

Wisconsin



Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2013

STATE OF WISCONSIN

Comprehensive Annual Financial Report



For the fiscal year ended June 30, 2013

Scott Walker, Governor

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

Prepared by the State Controller's Office


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**Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2013**

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INTRODUCTORY SECTION



**WISCONSIN DEPARTMENT OF
ADMINISTRATION**

SCOTT WALKER
GOVERNOR

MIKE HUEBSCH
SECRETARY

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

December 11, 2013

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

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the State of Wisconsin for the fiscal year ended June 30, 2013.

The State's CAFR is prepared by the Department of Administration, Division of Executive Budget and Finance, State Controller's Office, which is responsible for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls that it has established for this purpose. Because the cost of internal controls should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

This report has been prepared in accordance with generally accepted accounting principles (GAAP) for governments as promulgated by the Governmental Accounting Standards Board (GASB). To report the State's financial activity, the State's budgetary funds are grouped into the fund types required by GAAP. As a result, the State's 68 budgetary funds have been analyzed, restructured and are currently reported in 59 GAAP funds. The most significant change has been to reclassify certain activities from the budgetary General Fund and present them in proprietary and fiduciary fund types more appropriate for the financial reporting of transactions related to commercial and trust activities. Notes 1-C and 1-D to the financial statements include a more detailed discussion of the GAAP fund types.

Independent Audit

In compliance with Wis. Stat. Sec. 13.94 (1)(c), the State Legislative Audit Bureau has performed an examination of and has issued an unmodified opinion on the State's primary government basic financial statements included in this report. The independent auditor's report is located at the front of the financial section of this report.

Management Discussion and Analysis

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The State's MD&A can be found immediately following the auditor's report.

PROFILE OF THE STATE

The State of Wisconsin was admitted to the Union as the 30th state in 1848. Wisconsin, situated between Lake Michigan to the east and the Mississippi River to the west, covers 54,310 square miles and serves a population of 5.7 million.

Wisconsin government is divided into three branches. The executive branch, headed by the governor, includes five other elected constitutional officers, as shown on the organization chart on Page 12. The legislative branch includes the Wisconsin Legislature, which is composed of a 33-member senate and a 99-member assembly. The judicial branch includes the Wisconsin Supreme Court, the Court of Appeals, and circuit courts.

The State provides a full range of services that include commerce, education, transportation, environmental resources, human relations and resources, judicial, legislative and general administrative services. The financial statements present information on the financial position and operations of State government as a single comprehensive reporting entity. The various agencies, departments, boards, commissions and accounts of the State that constitute the State reporting entity are included in this report.

Component Units

In accordance with criteria established by the GASB, this report also includes component units which are legally separate organizations for which the State is financially accountable or receives a substantial benefit.

Discretely presented component units, which function independently of the State despite the ties between them and are, therefore, presented separately from the data of the State, include the Wisconsin Housing and Economic Development Authority, Wisconsin Health Care Liability Insurance Plan, University of Wisconsin Hospitals and Clinics Authority, Wisconsin Economic Development Corporation, and the University of Wisconsin Foundation.

Blended component units, which although legally separate entities are, in substance, part of the State's operations, include the Wisconsin Public Broadcasting Foundation, Inc., and the Badger Tobacco Asset Securitization Corporation.

Budgetary Process

The State's biennial budget is prepared on a mixture of cash and modified accrual bases of accounting and represents departmental appropriations based on agency requests reviewed by the Department of Administration and recommended by the Governor. The Governor's budget is submitted to the State Legislature for approval. Following debate, amendment and approval by the Senate and Assembly, the budget bill is returned to the Governor for his signature or veto in entirety or in part.

The State Constitution provides that no money shall be paid out of the Treasury except as appropriated by law. The Statutes require that the Secretary of Administration must approve all payments. The Department of Administration exercises detail allotment control over all agency appropriations and approval authority over all encumbrances.

The budgetary basis of accounting required by State law differs materially from the basis used to report revenues and expenditures in accordance with GAAP. The State's biennial budget is developed according to the statutorily required fund structure that, as previously noted, differs extensively from the fund structure used in the financial statements.

Wisconsin Retirement System and Accumulated Sick Leave Conversion Credits Program

The Wisconsin Retirement System (WRS) is a pension plan administered by the Department of Employee Trust Funds (DETF). The WRS provides coverage to all eligible employees of the State of Wisconsin and other participating local units of government. The most current actuarial valuations of this pension plan indicated that the WRS was funded at 99.9 percent of liabilities for the 590,461 participants of the WRS. The State's contribution to WRS represents approximately 31.0 percent of total contributions required of all participating entities.

The Accumulated Sick Leave Conversion Credits (ASLCC) benefit program, reported in a fiduciary fund and also administered by DETF, allows employees at the time of their retirement to convert the value of their accumulated unused sick leave into an account to be used to pay for post-retirement health insurance. The actuarial value-based funded ratio of this program was 99.2 percent as of December 31, 2012 (the date of the most recent valuation).

ECONOMIC CONDITION AND OUTLOOK

In 2013, Wisconsin continued its economic rebound from the Great Recession of 2007-09, mirroring the national recovery. In addition, Wisconsin has outperformed the Great Lakes region.

- Wisconsin's unemployment rate remains lower than the national rate and is well below the rates of other states in the Great Lakes region.
- Wisconsin's labor force participation rate is the tenth highest nationally.
- Wisconsin's growth in gross domestic product since 2007 exceeds the region's growth over the same period.
- Wisconsin's per capita income growth since 2007 has exceeded the nation's and the region's growth.
- Wisconsin's median household income, \$53,079, is 4 percent above the national average.

In Fiscal Year 2013, Wisconsin's economic recovery gained momentum. Total general fund revenues increased by 4.2 percent over Fiscal Year 2012 tax collections, outpacing expectations, with significant strength in Wisconsin's major general fund tax revenue sources. Individual income tax revenues increased 6.5 percent, sales and use tax revenues increased 2.8 percent and corporate tax revenues increased 2.1 percent. As a result, Wisconsin deposited \$153.2 million into the State's budget stabilization fund. This was the largest such deposit in State history and the third consecutive fiscal year such a deposit was made to the stabilization fund.

Looking ahead, Wisconsin's economic recovery is expected to continue. Wisconsin's gross domestic product is projected to increase 3.2 percent in 2013 and 4.1 percent in 2014. Total nonfarm employment in Wisconsin is expected to increase 1.1 percent in 2013 and 1.4 percent in 2014. Nationally, nonfarm employment is expected to increase 1.5 percent in 2013 and 1.6 percent in 2014. Wisconsin personal income growth is projected to increase 1.9 percent in 2013 and 4.6 percent in 2014. This is similar to the expected personal income growth nationally of an increase of 2.7 percent in 2013 and 5.1 percent in 2014.

Wisconsin continued to build its economic recovery through economic development and infrastructure investment, reconciling government spending with revenues without raising taxes and providing \$1.2 billion more to provide coverage to the Medicaid population over the 2011-13 biennium. The Medicaid increase was necessary due to the reduction of the temporary federal matching rate at the end of the American Recovery and Reinvestment Act of 2009. In 2011 Wisconsin Act 32, many areas of state government spending were reduced to accommodate Medicaid spending. For Fiscal Years 2012 and 2013, most state operations appropriations were reduced by 10 percent, excluding salary and fringe benefits, to create efficiencies. The enactment of 2011 Wisconsin Act 10 required most State and local government employees to contribute 50 percent of their pension benefits and increased the contributions of state employees toward their health insurance premiums. These efforts set the State on more stable fiscal footing.

Despite a reduced level of aid to local governments during the 2011-13 biennium necessitated by the recession and the termination of one-time federal stimulus funds, property tax controls ensured that the reduction of State funding did not result in property tax increases. As a result, the property taxes on the median value home in Wisconsin declined slightly in each year of the biennium. Growth in Medicaid funding was limited through the implementation of efficiency measures and improvements in program integrity. Growth in tuition in the University of Wisconsin System was held to approximately 5.5 percent primarily by reducing administrative costs.

MAJOR INITIATIVES

Economic Development. The Wisconsin Economic Development Corporation was created in 2011 Wisconsin Act 7 to serve as the State's economic development entity with a focus on private sector job creation. A public-private partnership, this authority replaced the Department of Commerce, and focuses exclusively on developing and implementing economic programs to assist companies that are investing and creating jobs in Wisconsin and supporting new business start-ups and business expansion and growth in the State.

Under the provisions of 2011 Wisconsin Act 4, the corporation was authorized an additional \$25 million in nonrefundable, nontransferable tax credits to distribute to businesses for projects that create jobs, purchase significant capital assets, train employees, or establish or retain a corporate headquarters in Wisconsin. This action increased the total amount of economic development credits that could be allocated to \$128.2 million through Fiscal Year 2013. A further commitment to economic growth was made in the 2013-15 Biennial Budget (2013 Wisconsin Act 20), which provided an immediate \$36.0 million increase to the maximum credits that may be awarded under the program and allowance for an additional increase of \$39.0 million if needed. Under Act 20, total credits available through the program may increase to up to \$203.2 million.

The State continued to encourage private investment in entrepreneurial activities by expanding the Angel Investment and Early Stage Seed Investment tax credit programs, which initially became effective for tax years beginning after January 1, 2005. Through the programs, individuals and businesses are eligible for tax credits equal to a portion of the investment made in qualified new business ventures. In Fiscal Year 2013, 45 new companies certified as qualified new business ventures – raising the total of qualifying new business ventures to 150. In recognition of the corporation's continuing efforts in identifying qualifying new business ventures, the previous \$45 million cap on total tax credits allowable to angel investors was eliminated in Act 20.

To further spur economic growth, Act 20 provided \$25 million for a capital investment program to make investments in business start-ups and investment capital projects.

Wisconsin enacted a major individual income tax cut in Act 20 effective beginning with tax year 2013. The tax cut reduced marginal rates in all income tax brackets, taking the rate structure from rates of 4.6 percent, 6.15 percent, 6.5 percent, 6.75 percent and 7.75 percent to 4.4 percent, 5.84 percent, 6.27 percent and 7.65 percent. The former 6.75 percent bracket was eliminated so that the range of taxable income previously subject to this bracket is now subject to the 6.27 percent rate. Over the next two years, this tax cut will save Wisconsin income taxpayers approximately \$650 million.

In addition to providing tax relief to individuals, Wisconsin has continued its commitment to improve the State's tax climate for manufacturing and agriculture. For taxable years beginning in 2013, the Manufacturing and Agriculture Tax Credit will be available for income derived from manufacturing or agricultural property located in Wisconsin. The credit will be phased in over a four-year period and will offer significant income tax relief for eligible claimants.

The State offers a variety of programs that target minority and rural business development, dairy manufacturing, and agricultural production. Through the end of Fiscal Year 2013, 804 businesses had been certified as minority-owned to increase the opportunity for these firms to sell their products and services to the State of Wisconsin. In addition, a variety of sales tax exemptions for fuel, electricity, farm machinery,

veterinary services, and other personal property and supplies used in farming have reduced farming costs in the State by over \$200 million annually.

The Farmland Preservation Credit programs provide credits to about 14,600 farmers and about 300 corporate claimants who qualify through exclusive agricultural or farmland preservation zoning or individual farmland preservation agreements. Two separate calculations of and qualifications for the credit were available in Fiscal Year 2013 – one based on income and the other based on the number of acres and other criteria. Combined expenditures under the Farmland Preservation Credit programs totaled \$19.2 million in Fiscal Year 2013, a decrease of \$0.4 million over Fiscal Year 2012. Wisconsin's Farmland Preservation Credit is one of only two similar state programs in the country.

As of 2012, Wisconsin had over 10,500 dairy farms with more than 1.27 million cows. Wisconsin's milk production continues to grow as the dairy farms in the state yielded over 27.2 billion pounds of milk in 2012, an increase of 4 percent over the all-time record of 26.1 billion set in 2011. Wisconsin accounts for 14 percent of the nation's milk production. Milk production per cow in Wisconsin continues to grow, currently at 21,436 pounds per year. Dairy production and processing accounts for almost half of all the economic activity associated with agriculture: \$26.5 billion in economic activity, accounting for more than 146,000 jobs. In 2012, Wisconsin was the nation's top cheese producing state with more than 2.7 billion pounds of cheese or 26 percent of the nation's cheese production. Wisconsin's specialty cheese production continues to increase, producing 611 million pounds in 2012. Begun in 2012, the 30x20 grant program is designed to sustain the long-term viability of Wisconsin's dairy industry by achieving an annual milk production of 30 billion pounds by 2020. In 2013, the program awarded grants to 44 recipients to meet the growing demands of the marketplace.

In 2012, Wisconsin's \$2.94 billion in agricultural exports ranked 13th among U.S. states, moving up three spots from 2011. Top export markets were Canada, Mexico, China, South Korea and Japan, and top product categories included dairy products, bakery related items, cereal grains, preserved foods, raw hides and prepared meats. In 2012, Wisconsin ranked second in the nation, behind only Texas, for the export of ethanol, a value of \$282 million. Almost all of Wisconsin's ethanol exports went to Canada. Wisconsin led the nation in exports of cranberries, flax seed, durum wheat, ginseng roots and sweet corn. Wisconsin ranked second among all states in the exportation of bovine genetic products and cheese in 2012.

During the recession, Wisconsin experienced record claims for unemployment benefits. In June 2010, Wisconsin administered roughly 108,000 weekly continued claims. The number of continued claims had fallen to approximately 75,000 by the last week of June 2012 and continued to decrease over the next 12 months as the economy improved and certain benefit extensions expired. As of late June 2013, weekly continued claims were approximately 66,000, a 12 percent decrease during Fiscal Year 2013.

Transportation. The State continued to make significant investments in transportation infrastructure through expansion in highway capacity and reconstruction of existing highways and bridges. In Fiscal Year 2013, 537 miles of State Trunk Highway and local highways were improved and 273 deficient state and local bridges were rehabilitated or replaced. Also in Fiscal Year 2013, the State contributed over \$78 million to continue work on the I-94 Southeast Freeway, \$257 million to begin work on the Zoo Interchange and \$220 million on US 41. In all, more than \$1.07 billion in construction projects on state and local road systems was contracted through the Department of Transportation.

The State has committed to using general fund revenue to support investment in transportation infrastructure in Fiscal Year 2013 by making a one-time transfer of \$102.5 million from the general fund and dedicating 0.25 percent of total annual general fund tax revenue, or a minimum of \$35.1 million, to the transportation fund. In Fiscal Year 2013, \$35.1 million was transferred. In addition, Act 20, the 2013-15 biennial budget, made a long-term commitment to maintaining general fund support for transportation by authorizing \$200 million of general fund supported general obligation bonds for transportation projects.

As part of the State's continuing commitment to efficiency, the Department of Transportation identifies innovations in technology and construction methods that can save customers time and reduce long-term costs.

- In 2013, the I-94 highway project used a self-propelled modular transporter to move the 3,000,000-pound Rawson Avenue bridge deck pieces into position. This "accelerated construction technology" decreased the time from bridge demolition to reopening to four weeks from the expected four to six months.
- On the Zoo Interchange project in Milwaukee County, new "adaptive signal technology" controls six traffic signals that adapt in real-time to move traffic more efficiently, saving time and improving gas mileage for commuters.
- The department recently deployed new technologies that enable engineers to evaluate pavement nondestructively to determine when roadways need to be scheduled for reconstruction. Ground Penetrating Radar uses electromagnetic waves to determine pavement and soil layer thicknesses without cutting or excavating.
- The department has implemented new engineering design software called Civil 3D that produces a three-dimensional model that can be used by contractors for GPS (global positioning system) controlled construction operations. More use is also being made of LiDAR (light detection and ranging) survey methods which enhance the amount of information collected and the speed of collection.
- In Act 20, the department was authorized to hire an additional 180 positions in the Division of Transportation System Development to decrease the agency's reliance on private consultants for engineering, design and other construction-related endeavors. By using more in-house employees for engineering on highways, the department is cutting personnel costs and increasing institutional knowledge among front-line workers.

In Fiscal Year 2013, the efficiency and timeliness of services provided to citizens was enhanced through continued on-line service options, and beginning in April 2013, accepting credit cards as a payment option in Division of Motor Vehicle service centers. Expanded statewide and multistate enforcement of speeding, drunk driving and drug trafficking laws, along with commercial vehicle inspections, improved the safety of state citizens. The Department of Transportation has instituted the "Zero in Wisconsin" campaign to reduce highway fatalities through education and targeted enforcement activities. In calendar year 2013, fatalities are below the prior five-year average and seat belt use has increased to 82.4 percent, an all-time high for the state, although still below the goal. Additionally, in a continuing effort to improve highway safety and reduce vehicle crashes, the department installed over 600 miles of centerline and 79 miles of shoulder rumble strips on two-lane rural roadways.

Wisconsin also distributes state transportation user fee revenues to local governments for transportation infrastructure improvements and transit operating assistance, targeting economic and infrastructure development. In Fiscal Year 2013, \$606.5 million was transferred to local governments for these purposes. For example, the Transportation Economic Assistance (TEA) Program provides up to 50 percent state grant funding to governing bodies, private businesses and consortia for road, rail, harbor and airport projects that help attract employers to Wisconsin, or encourage business and industry to remain and expand within the State. In Fiscal Year 2013, this program leveraged \$64 in capital investments for every \$1 in grants.

Environment. Wisconsin's Warren Knowles-Gaylord Nelson Stewardship Program and its successor, the Warren Knowles-Gaylord Nelson Stewardship 2000 Program, are available for land acquisition, easements and nature-based outdoor recreational property development activities. The original Stewardship Program committed \$250 million through the sale of general obligation bonds and the use of federal grant monies for various resource development and land protection activities, including acquisition of State park lands, protection of urban rivers and assistance to local parks. The program was reauthorized in 2007 Wisconsin Act 20 through Fiscal Year 2020 with an annual bonding authority of \$86 million beginning in Fiscal Year 2011. The 2011-13 biennial budget subsequently reduced the annual bonding authority to \$60 million beginning in Fiscal Year 2012. Under 2013 Wisconsin Act 20, the annual bonding authorization was reduced further to \$47.5 million in Fiscal Year 2014 and \$54.5 million in Fiscal Year 2015, with annual authorizations through Fiscal Year 2020 set at \$50 million each year. During Fiscal Year 2013, the State used \$27.9 million in Stewardship Program financing to acquire over 56,155 acres of public recreational land through acquisition and recreational easements. This total includes Stewardship grants totaling \$16.3 million to local governments and nonprofit conservation organizations for the acquisition of easements and title in fee, and for the development of recreational properties.

In addition to land acquisition through the Stewardship Program, Wisconsin's efforts to protect and enhance its natural resources include partnerships with individual landowners. In November 2001, the State entered into an agreement with the U.S. Department of Agriculture for the authority to enroll up to 100,000 acres of Wisconsin farmland in the Conservation Reserve Enhancement Program. The federal government will provide up to \$200 million for the program, which will be matched by the State with up to \$28 million from the sale of general obligation bonds. As of October 1, 2013, about 44,400 acres had been enrolled in the program, and total State payments to landowners amounted to just over \$12.6 million. The state's payments to date will leverage an anticipated \$88 million in federal payments to program participants over the course of the program contracts.

Wisconsin's Environmental Improvement Fund program provides financial assistance to municipalities for the planning, design and construction of wastewater collection and treatment, and drinking water treatment and distribution facilities. Most communities applying for assistance receive subsidized loans, although some wastewater projects are eligible for partial grants through a hardship component of the program. Funding is provided from a State-matched federal capitalization grant and through State revenue and general obligation bonds and repayments from loans previously made. In Fiscal Year 2013, the Environmental Improvement Fund made awards to municipalities amounting to \$210.3 million, bringing the total amount of loans and grants awarded by the program to \$4.4 billion since its inception in 1991. The funding has financed high priority infrastructure projects to ensure clean water and safe drinking water across the state.

The Petroleum Environmental Cleanup Fund Award program (PECFA) assists owners of leaking petroleum storage tanks with environmental remediation costs and has provided \$1.53 billion for cleanups at 13,199 locations (12,420 now closed) since 1988. Efforts to minimize claim payment backlogs and improve site closure methodologies have streamlined the program while protecting the environment and public health.

Human Resources. In Fiscal Year 2013, Medical Assistance program expenditures continued to grow, although enrollment decreased for the first time in over 15 years. Fiscal Year 2013 expenditures for the Medical Assistance program, as adjusted to equalize the timing of payments between years, increased 3 percent over the prior year, compared to the 4 percent growth in Fiscal Year 2012 and 7 percent increase in Fiscal Year 2011. Medical Assistance expenditures from all funds totaled \$7,302.3 million. Enrollment in the Medical Assistance programs decreased by 0.8 percent between Fiscal Years 2012 and 2013, compared to the growth rate of 1.5 percent between Fiscal Years 2011 and 2012 and 6 percent between Fiscal Years 2010 and 2011.

The Department of Health Services was given authority in 2011 Wisconsin Acts 10 and 32 to implement efficiency measures administratively, without the need to pass legislation, in order to reduce Medical Assistance expenditures by over \$500 million all funds in Fiscal Years 2012 and 2013. On July 1, 2012, the department began charging sliding scale premiums for adults enrolled in BadgerCare Plus with family income over 133 percent of the federal poverty level and children with family incomes over 200 percent of the federal poverty level. The percentage of the premiums charged by the department is equivalent to the premium levels established by the federal Affordable Care Act for individuals receiving premium subsidies through the health care exchanges. Enrollment trends varied within eligibility groups, however. Average monthly enrollment of low-income adults and children in the BadgerCare Plus program decreased by 2.5 percent, approximately 20,000 individuals per month, while the average monthly enrollment of elderly individuals and people with disabilities increased by 2.6 percent, approximately 5,200 individuals per month.

Expenditures for the SeniorCare pharmacy assistance program totaled \$78 million all funds, a decrease of \$10 million from Fiscal Year 2012. This decrease is due to the continued growth in participation in the federal Medicare Part D program, particularly among low-income individuals who qualify for subsidies.

The Department of Children and Families continued the State's commitment to seek permanent placements for children referred to the State's child welfare system in Fiscal Year 2013. This included finalizing 736 adoptions for children with special needs in Fiscal Year 2013. In other program areas, the department continued to eliminate fraud from the Wisconsin Shares program, which provides subsidized child care to low-income working families. The efforts of the department's program integrity unit helped hold Wisconsin Shares

program expenditures in Fiscal Year 2013 to \$243,004,300, which was \$20,371,200 below Fiscal Year 2012 expenditures and \$31,582,200 below the amount originally budgeted for Fiscal Year 2013. Under Wisconsin Shares, a monthly average of 49,147 children received subsidies in Fiscal Year 2013. In addition, an average of 14,345 families received cash benefits each month under the Wisconsin Works (W-2) program. As of September 30, 2013, state and county child support partnership efforts provided full case management services to 383,826 cases and provided financial management services to an additional 132,351 cases.

Education. School aids and property tax credits provided to support school districts' 2012-13 costs for elementary and secondary education totaled \$5.8 billion.

In Fiscal Year 2013, the Governor provided school districts with augmented funding by increasing general school aids by \$70.9 million or 1.2 percent, providing a \$50 per pupil adjustment to revenue limits, and providing a new categorical aid program of \$42.5 million to match increased district investments under the per pupil adjustment. School aid increases offset the property tax impact of the per pupil adjustment increase. The low revenue threshold, below which school districts are exempt from revenue limit controls, remained frozen at \$9,000 per pupil. Further, the State-funded per pupil payment to schools participating in the Milwaukee Parental Choice and Racine Parental Choice programs was maintained at Fiscal Year 2012 levels, as was the per pupil payment to schools participating in the Milwaukee and Racine independent charter schools program. These measures helped keep the statewide school property tax levy flat.

State support for the University of Wisconsin System totaled \$893.6 million in 2012-13; a \$39.5 million or 4.6 percent increase over 2011-12 funding. The 2011-13 Biennial Budget (2011 Wisconsin Act 32) extended administrative autonomy to the University of Wisconsin System institutions related to budgeting and financial management, tuition, human resources, building projects and procurement; increased employee contributions to health care and retirement benefits; and provided a modest tuition increase to partially offset budget cuts. Implementation of these cost-saving measures and flexibilities continued in 2012-13.

In 2012-13 the Governor clarified the relationship between the University of Wisconsin System and WiscNet, a private, membership-based nonprofit association that provides Internet service for research and educational purposes. The Governor ensured that WiscNet did not receive a competitive advantage over commercial counterparts by prohibiting University of Wisconsin institutions, University of Wisconsin Colleges, University of Wisconsin-Extension and University of Wisconsin System Administration from serving as a member of WiscNet or similar organization. Additionally, Act 32 required an audit by the Legislative Audit Bureau of the relationship between the University of Wisconsin System and WiscNet.

The Governor provided steady support for state financial aid programs, including the Wisconsin Higher Education Grant (WHEG) program, and capped resident undergraduate tuition growth to ensure continued affordability and access to the University of Wisconsin System. Additionally, state financial aid programs, including the WHEG for University of Wisconsin students, WHEG for technical college students and Tuition Grant for resident students attending private, nonprofit colleges, were exempted from across-the-board reductions. As a measure of affordability, University of Wisconsin-Madison ranked seventh among public colleges and universities as a "Best Value College for 2013" by the Princeton Review.

AWARDS AND ACKNOWLEDGEMENTS

Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a "Certificate of Achievement for Excellence in Financial Reporting" to the State of Wisconsin for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. This is the 17th year the State has received this award. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA.

Acknowledgements

We wish to express our appreciation to the many individuals whose dedicated efforts have made this report possible. The preparation of this report could not have been accomplished without the professionalism and dedication demonstrated by the financial managers and accountants of the State agencies and component units, along with staff within the State Controller's Office.

Sincerely,



Michael Huebsch
Secretary



Stephen J. Censky, CPA
State Controller



Government Finance Officers Association

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Financial Report
for the Fiscal Year Ended

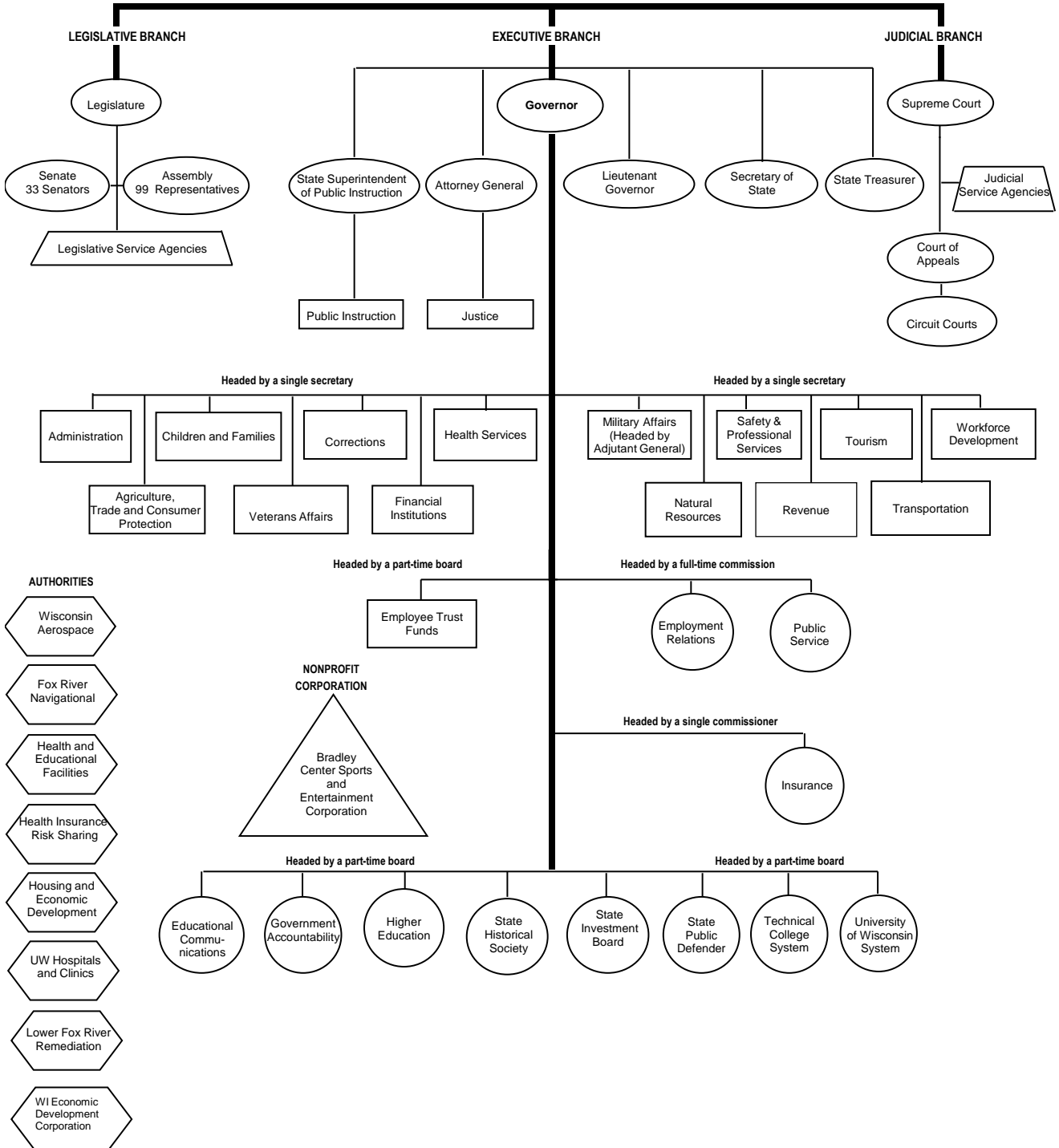
June 30, 2012

Executive Director/CEO

Organizational Chart

WISCONSIN STATE GOVERNMENT ORGANIZATION

July 2013



KEY: ○ Constitutional Officer □ Administrative Department ○ Independent Agency ⬡ Authority ▽ Service Agency ▲ Nonprofit Corporation

Excludes various units of State government (certain boards, commissions, councils, divisions, and offices), which are attached to agencies for administrative purposes.

Source: Wisconsin Blue Book 2013 - 2014

Principal State Officials

As of June 30, 2013:

EXECUTIVE

Scott Walker
Governor

Rebecca Kleefisch
Lieutenant Governor

Douglas J. La Follette
Secretary of State

Kurt Schuller
State Treasurer

J. B. Van Hollen
Attorney General

Tony Evers
State Superintendent of Public Instruction

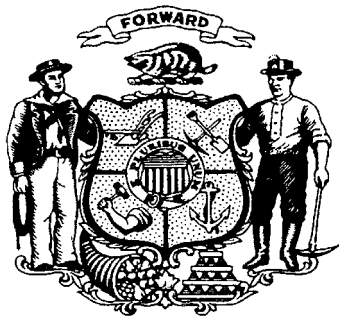
LEGISLATIVE

Michael Ellis
President of the State Senate

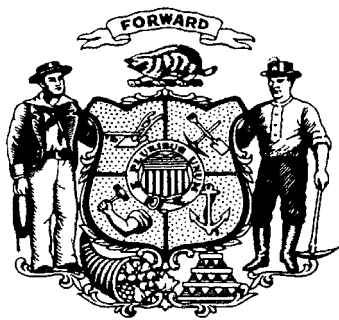
Robin Vos
Speaker of the Assembly

JUDICIAL

Shirley S. Abrahamson
Chief Justice of the Supreme Court



FINANCIAL SECTION





STATE OF WISCONSIN
Legislative Audit Bureau

22 East Mifflin Street, Suite 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410

www.legis.wisconsin.gov/lab

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

Joe Chrisman
State Auditor

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

Honorable Members of the Legislature

The Honorable Scott Walker, Governor

Report on the Financial Statements

We have audited the accompanying financial statements and the related notes of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Wisconsin, which collectively comprise the State's basic financial statements as of and for the year ended June 30, 2013, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements for the following: the Environmental Improvement Fund, which is a major fund and represents 19 percent of the assets and 17 percent of the liabilities of the business-type activities; or the College Savings Program Trust, which represents 3 percent of the assets of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for these programs, are based solely on the reports of the other auditors. In addition, we did not audit the financial statements of the discretely presented component units. Our opinion on the aggregate discretely presented component units is based solely upon audit reports, prepared by other auditors and furnished to us, of the Wisconsin Housing and Economic Development Authority, the University of Wisconsin Hospitals and Clinics Authority, and the University of Wisconsin Foundation.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the State's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Wisconsin as of June 30, 2013, as well as the respective changes in financial position and, where applicable, cash flows for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphases of Matter

As discussed in Note 1C to the basic financial statements, the State implemented Governmental Accounting Standards Board (GASB) Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which made presentation changes to the State's financial statements. Our opinions are not modified with respect to this matter.

As discussed in Note 20A(3) to the basic financial statements, the Injured Patients and Families Compensation Fund's loss liabilities related to medical malpractice claims are estimates based on recommendations of a consulting actuary. The Fund's Board of Governors and management believe the estimated loss liabilities are reasonable and represent the most probable estimate of the losses the Fund will pay for the claims incurred to date. However, there are inherent uncertainties in estimating the medical malpractice loss liabilities because of the Fund's unlimited liability coverage, as well as the extended reporting and settlement periods. These uncertainties make it likely that amounts paid will ultimately differ from the reported estimated

loss liabilities. These differences cannot be quantified. Our opinion for this Fund is not modified with respect to this matter.

Other Matters

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

Accompanying Information—Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State’s basic financial statements. The combining statements and schedule in the supplementary information section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The combining statements and schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements; certain additional procedures performed, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves; and other additional procedures performed in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements and schedule are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we will also issue a report dated December 11, 2013, on our consideration of the State’s internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and other matters. The purpose of that report is to describe the scope of our testing

of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU

A handwritten signature in black ink, appearing to read "Joe Chrisman". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Joe Chrisman
State Auditor

December 11, 2013

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, 2013. 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 24 and 25)

- *Net Position.* The assets of the State of Wisconsin exceeded its liabilities at the close of Fiscal Year 2013 by \$17.3 billion (reported as "net position"). Of this amount, \$(8.4) 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 \$2.4 billion in Fiscal Year 2013. Net position of governmental activities increased by \$1.3 billion or 17.8 percent, while net position of the business-type activities showed an increase of \$1.1 billion or 14.5 percent.
- *Excess of Revenues over (under) Expenses -- Governmental Activities.* During Fiscal Year 2013, the State's total revenues for governmental activities of \$27.2 billion were \$2.4 billion more than total expenses (excluding transfers) for governmental activities of \$24.8 billion. Of these expenses, \$11.6 billion were covered by program revenues. General revenues, generated primarily from various taxes, totaled \$15.6 billion.

Fund

- *Governmental Funds -- Fund Balances.* As of the close of Fiscal Year 2013, the State's governmental funds reported combined ending fund balances of \$(266.7) million, an increase of \$610.6 million in comparison with the prior year. Of this total amount, \$(3.0) billion represents the unassigned fund balances.
- *General Fund -- Fund Balance.* At the end of the current fiscal year, total fund balance was \$(1.7) billion, a change of \$468.3 million from a deficit of \$(2.2) billion reported in the prior year. The unassigned fund deficit for the General Fund was \$(2.3) billion, or (10.9) percent of total General Fund expenditures.

Additional information regarding individual funds begins on Page 29.

Long-term Debt

- The State's total long-term debt obligations (bonds and notes payable) increased by \$216.6 million during the current fiscal year which represents the net difference between new issuances, payments and refundings of outstanding debt. The key factors contributing to this increase are the issuance during the fiscal year of \$703.3 million of general obligation bonds, \$490.0 million of revenue bond obligations including certain revenue refunding bonds, and \$251.6 million of annual appropriation bonds including certain appropriation refunding bonds. These increases were partially offset by reductions of \$1.3 billion pertaining to principal repayments, redemptions, and defeased bonds. Additional detail regarding these activities begins on Page 34.

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 | <p>Entire State government (except fiduciary funds) and the State's component units, reported as follows:</p> <ul style="list-style-type: none"> • <i>Governmental Activities</i> – Most services generally associated with State government fall into this category, including commerce, education, transportation, environmental resources, human relations and resources, general executive, judicial and legislative. • <i>Business-Type Activities</i> – Those operations for which a fee is charged to external users for goods and services are reported in this category. • <i>Discretely Presented Component Units</i> – These are operations for which the State has financial accountability but that have certain independent qualities. The State's discretely presented component units are discussed in Note 1-B to the financial statements. | <p>These funds report activities of the State that are not proprietary or fiduciary in nature. Most of the basic services provided by the State, which are primarily financed through taxes, intergovernmental revenues, and other nonexchange revenues, are reported as governmental funds.</p> <p>Examples of the State's governmental funds (including the State's three major governmental funds), as reported within their respective fund types, follow:</p> <ul style="list-style-type: none"> • <i>General Fund</i> (major fund) • <i>Special Revenue:</i> <ul style="list-style-type: none"> -- Transportation (major fund) • <i>Debt Service:</i> <ul style="list-style-type: none"> -- Bond Security and Redemption • <i>Capital Projects:</i> <ul style="list-style-type: none"> -- Capital Improvement (major fund) • <i>Permanent:</i> <ul style="list-style-type: none"> -- Common School | <p>The activities the State operates similar to private business. These funds are used to show activities that operate more like those of commercial enterprises. Fees are charged for services provided, both to outside customers and to other units of the State.</p> <p>Examples of the State's proprietary funds, including the State's four major enterprise funds, follow:</p> <ul style="list-style-type: none"> • <i>Enterprise:</i> <ul style="list-style-type: none"> -- Injured Patients and Families Compensation (major fund) -- Environmental Improvement (major fund) -- University of Wisconsin System (major fund) -- Unemployment Reserve (major fund) -- Lottery • <i>Internal services:</i> <ul style="list-style-type: none"> -- Technology Services -- Facilities Operations and Maintenance | <p>These funds are used to show assets held by the State as trustee or agent for others and cannot be used to support the State's own programs.</p> <p>Examples of the State's fiduciary funds, as reported within their respective fund types, follow:</p> <ul style="list-style-type: none"> • <i>Pension and Other Employee Benefit Trust Funds:</i> <ul style="list-style-type: none"> -- Wisconsin Retirement System • <i>Investment Trust:</i> <ul style="list-style-type: none"> -- Local Government Pooled Investment • <i>Private Purpose Trust:</i> <ul style="list-style-type: none"> -- College Savings Program Trust • <i>Agency:</i> <ul style="list-style-type: none"> -- Support Collection Trust |
| Required financial statements | <ul style="list-style-type: none"> • 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. | <ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances | <ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes in fund net position • Statement of cash flows | <ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position <p>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.</p> |

(Table 1, continued)

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

| | GOVERNMENT-WIDE STATEMENTS | FUND STATEMENTS | | |
|--|--|---|---|---|
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Accounting basis and measurement focus | <p>Accrual accounting and economic resource focus</p> <p>The accrual basis of accounting, which is similar to the methods used by most businesses, takes into account all revenues and expenses associated with the fiscal year even if cash involved has not been received or paid.</p> | <p>Modified accrual accounting and current financial resource focus</p> <p>These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State. Because this information does not encompass the long-term focus of the government-wide statements, reconciliations are provided on the subsequent page of the governmental fund statements.</p> | <p>Accrual accounting and economic resources focus</p> | <p>Accrual accounting and economic resources focus</p> |
| Type of asset, deferred outflows of resources, liability, deferred inflows of resources information | <p>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.</p> | <p>Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included</p> | <p>All assets and liabilities, both financial and capital, and short-term and long-term</p> | <p>All assets and liabilities, both short-term and long-term</p> |
| Type of inflow-outflow information | <p>All revenues and expenses during the year, regardless of when cash is received or paid</p> | <ul style="list-style-type: none"> • 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 | <p>All revenues and expenses during the year, regardless of when cash is received or paid</p> | <p>All revenues and expenses during the year, regardless of when cash is received or paid</p> |

Additional Required Supplementary Information

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

Other Supplementary Information

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

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

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

Net Position

As presented in Table 2, total assets of the State on June 30, 2013 were \$40.8 billion, while total liabilities were \$23.6 billion, resulting in combined net position (government and business-type activities) of \$17.3 billion. The largest component of the State's total net position consists of \$20.7 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 \$5.0 billion of net position was restricted by external sources or the State Constitution or Statutes, and was not available to finance the day-to-day operations of the State.

The unrestricted net position, which, if positive, could be used at the State's discretion, showed a negative balance of \$(8.4) billion. Therefore, based on this measurement, no funds were available for discretionary purposes. A contributing factor to the negative balance is that governments recognize a liability on the government-wide statement of net position as soon as an obligation is incurred. While financing focuses on when a liability will be paid, accounting is primarily concerned with when a liability is incurred. Accordingly, the State recognizes long-term liabilities (such as general obligation debt, compensated absences, and future benefits and loss liabilities – listed in Note 10 to the financial statements) on the statement of net position. In addition to the effect of reporting long-term liabilities when incurred, the General Fund's total deficit fund balance of \$(1.7) billion at year-end, as discussed on Page 29, also contributed to the deficit unrestricted net position reported in the statement of net position.

