Business makes a significant capital contribution Positions created as a result of tax credits must be maintained for at least five years	Refundable state income tax credit	WEDC determines the maximum amount of tax credits a business may claim Credit of up to 7% of the net increase in zone payroll less certain adjustments Credit up to 100% of job-related training costs Up to 10% of significant capital expenditures Up to 1% of amount paid for property, goods or services purchased from Wisconsin vendors	WEDC may require a business to repay tax benefits for which the business failed to maintain employment levels or a significant capital investment in property WEDC may revoke tax benefits if false or misleading information is provided, if the business ceases to operate in the zone or moves outside the development zone
Electronics and Information Technology Manufacturing Zone Tax Credit	Wis. Stats. 238.396	Incent a project (Foxconn) involving the attraction of major business operations to Wisconsin to support the creation of jobs	Income Tax	Business that begins operations in the zone Services must be performed in the state Business maintains job creation threshold and requirements as designated by WEDC Business makes a significant capital expenditure in the zone	Refundable state income tax credit	Job creation credit equal to no more than 17% of payroll within the state for the benefit of the operations within the zone Investment credit where the business may claim up to 15% of its significant capital expenditures	WEDC may require the business to repay any tax benefits the business claims for a year in which the business failed to maintain employment levels or a significant capital investment in property

WEDC Programs, continued	Authority	Purpose	Tax Abated	Primary Criteria	Mechanism	Abatement Calculation	Recapturing Abatements
Qualified New Business Venture (Consists of Early Stage Seed Investment and Angel Investment Credits)	Wis. Stats. 238.15	Promote development of research and development and early-stage capital availability by providing tax credit incentives for private equity investment in technology-based Wisconsin businesses with significant long-term growth potential	Income Tax	Investor must keep investment in a certified business or with a certified fund manager for no less than 3 years unless the investment becomes worthless or the person has kept the investment for at least 12 months and a bona fide liquidity event occurs during the 3 year period Certified businesses are those headquartered in the State and engaged in innovation within certain sectors such as manufacturing, biotechnology, agriculture, etc. or that process or assemble items such as medical devices, pharmaceuticals, computer hardware or software, etc.	Nonrefundable state income tax credit	25% of the value of the investment made in the certified company	The certified business must pay a penalty ranging from 60% to 100% of the tax credit provided if it relocates out of state during the 3 years after it received an investment
Historical Preservation Tax Credit (Supplement to Federal Historic Rehabilitation Tax Credit)	Wis. Stats. 238.17	Incentive for businesses to rehabilitate historic structures in Wisconsin used for production of income	Income Tax	Must own the historic property Building must be depreciable property that is either nonresidential real property, residential rental property, or real property with a class life of more than 12.5 years Rehabilitation expenditures are more than the greater of $50,000 or the adjusted basis Expenditure test must be met within a 24-month (or, for phased rehabilitation projects, a 60-month) period	Nonrefundable state income tax credit	20% of qualified rehabilitation expenditures for the current year The state credit must be claimed ratably over a five-year period beginning in the taxable year the building is placed in service effective for amounts paid or incurred after December 31, 2017[1]	If sale or noncompliance occurs within 5 years then a prorated amount of the credit received will be added back to the individual's tax liability

[1] State law automatically adopted the provision in the federal Tax Cuts and Jobs Act signed into law on December 22, 2017. The federal law effectively modified the timing for claiming the state credit from one year to over five years with a transition rule in place that applies to projects contracted and completed prior to tax year 2021.

The gross dollar amount by which the State's tax revenues were reduced as a result of abatement agreements during the fiscal year ended June 30, 2018:

State Agency Administered Program	Amount
Historical Homeowners Tax Credit	$ 1.2 million
WEDC Administered Programs	
Business Development Credit[2]	13.1 million
Development Opportunity Zone Tax Credit	0.3 million
Enterprise Zone Tax Credit	42.6 million
Qualified New Business Venture	9.8 million
Historical Preservation Tax Credit	39.9 million
Total State Agency and WEDC:	$106.9 million

[2] Includes Economic Development, Jobs Tax Credit and Business Development Credit abatements

Tax Abatement-related Commitments

2017 Wis. Act 58 created an electronics and information technology manufacturing zone in southeast Wisconsin (the Foxconn project). Subject to the Act, the state may contract public debt in an amount not to exceed $252.4 million in general fund-supported general obligation bonds to be used for road expansion and improvements to the I-94 North-South corridor. The Act also recognized a moral obligation in which the legislature expresses its expectation and aspiration, if ever called upon to do so, to make an appropriation to pay no more than 40 percent of the principal and interest of a local governmental unit's municipal obligations used to finance costs related to the zone.