During Fiscal Year 2013, the State issued \$703.3 million of general obligation bonds, as well as \$273.3 million of general obligation extendable municipal commercial paper, primarily for the acquisition or improvement of land, water, property, highways, buildings, and equipment. General obligation bonds outstanding at June 30, 2013 totaled \$7.5 billion. Outstanding annual appropriation bonds were \$3.3 billion at June 30, 2013. Outstanding revenue bonds, which are not considered general obligation debt of the State, totaled \$3.0 billion at June 30, 2013.

| | Governmental Activities | | Business-type Activities | | Total | | Total Percentage Change 2013-2012 |
|--------------------------------|----------------------------|-------------------|-----------------------------|-------------------|--------------------|--------------------|--|
| | 2013 | 2012* | 2013 | 2012* | 2013 | 2012* | |
| | | | | | | | |
| Current and Other Assets | \$ 6,588.2 | \$ 5,659.2 | \$ 7,935.6 | \$ 7,426.9 | \$ 14,523.7 | \$ 13,086.1 | 11.0 % |
| Capital Assets | 20,171.4 | 19,340.9 | 6,086.7 | 5,805.7 | 26,258.1 | 25,146.6 | 4.4 |
| Total Assets | <u>26,759.6</u> | <u>25,000.1</u> | <u>14,022.2</u> | <u>13,232.6</u> | <u>40,781.8</u> | <u>38,232.8</u> | 6.7 |
| Deferred Outflows of Resources | 140.8 | 216.1 | 0.0 | 0.0 | 140.8 | 216.1 | (34.9) |
| Long-term Liabilities | 11,670.9 | 11,517.8 | 3,942.4 | 3,870.6 | 15,613.3 | 15,388.4 | 1.5 |
| Other Liabilities | 6,636.8 | 6,403.6 | 1,368.2 | 1,753.6 | 8,005.0 | 8,157.2 | (1.9) |
| Total Liabilities | <u>18,307.7</u> | <u>17,921.4</u> | <u>5,310.6</u> | <u>5,624.2</u> | <u>23,618.3</u> | <u>23,545.6</u> | 0.3 |
| Net Position: | | | | | | | |
| Net investment in | | | | | | | |
| Capital Assets | 16,284.8 | 15,296.6 | 4,383.5 | 4,270.1 | 20,668.3 | 19,566.7 | 5.6 |
| Restricted | 1,409.5 | 1,392.2 | 3,628.0 | 3,235.5 | 5,037.5 | 4,627.7 | 8.9 |
| Unrestricted (deficit) | (9,101.6) | (9,394.0) | 700.1 | 102.9 | (8,401.5) | (9,291.1) | 9.6 |
| Total Net Position | <u>\$ 8,592.6</u> | <u>\$ 7,294.8</u> | <u>\$ 8,711.6</u> | <u>\$ 7,608.5</u> | <u>\$ 17,304.3</u> | <u>\$ 14,903.2</u> | 16.1 |

* Amounts for the prior fiscal year include prior period adjustments and change in presentation for deferred outflows of resources.

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 \$15.6 billion for total revenues of \$35.4 billion during Fiscal Year 2013. Expenses for the State during Fiscal Year 2013 were \$33.0 billion. As a result of the excess of revenues over expenses, the total net position of the State increased \$2.4 billion, net of contributions and transfers.

Table 3
Changes in Net Position

(in millions)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | | Total Percentage Change 2013-2012 |
|--|-------------------------|-------------------|--------------------------|-------------------|--------------------------|--------------------|--------------------------------------|
| | 2013 | 2012* | 2013 | 2012* | 2013 | 2012* | |
| Program Revenues: | | | | | | | |
| Charges for Goods and Services | \$ 2,294.0 | \$ 2,265.5 | \$ 7,143.1 | \$ 7,037.2 | \$ 9,437.1 | \$ 9,302.7 | 14 % |
| Operating Grants and Contributions | 8,571.7 | 8,828.0 | 976.7 | 1,117.8 | 9,548.5 | 9,945.7 | (4.0) |
| Capital Grants and Contributions | 776.0 | 861.5 | 68.8 | 103.5 | 844.8 | 965.0 | (12.5) |
| General Revenues: | | | | | | | |
| Income Taxes | 8,290.4 | 8,059.9 | - | - | 8,290.4 | 8,059.9 | 2.9 |
| Sales and Excise Taxes | 5,096.1 | 4,978.9 | - | - | 5,096.1 | 4,978.9 | 2.4 |
| Public Utility Taxes | 335.8 | 358.8 | - | - | 335.8 | 358.8 | (6.4) |
| Motor Fuel Taxes | 1,016.5 | 1,024.4 | - | - | 1,016.5 | 1,024.4 | (0.8) |
| Other Taxes | 439.3 | 451.4 | - | - | 439.3 | 451.4 | (2.7) |
| Other General Revenues | 416.1 | 406.2 | 11 | 20.6 | 417.1 | 426.8 | (2.3) |
| Total Revenues | 27,236.0 | 27,234.6 | 8,189.7 | 8,279.1 | 35,425.7 | 35,513.7 | (0.2) |
| Program Expenses: | | | | | | | |
| Commerce | 244.1 | 275.2 | - | - | 244.1 | 275.2 | (11.3) |
| Education | 6,235.0 | 6,226.2 | - | - | 6,235.0 | 6,226.2 | 0.1 |
| Transportation | 2,117.8 | 1,967.8 | - | - | 2,117.8 | 1,967.8 | 7.6 |
| Environmental Resources | 488.5 | 432.0 | - | - | 488.5 | 432.0 | 13.1 |
| Human Relations and Resources | 12,169.3 | 12,175.5 | - | - | 12,169.3 | 12,175.5 | (0.1) |
| General Executive | 596.6 | 755.5 | - | - | 596.6 | 755.5 | (21.0) |
| Judicial | 126.4 | 124.8 | - | - | 126.4 | 124.8 | 1.3 |
| Legislative | 63.7 | 58.7 | - | - | 63.7 | 58.7 | 8.4 |
| Tax Relief and Other General Expenditures | 1,327.9 | 1,359.0 | - | - | 1,327.9 | 1,359.0 | (2.3) |
| Intergovernmental - Shared Revenue | 957.1 | 989.9 | - | - | 957.1 | 989.9 | (3.3) |
| Interest on Long-term Debt | 518.3 | 523.7 | - | - | 518.3 | 523.7 | (1.0) |
| Injured Patients and Families Compensation | - | - | (14.3) | 36.7 | (14.3) | 36.7 | (139.0) |
| Environmental Improvement | - | - | 51.6 | 59.4 | 51.6 | 59.4 | (13.1) |
| University of Wisconsin System | - | - | 4,513.2 | 4,418.3 | 4,513.2 | 4,418.3 | 2.1 |
| Unemployment Reserve | - | - | 1,367.0 | 1,763.8 | 1,367.0 | 1,763.8 | (22.5) |
| Lottery | - | - | 542.2 | 525.1 | 542.2 | 525.1 | 3.3 |
| Health Insurance | - | - | 1,249.2 | 1,261.8 | 1,249.2 | 1,261.8 | (1.0) |
| Care and Treatment Facilities | - | - | 331.3 | 322.8 | 331.3 | 322.8 | 2.6 |
| Other Business-type | - | 1.8 | 160.3 | 174.2 | 160.3 | 176.0 | (8.9) |
| Total Expenses | 24,844.7 | 24,890.1 | 8,200.5 | 8,562.3 | 33,045.1 | 33,452.4 | (1.2) |
| Excess (deficiency) before Contributions and Transfers | 2,391.3 | 2,344.4 | (10.7) | (283.2) | 2,380.6 | 2,061.3 | |
| Contributions to Term and Permanent Endowments | - | - | 3.0 | 1.5 | 3.0 | 1.5 | |
| Contributions to Permanent Fund Principal | 17.4 | 16.2 | - | - | 17.4 | 16.2 | |
| Transfers | (1,110.9) | (1,122.8) | 1,110.9 | 1,122.8 | - | - | |
| Increase (decrease) in Net Position | 1,297.8 | 1,237.9 | 1,103.2 | 841.2 | 2,401.0 | 2,079.1 | |
| Net Position - Beginning (Restated) | 7,294.8 | 6,056.9 | 7,608.5 | 6,767.4 | 14,903.2 | 12,824.3 | |
| Net Position - Ending | \$ 8,592.6 | \$ 7,294.8 | \$ 8,711.6 | \$ 7,608.6 | \$ 17,304.3 | \$ 14,903.4 | 16.1 |

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

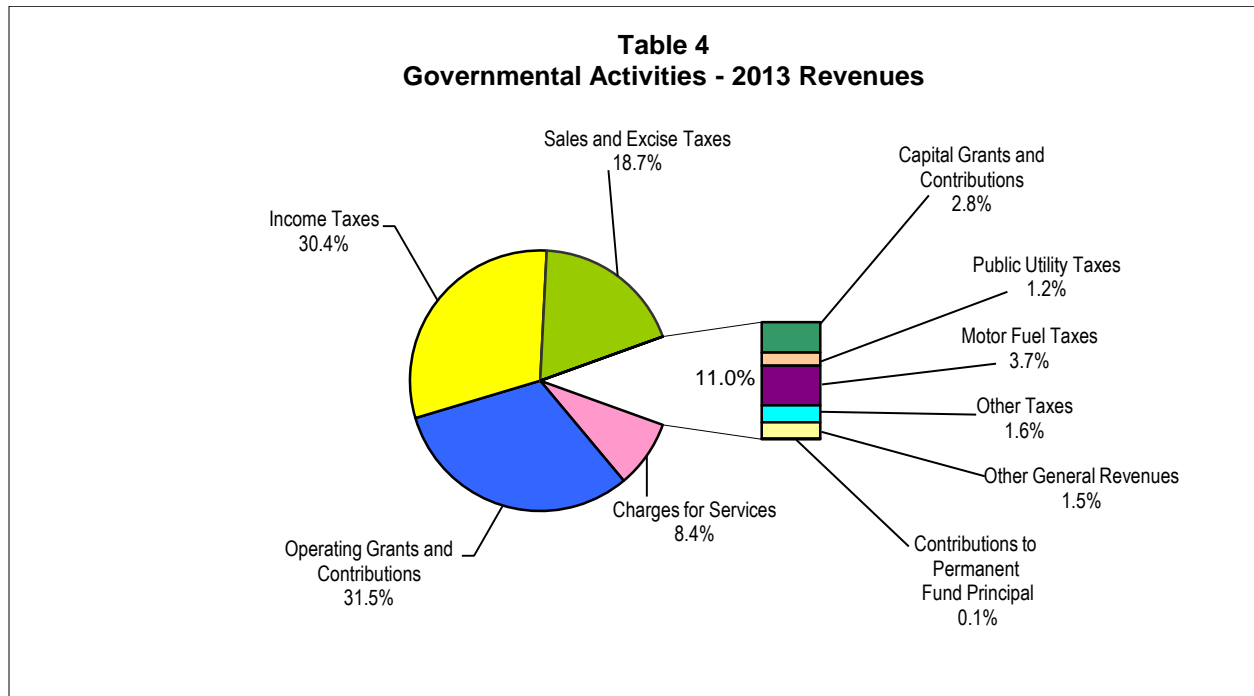
Governmental Activities

The net position of governmental activities increased \$1.3 billion in Fiscal Year 2013. Revenues for the governmental activities (including contributions to permanent fund principal) totaled \$27.3 billion, while expenses and net transfers totaled \$26.0 billion in Fiscal Year 2013.

General and program revenues of governmental activities increased \$1.4 million during this fiscal year. Tax revenues increased by \$304.7 million primarily due to enhanced income and sales and use taxes of \$230.5 million and \$117.2 million, respectively. However, public utility, motor fuel and other tax revenues declined by \$23.1 million, \$7.8 million, and \$12.1 million, respectively. In addition, operating and capital grant revenues both declined by \$256.2 million and \$85.5 million, respectively. Offsetting those declines was an increase of \$28.5 million in charges for sales and services.

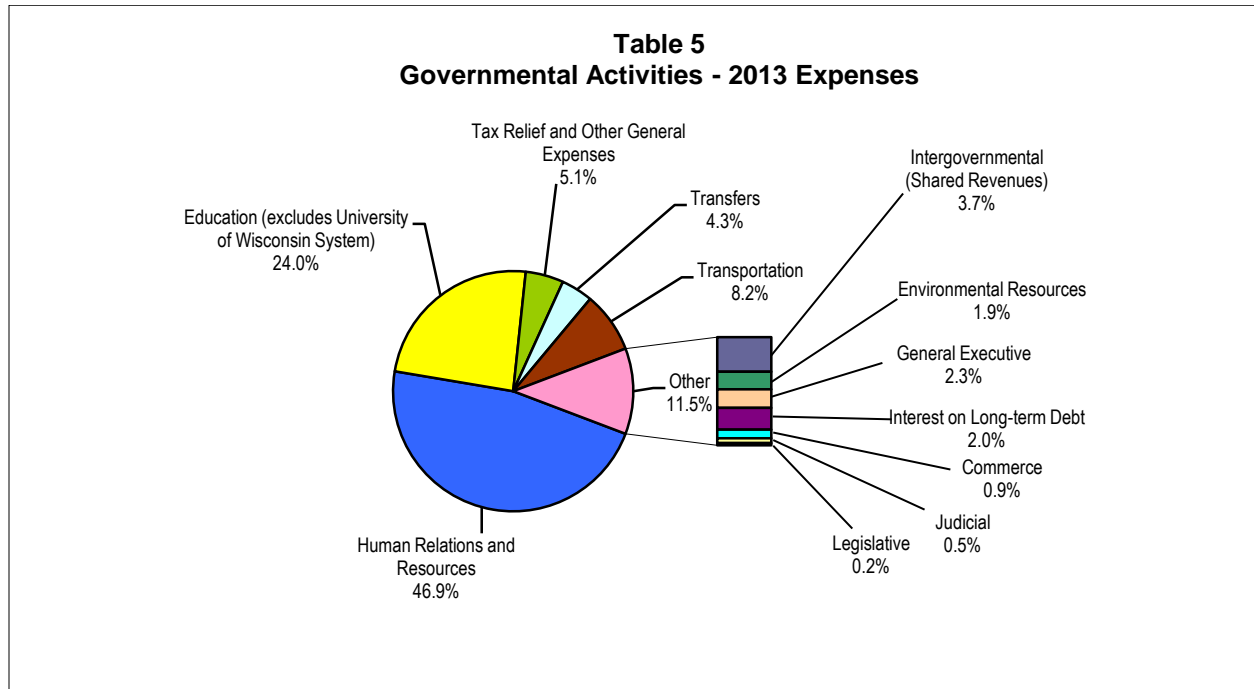
The State’s governmental activities program expenses decreased \$45.5 million during Fiscal Year 2013. Contributing to the decline were general executive expenses which decreased \$158.9 million due to a decrease in federal funding. In addition, human relations and resources, commerce, tax relief and general expenditures and intergovernmental/shared revenue expenses declined by \$6.2 million, \$31.0 million, \$31.1 million, and \$32.8 million respectively. Conversely, transportation expenses increased \$149.9 million. In addition, environmental resources, education, and legislative expenses increased by \$56.5 million, \$8.8 million, and \$4.9 million respectively.

As shown in Table 4, below, approximately 55.7 percent of revenues from all sources earned came from taxes (sales and excise, income, public utility, motor fuel, and other taxes). Operating grants and contributions represent amounts received from other governments/entities – primarily the federal government. Operating grants and contributions for non-capital purposes provided 31.5 percent of total revenues. Capital grants provided 2.8 percent, charges for services contributed 8.4 percent, and various other revenues provided 1.6 percent of the remaining governmental activity revenue sources.



As shown in Table 5, below, expenses for human relations and resources programs make up the largest portion – 46.9 percent – of total governmental expenses and transfers. Included in this cost function are programs such as Medical Assistance and Temporary Assistance for Needy Families as well as costs for state correctional facilities and services.

Educational expenses, which include various school aids but exclude expenses of the University of Wisconsin System, make up 24.0 percent of total expenses. Tax relief and other general expenses and the municipal and county shared revenue program represent 8.8 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 4.3 percent of the total expenses and transfers. The interest on long-term debt and remaining functional expenses total 7.8 percent.



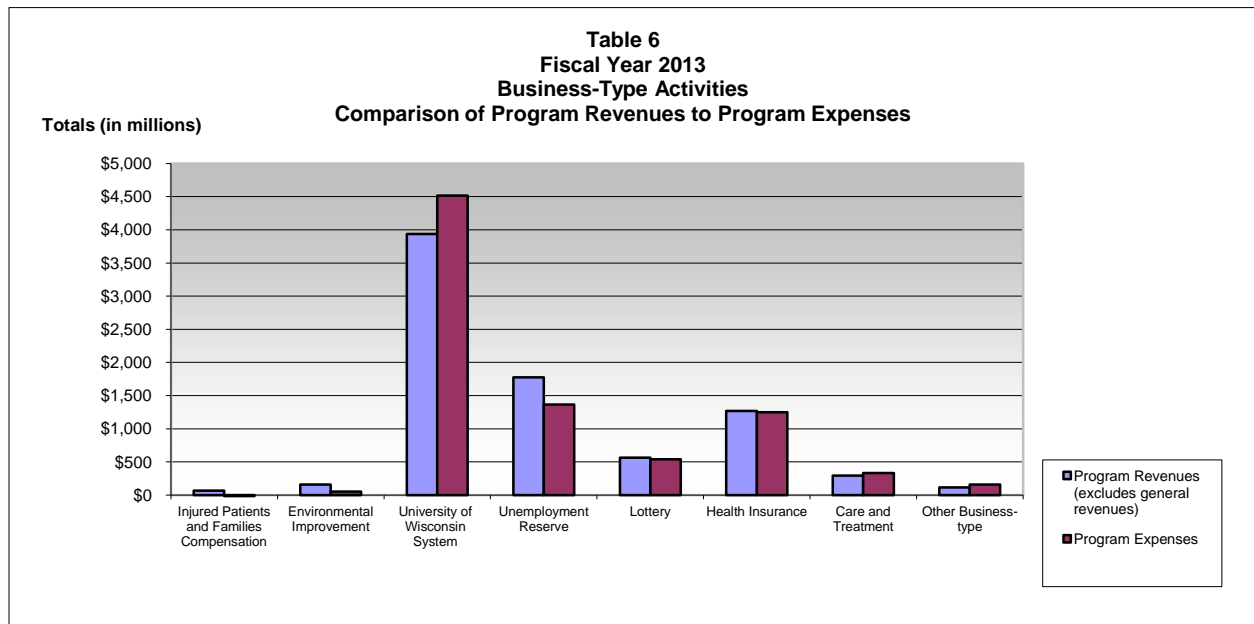
Business-Type Activities

Net position of the State’s business-type activities increased \$1.1 billion in Fiscal Year 2013.

Revenues of business-type activities totaled \$8.2 billion for Fiscal Year 2013, a decline of \$89.4 million from the prior year. Program revenues consisted of \$7.1 billion of charges for services, \$1.0 billion of operating grants and contributions, and \$68.8 million of capital grants and contributions. General revenues, contributions to endowments and permanent fund principal, and net transfers totaled \$1.1 million, \$3.0 million, and \$1.1 billion, respectively.

The total expenses for business-type activities were \$8.2 billion a decrease of \$361.8 million from the prior fiscal year. The largest decrease in program expenses, \$396.8 million, related to decreased benefit expenses for the Unemployment Reserve Fund. Offsetting that decrease was an increase in UW program expenses of \$94.9 million.

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



FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

Governmental Funds

At the end of Fiscal Year 2013, the State's governmental funds reported a negative combined fund balance of \$(266.7) million. Funds with significant changes in fund balance are discussed below:

General Fund

The General Fund is the chief operating fund of the State. At June 30, 2013, the State's General Fund reported a total fund deficit of \$(1.7) billion. The net change in fund balance during Fiscal Year 2013 was \$468.3 million, in contrast to \$733.0 million in Fiscal Year 2012. Major revenue, expenditure and other sources/uses contributing to the change in fund balance are as follows:

Revenues

Revenues of the General Fund totaled \$23.8 billion in Fiscal Year 2013, an increase of \$204.1 million from Fiscal Year 2012. Factors contributing to this change included the following:

- Revenues from taxes increased \$333.5 million. The most significant increase relates to income taxes, which increased \$241.5 million or 3.0 percent from Fiscal Year 2012. The largest component of individual income taxes is withholding from wages and salaries. Sales and use taxes increased 2.5 percent over Fiscal Year 2012. These increases are consistent with shifts in state revenue and economists' projections. Public utility taxes decreased 6.4 percent.
- Intergovernmental revenues (i.e., federal assistance) decreased \$212.9 million in Fiscal Year 2013. Most of the decrease, \$133.8 million, occurred in general executive programs due to the expiration of American Recovery and Reinvestment Act (ARRA) programs in the first quarter of Fiscal Year 2013. The education function reported a decrease of \$62.9 million, as well, due to decreased ARRA funding. In addition, human relations and resources programs (e.g. Medicaid) showed a decrease of \$24.5 million.
- Miscellaneous revenue increased \$20.8 million, and charges for goods and services increased \$58.7 million.

Expenditures

Expenditures of the General Fund totaled \$21.4 billion in Fiscal Year 2013, a decrease of \$175.2 million from Fiscal Year 2012. The factors contributing to the change included the following:

- General executive expenditures decreased \$143.6 million because ARRA programs expired during the fiscal year.
- Tax relief and other general expenditures decreased \$39.8 million as a result of discontinued Minnesota tax reciprocity payments. In Fiscal Year 2012, the State paid \$59.9 million to Minnesota for tax reciprocity, but no payments were made in Fiscal Year 2013. Conversely, Illinois tax reciprocity expenditures increased from \$161.5 million in Fiscal Year 2012 to \$194.0 million in Fiscal Year 2013.
- Intergovernmental (shared revenue) expenditures decreased \$32.4 million, as a result of reduced spending authority under 2011 Wisconsin Act 32.

Other Financing Sources and Uses

Other financing sources/uses totaled a net \$(1.9) billion in Fiscal Year 2013, an increase of \$645.7 million from the prior year amount of \$(1.2) billion. The components of this change included the following:

- Transfers in to the General Fund decreased by \$26.8 million (from \$104.3 million in Fiscal Year 2012 to \$77.5 million in Fiscal Year 2013). This was a result of fewer lapses occurring from the other funds.
- Transfers out of the General Fund totaled \$2.0 billion, an increase of \$618.4 million from the prior year. The general purpose revenue (GPR) supplement comprises a large portion of the transfers out and is provided to various enterprise funds. The supplement totaled \$968.6 million, an increase of \$38.4 million from the prior year.

- The University of Wisconsin, which receives the majority of the GPR supplement, received \$893.6 million in Fiscal Year 2013, an increase of \$38.5 million.
- Under the requirements of 2011 Wisconsin Act 32, the General Fund transferred \$137.6 million to the Transportation Fund in Fiscal Year 2013.
- A total of \$605.5 million was transferred out to the Bond Security and Redemption Fund to pay for principal and interest on general obligation debt. In Fiscal Year 2012, only \$238.6 million was transferred, because the Bond Security and Redemption Fund refunded bonds last year, which modified the timing of the refunded debt service payments.

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

As of June 30, 2013, the General Fund reported an unassigned fund balance deficit of \$(2.3) billion. This compares to a General Fund unassigned fund balance deficit of \$(2.6) billion as of June 30, 2012. A deficit unassigned fund balance represents the excess of the liabilities of the General Fund over its assets and nonspendable, restricted, and committed fund balance accounts.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were significant and included a \$4.0 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 | 251.0 |
| UW System, General Program Operations (part of Statutory General Fund) | 242.2 |
| Medical Assistance Provider Refunds and Collections* | 76.0 |
| Federal Aid Medical Assistance and Food Stamps Contract Administration | 50.9 |

Actual charges to appropriations (expenditures) were \$3.2 billion below the final budgeted estimates. Large positive expenditure variances were reported in the Appropriation Bond Obligation Repayment (\$394.7 million) and the Public Instruction General Equalization Aids (\$120.7 million) appropriations.

During the past fiscal year, the budgetary-based fund balance increased by \$818.3 million for the statutory General Fund, in part, because of increased tax revenues and decreased expenditures for education and human relations and resources. Net transfers from other funds totaled (\$216.1) million in Fiscal Year 2013 compared to (\$304.2) million in the prior fiscal year.

Transportation Fund

In Fiscal Year 2013, the Transportation Fund reported a net increase in fund balance of \$41.2 million. This compares to a \$76.9 million decrease in fund balance in Fiscal Year 2012. This increase resulted primarily from the following factors:

- Revenues of the Fund decreased \$118.5 million, to a total of \$2.5 billion. Intergovernmental revenues, which are primarily from federal funding from the U.S. Department of Transportation and Federal Aviation Administration, decreased \$98.6 million to a total of \$928.3 million. Expenditures of the Fund decreased \$159.4 million to \$2.5 billion in Fiscal Year 2013 compared to \$2.6 billion in the prior year because of a decrease in capital outlay expenditures.
- Transfers in to the Transportation Fund increased \$114.7 million from the prior year to \$164.1 million. Under 2011 Wisconsin Act 32, a one-time transfer of \$125 million was to be made from the General Fund to the Transportation Fund over the biennium. The Transportation Fund received \$22.5 million in Fiscal Year 2012 and \$102.5 million in Fiscal Year 2013. Beginning in Fiscal Year 2013, Act 32 also requires an annual transfer from the General Fund. As a result, \$35.1 million was transferred into the Transportation Fund this year.

Capital outlay expenditures funded with general obligation bonds, and reported in the Capital Improvement Fund (a capital projects fund) rather than the Transportation Fund, totaled \$204.1 million in Fiscal Year 2013, an increase of \$129.0 million from Fiscal Year 2012. Because more bond proceeds were used to fund capital projects, capital outlay expenditures reported in the Transportation Fund in Fiscal Year 2013 decreased \$234.5 million to a total of \$520.3 million.

Capital Improvement Fund

Fund balance of the Capital Improvement Fund increased by \$83.2 million from (\$595.2 million) to (\$512.0 million). Assets of the fund increased \$188.9 million primarily due to an increase in cash resulting from unspent debt proceeds while liabilities of the fund increased by \$105.7 million to \$744.7 million. Short-term notes payable of \$684.8 million comprises 92.0 percent of fund liabilities and increased by \$74.6 million in Fiscal Year 2013 because additional notes were issued.

Other financing sources included \$506.0 million of long-term debt as well as \$51.3 million of bond premium in Fiscal Year 2013, an increase of \$156.6 million from the prior year. Debt and premium proceeds funded \$309.5 million of capital outlay expenditures. 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. Proceeds also funded \$68.7 million of maintenance and repair expenditures on state owned assets that are reported as functional expenditures. Expenditures in the environmental, transportation, and tax relief and general expenditure functions accounted for \$32.4 million, \$13.8 million, and 10.9 million, respectively, of the functional expenditures.

Proprietary Funds

The State's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail. Significant changes to balances of major proprietary funds from Fiscal Year 2012 to Fiscal Year 2013 include the following:

Environmental Improvement

Fund net position of the Environmental Improvement Fund increased \$105.5 million to \$1.8 billion. Total assets of the Fund increased by \$104.4 million while liabilities decreased by \$1.2 million. Loans to local governments increased by \$46.5 million to a total of \$2.0 billion. Conversely, liabilities decreased to \$878.3 million. Revenue bonds payable, which comprises the majority of the liability balance, totaled \$873.4 million of as of June 30, 2013, compared to \$873.7 million as of June 30, 2012.

Operating income of the Fund increased by \$4.5 million to \$9.8 million in Fiscal Year 2013 primarily due to a decline in interest expense on outstanding bonds. Non-operating revenue increased by \$12.8 million due to federal grant funds which increased by \$42.6 million to \$108.9 million in Fiscal Year 2013. This increase was offset by a decrease of \$34.1 million in investment income due to the liquidation of investments.

Injured Patients and Families Compensation

Fund net position of the Injured Patients and Families Compensation Fund increased by \$83.5 million from \$361.2 million to \$444.7 million at June 30, 2013. Total assets of the Fund, which increased \$51.1 million to \$1.1 billion, are primarily comprised of investments of \$986.6 million. Fund liabilities, which decreased by \$32.4 million to \$634.9 million, are comprised primarily of future benefits and loss liabilities of \$628.0 million.

Operating revenue of the fund consisted of assessment income which increased by \$2.6 million (7.2 percent) to \$38.6 million. The enhanced revenue resulted from a 5.0 percent increase in assessment rates and an increase in the number of participating providers. Non-operating income consists solely of investment and interest income which decreased by \$36.8 million to \$30.6 million.

Fund operating expenses consist primarily of benefit expenses. Benefit expenses, which are determined by an actuary, decreased by \$51.0 million to negative \$15.2 million for Fiscal Year 2013. Benefit payments totaled \$22.7 million.

Unemployment Reserve

Fund net position of the Unemployment Reserve Fund increased by \$403.9 million from \$(612.4) million to \$(208.5) million at June 30, 2013. Benefit expenses decreased \$396.8 million from \$1.8 billion to \$1.4 billion in Fiscal Year 2013, a decrease of 22.5 percent. The decrease is the result of the average unemployment rate falling from 7.18 percent to 6.97 percent. In addition, benefit periods were reduced from a possible 86 weeks to a possible 70 weeks and certain federal benefits were reduced. While revenues of the fund also decreased, the decrease in expenses was larger resulting in an improved net position.

Operating revenues decreased by \$307.2 million from \$2.1 billion to \$1.8 billion in Fiscal Year 2013. Federal aids decreased by \$303.4 million from \$754.7 million to \$451.3 million, a decrease of 40.2 percent. Employer contributions increased \$13.6 million to \$1.2 billion in Fiscal Year 2013, an increase of 1.1 percent. In Fiscal Year 2013, the federal government recovered a portion of the advance owed to them by reducing the employers' federal unemployment tax credit by 0.6 percent. The revenue generated, which was credited to the Fund as employer contributions, was used to repay the advance. As a result, the liability decreased by \$391.7 million to \$534.5 million. It is estimated the advance will be repaid in 2014.

Annual interest of approximately 2.75 percent was incurred during Fiscal Year 2013 on the outstanding advance balance. Because interest may not be paid from resources of the Unemployment Reserve Fund, the Unemployment Interest Payment Fund, a nonmajor governmental special revenue fund, was established. Employer assessment revenue and interest expenditures of \$17.5 million and \$6.2 million, respectively, were reported for Fiscal Year 2013 in the Unemployment Interest Payment Fund. Beginning in FY 2014, interest payments will be made from the General Fund. Interest owed as of June 30, 2013 was \$16.1 million and is reported as a liability in the General Fund.

University of Wisconsin System

Fund net position increased by \$483.7 million to \$6.1 billion. Assets, which consists primarily of capital assets and cash, increased \$671.6 million to \$8.6 billion. Liabilities, which consist mostly of bonds and short term payables, increased by \$187.9 million to \$2.4 billion.

Operating revenues of the University of Wisconsin System increased \$96.9 million or approximately 2.8 percent to \$3.5 billion. Student tuition and federal grants, contracts, and appropriations of \$1.2 billion and \$980.3 million, respectively, comprise 61.6 percent of operating revenues. Student tuition and fees increased by \$69.6 million (6.3 percent) primarily due to an increase in tuition rates approved by the Board of Regents. Federal revenues increased by \$6.7 million (0.7 percent) while private and local grants and contracts declined by \$36.5 million. Revenue was also enhanced by an increase in sales and services of auxiliary enterprises and educational activities of \$26.2 million and \$8.0 million, respectively. Operating expenses increased \$104.4 million or 2.4 percent. Personal services increased by \$56.6 million (2.0 percent). Supplies and services, depreciation, and other expenses increased by \$13.2 million, \$20.1 million and \$13.3 million, respectively.

Transfers in to the University of Wisconsin declined by \$13.4 million to a total of \$1.1 billion in Fiscal Year 2013. The general purpose revenue supplement received from the State's General Fund, which comprises the majority of the amount transferred in, was \$893.6 million an increase of \$38.5 million. The Capital Improvement fund transferred \$200.1 million to the University.

GOVERNMENT-WIDE CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the close of Fiscal Year 2013, the State had \$26.3 billion invested in capital assets, net of accumulated depreciation of \$5.1 billion. This represents an increase of \$1.1 billion, or 4.5 percent, from Fiscal Year 2012. Depreciation charges totaled \$126.3 million and \$273.8 million for governmental and business-type activities, respectively, in Fiscal Year 2013. 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.

| | Governmental | | Business-Type | | Total | |
|---------------------------------------|---------------------|------------------|----------------------|-----------------|---------------------------|------------------|
| | Activities | | Activities | | Primary Government | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Land and Land Improvements | \$ 2,568 | \$ 2,408 | \$ 167 | \$ 166 | \$ 2,734 | \$ 2,574 |
| Buildings and Improvements | 1,339 | 1,340 | 3,774 | 3,508 | 5,112 | 4,848 |
| Library Holdings | 74 | 73 | 1,124 | 1,113 | 1,198 | 1,187 |
| Machinery and Equipment | 312 | 325 | 366 | 361 | 678 | 686 |
| Infrastructure | 13,860 | 12,885 | - | - | 13,860 | 12,885 |
| Construction and Software in Progress | 2,019 | 2,284 | 656 | 658 | 2,676 | 2,942 |
| Totals | \$ 20,171 | \$ 19,315 | \$ 6,087 | \$ 5,806 | \$ 26,258 | \$ 25,120 |

The major capital asset additions completed or acquired during Fiscal Year 2013 included the:

- Wisconsin Energy Institute – UW-Madison (\$56.6 million),
- Human Ecology Renovation – UW-Madison (\$51.2 million),
- Davies Center Redevelopment – UW-Eau Claire (\$49.0 million),
- Lakeshore Hall & Food Service – UW-Madison (\$46.6 million),
- New Residence Hall – UW-Oshkosh (\$34.3 million),
- Hockey/Swimming Facility – UW-Madison (\$34.0 million),
- South Forks Suite Addition – UW-River Falls (\$19.3 million),
- WIS Vet Home – Chippewa Falls (\$19.1 million),
- Carlson Hall Renovation – UW-Whitewater (\$14.3 million)
- DACC Replacement Facility – West Campus Cogenerator (\$13.1 million),
- Multi-Building Energy Conservation II – UW-Milwaukee (\$10.9 million), and
- Fischer/Weller Renovation – UW-Whitewater (\$10.7 million).

In addition to these completed projects, construction and software in progress as of June 30, 2013 for governmental and business-type activities totaled \$2 billion and \$656.5 million, respectively. A list of those projects is provided in Note 7. The State's continuing or proposed major capital projects for Fiscal Year 2013 and future years include:

- I-94 North South Freeway Project (completion in 2022) \$1.7 billion,
- US 41 Winnebago and Brown Counties (completion in 2017) \$1.5 billion,
- Zoo Interchange (completion in 2019) \$1.7 billion,
- St. Croix Crossing (completion in 2018) \$677 million,
- Hoan Bridge (completion in 2017) \$306 million,
- Verona Road (completion in 2019) \$221 million,
- Highway 12 Lake Delton to Sauk City (completion in 2017) \$196 million,
- Renovation and Remodeling of the Charter Street Heating Plant (estimated cost \$251 million),
- Wisconsin Institutes for Medical Research – Center Tower – UW-Madison (estimated cost \$135 million),
- Wisconsin Energy Institute – UW-Madison (estimated cost \$100 million),

- UW-Milwaukee Facilities Master Plan (\$240 million for various projects),
- Joint Historical and Veterans Museum (estimated budget of \$75 million), and
- UW-Madison Athlete Performance Center (estimated budget of \$76.8 million).

Debt Administration

The State of Wisconsin Building Commission, an agency of the State, is empowered by law to consider, act upon, authorize, issue and sell all debt obligations of the State. The total general obligation debt outstanding for the State as of June 30, 2013 was \$7.5 billion, as shown in Table 8. During Fiscal Year 2013, \$703.3 million 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, \$233.2 million was to be used for University of Wisconsin System academic and self-amortizing facilities; \$257.6 million for transportation projects, \$19.8 million for energy conservation projects, \$61.7 million for environmental programs, and \$131.0 million for various other projects.

In Fiscal Year 2004, the State issued \$1.8 billion of annual appropriation bonds to pay the State’s unfunded accrued prior service (pension) liability and its unfunded accrued liability for sick leave conversion credits. In Fiscal Year 2009, the State issued \$1.5 billion of annual appropriation bonds to purchase the future right, title, and interest in the Tobacco Settlement Revenues (TSRs) from Badger Tobacco Asset Securitization Corporation (BTASC) as well as pay any issuance expenses. As of June 30, 2013, \$3.3 billion of these bonds were outstanding.

Chapter 18 of the Wisconsin Statutes authorizes the State to issue revenue obligations. These obligations, which are not general obligation debt of the State, are secured by a pledge of revenues or property derived from the operations of a program funded by the issuance of the obligations. Revenue bonds of the primary government totaled \$3.0 billion outstanding at June 30, 2013, as shown in Table 8. These bonds included \$2.0 billion of Transportation Revenue Bonds, \$121.6 million of Petroleum Inspection Revenue Bonds, and \$873.4 million of Environmental Improvement Revenue Bonds.

| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------|--------------------------------|-------------------|---------------------------------|------------------|-------------------|-------------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| General obligation bonds | \$5,841.6 | \$5,708.9 | \$1,650.4 | \$1,569.9 | \$7,492.0 | \$7,278.8 |
| Annual appropriation bonds | 3,256.5 | 3,298.4 | -- | -- | 3,256.5 | 3,298.4 |
| Revenue bonds | 2,084.8 | 2,039.2 | 873.3 | 873.7 | 2,958.1 | 2,912.9 |
| Totals | \$11,182.9 | \$11,046.5 | \$2,523.7 | \$2,443.6 | \$13,706.6 | \$13,490.1 |

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

At June 30, 2013, State of Wisconsin general obligation fixed rate bonds had a rating of Aa2 from Moody's Investors Services, AA from Standard and Poor's Rating Services, and AA from Fitch Ratings. General obligation variable notes had a rating of P-1 from Moody's, A-1+ from Standard and Poor's Corporation, and F1+ from Fitch Investors Services, L.P.

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

INFRASTRUCTURE -- MODIFIED APPROACH

The State reports infrastructure (i.e., roads, bridges, and buildings considered an ancillary part of roads) as capital assets. Infrastructure assets exclude right-of-way costs. The State has elected to report its infrastructure assets (11,200 centerline miles of roads and 5,100 bridges with a combined value of \$13.8 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 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, 2013, 93.8 percent of the roads and 96.9 percent of bridges were in good or fair condition, consistent with State policies. This compares to 93.0 percent of the roads and 96.7 percent of bridges as of June 30, 2012.

For the fiscal year ended June 30, 2013, actual maintenance and preservation costs for the State's road network were \$561.8 million or \$19.1 million less than the estimated amount. On that same date, actual maintenance and preservation costs for the State's bridge network were \$115.3 million or \$7.9 million less than the estimated amount. In developing estimated costs at the beginning of the fiscal year it is difficult to predict the types of projects that will actually incur costs during the year. In addition, the State of Wisconsin, Department of Transportation's multi-year contracting process, allowing encumbrances to carry forward, makes a comparison of actual to estimated amounts difficult since expenditures for the current year may have been budgeted and committed to a project in prior years.

ECONOMIC FACTORS

During calendar year 2012, the Wisconsin economy continued its recovery from the 2007-09 worldwide recession.

Wisconsin employment continued to grow throughout 2012. According to the federal Bureau of Labor Statistics, total nonfarm employment in Wisconsin increased 0.9 percent during the year, but at a softer pace than national growth of 1.7 percent. Wisconsin employment decreased in 2009 and 2010 by 4.4 percent and 0.6 percent, respectively before increasing 1.1 percent in 2011. This performance matched national employment trends. Nationally, employment decreased 4.4 percent in 2009 and 0.7 percent in 2010 before increasing 1.2 percent in 2011.

More recently, Wisconsin's growth in employment has accelerated, closely matching the national growth rate. Between August 2012 and August 2013, Wisconsin employment has increased 1.7 percent. Nationally, employment is up 1.7 percent over the same period. However, Wisconsin's seasonally adjusted unemployment rate in August 2013 was 6.7 percent compared to 7.3 percent nationally.

Reflecting the continuing recovery, Wisconsin's state nominal gross domestic product increased 3.2 percent in 2012. This was in line with the 3.2 percent growth in 2011 and 3.4 percent in 2010, while representing a significant improvement over 2008 and 2009 when the state's economy shrank 0.2 percent and grew only 0.5 percent, respectively. It compares to a 50-state total for gross domestic product decline of 2.3 percent for 2009, and growth of 3.7 percent, 4.0 percent and 4.1 percent in 2010, 2011 and 2012, respectively. Since 2007, Wisconsin's gross domestic product increased by a similar magnitude to the national average at 10.6 percent compared to 11.7 percent nationally.

The changes in economic performance affected income growth. Wisconsin personal income grew 1.4 percent, 5.3 percent and 3.9 percent in 2010, 2011 and 2012, respectively. Nationally, personal income grew 2.9 percent, 6.1 percent and 4.2 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 1.0 percent, 4.9 percent and 3.6 percent in 2010, 2011 and 2012, respectively. This

compares to growth of 2.0 percent, 5.3 percent and 3.4 percent in the same years nationally. Relative to the national average, Wisconsin per capita income has remained in approximately the same range for the past three years at 96.5 percent, 96.1 percent and 96.3 percent in 2010, 2011 and 2012, respectively. This represents an improvement from 2008 when Wisconsin per capita income was only 94.8 percent of the national average.

Wisconsin's property values reflect a continuation of a challenging residential real estate market. In 2012, real property values declined 3.3 percent, with residential real estate values falling 4.0 percent. Commercial real estate values decreased 1.5 percent in 2012. In 2013, real property values declined 0.9 percent, primarily due to a reduction of 1.4 percent in residential real estate values. Commercial real estate values increased 0.6 percent and manufacturing property values rose 2.9 percent in 2013. Manufacturing values have now increased in two consecutive years.

CONTACTING THE STATE'S FINANCIAL MANAGEMENT

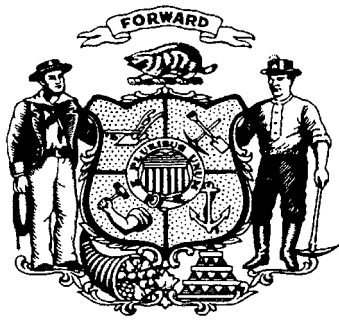
This financial report is designed to provide Wisconsin's citizens, taxpayers, customers, investors and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. Questions about this report or requests for additional financial information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

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

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

* * * *

Basic Financial Statements



Statement of Net Position
June 30, 2013

(In Thousands)

| | Primary Government | | | Component Units |
|---|-------------------------|--------------------------|---------------|-----------------|
| | Governmental Activities | Business-Type Activities | Totals | |
| Assets | | | | |
| Cash and Cash Equivalents | \$ 1,894,284 | \$ 2,881,159 | \$ 4,775,443 | \$ 598,654 |
| Investments | 437,625 | 1,778,456 | 2,216,082 | 840,896 |
| Cash and Investments with Other Component Units | - | - | - | 279,875 |
| Receivables (net of allowance) | 3,555,760 | 3,064,863 | 6,620,623 | 1,997,392 |
| Internal Balances | 111,694 | (111,694) | - | - |
| Inventories | 48,794 | 51,322 | 100,115 | 9,083 |
| Prepaid Items | 119,760 | 83,083 | 202,843 | 7,780 |
| Capital Leases Receivable - Component Units | - | 1,222 | 1,222 | - |
| Restricted and Limited Use Assets: | | | | |
| Cash and Cash Equivalents | 127,584 | 150,380 | 277,964 | 94,130 |
| Investments | 198,399 | - | 198,399 | 2,608,301 |
| Deferred Charges | 75,870 | 30,239 | 106,109 | 4,302 |
| Other Assets | 18,393 | 6,544 | 24,937 | 98,974 |
| Capital Assets: | | | | |
| Depreciable | 1,553,012 | 4,148,039 | 5,701,051 | 418,655 |
| Nondepreciable: | | | | |
| Infrastructure | 13,859,604 | - | 13,859,604 | - |
| Other | 4,758,792 | 1,938,623 | 6,697,416 | 61,820 |
| Total Assets | 26,759,573 | 14,022,235 | 40,781,808 | 7,019,861 |
| Deferred Outflows of Resources | 140,771 | - | 140,771 | 86,868 |
| Liabilities | | | | |
| Accounts Payable and Other Accrued Liabilities | 1,277,906 | 325,556 | 1,603,462 | 253,790 |
| Due to Other Governments | 2,291,793 | 61,707 | 2,353,500 | 51,416 |
| Tax Refunds Payable | 1,500,656 | - | 1,500,656 | - |
| Tax and Other Deposits | 48,590 | 21,652 | 70,242 | 72,745 |
| Amounts Held in Trust by Component Unit for | | | | |
| Other Component Units | - | - | - | 260,231 |
| Amounts Held in Trust by Component Unit for | | | | |
| Others | - | - | - | 29,216 |
| Unearned Revenue | 374,208 | 281,531 | 655,739 | 689 |
| Interest Payable | 110,717 | 15,649 | 126,366 | 17,967 |
| Short-term Notes Payable | 892,120 | 127,574 | 1,019,694 | - |
| Other Liabilities | 140,771 | - | 140,771 | 77,702 |
| Advance from Federal Government | - | 534,539 | 534,539 | - |
| Long-term Liabilities: | | | | |
| Current Portion | 831,334 | 348,155 | 1,179,489 | 86,059 |
| Noncurrent Portion | 10,839,608 | 3,594,232 | 14,433,840 | 2,273,393 |
| Total Liabilities | 18,307,704 | 5,310,594 | 23,618,298 | 3,123,208 |
| Net Position | | | | |
| Net Investment in Capital Assets | 16,284,840 | 4,383,457 | 20,668,297 | 214,157 |
| Restricted for: | | | | |
| Human Relations and Resources | 87,366 | - | 87,366 | - |
| Conservation Related | 66,801 | - | 66,801 | - |
| General Executive | 133,187 | - | 133,187 | - |
| Transportation | 28,356 | - | 28,356 | - |
| Debt Service | 72,653 | - | 72,653 | - |
| Environmental Improvement | - | 1,838,909 | 1,838,909 | - |
| Permanent Trusts: | | | | |
| Expendable | 15,583 | 279,612 | 295,195 | 13,615 |
| Nonexpendable | 937,922 | 166,600 | 1,104,521 | 2,383 |
| Future Benefits | - | 689,352 | 689,352 | 28,368 |
| Other Purposes | 67,581 | 653,563 | 721,144 | 2,852,210 |
| Unrestricted | (9,101,649) | 700,149 | (8,401,500) | 872,787 |
| Total Net Position | \$ 8,592,640 | \$ 8,711,641 | \$ 17,304,281 | \$ 3,983,521 |

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

Statement of Activities
For the Fiscal Year Ended June 30, 2013

(In Thousands)

| Functions/Programs | Expenses | Charges for Services | Program Revenues | |
|--|---------------|----------------------|---|---|
| | | | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| Commerce | \$ 244,141 | \$ 240,663 | \$ 14,110 | \$ - |
| Education | 6,234,973 | 21,383 | 914,480 | - |
| Transportation | 2,117,768 | 707,599 | 168,273 | 762,758 |
| Environmental Resources | 488,515 | 249,807 | 90,332 | 5,349 |
| Human Relations and Resources | 12,169,309 | 718,946 | 7,109,089 | 7,855 |
| General Executive | 596,605 | 244,075 | 229,770 | - |
| Judicial | 126,399 | 56,636 | 837 | - |
| Legislative | 63,673 | 1,782 | - | - |
| Tax Relief and Other General Expenses | 1,327,934 | (5) | 44,853 | - |
| Intergovernmental - Shared Revenue | 957,061 | 53,126 | - | - |
| Interest on Debt | 518,277 | - | - | - |
| Total Governmental Activities | 24,844,656 | 2,294,012 | 8,571,743 | 775,963 |
| Business-type Activities: | | | | |
| Injured Patients and Families Compensation | (14,326) | 38,621 | 30,599 | - |
| Environmental Improvement | 51,646 | 51,449 | 107,054 | - |
| University of Wisconsin System | 4,513,243 | 3,541,438 | 335,185 | 65,965 |
| Unemployment Reserve | 1,366,991 | 1,324,308 | 451,278 | - |
| Lottery | 542,224 | 566,244 | (2,683) | - |
| Health Insurance | 1,249,175 | 1,249,745 | 19,693 | - |
| Care and Treatment Facilities | 331,257 | 290,722 | 775 | 2,761 |
| Other Business-type | 160,258 | 80,588 | 34,834 | 95 |
| Total Business-type Activities | 8,200,467 | 7,143,116 | 976,734 | 68,821 |
| Total Primary Government | \$ 33,045,124 | \$ 9,437,128 | \$ 9,548,477 | \$ 844,784 |
| Component Units: | | | | |
| Housing and Economic Development Authority | \$ 285,393 | \$ 124,308 | \$ 171,032 | \$ - |
| Health Care Liability Insurance Plan | 17,605 | 1,837 | 2,232 | - |
| University Hospitals and Clinics Authority | 1,196,760 | 1,257,647 | - | 2,678 |
| University of Wisconsin Foundation | 250,563 | 222,923 | 211,289 | - |
| Wisconsin Economic Development Corp | 43,618 | 818 | 60,420 | - |
| Total Component Units | \$ 1,793,940 | \$ 1,607,533 | \$ 444,972 | \$ 2,678 |

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 | | | Component Units |
|----------------------------|-----------------------------|----------------------|---------------------|
| Governmental Activities | Business-Type Activities | Total | |
| \$ 10,632 | | \$ 10,632 | |
| (5,299,110) | | (5,299,110) | |
| (479,138) | | (479,138) | |
| (143,027) | | (143,027) | |
| (4,333,420) | | (4,333,420) | |
| (122,760) | | (122,760) | |
| (68,926) | | (68,926) | |
| (61,892) | | (61,892) | |
| (1,283,087) | | (1,283,087) | |
| (903,935) | | (903,935) | |
| (518,277) | | (518,277) | |
| <u>(13,202,939)</u> | | <u>(13,202,939)</u> | |
| | \$ 83,546 | 83,546 | |
| | 106,857 | 106,857 | |
| | (570,655) | (570,655) | |
| | 408,594 | 408,594 | |
| | 21,337 | 21,337 | |
| | 20,262 | 20,262 | |
| | (36,998) | (36,998) | |
| | (44,740) | (44,740) | |
| - | (11,796) | (11,796) | |
| <u>(13,202,939)</u> | <u>(11,796)</u> | <u>(13,214,735)</u> | |
| | | | \$ 9,947 |
| | | | (13,536) |
| | | | 63,565 |
| | | | 183,648 |
| | | | 17,620 |
| | | | <u>261,243</u> |
| 8,290,429 | - | 8,290,429 | - |
| 5,096,132 | - | 5,096,132 | - |
| 335,753 | - | 335,753 | - |
| 247,855 | - | 247,855 | - |
| 1,016,542 | - | 1,016,542 | - |
| 191,484 | - | 191,484 | - |
| 1,789 | (67) | 1,722 | 23,674 |
| 414,292 | 1,126 | 415,419 | 4,159 |
| - | 3,046 | 3,046 | (54) |
| 17,388 | - | 17,388 | - |
| (1,110,877) | 1,110,877 | - | - |
| <u>14,500,788</u> | <u>1,114,983</u> | <u>15,615,771</u> | <u>27,780</u> |
| <u>1,297,849</u> | <u>1,103,186</u> | <u>2,401,035</u> | <u>289,023</u> |
| <u>7,294,790</u> | <u>7,608,455</u> | <u>14,903,246</u> | <u>3,694,498</u> |
| <u>\$ 8,592,640</u> | <u>\$ 8,711,641</u> | <u>\$ 17,304,281</u> | <u>\$ 3,983,521</u> |

Balance Sheet - Governmental Funds
June 30, 2013

(In Thousands)

| | General | Transportation | Capital Improvement | Nonmajor Governmental | Total Governmental |
|--|---------------------|---------------------|---------------------|-----------------------|---------------------|
| Assets | | | | | |
| Cash and Cash Equivalents | \$ 633,227 | \$ 541,789 | \$ 218,076 | \$ 456,058 | \$ 1,849,150 |
| Investments | 690 | - | - | 436,935 | 437,625 |
| Receivables (net of allowance): | | | | | |
| Taxes | 1,250,359 | 93,160 | - | 28,694 | 1,372,212 |
| Loans to Local Governments | - | - | - | 333,743 | 333,743 |
| Other Loans Receivable | 32,747 | 14,084 | - | - | 46,831 |
| Other Receivables | 492,776 | 9,240 | 33 | 59,509 | 561,558 |
| Due from Other Funds | 249,949 | 235,464 | 14,560 | 84,689 | 584,663 |
| Interfund Receivables | 109,357 | - | - | - | 109,357 |
| Due from Other Governments | 868,571 | 290,844 | - | 15,004 | 1,174,418 |
| Inventories | 19,351 | 20,737 | - | 2,811 | 42,899 |
| Prepaid Items | 97,747 | 4,669 | - | 12,115 | 114,532 |
| Restricted and Limited Use Assets: | | | | | |
| Cash and Cash Equivalents | - | - | - | 127,584 | 127,584 |
| Investments | - | - | - | 198,399 | 198,399 |
| Other Assets | 18,318 | - | - | 75 | 18,393 |
| Total Assets | \$ 3,773,091 | \$ 1,209,986 | \$ 232,670 | \$ 1,755,618 | \$ 6,971,365 |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts Payable and Other | | | | | |
| Accrued Liabilities | \$ 971,858 | \$ 230,561 | \$ 6,546 | \$ 21,209 | \$ 1,230,173 |
| Due to Other Funds | 281,112 | 47,719 | 53,343 | 113,066 | 495,240 |
| Due to Component Units | 2,250 | - | - | - | 2,250 |
| Interfund Payables | - | - | - | 14,225 | 14,225 |
| Due to Other Governments | 2,148,522 | 136,073 | - | 7,198 | 2,291,793 |
| Tax Refunds Payable | 1,496,740 | 3,195 | - | 720 | 1,500,656 |
| Tax and Other Deposits | 33,519 | 158 | - | 14,913 | 48,590 |
| Unearned Revenue | 338,385 | 28,290 | - | 6,106 | 372,781 |
| Deferred Revenue | 233,858 | 478 | - | 10,077 | 244,414 |
| Interest Payable | - | - | - | 45,179 | 45,179 |
| Advances from Other Funds | 636 | - | - | 4,968 | 5,604 |
| Short-term Notes Payable | - | - | 684,775 | 183,368 | 868,143 |
| Revenue Bonds and Notes Payable | - | - | - | 119,000 | 119,000 |
| Total Liabilities | 5,506,880 | 446,474 | 744,663 | 540,030 | 7,238,048 |
| Fund Balances: | | | | | |
| Nonspendable | 90,971 | 25,406 | - | 951,028 | 1,067,405 |
| Restricted | 239,380 | 28,356 | - | 205,612 | 473,348 |
| Committed | 279,390 | 709,750 | - | 165,412 | 1,154,552 |
| Unassigned | (2,343,530) | - | (511,994) | (106,465) | (2,961,988) |
| Total Fund Balances | (1,733,789) | 763,512 | (511,994) | 1,215,587 | (266,683) |
| Total Liabilities and Fund Balances | \$ 3,773,091 | \$ 1,209,986 | \$ 232,670 | \$ 1,755,618 | \$ 6,971,365 |

(Continued)

Balance Sheet - Governmental Funds
June 30, 2013

(Continued)

**Total
Governmental**

Reconciliation to the Statement of Net Position:

Total Fund Balances - Governmental Funds (from previous page) \$ (266,683)

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

| | | |
|--------------------------|-------------|------------|
| Infrastructure | 13,859,604 | |
| Other Capital Assets | 7,245,847 | |
| Accumulated Depreciation | (1,253,242) | |
| | | 19,852,209 |

Other long-term assets that are not available to pay for current period expenditures and, therefore, are deferred in the funds. 80,062

Deferred outflows of resources used to accumulate decreases in fair values of hedging derivatives that are not reported in the governmental funds. 227,639

Derivative instruments (interest rate swaps) that also are not reported in the governmental funds. (227,639) 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 deferred in the funds. 242,987

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. 17,159

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 | (1,965,814) | |
| Appropriation Bonds Payable | (3,256,447) | |
| General Obligation Bonds Payable | (5,664,981) | |
| Accrued Interest on Bonds | (65,539) | |
| Capital Leases | (22,967) | |
| Installment Contracts | (984) | |
| Compensated Absences | (152,126) | |
| Pollution Remediation | (7,490) | |
| Claims and Judgments | (944) | |
| Other Postemployment Benefits Liability | (195,802) | |
| | | (11,333,094) |

Net Position of Governmental Activities as reported on the Statement of Net Position (See page 39) \$ 8,592,640

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, 2013**

(In Thousands)

| | General | Transportation | Capital Improvement | Nonmajor Governmental | Total Governmental |
|---|-----------------------|-------------------|------------------------|--------------------------|-----------------------|
| Revenues: | | | | | |
| Taxes | \$ 13,993,238 | \$ 1,016,663 | \$ - | \$ 191,593 | \$ 15,201,494 |
| Intergovernmental | 8,222,842 | 928,253 | - | 73,095 | 9,224,190 |
| Licenses and Permits | 799,818 | 482,573 | - | 610,319 | 1,892,709 |
| Charges for Goods and Services | 341,589 | 17,690 | - | 19,543 | 378,822 |
| Investment and Interest Income | (838) | 678 | 162 | 17,197 | 17,199 |
| Fines and Forfeitures | 38,952 | 461 | - | 20,274 | 59,687 |
| Gifts and Donations | 10,243 | 4 | - | 12,434 | 22,681 |
| Miscellaneous: | | | | | |
| Tobacco Settlement | 129,353 | - | - | - | 129,353 |
| Other | 251,020 | 13,357 | - | 24,756 | 289,133 |
| Total Revenues | 23,786,216 | 2,459,679 | 162 | 969,211 | 27,215,268 |
| Expenditures: | | | | | |
| Current Operating: | | | | | |
| Commerce | 173,780 | - | 3,313 | 71,920 | 249,012 |
| Education | 6,160,395 | - | 506 | 36,692 | 6,197,593 |
| Transportation | 8,512 | 1,967,504 | 13,803 | 6,090 | 1,995,910 |
| Environmental Resources | 111,932 | - | 32,400 | 331,423 | 475,755 |
| Human Relations and Resources | 12,046,263 | - | 7,851 | 28,899 | 12,083,013 |
| General Executive | 510,494 | - | (55) | 107,481 | 617,920 |
| Judicial | 124,195 | - | - | 225 | 124,420 |
| Legislative | 62,987 | - | - | - | 62,987 |
| Tax Relief and Other General Expenditures | 1,314,420 | - | 10,890 | 644 | 1,325,954 |
| Intergovernmental - Shared Revenue | 903,380 | - | - | 53,681 | 957,061 |
| Capital Outlay | 31,083 | 520,236 | 309,464 | 167,517 | 1,028,300 |
| Debt Service: | | | | | |
| Principal | - | - | - | 539,822 | 539,822 |
| Interest | - | - | 1,991 | 536,754 | 538,745 |
| Other Expenditures | - | - | 1,830 | 3,203 | 5,033 |
| Total Expenditures | 21,447,441 | 2,487,740 | 381,992 | 1,884,351 | 26,201,524 |
| Excess of Revenues Over (Under) Expenditures | 2,338,775 | (28,062) | (381,830) | (915,140) | 1,013,744 |
| Other Financing Sources (Uses): | | | | | |
| Long-term Debt Issued | - | - | 506,040 | 123,925 | 629,965 |
| Long-term Debt Issued - Refunding Bonds | - | - | - | 387,310 | 387,310 |
| Payments for Refunded Bonds | - | - | - | - | - |
| Payments to Refunding Bond Escrow Agent | - | - | - | (414,970) | (414,970) |
| Premium on Bonds | - | - | 51,271 | 53,389 | 104,659 |
| Transfers In | 77,526 | 164,068 | 127,879 | 918,043 | 1,287,517 |
| Transfers Out | (1,955,350) | (88,261) | (220,142) | (134,012) | (2,397,765) |
| Capital Lease Acquisitions | 5,711 | - | - | - | 5,711 |
| Installment Purchase Acquisitions | 1,280 | - | 22 | - | 1,302 |
| Total Other Financing Sources (Uses) | (1,870,832) | 75,806 | 465,071 | 933,685 | (396,270) |
| Net Change in Fund Balances | 467,943 | 47,745 | 83,241 | 18,545 | 617,474 |
| Fund Balances, Beginning of Year | (2,202,107) | 722,329 | (595,235) | 1,197,751 | (877,263) |
| Increase (Decrease) in Inventories | 376 | (6,562) | - | (708) | (6,894) |
| Fund Balances, End of Year | \$ (1,733,789) | \$ 763,512 | \$ (511,994) | \$ 1,215,587 | \$ (266,683) |

(Continued)

**Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds
For the Fiscal Year Ended June 30, 2013**

(Continued)

**Total
Governmental**

Reconciliation to the Statement of Activities:

Net Change in Fund Balances (from previous page) \$ 617,474

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. (6,894)

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

| | | |
|---|--------------|---------|
| Capital Outlay/Functional Expenditures | 920,422 | |
| Depreciation Expense | (106,195) | |
| Grants and Contributions (Donated Assets) | <u>1,297</u> | |
| | | 815,525 |

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. (2,111)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (19,890)

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 | (1,017,275) | |
| Payments for Refunded Bonds | - | |
| Payments to Refunding Bond Escrow Agent | 414,970 | |
| Repayment of Bond Principal | 539,822 | |
| Bond Premium | (104,659) | |
| Bond Issuance Costs (Amortization) | <u>2,613</u> | |
| | | (164,529) |

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 | 65,217 | |
| Decrease (increase) in Capital Leases | 10,241 | |
| Decrease (increase) in Installment Contracts | (872) | |
| Decrease (increase) in Compensated Absences | (5,260) | |
| Decrease (increase) in Pollution Remediation Liabilities | - | |
| Decrease (increase) in Claims and Judgments | 1,192 | |
| Decrease (increase) in Postemployment Benefit Liabilities | <u>(17,532)</u> | |
| | | 52,987 |

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. 5,288

Changes in Net Position of Governmental Activities as reported on the Statement of Activities (See page 41) \$ 1,297,849

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

State of Wisconsin
Statement of Net Position
Proprietary Funds
June 30, 2013

(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 | \$ 43,274 | \$ 401,623 | \$ 1,685,327 | \$ - |
| Investments | 63,620 | 45,565 | - | - |
| Loans to Local Governments (net of allowance) | - | 160,571 | - | - |
| Other Loans Receivable (net of allowance) | - | - | 30,931 | - |
| Other Receivables (net of allowance) | 9,855 | 260 | 159,960 | 333,179 |
| Due from Other Funds | - | 1 | 21,592 | 559 |
| Due from Component Units | - | - | 4,890 | - |
| Due from Other Governments | - | 8,606 | 98,693 | 13,126 |
| Inventories | 4 | - | 41,109 | - |
| Prepaid Items | 7 | 21 | 43,181 | - |
| Capital Leases Receivable - Component Units | - | - | 663 | - |
| Deferred Charges | - | - | 25,124 | - |
| Other Assets | - | - | - | - |
| Total Current Assets | 116,760 | 616,647 | 2,111,471 | 346,864 |
| Noncurrent Assets: | | | | |
| Investments | 922,965 | 180,080 | 413,250 | - |
| Loans to Local Governments (net of allowance) | - | 1,815,002 | - | - |
| Other Loans Receivable (net of allowance) | - | - | 164,159 | - |
| Other Receivables | - | - | 3,389 | 67,566 |
| Prepaid Items | - | 167 | - | - |
| Advances to Other Funds | - | 4,968 | - | - |
| Capital Leases Receivable - Component Units | - | - | 559 | - |
| Restricted and Limited Use Assets: | | | | |
| Cash and Cash Equivalents | 39,304 | 104,530 | - | 6,546 |
| Deferred Charges | - | 3,942 | - | - |
| Other Assets | - | - | - | - |
| Depreciable Capital Assets (net of accumulated depreciation) | 561 | - | 3,939,591 | - |
| Nondepreciable Capital Assets | - | - | 1,923,399 | - |
| Total Noncurrent Assets | 962,831 | 2,108,690 | 6,444,346 | 74,113 |
| Total Assets | \$ 1,079,590 | \$ 2,725,337 | \$ 8,555,817 | \$ 420,977 |
| Liabilities | | | | |
| Current Liabilities: | | | | |
| Accounts Payable and Other Accrued Liabilities | \$ 1,204 | \$ 26 | \$ 170,202 | \$ 39,145 |
| Due to Other Funds | 111 | 470 | 71,775 | 3,229 |
| Due to Component Units | - | - | 1,779 | - |
| Interfund Payables | - | - | - | - |
| Due to Other Governments | - | 255 | 7,175 | 52,538 |
| Advance from Federal Government | - | - | - | 446,784 |
| Tax and Other Deposits | - | - | 1,800 | - |
| Unearned Revenue | 5,489 | - | 157,109 | - |
| Interest Payable | - | 3,374 | 11,125 | - |
| Short-term Notes Payable | - | - | 125,035 | - |
| Current Portion of Long-term Liabilities: | | | | |
| Future Benefits and Loss Liabilities | 85,522 | - | - | - |
| Capital Leases | - | - | 6,650 | - |
| Compensated Absences | 21 | 34 | 65,813 | - |
| General Obligation Bonds Payable | - | - | 57,196 | - |
| Revenue Bonds and Notes Payable | - | 56,250 | - | - |
| Total Current Liabilities | 92,346 | 60,409 | 675,657 | 541,696 |
| Noncurrent Liabilities: | | | | |
| Accounts Payable and Other Accrued Liabilities | - | - | - | - |
| Due to Other Governments | - | 706 | - | - |
| Advance from Federal Government | - | - | - | 87,755 |
| Noncurrent Portion of Long-term Liabilities: | | | | |
| Future Benefits and Loss Liabilities | 542,452 | - | - | - |
| Capital Leases | - | - | 12,549 | - |
| Compensated Absences | 54 | 50 | 70,173 | - |
| Other Postemployment Benefits | 45 | 29 | 217,424 | - |
| General Obligation Bonds Payable | - | - | 1,448,734 | - |
| Revenue Bonds and Notes Payable | - | 817,105 | - | - |
| Total Noncurrent Liabilities | 542,551 | 817,890 | 1,748,879 | 87,755 |
| Total Liabilities | 634,896 | 878,299 | 2,424,536 | 629,451 |
| Net Position: | | | | |
| Net Investment in Capital Assets | 561 | - | 4,212,827 | - |
| Restricted for Environmental Improvement | - | 1,838,909 | - | - |
| Restricted for Expendable Trusts | - | - | 279,612 | - |
| Restricted for Nonexpendable Trusts | - | - | 166,600 | - |
| Restricted for Future Benefits | 444,132 | - | - | - |
| Restricted for Other Purposes | - | - | 563,572 | - |
| Unrestricted | - | 8,129 | 908,671 | (208,474) |
| Total Net Position | 444,694 | 1,847,038 | 6,131,281 | (208,474) |
| Total Liabilities and Net Position | \$ 1,079,590 | \$ 2,725,337 | \$ 8,555,817 | \$ 420,977 |

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 | |
|--|------------------|--------|-------------------|--|----------------|
| \$ | 750,935 | \$ | 2,881,159 | \$ | 45,134 |
| | 6,255 | | 115,440 | | - |
| | 447 | | 161,017 | | - |
| | 4,262 | | 35,192 | | - |
| | 82,706 | | 585,961 | | 1,864 |
| | 14,059 | | 36,212 | | 20,572 |
| | - | | 4,890 | | - |
| | 9,378 | | 129,803 | | 564 |
| | 10,209 | | 51,322 | | 4,468 |
| | 39,706 | | 82,916 | | 2,602 |
| | - | | 663 | | - |
| | 60 | | 25,184 | | 74 |
| | 410 | | 410 | | - |
| | <u>918,427</u> | | <u>4,110,169</u> | | <u>75,277</u> |
| | 146,721 | | 1,663,017 | | - |
| | 1,281 | | 1,816,282 | | - |
| | 94,519 | | 258,678 | | - |
| | 10 | | 70,965 | | - |
| | - | | 167 | | 2,626 |
| | 636 | | 5,604 | | - |
| | - | | 559 | | - |
| | - | | 150,380 | | - |
| | 1,113 | | 5,055 | | 434 |
| | 6,134 | | 6,134 | | - |
| | 207,887 | | 4,148,039 | | 250,025 |
| | 15,225 | | 1,938,623 | | 69,175 |
| | <u>473,525</u> | | <u>10,063,504</u> | | <u>322,260</u> |
| \$ | <u>1,391,952</u> | \$ | <u>14,173,673</u> | \$ | <u>397,537</u> |
| \$ | 59,985 | \$ | 270,561 | \$ | 14,181 |
| | 47,211 | | 122,796 | | 9,176 |
| | - | | 1,779 | | - |
| | 49,623 | | 49,623 | | 45,509 |
| | 1,033 | | 61,001 | | 262 |
| | - | | 446,784 | | - |
| | 19,852 | | 21,652 | | - |
| | 118,933 | | 281,531 | | - |
| | 1,150 | | 15,649 | | 1,346 |
| | 2,539 | | 127,574 | | 23,978 |
| | 66,099 | | 151,621 | | 46,800 |
| | 353 | | 7,003 | | 325 |
| | 5,132 | | 71,000 | | 1,295 |
| | 5,086 | | 62,282 | | 14,987 |
| | - | | 56,250 | | - |
| | <u>376,997</u> | | <u>1,747,105</u> | | <u>157,859</u> |
| | 33,623 | | 33,623 | | 151 |
| | - | | 706 | | - |
| | - | | 87,755 | | - |
| | 309,932 | | 852,385 | | 52,767 |
| | 740 | | 13,289 | | 746 |
| | 7,604 | | 77,881 | | 2,628 |
| | 27,994 | | 245,491 | | 3,176 |
| | 139,347 | | 1,588,080 | | 161,662 |
| | - | | 817,105 | | - |
| | <u>519,241</u> | | <u>3,716,316</u> | | <u>221,130</u> |
| | <u>896,238</u> | | <u>5,463,421</u> | | <u>378,989</u> |
| | 170,069 | | 4,383,457 | | 155,464 |
| | - | | 1,838,909 | | - |
| | - | | 279,612 | | - |
| | - | | 166,600 | | - |
| | 245,219 | | 689,352 | | - |
| | 89,990 | | 653,563 | | - |
| | (9,564) | | 698,760 | | (136,916) |
| | <u>495,714</u> | | <u>8,710,252</u> | | <u>18,548</u> |
| \$ | <u>1,391,952</u> | \$ | <u>14,173,673</u> | \$ | <u>397,537</u> |
| Total Net Position Reported Above | | \$ | 8,710,252 | | |
| Adjustment to Reflect the Consolidation of Internal Service Activities Related to Enterprise Funds | | | 1,389 | | |
| Net Position of Business-type Activities | | \$ | <u>8,711,641</u> | | |

**Statement of Revenues, Expenses, and Changes in
Fund Net Position - Proprietary Funds
For the Fiscal Year Ended June 30, 2013**

(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 | \$ 38,621 | \$ - | \$ - | - |
| Participant and Employer Contributions | - | - | - | 1,240,564 |
| Tuition and Fees | - | - | 1,174,699 | - |
| Federal Grants and Contracts | - | - | 980,309 | - |
| Local and Private Grants and Contracts | - | - | 262,457 | - |
| Sales and Services of Educational Activities | - | - | 343,838 | - |
| Sales and Services of Auxiliary Enterprises | - | - | 389,014 | - |
| Sales and Services to UW Hospital Authority | - | - | 66,825 | - |
| Investment and Interest Income | - | 29,800 | - | - |
| Interest Income Used as Security for Revenue Bonds | - | 21,401 | - | - |
| Miscellaneous: | | | | |
| Federal Aid for Unemployment Insurance Program | - | - | - | 451,278 |
| Reimbursing Financing Revenue | - | - | - | 75,303 |
| Other | - | 38 | 281,599 | 8,440 |
| Total Operating Revenues | 38,621 | 51,240 | 3,498,743 | 1,775,585 |
| Operating Expenses: | | | | |
| Personal Services | 446 | 3,743 | 2,891,308 | - |
| Supplies and Services | 339 | 2,049 | 1,135,220 | - |
| Lottery Prize Awards | - | - | - | - |
| Scholarships and Fellowships | - | - | 132,198 | - |
| Depreciation | 43 | 2 | 258,484 | - |
| Benefit Expense | (15,154) | - | - | 1,366,991 |
| Interest Expense | - | 35,616 | - | - |
| Other Expenses | - | - | 21,103 | - |
| Total Operating Expenses | (14,326) | 41,410 | 4,438,313 | 1,366,991 |
| Operating Income (Loss) | 52,947 | 9,830 | (939,570) | 408,594 |
| Nonoperating Revenues (Expenses): | | | | |
| Operating Grants | - | 108,857 | - | - |
| Investment and Interest Income | 30,599 | 1,304 | 41,732 | - |
| Investment Income Used as Security for Revenue Bonds | - | (3,096) | - | - |
| Gain (Loss) on Disposal of Capital Assets | - | - | (17,870) | - |
| Interest Expense | - | - | (57,293) | - |
| Gifts and Donations | - | - | 295,832 | - |
| Miscellaneous Revenues | - | 210 | 42,696 | - |
| Other Expenses: | | | | |
| Property Tax Credits | - | - | - | - |
| Grants Disbursed | - | (10,236) | - | - |
| Federal Settlement | - | - | - | - |
| Total Nonoperating Revenues (Expenses) | 30,599 | 97,039 | 305,096 | - |
| Income (Loss) Before Contributions and Transfers | 83,546 | 106,869 | (634,474) | 408,594 |
| Capital Contributions | - | - | 65,965 | - |
| Additions to Endowments | - | - | 3,046 | - |
| Transfers In | - | 6,775 | 1,134,424 | - |
| Transfers Out | (17) | (8,109) | (85,250) | (4,647) |
| Change in Net Position | 83,529 | 105,534 | 483,711 | 403,947 |
| Total Net Position, Beginning of Year | 361,165 | 1,741,504 | 5,647,570 | (612,422) |
| Total Net Position, End of Year | \$ 444,694 | \$ 1,847,038 | \$ 6,131,281 | \$ (208,474) |

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 | |
| \$ | 911,562 | \$ | 950,183 | \$ |
| | 1,264,410 | | 2,504,974 | 238,459 |
| | - | | 1,174,699 | - |
| | - | | 980,309 | - |
| | - | | 262,457 | - |
| | - | | 343,838 | - |
| | - | | 389,014 | - |
| | - | | 66,825 | - |
| | 7,271 | | 37,072 | - |
| | - | | 21,401 | - |
| | - | | 451,278 | - |
| | - | | 75,303 | - |
| | 1,013 | | 291,090 | 7 |
| | <u>2,184,256</u> | | <u>7,548,445</u> | <u>238,466</u> |
| | 278,640 | | 3,174,137 | 43,049 |
| | 172,241 | | 1,309,849 | 134,792 |
| | 329,202 | | 329,202 | - |
| | - | | 132,198 | - |
| | 15,230 | | 273,759 | 19,884 |
| | 1,327,091 | | 2,678,929 | 28,180 |
| | 6,795 | | 42,411 | - |
| | 9,950 | | 31,052 | - |
| | <u>2,139,149</u> | | <u>7,971,537</u> | <u>225,906</u> |
| | <u>45,107</u> | | <u>(423,092)</u> | <u>12,561</u> |
| | 1,705 | | 110,563 | 184 |
| | 47,619 | | 121,255 | 12 |
| | - | | (3,096) | - |
| | 1,052 | | (16,818) | (1,410) |
| | (2,030) | | (59,323) | (7,442) |
| | 554 | | 296,386 | - |
| | 3,326 | | 46,231 | 2,069 |
| | (139,457) | | (139,457) | - |
| | (2,313) | | (12,548) | - |
| | - | | - | (164) |
| | <u>(89,542)</u> | | <u>343,192</u> | <u>(6,750)</u> |
| | (44,435) | | (79,900) | 5,810 |
| | 2,856 | | 68,821 | - |
| | - | | 3,046 | - |
| | 87,576 | | 1,228,775 | 9,538 |
| | (19,875) | | (117,898) | (9,718) |
| | <u>26,122</u> | | <u>1,102,844</u> | <u>5,631</u> |
| | <u>469,592</u> | | <u>7,607,409</u> | <u>12,917</u> |
| \$ | <u>495,714</u> | \$ | <u>8,710,252</u> | <u>\$ 18,548</u> |
| Change in Net Position Reported Above | | | \$ | 1,102,844 |
| Consolidation Adjustment of Internal Services | | | | |
| Activities Related to Enterprise Funds | | | | 343 |
| Change in Net Position of Business-Type Activities | | | \$ | <u>1,103,186</u> |

**Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2013**

(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 | \$ 43,668 | \$ - | \$ - | 1,245,426 |
| Cash Payments to Suppliers for Goods and Services | (364) | (2,221) | (1,085,447) | - |
| Cash Payments to Employees for Services | (436) | (4,570) | (2,920,955) | - |
| Tuition and Fees | - | - | 1,174,222 | - |
| Grants and Contracts | - | - | 1,214,376 | - |
| Cash Payments for Lottery Prizes | - | - | - | - |
| Cash Payments for Loans Originated | - | - | (34,978) | - |
| Collection of Loans | - | - | 28,443 | - |
| Interest Income | - | - | - | - |
| Cash Payments for Benefits | (22,650) | - | - | (1,427,653) |
| Sales and Services of Educational Activities | - | - | 351,613 | - |
| Sales and Services of Auxiliary Enterprises | - | - | 378,844 | - |
| Sales and Services to UW Hospital Authority | - | - | 64,698 | - |
| Scholarships and Fellowships | - | - | (132,198) | - |
| Other Operating Revenues | - | 38 | 272,677 | 562,486 |
| Other Operating Expenses | - | - | - | - |
| Other Sources of Cash | - | - | - | - |
| Other Uses of Cash | - | - | - | - |
| Net Cash Provided (Used) by Operating Activities | 20,218 | (6,753) | (688,704) | 380,260 |
| Cash Flows from Noncapital Financing Activities: | | | | |
| Operating Grants Receipts | - | 108,636 | - | - |
| Grants Disbursed | - | (10,236) | - | - |
| Proceeds from Issuance of Debt | - | 274,540 | - | - |
| Repayment of Bonds and Notes | - | (269,471) | - | - |
| Interest Payments | - | (41,263) | - | - |
| Property Tax Credit Payments | - | - | - | - |
| Noncapital Gifts and Grants | - | - | 298,878 | - |
| Interfund Loans Received | - | - | - | - |
| Interfund Loans Repaid | - | - | - | - |
| Repayment of Interfund Borrowings | - | - | 145,513 | - |
| Transfers In | - | 6,775 | 1,134,671 | - |
| Transfers Out | (17) | (8,109) | (83,541) | (4,742) |
| Student Direct Lending Receipts | - | - | 777,197 | - |
| Student Direct Lending Disbursements | - | - | (777,055) | - |
| Other Cash Inflows from Noncapital Financing Activities | - | - | 39,420 | 928,786 |
| Other Cash Outflows from Noncapital Financing Activities | - | (609) | (161) | (1,309,046) |
| Net Cash Provided (Used) by Noncapital Financing Activities | (17) | 60,262 | 1,534,923 | (385,001) |
| Cash Flows from Capital and Related Financing Activities: | | | | |
| Proceeds from Issuance of Debt | - | - | 240,787 | - |
| Capital Contributions | - | - | 200,146 | - |
| Repayment of Bonds and Notes | - | - | (200,178) | - |
| Interest Payments | - | - | (132,946) | - |
| Transfers In | - | - | - | - |
| Capital Lease Obligations | - | - | - | - |
| Proceeds from Sale of Capital Assets | - | - | - | - |
| Payments for Purchase of Capital Assets | (137) | - | (557,193) | - |
| Other Cash Inflows from Capital Financing Activities | - | - | 67,373 | - |
| Other Cash Outflows from Capital Financing Activities | - | - | - | - |
| Net Cash Provided (Used) by Capital and Related Financing Activities | (137) | - | (382,011) | - |
| Cash Flows from Investing Activities: | | | | |
| Proceeds from Sale and Maturities of Investment Securities | 79,422 | 138,446 | 93,219 | - |
| Purchase of Investment Securities | (123,210) | (126,607) | (84,007) | - |
| Cash Payments for Loans Originated | - | (209,666) | - | - |
| Collection of Loans | - | 163,131 | - | - |
| Investment and Interest Receipts | 32,300 | 60,101 | 9,918 | - |
| Net Cash Provided (Used) by Investing Activities | (11,488) | 25,405 | 19,129 | - |
| Net Increase (Decrease) in Cash and Cash Equivalents | 8,577 | 78,914 | 483,337 | (4,742) |
| Cash and Cash Equivalents, Beginning of Year | 74,001 | 427,239 | 1,201,990 | 11,288 |
| Cash and Cash Equivalents, End of Year | \$ 82,578 | \$ 506,153 | \$ 1,685,327 | \$ 6,546 |

| Business-type Activities - Enterprise Funds | | | Governmental Activities - Internal Service Funds | |
|---|---------------------|--------------|--|-----------|
| | Nonmajor Enterprise | Totals | | |
| \$ | 2,150,000 | \$ 3,439,094 | \$ | 247,372 |
| | (137,708) | (1,225,740) | | (136,295) |
| | (280,741) | (3,206,702) | | (41,756) |
| | - | 1,174,222 | | - |
| | - | 1,214,376 | | - |
| | (336,833) | (336,833) | | - |
| | (598) | (35,575) | | - |
| | 38,166 | 66,609 | | - |
| | 9,676 | 9,676 | | - |
| | (1,312,404) | (2,762,707) | | (24,367) |
| | - | 351,613 | | - |
| | - | 378,844 | | - |
| | - | 64,698 | | - |
| | - | (132,198) | | - |
| | 4,959 | 840,161 | | 23 |
| | (46,631) | (46,631) | | - |
| | 15,146 | 15,146 | | 1,637 |
| | (3,016) | (3,016) | | (1,275) |
| | 100,016 | (194,963) | | 45,338 |
| | 1,660 | 110,296 | | - |
| | (2,468) | (12,704) | | - |
| | - | 274,540 | | - |
| | (46,320) | (315,791) | | - |
| | (6,737) | (47,999) | | (3) |
| | (141,093) | (141,093) | | - |
| | - | 298,878 | | - |
| | 4,459 | 4,459 | | 1,650 |
| | (5,133) | (5,133) | | (866) |
| | - | 145,513 | | - |
| | 83,297 | 1,224,743 | | 9,538 |
| | (13,814) | (110,222) | | (9,691) |
| | - | 777,197 | | - |
| | - | (777,055) | | - |
| | 603 | 968,810 | | - |
| | (5,861) | (1,315,677) | | - |
| | (131,407) | 1,078,760 | | 628 |
| | 2,364 | 243,151 | | 38,126 |
| | 2,856 | 203,002 | | - |
| | (4,160) | (204,338) | | (14,225) |
| | (2,154) | (135,100) | | (8,200) |
| | 3,957 | 3,957 | | - |
| | (405) | (405) | | (236) |
| | 24 | 24 | | 748 |
| | (11,472) | (568,802) | | (40,234) |
| | 400 | 67,773 | | 754 |
| | (2,665) | (2,665) | | (20) |
| | (11,254) | (393,402) | | (23,286) |
| | 16,972 | 328,059 | | - |
| | (6,381) | (340,205) | | - |
| | (188) | (209,854) | | - |
| | 286 | 163,417 | | - |
| | 59,009 | 161,328 | | - |
| | 69,699 | 102,745 | | - |
| | 27,054 | 593,140 | | 22,680 |
| | 723,881 | 2,438,399 | | 22,454 |
| \$ | 750,935 | \$ 3,031,539 | \$ | 45,134 |