NOTE 27. SUBSEQUENT EVENTS

Primary Government

Long-term Debt

General Obligation Bonds – In October 2018, the State issued $259.0 million of 2018 Series B general obligation bonds to be used for the acquisition, construction, development, extension, enlargement or improvement of land, water, property, highways, buildings, equipment or facilities for public purposes. The interest rates associated with these bonds were set at 5.0 percent payable semiannually beginning May 1, 2019. The bonds mature annually beginning May 1, 2020 through May 1, 2039.

General Fund Annual Appropriation Bonds – In October 2018, the State entered into a forward delivery bond purchase agreement for the issuance of general fund annual appropriation refunding bonds. Subject to that agreement, the State expects to issue $360.0 million of Series A general fund annual appropriation refunding bonds in January 2019 to be used for the current refunding on May 1, 2019 of general fund annual appropriation bonds previously issued. When issued, the interest rates are expected to be 5.0 percent payable semiannually beginning May 1, 2019 and maturing May 1, 2021 through 2029.

Environmental Improvement Revenue Bonds – In August 2018, the State issued $92.1 million of 2018 Series A environmental improvement fund revenue bonds to make pledged loans for the program. The interest rate associated with these bonds was set at 5.0 percent payable semiannually beginning December 1, 2018. The bonds mature annually beginning June 1, 2020 through June 1, 2026.

Certificates of Participation

In August 2018, the State issued $26.6 million of 2018 Series A master lease certificates of participation to fund Lease Schedules previously financed through a revolving credit facility, and financing an additional Lease Schedule. The interest rate associated with these bonds were set at 3.0 to 5.0 percent payable semiannually beginning March 1, 2019. The bonds mature semiannually beginning March 1, 2019 through March 1, 2023.

Moral Obligation Debt

In October 2018, the Secretary of Administration designated the State’s moral obligation pledge on $120.0 million of Village of Mount Pleasant Tax Increment Revenue Bonds. This pledge does not exceed the amount provided for in law for a local governmental unit’s aggregate municipal obligations issued to finance costs related to development occurring in, or for the benefit of, the electronics and information technology manufacturing zone.

Injured Patients and Families Compensation Fund

Under Wis. Stats. 655.015, the Injured Patients and Families Compensation Fund is charged with: “crediting each claimant's account with a proportionate share of any interest earned by the fund, based on that account’s proportionate share of the fund”. Previously, the interest rate credited to claimants’ accounts had been based on the interest earnings of the State Investment Fund. In December 2018, the Board of Governors voted to change the interest credited to the claimants’ accounts to reflect the interest on the fixed income investment portfolio, or the State Investment Fund, whichever is greater, and to apply this change retroactively. The actual amount of earnings to be credited is unknown, but the initial estimated amount is approximately $12.0 million.

This page left intentionally blank.

Required Supplementary Information

Postemployment Benefits - State Health Insurance Program

Schedule of Changes to the Total OPEB Liability and Related Ratios (in millions)

As of the Measurement Date June 30

	2017
Total OPEB Liability	
Service cost	72.1
Interest	23.6
Difference between expected & actual experience	(4.1)
Changes of assumptions	(109.3)
Benefit payments	(38.4)
Net Change in Total OPEB Liability	**(56.0)**
Total OPEB Liability – Beginning	**$775.4**
Total OPEB Liability – Ending	**$719.3**
Covered-employee payroll	$3,690.7
Total OPEB liability as a percentage of covered	19.49%

This schedule will be built prospectively until it contains ten years of data.

Notes to RSI

The State Health Insurance OPEB plan does not have assets in trust or equivalent arrangements and is funded on a pay-as-you-go basis. Potential factors that may significantly affect trends in amounts reported include changes to the discount rate, health care trend rates, and participation rate assumptions. Employer benefit payments were actuarially determined and pertain to the implicit rate subsidy.

Postemployment Benefits - State Life Insurance Program

Schedule of Changes in theTotal OPEB Liability and Related Ratios (in millions)
As of the Measurement Date December 31

	2017
Total OPEB Liability	
Service cost	26.2
Interest	30.7
Difference between expected & actual experience	(5.3)
Changes of assumptions	49.0
Benefit payments	(17.7)
Net Change in Total OPEB Liability	**82.9**
Total OPEB Liability - Beginning	**$762.6**
Total OPEB Liability - Ending	**$845.5**
Plan Fiduciary Net Position	
Contributions from employers	1.4
Net investment income	11.6
Administrative expense	(.7)
Benefit payments	(17.7)
Net change in Plan Fiduciary Net Position	**(5.4)**
Plan Fiduciary Net Position – Beginning	**$357.4**
Plan Fiduciary Net Position – Ending	**$352.0**
Ending Collective Net OPEB Liability – Beginning	**$405.1**
Net change in Collective Net OPEB Liability	**88.4**
Collective Net OPEB Liability – Ending	**$493.5**
Plan Fiduciary Net Position as a percentage of the total OPEB liability	41.63%
Covered-employee payroll	$3,184.0
Net OPEB liability as a percentage of covered employee payroll	15.50%

This schedule will be built prospectively until it contains ten years of data.