(Continued)

**Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2013**

(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) | \$ 52,947 | \$ 9,830 | \$ (939,570) | \$ 408,594 |
| Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | | |
| Depreciation | 43 | 2 | 258,484 | - |
| Provision for Uncollectible Accounts | - | - | - | 2,084 |
| Operating Income (Investment Income) Classified as Investing Activity | - | (51,202) | - | - |
| Operating Expense (Interest Expense) Classified as Noncapital Financing Activity | - | 35,321 | - | - |
| Miscellaneous Nonoperating Income (Expense) | - | - | - | - |
| Changes in Assets and Liabilities: | | | | |
| Decrease (Increase) in Receivables | (361) | - | (36,991) | 4,439 |
| Decrease (Increase) in Due from Other Funds | - | 68 | 15,145 | 24 |
| Decrease (Increase) in Due from Component Units | - | - | (2,127) | - |
| Decrease (Increase) in Due from Other Governments | - | - | 6,031 | 6,162 |
| Decrease (Increase) in Inventories | (2) | - | 818 | - |
| Decrease (Increase) in Prepaid Items | (1) | 17 | (720) | - |
| Decrease (Increase) in Other Assets | - | - | - | - |
| Decrease (Increase) in Deferred Charges | - | - | (11,715) | - |
| Increase (Decrease) in Accounts Payable and Other Accrued Liabilities | 188 | (44) | 5,457 | (13,476) |
| Increase (Decrease) in Due to Other Funds | (39) | (997) | 3,322 | (623) |
| Increase (Decrease) in Due to Component Units | - | - | 1,444 | - |
| Increase (Decrease) in Due to Other Governments | - | 255 | 2,178 | (26,944) |
| Increase (Decrease) in Tax and Other Deposits | - | - | - | - |
| Increase (Decrease) in Unearned Revenue | 5,237 | - | (9,659) | - |
| Increase (Decrease) in Interest Payable | - | - | - | - |
| Increase (Decrease) in Compensated Absences | 5 | (2) | (441) | - |
| Increase (Decrease) in Postemployment Benefits | 5 | (1) | 19,641 | - |
| Increase (Decrease) in Future Benefits and Loss Liabilities | (37,804) | - | - | - |
| Total Adjustments | (32,729) | (16,583) | 250,866 | (28,335) |
| Net Cash Provided (Used) by Operating Activities | \$ 20,218 | \$ (6,753) | \$ (688,704) | \$ 380,260 |
| Noncash Investing, Capital and Financing Activities: | | | | |
| Assets Acquired through Capital Leases | \$ - | \$ - | \$ 938 | \$ - |
| Lottery Prize Annuity Investment Liability | - | - | - | - |
| Net Change in Unrealized Gains and Losses | 249 | - | 21,883 | - |
| Other | (697) | - | 2,699 | - |

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 | | |
| \$ | 45,107 | \$ | (423,092) | \$ | 12,561 |
| | 15,230 | | 273,759 | | 19,884 |
| | (430) | | 1,654 | | - |
| | (258) | | (51,460) | | - |
| | 6,795 | | 42,116 | | - |
| | 3,293 | | 3,293 | | 513 |
| | 13,914 | | (19,000) | | (460) |
| | 2,744 | | 17,982 | | 9,372 |
| | - | | (2,127) | | 74 |
| | (2,551) | | 9,642 | | (208) |
| | (1,376) | | (559) | | 243 |
| | (535) | | (1,239) | | (4,761) |
| | 293 | | 293 | | - |
| | 21 | | (11,694) | | - |
| | (8,739) | | (16,614) | | 1,737 |
| | 2,338 | | 4,001 | | 2,872 |
| | - | | 1,444 | | - |
| | 353 | | (24,158) | | (461) |
| | 817 | | 817 | | - |
| | 6,509 | | 2,087 | | - |
| | - | | - | | - |
| | 710 | | 272 | | 83 |
| | 1,875 | | 21,519 | | 78 |
| | 13,906 | | (23,898) | | 3,812 |
| | 54,909 | | 228,129 | | 32,778 |
| \$ | 100,016 | \$ | (194,963) | \$ | 45,338 |

| | | | | | |
|----|----------|----|--------|----|-----|
| \$ | 50 | \$ | 987 | \$ | 684 |
| | 2,699 | | 2,699 | | - |
| | (11,048) | | 11,084 | | - |
| | 714 | | 2,715 | | 30 |

Statement of Fiduciary Net Position

June 30, 2013

(In Thousands)

| | Pension and Other Employee Benefit Trust | Investment Trust | Private- Purpose Trust | Agency |
|---|---|---------------------|------------------------------|------------|
| Assets | | | | |
| Cash and Cash Equivalents | \$ 2,753,266 | \$ 2,831,492 | \$ 56,024 | \$ 28,985 |
| Securities Lending Collateral | 1,436,021 | - | - | - |
| Prepaid Items | 18,052 | - | 1 | - |
| Receivables (net of allowance): | | | | |
| Prior Service Contributions Receivable | 65,165 | - | - | - |
| Benefits Overpayment Receivable | 3,600 | - | - | - |
| Due from Other Funds | 47,820 | - | 253 | 1,720 |
| Due from Component Units | 5,004 | - | - | - |
| Interfund Receivables | 17,361 | - | - | - |
| Due from Other Governments | 158,708 | - | 5,311 | 783 |
| Due from Employers | - | - | - | 9,717 |
| Interest and Dividends Receivable | 261,315 | - | - | - |
| Investment Sales Receivable | 913,001 | - | - | - |
| Other Receivables | 11,427 | - | 8,539 | 1,348 |
| Total Receivables | 1,483,400 | - | 14,104 | 13,568 |
| Investments: | | | | |
| Fixed Income | 25,350,610 | - | - | - |
| Stocks | 44,307,119 | - | - | - |
| Options | (34,856) | - | - | - |
| Financial Futures Contracts | (37,785) | - | - | - |
| Limited Partnerships | 10,003,179 | - | - | - |
| Preferred Securities | 154,827 | - | - | - |
| Convertible Securities | 52,226 | - | - | - |
| Real Estate | 756,622 | - | - | - |
| Investments of Private Purpose Trust Funds | - | - | 3,103,973 | - |
| Investments of Agency Funds | - | - | - | 251 |
| Multi-asset Investments | 3,300,780 | - | - | - |
| External Investment Pool | 606,040 | - | - | - |
| Foreign Currency Contracts | 14,047 | - | - | - |
| Total Investments | 84,472,810 | - | 3,103,973 | 251 |
| Inventories | 93 | - | - | - |
| Capital Assets | 2,729 | - | - | - |
| Other Assets | - | - | - | 313,035 |
| Total Assets | 90,166,370 | 2,831,492 | 3,174,102 | \$ 355,839 |
| Liabilities | | | | |
| Accounts Payable and Other Accrued Liabilities | 53,956 | - | 5,712 | \$ 25,340 |
| Reverse Repurchase Agreements | 968,176 | - | - | - |
| Securities Lending Collateral Liability | 1,436,021 | - | - | - |
| Annuities Payable | 284,387 | - | - | - |
| Due to Other Funds | 63,677 | 172 | 145 | 34 |
| Interfund Payables | 26 | - | 17,335 | - |
| Due to Other Governments | 35,088 | - | - | - |
| Tax and Other Deposits | - | - | - | 330,465 |
| Future Benefits and Loss Liabilities | - | - | 4,440 | - |
| Short Sales of Securities | 98,277 | - | - | - |
| Investment Payable | 903,349 | - | - | - |
| Unearned Revenue | 575 | - | 15,544 | - |
| Compensated Absences Payable | 2,125,501 | - | - | - |
| Other Postemployment Benefits | 1,282 | - | - | - |
| Total Liabilities | 5,970,315 | 172 | 43,176 | \$ 355,839 |
| Net Position | | | | |
| Held in Trust for Pension Benefits, Pool Participants and Other Purposes | \$ 84,196,055 | \$ 2,831,319 | \$ 3,130,925 | |

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

**Statement of Changes in Fiduciary Net Position
For the Fiscal Year Ended June 30, 2013**

(In Thousands)

| | Pension and Other Employee Benefit Trust | Investment Trust | Private- Purpose Trust |
|--|---|---------------------|------------------------------|
| Additions | | | |
| Contributions: | | | |
| Employer Contributions | \$ 968,781 | \$ - | \$ - |
| Employee Contributions | 861,958 | - | - |
| Other | - | - | 201 |
| Total Contributions | 1,830,739 | - | 201 |
| Deposits | - | 10,025,423 | 334,029 |
| Premiums | - | - | 198,850 |
| Federal Subsidy | - | - | 14,272 |
| Investment Income: | | | |
| Net Appreciation (Depreciation) in Fair Value of Investments | 7,279,613 | - | - |
| Interest | 654,911 | - | - |
| Dividends | 1,147,133 | - | - |
| Securities Lending Income | 16,635 | - | - |
| Other | 174,347 | - | - |
| Investment Income of Investment, Private Purpose, and Other Employee Benefit Trust Funds | 295,744 | 23,189 | 304,032 |
| Less: | | | |
| Investment Expense | (330,907) | - | (3,508) |
| Securities Lending Rebates and Fees | 8,852 | - | - |
| Investment Income Distributed to Other Funds | (340,149) | - | - |
| Net Investment Income | 8,906,179 | 23,189 | 300,523 |
| Interest on Prior Service Receivable | 4,683 | - | - |
| Miscellaneous Income | 990 | - | 140 |
| Transfers In | 4 | - | - |
| Total Additions | 10,742,595 | 10,048,613 | 848,015 |
| Deductions | | | |
| Retirement Benefits and Refunds: | | | |
| Retirement, Disability, and Beneficiary Separations | 4,207,720 | - | - |
| | 29,835 | - | - |
| Total Retirement Benefits and Refunds | 4,237,555 | - | - |
| Distributions | 26,507 | 9,701,325 | 356,659 |
| Other Benefit Expense | 154,295 | - | 224,758 |
| Administrative Expense | 26,643 | 170 | 13,069 |
| Transfers Out | 452 | - | 2 |
| Total Deductions | 4,445,453 | 9,701,494 | 594,488 |
| Net Increase (Decrease) | 6,297,142 | 347,118 | 253,527 |
| Net Position - Beginning of Year | 77,898,913 | 2,484,201 | 2,877,399 |
| Net Position - End of Year | \$ 84,196,055 | \$ 2,831,319 | \$ 3,130,925 |

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

Notes To The Financial Statements

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Notes To The Financial Statements

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.

In addition, GASB Technical Bulletin No. 2004-1 (TB), *Tobacco Settlement Recognition and Financial Reporting Entity Issues*,

clarified guidance on whether a Tobacco Settlement Authority (TSA) created to obtain rights to all or a portion of future tobacco settlement resources is a component unit of the government that created it. This guidance resulted in the Badger Tobacco Asset Securitization Corporation (BTASC) to be reported as a blended component unit in the primary government in a debt service fund. The State has no legal liability for BTASC obligations.

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

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

Wisconsin Housing and Economic Development Authority
201 West Washington Avenue, Suite 700
Madison, WI 53703

Wisconsin Health Care Liability Insurance Plan
Office of the Commissioner of Insurance
125 South Webster Street
Madison, WI 53703

University of Wisconsin Hospital and Clinics Authority
301 South Westfield Road
Madison, WI 53717

Wisconsin Economic Development Corporation
201 West Washington Avenue
Madison, Wisconsin 53703

University of Wisconsin Foundation
1848 University Avenue
Madison, WI 53726-4090

Blended Component Units

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

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

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

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

On May 23, 2002 the State sold the TSRs to BTASC for \$1.3 billion and a residual certificate. Upon discharge of BTASC's

obligations under its May 1, 2002 bond indenture, all subsequent TSRs are owned by the State pursuant to the residual certificate.

In April, 2009, BTASC legally defeased its outstanding bonds as a result of a sale of its TSRs to the State. BTASC remained active to pay remaining costs associated with the defeased bonds. On June 1, 2012, all outstanding bonds that were previously defeased, totaling \$949,145,000, were called for redemption.

On June 3, 2013, the BTASC Articles of Dissolution became effective. BTASC ceased continuing the business for which it was organized, and its activities are now limited to those activities appropriate to wind up and liquidate its affairs. All liabilities and obligations shall be paid, satisfied, and discharged, and BTASC shall distribute all the remaining assets to the State of Wisconsin. BTASC may retain sufficient funds to discharge liabilities as yet unknown. In accordance with a Depositary Agreement with the Trustee, on July 5, 2013, the Trustee transferred \$7,250,000 from BTASC to the State of Wisconsin. On July 3, 2019, the Trustee will remit all remaining funds of BTASC held under the Depositary Agreement to the State of Wisconsin.

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 (see Note 12A to the financial statements). Under a Conveyance Agreement, certain assets and liabilities related to the Hospital were identified and transferred to the Hospital effective July 1, 1996. Subject to the Contractual Services Agreement and Operating and Service Agreement between the Board of Regents and the Hospital, the two parties have entered into contracts for the continuation of services in support of programs and operations.

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

University of Wisconsin Foundation – The University of Wisconsin Foundation (the Foundation) is a legally separate, tax-exempt component unit of the State. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University of Wisconsin-Madison and several other units of the University of Wisconsin System (a fund of the State) in support of its programs. These include scientific, literary,

athletic and educational program purposes. Although the State does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests, are restricted to the activities of the University of Wisconsin-Madison and other units of the University of Wisconsin System by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University of Wisconsin-Madison and several other units of the University of Wisconsin System, the Foundation is considered a component unit of the State. The Foundation reports on a fiscal year ended December 31.

Related Organizations

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

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

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

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

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

C. Government-wide and Fund Financial Statements

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

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

statement of net position and the statement of activities reports activities for all discretely presented component units.

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

In Fiscal Year 2013, the State implemented GASB Statement 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. GASB Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards did not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

GASB Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources.

Beginning in Fiscal Year 2013, the term “net assets” has been changed to “net position” on the government-wide and fiduciary fund-level financial statements. Similarly, the term “fund equity” has been changed to “fund net position” on the proprietary fund-level 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.

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 against health care providers.
- *Environmental Improvement Fund* – accounts for financial resources generated and used for clean water projects. Federal capitalization grants, interest earnings, revenue bond proceeds, and general obligation bond proceeds are its primary funding sources.
- *University of Wisconsin System Fund* – accounts for the 13 universities, 13 two-year colleges, the University of Wisconsin Extension and System Administration.
- *Unemployment Reserve Fund* – accounts for unemployment contributions made by employers, federal program receipts, benefit payment recoveries and unemployment benefits paid to laid off workers in the State.

In addition, the State reports the following fund types:

Governmental Funds

- *Special Revenue Funds* – account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Examples include the Conservation Fund and the Petroleum Inspection Fund.
- *Debt Service Funds* – account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Financial resources that are being accumulated for future principal and interest are also reported in debt service funds.
- *Capital Projects Funds* – account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other

than those financed by proprietary funds or that will be held in trust for individuals, private organizations, or other governments).

- *Permanent Funds* – account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the State's programs – that is, for the benefit of the State or its citizenry.

Proprietary Funds

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

Fiduciary Funds

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

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

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

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

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

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

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

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

E. Assets, Liabilities, and Net Position/Fund Balances

1. Cash and Cash Equivalents

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

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

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

2. Investments

Primary Government

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

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

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

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

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

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

Component Units

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

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

Investments of the University of Wisconsin Hospital and Clinics Authority (the Hospital) in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value based on quoted market prices.

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

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

3. Mortgage and Other Loans

Mortgage loans of the Wisconsin Housing and Economic Development Authority, a component unit, are carried at their unpaid principal balance, net of the allowance for loan losses, unamortized loan origination costs or income, and real estate held. Loan origination fees and associated direct costs are deferred and recognized as income or expense over the projected life of the loan.

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

4. Forestation State Tax

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

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

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

5. Interfund Assets/Liabilities

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. The balance sheet 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". Further, cash and investments invested by one component unit with another component unit are reported on the statement of net assets as "Cash and Investments with Other Component Units" and "Amounts Held in Trust by Component Units for Other Component Units".

Amounts reported in the funds as interfund assets/liabilities are eliminated in the governmental and business-type columns of the Statement of Net 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 a useful life of two or more years. In addition, internally generated intangible assets are capitalized only if costs are equal to or are greater than \$1.0 million. Assets of the discretely presented component units are capitalized when they have a unit cost of \$5,000 or more, except for the University of Wisconsin Foundation, which capitalizes assets greater than \$2,500.

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

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

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

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

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

8. Restricted and Limited Use Assets

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

9. Local Assistance Aids

Municipal and County Shared Revenue Program

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

At June 30, 2013, the State was liable to various local governments for unpaid shared revenue aid. To measure the amount of the program allocable to the State's fiscal year, the amount is prorated over portions of recipient local governments' calendar fiscal years that are within the State's fiscal year. The result is that a liability of \$440.2 million representing one-half of the total appropriated amount is reported at June 30, 2013 as Due to Other Governments.

State Property Tax Credit Program

At June 30, 2013, 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, 2013.

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, 2013.

The aggregated State Property Tax Credit Program liability of \$680.7 million is reported in the General Fund as Due to Other Governments. Of that amount, \$567.9 million relates to the school levy tax credit and \$112.8 million relates to the first dollar tax credit. For FY 2013, the Lottery funded \$14.9 million of the school levy tax credit.

The lottery tax credit is accounted for in the Lottery Fund, an enterprise fund that records revenues and expenses on the accrual basis. The State pays municipal treasurers for lottery credits who distribute the moneys to the various taxing jurisdictions. For credits reducing the calendar year 2013 property tax bills, the State made this payment in March 2013. 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 2013, while the remaining portion represents a prepaid item. The resulting prepaid item reported within the Lottery Fund totals \$33.8 million at June 30, 2013.

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, 2013, the State was liable to various local governments and other taxing jurisdictions for unpaid exempt computer aid payments of \$58.0 million.

10. Long-term Debt Obligations

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

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

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

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

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

11. Compensated Absences

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

Annual Leave

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

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

Sick Leave

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

12. Unearned and Deferred Revenue

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

Unearned revenue of the University of Wisconsin System consists of payments received but not earned at June 30, 2013, primarily for summer session tuition, tuition and room deposits for the next fall term, advance ticket sales for upcoming intercollegiate athletic events, and amounts received from grant and contract sponsors that have not yet been earned under the terms of the agreement.

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

13. Self-Insurance

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

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

14. Fund Balance Classification and Restricted Net 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.

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, 2013, the following adjustments and reclassifications were necessary to reconcile the information from the fund-based Balance Sheet – Governmental Funds to the amounts presented in the governmental section of the Statement of Net 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 | \$ 1,849,150 | \$ - | \$ 45,134 | \$ - | \$ 1,894,284 |
| Investments | 437,625 | - | - | - | 437,625 |
| Receivables (net of allowance): | | | | | |
| Taxes | 1,372,212 | - | - | (1,372,212) | - |
| Loans to Local Governments | 333,743 | - | - | (333,743) | - |
| Other Loans Receivable | 46,831 | - | - | (46,831) | - |
| Other Receivables | 561,558 | 3,272 | 2,428 | 2,988,502 | 3,555,760 |
| Due from Other Funds | 584,663 | - | 20,572 | (605,234) | - |
| Due from Component Units | - | - | - | - | - |
| Interfund Receivables | 109,357 | - | - | (109,357) | - |
| Due from Other Governments | 1,174,418 | - | - | (1,174,418) | - |
| Internal Balances | - | - | (1,389) | 113,083 | 111,694 |
| Inventories | 42,899 | 1,427 | 4,468 | - | 48,794 |
| Prepaid Items | 114,532 | - | 5,228 | - | 119,760 |
| Restricted Assets: | | | | | |
| Cash and Cash Equivalents | 127,584 | - | - | - | 127,584 |
| Investments | 198,399 | - | - | - | 198,399 |
| Deferred Charges | - | 75,363 | 507 | - | 75,870 |
| Other Assets | 18,393 | - | - | - | 18,393 |
| Depreciable Capital Assets | - | 1,302,987 | 250,025 | - | 1,553,012 |
| Infrastructure | - | 13,859,604 | - | - | 13,859,604 |
| Other Non-depreciable Capital Assets | - | 4,689,617 | 69,175 | - | 4,758,792 |
| Total Assets | 6,971,365 | 19,932,271 | 396,148 | (540,210) | 26,759,573 |
| Deferred Outflows of Resources | - | 140,771 | - | - | 140,771 |
| Total Assets and Deferred Outflows | \$ 6,971,365 | \$ 20,073,042 | \$ 396,148 | \$ (540,210) | \$ 26,900,344 |
| Liabilities: | | | | | |
| Accounts Payable and Other | | | | | |
| Accrued Liabilities | 1,230,173 | - | 15,940 | 31,793 | 1,277,906 |
| Due to Other Funds | 495,240 | - | 54,684 | (549,924) | - |
| Due to Component Units | 2,250 | - | - | (2,250) | - |
| Interfund Payables | 14,225 | - | - | (14,225) | - |
| Due to Other Governments | 2,291,793 | - | - | - | 2,291,793 |
| Tax Refunds Payable | 1,500,656 | - | - | - | 1,500,656 |
| Tax and Other Deposits | 48,590 | - | - | - | 48,590 |
| Unearned Revenue/Deferred Revenue | 617,195 | (242,987) | - | - | 374,208 |
| Interest Payable | 45,179 | 65,539 | - | - | 110,717 |
| Advances from Other Funds | 5,604 | - | - | (5,604) | - |
| Short-term Notes Payable | 868,143 | - | 23,978 | - | 892,120 |
| Other Liabilities | - | 140,771 | - | - | 140,771 |
| Long-term Liabilities: | | | | | |
| Current Portion | 119,000 | 648,926 | 63,408 | - | 831,334 |
| Noncurrent Portion | - | 10,618,629 | 220,979 | - | 10,839,608 |
| Total Liabilities | 7,238,048 | 11,230,878 | 378,989 | (540,210) | 18,307,704 |
| Fund Balances/Net Position | (266,683) | 8,842,164 | 17,159 | - | 8,592,640 |
| Total Liabilities and Fund Balances/Net Position | \$ 6,971,365 | \$ 20,073,042 | \$ 396,148 | \$ (540,210) | \$ 26,900,344 |

- (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, 2013, 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 | \$ 15,201,494 | \$ - | - |
| Income Taxes | - | (13,324) | - |
| Sales & Excise Taxes | - | (9,726) | - |
| Public Utility Taxes | - | - | - |
| Other Taxes | - | (18) | - |
| Motor Fuel (Transportation) Taxes | - | (121) | - |
| Other Dedicated Taxes | - | (109) | - |
| Intergovernmental | 9,224,190 | - | - |
| Operating Grants | - | - | 120 |
| Capital Grants | - | - | 5,349 |
| Unrestricted Grants | - | - | - |
| Licenses and Permits | 1,892,709 | - | - |
| Charges for Goods and Services | 378,822 | 3,742 | - |
| Investment and Interest Income | 17,199 | - | - |
| Fines and Forfeitures/Contributions to Permanent Fund | 59,687 | - | - |
| Gifts and Donations | 22,681 | - | - |
| Miscellaneous: | | (304) | (4,313) |
| Tobacco Settlement | 129,353 | - | - |
| Other | 289,133 | - | - |
| Total Revenues | 27,215,268 | (19,860) | 1,157 |
| Expenditures/Expenses: | | | |
| Current Operating: | | | |
| Commerce | 249,012 | 124 | 570 |
| Education | 6,197,593 | 521 | 3,351 |
| Transportation | 1,995,910 | 574 | 116,557 |
| Environmental Resources | 475,755 | 746 | 12,290 |
| Human Relations and Resources | 12,083,013 | 11,836 | 73,808 |
| General Executive | 617,920 | (10,177) | 8,304 |
| Judicial | 124,420 | 817 | 1,163 |
| Legislative | 62,987 | 777 | - |
| Tax Relief and Other General Expenditures | 1,325,954 | - | - |
| Intergovernmental - Shared Revenue | 957,061 | - | - |
| Capital Outlay | 1,028,300 | - | (1,028,300) |
| Debt Service: | | | |
| Principal | 539,822 | - | - |
| Interest and Other Charges | 543,778 | 1,197 | - |
| Total Expenditures/Expenses | 26,201,524 | 6,414 | (812,257) |
| Excess of Revenues Over (Under) Expenditures/Expenses | 1,013,744 | (26,273) | 813,414 |
| Other Financing Sources (Uses): | | | |
| Net Transfers | (1,110,248) | 4 | - |
| Long-term Debt Issued | 1,017,275 | - | - |
| Premium/Discount on Bonds | 104,659 | - | - |
| Payments for Refunded Bonds | - | - | - |
| Payments to Refunding Bond Escrow Agent | (414,970) | - | - |
| Capital Lease Acquisitions | 5,711 | (5,711) | - |
| Installment Purchase Acquisitions | 1,302 | (1,302) | - |
| Total Other Financing Sources (Uses) | (396,270) | (7,009) | - |
| Net Change in Fund Balance/Net Position | 617,474 | (33,282) | 813,414 |
| Change in Inventories | (6,894) | | |
| Net Change for the Year | \$ 610,579 | | |

- (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 |
|----|-------------------------------|------------------------------------|------------------|--|---|
| \$ | - | \$ - | - | \$ (15,201,494) | \$ - |
| | - | - | - | 8,303,753 | 8,290,429 |
| | - | - | - | 5,105,858 | 5,096,132 |
| | - | - | - | 335,753 | 335,753 |
| | - | - | - | 247,873 | 247,855 |
| | - | - | - | 1,016,663 | 1,016,542 |
| | - | - | - | 191,593 | 191,484 |
| | - | - | - | (9,224,190) | - |
| | - | - | (682,815) | 9,254,438 | 8,571,743 |
| | - | - | 762,758 | 7,855 | 775,963 |
| | - | - | - | - | - |
| | - | - | - | (1,892,709) | - |
| | (9,065) | - | (14,496) | 1,935,008 | 2,294,012 |
| | 12 | - | - | (15,421) | 1,789 |
| | - | - | - | (42,299) | 17,388 |
| | - | - | - | (22,681) | - |
| | - | - | (30) | 418,939 | 414,292 |
| | - | - | - | (129,353) | - |
| | - | - | - | (289,133) | - |
| | (9,053) | - | 65,417 | 454 | 27,253,383 |
| | (105) | - | (5,499) | 38 | 244,141 |
| | (1,901) | - | 35,410 | (1) | 6,234,973 |
| | (2,071) | 276 | - | 6,523 | 2,117,768 |
| | (720) | 69 | - | 375 | 488,515 |
| | (6,420) | (1,192) | 44,534 | (36,268) | 12,169,309 |
| | (10,655) | - | (8,997) | 211 | 596,605 |
| | - | - | - | - | 126,399 |
| | (90) | - | - | - | 63,673 |
| | - | 2,075 | - | (94) | 1,327,934 |
| | - | - | - | - | 957,061 |
| | - | - | - | - | - |
| | - | (539,822) | - | - | - |
| | 7,442 | (70,250) | - | 36,111 | 518,277 |
| | (14,521) | (608,845) | 65,447 | 6,895 | 24,844,656 |
| | 5,468 | 608,845 | (30) | (6,441) | 2,408,726 |
| | (179) | - | - | (454) | (1,110,877) |
| | - | (1,017,275) | - | - | - |
| | - | (104,659) | - | - | - |
| | - | - | - | - | - |
| | - | 414,970 | - | - | - |
| | - | - | - | - | - |
| | - | - | - | - | - |
| | (179) | (706,965) | - | (454) | (1,110,877) |
| \$ | 5,288 | \$ (98,120) | \$ (30) | (6,895) | 1,297,849 |
| | | | | 6,894 | - |
| | | | | \$ (0) | \$ 1,297,849 |

- (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, 2013 are (in thousands):

| | |
|--|-----------|
| Special Revenue: | |
| Petroleum Inspection | \$ 44,083 |
| Dry Cleaner Environmental Response | 4,922 |
| Capital Projects: | |
| Transportation Revenue Bonds | 57,387 |
| Enterprise: | |
| Unemployment Reserve | 208,474 |
| Northern Developmental Disabilities Center | 18,213 |
| Southern Developmental Disabilities Center | 3,195 |
| Long Term Disability Insurance | 17,740 |
| Life Insurance | 275 |
| Internal Service: | |
| Risk Management | 88,779 |
| Pension and Other Employee Benefit Trust: | |
| Retiree Health Insurance | 28,271 |

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 in determining when net assets have been restricted to a particular use by the passage of enabling legislation and how those net assets should be reported in financial statements when there are changes in the circumstances surrounding such legislation. Net position restricted by enabling legislation was as follows on June 30, 2013 (in thousands):

| | |
|---|---------|
| Governmental Activities: | |
| Net Position Restricted by Enabling Legislation | 38,087 |
| Business-type Activities: | |
| Net Position Restricted by Enabling Legislation | 203,565 |

C. Budget Stabilization Arrangement

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

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

The balance of the budget stabilization arrangement as of June 30, 2013 was \$279.4 million.

D. Minimum Fund Balance

Wisconsin Statutes 20.003(4) establishes a minimum General Fund balance. Under the statutes, no bill directly or indirectly affecting general purpose revenues as defined in Wisconsin Statutes 20.001(2)(a) may be enacted by the legislature if the bill would cause the estimated General Fund balance on June 30 of any fiscal year to be an amount equal to or less than the amount specified for that fiscal year. The minimum required balance for the fiscal year ending June 30, 2013 was \$65.0 million.

E. Fund Balance for Governmental Funds

Governmental funds reported the following categories of fund balance as of June 30, 2013 (in thousands):

| | General | Transportation | Capital Improvement | Nonmajor Governmental | Total Governmental |
|--|--------------------|----------------|---------------------|-----------------------|--------------------|
| Nonspendable for: | | | | | |
| Inventory, Prepaid and Long-term Receivables | 90,971 | 25,406 | - | 14,926 | 131,303 |
| Legal or Contractual Purposes (Permanent Fund Principal) | - | - | - | 936,102 | 936,102 |
| Restricted for: | | | | | |
| Commerce | 3,072 | - | - | 32 | 3,104 |
| Education | 12,157 | - | - | 28,487 | 40,644 |
| Transportation | - | 28,356 | - | - | 28,356 |
| Environmental Resources | 3,161 | - | - | 66,801 | 69,963 |
| Human Relations and Resources | 87,366 | - | - | 21,603 | 108,969 |
| General Executive | 133,187 | - | - | 15,770 | 148,958 |
| Judicial | 36 | - | - | - | 36 |
| Tax Relief and Other General Expenditures | 399 | - | - | - | 399 |
| Intergovernmental - Shared Revenue | - | - | - | 265 | 265 |
| Debt Service | - | - | - | 72,653 | 72,653 |
| Committed to: | | | | | |
| Commerce | - | - | - | 43,325 | 43,325 |
| Education | - | - | - | 713 | 713 |
| Transportation | - | 709,750 | - | - | 709,750 |
| Environmental Resources | - | - | - | 68,609 | 68,609 |
| Human Relations and Resources | - | - | - | 19,030 | 19,030 |
| General Executive | - | - | - | 15,428 | 15,428 |
| Judicial | - | - | - | 363 | 363 |
| Tax Relief and Other General Expenditures | 279,390 | - | - | - | 279,390 |
| Capital Projects | - | - | - | 17,944 | 17,944 |
| Unassigned | (2,343,530) | - | (511,994) | (106,465) | (2,961,988) |
| Total Fund Balance | (1,733,789) | 763,512 | (511,994) | 1,215,587 | (266,683) |

NOTE 5. DEPOSITS AND INVESTMENTS

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

A. Deposits

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

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

1. Primary Government

As of June 30, 2013, \$279.3 million of the primary government's bank balance of \$306.2 million was exposed to custodial credit risk as follows (in millions):

| | |
|--------------------------------|----------|
| Uninsured and uncollateralized | \$ 279.3 |
|--------------------------------|----------|

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit. Deposits in foreign currency at June 30, 2013 are immaterial. The primary government does not have a formal policy specifically related to foreign currency risk.

The State's Unemployment Reserve Fund had \$6.5 million on deposit with the U.S. Treasury. This amount is presented as Cash and Cash Equivalents and is not included in the carrying amount of deposits nor is it categorized according to risk because it is neither a deposit with a financial institution nor an investment.

2. Component Units

The bank balance of deposits of the Wisconsin Housing and Economic Development Authority at June 30, 2013, the Wisconsin Economic Development Corporation at June 30, 2013, the Wisconsin Health Care Liability Insurance Plan at December 31, 2012, the University of Wisconsin Hospitals and Clinics Authority at June 30, 2013, and the University of Wisconsin Foundation at December 31, 2012, was \$179.5 million.

As of their fiscal year end, \$177.0 million of the component units' bank balance of \$179.5 million was exposed to custodial credit risk as follows (in millions):

| | |
|--------------------------------|----------|
| Uninsured and uncollateralized | \$ 177.0 |
|--------------------------------|----------|

B. Investments

1. Primary Government

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

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

- Primary government, excluding the University of Wisconsin System, the Wisconsin Retirement System and the State Investment Fund. The primary government portfolios include Various Funds managed by the State of Wisconsin Investment Board consisting of the following:
 - Local Government Property Insurance Fund (LGPIF)
 - State Life Insurance Fund (SLF)
 - Injured Patients and Families Compensation Fund (IPFCF)
 - Historical Society Fund
 - Tuition Trust Fund
- University of Wisconsin System (UWS)
- Wisconsin Retirement System (WRS)
- State Investment Fund (SIF) -- functions as the State's cash management fund by "pooling" the idle cash balances of all State funds and other public institutions. Investments of the SIF are discussed in section B3 of this note disclosure.

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

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

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

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

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

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

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

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

University of Wisconsin System (UWS)

The University of Wisconsin System (UWS) investment policies and guidelines are governed and authorized by the Board of Regents. The current approved asset allocation policy for long-term funds sets a general target of 35.0 percent marketable equities, 30.0 percent fixed income, and 35.0 percent alternatives. The approved asset allocation for intermediate term funds is 15.0 percent marketable equities, 70.0 percent fixed income, 10.0 percent alternatives and 5.0 percent cash. These target allocations were last affirmed/approved by the Board of Regents in December 2012.

Wisconsin Retirement System (WRS)

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

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

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

Custodial Credit Risk

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

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

At June 30, 2013, the reported amount of investments of the primary government, including the Various Funds, was \$6,147.1 million, of which \$417.3 million is reported as cash equivalents and \$326.7 million is reported as "Other Assets". The primary government, including the Various Funds, does not have an investment policy specifically for custodial credit risk. However, at June 30, 2013, the primary government did not have any direct investment securities exposed to custodial credit risk.

University of Wisconsin System (UWS)

At June 30, 2013, the UWS investments were \$438.2 million, of which \$25.0 million is reported as cash equivalents. The UWS's investments are registered in the name of the UWS and the UWS does not participate in any securities lending programs through its custodian bank. Investment securities underlying the UWS's investment in shares of external investment pools or funds are in custody at those funds. The shares owned in these external investment pools are registered in the name of the UWS.

Wisconsin Retirement System (WRS)

At June 30, 2013, the WRS investments were \$83.9 billion. The WRS does not have a formal policy for custodial credit risk. As of June 30, 2013, the WRS held 23 repurchase agreements totaling \$1.9 billion. The securities lending collateral account and cash management account participate in repurchase agreement pools, purchasing only a portion of a repurchase agreement in which the manager of these accounts is the buyer-lender. Since the manager that purchased the repurchase agreements is the counterparty, the securities are not held in the WRS's name. They are held in the counterparty's name and held by the counterparty's agent.

Interest Rate Risk

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

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

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

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

At June 30, 2013, the primary government's investments were (in millions):

| Investment Type | Investment Maturities | | | | Fair Value |
|--|-----------------------|--------------|---------------|--------------------|------------|
| | Less Than 1 Year | 1 to 5 Years | 6 to 10 years | More Than 10 Years | |
| U.S. Government and U.S. agency holdings | \$ 213.4 | \$ 26.2 | \$ 16.1 | \$ 1.9 | \$ 257.6 |
| State and municipal bonds and notes | 22.6 | 72.8 | 70.6 | 431.0 | 597.0 |
| Corporate notes and bonds | -- | .7 | .2 | -- | .9 |
| Repurchase agreements | 7.6 | -- | -- | -- | 7.6 |
| Forward delivery agreements | 45.6 | -- | -- | -- | 45.6 |
| Money market funds | 75.6 | -- | -- | -- | 75.6 |
| Mutual funds – open ended | 23.3 | 280.0 | 838.2 | -- | 1,141.5 |
| Guaranteed Investment Contracts | -- | 98.5 | -- | -- | 98.5 |
| Total | \$ 388.1 | \$ 478.2 | \$ 925.1 | \$ 432.9 | \$ 2,224.3 |

External Investment Pool

Investments of the Retiree Life Insurance Fund and the Local Retiree Life Insurance Fund (reported as pension and other employee benefit trust funds) are held in an external investment pool with the investment objective of maintaining levels in its general account sufficient to guarantee principal amounts of reserves. The interest rate exposure of this pool expressed in terms of duration and the weighted average life is 5.4 and 7.4 years, respectively.

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

As of May 31, 2013, the Badger Tobacco Asset Securitization Corporation's investments were as follows (in millions):

| Investment | Fair Value | Weighted Average Maturity (Years) |
|-------------------------------------|---------------|-----------------------------------|
| Dreyfus Cash Mgmt 288 Inst'l | \$ 8.1 | 0.09 |
| Total Fair Value | <u>\$ 8.1</u> | |
| Portfolio weighted average maturity | | 0.09 |

As of June 30, 2013, the Various Funds had interest rate risk statistics as detailed below (in millions):

| Investment Type | Various Funds Duration or WAM (in years) for Fixed Income Securities | | | | | | | |
|-----------------|---|-------|-----------------|----------|--------------------|----------|---------------|----------|
| | SLF | | IPFCF | | Historical Society | | Tuition Trust | |
| | Fair Value | WAM | Fair Value | Duration | Fair Value | Duration | Fair Value | Duration |
| Govt/Agency | \$ 41.3 | 13.98 | \$ 316.2 | 5.35 | \$ -- | -- | \$ 4.6 | 3.03 |
| Corporate | 65.2 | 16.69 | 470.7 | 6.21 | -- | -- | 0.6 | 3.43 |
| Bond Fund | -- | -- | -- | -- | 2.9 | 5.37 | -- | -- |
| Total/Wtd Ave | <u>\$ 106.5</u> | 15.64 | <u>\$ 786.9</u> | 5.86 | <u>\$ 2.9</u> | 5.37 | <u>\$ 5.3</u> | 3.08 |

University of Wisconsin System (UWS)

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

As of June 30, 2013, the UWS had interest rate risk statistics as detailed below (in millions):

| UWS | | |
|-------------------------------------|----------------|-------------------|
| Fixed Income Sector | Fair Value | Modified Duration |
| Corporates and Other Credit | \$ 20.5 | 3.29 |
| Government | 5.5 | 6.58 |
| Collateralized Mortgage | | |
| Obligations: U. S. Agencies | 11.5 | 2.60 |
| U.S. Private Placements | 4.7 | 2.14 |
| Asset Backed Securities | 0.1 | 0.08 |
| Collateralized Mortgage | | |
| Obligations: Corporate | 0.9 | 2.26 |
| U.S. Agencies | 0.4 | 1.51 |
| Commercial Mortgage Backed | | |
| Securities | 3.1 | 9.02 |
| Treasury Inflation Protected | | |
| Securities | 16.3 | 8.55 |
| U.S. Government Mortgages | 1.2 | 6.16 |
| Total | <u>\$ 64.0</u> | |
| Fixed Income Commingled Fund | | |
| Seix Advisors High Yield Fund | <u>\$ 30.9</u> | 4.83 |

Wisconsin Retirement System (WRS)

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

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

Aggregated interest rate risk exposure as of June 30, 2013, 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):

| Investment Type | WRS | |
|--|-------------------|---------------------------|
| | Fair Value | Modified Duration (Years) |
| Asset Backed Securities | \$ 30.8 | 3.40 |
| Commercial Paper | 292.4 | 0.17 |
| Corporate Bonds & Private Placements | 4,786.7 | 5.26 |
| Corporate Bonds & Private Placements Foreign | 3.2 | Not Available |
| Government/Agency Bonds | 3,716.3 | 7.15 |
| Futures Contracts* | 2,221.0 | 5.01 |
| Municipal Bonds | 101.1 | 10.62 |
| U.S. Government Agencies | 643.1 | 2.00 |
| U.S. Treasury Inflation Protected Securities | 5,988.3 | 7.81 |
| U.S. Treasury Securities | 3,144.0 | 5.47 |
| Commingled Funds: | | |
| Emerging Market Fixed Income | 337.2 | 7.29 |
| Global Fixed Income | 438.2 | 4.85 |
| Domestic Fixed Income | 6,530.4 | 5.53 |
| Subtotal | <u>\$28,232.7</u> | |

| Investment Type | Fair Value | Weighted Average |
|----------------------------|-------------------|------------------|
| | | Maturity (days) |
| Repurchase Agreements | \$ 1,867.6 | 1 |
| Commingled Funds: | | |
| Short Term Cash Management | 0.1 | 1 |
| Subtotal | <u>\$ 1,867.7</u> | |
| Total | <u>\$30,100.4</u> | |

*Notional amount presented for fair value

Credit Quality Risk

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

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

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

As of June 30, 2013, the above mentioned investments for the primary government including the Various Funds were rated by Standard and Poor's, Moody's Investors Service, and Fitch Ratings and the ratings are presented below using the Standard and Poor's rating scale (in millions):

| Primary Government (excluding the Various Funds, UWS, WRS and SIF) | |
|---|-------------------|
| Credit Quality Ratings | Fair Value |
| AAA | \$ 19.2 |
| AA | 648.7 |
| A | 16.3 |
| BBB | .4 |
| C | .2 |
| Not Rated | 1,938.8 |
| Total | <u>\$ 2,623.7</u> |

The Various Funds' (except for the Tuition Trust Fund) investment guidelines generally require that issues be rated "A-" or better at the time of purchase based on the minimum credit ratings as issued by Nationally Recognized Statistical Rating Organizations (NRSROs). IPFCF guidelines provide that, at the time of purchase, at least 80 percent of the bond portfolio must be rated "A3/A-" or better, using the lower of split ratings. The Tuition Trust Fund guidelines do not specifically list a minimum credit quality.