Schedule of Contributions to State Life Insurance OPEB Plan (in millions)
As of the Measurement Date December 31

	2017
Contractually required contribution	$1.4
Contributions in relation to the contractually required contribution	$1.4
Contribution deficiency	$0
Covered payroll	$3,184.0
Contributions as a percentage of covered payroll	0.042%

This schedule will be built prospectively until it contains ten years of data.

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)
2018	(27.8%)	$ (826,113,891)	$3,867,555,186	(21.4%)	102.9%
2017	28.0%	$ 232,791,419	$3,806,871,835	6.1%	99.1%
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)
2018	$280,500,929	$280,500,929	$ -	$3,867,555,186	7.3%
2017	$263,970,133	$263,970,133	$ -	$3,806,871,835	6.9%
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)
2018	11,200	7.4	15.0	7.6
2017	11,200	7.4	15.0	7.6
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

* 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)
2018	$748.0	$616.7	$ 131.3
2017	$770.3	$629.3	$ 141.0
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

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.

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)
2018	5,200	3.0	15.0	12.0
2017	5,200	3.1	15.0	11.9
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

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)
2018	$92.1	$89.9	$2.2
2017	$56.9	$59.3	$(2.4)
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)

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, 2018

(In Thousands)

	Original Budget	Final Budget	Actual Amounts
Unexpended Budgetary Fund Balances, Beginning of Year			$ 2,298,901
Revenues and Transfers (Inflows):			
Taxes	$ 16,102,468	$ 16,150,383	16,168,750
Departmental:			
Tribal Gaming	25,910	26,157	27,681
Other	16,829,795 (A)	16,822,466 (A)	16,654,010
Transfers from:			
Nonmajor Governmental Funds	(A)	(A)	75,477
Nonmajor Enterprise Funds	(A)	(A)	21,136
Total Revenues and Transfers (Inflows)	32,958,173	32,999,006	32,947,054
Amounts Available for Appropriation			35,245,955
Appropriations (Outflows):			
Commerce	207,930	239,257	204,210
Education	13,682,501	14,122,138	13,567,796
Environmental Resources	323,679	383,640	326,401
Human Relations and Resources	14,458,565	17,020,736	14,782,644
General Executive	1,162,580	1,571,634	1,003,239
Judicial	144,139	149,674	139,259
Legislative	76,471	76,471	68,768
Tax Relief and Other General	2,524,053	2,688,457	2,596,485
Transfers to:			
Transportation Fund	40,195	40,195	40,195
Nonmajor Governmental Funds	-	-	3,809
Nonmajor Enterprise Funds	-	-	5,200
Total Appropriations (Outflows)	$ 32,620,113	$ 36,292,202	32,738,006
Fund Balances, End of Year			2,507,949
Less Encumbrances Outstanding at June 30, 2018			(524,427)
Fund Balances, End of Year Budgetary Basis			$ 1,983,522

Reconciliation of the End of Year, Budgetary Basis, Fund Balance to the Detail Reported in the Annual Fiscal Report:	
General Purpose:	
Designated	$ 238,549
Undesignated	588,472
Total General Purpose	827,021
Program Revenue	1,156,501
Fund Balances, End of Year Budgetary Basis	$ 1,983,522

(A) Interfund transfers to the General Fund were budgeted under departmental revenue during Fiscal Year 2018.