The following schedule displays the credit ratings at June 30, 2013, for the Various Funds (in millions):

| | Various Funds | | | |
|-----------|---------------|------------|--------------------|---------------|
| | SLF | IPFCF | Historical Society | Tuition Trust |
| | Fair Value | Fair Value | Fair Value | Fair Value |
| AAA | \$ 1.1 | \$ 15.8 | \$ -- | \$ -- |
| AA | 43.7 | 345.3 | -- | 4.6 |
| A | 38.8 | 277.9 | -- | .3 |
| BBB | 21.9 | 132.4 | -- | .4 |
| BB | 1.0 | 15.5 | -- | -- |
| B | -- | -- | -- | -- |
| CCC | -- | -- | -- | -- |
| D | -- | -- | -- | -- |
| Not Rated | -- | -- | -- | -- |
| Bond Fund | -- | -- | 2.9 | -- |
| Totals | \$ 106.5 | \$ 786.9 | \$ 2.9 | \$ 5.3 |

University of Wisconsin System (UWS)

For the Long Term Fund, fund-level asset allocation constraints limit exposure to below investment grade debt securities to no more than 20.0 percent; for the Intermediate Term Fund, exposure is limited to 15.0 percent. The UWS currently holds below investment grade securities within commingled vehicles representing 7.2 percent of total assets of the Long Term Fund and 6.4 percent of total assets of the Intermediate Term Fund. In addition, actively-managed, investment grade fixed income separate accounts must maintain an average portfolio quality of AA by Standard & Poor's and/or Aa by Moody's, and hold only securities rated BBB- or higher by Standard & Poor's and/or Baa3 or higher by Moody's.

The following schedule displays the credit ratings as provided by Moody's Investor Service for debt securities held as of June 30, 2013 (in millions). Obligations of the United States and obligations explicitly guaranteed by the U.S. government have been included in the Aaa rating below.

| UWS | |
|---------------------|------------|
| Ratings | Fair Value |
| Aaa | \$ 49.1 |
| Aa1 | 0.0 |
| Aa2 | 0.5 |
| Aa3 | 0.5 |
| A1 | 3.3 |
| A2 | 4.2 |
| A3 | 3.8 |
| Baa1 | 5.5 |
| Baa2 | 4.6 |
| Baa3 | 3.1 |
| Ba2 | 11.7 |
| B2 | 15.7 |
| Caa2 | 0.5 |
| No Rating | 4.9 |
| Unrated Pooled Cash | 25.0 |
| Total | \$ 132.3 |

Wisconsin Retirement System (WRS)

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

The following schedule displays the lowest credit rating assigned by nationally recognized statistical rating organizations on debt securities held as of June 30, 2013 (in millions). Obligations of the United States Treasury (UST) and obligations explicitly guaranteed by the U.S. government (AGY) historically were not considered to have credit risk. However, following federal legislation which raised the statutory U.S. debt ceiling in August 2011, the three major U.S. rating agencies issued divergent perspectives regarding sovereign U.S. debt rating assignments. The holdings of UST and AGY are included within the "AA" category below.

| Rating | WRS | Fair Value |
|-------------------------------|-----|--------------------|
| P-1 or A-1 | | \$ 302.2 |
| AAA/Aaa | | 569.0 |
| AA/Aa | | 10,899.4 |
| A | | 2,561.0 |
| BBB/Baa | | 2,501.7 |
| BB/Ba | | 497.4 |
| B | | 525.2 |
| CCC/Caa | | 156.1 |
| CC/Ca | | 7.5 |
| C | | 2.4 |
| D | | 1.7 |
| Commingled Fixed Income Funds | | 7,305.9 |
| Not rated | | 2,550.0 |
| Total | | <u>\$ 27,879.4</u> |

Reverse Repurchase Agreements

SWIB held \$968.2 million in reverse repurchase agreements at June 30, 2013. Investment guidelines permit certain portfolios to enter into reverse repurchase agreements, which are a sale of securities with a simultaneous agreement to repurchase the securities in the future at the same price plus a stated rate of interest. The market value of the securities underlying reverse repurchase agreements exceeds the cash received, providing the dealers a margin against a decline in market value of the securities. If the counterparty defaults on their obligations to 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 June 30, 2013 was \$11.0 million.

The cash proceeds from reverse repurchase agreements are reinvested by the Board. The maturities of the purchases made with the proceeds of reverse repurchase agreements are not necessarily matched to the maturities of the agreements. The agreed-upon yields earned by the counterparty were between 0.20 percent and 0.30 percent. The reverse repurchase agreements had open maturities, whereby a maturity date is not established upon entering into the agreement. The agreements can be terminated at the will of either SWIB or the counterparty and may remain open for several months.

Concentration of Credit Risk

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

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

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

The primary government's, except for the Various Funds, largest concentration by a single issuer is the State of Wisconsin Global Certificates with approximately 3.2 percent and State of Wisconsin general obligation bonds with approximately 4.9 percent of investments.

With the exception of the Tuition Trust Fund, the Various Funds' investment guidelines limit concentrations of credit risk by establishing maximum issuer and/or sector exposure limits. Generally, the guidelines 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. None of 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, 2013, none of the Various Funds had more than 5 percent of their total investments in a single issuer.

University of Wisconsin System (UWS)

Actively-managed, fixed income separate accounts are limited to holding no more than 7.0 percent in any one issuer (U.S. Government/Agencies are exempted). During fiscal year 2013, the largest concentration in a non-U.S. Government/Agency was Morgan Stanley, which represented 0.7 percent of total Trust Funds assets.

Wisconsin Retirement System (WRS)

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

Foreign Currency Risk

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

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

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

At June 30, 2013, the primary government, except for the Various Funds, did not own any issues denominated in a foreign currency.

The Various Fund's investment guidelines do not specifically address foreign currency risk with the exception that the SLF only allows investments in U.S. dollar denominated instruments. As of June 30, 2013, the Various Funds did not directly own any issues denominated in a foreign currency.

University of Wisconsin System (UWS)

As of June 30, 2013, the Long Term and Intermediate Term Funds held equity securities denominated in foreign currencies within pooled investment vehicles only, with market values totaling \$108.8 million and \$8.4 million, respectively, compared to prior fiscal year amounts of \$100.5 million and \$7.3 million, respectively. Some of the trades for such foreign positions will not settle in foreign currencies until after the fiscal year end. For

the Long Term and Intermediate Term Funds, it is generally expected and desired that foreign currency exposure is not hedged, as this enhances the diversification benefits from non-U.S. investments.

Wisconsin Retirement System (WRS)

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

As of June 30, 2013, the WRS had the following currency exposure (all assets stated in millions of United States Dollars):

| Currency Exposure by Investment Type | | | | | | | | | | | | |
|---|---------------------------|-----------------|-----------------|----------------------|----------------|--------------|----------------------|------------------------|---------------|------------------|-----------------------|-----------------|
| Currency | Cash and Cash Equivalents | Stocks | Fixed Income | Limited Partnerships | Multi-Asset | Real Estate | Preferred Securities | Convertible Securities | Options | Futures Contract | Short Sell Obligation | Total |
| Australian Dollar | 2.2 | 934.3 | 69.8 | -- | -- | -- | -- | -- | (0.1) | (0.1) | -- | 1,006.1 |
| Brazilian Real | 0.7 | 84.5 | 27.7 | -- | -- | -- | 63.9 | -- | -- | -- | -- | 176.8 |
| British Pound Sterling | 7.8 | 3,501.9 | 286.1 | 105.2 | -- | -- | -- | -- | -- | (2.6) | -- | 3,898.4 |
| Canadian Dollar | 11.2 | 1,216.9 | 51.2 | 11.1 | -- | -- | -- | -- | -- | (0.6) | (4.7) | 1,285.2 |
| Chilean Peso | -- | -- | 0.7 | -- | -- | -- | -- | -- | -- | -- | -- | 0.7 |
| Columbian Peso | -- | -- | 2.4 | -- | -- | -- | -- | -- | -- | -- | -- | 2.4 |
| Czech Koruna | 0.9 | 2.4 | -- | -- | -- | -- | -- | -- | -- | -- | -- | 3.4 |
| Danish Krone | -- | 132.9 | 25.3 | -- | -- | -- | -- | -- | -- | -- | -- | 158.2 |
| Euro Currency Unit | 61.0 | 3,969.0 | 1,491.8 | 829.4 | -- | -- | 68.2 | 0.5 | -- | (0.7) | (3.1) | 6,416.0 |
| Hong Kong Dollar | 3.2 | 624.9 | -- | -- | -- | -- | -- | -- | -- | -- | -- | 628.1 |
| Hungarian Forint | -- | 0.1 | 7.7 | -- | -- | -- | -- | -- | -- | -- | -- | 7.8 |
| Indian Rupee | 0.2 | 56.0 | -- | -- | -- | -- | -- | -- | -- | -- | -- | 56.2 |
| Indonesian Rupiah | 0.1 | 10.5 | -- | -- | -- | -- | -- | -- | -- | -- | -- | 10.6 |
| Israeli New Shekel | 0.5 | 37.3 | -- | -- | -- | -- | -- | -- | -- | -- | -- | 37.8 |
| Japanese Yen | 18.8 | 3,304.5 | 1,122.1 | -- | -- | -- | -- | -- | -- | 2.4 | (20.5) | 4,427.4 |
| Malaysian Ringgit | 1.4 | 46.7 | 39.9 | -- | -- | -- | -- | -- | -- | -- | -- | 88.0 |
| Mexican New Peso | 1.5 | 40.9 | 85.8 | -- | -- | -- | -- | -- | -- | -- | -- | 128.1 |
| Moroccan Dirham | -- | 0.1 | -- | -- | -- | -- | -- | -- | -- | -- | -- | 0.1 |
| New Taiwan Dollar | -- | 190.2 | -- | -- | -- | -- | -- | -- | -- | -- | -- | 190.2 |
| New Zealand Dollar | 0.1 | 9.7 | 5.7 | -- | -- | -- | -- | -- | -- | -- | -- | 15.5 |
| Norwegian Krone | 1.7 | 108.9 | 9.0 | -- | -- | -- | -- | -- | -- | -- | -- | 119.6 |
| Peruvian Nuevo Sol | 0.1 | 0.1 | 3.0 | -- | -- | -- | -- | -- | -- | -- | -- | 3.2 |
| Philippines Peso | -- | 4.8 | 5.4 | -- | -- | -- | -- | -- | -- | -- | -- | 10.2 |
| Polish Zloty | 1.3 | 32.8 | 34.2 | -- | -- | -- | -- | -- | -- | -- | -- | 68.2 |
| Russian Ruble | 0.1 | -- | 6.7 | -- | -- | -- | -- | -- | -- | -- | -- | 6.8 |
| Singapore Dollar | 0.6 | 179.1 | -- | -- | -- | -- | -- | -- | -- | -- | (5.7) | 174.0 |
| South African Rand | 0.9 | 41.6 | 28.7 | -- | -- | -- | -- | -- | -- | -- | -- | 71.2 |
| South Korean Won | 0.2 | 278.5 | 8.3 | -- | -- | -- | -- | -- | -- | -- | -- | 287.0 |
| Swedish Krona | 4.8 | 320.5 | 16.1 | 14.5 | -- | -- | -- | -- | -- | -- | -- | 355.8 |
| Swiss Franc | 7.4 | 1,373.5 | -- | -- | -- | -- | -- | -- | -- | -- | (4.9) | 1,376.0 |
| Thailand Baht | 1.6 | 105.0 | -- | -- | -- | -- | -- | -- | -- | -- | -- | 106.6 |
| Turkish Lira | -- | 86.0 | 5.1 | -- | -- | -- | -- | -- | -- | -- | -- | 91.2 |
| United States Dollar | 1,126.9 | 27,614.8 | 22,011.5 | 9,043.0 | 3,300.8 | 756.6 | 22.7 | 51.8 | (34.7) | (36.3) | (60.8) | 63,796.3 |
| Uruguayan Peso | -- | -- | 6.6 | -- | -- | -- | -- | -- | -- | -- | -- | 6.6 |
| Total Investments by Currency Exposure | 1,255.4 | 44,308.4 | 25,350.6 | 10,003.2 | 3,300.8 | 756.6 | 154.8 | 52.2 | (34.9) | (37.8) | (99.6) | 85,009.8 |

Securities Lending Transactions

Wisconsin Retirement System (WRS)

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

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

In accordance with money market mutual fund industry standards, the cash collateral reinvestment pools are valued at amortized cost. The amortized or book value of a fund's assets and underlying fair market value of the assets may differ based on market conditions. The pools' market value relative to its amortized cost is expressed as net asset value (NAV) and is derived by dividing total market value by amortized cost. As of June 30, 2013, the U.S. dollar cash collateral reinvestment pool's NAV was 0.9995 while the Euro reinvestment pool had a NAV of 1.0000.

At fiscal year-end, minimal credit risk exposure to borrowers existed because the amounts owed the borrowers exceeded the amounts the borrowers owed. The contract with the lending agent requires it to indemnify the WRS if the borrowers fail to return the loaned securities and the collateral is inadequate to

replace the securities lent. Losses resulting from violations of investment guidelines are also indemnified.

The majority of security loans are open-ended and can be terminated on demand. The risk that SWIB would be unable to return collateral to securities borrowers upon termination of the loan is low because the majority of investments made with cash collateral mature in one to two business days. At June 30, 2013, the average maturities of the loans and the assets of the collateral reinvestment pools did not materially differ.

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

Derivative Financial Instruments

Various Funds

Interest Only Strips — Interest only strips are securities that derive cash flow from the payment of interest on underlying debt securities. The Tuition Trust Fund held several interest only strips for yield enhancing purposes. Because the underlying securities are United States Treasury obligations, the credit risk is low. On the other hand, interest only strips may be more sensitive to interest rate fluctuations, which results in greater price volatility, and thus the market risk is higher than for traditional United States Treasury obligations.

As of June 30, 2013 the Tuition Trust Fund held interest only strips valued at \$4.6 million, representing approximately 69.7 percent of portfolio investments.

Wisconsin Retirement System (WRS)

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

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

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.

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

Certain investments and cash deposits were posted as collateral for exchange-traded derivatives positions. At June 30, 2013, the Core and Variable Funds posted \$189.2 million in cash and \$65.8 million in equity securities as collateral with exchange clearing brokers.

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 Other Receivables 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.

The aggregate fair value of receivables relating to OTC foreign currency spot and forward contracts at June 30, 2013 was \$3.5 billion. This represents the maximum loss that would be recognized at the reporting date if all seventeen counterparties failed to perform as contracted. This maximum exposure is reduced to \$116.4 million when counterparty collateral and master netting arrangements are taken into account.

During the fiscal year currency exposure management involved the use of foreign currency spot and forward contracts. The following table presents the fair value of foreign currency spot and forward contract assets and liabilities held as of June 30, 2013 (in millions).

| Foreign Currency Spot and Forward Contracts | | | |
|--|--|------------------------------|--|
| Currency | Notional (local currency) | Fair Value (\$US) | Unrealized Gain/(Loss) (\$US) |
| Foreign Currency Contract Receivables | | | |
| AUSTRALIAN DOLLAR | 262.5 | \$ 239.5 | \$ (6.9) |
| BRAZIL REAL | 55.8 | 24.9 | (1.7) |
| BRITISH POUND STER. | 111.8 | 169.5 | (0.4) |
| CANADIAN DOLLAR | 335.4 | 317.6 | (3.7) |
| CHILEAN PESO | 6,709.2 | 13.1 | (0.5) |
| COLUMBIAN PESO | 3,782.7 | 2.0 | -- |
| DANISH KRONE | 157.8 | 27.5 | -- |
| EURO CURRENCY UNIT | 272.3 | 354.0 | (0.7) |
| HONG KONG DOLLAR | 563.1 | 72.6 | -- |
| INDIAN RUPEE | 1,649.9 | 27.3 | (0.8) |
| ISRAELI NEW SHEKEL | 30.8 | 8.5 | -- |
| JAPANESE YEN | 27,148.3 | 273.3 | 0.4 |
| MEXICAN NEW PESO | 2,509.6 | 192.0 | (1.2) |
| NEW ZEALAND DOLLAR | 4.0 | 3.1 | -- |
| NIGERIAN NAIRA | 135.5 | 0.8 | -- |
| NORWEGIAN KRONE | 71.7 | 11.7 | (0.4) |
| PERUVIAN NUEVO SOL | 3.7 | 1.3 | -- |
| POLISH ZLOTY | 44.0 | 13.2 | (0.5) |
| RUSSIAN RUBLE | 416.9 | 12.6 | (0.4) |
| SINGAPORE DOLLAR | 66.4 | 52.4 | -- |
| SOUTH AFRICAN RAND | 161.5 | 16.2 | (1.3) |
| SWEDISH KRONA | 594.8 | 88.1 | (0.4) |
| SWISS FRANC | 68.0 | 71.9 | (0.5) |
| UNITED STATES DOLLAR | 1,525.8 | 1,525.8 | -- |
| | | <u>\$ 3,518.8</u> | <u>\$ (19.0)</u> |
| Foreign Currency Contract Payables | | | |
| AUSTRALIAN DOLLAR | (55.0) | \$ (50.2) | \$ 4.6 |
| BRAZIL REAL | (59.9) | (26.8) | 1.7 |
| BRITISH POUND STER. | (277.8) | (421.2) | 7.8 |
| CANADIAN DOLLAR | (198.5) | (188.0) | 4.6 |
| CHILEAN PESO | (2,176.4) | (4.3) | 0.2 |
| COLUMBIAN PESO | (5,844.6) | (3.0) | -- |
| DANISH KRONE | (97.2) | (16.9) | -- |
| EURO CURRENCY UNIT | (302.0) | (392.6) | 2.7 |
| HONG KONG DOLLAR | (478.9) | (61.8) | -- |
| INDIAN RUPEE | (477.4) | (7.9) | -- |
| ISRAELI NEW SHEKEL | (94.0) | (25.8) | -- |
| JAPANESE YEN | (36,362.6) | (366.1) | 2.1 |
| MALAYSIAN RINGGIT | (48.0) | (15.1) | 0.2 |
| MEXICAN NEW PESO | (204.6) | (15.7) | 0.5 |
| NEW ZEALAND DOLLAR | (7.5) | (5.7) | 0.1 |
| NIGERIAN NAIRA | (135.5) | (0.8) | -- |
| NORWEGIAN KRONE | (27.7) | (4.5) | -- |
| PERUVIAN NUEVO SOL | (12.4) | (4.4) | 0.2 |
| POLISH ZLOTY | (32.5) | (9.7) | 0.1 |
| RUSSIAN RUBLE | (428.1) | (12.9) | 0.4 |
| SINGAPORE DOLLAR | (10.9) | (8.6) | -- |
| SOUTH AFRICAN RAND | (182.7) | (18.3) | 0.9 |
| SOUTH KOREAN WON | (9,051.0) | (7.9) | 0.4 |
| SWEDISH KRONA | (47.3) | (7.0) | -- |
| SWISS FRANC | (98.0) | (103.6) | 1.3 |
| TAIWAN NEW DOLLAR | (1.7) | (0.1) | -- |
| THAILAND BAHT | (38.4) | (1.2) | -- |
| UNITED STATES DOLLAR | (1,724.6) | (1,724.6) | -- |
| | | <u>\$ (3,504.8)</u> | <u>\$ 27.9</u> |
| Total | | <u>\$ 14.0</u> | <u>\$ 8.9</u> |

The table below summarizes, by credit rating, the retirement fund's exposure to OTC derivative instruments' counterparty credit risk as of June 30, 2013 (in millions), without respect to any collateral or netting arrangement.

| OTC Derivative Investments Subject to Counterparty Credit Risk | | | |
|--|--------------------|------------------|---------------|
| Counterparty Credit Rating | Payable | Receivable | Fair Value |
| AA | \$ (611.1) | \$ 619.1 | \$8.1 |
| A | (2,893.7) | 2,899.7 | 6.0 |
| Total | \$(3,504.8) | \$3,518.8 | \$14.0 |

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 Financial Futures Contracts 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.

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.

The following table presents the investments in futures contracts as of June 30, 2013 (in millions).

| Futures Contracts | | | |
|----------------------|-----------------|-------------------|---|
| Description | Expiration | Notional Amount | Unrealized Appreciation (Depreciation)* |
| Fixed Income Futures | Sept 2013 | \$ 2,221.0 | \$ (26.2) |
| Equity Index Futures | Jul 13 – Nov 13 | 1,140.8 | (12.7) |
| Commodity Futures | Aug 13 – Oct 13 | (13.7) | 1.1 |
| TOTAL | | \$ 3,348.1 | \$ (37.8) |

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

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

Rebalancing policies and portfolio investment guidelines permit the use of exchange-traded and over-the-counter options. Options may be used to improve 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 June 30, 2013 (in millions):

| Option Contracts | | | | | |
|-------------------------------|---------------|-----------------|-------------------|------------------------|-----------------|
| Security Description | Contract Type | Expiration | Notional | Unrealized Gain (Loss) | Fair Value |
| Options Purchased | | | | | |
| Exchange-Traded | | | | | |
| Equity | Call | Jul 13 - Sep 13 | \$ 138.7 | \$ (0.3) | \$ 0.2 |
| | | | 138.7 | (0.3) | 0.2 |
| Options Sold | | | | | |
| Exchange-Traded | | | | | |
| Equity | Call | Jul 13 - Aug 13 | (29.8) | (0.2) | (0.6) |
| Equity | Put | Jul 13 - Jan 14 | (550.6) | (2.2) | (34.3) |
| Fixed Income | Put | Jul 13 | (25.3) | 0.0 | (0.1) |
| Commodity | Put | Jul 13 - Sep 13 | (2.3) | (0.0) | (0.1) |
| Over-the-Counter | | | | | |
| Equity | Call | Jul 13 | (1.0) | 0.0 | (0.0) |
| Equity | Put | Jul 13 | (2.3) | (0.1) | (0.1) |
| | | | (611.2) | (2.4) | (35.0) |
| Total Option Contracts | | | \$ (472.5) | \$ (2.7) | \$(34.9) |

Multi Asset

Wisconsin Retirement System (WRS)

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

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

The Retirement Funds invest in a diversified set of hedge fund strategies, invested across multiple asset classes. In general, a hedge fund is a private investment fund that seeks to produce absolute returns using a broad range of strategies with low to moderate levels of volatility, typically employing both long and short positions. An allocation to a diversified hedge fund portfolio is intended to have low correlation to traditional publicly traded equities and contribute to overall total fund diversification.

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

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

Unfunded Capital Commitments

University of Wisconsin System (UWS)

The UWS has unfunded limited partnership commitments of \$19.9 million for the fiscal year ending June 30, 2013, relative to \$24.4 million for the fiscal year ending June 30, 2012.

Wisconsin Retirement System (WRS)

The Board has committed to fund various limited partnerships and side-by-side agreements related to its private equity and real estate holdings. Commitments that have not been funded total \$4.9 billion as of June 30, 2013.

2. Component Units

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

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

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

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

The Authority's aggregate investments at June 30, 2013 were \$685.1 million of which \$445.4 million are reported as cash equivalents.

University of Wisconsin Hospitals and Clinics Authority – The University of Wisconsin Hospitals and Clinics Authority's (the Hospital) aggregate investments at June 30, 2013 were \$872.6 million of which \$279.9 million (invested with the University of Wisconsin Foundation, see investment disclosure discussion for the University Wisconsin Foundation) are reported as "Cash and Investments with Other Component Units." The board of directors has authorized management to invest in debt and equity securities.

Custodial Credit Risk

The component units do not have a formal policy for custodial credit risk. At fiscal year end, the reported amount of investments was \$ 1,342.8 million, of which \$510.4 million are reported as cash and cash equivalents.

Interest Rate Risk

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

obligations. No investment will mature after the final bond maturity of the issue.

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

| Investment Type | Investment Maturities | | | | Fair Value |
|--|-----------------------|-----------------|-----------------|--------------------|-------------------|
| | Less Than 1 Year | 1 to 5 Years | 6 to 10 years | More Than 10 Years | |
| U.S. Government and U.S. agency holdings | \$ 28.7 | \$ 46.8 | \$ 98.6 | \$.6 | \$ 174.7 |
| State and municipal bonds and notes | 10.8 | 31.1 | 11.1 | -- | 53.0 |
| Commercial Paper | 146.8 | -- | -- | -- | 146.8 |
| Corporate notes and bonds | 98.2 | 105.8 | 35.6 | -- | 239.6 |
| Money market funds | 445.4 | -- | -- | -- | 445.4 |
| Mortgage-backed securities | -- | -- | 3.7 | 98.3 | 102.0 |
| Collateralized investment contracts | 7.6 | .6 | -- | 1.2 | 9.4 |
| Negotiable certificates of deposit | 2.9 | .5 | -- | -- | 3.4 |
| Corporate Equity Securities | -- | 1.0 | -- | -- | 1.0 |
| Total | \$ 740.4 | \$ 185.8 | \$ 149.0 | \$ 100.1 | \$ 1,175.3 |

Credit Quality Risk

The component units have established different investment policies for different investment types that generally include minimum rating requirements. For example, corporate bonds and notes are limited to U.S. domestic corporations having been rated not less than AA category or its equivalent as to investment quality by two or more nationally recognized investment rating firms. Further, money market mutual funds are limited to AAA rated funds and non-rated funds with portfolios restricted to only those investments specifically authorized by the investment policy. Money market mutual funds are regulated by the

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

| Investment Type | Fair Value | Credit Quality Ratings | | | | |
|-------------------------------------|------------|------------------------|-------|---------|---------|---------|
| | | AAA | AA | A | BBB | Unrated |
| State and municipal bonds and notes | \$ 53.0 | \$ -- | \$ -- | \$ 39.6 | \$ 10.4 | \$ 3.0 |
| Corporate notes and bonds | 239.6 | -- | 3.0 | 177.4 | 46.1 | 13.1 |
| Money market funds | 463.2 | 445.4 | -- | -- | -- | 17.8 |
| Mutual funds – open ended | 149.8 | -- | -- | -- | -- | 149.8 |
| Negotiable certificates of deposit | 3.4 | -- | -- | -- | -- | 3.4 |
| Mortgage-backed securities | 102.0 | -- | -- | -- | -- | 102.0 |
| Collateralized investment contracts | 9.3 | -- | -- | 1.7 | 4.1 | 3.5 |
| Commercial paper | 146.8 | 65.0 | -- | -- | -- | 81.8 |
| Other (Corporate Equity Securities) | 1.0 | -- | -- | -- | -- | 1.0 |

Concentration of Credit Risk

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

Foreign Currency Risk

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

Securities Lending

The Wisconsin Housing and Economic Development Authority's (Authority) Finance committee approved the use of a security lending program with the trust department of a bank acting as an agent. As of June 30, 2013 the Authority had \$5.0 million of securities on loan to broker-dealers for a fee.

Security lending transactions involve the lending of securities to broker-dealers and other financial institutions for collateral, in the form of cash or securities, with the simultaneous agreement to return the collateral for the same securities in the future. The securities custodian is an agent in lending the domestic and international securities for collateral of 102 percent and 105 percent, respectively, of the loaned securities' market value. The lending agent in accordance with contractual investment guidelines, which are designed to insure the safety of principal and obtain a moderate rate of return, reinvests the collateral. The investment guidelines include very high credit quality standards and also allow for a portion of the collateral investments to be invested with short-term securities. The Authority has the following types of securities on loan: U.S. agency securities, U.S. government securities and corporate notes. The Authority receives cash collateral for securities lent. The fair value of the investment securities loaned was \$5.1 million as of June 30, 2013, and the fair market value of all investments made with the cash collateral received for those securities lent was \$3.4 million. The Authority may request the bank to terminate any loan of securities for any reason at any time.

As of June 30, 2013, no credit risk exposure to borrowers existed because the amounts owed the borrowers exceeded the amounts the borrowers owed. The contract with the lending agent states that in the event that a borrower fails to return the lent security, the bank will indemnify the Authority for the following amounts: a) The difference between the closing market value of security on the date it should have been returned to the account and the cash collateral substituted for the lent securities, or b) in the case of collateral received in kind, the difference between the closing market value of the security on the date it should have been returned to the account and the closing market value of the collateral in kind on the same date.

The Authority assumes all risk of loss arising out of collateral investment loss and any resulting collateral deficiencies. The bank expressly assumes the risk of loss arising from negligent or fraudulent operations of its security lending program. The bank operates the security lending program as a business trust investment pool with open and matched components. In the matched portion of the investment pool, the maturities of the securities lent and collateral are the same. The open portions of the pool maintain a weighted average maturity of the portfolio at approximately 15 days, with a range from one day to 25 days. The open portions of the pool generally have a 15-day mismatch between the portfolio coverage maturity and the open loans. As of June 30, 2013, 100 percent of the securities lent were in the open portion of the investment pool. No restrictions on the amount of the loans exist or can be made. The earnings generated from the security lending program are reported as other income. During the year ended June 30, 2013, the Authority incurred \$3 thousand of expense related to security lending transactions.

Other Component Units

Wisconsin Health Care Liability Insurance Plan (WHCLIP) – Aggregate investments of the WHCLIP were \$66.7 million, of which \$3.0 million are money market mutual funds and other highly liquid debt instruments reported as cash equivalents.

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

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

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

The investments of the WHCLIP at December 31, 2012 were \$63.7 million consisting of the following (in millions):

| Investment Type | Amortized Cost | Estimated Fair Value |
|---|----------------|----------------------|
| U.S. Treasury securities and obligations of the U.S. government corporations and agencies | \$ 9.8 | \$ 10.0 |
| States, territories, and possessions | 1.0 | 1.2 |
| Political subdivisions | .3 | .3 |
| Industrial and miscellaneous | 25.9 | 27.9 |
| Loan-backed securities | 26.7 | 27.0 |
| Total | \$ 63.7 | \$ 66.4 |

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

The amortized cost and estimated fair value of bonds at December 31, 2012, by contractual maturity are presented in the table below (in millions):

| | Amortized Cost | Estimated Fair Value |
|------------------------|----------------|----------------------|
| 1 to 5 Years | \$ 16.0 | \$ 16.9 |
| 6 to 10 Years | 10.6 | 11.6 |
| More Than 10 Years | 10.4 | 10.9 |
| | 37.0 | 39.4 |
| Loan-backed securities | 26.7 | 27.0 |
| Total | \$ 63.7 | \$ 66.4 |

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

| | |
|-----------------------------------|----------------|
| Pass-through securities: | |
| Issued by GNMA | \$ 2.6 |
| Issued by FNMA and FHLMC | 16.0 |
| CMOs and REMICs: | |
| Issued by GNMA, FNMA, FHLMC or VA | 2.8 |
| All Other | 5.3 |
| Total | \$ 26.7 |

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

As of December 31, 2012, the WHCLIP did not own any issues denominated in a foreign currency.

University of Wisconsin Foundation (the Foundation) - Aggregate investments of the Foundation are \$2,553.1 million.

The following table summarizes the types of investments of the Foundation at December 31, 2012 (in millions):

| Investment Type | Fair Value |
|-----------------------------|-------------------|
| Bond and debentures | \$ 397.0 |
| Stocks | 140.0 |
| Bond funds | 467.1 |
| Stock funds | 779.2 |
| Electronically traded funds | 85.0 |
| Hedge funds | 161.4 |
| Limited partnerships | 342.0 |
| Real asset funds | 178.5 |
| Other funds | 2.9 |
| Total | \$ 2,553.1 |

Custodial Credit Risk

At December 31, 2012, the reported amount of investments was \$2,553.1 million. The Foundation had no custodial credit risk exposure for these investments.

3. State Investment Fund

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

Wis. Stat. Secs. 25.17(3)(b), (ba), (bd) and (dg) enumerate the various types of securities in which the SIF can be invested, which include direct obligations of the United States or its agencies, corporations wholly owned by the United States or chartered by an act of Congress, securities guaranteed by the United States, 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. Other prudent investments may be approved by the State of Wisconsin Investment Board's (the Board) Board of Trustees.

Securities are valued at fair value for financial statement purposes and amortized cost for purposes of calculating income to participants. The custodial bank compiles fair value information for applicable securities by utilizing third party pricing services. The fair value of investments is determined at the end of each month. U.S. Government/Agency securities and Commercial Paper are priced using matrix pricing. This method estimates a security's fair value by using quoted market prices for securities with similar interest rates, maturities, and credit ratings. Short-term debt investments with remaining maturities of up to 90 days are valued using amortized costs to estimate fair value, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Bank Demand Deposits, Repurchase Agreements, non-negotiable Certificates of Deposit and Banker's Acceptances are valued at cost because they are nonparticipating contracts that do not capture interest rate changes in their value.

For purposes of calculating earnings to each participant, all investments are valued at amortized cost. Specifically, income is distributed to pool participants monthly, based on their average daily share balance. 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 differs from the fair value method used to value investments in the financial statements because the amortized cost method is not designed to distribute to participants unrealized gains and losses generated by the pool's investments. The total difference between the fair values of the investments in the pool and the values distributed to the pool participants using the amortized cost method described above is reported in the equity section of the Statement of Fiduciary Net Position.

Custodial Credit Risk

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

At June 30, 2013, the reported amount of investments was \$9,273.6 million. The SIF had no custodial credit risk exposure for these investments.

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, 2013, 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 | \$ 5,291.0 | 1 |
| Government & Agencies | 3,910.8 | 78 |
| Certificates of Deposit | 25.8 | 125 |
| Banker's Acceptances | 46.0 | 77 |
| Total Investments | \$ 9,273.6 | |
| Portfolio Weighted Average Maturity (Days) | | 34 |

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, 2013 (in millions):

| Investment Type | Ratings | Fair | |
|--|---------|-------------------|--------------|
| | | Value | Percent |
| Repurchase Agreements (Collateral): | | | |
| U.S. Government Debt | AA | 4,686.0 | 50.5 |
| Government Sponsored Entity U.S | | | |
| Agency | AA | 605.0 | 6.5 |
| U.S. Treasury: | | | |
| Short-Term (Bills) | A-1+ | 699.8 | 7.6 |
| Long-Term (Notes) | AA+ | 49.9 | 0.5 |
| Government Sponsored Entity U.S. | | | |
| Agency: | | | |
| Federal Home Loan Bank (FHLB) | A-1+ | 913.4 | 9.9 |
| Federal Home Loan Mortgage Corp (FHLMC) | A-1+ | 1,121.9 | 12.1 |
| Federal Home Loan Mortgage Corp (FHLMC) | AA+ | 25.0 | 0.3 |
| Federal National Mortgage Association (FNMA) | A-1+ | 1,050.8 | 11.3 |
| Federal National Mortgage Association (FNMA) | AA+ | 50.0 | 0.5 |
| Certificates of Deposit: | | | |
| Non-Negotiable (Wisconsin CD Program) | N/R | 25.8 | 0.3 |
| Banker's Acceptances | A-1+ | 46.0 | 0.5 |
| Total Investments | | <u>\$ 9,273.6</u> | <u>100.0</u> |

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment in a single issuer. The SIF's investment guidelines limit concentrations of credit risk by establishing maximum issuer and/or issue exposure limits based on credit rating. These guidelines do not place a limit on maximum exposure for any U.S. Treasury or Agency securities. As of June 30, 2013 the SIF has more than five percent of its investments in FHLB (9.9 percent), FHLMC (12.4 percent), FNMA (11.8 percent), and Repurchase Agreement collateral consisting of various securities issued by these same three U.S. Agencies (6.5 percent). Since the Repurchase Agreements mature each day, new collateral, consisting of a different blend of U.S. Treasury and Agency securities, is assigned each night.

Foreign Currency Risk

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

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

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

4. Lottery Investments and Related Future Prize Obligations

Investments of the State Lottery Fund totaling \$46.5 million are held to finance grand prizes payable over a 20-year or 25-year period. The investments in prize annuities are debt obligations of the U.S. government backed by its full faith and credit as to both principal and interest. Liabilities related to the future prize obligations are presented at their present value and included in Accounts Payable and Other Accrued Liabilities. The following is a schedule of future prize obligations (in thousands):

| <u>Fiscal Year</u> | <u>Amount</u> |
|--------------------------------|------------------|
| 2014 | \$ 6,305 |
| 2015 | 6,274 |
| 2016 | 6,149 |
| 2017 | 6,343 |
| 2018 | 5,608 |
| Thereafter | <u>20,824</u> |
| Total future value | 51,503 |
| Less: Present value adjustment | <u>(12,292)</u> |
| Present value of payments | <u>\$ 39,211</u> |

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

Receivables at June 30, 2013 were as follows (in thousands):

| | Loans to | | Other Loans Receivable | | | | Other | Due From Other Governments | Due From Component Units | Total Receivables |
|--|---------------------|----------------------|------------------------|-------------------|-------------------|------------------|-------------------|----------------------------------|--------------------------------|----------------------|
| | Taxes | Local Governments | Student Loans | Veterans Loans | Mortgage Loans | Other Loans | | | | |
| Governmental Activities: | | | | | | | | | | |
| General | \$ 1,250,359 | \$ - | \$ - | \$ - | \$ - | \$ 32,747 | \$ 492,776 | \$ 868,571 | \$ - | \$ 2,644,452 |
| Transportation | 93,160 | - | - | - | - | 14,084 | 9,240 | 290,844 | - | 407,328 |
| Capital Improvement | - | - | - | - | - | - | 33 | - | - | 33 |
| Nonmajor Governmental | 28,694 | 333,743 | - | - | - | - | 59,509 | 15,004 | - | 436,950 |
| Total Governmental: | 1,372,212 | 333,743 | - | - | - | 46,831 | 561,558 | 1,174,418 | - | 3,488,763 |
| Government-wide Adjustments: | | | | | | | | | | |
| Internal Service Funds | - | - | - | - | - | - | 1,864 | 564 | - | 2,428 |
| Accrual Adjustments | - | - | - | - | - | - | 3,272 | - | - | 3,272 |
| Fiduciary Receivables | - | - | - | - | - | - | 61,298 | - | - | 61,298 |
| Total – Governmental Activities | \$ 1,372,212 | \$ 333,743 | \$ 0 | \$ 0 | \$ 0 | \$ 46,831 | \$ 627,991 | \$ 1,174,982 | \$ - | \$ 3,555,760 |
| Related revenue deferral because the receivable does not meet the availability criteria | \$ 197,939 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 23,669 | \$ 0 | \$ 0 | 221,608 |
| Business-type Activities: | | | | | | | | | | |
| Current: | | | | | | | | | | |
| Injured Patients and Families Compensation | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 9,855 | \$ - | \$ - | \$ 9,855 |
| Environmental Improvement | - | 160,571 | - | - | - | - | 260 | 8,606 | - | 169,437 |
| University of Wisconsin System Unemployment Reserve | - | - | 30,931 | - | - | - | 159,960 | 98,693 | 4,890 | 294,474 |
| Nonmajor Enterprise | - | 447 | - | 1,256 | 3,006 | - | 333,179 | 13,126 | - | 346,305 |
| Total Current: | - | 161,017 | 30,931 | 1,256 | 3,006 | - | 82,706 | 9,378 | - | 96,793 |
| Noncurrent: | | | | | | | | | | |
| Environmental Improvement | - | 1,815,002 | - | - | - | - | - | - | - | 1,815,002 |
| University of Wisconsin System Unemployment Reserve | - | - | 164,159 | - | - | - | 3,389 | - | - | 167,548 |
| Nonmajor Enterprise | - | 1,281 | - | 3,815 | 87,131 | 3,573 | 67,566 | - | - | 95,810 |
| Total Noncurrent | - | 1,816,282 | 164,159 | 3,815 | 87,131 | 3,573 | 10 | - | - | 2,145,925 |
| Government-wide Adjustments: | | | | | | | | | | |
| Fiduciary Receivables | - | - | - | - | - | - | 2,073 | - | - | 2,073 |
| Total – Business-type Activities | \$ 0 | \$ 1,977,300 | \$ 195,090 | \$ 5,071 | \$ 90,136 | \$ 3,573 | \$ 659,000 | \$ 129,803 | \$ 4,890 | \$ 3,064,863 |

B. Net Revenues

Certain revenues of the University of Wisconsin System are reported net of scholarship allowances. For Fiscal Year 2013, these scholarship allowances totaled as follows (in thousands):

| | |
|---|-------------------|
| Student Tuition and Fees | \$ 203,227 |
| Sales and Services of Auxiliary Enterprises | 34,573 |
| Total | <u>\$ 237,800</u> |

NOTE 7. CAPITAL ASSETS**Primary Government**

Capital asset activity for the fiscal year ended June 30, 2013 was as follows (in thousands):

| Primary Government | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|--------------|----------------|-------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land and Land Improvements | \$ 2,339,618 | \$ 159,830 | \$ (47) | \$ 2,499,401 |
| Buildings and Improvements | 163,991 | 1,761 | - | 165,752 |
| Library Holdings | 73,437 | 850 | (1) | 74,286 |
| Construction and Software in Progress | 2,279,036 | 822,504 | (1,082,186) | 2,019,354 |
| Infrastructure | 12,931,158 | 1,039,050 | (110,604) | 13,859,604 |
| Total capital assets, not being depreciated | 17,787,240 | 2,023,995 | (1,192,839) | 18,618,397 |
| Capital assets, being depreciated: | | | | |
| Land Improvements | 144,337 | 4,971 | (135) | 149,174 |
| Buildings and Improvements | 2,012,590 | 69,041 | (189) | 2,081,441 |
| Equipment | 850,366 | 56,193 | (54,892) | 851,667 |
| Totals | 3,007,293 | 130,205 | (55,216) | 3,082,282 |
| Less accumulated depreciation for: | | | | |
| Land Improvements | 74,246 | 6,753 | (130) | 80,869 |
| Buildings and Improvements | 854,175 | 54,264 | (156) | 908,283 |
| Equipment | 524,887 | 65,251 | (50,020) | 540,118 |
| Totals | 1,453,308 | 126,269 | (50,307) | 1,529,270 |
| Total Capital Assets, being depreciated, net | 1,553,985 | 3,936 | (4,909) | 1,553,012 |
| Governmental activities capital assets, net | \$ 19,341,225 | \$ 2,027,931 | \$ (1,197,748) | \$ 20,171,409 |
| Business-type activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land and Land Improvements | \$ 158,032 | \$ 510 | \$ (1) | \$ 158,541 |
| Library Holdings | 1,113,413 | 25,928 | (15,714) | 1,123,627 |
| Construction and Software in Progress | 657,554 | 33,130 | (34,229) | 656,455 |
| Total Capital Assets, not being depreciated | 1,929,000 | 59,568 | (49,944) | 1,938,623 |
| Capital assets, being depreciated: | | | | |
| Land Improvements | 16,443 | 1,325 | (222) | 17,547 |
| Buildings | 5,989,801 | 448,924 | (1,344) | 6,437,381 |
| Equipment | 1,185,608 | 94,836 | (30,367) | 1,250,076 |
| Totals | 7,191,852 | 545,085 | (31,933) | 7,705,004 |
| Less accumulated depreciation for: | | | | |
| Land Improvements | 8,778 | 684 | (138) | 9,324 |
| Buildings | 2,482,020 | 183,919 | (2,090) | 2,663,849 |
| Equipment | 824,370 | 89,157 | (29,735) | 883,792 |
| Totals | 3,315,168 | 273,759 | (31,962) | 3,556,965 |
| Total Capital Assets, being depreciated, net | 3,876,684 | 271,326 | 29 | 4,148,039 |
| Business-type activities capital assets, net | \$ 5,805,683 | \$ 330,893 | \$ (49,915) | \$ 6,086,662 |

In addition to the capital assets reported by governmental and business-type activities, the fiduciary funds reported gross capital assets of \$5.8 million at June 30, 2013, with accumulated depreciation totaling \$3.1 million.