State of Wisconsin

Budgetary Comparison Schedule
Transportation Fund
For the Fiscal Year Ended June 30, 2018

(In Thousands)

	Original Budget	Final Budget	Actual Amounts
Unexpended Budgetary Fund Balances, Beginning of Year			$ 490,789
Revenues (Inflows):			
Taxes	$ 1,123,220	$ 1,123,220	1,123,220
Departmental	1,603,325	1,603,325	1,603,325
Transfers from:			
General Fund	40,195	40,195	40,195
Nonmajor Governmental Funds	24,000	24,000	24,000
Total Revenues (Inflows)	2,790,740	2,790,740	2,790,740
Amounts Available for Appropriation			3,281,529
Appropriations and Transfers (Outflows):			
Environmental Resources	2,940,162	5,395,446	2,762,063
General Executive	2,001	2,001	1,696
Tax Relief and Other General	22,394	22,442	21,774
Total Appropriations and Transfers (Outflows)	$ 2,964,557	$ 5,419,889	2,785,533
Fund Balances, End of Year			495,996
Less Encumbrances Outstanding at June 30, 2018			(1,706,452)
Fund Balances, End of Year Budgetary Basis			$ (1,210,456)

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, 2018 is presented below (in thousands):

	General Fund	Transportation Fund
Fund balance June 30, 2018 (budgetary basis – budgetary fund structure):		
General Purpose Revenue – fund balance per budgetary basis *Annual Fiscal Report*		
Undesignated fund balance	$ 588,472	
Designated fund balance	238,549	
Total General Purpose Revenue fund balance	827,021	
Program Revenue – fund balance per budgetary basis *Annual Fiscal Report*	1,156,501	
Fund balance June 30, 2018 (budgetary basis – budgetary fund structure) as reported on the budgetary comparison schedule	1,983,522	$(1,210,456)
Reclassifications:		
To eliminate encumbrances reported as expenditures under budgetary reporting (*basis difference)*	524,427	1,706,452
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*)	429,320	--
To remove activities reported in another GAAP fund type (*perspective differences*):		
Enterprise funds (except for the University of Wisconsin System)	(32,151)	--
University of Wisconsin System	(1,306,911)	--
Internal Service funds	(6,005)	--
Fiduciary funds	(4,066)	--
Transportation Revenue Bonds capital project fund	--	1,422
Fund balance June 30, 2018 (GAAP fund structure – budgetary basis, excluding encumbrances treated as expenditures at year end)	1,588,136	497,417
Adjustments (*basis differences*):		
To accrue receivables and establish payables for individual income taxes (net)	(884,330)	--
To defer revenues for gross receipts public utility taxes	(277,475)	--
To adjust revenues and expenditures for tax-related items and other tax credit/aid programs (net)	(472,705)	(7,310)
To adjust expenditures for the municipal and county shared revenue program	(507,375)	--
To adjust expenditures for State property tax credit program	(810,964)	--
To accrue unpaid Medicaid payments to providers (net of receivable from federal government)	(263,343)	--
To adjust revenues and expenditures for certain major Health Services, and Children and Families human services payments to local governments	(137,828)	--
To accrue receivable for Medicaid drug rebates (net of payable to federal government)	203,918	--
To adjust expenditures/revenues for other Health Services, Workforce Development, Children and Families, and Corrections accruals and deferrals	(62,520)	--
To recognize the tobacco settlement revenue receivable	75,761	--
To accrue State educational aids payments deferred until the subsequent year	(75,000)	--
To accrue receivables from the federal government for the Children's Health Insurance Program	275,390	
To adjust expenditures and revenues for State Energy Program and other revolving loan programs	5,453	--
To adjust revenues and expenditures for other items (net)	89,354	165,774
Fund balance June 30, 2018 (GAAP fund structure – GAAP basis) as reported on the governmental fund statements	$(1,253,527)	$655,881

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 September 21, 2017 and published on September 22, 2017. This legislation is recognized by State officials as the original budget and is treated as such on the Budgetary Comparison Schedules.

While the legal level of budgetary control for the reported funds is maintained at the appropriation line as specified by the Legislature in Chapter 20 of the Wisconsin Statutes, this level of detail is impractical for inclusion in the Comprehensive Annual Financial Report. Accordingly, a supplementary report is available upon request which provides budgetary comparisons at the legal level of control.

Appropriation unexpended balances lapse at year-end or forward to the subsequent fiscal year depending on the type of appropriation involved:

- *Continuing* - unexpended balances automatically forward to ensuing years until fully depleted or repealed by subsequent action of the Legislature.
- *Annual*:
  - *General Purpose Revenue* - unencumbered balances lapse at year end.
  - *Program Revenue* - unexpended cash balances may be forwarded to the next fiscal year.
- *Biennial* - unexpended balances or deficits automatically forward to the second year. At the end of the second year all unencumbered general purpose revenue balances lapse.
- *Sum sufficient* - moneys are appropriated and expended in the amounts necessary to accomplish the purpose specified.

Encumbrances may be carried over to the next fiscal year as a revision to the budgetary appropriation with Department of Administration approval. Under budgetary reporting, encumbrances are treated like expenditures and are shown as a reduction of fund balance.


FORWARD