Depreciation Expense

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

| Governmental Activities | | Business-type Activities | |
|-------------------------------|------------|--|------------|
| Commerce | \$ 483 | University of Wisconsin System | \$ 258,484 |
| Education | 3,329 | Lottery | 2 |
| Transportation | 9,758 | Veterans Mortgage Loan Repayment | 10 |
| Environmental Resources | 11,983 | Injured Patients and Families Compensation | 43 |
| Human Relations and Resources | 71,076 | Environmental Improvement | 2 |
| General Executive | 8,294 | Other Business-Type | 15,219 |
| Judicial | 1,163 | Total depreciation expense - | |
| Internal Service Funds | 20,183 | business-type activities | \$ 273,759 |
| Total depreciation expense - | | | |
| governmental activities | \$ 126,269 | | |

Impaired or Obsolete Capital Assets

The Department of Transportation identified an impaired capital asset subsequent to the close of the fiscal year. In September 2013, the Leo Frigo Memorial Bridge on Interstate Highway 43 in Green Bay was closed when a 400-foot span of the bridge sank two feet. The bridge, constructed in 1980, has an estimated historical cost of \$43.5 million. Repairs will cost an estimated \$20.0 million and the bridge is expected to reopen in early 2014. The Federal Highway Administration will reimburse the State for an unknown portion of the repairs.

The Department of Administration identified an obsolete capital asset subsequent to the close of the fiscal year. In August 2013, the Department made the decision to purchase new software for the State Transforming Agency Resources project rather than incur the expense to upgrade existing software. As a result of that decision, the previously purchased software, with a net value of \$6.9 million, became obsolete.

Construction and Software in Progress

Construction and software in progress of the primary government reported in the government-wide statement of net position at June 30, 2013 included the following projects (in thousands):

| | Allotments | Expended to June 30, 2013 | Encumbrances Outstanding | Unencumbered Allotment Balance |
|---|------------|------------------------------|-----------------------------|--------------------------------------|
| Governmental Activities: | | | | |
| Reported through capital projects funds: | | | | |
| Interstate 94 North and South Corridor Reconstruction | \$ 68,953 | \$ 68,953 | \$ - | \$ - |
| Capital Heating Power Plant - Facility Renovate and Upgrade | 28,269 | 27,278 | 304 | 740 |
| Preservation Storage Building | 28,250 | 2,117 | 3,078 | 23,093 |
| High Speed Rail | 68,904 | 46,466 | - | 22,438 |
| Armed Forces Reserve Center | 41,061 | 32,959 | 112 | 8,020 |
| Major Highway Projects | 50,000 | 50,000 | - | - |
| State Highway Rehabilitation | 39,224 | 39,224 | - | - |
| Public Health and Ag Lab-Hygiene | 29,935 | 28,385 | 1,776 | 448 |
| General Land Acquisition | 19,888 | 16,399 | 178 | 3,311 |
| Wisconsin Resource Center - Female Treatment Center | 16,410 | 15,642 | 296 | 483 |
| Construction Field Main Shop Wausau | 14,059 | 1,089 | 164 | 12,807 |
| Medical College – MRI Scanner | 10,000 | 149 | - | 9,851 |
| Stillwater/St Croix Xing Bridge | 10,000 | 10,000 | - | - |
| Wisconsin Historical Society - Learning Visitor Center | 12,110 | 10,510 | 205 | 1,492 |
| Waupun Central Generating Plant | 15,597 | 279 | 872 | 14,454 |
| Zoo Interchange | 47,610 | 47,610 | - | - |
| BCPL Land Sale/Transfer to DNR | 14,000 | 10,533 | 375 | 3,092 |
| Other projects with allotments totaling less than \$10 million | | 68,036 | | |
| Subtotal | | 475,629 | | |
| Projects funded through sources other than capital projects funds: | | | | |
| Transportation-related | | 1,521,758 | | |
| Department of Natural Resources | | 9,519 | | |
| Department of Administration | | 6,789 | | |
| Department of Health Services | | 4,100 | | |
| Other agency projects | | 1,559 | | |
| Total construction and software in progress – governmental activities | | \$ 2,019,354 | | |
| Business-type Activities: | | | | |
| Reported through capital projects funds - University of Wisconsin System: | | | | |
| Charter Heating Plant Rebuild – Madison | 247,536 | 174,032 | 15,174 | 62,451 |
| Interdisciplinary Center - Madison | 318,731 | 79,238 | 44,048 | 201,702 |
| UW-Madison - Athlete Performance Center | 86,165 | 67,569 | 827 | 18,596 |
| West Campus Cogen Facility Addition & Chillers Install – Madison | 64,621 | 4,538 | 35,110 | 25,687 |
| Carson Gulley Renovation – Madison | 10,049 | 8,748 | 396 | 1,097 |
| Freshwater Science Addition – Milwaukee | 53,014 | 18,498 | 30,733 | 5,723 |
| Children Center Renovation - Milwaukee | 11,981 | 2,436 | 6,852 | 3,746 |
| School of Nursing – Madison | 52,862 | 25,682 | 18,212 | 11,852 |
| Kenwood IRC – Milwaukee | 49,920 | 16,577 | 29,981 | 5,664 |
| Memorial Theater Wing Renovation - Madison | 59,669 | 32,904 | 26,794 | 4,529 |
| Education Building - Eau Claire | 44,500 | 31,366 | 10,966 | 5,172 |
| Parking Ramp and Police Services Building - La Crosse | 13,838 | 10,529 | 1,264 | 2,801 |
| Lakeshore Residence Hall Phase 2 – Madison | 17,316 | 15,621 | 2,778 | (45) |
| Multi-Building Energy Construction – Madison | 17,031 | 16,479 | 941 | 99 |
| Multi-Building Energy Conserve - Madison | 16,324 | 13,553 | 2,253 | 1,195 |
| Multi-Building Energy Conservation - Madison | 12,032 | 1,484 | 9,529 | 1,093 |
| Ross & Hawkes Halls Renovation – Superior | 16,535 | 10,865 | 6,334 | 1,186 |
| Projects with allotments totaling less than \$10 million: | | | | |
| University of Wisconsin System | | 72,136 | | |
| Other | | 9,852 | | |
| Total Construction in Progress – business-type activities | | \$ 612,104 | | |

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 \$646.6 million and \$9.9 million as of June 30, 2013, respectively.

Component Units

Capital Assets balances of the Wisconsin Housing and Economic Development Authority at June 30, 2013, the University of Wisconsin Hospitals and Clinics Authority at June 30, 2013, the Wisconsin Economic Corporation at June 30, 2013 and the University of Wisconsin Foundation at December 31, 2012 were as follows (in thousands)

| | <u>Amount</u> |
|--|--------------------------|
| Capital Assets, not being depreciated: | |
| Land and Land Improvements | \$ 26,805 |
| Construction in Progress | <u>37,626</u> |
| Total Capital Assets, not being depreciated | <u>64,431</u> |
| Capital Assets, being depreciated: | |
| Buildings | 583,680 |
| Equipment | <u>331,287</u> |
| Totals | <u>914,968</u> |
| Less accumulated depreciation for: | |
| Buildings | 273,993 |
| Equipment | <u>224,932</u> |
| Totals | <u>498,925</u> |
| Total Capital Assets, being depreciated, net | <u>416,043</u> |
| Component Units Capital Assets, net | <u><u>\$ 480,474</u></u> |

NOTE 8. ENDOWMENTS

Primary Government

University of Wisconsin System

The University of Wisconsin System invests its trust funds, principally gifts and bequests designated as endowments or quasi-endowments, in two of its own investment pools: the Long Term Fund and the Intermediate Term Fund. Benefiting University of Wisconsin System entities receive quarterly distributions from the Long Term Fund, principally endowed assets, based on an annual spending rate applied to a 12-quarter moving average market value of the fund. The annual spending rate is currently 4.0 percent. Distributions from the Intermediate Term Fund, principally quasi-endowments and unspent income distributions, consist of interest earnings distributed quarterly. Spending rate and interest distributions from both of these funds are transferred to the State Investment Fund, pending near-term expenditures. At June 30, 2013, net appreciation of \$127.8 million was available to meet spending rate distributions, of which \$14.2 million was actually authorized for expenditure.

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

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

The fair value of Endowments as of June 30, 2013 was \$440.8 million including an unrealized gain of \$22.8 million when fair values as of June 30, 2013 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, 2013, 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 | \$ 204.5 |
| Realized Gains – Undistributed | 213.5 |
| Book Value | 418.0 |
| Unrealized Net Gains/Losses - Undistributed | 22.8 |
| Fair Value | <u>\$ 440.8</u> |

On June 30, 2013, the portfolio at market, for the Long Term Fund, contained 39.3 percent in common stock and convertible securities, 11.8 percent in bonds and preferred stock, 21.2 percent in alternative assets, 19.6 percent in tactical allocation strategies, 6.4 percent in short-term investments, and 1.7 percent in real assets. The total return on the principal Long Term Fund including capital appreciation was 10.9 percent.

On June 30, 2013, the portfolio at market, for the Intermediate Fund, contained 21.1 percent in common stock and convertible securities, 76.2 percent in bonds and preferred stock, and 2.7 percent in short-term investments. The total return on the principal Intermediate Fund including capital appreciation was 5.4 percent.

External investment counsel was furnished for funds representing 90.3 percent of market value principal.

Component Unit

University of Wisconsin Foundation

The University of Wisconsin Foundation's (the Foundation) endowment consists of 3,496 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions and on state law.

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

made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Endowment Net Asset Composition by Type of Fund as of December 31, 2012 (in millions):

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|------------------|--------------|------------------------|------------------------|-----------|
| Donor-restricted | \$(40.1) | \$267.0 | \$849.1 | \$1,075.9 |

Endowment Related Activities by Type of Fund for the year ended December 31, 2012 (in millions):

| | Un-restricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---------------|------------------------|------------------------|-----------|
| Beginning net assets | \$ (42.6) | \$190.5 | \$831.8 | \$979.7 |
| Investment gain | 2.4 | 120.1 | -- | 122.5 |
| Contributions | -- | -- | 24.3 | 24.3 |
| Appropriation of assets for expenditure | -- | (43.6) | -- | (43.6) |
| Transfers in for matching | -- | -- | 1.5 | 1.5 |
| Net transfers | -- | -- | (8.5) | (8.5) |
| Ending net assets | \$(40.1) | \$267.0 | \$849.1 | \$1,075.9 |

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$40.1 million as of December 31, 2012. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board of Directors.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce long-term results that exceed the price and yield results of a diversified global market benchmark while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return commensurate with spending, inflation, and expenses annually. Actual returns in any given year will vary.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places an emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 2.0 to 3.0 percent annually. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. Under the Foundation's spending policy effective July 1, 2010, the appropriation rate for distribution will be 4.5 percent of its endowment fund's average fair value over the most recent 16 quarters.

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NOTE 9. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances as of or for the year ended June 30, 2013 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, 2013 were as follows (in thousands):

| | | 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 |
| Due from Other Funds: | | | | | | | | | | | | | |
| General | \$ | - | \$ 25,032 | \$ 457 | \$ 66,386 | \$ 102 | \$ 238 | \$ 52,831 | \$ 3,200 | \$ 32,757 | \$ 8,220 | \$ 60,726 | \$ 249,949 |
| Transportation | | 156,392 | - | 49,573 | 29,146 | - | - | 352 | - | - | - | - | 235,464 |
| Capital Improvement | | 184 | - | - | 2,502 | - | - | - | - | 11,874 | - | - | 14,560 |
| Nonmajor Governmental | | 58,916 | 14,165 | 3,313 | 7,428 | - | 221 | 247 | 29 | 360 | 10 | - | 84,689 |
| Environmental Improvement | | - | - | - | 1 | - | - | - | - | - | - | - | 1 |
| University of Wisconsin System | | 18,177 | 1,769 | - | 1,617 | - | 4 | - | - | 2 | 25 | - | 21,592 |
| Unemployment Reserve | | 559 | - | - | - | - | - | - | - | - | - | - | 559 |
| Nonmajor Enterprise | | 10,117 | 1,209 | - | 504 | - | - | 13 | - | 51 | 92 | 2,073 | 14,059 |
| Internal Service | | 13,405 | 1,933 | - | 3,368 | 3 | 3 | 538 | - | 378 | 372 | 571 | 20,572 |
| Fiduciary | | 23,362 | 3,613 | - | 2,113 | 5 | 6 | 17,793 | - | 1,788 | 456 | 657 | 49,793 |
| Total | \$ | 281,112 | \$ 47,719 | \$ 53,343 | \$ 113,066 | \$ 111 | \$ 470 | \$ 71,775 | \$ 3,229 | \$ 47,211 | \$ 9,176 | \$ 64,028 | \$ 691,239 |

The balances in the Due from Other Funds and Due to Other Funds accounts typically result from the time lag between the dates that

- (1) interfund goods and services were provided and when the payments occurred, and
- (2) interfund transfers were accrued and when the liquidations occurred.

B. Due from/to Component Units

Receivables and payables between funds and component units at June 30, 2013 were as follows (in thousands):

| | Due from Component Unit | | | | Due from Primary Government | | | Total |
|---|--------------------------------|--------------------------------|------------------|-----------------|--|---|--|------------------|
| | General | University of Wisconsin System | Internal Service | Fiduciary | Wisconsin Housing and Economic Development Authority | University of Wisconsin Hospitals and Clinics Authority | Wisconsin Economic Development Corporation | |
| Due to Primary Government: | | | | | | | | |
| University of Wisconsin Hospitals and Clinics Authority | \$ - | \$ 4,890 | \$ - | \$ 5,004 | \$ - | - | \$ - | \$ 9,894 |
| Due to Component Unit: | | | | | | | | |
| General Fund | - | - | - | - | 1,500 | - | 750 | 2,250 |
| Special Revenue | - | - | - | - | - | - | - | - |
| University of Wisconsin System | - | - | - | - | - | 1,779 | - | 1,779 |
| Total | \$ - | \$ 4,890 | \$ - | \$ 5,004 | \$ 1,500 | 1,779 | 750 | \$ 13,923 |

C. Interfund Receivables/Payables

Interfund Receivables/Payables represent short-term loans from one fund to another to cover cash overdrafts. Interfund receivables/payables at June 30, 2013 were as follows (in thousands):

| | Interfund Receivable: | | |
|----------------------------|------------------------------|------------------|-------------------|
| | General | Fiduciary | Total |
| Interfund Payables: | | | |
| General | \$ - | \$ - | \$ - |
| Nonmajor Governmental | 14,225 | - | 14,225 |
| Nonmajor Enterprise | 49,623 | - | 49,623 |
| Internal Service | 45,509 | - | 45,509 |
| Fiduciary | - | 17,361 | 17,361 |
| Total | \$ 109,357 | \$ 17,361 | \$ 126,718 |

D. Advances to/from Other Funds

Advances to/from Other Funds represent long-term loans to one fund from another fund. Advances at June 30, 2013 were as follows (in thousands):

| | Advances from Other Funds (liability): | | |
|---|---|-----------------------|-----------------|
| | General | Nonmajor Governmental | Total |
| Advances to Other Funds (asset): | | | |
| Environmental Improvement | - | 4,968 | 4,968 |
| Nonmajor Enterprise | 636 | - | 636 |
| Total | \$ 636 | \$ 4,968 | \$ 5,604 |

E. Interfund Transfers

Interfund Transfers in and out that occurred during Fiscal Year 2013 were as follows (in thousands):

| Transfers in: | | | | | | | | | | |
|---|------------------|---------------------|------------------------|--------------------------|------------------------------|--------------------------------------|------------------------|---------------------|-------------|---------------------|
| | General | Trans- portation | Capital Improvement | Nonmajor Governmental | Environmental Improvement | University of Wisconsin System | Nonmajor Enterprise | Internal Service | Fiduciary | Total |
| Transfers out: | | | | | | | | | | |
| General | \$ - | \$ 138,309 | \$ 114,635 | \$ 697,730 | \$ - | \$ 926,478 | \$ 72,777 | \$ 5,416 | \$ 4 | \$ 1,955,350 |
| Transportation | 1,921 | - | 11,173 | 75,114 | - | 4 | - | 50 | - | 88,261 |
| Capital Improvement | - | - | - | - | 6,775 | 200,146 | 11,234 | 1,986 | - | 220,142 |
| Nonmajor Governmental | 26,652 | 25,759 | 2,057 | 71,300 | - | 7,797 | - | 448 | - | 134,012 |
| Injured Patients and Families Compensation | - | - | - | 17 | - | - | - | - | - | 17 |
| Environmental Improvement | - | - | - | 8,109 | - | - | - | - | - | 8,109 |
| University of Wisconsin System | 23,604 | - | 14 | 60,231 | - | - | - | 1,400 | - | 85,250 |
| Unemployment Reserve | 4,647 | - | - | - | - | - | - | - | - | 4,647 |
| Nonmajor Enterprise | 12,817 | - | - | 3,397 | - | - | 3,564 | 97 | - | 19,875 |
| Internal Service | 7,886 | - | - | 1,691 | - | - | - | 141 | - | 9,718 |
| Fiduciary | - | - | - | 454 | - | - | - | - | - | 454 |
| Total | \$ 77,526 | \$ 164,068 | \$ 127,879 | \$ 918,043 | \$ 6,775 | \$ 1,134,424 | \$ 87,576 | \$ 9,538 | \$ 4 | \$ 2,525,834 |

Transfers are typically used to move: (1) revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, (3) unrestricted revenues collected in one fund to finance various programs accounted for in other funds in accordance with statute or budgetary authorizations, and (4) accumulated surpluses from other funds to the General Fund when authorized by statute.

Nonroutine and Other Transfers

In the fiscal year ended June 30, 2013, transfers considered non-routine or inconsistent with the fund making the transfer included the following (in thousands):

Transfers in to the General Fund:

| Funds Reporting the Transfer Out | Amount |
|---|---------------|
| University Wisconsin System | \$ 7,331 |
| Facilities Operations and Maintenance | 4,940 |
| Financial Services | 800 |
| Technology Services | 677 |
| Other Funds | 714 |

Transfer out from the General Fund:

| Fund Reporting the Transfer In | Amount |
|---------------------------------------|---------------|
| Transportation | \$ 137,600 |
| Environmental | 11,315 |

Transfers out from the Petroleum Inspection Fund:

| Funds Reporting the Transfer In | Amount |
|--|---------------|
| Transportation | \$ 19,500 |

NOTE 10. CHANGES IN LONG-TERM LIABILITIES

During the year ended June 30, 2013, the following changes occurred in long-term liabilities (in thousands):

Primary Government

| Governmental Activities | Balance | | | Balance June 30, 2013 | Amounts Due Within One Year |
|--|---------------|--------------|--------------|--------------------------|-----------------------------------|
| | July 1, 2012 | Additions | Reductions | | |
| Bonds Payable: | | | | | |
| General Obligation Bonds for Governmental Funds | \$ 5,295,316 | \$ 506,042 | \$ 377,687 | \$ 5,423,671 | \$ 491,774 |
| General Obligation Bonds for Internal Services Funds | 164,131 | 22,466 | 13,633 | 172,963 | 14,987 |
| Annual Appropriation Bonds | 3,301,070 | 251,555 | 293,135 | 3,259,490 | 80,010 |
| Revenue Bonds | 2,215,930 | 259,680 | 94,715 | 2,380,895 | 132,831 |
| Less Deferred Amounts: | | | | | |
| Issuance Premiums and Discounts | 439,790 | 98,469 | 80,797 | 457,462 | - |
| Refundings | (369,750) | - | 141,841 | (511,592) | - |
| Total Bonds Payable | 11,046,486 | 1,138,212 | 1,001,808 | 11,182,890 | 719,603 |
| Other Liabilities: | | | | | |
| Future Benefits and Loss Liability | 95,755 | 42,716 | 38,903 | 99,568 | 46,800 |
| Capital Leases | 33,831 | 6,395 | 16,188 | 24,038 | 10,036 |
| Installment Contracts | 113 | 1,302 | 430 | 984 | 301 |
| Compensated Absences | 150,706 | 56,778 | 51,435 | 156,049 | 54,594 |
| Other Postemployment Benefits | 181,369 | 17,609 | - | 198,978 | - |
| Claims, Judgments and Commitments | 2,049 | - | 1,105 | 944 | - |
| Pollution Remediation Obligations | 7,490 | - | - | 7,490 | - |
| Total Governmental Activities | | | | | |
| Long-term Liabilities | \$ 11,517,798 | \$ 1,263,012 | \$ 1,109,869 | \$ 11,670,942 | \$ 831,334 |

Repayment of the general obligation bonds is made from the Bond Security and Redemption Fund. The amount presented in this fund represents the liability to be paid from resources accumulated to provide debt service payments in Fiscal Year 2013. Repayment of the revenue bonds principal and interest is made from the appropriate debt service fund with payments secured by registration and inspection fees collected by the appropriate program. Most of the compensated absences and other postemployment benefits liabilities are attributed to the General, Transportation and Conservation funds. Long-term liabilities for claims, judgments and commitments are generally liquidated with resources of the governmental activities.

| Business-type Activities | Balance July 1, 2012 | Additions | Reductions | Balance June 30, 2013 | Amounts Due Within One Year |
|------------------------------------|-------------------------|------------|------------|--------------------------|-----------------------------------|
| Bonds Payable: | | | | | |
| General Obligation Bonds | \$ 1,523,403 | \$ 174,814 | \$ 97,170 | \$ 1,601,047 | \$ 62,282 |
| Revenue Bonds | 839,305 | 230,295 | 246,660 | 822,940 | 56,250 |
| Less Deferred Amounts: | | | | | |
| Issuance Premiums and Discounts | 104,476 | 57,079 | 25,506 | 136,049 | - |
| Refundings | (23,656) | (17,867) | (5,205) | (36,319) | - |
| Total Bonds Payable | 2,443,528 | 444,321 | 364,131 | 2,523,718 | 118,532 |
| Other Liabilities: | | | | | |
| Future Benefits and Loss Liability | 1,027,904 | 125,337 | 149,235 | 1,004,005 | 151,621 |
| Capital Leases | 26,548 | 987 | 7,244 | 20,292 | 7,003 |
| Compensated Absences | 148,609 | 5,347 | 5,075 | 148,881 | 71,000 |
| Other Postemployment Benefits | 223,972 | 21,519 | - | 245,491 | - |
| Total Business-type Activities | 3,870,561 | 597,511 | 525,685 | 3,942,387 | 348,155 |
| Long-term Liabilities | \$ 3,870,561 | \$ 597,511 | \$ 525,685 | \$ 3,942,387 | \$ 348,155 |

Component Units

The following table presents the changes in long-term liabilities of the Wisconsin Housing and Economic Development Authority at June 30, 2013, the Wisconsin Economic Development Corporation at June 30, 2013, the University of Wisconsin Hospitals and Clinics Authority at June 30, 2013, the Wisconsin Health Care Liability Insurance Plan at December 31, 2012, and the University of Wisconsin Foundation at December 31, 2012:

| | Balance July 1, 2012 | Additions | Reductions | Balance June 30, 2013 | Amounts Due Within One Year |
|------------------------------------|-------------------------|------------|------------|--------------------------|-----------------------------------|
| Revenue Bonds and Notes | \$ 2,567,959 | \$ 408,090 | \$ 785,940 | \$ 2,190,109 | \$ 69,487 |
| Future Benefits and Loss Liability | 19,359 | -- | 4,518 | 14,841 | 2,157 |
| Capital Leases | 2,510 | 174 | 1,353 | 1,331 | 739 |
| Compensated Absences | 11,734 | 13,856 | 12,350 | 13,240 | 12,632 |
| Split-interest Agreement | 40,424 | 965 | -- | 41,389 | -- |
| Other Postemployment Benefits | 20,718 | 3,742 | -- | 24,460 | -- |
| Pension Related | 76,586 | -- | 4,012 | 72,574 | 983 |
| Note Payable – State of Wisconsin | -- | 1,534 | 23 | 1,511 | 63 |
| Total Component Units | 2,739,290 | 428,361 | 808,196 | 2,359,455 | 86,061 |
| Long-term Liabilities | \$ 2,739,290 | \$ 428,361 | \$ 808,196 | \$ 2,359,455 | \$ 86,061 |

NOTE 11. BONDS, NOTES AND OTHER DEBT OBLIGATIONS

The following schedule summarizes outstanding long-term bonds and notes payable at June 30, 2013 (in thousands):

Primary Government**Governmental Activities:**

| | |
|-------------------------------|-------------------|
| General Obligation Bonds | \$ 5,841,630 |
| Annual Appropriation Bonds | 3,256,447 |
| Revenue Bonds: | |
| Transportation | 1,963,177 |
| Petroleum Inspection | 121,636 |
| Total Governmental Activities | <u>11,182,890</u> |

Business-type Activities:

| | |
|--------------------------------|-------------------|
| General Obligation Bonds: | |
| University of Wisconsin System | 1,505,929 |
| Other Business-type | 144,433 |
| Revenue Bonds: | |
| Environmental Improvement | 873,356 |
| Total Business-type Activities | <u>2,523,718</u> |
| Total Primary Government | <u>13,706,608</u> |

Component Units:

| | |
|---|------------------|
| Wisconsin Housing and Economic Development Authority Revenue Bonds | 1,706,475 |
| University of Wisconsin Hospitals and Clinics Authority Revenue Bonds | 482,567 |
| University of Wisconsin Foundation Note Payable | 1,066 |
| Wisconsin Economic Development Corporation Note Payable | <u>1,510</u> |
| Total Component Units | <u>2,191,618</u> |

| | |
|------------------------|----------------------|
| Total at June 30, 2013 | <u>\$ 15,898,226</u> |
|------------------------|----------------------|

A. General Obligation Bonds**Primary Government**

The State of Wisconsin Building Commission, an agency of the State, is empowered by law to consider, act upon, authorize, issue and sell all debt obligations of the State. To date, the Commission has authorized and issued general obligation bonds primarily to provide funds for the acquisition or improvement of land, water, property, highways, buildings, equipment or facilities for public purposes. Occasionally, general obligation bonds are also issued for the purpose of providing funds for veterans housing loans and to refund general obligation bonds. All general obligation bonds authorized and issued by the State are secured by a pledge of the full faith, credit and taxing power of the State of Wisconsin and are customarily repaid over a period of twenty to thirty years.

Article VIII of the Wisconsin Constitution and Wis. Stat. Section 18.05 set limits on the amount of debt that the State can contract in total and in any calendar year. In total, debt outstanding cannot exceed five percent of the value of all taxable property in the State. Annual debt issued cannot exceed the lesser of three-quarters of one percent or five percent of the value of all taxable property in the State less net indebtedness at January 1.

At June 30, 2013, \$2,922.4 million of general obligation bonds were authorized but unissued.

General obligation bonds issued and outstanding as of June 30, 2013 were as follows (in thousands):

| Fiscal Year Issued | Series | Dates | Interest Rates | Maturity Through | Amount Issued | Amount Outstanding |
|--------------------------------|--------------------------------|--------------------------------|-----------------------|-------------------------|----------------------|---------------------------|
| 1992 | 1992 Refunding Issue | 3/92 | 6.25 | 5/15 | 448,935 | 610 |
| 1993 | 1992 2 | 10/92 | 6.5 | 5/15 | 5,975 | 920 |
| 1999 | 1998 Series 1, E and F; | 8/98; 10/98; 10/98 | 4.75 to 6.4 | 11/29 | 218,735 | 39,895 |
| 2001 | 2000 Series E | 11/00; | 7.0 | 5/31 | 20,000 | 2,240 |
| | 2001 Series A | 2/01 | | | | |
| 2002 | 2001 Series 1, E; | 10/01; 10/01; | 5.5 to 6.71 | 5/33 | 302,105 | 83,160 |
| | 2002 Series B, D | 3/02; 6/02 | | | | |
| 2003 | 2002 Series E, F, and H; | 9/02; 9/02; 12/02; | 4.25 to 5.25 | 5/33 | 50,740 | 13,010 |
| | 2003 Series 1 and 2 | 4/03; 4/03 | | | | |
| 2004 | 2003 B, C, and 3; | 7/03; 10/03; 10/03; | 0 to 5.25 | 5/34 | 1,305,096 | 332,204 |
| | 2004 1, 2, A, 3 and CWGBC | 1/04; 1/04; 4/04; 6/04; 4/04 | | | | |
| 2005 | 2004 Series 4, B, C, D and E; | 7/04; 8/04; 8/04; 8/04; 10/04; | 4.0 to 5.65 | 5/35 | 1,079,440 | 696,400 |
| | 2005 Series 1, A, B and C | 2/05; 2/05; 4/05; 4/05 | | | | |
| 2006 | 2005 Series D; | 8/05; | 4.0 to 5.25 | 5/26 | 614,635 | 491,295 |
| | 2006 Series 1 and A | 1/06; 3/06 | | | | |
| 2007 | 2006 Series B, C and D; | 7/06; 8/06; 9/06; | 4.25 to 5.76 | 5/37 | 867,570 | 744,914 |
| | 2007 Series AW, BW and 1; | 2/07; 2/07; 2/07; | | | | |
| | 2007 Series A and B | 2/07; 6/07 | | | | |
| 2008 | 2007 Series 2, and C; | 10/07; 12/07; | 3.45 to 6.26 | 5/38 | 385,480 | 299,155 |
| | 2008 Series 1, A, AW, B and BW | 6/08; 4/08; 3/08; 5/08; 6/08 | | | | |
| 2009 | 2008 Series C and D | 9/08; 12/08; | 4.0 to 6.2 | 5/30 | 521,875 | 457,875 |
| | 2009 Series AW, A and B | 1/09; 6/09; 6/09 | | | | |
| 2010 | 2009 Series C, D and 1; | 9/09; 9/09; 9/09; | 2.5 to 5.9 | 5/40 | 1,016,483 | 891,188 |
| | 2010 Series 1, A, B and AW | 3/10; 4/10; 4/10; 4/10 | | | | |
| 2011 | 2010 Series C, D, and BW | 9/10; 9/10; 12/10; | 3.45 to 5.95 | 5/41 | 1,175,535 | 1,092,070 |
| | 2011 Series A and 1 | 2/11; 6/11 | | | | |
| 2012 | 2011 Series 2, B, and C; | 10/11; 8/11; 12/11; | .66 to 5.0 | 5/42 | 1,359,920 | 1,349,425 |
| | 2012 Series 1, 2, AW and A | 3/12; 5/12; 4/12; 6/12 | | | | |
| 2013 | 2012 Series B; | 11/12; | 2.0 to 5.0 | 5/33 | 703,320 | 703,320 |
| | 2013 Series A | 5/13 | | | | |
| Total | | | | | 10,075,844 | 7,197,681 |
| Premiums/Discounts | | | | | -- | 361,568 |
| Deferred Amount on Refunding | | | | | -- | (67,257) |
| Total General Obligation Bonds | | | | | <u>\$ 10,075,844</u> | <u>\$ 7,491,992</u> |

As of June 30, 2013, general obligation bond debt service requirements for principal and interest for governmental activities and business - type activities are as follows (in thousands):

| Fiscal Year Ended June 30 | Governmental Activities | | Business-Type Activities | |
|---------------------------------|-------------------------|--------------|--------------------------|------------|
| | Principal | Interest | Principal | Interest |
| 2014 | \$ 454,140 | \$ 261,420 | \$ 54,815 | \$ 75,226 |
| 2015 | 469,550 | 241,241 | 56,743 | 72,712 |
| 2016 | 442,762 | 219,123 | 64,344 | 69,876 |
| 2017 | 397,675 | 197,432 | 66,200 | 66,665 |
| 2018 | 405,960 | 178,899 | 69,090 | 63,584 |
| 2019-2023 | 1,707,211 | 620,410 | 366,514 | 266,095 |
| 2024-2028 | 1,124,035 | 282,456 | 429,623 | 171,826 |
| 2029-2033 | 595,301 | 61,975 | 373,948 | 79,869 |
| 2034-2038 | -- | -- | 75,805 | 21,430 |
| 2039-2043 | -- | -- | 43,965 | 4,379 |
| Total | 5,596,634 | 2,062,956 | 1,601,047 | 891,662 |
| Premiums/Discounts | 297,222 | -- | 64,345 | -- |
| Deferred Amount on Refunding | (52,227) | -- | (15,031) | -- |
| Total | \$ 5,841,629 | \$ 2,062,956 | \$ 1,650,361 | \$ 891,662 |

Qualified Build America Bonds

The State has issued four series of general obligation bonds, in the aggregate amount of \$769.2 million, that are “qualified Build America Bonds” pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended (Code). Based on the credit allowed for “qualified Build America Bonds”, the State has elected to receive from the United States Treasury on each payment date a direct payment in the amount of 35 percent of the interest payable by the State with respect to such date, and the credit will not be allowed to the taxpayers holding the bonds.

- The interest rates on the 2009 Series B bonds, in the amount of \$54.5 million, range from 5.15 percent to 5.40 percent payable semiannually on May 1 and November 1 beginning with the first interest payment date of November 1, 2009. These bonds are callable at par on May 1, 2019 or any date thereafter. The bonds mature beginning May 1, 2023 through 2030.
- The interest rates on the 2009 Series D bonds, in the amount of \$225.8 million, range from 4.9 percent to 5.9 percent payable semiannually on May 1 and November 1 beginning with the first interest payment date of May 1, 2010. These bonds are callable at par on May 1, 2020 or any date thereafter. The bonds mature beginning May 1, 2023 through 2040.

- The interest rates on the 2010 Series B bonds, in the amount of \$179.1 million, range from 4.3 percent to 5.65 percent payable semiannually on May 1 and November 1 beginning with the first interest payment date of November 1, 2010. These bonds are callable at par on May 1, 2020 or any date thereafter. The bonds mature beginning May 1, 2020 through 2030.
- The interest rates on the 2010 Series D bonds, in the amount of \$309.7 million, range from 3.45 percent to 5.1 percent payable semiannually on May 1 and November 1 beginning with the first interest payment date of May 1, 2011. These bonds are callable at par on May 1, 2021 or any date thereafter. The bonds mature beginning May 1, 2020 through 2041.

B. Annual Appropriation Bonds

2003 Annual Appropriation Bonds

In December 2003, the State issued \$1.8 billion of General Fund Annual Appropriation Bonds consisting of Series A (Taxable Fixed Rate) and Series B (Taxable Auction Rate Certificates). These appropriation obligations were authorized by Wisconsin Statutes to obtain proceeds to pay the State's anticipated unfunded accrued prior service (pension) liability under Wis. Stat. Section 40.05(2)(b) and its unfunded accrued liability for sick leave conversion credits under Wis. Stat. Section 40.05(4)(b), (bc), and (bw) and Subchapter IX of Chapter 40. In April and June 2008, the State issued \$1.0 billion of General Fund Annual Appropriation Refunding Bonds to refund the Series B (Taxable Auction Rate Certificates) that were issued in 2003. The 2008 issuance consisted of Series A (Taxable Fixed Rate) and Series B and C (Taxable Floating Rate Notes). In November 2012, the State issued \$251.6 million bonds to refund a portion of the 2003 Series A bonds.

These appropriation obligations are not general obligations of the State, and do not constitute "public debt" of the State as that term is used in the Constitution and in the State Statutes. The payment of the principal of, and premium, if any, and interest on the obligations is subject to annual appropriation; that is, payments due in any fiscal year of the State will be made only to the extent sufficient amounts are appropriated by the Legislature. The State is not legally obligated to appropriate any amounts for payment of debt service. The Legislature, recognizing its moral obligation to make timely appropriations from the General Fund sufficient to pay debt service on such obligations, expresses in Wis. Stat. Section 16.527(10) its expectation and aspiration that it will do so. The Legislature's recognition of a moral obligation, however, does not create a legally enforceable obligation.

The General Fund Annual Appropriation Bonds of 2003, Series A (Taxable Fixed Rate) in the outstanding principal amount of \$600.0 million ("2003 Series A Bonds"), bear interest at rates from 5.20 percent to 5.70 percent computed on the basis of a 30 day month and a 360-day year, payable semiannually on each May 1 and November 1 until their maturity dates.

The General Fund Annual Appropriation Refunding Bonds of 2008, Series A (Taxable Fixed Rate) in the outstanding principal amount of \$412.1 million ("2008 Series A Bonds"), bear interest at rates from 4.319 percent to 5.238 percent computed on the basis of a 30-day month and a 360-day year, payable semiannually on each May 1 and November 1 until their maturity dates.

The General Fund Annual Appropriation Bonds of 2008, Series B (Taxable Floating Rate Notes), in the outstanding principal amount of \$300.0 million, bear interest at rates 120 basis points over the one-month LIBOR, computed on the basis of a 360-day

year and for the number of days actually elapsed, payable monthly on the first business day of the month.

The General Fund Annual Appropriation Bonds of 2008, Series C (Taxable Floating Rate Notes), ("2008 Series C Bonds") in the outstanding principal amount of \$191.2 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 \$251.6 million ("2012 Series A Bonds"), bear interest at rates from 0.798 percent to 4.019 percent computed on the basis of a 30-day month and a 360-day year, payable semiannually on May 1 and November 1 until their maturity dates.

As of June 30, 2013, the debt service requirements for principal and interest on these bonds are as follows (in millions). The principal due in the fiscal year ended June 30, 2018 includes \$363.0 million maturity that the State intends to refund prior to the May 1, 2018 maturity date:

| Fiscal Year Ended June 30 | Principal | Interest |
|----------------------------|------------|----------|
| 2014 | 72.8 | 92.3 |
| 2015 | 45.0 | 89.0 |
| 2016 | 51.3 | 88.2 |
| 2017 | 58.3 | 86.9 |
| 2018 | 429.0 | 85.2 |
| 2019 - 2023 | 229.4 | 296.5 |
| 2024 - 2028 | 559.9 | 186.1 |
| 2029 - 2032 | 309.3 | 40.3 |
| Total | 1,754.9 | 964.6 |
| Unamortized Prem./Discount | (1.0) | -- |
| Total, net | \$ 1,753.9 | \$ 964.6 |

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, 2013, 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, 2013.

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, 2013, interest rate exchange agreements remain to reduce the interest rate risk in connection with \$482.5 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 \$482.5 million as of June 30, 2013. 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, 2014 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, 2013, the aggregate fair value of the interest exchange agreements was negative \$140.8 million, an increase of \$75.3 million compared to the aggregate fair value of negative \$216.1 million reported as of June 30, 2012. Since the interest rate exchange agreements qualify as effective cash flow hedges, a deferred outflow of resources and a liability are reported in the statement of net position for the fair value of the swap agreements. Changes in the fair value are not reported in the statement of activities. The fair value was valued by a third party consultant based on information contained in the broker Interest Rate Swap Confirmations supplied by the three counterparties -- JP Morgan Chase, Citigroup N.A. New York, and UBS AG. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the interest rate exchange agreement. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the interest rate exchange agreements, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the interest rate exchange agreements. The fair value may vary throughout the life of the swap agreements due to any changes in fixed swap interest rates and swap market conditions.

Associated Debt – Using rates as of June 30, 2013, debt service requirements are presented for the 2008 Series B Bonds and 2008 Series C Bonds that are subject to the interest rate

exchange agreements and the net swap payments assuming that interest rates remain the same for their term. As rates vary, interest payments on the floating rate notes and net swap payments will vary.

(in millions)

| Fiscal Year Ended June 30 | Interest Rate | | | Totals |
|---------------------------------|------------------|----------------|-----------------|-----------------|
| | Principal | Interest | Swaps, Net | |
| 2014 | 1.1 | 6.6 | 25.0 | 32.7 |
| 2015 | 1.1 | 6.6 | 24.9 | 32.6 |
| 2016 | 1.1 | 6.6 | 24.9 | 32.6 |
| 2017 | 1.1 | 6.6 | 24.8 | 32.5 |
| 2018 | 1.1 | 6.6 | 24.8 | 32.5 |
| 2019 - 2023 | 30.9 | 32.3 | 121.9 | 185.1 |
| 2024 - 2028 | 211.1 | 26.9 | 102.1 | 340.0 |
| 2029 - 2032 | 235.0 | 7.2 | 27.2 | 269.4 |
| | <u>\$ 482.5</u> | <u>\$ 99.4</u> | <u>\$ 375.5</u> | <u>\$ 957.5</u> |

Interest Rate Risk – Currently, the State does not have interest rate risk because it is paying a fixed-rate of interest on the interest rate exchange agreements. However, if for some unforeseen reason any of the swap agreements are terminated prior to maturity, the State will have interest rate risk associated with the outstanding 2008 Series B Bonds and 2008 Series C Bonds until their maturity.

Credit Risk – As of June 30, 2013, 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, 2013, A3 by Moody's, A by Standard & Poor's, and A by Fitch Ratings. Under the interest rate exchange agreements and to mitigate the potential for credit risk, if any of the counterparties' credit quality falls below A3 by Moody's Investors Service or A- by either Standard & Poor's or Fitch Ratings, the fair value of the interest rate exchange agreement for that respective counterparty will be fully collateralized by that counterparty. In addition, an event of termination occurs if any of the counterparties' credit quality falls below Baa2 by Moody's Investors service or BBB by either Standard & Poor's or Fitch Ratings.

Basis Risk – The interest rate exchange agreements expose the State to basis risk (i.e., a shortfall or surplus between the variable interest rate received on the interest rate exchange agreements and the interest rate paid on the floating rate notes), however this risk is fixed at the spreads for the respective series.

Termination Risk – The interest rate exchange agreements may be terminated by the State, upon two business days' written notice, designating to the counterparty the termination date. In addition, the State or the counterparties may terminate the

interest rate exchange agreements if the other party fails to perform under the terms of the interest rate exchange agreements or if other various events occur. As of June 30, 2013, there have not been any such events. If any interest rate exchange agreement is terminated, the State would be unhedged and exposed to additional interest rate risk on the 2008 Series B Bonds and the 2008 Series C Bonds. In addition, if the interest rate exchange agreement has a negative fair value at the time of termination, the State would incur a loss and would be required to make a settlement payment to the related counterparty. Actual termination payments, if required to be made, can be made, at the State's discretion, from the Stabilization Fund, or delayed until funds are available in the Subordinated Payment Obligations Fund or until the next biennium when appropriations can be made in the biennial budget for the termination payments.

Market-Access Risk and Rollover Risk – The State's swap agreements are for the term (maturity) of the 2008 Series B Bonds and the 2008 Series C Bonds and, therefore, there is no market-access risk or rollover risk.

Foreign Currency Risk – The State's swap agreements are not subject to foreign currency risk.

2009 Annual Appropriation Bonds

In April 2009, the State issued \$1.5 billion of General Fund Annual Appropriation Bonds. These appropriation obligations were authorized by Wisconsin Statutes for the purpose of purchasing the tobacco settlement revenues that had been sold by the Secretary of Administration to the Badger Tobacco Asset Securitization Corporation pursuant to Wis. Stat. Section 16.63. The 2009 General Fund Annual Appropriation Bonds bear interest rates from 4.00 percent to 6.25 percent computed on the basis of a 30-day month and a 360-day year, payable semiannually on each May 1 and November 1, until their maturity dates.

These appropriation obligations are not general obligations of the State, and do not constitute "public debt" of the State as that term is used in the Constitution and in the State Statutes. The payment of the principal of, and premium, if any, and interest on the obligations is subject to annual appropriation; that is, payments due in any fiscal year of the State will be made only to the extent sufficient amounts are appropriated by the Legislature. The State is not legally obligated to appropriate any amounts for payment of debt service. The Legislature, recognizing its moral obligation to make timely appropriations from the General Fund sufficient to pay debt service on such obligations, expresses in Wis. Stat. Section 16.527(10) its expectation and aspiration that it will do so. The Legislature's recognition of a moral obligation, however, does not create a legally enforceable obligation.

As of June 30, 2013, the debt service requirements for principal and interest on these bonds are as follows (in millions):

| Fiscal Year Ended June 30 | Principal | Interest |
|------------------------------|-------------------|-------------------|
| 2014 | 7.5 | 86.2 |
| 2015 | 18.3 | 85.9 |
| 2016 | 28.3 | 85.0 |
| 2017 | 22.2 | 83.6 |
| 2018 | 24.8 | 82.6 |
| 2019 – 2023 | 159.1 | 391.3 |
| 2024 – 2028 | 241.4 | 341.2 |
| 2029 - 2033 | 465.0 | 251.2 |
| 2034 - 2037 | 537.9 | 84.2 |
| Total | 1,504.6 | 1,491.1 |
| Unamortized Premium/Discount | (2.0) | -- |
| Total, net | <u>\$ 1,502.6</u> | <u>\$ 1,491.1</u> |

C. Revenue Bonds

Primary Government

Chapter 18, Wisconsin Statutes, authorizes the State to issue revenue obligations secured by a pledge of revenues or property derived from the operation of a program funded by the issuance of these obligations. The resulting bond obligations are not general obligations of the State.

Transportation Revenue Bonds

Transportation Revenue Bonds are issued to finance part of the costs of certain transportation facilities and major highway projects. Chapter 18, Subchapter II of the Wisconsin Statutes as amended, Wis. Stat. Sec. 84.59 and a general bond resolution and series resolutions authorize the issuance of these bonds.

The Department of Transportation is authorized to issue a total of \$3,351.5 million of revenue bonds. Presently, there are sixteen issues of Transportation Revenue Bonds totaling \$1,804.1 million. Debt service payments are secured by driver and vehicle registration fees and also a reserve fund, which will be used in the event that a deficiency exists in the redemption fund.

The Transportation Revenue Bonds issued and outstanding as of June 30, 2013 were as follows (in thousands):

| Issue | Issue Date | Interest Rates | Maturity Through | Issued | Outstanding |
|----------------------------|------------|----------------|------------------|--------------------|--------------------|
| 2013 1 | 3/13 | 4.0 to 5.0 | 7/33 | \$ 259,680 | \$ 259,680 |
| 2012 2 | 6/12 | 4.0 to 5.0 | 7/24 | 116,400 | 116,400 |
| 2012 1 | 4/12 | 2.0 to 5.0 | 7/32 | 343,725 | 343,725 |
| 2010B | 12/10 | 4.7 to 6.0 | 7/31 | 123,925 | 123,925 |
| 2010A | 12/10 | 5.0 | 7/21 | 76,075 | 70,025 |
| 2009B | 10/09 | 3.54 to 5.84 | 7/30 | 147,130 | 147,130 |
| 2009A | 10/09 | 3.5 | 7/14 | 17,870 | 12,135 |
| 2008A | 8/08 | 5.0 | 7/29 | 185,000 | 167,360 |
| 2007A | 3/07 | 4.25 | 7/27 | 148,710 | 18,340 |
| 2007 1 | 3/07 | 4.35 to 5.0 | 7/22 | 206,900 | 206,900 |
| 2005B | 9/05 | 5.0 | 7/15 | 158,400 | 22,540 |
| 2005A | 3/05 | 3.375 to 5.25 | 7/21 | 235,585 | 176,450 |
| 2004 1 | 9/04 | 5.25 | 7/17 | 95,905 | 65,160 |
| 2003A | 11/03 | 5.0 | 7/14 | 250,000 | 22,900 |
| 2002A | 10/02 | 5.0 | 7/13 | 200,000 | 9,385 |
| 1998A | 8/98 | 5.5 | 7/16 | 130,590 | 42,015 |
| | | | | 2,695,895 | 1,804,070 |
| Unamortized Prem./Discount | | | | -- | 159,107 |
| Total | | | | \$2,695,895 | \$1,963,177 |

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, 2013, PIF Bonds outstanding are \$117.5 million. Debt service payments are secured by petroleum inspection fees.

The PIF revenue bonds issued and outstanding as of June 30, 2013 were as follows (in thousands):

| Issue | Issue Date | Interest Rates | Maturity Through | Issued | Outstanding |
|---------------------|------------|----------------|------------------|-------------------|-------------------|
| 2009-1 | 10/09 | 2.5 to 5.0 | 7/17 | \$ 117,460 | \$ 117,460 |
| Unamortized Premium | | | | -- | 4,176 |
| Total | | | | \$ 117,460 | \$ 121,636 |

Clean Water Revenue Bonds

The Environmental Improvement Fund (the Fund) provides loans and grants to local municipalities to finance wastewater treatment planning and construction. The Fund is authorized to issue up to \$2,716.3 million in Revenue Bonds. At June 30, 2013, there were seventeen issues of Revenue Bonds outstanding totaling \$823.0 million. These bonds are secured by payments on program loans and earnings of investments.

Bonds issued and outstanding for the Environmental Improvement Fund as of June 30, 2013 were as follows (in thousands):

| Issue | Issue Date | Interest Rates | Maturity Through | Issued | Outstanding |
|---|------------|----------------|------------------|---------------------|------------------|
| 2013-1 | 3/13 | 4.5 to 5.0 | 6/27 | \$ 82,845 | \$ 82,845 |
| 2012-2 | 7/12 | 3.96 to 5.0 | 6/24 | 92,450 | 92,450 |
| 2012-1 | 7/12 | 2.0 to 5.0 | 6/33 | 55,000 | 55,000 |
| 2010-5 | 11/10 | 5.0 | 6/23 | 36,760 | 36,760 |
| 2010-4 | 11/10 | 3.0 to 5.0 | 6/31 | 116,290 | 108,770 |
| 2010-3 | 2/10 | 3.96 to 5.44 | 6/25 | 49,690 | 49,690 |
| 2010-2 | 2/10 | 5.0 | 6/21 | 14,070 | 14,070 |
| 2010-1 | 2/10 | 3.0 to 5.0 | 6/31 | 67,415 | 59,795 |
| 2008-3 | 12/08 | 3.0 to 5.5 | 6/18 | 92,210 | 79,325 |
| 2008-2 | 2/08 | 5.0 | 6/18 | 27,335 | 27,335 |
| 2008-1 | 2/08 | 4.0 to 5.0 | 6/18 | 100,000 | 83,725 |
| 2006-2 | 11/06 | 4.0 to 5.0 | 6/15 | 100,000 | 8,310 |
| 2006-1 | 3/06 | 3.5 to 5.0 | 6/16 | 80,000 | 10,220 |
| 2004-2 | 1/05 | 3.25 to 5.25 | 6/15 | 107,025 | 65,535 |
| 2004-1 | 3/04 | 4.0 to 5.0 | 6/14 | 116,795 | 4,775 |
| 2002-2 | 8/02 | 3.0 to 5.5 | 6/16 | 85,575 | 11,230 |
| 1998-2 | 8/99 | 4.0 to 5.5 | 6/17 | 104,360 | 33,105 |
| | | | | 1,327,820 | 822,940 |
| Unamortized Premium | | | | -- | 71,704 |
| Less: Unamortized discount and Charge | | | | | (21,288) |
| Total, net of discount, charge and premium | | | | \$ 1,327,820 | \$873,356 |

As of June 30, 2013, revenue bond debt service requirements for principal and interest for governmental activities and business-type activities are as follows (in thousands):

| Fiscal Year Ended June 30 | Governmental Activities | | | | Business-Type Activities | |
|------------------------------|---------------------------------|------------|---|-----------|------------------------------|------------|
| | Transportation Revenue Bonds | | Petroleum Inspection Fee Revenue Bonds | | Clean Water Revenue Bonds | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2014 | \$ 94,835 | \$ 84,950 | \$ 24,165 | \$ 5,007 | \$ 56,250 | \$ 34,657 |
| 2015 | 108,385 | 82,581 | 25,345 | 3,817 | 58,400 | 37,532 |
| 2016 | 107,365 | 77,207 | 26,540 | 2,588 | 59,935 | 34,657 |
| 2017 | 103,865 | 71,928 | 27,800 | 1,270 | 60,775 | 31,729 |
| 2018 | 100,855 | 66,906 | 13,610 | 290 | 60,510 | 28,824 |
| 2019-2023 | 594,190 | 249,433 | -- | -- | 264,315 | 103,269 |
| 2024-2028 | 429,890 | 119,631 | -- | -- | 194,865 | 43,590 |
| 2029-2033 | 249,575 | 30,543 | -- | -- | 67,890 | 7,608 |
| 2034-2038 | 15,110 | 312 | -- | -- | -- | -- |
| Total | 1,804,070 | 783,491 | 117,460 | 12,972 | 822,940 | 321,866 |
| Unamortized Premium | 159,107 | -- | 4,176 | -- | 71,704 | -- |
| Unamortized Discount/Charge | -- | -- | -- | -- | (21,288) | -- |
| Total, net | \$ 1,963,177 | \$ 783,491 | \$ 121,636 | \$ 12,972 | \$ 873,356 | \$ 321,866 |

Qualified Build America Bonds

The State has issued three series of revenue bonds, in the aggregate amount of \$320.8 million, that are "qualified Build America Bonds" pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended (Code). Based on the credit allowed for "qualified Build America Bonds", the State has elected to receive from the United States Treasury on each payment date a direct payment in the amount of 35 percent of the interest payable by the State with respect to such date, and the credit will not be allowed to the taxpayers holding the bonds.

The interest rates on the 2009 Series B (taxable) Transportation Revenue Bonds in the amount of \$147.1 million range from 3.5 percent to 5.8 percent payable semiannually on January 1 and July 1 beginning with the first interest payment date of July 1, 2010. These bonds are callable at par on July 1, 2019 or any date thereafter. The bonds mature beginning July 1, 2015 through 2030.

The interest rates on the 2010 Clean Water Revenue, Series 3 bonds in the amount of \$49.7 million bonds range from 3.957 percent to 5.441 percent payable semiannually on June 1 and December 1 beginning with the first interest payment date of June 1, 2010. These bonds are callable at par on June 1, 2020 or any date thereafter. The bonds mature beginning June 1, 2017 through 2025.

The interest rates on the 2010 Series B (taxable) Transportation Revenue Bonds in the amount of \$123.9 million range from 4.7 percent to 6.0 percent payable semiannually on January 1 and July 1 beginning with the first interest payment

date of July 1, 2011. These bonds are callable at par on July 1, 2020 or any date thereafter. The bonds mature beginning July 1, 2022 through 2031.

Component Units – Discrete Presentation

Wisconsin Housing and Economic Development Authority

Bonds and notes payable at June 30, 2013 of the Wisconsin Housing and Economic Development Authority (Authority) consisted of the following (in thousands):

| | |
|------------------------------------|---------------------|
| Revenue bonds and notes | \$ 1,708,012 |
| Less: Deferred amount on refunding | (1,537) |
| Total, net | \$ 1,706,475 |

Authority's Revenue Bonds and Notes

The Authority's revenue bonds and notes are collateralized by the revenues and assets of the Authority, subject to the provision of bond resolutions and note agreements which pledge particular revenues or assets to specific bonds or notes. The bonds may be redeemed at the Authority's option at various dates at prices ranging from 100 percent to 108 percent of par value. Any particular series may contain both term bonds, subject to mandatory sinking fund requirements, and serial bonds which mature at various dates. The Authority's revenue bonds and notes outstanding at June 30, 2013 consisted of the following (in thousands):

| Series/ Issue | Date | Rates | Maturity Through | Outstanding |
|------------------------|-------|----------------|---------------------|----------------|
| Housing Revenue Bonds: | | | | |
| 1998 A,B&C | 2/98 | 5.3 to 6.88 | 2032 | \$ 8,270 |
| 2002 A,B&C | 5/02 | 5.3 to 5.6 | 2033 | 21,060 |
| 2003 C | 12/03 | 4.3 to 5.25 | 2043 | 12,490 |
| 2003 D&E | 12/03 | Variable | 2044 | 18,815 |
| 2005 A,B&C | 12/05 | Variable | 2035 | 1,845 |
| 2005 D&E | 12/05 | 4.0 to 5.15 | 2045 | 35,045 |
| 2005 F | 12/05 | Variable | 2030 | 106,620 |
| 2006 A&B | 12/06 | 3.65 to 4.75 | 2047 | 15,920 |
| 2006 C&D | 12/06 | Variable | 2037 | 8,060 |
| 2007 A&B | 12/07 | Variable | 2042 | 16,435 |
| 2007 F&G | 12/07 | Variable | 2042 | 15,715 |
| 2008 A,B,C,D, E,F&G | 6/08 | Variable | 2033 | 27,800 |
| 2009 A | 12/09 | Variable | 2042 | 8,955 |
| 2010 A&B | 12/10 | 2.0 to 6.125 | 2043 | 37,155 |
| 2012 A&B | 1/12 | Variable | 2055 | 53,540 |
| 2012 C | 6/12 | Variable | 2044 | 16,670 |
| 2013 A,B&C | 6/13 | 0.396 to 4.875 | 2045 | 21,270 |
| | | | | <u>425,665</u> |

Home Ownership Revenue Bonds:

| | | | | |
|----------------------|-------|--------------|------|------------------|
| 2000 H | 11/00 | Variable | 2024 | 5,845 |
| 2002 B | 2/02 | Variable | 2032 | 2,805 |
| 2002 E & F | 7/02 | Variable | 2032 | 585 |
| 2003 B | 7/03 | Variable | 2034 | 36,565 |
| 2003 C | 11/03 | Variable | 2034 | 12,785 |
| 2003 D | 11/03 | Variable | 2028 | 9,215 |
| 2004 A | 4/04 | Variable | 2035 | 62,380 |
| 2004 C&D | 7/04 | 4.2 to 4.45 | 2017 | 1,750 |
| 2004 D | 7/04 | Variable | 2035 | 45,925 |
| 2004 E | 11/04 | Variable | 2035 | 39,985 |
| 2005 A | 4/05 | Variable | 2036 | 45,815 |
| 2005 C | 6/05 | Variable | 2033 | 61,225 |
| 2005 D&E | 9/05 | Variable | 2036 | 56,545 |
| 2006 A&B | 1/06 | Variable | 2037 | 98,645 |
| 2006 C&D | 5/06 | 4.85 to 6.0 | 2037 | 109,560 |
| 2006 E&F | 10/06 | 4.7 to 5.727 | 2037 | 99,615 |
| 2007 A&B | 4/07 | 4.65 to 5.75 | 2038 | 61,840 |
| 2007 B | 4/07 | Variable | 2026 | 28,785 |
| 2007 C&D | 4/07 | Variable | 2038 | 68,650 |
| 2007 C | 4/07 | 5.125 | 2028 | 9,475 |
| 2007 E&F | 12/07 | 5.125 to 5.5 | 2038 | 35,250 |
| 2007 E&F | 12/07 | Variable | 2038 | 35,305 |
| 2008 A&B | 5/08 | Variable | 2038 | 80,120 |
| 2008 A&B | 5/08 | 5.3 to 5.5 | 2028 | 25,690 |
| 2010 A & 2009 A-1 | 11/10 | 0.72 to 4.5 | 2041 | 86,900 |
| | | | | <u>1,121,260</u> |

Multifamily Housing Bonds:

| | | | | |
|--|---------|------------|---------|---------------------------|
| 2006 A&B | 7/06 | Variable | 2036 | 6,840 |
| 2007 A&B | 6/07 | Variable | 2040 | 11,205 |
| 2007 C | 8/07 | Variable | 2048 | 6,140 |
| 2008 A&B | 8/08 | Variable | 2046 | 13,550 |
| 2009 A | 6/09 | 2.0 to 3.5 | 2018 | 3,250 |
| 2009 A | 6/09 | Variable | 2035 | 15,885 |
| 2009 B-1 | 10/11 | Variable | 2041 | 5,280 |
| 2009 B-2 | 10/11 | Variable | 2041 | 52,450 |
| 2011 A | 9/11 | Variable | 2043 | 9,100 |
| 2012 A&B | 2/12 | Variable | 2014 | 16,000 |
| | | | | <u>139,700</u> |
| Notes Payable | Various | Variable | Various | 13,257 |
| Fac. Refunding | 6/09 | Variable | 2017 | 8,130 |
| Authority's Total Revenue Bonds and Notes | | | | <u>\$1,708,012</u> |

Debt service requirements for principal and interest for the Authority at June 30, 2013 are as follows (in thousands):

| Fiscal Year Ended | Principal | Interest |
|---------------------------------|--------------|------------|
| 2014 | \$ 54,752 | \$ 31,984 |
| 2015 | 34,095 | 31,008 |
| 2016 | 43,580 | 30,574 |
| 2017 | 49,605 | 29,946 |
| 2018 | 53,690 | 29,152 |
| 2019 - 2023 | 314,285 | 126,934 |
| 2024 - 2028 | 343,520 | 89,382 |
| 2029 - 2033 | 378,160 | 50,594 |
| 2034 - 2038 | 305,380 | 20,259 |
| 2039 - 2043 | 84,055 | 3,528 |
| 2044 - 2048 | 25,885 | 274 |
| Thereafter | 21,005 | 36 |
| Total | 1,708,012 | 443,671 |
| Deferred Amount on Refunding | (1,537) | -- |
| Total | \$ 1,706,475 | \$ 443,671 |

Under a Business Development Bond Program and a Multifamily Housing Bond (MHB) Program, revenue bonds are issued which do not constitute indebtedness of the Authority within the meaning of any provision or limitation of the Constitution or Statutes of the State of Wisconsin. They do not constitute or give rise to a pecuniary liability of the Authority or a charge against its general credit. They are payable solely out of the revenues derived pursuant to the loan agreement, or in the event of default of the loan agreement, out of any revenues derived from the sale, releasing or other disposition of the mortgaged property.

Therefore, the bonds are not reflected in the financial statements. As of June 30, 2013 the Authority had issued 83 series of such Business Development Bonds in an aggregate principal amount of \$73.9 million for economic projects in Wisconsin, and another \$42.5 million of revenue bonds had been issued for economic development projects as a result of a 2012 legislative amendment to the program. Further, as of June 30, 2013, \$15.1 million of bonds had been issued under the MHB Program.

A Construction Plus line of credit bears interest at the rate of 1.67 percent at June 30, 2013, based on the 30 day Eurodollar rate. The Home Ownership Mortgage Loan Program line of credit was paid off and closed on March 22, 2013.

Derivatives

The Authority has entered into various interest rate swap agreements. The agreements provide the Authority with synthetic fixed interest rates on a portion of its debt. During the term of the swap agreements, the Authority expects to effectively pay a fixed

rate on the debt. In return, the counterparty pays interest based on a contractually agreed upon variable rate. The Authority will be exposed to variable rates on the outstanding bonds if the counterparty to the swap defaults, the swap is terminated such that the bonds outstanding is greater than the swap notional value, or the effective interest rate, determined by the remarketing agent used for bond holder payments, increases over the variable rate index used for calculating the interest received from the counterparty. All interest rate swap agreements at June 30, 2013 are classified as effective cash flow hedges. The Authority does not intend to terminate these agreements other than at par and for purposes of maintaining a match between bonds outstanding and the swap notional value prior to their maturity.

Using rates as of June 30, 2013, debt service requirements of the Authority's outstanding variable rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows (in thousands). As rates vary, variable rate bond interest payments and net swap payments will vary.

| Fiscal Year Ended | Principal | Interest | Interest Rate | |
|----------------------|------------|-----------|---------------|-------------|
| | | | Swaps, Net | Total |
| 2014 | \$ 48,935 | \$ 1,529 | \$ 30,896 | \$ 81,360 |
| 2015 | 49,160 | 1,368 | 28,948 | 79,476 |
| 2016 | 51,955 | 1,270 | 27,070 | 80,295 |
| 2017 | 55,575 | 1,161 | 24,967 | 81,703 |
| 2018 | 39,445 | 1,034 | 23,114 | 63,593 |
| 2019 - 2023 | 184,555 | 4,202 | 93,280 | 282,037 |
| 2024 - 2028 | 136,955 | 2,668 | 61,707 | 201,330 |
| 2029 - 2033 | 146,015 | 1,485 | 34,252 | 181,752 |
| 2034 - 2038 | 93,180 | 636 | 9,850 | 103,666 |
| 2039 - 2043 | 13,480 | 75 | 973 | 14,528 |
| 2044 - 2048 | 405 | 1 | 11 | 417 |
| Totals | \$ 819,660 | \$ 15,429 | \$ 335,068 | \$1,170,157 |

The following table outlines information related to agreements in place as of June 30, 2013 (in thousands):

| Program and Bond Issue | Notional Value at 6/30/13 | Effective Date | Swap Termination Date | Counterparty Credit Rating | Percent Fixed Rate Paid | Variable Rate/Index Received | Swap Termination Market Value at 6/30/13 |
|--|---------------------------|----------------|-----------------------|----------------------------|-------------------------|--|--|
| Housing Revenue Bonds | | | | | | | |
| 2008 Series G | \$ 21,920 | 5/21/2002 | 11/1/2033 | A-/Baa2 | 4.68 | 70% of one month London Interbank Offered Rate (LIBOR) | \$ (336) |
| 2003 Series D | 8,045 | 1/5/2005 | 5/1/2044 | A+/Aa3 | 4.21 | 65% of one month LIBOR + 25 basis points | (108) |
| 2003 Series E | 10,770 | 1/5/2005 | 5/1/2043 | A+/Aa3 | 4.05 | 63.5% of one month LIBOR + 20 basis points | (140) |
| 2005 Series F | 70,175 | 1/17/2006 | 11/1/2030 | A+/Aa3 | 5.21 | One month LIBOR | (15,629) |
| 2006 Series C | 3,495 | 12/14/2006 | 11/1/2016 | A+/Aa3 | 3.64 | SIFMA + 2 Basis Points | (334) |
| 2006 Series D | 4,565 | 12/14/2006 | 11/1/2016 | A+/Aa3 | 3.64 | SIFMA + 2 Basis Points | (437) |
| 2007 Series A | 9,660 | 12/19/2007 | 11/1/2042 | A+/Aa3 | 4.72 | SIFMA + 6 Basis Points | (138) |
| 2007 Series B | 6,775 | 12/19/2007 | 11/01/2039 | A+/Aa3 | 4.58 | SIFMA + 2 Basis Points | (96) |
| 2007 Series F | 10,670 | 12/19/2007 | 11/01/2025 | A+/Aa3 | 4.01 | SIFMA + 6 Basis Points | (1,701) |
| 2007 Series G | 5,045 | 12/19/2007 | 11/01/2025 | A+/Aa3 | 4.01 | SIFMA + 6 Basis Points | (804) |
| | | | | | | | <u>(19,723)</u> |
| Multifamily Housing Bonds | | | | | | | |
| 2006 Series A&B | 6,840 | 7/19/2006 | 10/1/2013 | A+/Aa3 | 4.21 | SIFMA + 2 Basis Points | (69) |
| 2007 Series A | 7,355 | 6/29/2007 | 10/1/2022 | A+/Aa3 | 4.43 | SIFMA + 6 Basis Points | (1,367) |
| 2007 Series B | 3,850 | 6/29/2007 | 10/1/2022 | A+/Aa3 | 5.9 | One month LIBOR – 2 Basis Points | (1,074) |
| 2007 Series C | 6,140 | 8/2/2007 | 9/1/2024 | A+/Aa3 | 4.33 | SIFMA + 2 Basis Points | (1,176) |
| 2008 Series A | 6,735 | 8/28/2008 | 10/1/2026 | AA-/Aa3 | 3.89 | SIFMA + 2 Basis Points | (999) |
| 2008 Series A | 4,330 | 8/28/2008 | 10/1/2026 | AA-/Aa3 | 3.89 | SIFMA + 2 Basis Points | (642) |
| 2008 Series B | 2,485 | 8/28/2008 | 10/1/2026 | AA-/Aa3 | 5.08 | LIBOR + 7 Basis Points | (556) |
| 2011 Series A | 9,100 | 9/1/2012 | 9/1/2012 | A/A2 | 2.10 | SIFMA | (423) |
| | | | | | | | <u>(6,306)</u> |
| 1987 Home Ownership Revenue Bonds | | | | | | | |
| 2002 Series B | 2,805 | 2/6/2002 | 3/1/2020 | A+/Aa3 | 5.88 | One month LIBOR + 35 Basis Points | (346) |
| 2003 Series B | 36,565 | 7/29/2003 | 9/1/2034 | A+/Aa3 | 3.94 | 65 percent of one month LIBOR + 25 Basis Points | (4,436) |
| 2004 Series A | 31,020 | 4/29/2004 | 9/1/2022 | A+/Aa3 | 4.47 | SIFMA + 8 basis points | (864) |
| 2004 Series A | 31,360 | 4/29/2004 | 3/1/2035 | A+/Aa3 | 4.27 | 65 percent of one month LIBOR + 25 Basis Points | (807) |
| 2005 Series A | 45,815 | 4/12/2005 | 3/1/2036 | A-/Baa2 | 3.61 | 65 percent of one month LIBOR + 25 Basis Points | (2,185) |
| 2005 Series D | 40,190 | 9/29/2005 | 9/1/2036 | AAA/Aa3 | 3.54 | 65 percent of one month LIBOR + 25 Basis Points | (1,897) |
| 2007 Series B | 28,785 | 4/10/2007 | 9/1/2026 | AAA/Aa3 | 5.20 | One month LIBOR | (3,116) |
| 2007 Series E | 27,980 | 12/18/2007 | 9/1/2038 | AAA/Aa3 | 3.96 | 62 percent of one month LIBOR + 38 Basis Points | (2,729) |
| 2007 Series F | 7,325 | 12/18/2007 | 9/1/2014 | AAA/Aa3 | 4.43 | One month LIBOR | (172) |
| | | | | | | | <u>(16,552)</u> |
| 1988 Home Ownership Revenue Bonds | | | | | | | |
| 2002 Series F | 585 | 7/11/2002 | 9/1/2014 | A+/Aa3 | 5.20 | Three month LIBOR + 40 Basis Points | (11) |
| 2003 Series C | 8,435 | 11/4/2003 | 3/1/2019 | A-/Baa2 | 3.32 | 65 percent one month LIBOR + 25 Basis Points | (43) |
| 2003 Series C | 4,350 | 11/4/2003 | 3/1/2034 | A-/Baa2 | 3.81 | 65 percent one month LIBOR + 25 Basis Points | (74) |
| 2004 Series D | 45,925 | 7/27/2004 | 9/1/2035 | A-/Baa2 | 3.73 | 65 percent one month LIBOR + 25 Basis Points | (1,891) |
| 2004 Series E | 39,985 | 11/23/2004 | 9/1/2035 | A+/Aa3 | 3.99 | 65 percent one month LIBOR + 25 Basis Points | (5,589) |
| 2005 Series C | 56,480 | 8/3/2005 | 3/1/2024 | A+/Aa3 | 3.34 | 65 percent one month LIBOR + 25 Basis Points | (2,886) |
| 2005 Series C | 4,745 | 8/3/2005 | 9/1/2033 | A+/Aa3 | 4.07 | 65 percent one month LIBOR + 25 Basis Points | (114) |
| 2006 Series A | 72,325 | 1/19/2006 | 3/1/2029 | A+/Aa3 | 3.65 | 65 percent one month LIBOR + 25 Basis Points | (4,151) |
| 2007 Series C | 22,575 | 6/28/2007 | 9/1/2023 | A+/Aa3 | 4.63 | SIFMA + 8 Basis Points | (1,108) |
| 2007 Series C | 17,200 | 6/28/2007 | 9/1/2016 | A+/Aa3 | 4.11 | SIFMA + 8 Basis Points | (909) |
| 2007 Series D | 10,145 | 6/28/2007 | 9/1/2016 | A+/Aa3 | 5.62 | One month LIBOR | (769) |
| 2007 Series D | 18,730 | 6/28/2007 | 9/1/2028 | A+/Aa3 | 6.01 | One month LIBOR | (3,548) |
| 2008 Series A | 30,835 | 5/15/2008 | 3/1/2019 | AA-/Aa3 | 3.35 | SIFMA + 8 Basis Points | (2,282) |
| 2008 Series A | 37,545 | 5/15/2008 | 9/1/2038 | AAA/Aa3 | 3.86 | 62 percent of one month LIBOR + 38 Basis Points | (2,352) |
| | | | | | | | <u>(25,727)</u> |
| | | | | | | Total Swap Termination Market Value | <u>(\$68,308)</u> |

Swap Valuation — The Swap Termination Market Values presented above were estimated by either the Authority's counterparties to the swap agreements or by a third-party consultant, using proprietary valuation models based on industry valuation methodology, including the use of forward yield curves, zero curve rates, and market implied volatility assumptions. The synthetic instrument method and the regression analysis method were used to determine whether the derivative was an effective hedge or not based on criteria provided by GASB Statement No. 53 "Accounting and Financial Reporting for Derivative Instruments". The fair values of the hedgeable derivatives are presented in the Statements of Revenue, Expenses and Change in Net Position. The market values in the table above represent the termination payments that would have been due had the swaps terminated on June 30, 2013. A positive value represents money due to the Authority by the counterparty upon termination while a negative value represents money payable by the Authority.

Termination Risk — Counterparties to the Authority's swap agreements have ordinary termination rights that require a settlement payment by the Authority or the counterparty based on the market value of the swap agreement at the time of termination. As of June 30, 2013, no counterparty termination events have occurred.

Credit Risk — The Authority is exposed to credit risk, the risk that the counterparty fails to perform according to its contractual obligations, on all swap agreements. As of June 30, 2013, the counterparty or counterparty guarantor in 61 percent of the outstanding swaps were rated A+/Aa3, 17 percent were rated AAA/Aa3, 15 percent were rated A-/Baa2, and the remaining counterparties were rated AA-/Aa3 and A/A2 by S&P and Moody's, respectively. A collateral agreement has been entered into with all but one of the swap counterparties, to help reduce the Authority's exposure to credit risk. Collateral is required based on the counterparty's credit rating and the allowed threshold under each credit rating level. As of June 30, 2013, the counterparty rated A+/Aa3, has collateral requirements starting at BBB+/Baa1 and a posting threshold of \$500,000. The counterparty rated A-/Baa2 has collateral requirements starting at AA-/Aa3 and a posting threshold of \$50.0 million. Based on the current rating of A-/Baa2 the posting threshold level is lowered to \$100 thousand. The termination payments of this counterparty are guaranteed by a credit support provider rated Aa3/AAA. The counterparty rating of AA-/Aa3 has collateral requirements starting at A+/A1 and a posting threshold of \$10.0 million. The counterparties rated AAA/Aa3 and A/A2 do not have a collateral agreement with the Authority. Based on the fair values as of June 30, 2013, no collateral is required from any counterparty.

Basis and Interest Rate Risk — This risk arises when the amount that is paid by the swap counterparty is different than the variable rate interest payment due to the bondholders. For the Authority, this can happen when the swap counterparty payment is based on a taxable index (LIBOR) while the underlying bonds are traded in

the tax exempt market. Based on market conditions, the relationship between taxable and tax exempt rates may vary. To minimize this risk, the Authority has chosen to use the formula that best represents the relationship between the taxable index and the Authority's historical bond rates. In addition, even when the swap counterparty payment is based on a tax exempt index (SIFMA) and the underlying bonds are tax exempt, or the swap counterparty payment is based on a taxable index (LIBOR) and the underlying bonds are taxable, the Authority's variable rate bonds may be traded differently from the market indices.

Rollover Risk — The Authority is exposed to rollover risk only on swaps that mature or may be terminated at the counterparty's option prior to the maturity of the associated bond. The Authority's swap agreements have limited rollover risk. For HORB issues, the swap agreements contain scheduled reductions to the notional amounts that are expected to follow the scheduled and anticipated reductions in the associated bonds under a wide range of mortgage prepayment speeds. In the case of the HRB and MHB issues, the underlying mortgages will adjust at the swap termination date to current market conditions.

The following swaps expose the Authority to rollover risk:

| Associated Debt Issuance | Bond Maturity Date | Swap Termination Date |
|--------------------------------|--------------------------|-----------------------------|
| 1987 HORB 2002 Series B | 9/1/2032 | 3/1/2020 |
| 1987 HORB 2007 Series F | 9/1/2018 | 9/1/2014 |
| 1988 HORB 2002 Series F | 9/1/2032 | 9/1/2014 |
| 1988 HORB 2003 Series C | 9/1/2033 | 3/1/2019 |
| 1988 HORB 2005 Series C | 3/1/2028 | 3/1/2024 |
| 1988 HORB 2006 Series A | 9/1/2030 | 3/1/2029 |
| 1988 HORB 2007 Series C | 9/1/2035 | 9/1/2016 |
| 1988 HORB 2007 Series D | 9/1/2034 | 9/1/2016 |
| 1988 HORB 2007 Series D | 3/1/2038 | 9/1/2028 |
| 1988 HORB 2008 Series A | 9/1/2038 | 3/1/2019 |
| 1974 HRB 2006 Series C&D | 5/1/2037 | 11/1/2016 |
| 1974 HRB 2007 Series F&G | 5/1/2042 | 11/1/2025 |
| 2006 MHB 2006 Series A&B | 10/1/2036 | 10/1/2013 |
| 2006 MHB 2007 Series A&B | 10/1/2040 | 10/1/2022 |
| 2006 MHB 2007 Series C | 10/1/2048 | 9/1/2024 |
| 2006 MHB 2008 Series A&B | 4/1/2046 | 10/1/2026 |
| 2011 MHB 2011 Series A | 12/1/2043 | 9/1/2018 |

University of Wisconsin Hospitals and Clinics Authority (the Hospital)

In October 2002, the Hospital issued \$68.5 million of Hospital Revenue Bonds, Series 2002 (Series 2002 Bonds) consisting of \$55.6 million Series 2002A Short-term Adjustable Securities and \$12.9 million Series 2002B Fixed Interest Rate Bonds. The bond proceeds were designated to finance-qualified capital projects. In March 2009, the Hospital refunded \$55.6 million of the outstanding Series 2002A bonds with Variable Rate Demand Revenue Bonds, Series 2009A. The refunding of the Series 2002A bonds resulted in the recognition of a deferred outflow of resources of \$641 thousand. Principal payments on the remaining Series 2002B Bonds of \$1.5 million was paid in April 2013. Interest rates for the Series 2002B Bonds range from 5.25 percent to 5.50 percent and payable semiannually on April 1 and October 1 of each year. The effective annual interest rate of the Series 2002B Bonds was 5.5 percent in 2013 and 6.6 percent in 2012.

In October 2002, the Hospital entered into an interest rate swap in order to convert a portion of the Series 2002A Short-term Adjustable Rate Securities to fixed rates. The notional amount of this swap agreement was \$20.9 million and \$21.4 million at June 30, 2013 and 2012, respectively, and matures on April 1, 2022. This swap had been applied to the Series 2009A with the refunding of the Series 2002A bonds and is now applied to the Series 2011A bonds with the refunding of the Series 2009A bonds. The terms of the swap agreement are for the Hospital to pay the counterparty a fixed rate of 3.85 percent per annum, payable semiannually, and the Hospital to receive a floating rate of 70 percent of one-month London InterBank Offered Rate (LIBOR) per annum, payable monthly. In 2013 and 2012, the effective interest rate received by the Hospital was 0.2 percent. The fair value of the swap agreement was \$(2.5) million and \$(3.5) million at June 30, 2013 and 2012, respectively.

In November 2004, the Hospital entered into an interest rate swap in order to convert a portion of the Series 1997 Variable Rate Demand Bonds to fixed rates. This swap had been applied to the 2008B bonds with the refunding of Series 1997 bonds and is now applied to the Series 2011B bonds with the refunding of Series 2008B bonds. The notional amount of this swap agreement was \$24.2 million and \$25.3 million at June 30, 2013 and 2012, respectively, and matures on April 1, 2021. The terms of the swap agreement are for the Hospital to pay the counterparty a fixed rate of 3.45 percent per annum, payable semiannually, and the Hospital to receive a floating rate of 70 percent of one-month LIBOR per annum, payable monthly. In 2013 and 2012, the effective interest rate received by the Hospital was 0.2 percent. The fair value of the swap agreement was \$(2.5) million and \$(3.5) million at June 30, 2013 and 2012, respectively.

In September 2005, the Hospital issued \$59.8 million of Variable Rate Demand Hospital Revenue Bonds, Series 2005 (Series 2005 Bonds). The bond proceeds were designated to refund a portion

of the then outstanding Series 2000 Bonds. As a result of advanced refunding, the Hospital recognized a deferred loss of \$7.3 million which is being amortized to interest expense over the term of the debt. There are no amounts outstanding on the defeased bonds at June 30, 2013 and 2012. In March 2009, the Hospital refunded \$58.1 million of the outstanding Series 2005 bonds with Variable Rate Demand Hospital Revenue Bonds, Series 2009B and transferred the April 2009 principal payment of \$495 thousand into escrow. The refunding of the Series 2005 Bonds resulted in the recognition of a deferred outflow of resources of \$423 thousand.

In September 2005, the Hospital entered into an interest rate swap in order to convert the Series 2005 Variable Rate Demand Hospital Revenue Bonds to fixed rate. This swap has been applied to the Series 2009B with the refunding of the Series 2005 Bonds. In March 2013, a portion of the swap in the amount of \$21.8 million was unwound in connection with the Series 2013A financing. The notional amount of the swap agreement was \$29.8 million and \$54.8 million at June 30, 2013 and 2012, respectively, and matures on April 1, 2029. The Hospital paid \$2.6 million in connection with the partial termination. The terms of the swap agreement are for the Hospital to pay the counterparty a fixed rate of 3.31 percent per annum, payable monthly, and the Hospital to receive a floating rate of 58.3 percent of one-month LIBOR per annum plus 0.36 percent, payable monthly. In 2013 and 2012, the effective interest rate received by the Hospital was 0.5 percent. The fair value of the swap agreement was \$(4.3) million and \$(9.8) million at June 30, 2013 and 2012, respectively.

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

In May 2008, the Hospital issued \$50.4 million of Fixed Rate Bonds, Series 2008A (Series 2008A Bonds) through a private placement. The bond proceeds were used to refund \$50.0 million of Variable Rate Demand Hospital Revenue Bonds, Series 1997, resulting in the recognition of a deferred outflow of resources of \$271 thousand, which is being amortized to interest expense over the term of the debt. Principal payments on the remaining Series 2008A Bonds, ranging from \$1.1 million to \$2.0 million, are due annually from April 2014 through April 2023. Interest is payable semiannually. In 2013 and 2012, the effective interest rate was 5.0 and 5.3 percent, respectively. In March 2013, the Hospital refunded \$31.8 million of the outstanding Series 2008A Bonds with Fixed Rate Demand Hospital Revenue Bonds, Series 2013A. The refunding of the Series 2008A Bonds resulted in the recognition of a deferred outflow of resources of \$6.3 million.

In June 2008, the Hospital issued \$61.0 million of Variable Rate Demand Revenue Refunding Bonds, Series 2008B Bonds, secured by an irrevocable transferable direct pay letter of credit

issued by a commercial bank. The bonds proceeds were used to refund \$60.0 million of Hospital Revenue Bonds consisting of Short-term Adjustable Rate Securities, Series 2004, resulting in the recognition of a deferred outflow of resources of \$465 thousand, which is being amortized to interest expense over the term of the debt. In May 2011, the Hospital refunded \$61.0 million of the outstanding Series 2008B bonds with Revenue Refunding Bonds, Series 2011B. The refunding of the Series 2008B bonds resulted in the recognition of a deferred outflow of resources of \$474 thousand.

In September 2008, the Hospital entered into an equipment financing agreement with GE Government Finance, Inc., in the amount of \$9.3 million. Principal and interest payments are made monthly commencing on November 1, 2008, for seven years. In 2013 and 2012, the effective interest rate was 4.4 and 4.5 percent, respectively.

In March 2009, the Hospital issued \$57.1 million of Variable Rate Demand Revenue Refunding Bonds, Series 2009A (Series 2009A Bonds), secured by an irrevocable transferable direct pay letter of credit issued by a commercial bank. The bond proceeds were used to refund \$55.6 million of the outstanding Hospital Revenue Bonds consisting of Short-Term Adjustable Rate Securities, Series 2002A. In May 2011, the Hospital refunded the outstanding \$57.1 million of the Series 2009A bonds with Revenue Refunding Bonds, Series 2011A and the balance of the Series 2009A Interest Fund. The refunding of the Series 2009A bonds resulted in the recognition of a deferred outflow of resources of \$488 thousand.

In March 2009, the Hospital also issued \$59.3 million of Variable Rate Demand Revenue Refunding Bonds, Series 2009B (Series 2009B Bonds). The bond proceeds were used to refund \$58.1 million of Variable Rate Demand Revenue Refunding Bonds, Series 2005. Principal payments on the remaining Series 2009B Bonds, ranging from \$50 thousand to \$8.2 million, are due annually from April 2014 through April 2029. Series 2009B Bonds bear interest at a weekly rate determined by a remarketing agent. Interest is payable monthly. The effective annual interest rate was 0.1 percent in 2013 and 2012. In March 2013, the Hospital refunded \$21.8 million of the outstanding Series 2009B Bonds with Fixed Rate Demand Hospital Revenue Bonds, Series 2013A.

The Series 2009B Bonds are secured by an irrevocable transferable direct pay letter of credit issued by a commercial bank. The initial letter of credit agreement has an expiration date of March 2014, but it was extended through March 2019 on July 31, 2013. In the event of a draw under the letter of credit, it does not require any principal payments within the first year; interest payments are due monthly. Outstanding principal payments under the letter of credit would revert to a term out loan after the first year. Any obligations under the term out loans are repayable in equal quarterly installments based on a four-year straight-line amortization commencing on the 367th day after the draw with final payments of the outstanding balances on the earliest to occur of:

(a) the date on which the letter of credit is replaced or substituted; (b) five (5) years following the date of the draw preceding such Term Out Loan; (c) the date the bonds are successfully remarketed; or (d) the date on which all amounts due have been accelerated pursuant to the letters-of-credit. The letter-of-credit agreements include a material adverse effect clause. The agreements provide specific details as to what constitutes a material adverse effect and that a material adverse effect could constitute an event of default under the letter of credit. At June 30, 2013 and 2012, there were no amounts outstanding under the letter of credit.

In June 2009, the Hospital issued \$5.3 million of Fixed Rate Hospital Revenue Bonds, Series 2009C (Series 2009C Bonds) through a private placement. The bond proceeds were designated to finance qualified capital projects. The effective annual interest rate on the Series 2009C bonds was 4.3 percent in 2013 and 5.1% in 2012. In March 2013, the Hospital refunded all of the outstanding Series 2009C bonds with Fixed Rate Demand Hospital Revenue Bonds, Series 2013A. The refunding of the Series 2009C bonds resulted in the recognition of a deferred outflow of resources of \$192 thousand.

In May 2011, the Hospital issued \$56.7 million of Revenue Refunding Bonds, Series 2011A to a commercial bank in the form of a direct bond purchase agreement. The bond proceeds were used to refund \$57.1 million of Variable Rate Demand Revenue Bonds, Series 2009A. Principal payments on the remaining Series 2011A Bonds, ranging from \$2.1 million to \$3.9 million, are due annually from April 2014 through April 2032. Series 2011A bonds bear interest at 74 percent of LIBOR, plus 1.04 percent, payable monthly. In 2013 and 2012, the effective interest rate was 1.2 percent.

In May 2011, the Hospital also issued \$61.0 million of Revenue Refunding Bonds, Series 2011B to a commercial bank in the form of a direct bond purchase agreement. The bond proceeds were used to refund \$61.0 million of Variable Rate Demand Bonds, Series 2008B. Principal payments on the remaining Series 2011B Bonds, ranging from \$10.0 million to \$15.3 million, are due annually in April 2030 through April 2034. Series 2011B bonds bear interest at 74 percent of LIBOR, plus 1.04 percent, payable monthly. The effective interest rate was 1.3 percent in 2013 and 2012. The 2011B bond documents include a material adverse effect clause. The bond documents provide specific details as to what constitutes a material adverse effect and that a material adverse effect could constitute an event of default.

In March 2013, the Hospital issued \$272.6 million of Fixed Rate Hospital Revenue Bonds, Series 2013A. The bond proceeds are designated to finance qualified capital projects and to refund a portion of the outstanding 2008A and 2009B bonds, the remainder of 2009C bonds, and a partial termination of the Series 2009B interest swap agreement. The Series 2013A bonds were sold at a premium of \$20.4 million which will be amortized to interest

expense on a straight-line basis over the life of the bonds. Principal payments on the 2013A bonds range from \$1.2 million to \$25.0 million and are due annually beginning in April 2014 through April 2043. Interest is payable semiannually at rates ranging from 3.0% to 5.0%. The effective interest rate in 2013 was 3.9%.

In March 2013, the Hospital entered into an interest-free equipment financing agreement with GE Capital Corporation in the amount of \$16.0 million. Principal payments are due annually beginning in April 2013 for three years.

The Hospital is obligated under capital leases covering equipment that expire at various dates during the next five years. At June 30, 2013, the Hospital had \$8.8 million of gross amount of equipment recorded and related accumulated depreciation of \$270 thousand, recorded under capital leases.

The Series 2008A Bonds, Series 2009B Bonds, Series 2011A Bonds, Series 2011B Bonds and Series 2013A Bonds are collateralized by a security interest in substantially all of the Hospital's revenue. The borrowing agreements contain various covenants and restrictions, including compliance with the terms and conditions of a Lease Agreement and provisions limiting the amount of additional indebtedness that may be incurred. Management believes that the Hospital is in compliance with all debt covenants and has not incurred a material adverse effect as defined at June 30, 2013 and 2012.

Wisconsin statutes require the Hospital to obtain approval of additional bond issuance from its Board of Directors, maintain an unenhanced bond rating in the category of "A" or better from Standard & Poor's Corporation (S&P) and Moody's Investor Service, Inc. (Moody's), and notify the State Joint Committee on Finance. The Hospital's current ratings from S&P and Moody's are A+ and Aa3, respectively.

Prior to 2012, all of the Hospital's swap agreements were reported as ineffective under the guidelines of GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments (Statement No. 53). Accordingly, the changes in fair market value were reflected as nonoperating income or expense in the statement of revenues, expenses and changes in net position. In 2012, the Hospital determined that the derivative instruments associated with the Series 2011A and Series 2011B bonds have been effective since inception, the year the Hospital adopted Statement No. 53. Accordingly, an immaterial adjustment of \$5.1 million is reflected in the 2012 net increase in fair value of swaps in the statement of revenues, expenses and changes in net position to record the cumulative change in fair market values associated with those effective swaps through June 30, 2011 within deferred outflows of resources on the statement of net position. The change in fair market value of the effective swaps in 2012 of \$(2.0) million is reflected as an adjustment to deferred outflows of resources.

There are collateral posting provisions on the swap agreement. The collateral amount required is determined based on the fair value of the swap, less the applicable threshold of \$7.0 million at the Hospital's current rating. Collateral valuations are performed daily, based on the official market closing curve. While the counterparty holds the collateral, the funds will earn the overnight Federal Funds interest rate, payable monthly. No collateral was required as of June 30, 2013, and collateral of \$3.0 million was required as of June 30, 2012.

The Hospital will be exposed to variable rates if the counterparty to the swap defaults or if the swaps are terminated. The swap agreements include bilateral additional termination event provisions. Under the provisions, either party has the option, but not the obligation, to terminate the swap transaction if the other party gets downgraded below certain thresholds. Neither the Hospital nor the counterparties have been downgraded below these thresholds at June 30, 2013 and 2012. The swaps expose the Hospital to basis risk should the relationship between LIBOR and variable rate coverage, changing the synthetic rate on the bonds. As of June 30, 2013 and 2012, the Hospital was not exposed to credit risk because each of the swaps had a negative fair value. However, should interest rates change and any one of the fair value of the swaps become positive, the Hospital would be exposed to credit risk in the amount of the swap's fair value.

Aggregate scheduled principal and interest repayments on long-term debt as stated under the actual debt terms, including the effect of the swaps based on the effective interest rate at June 30, 2013 are as follows (in thousands):

| Fiscal Year Ended | Interest Rate | | | Total |
|----------------------|------------------|-------------------|------------------|------------------|
| | Principal | Interest | Swap, Net | |
| 2014 | \$ 15,143 | \$ 15,243 | \$ 2,422 | \$ 32,808 |
| 2015 | 15,623 | 14,360 | 2,281 | 32,264 |
| 2016 | 14,511 | 14,015 | 2,120 | 30,646 |
| 2017 | 9,741 | 13,721 | 1,946 | 25,408 |
| 2018 | 10,000 | 13,407 | 1,758 | 25,165 |
| 2019-2023 | 50,630 | 61,542 | 5,826 | 117,998 |
| 2024-2028 | 63,135 | 51,988 | 3,482 | 118,605 |
| 2029-2033 | 77,155 | 46,485 | 230 | 123,870 |
| 2034-2038 | 92,395 | 36,739 | -- | 129,134 |
| 2039-2043 | 115,240 | 14,113 | -- | 129,353 |
| Premium on Bonds | 20,217 | -- | -- | 20,217 |
| | <u>\$483,790</u> | <u>\$ 281,613</u> | <u>\$ 20,065</u> | <u>\$785,468</u> |

The revenue bonds of the Hospital do not constitute debt of the State nor is the State liable on those bonds.

Debt service requirements for principal and interest for the Hospital's revenue bonds at June 30, 2013 are as follows (in thousands):

| Fiscal Year Ended | Principal | Interest |
|-------------------|------------|------------|
| 2014 | \$ 14,481 | \$ 17,611 |
| 2015 | 15,346 | 16,613 |
| 2016 | 14,409 | 16,121 |
| 2017 | 9,713 | 15,658 |
| 2018 | 9,971 | 15,157 |
| 2019-2023 | 50,505 | 67,352 |
| 2024-2028 | 63,135 | 55,470 |
| 2029-2033 | 77,155 | 46,716 |
| 2034-2038 | 92,395 | 36,738 |
| 2039-2043 | 115,240 | 14,114 |
| Total | 462,351 | 301,550 |
| Premium/Discount | 20,217 | -- |
| Total | \$ 482,568 | \$ 301,550 |

University of Wisconsin Foundation

Long-term debt of the University of Wisconsin Foundation consists of a note payable. The note is payable in five annual installments of \$532,731, with a final payment due in January 2014. All payments on the note apply to principal. The balance outstanding as of December 31, 2012 is \$1.1 million.

Future maturities of long-term debt as of December 31, 2012 are as follows:

| Year ended December 31 | Total Principal |
|---------------------------|-----------------|
| 2013 | 532,731 |
| 2014 | 532,730 |
| Total | \$1,065,461 |

D. Refundings, Exchanges and Early Extinguishments

Refunding Provisions of GASB Statement No. 23

The State implemented the provisions of GASB Statement No. 23. *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities* beginning with Fiscal Year 1996. This Statement requires proprietary activities to adopt certain accounting and reporting changes for both current refunding and advance refunding resulting in defeasance of debt. GASB Statement No. 23 permits, but does not require, retroactive application of its provisions. The State has chosen not to apply

the provisions retroactively to previously issued financial statements.

Current Year Refundings/General Obligation Bonds

There were no refundings of General Obligation bonds during the current fiscal year.

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, 2013, approximately \$442.3 million of general obligation bond principal have been defeased.

Current Year Refundings/Revenue Bonds

In March 2013, the State issued \$259.7 million of Transportation Revenue Bonds (2013 Series 1). Total proceeds were \$312.9 million, of which \$165.0 million was deposited in an escrow account to provide for future debt service payments and redemption of \$149.5 million of various transportation revenue bonds outstanding at the time of the refunding, \$146.5 was deposited in a program account to pay for certain State transportation facilities and highway projects in the amount of \$123.9 million, and the remaining amount to pay for underwriting costs. As a result of the advance refunding, the \$149.5 million of various transportation revenue bonds for which future debt service payments and redemption are paid from the escrow account are considered defeased and the associated liability removed from the financial statements.

Also, in March 2013, the State issued \$82.8 million of Clean Water Revenue Refunding Bonds (2013 Series 1). The proceeds of \$98.9 million were deposited in an escrow account to provide for future debt service payments and redemption of \$86.2 million of various clean water revenue bonds outstanding at the time of the refunding. As a result of the advance refunding, the \$86.2 million of various clean water revenue bonds for which future debt service payments and redemption are paid from the escrow account are considered defeased and the associated liability removed from the financial statements.

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, 2013, revenue bonds outstanding of \$385.1 million have been defeased.
- Transportation revenue bonds – At June 30, 2013, revenue bonds outstanding of \$553.8 million have been defeased.

Prior Year Refundings/Component Units

Wisconsin Housing and Economic Development Authority

In 1990 the Wisconsin Housing and Economic Development Authority (the Authority) defeased \$48.4 million of Insured Mortgage Revenue Bonds and as of June 30, 2013, the remaining outstanding defeased debt was \$14.0 million.

Early Extinguishments/Redemptions

Component Units

Wisconsin Housing and Economic Development Authority

During 2013, the Wisconsin Housing and Economic Development Authority (the Authority) redeemed various outstanding bonds early according to the redemption provisions in the bond resolutions.

A summary of these early redemptions follows (in thousands):

| Bond Issue | Redemptions 2013 |
|---------------------------------------|-----------------------------|
| Home Ownership Revenue Bond | |
| Resolutions: | |
| 1987 | \$ 129,275 |
| 1988 | 206,015 |
| Home Ownership Mortgage Revenue Bonds | 204,725 |
| Housing Revenue Bonds | 34,875 |
| Multifamily Housing Bonds | 10,520 |
| General Fund | 565 |
| Total | <u>\$ 585,975</u> |

E. Short-term Financing

The State of Wisconsin Building Commission, an agency of the State, is empowered by law to consider, authorize, issue, and sell debt obligations of the State. To date, the Commission has authorized the issuance of notes. When this short-term debt does not meet long-term financing criteria, it is classified among fund liabilities.

General Obligation Commercial Paper Notes

The State has authorized General Obligation Commercial Paper Notes for the acquisition, construction, development, extension, enlargement, or improvement of land, waters, property, highway, buildings, equipment or facilities. Periodically, additional commercial paper notes are issued to pay for maturing commercial paper notes.

The State intends to make annual May 1 payments on the outstanding commercial paper notes that reflect principal amortization of the notes. The State also intends to make regular payments to the issuing and paying agent that will be used to pay interest due on maturing notes. On June 30, 2013, the amount of commercial paper notes outstanding was \$141.0 million which had interest rates ranging from .12 percent to .15 percent and maturities ranging from July 2, 2013 to October 1, 2013.

Short-term debt activity for the year ended June 30, 2013 for general obligation commercial paper notes was as follows (in millions):

| Balance July 1, 2012 | Additions | Reductions | Balance June 30, 2013 |
|-------------------------|-----------|------------|--------------------------|
| \$ 178.9 | \$ -- | \$ 37.9 | \$ 141.0 |

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, 2013, the amount of extendible municipal commercial paper outstanding was \$697.1 million which had interest rates ranging from .13 percent to .21 percent and maturities from July 1, 2013, to October 1, 2013.

Short-term debt activity for the year ended June 30, 2013 for general obligation extendible municipal commercial paper was as follows (in millions):

| Balance July 1, 2012 | Additions | Reductions | Balance June 30, 2013 |
|-------------------------|-----------|------------|--------------------------|
| \$ 521.7 | \$ 273.2 | \$ 97.8 | \$ 697.1 |

Petroleum Inspection Fee Revenue Extendible Municipal Commercial Paper

The State has authorized petroleum inspection fee revenue extendible municipal commercial paper to pay the costs of claims under the Petroleum Environmental Cleanup Fund Award (PECFA) Program. Periodically, additional extendible municipal commercial paper is issued to pay for maturing paper. The State may periodically deposit money into the Junior Subordinate Principal Account, which represents principal payments to be made on the extendible municipal commercial paper. The State also intends to make regular deposits to the issuing and paying agent that will be used to pay interest due on maturing paper. At June 30, 2013, the amount of petroleum inspection fee revenue extendible commercial paper outstanding was \$71.2 million which had interest rates ranging from .19 percent to .21 percent and maturities ranging from July 3, 2013 to August 1, 2013.

Short-term debt activity for the year ended June 30, 2013 for the petroleum inspection fee revenue extendible municipal commercial paper was as follows (in millions):

| Balance July 1, 2012 | Additions | Reductions | Balance June 30, 2013 |
|-------------------------|-----------|------------|--------------------------|
| \$ 71.2 | \$ -- | \$ -- | \$ 71.2 |

Transportation Revenue Commercial Paper Notes

The State authorized transportation revenue commercial paper notes to pay the costs of major highway projects and certain State transportation facilities. Periodically, additional commercial paper notes are issued to pay for maturing commercial paper notes. The State intends to make annual July 1 payments on the commercial paper notes that reflect principal amortization of the notes. The State also intends to make regular deposits to the issuing and paying agent that will be used to pay interest due on maturing notes. At June 30, 2013, the amount of transportation revenue commercial paper notes outstanding was \$112.2 million which had interest rates ranging from .17 percent to .18 percent and maturities ranging from August 7, 2013 to September 12, 2013.

Short-term debt activity for the year ended June 30, 2013 for the transportation revenue commercial paper notes was as follows (in millions):

| Balance July 1, 2012 | Additions | Reductions | Balance June 30, 2013 |
|-------------------------|-----------|------------|--------------------------|
| \$ 129.8 | \$ -- | \$ 17.6 | \$ 112.2 |

F. Certificates of Participation

The State established a facility in 1992 that provides lease purchase financing for property and certain service items acquired by State agencies. This facility is the Third Amended and Restated Master Lease 1992-1. Pursuant to the terms and conditions of this agreement, the trustee for the facility issues parity Master Lease certificates of participation that evidence proportionate interest of the owners thereof in lease payments. A common pool of collateral ratably secures all Master Lease certificates. Title in the property and service items purchased under the facility remains with the State and the State grants to the Trustee, for the benefit of all Master Lease certificate holders, a first security interest in the leased items. At June 30, 2013, the following parity Master Lease certificates were outstanding:

- Master Lease Certificates of Participation of 2006, Series A, in the amount of \$12.9 million. This series of Master Lease certificates has interest rates ranging from 4.0 percent to 5.0 percent and matures semi-annually through September 1, 2016.
- Master Lease Certificates of Participation of 2010, Series A (Revolving Credit Agreement – Taxable) in the amount of \$21.5 million. This Master Lease certificate evidences the State's obligation to repay advances under a Revolving Credit Agreement, dated June 22, 2007, as amended between U.S. Bank National Association (as trustee), the State of Wisconsin, acting by and through its Department of Administration, as lessee, and Dexia Credit Local. The scheduled termination date under the Revolving Credit Agreement, as amended, is September 1, 2013. This Master Lease certificate shall bear interest at the rates and mature on the dates provided for in the Revolving Credit Agreement. The balance of this Master Lease certificate may include some accrued interest that will be payable at the next semi-annual interest payment date.
- Master Lease Certificates of Participation of 2010, Series B, in the amount of \$8.6 million. This series of Master Lease certificates has interest rates ranging from 3.0 percent to 4.0 percent and matures semi-annually through September 1, 2017.
- Master Lease Certificates of Participation of 2012, Series A, in the amount of \$18.7 million. This series of Master Lease certificates has interest rates ranging from 3.0 percent to 4.0 percent and matures semi-annually through September 1, 2017.

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, 2013, the State has not deposited with the Trustee amounts, that when invested, will terminate lease schedules.

G. Arbitrage Rebate

The Tax Reform Act of 1986 requires that governmental entities issuing tax-exempt debt subsequent to August 1986, calculate and rebate arbitrage earnings to the federal government. Specifically, the excess of the aggregated amount earned on investments purchased with bond proceeds over the amount that would have been earned if the proceeds were invested at a rate equal to the bond yield, is to be rebated to the federal government. As of June 30, 2013, a liability for arbitrage rebate did not exist.

H. Moral Obligation Debt

Through legislation enacted in 1999, the State authorized the creation of local districts. These districts (Wisconsin Center District, Southeast Wisconsin Professional Baseball Park District, and the Green Bay/Brown County Professional Football Stadium District) are authorized to issue bonds for their respective purpose, and if the State determines that certain conditions are satisfied, the State may have a moral obligation to appropriate moneys to make up deficiencies in the districts' special debt service reserve funds. To date, the Wisconsin Center District has the authority to issue up to \$200.0 million in bonds and has issued one series with an outstanding balance of \$125.2 million that is subject to the moral obligation. The two other local districts each have authority to issue \$160.0 million of revenue obligations that, subject to the Secretary of Administration's determination that certain conditions have been met, could carry a moral obligation of the State. All of the districts have issued revenue obligations that do not carry the moral obligation of the State.

Through legislation enacted in 1999, the State authorized the issuance of up to \$170.0 million principal amount of bonds to finance the development or redevelopment of sites and facilities to be used for public schools. If certain conditions are satisfied, and if a special debt service reserve fund is created for the bonds, the State will provide a moral obligation pledge, which would restore the special debt service fund established for the bonds to an amount not to exceed the maximum annual debt service on the bonds. Three bond issues with an aggregate outstanding balance of \$92.0 million have been issued that have a special debt service reserve fund secured by the State's moral obligation.

I. Credit Agreements**Primary Government**

The State has, as part of the enterprise banking services contract, a letter of credit agreement with the US Bank National Association under which the Bank has agreed to provide to the State an open line of credit in the amount of \$50.0 million. The agreement provides for advances in anticipation of bond issuance proceeds. As of June 30, 2013, \$50.0 million was unused and available.

The State has entered into a credit agreement to provide a line of credit for liquidity support for up to \$200.0 million of general obligation commercial paper notes. The line of credit expires in March, 2016, but is subject to renewal as provided for in the credit agreement. The cost of this line of credit is 0.25 percent per year.

Also, the State has entered into a credit agreement to provide a line of credit for liquidity support for its transportation revenue commercial paper program. The amount of the line of credit is \$117.0 million, increasing to \$175.0 million on October 1, 2013. This line of credit expires in April, 2016, but is subject to termination and renewal as provided for in the credit agreement. The cost of this line of credit is 0.33 percent per year.

NOTE 12. LEASE COMMITMENTS AND INSTALLMENT PURCHASES

The State leases office buildings, space, and equipment under a variety of agreements that vary in lease term, many of which are subject to appropriation from the State Legislature to continue the lease commitment. If such funding, i.e., through legislative appropriation, is judged to be assured, and the likelihood of cancellation through exercise of the fiscal funding clause is remote, leases are considered non-cancelable and reported as either a capital lease or an operating lease.

A. Capital Leases

Primary Government

Capital lease commitments in the government-wide and proprietary funds statements are reported as liabilities at lease inception. The related assets along with the depreciation are also reported at that time. Lease payments are reported as a reduction of the liability.

For capital leases in governmental funds, "Other Financing Sources - Capital Lease Acquisitions" and expenditures are recorded at lease inception. Lease payments are recorded as expenditures.

The following is an analysis of the gross minimum lease payments along with the present value of the minimum lease payments as of June 30, 2013 for capital leases (in thousands):

| Fiscal Year | Governmental Activities | Business-type Activities |
|---|----------------------------|-----------------------------|
| 2014 | \$ 10,956 | \$ 7,799 |
| 2015 | 6,825 | 6,828 |
| 2016 | 4,926 | 4,334 |
| 2017 | 1,311 | 2,586 |
| 2018 | 1,007 | 334 |
| 2019 - 2023 | 655 | 20 |
| Total minimum future payments | 25,680 | 21,901 |
| Less: Interest | (1,642) | (1,610) |
| Present value of net minimum lease payments | <u>\$ 24,038</u> | <u>\$ 20,292</u> |

Assets acquired through capital leases are valued at the lower of fair market value or the present value of minimum lease payments at the inception of the lease. The following is an analysis of capital assets recorded under capital leases as of June 30, 2013 (in thousands):

| Fiscal Year | Governmental Activities | Business-type Activities |
|-----------------------------------|----------------------------|-----------------------------|
| Land and Land Improvements | \$ 376 | \$ - |
| Buildings and Improvements | 1,000 | 70,950 |
| Machinery and Improvements | 119,120 | 7,735 |
| Less: Accumulated Depreciation | (61,657) | (40,810) |
| Carrying Amount | <u>\$ 58,838</u> | <u>\$ 37,876</u> |

Master Lease Program

The State established a facility in 1992 that provides lease purchase financing for property and certain service items acquired by state agencies. This facility is the Third Amended and Restated Master Lease between the State acting by and through the Department of Administration and U.S. Bank National Association. Lease purchase obligations under the Master Lease are not general obligations of the State, but are payable from appropriations of State agencies participating in the Master Lease Program, subject to annual appropriation. The interest component of each lease/purchase payment is subject to a separate determination. Pursuant to terms of the Master Lease, the Trustee for the facility issues parity Master Lease certificates of participation that evidence proportionate interest of the owners thereof in lease payments. The outstanding balance as of June 30, 2013 was as follows:

| Balance Due | Average Life (Weighted Term) |
|--------------|---------------------------------|
| \$61,712,840 | 3.45 Years |

Component Unit**University of Wisconsin Hospital and Clinics Authority**

Under the terms of a lease agreement, the University of Wisconsin Hospitals and Clinics Authority (the Hospital) leases facilities which were occupied by the Hospital as of June, 1996 (see Note 1B to the financial statements). The initial term of the lease is 30 years to be renewed annually with automatic extensions of one additional year on each July 1 until action is taken to stop the extensions. Included in the consideration for the lease is an amount equal to the debt service during the term of the lease agreement on all outstanding bonds issued by the State for the purpose of financing the acquisition, construction or improvement of the leased facilities. The balance at June 30, 2013 for amounts related to this agreement was \$1.2 million.

B. Operating Leases

Operating leases, those leases not recorded as capital leases, are not recorded in the statement of net assets. These leases contain various renewal options, the effect of which are reflected in the minimum lease payments only if it is considered that the option will be exercised. Certain other operating leases contain escalation clauses and contingent rentals which are not included in the calculation of the future minimum lease payments. Operating lease expenditures/expenses are recognized as incurred or paid over the lease term.

Governmental and business-type activities rental expenses under operating leases for Fiscal Year 2013 were \$89.9 million. Of this amount, \$89.9 million relates to minimum rental payments stipulated in lease agreements, \$54 thousand relates to sub rental payments. Component unit rental expenses under operating leases were \$16.5 million, of which \$16.5 million relates to minimum rental payments stipulated in lease agreements.

The following is an analysis of the future minimum rental payments due under operating leases (in thousands):

| Fiscal Year | Govern- mental Activities | Business- type Activities | Com- ponent Units |
|---------------------------|---------------------------------|---------------------------------|-------------------------|
| 2014 | \$ 49,701 | \$ 22,554 | \$ 11,993 |
| 2015 | 47,956 | 18,775 | 9,592 |
| 2016 | 44,575 | 14,511 | 7,584 |
| 2017 | 43,511 | 13,741 | 5,149 |
| 2018 | 41,121 | 12,645 | 3,336 |
| 2019 - 2023 | 146,193 | 54,914 | 11,251 |
| 2024 - 2028 | 58,951 | 40,962 | 9,401 |
| 2029 - 2033 | 22,513 | 27,673 | - |
| 2034 - 2038 | 5,126 | 1,864 | - |
| 2039 - 2043 | 1,758 | 42 | - |
| 2044 - 2048 | 1,760 | - | - |
| 2049 - 2053 | 1,483 | - | - |
| Thereafter | 5,750 | - | - |
| Minimum lease payments | <u>\$ 470,398</u> | <u>\$ 207,680</u> | <u>\$ 58,307</u> |

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, 2013 for installment purchases (in thousands):

| Fiscal Year | Governmental Activities | Business-Type Activities |
|---|----------------------------|-----------------------------|
| 2014 | \$ 336 | 8 |
| 2015 | 357 | 10 |
| 2016 | 357 | 10 |
| 2017 | - | 10 |
| Total minimum future payments | 1,050 | 38 |
| Less: Interest | (66) | (2) |
| Present value of net minimum installment payments | <u>\$ 984</u> | <u>36</u> |

NOTE 13. POLLUTION REMEDIATION OBLIGATIONS

The State implemented the Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* in Fiscal Year 2009. This Statement establishes accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the standard excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation obligations that are required upon retirement of an asset, such as landfill closure and post closure care and nuclear power plant decommissioning.

Measurement of Obligations

GASB Statement No. 49 requires the State to calculate pollution remediation obligations using the expected cash flow technique. These estimates are subject to change over time. Costs may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations and other factors. Recoveries from other responsible parties may reduce the State's obligation. In accordance with the standard, if the State cannot reasonably estimate a pollution remediation obligation, it does not report a liability. Under specific circumstances capital assets may be created when pollution remediation is performed. The State has adopted a minimum reporting threshold of \$1.0 million. Therefore, only remediation sites with outlays estimated to meet or exceed that amount are reported in the financial statements.

During fiscal year 2013, the State did not recognize additional estimated liabilities for pollution remediation. The State expended nothing to clean up sites in FY 2013; therefore, the beginning liability of \$7.5 million remained at \$7.5 million. There were no recoveries received from other responsible parties during fiscal year 2013 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, 2013 (in millions):

| Nature and Source of Pollution | Estimated Liability | Estimated Recovery |
|--|------------------------|-----------------------|
| Contract agreement with EPA to clean up Superfund site of former wood treatment facility | \$.5 | -- |
| Voluntary commencement by the State to clean up heavy metal contamination of canal near former industrial site | 7.0 | -- |
| Total estimated obligations | <u>\$7.5</u> | <u>--</u> |

In addition to the liability reported in the table above, the State expects to incur estimated costs of \$27,000 per year indefinitely to pump and treat contamination at a former chrome plating facility. The State also expects to incur estimated costs of \$70,000 per year indefinitely to operate and maintain a closed landfill. Both are Superfund sites and estimated total remediation costs for them cannot be reasonably determined. Therefore, a liability has not been reported in the Statement of Net 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, 2011, is available at www.etf.wi.gov or may be obtained upon request from:

Department of Employee Trust Funds
 801 West Badger Road
 P.O. Box 7931
 Madison, WI 53707-7931.

The December 31, 2012 financial report will be available at a later date.

Plan Description

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

As of December 31, 2012, the number of participating employers was:

| | |
|--|--------------|
| State Agencies | 57 |
| Cities | 152 |
| Counties | 71 |
| 4 th Class Cities | 36 |
| Villages | 261 |
| Towns | 240 |
| School Districts | 424 |
| Wisconsin Technical College System Board Districts | 16 |
| Cooperative Educational Service Agencies | 12 |
| Other | 209 |
| Total Employers | 1,478 |

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.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits. The WRS also provides death and disability benefits for employees.

Accounting Policies and Plan Asset Matters

The financial statements of the WRS have been prepared in accordance with generally accepted accounting principles, using the flow of economic resources measurement focus and a full accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Plan member contributions are recognized in the period in which contributions are 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.

State Contributions Required and Contributions Made

Effective the first day of the first pay period on or after June 29, 2011 the employee required contribution was changed to one-half of the actuarially determined contribution rate for general category employees, including teachers, and Executives and Elected Officials. Required contributions for protective contributions are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement. Contribution rates as of June 30, 2013 are:

| | <u>Employee</u> | <u>Employer</u> |
|------------------------------------|-----------------|-----------------|
| General (including teachers) | 6.65% | 6.65% |
| Executives & Elected Officials | 7.0% | 7.0% |
| Protective with Social Security | 6.65% | 9.75% |
| Protective without Social Security | 6.65% | 12.35% |

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

State contributions made for the years ended December 31, 2012, 2011, and 2010 were as follows (in millions):

| | 2012 | 2011 | 2010 |
|-----------------------------------|----------|----------|----------|
| Employer current service | \$ 243.2 | \$ 226.6 | \$ 207.8 |
| Percent of payroll | 6.3% | 5.9% | 5.3% |
| Employer prior service | \$ 3.6 | \$ 2.9 | \$ 3.3 |
| Percent of payroll | 0.1% | 0.1% | 0.1% |
| Employee required | \$ 230.7 | \$ 208.9 | \$ 196.4 |
| Percent of payroll | 5.9% | 5.4% | 5.0% |
| Benefit adjustment contributions | \$ 0.0 | \$ 28.6 | \$ 40.6 |
| Percent of payroll | 0.0% | 0.7% | 1.0% |
| Percent of Required Contributions | 100% | 100% | 100% |

The WRS uses the “Entry Age Normal with Frozen Initial Liability” actuarial method in establishing contribution rates. Under this method, the unfunded actuarial accrued liability (UAAL) is generally affected only by the monthly amortization payments, compound interest, the added liability created by new employer units, and any liabilities caused by changes in benefit provisions. The UAAL is being amortized over a 40 year period beginning January 1, 1990 for employers in the WRS prior to 2009. Beginning in 2009, liabilities for employers joining the WRS are amortized over 30 years. However, periodically, the Employee Trust Funds Board has reviewed and, when appropriate, adjusted the actuarial assumptions used to determine this liability. Changes in the assumptions may affect the UAAL, and the resulting actuarial gains or losses are credited or charged to employers’ unfunded liability accounts.

All actuarial gains or losses arising from the difference between actual and assumed experience are reflected in the determination of the normal cost.

As of June 30, 2013 and 2012, the WRS’s unfunded actuarial accrued liability was \$65.2 million and \$91.1 million, respectively. These amounts are presented as Prior Service Contributions Receivable on the financial statements. New prior service liabilities resulting from employers entering the WRS or increasing their prior service coverage are recognized as contributions in the year service is granted and are added to the Prior Service Contributions Receivable. Employer contributions for prior service reduce the receivable. The receivable is increased as of calendar year end with interest at the assumed interest rate of 7.2 percent.

NOTE 15. MILWAUKEE RETIREMENT SYSTEM

The Milwaukee Retirement System (MRS) is reported as an Investment Trust Fund. MRS participants provide assets to the State of Wisconsin, Department of Employee Trust Funds (DETF) for investing in its Core Retirement Investment Trust Fund (Core Fund) and the Variable Retirement Investment Trust Fund (Variable Fund) of the Wisconsin Retirement System. Participation of the MRS in the Core Fund and Variable Fund is described in the DETF Administrative Code, Chapter 10.12. The State of Wisconsin Investment Board (SWIB) manages the Core Fund and Variable Fund with oversight by a Board of Trustees as authorized in Wis. Stat. 25.14 and 25.17. SWIB is not registered with the Securities and Exchange Commission as an investment company.

The investments of the Core Fund and Variable Fund consist of a highly diversified portfolio of securities. Wis. Stat. 25.17(3)(a) allows investments in loans, securities and any other investments as authorized by Wis. Stat. 620.22. Permitted classes of investments include bonds of governmental units or of private corporations, loans secured by mortgages, preferred or common stock, real property and other investments not specifically prohibited by statute.

Investments are revalued monthly to fair value, with unrealized gains and losses reflected in income.

Monthly, the DETF distributes a pro-rata share of the total Core Fund and Variable Fund earnings less administrative expenses to the MRS accounts. The MRS accounts are adjusted to fair value and gains/losses are recorded directly in the accounts per DETF Administrative Code, Chapter 10.12(2). Neither State statute, a legal provision nor a legally binding guarantee exists to support the value of shares.

Copies of the separately issued financial report that includes audited financial statements along with the accompanying footnote disclosures and supplementary information for the Core Fund and the Variable Fund is available at www.swib.state.wi.us or may be obtained upon request from:

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

NOTE 16. POSTEMPLOYMENT BENEFITS – STATE HEALTH INSURANCE PROGRAM

Effective Fiscal Year 2008, the State implemented the Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of other postemployment benefit expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in financial reports of state and local governmental employers.

Plan Description

The State’s Health Insurance Program, a cost-sharing multiple employer, defined benefit plan, is an employer-sponsored program (not administered as a trust) offering group medical coverage to eligible employees and retirees of State and participating local government employers. Created under Chapter 40, of the Wisconsin Statutes, the State Department of Employee Trust Funds and the Group Insurance Board have program administration and oversight responsibilities under Wis. Stat. Sections 15.165(2) and 40.03(6). As of January 2011 (most recent actuarial valuation date), there were 57,934 active, and 7,021 retirees and beneficiaries participating in the plan.

Under this plan, retired employees of the State are allowed to pay the same healthcare premium as active employees, creating an implicit rate subsidy for retirees. This implicit rate subsidy, which is calculated to cover pre-age 65 retirees (since at age 65 retirees are required to enroll in Medicare when eligible), is treated as an other postemployment benefit (OPEB).

The Department of Employee Trust Funds issues a publicly available financial report. That report is available at www.etf.wi.gov or may be obtained upon request from:

The Department of Employee Trust Funds
801 West Badger Road
P.O. Box 7931
Madison, Wisconsin 53707-7931

Funding Policy

The health insurance plan is currently funded on a “pay-as-you-go” basis. GASB Statement No. 45 does not require funding of the OPEB expense and the State does not currently intend to prefund the OPEB obligation. Under this plan, retirees contribute premiums directly to the plan either through “out-of-pocket” or from unused accumulated sick leave conversion credits. The value of the sick leave benefit is defined as compensated absences and reported under the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*.

Contribution requirements are established and may be amended by the Group Insurance Board. For retirees that participate in the health insurance plan, premiums, for non-Medicare retirees, are based on an effective rate structure for the health care service provider selected. Monthly Rates range from \$596.70 to \$1,204.30 for single coverage and \$1,487.00 to \$3,007.10 for family coverage.

The annual required contribution of the employer (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. At June 30, 2013, the ARC was \$91.6 million while the employer contributions were \$38.9 million, and the ARC adjustment, with interest, was \$29.7 million.

Annual OPEB Cost

The State’s annual OPEB cost, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation were as follows (in thousands):

| Fiscal Year | Annual OPEB Cost | Employer Contributions | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|--------------------|-------------------------|-------------------------------|---|----------------------------|
| 2013 | \$ 78,158 | \$38,919 | 49.8% | \$445,760 |
| 2012 | 77,432 | 38,396 | 49.6 | 406,522 |
| 2011 | 128,437 | 52,826 | 41.1 | 367,486 |

Interest on the net OPEB obligation was \$16.3 million while the net OPEB obligation increased \$39.2 million.

Funded Status and Funding Progress

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

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

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

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2011 actuarial valuation, the entry age normal actuarial cost method was used. Actuarial assumptions included a discount rate of 4.0 percent, determined using an underlying assumption of 3.0 percent for inflation plus 1.0 percent for high quality investments with durations of one year or less, and a 3.2 percent assumed annual payroll growth. The projected annual healthcare cost trend rate is (3.82) percent initially, adjusted by increments to an ultimate rate of 5.0 percent. Other assumptions used, such as mortality, disability and retirement rates for active members, are consistent with an actuarial valuation on the Wisconsin Retirement Plan dated December 31, 2010. In addition, a 30 year, level percent of pay, closed amortization period was used for the initial UAAL, while a 15 year, level percent of pay, closed amortization period was used for any future gains and losses.

Currently, the health insurance plan is not funded by assets held in a separate trust. The discount rate (discussed above) was

based on the State's general assets not earmarked for certain uses, such as building funds. The State's general assets are held in short-term fixed income investments. Therefore, the discount rate reflects that type of investment policy.

A Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 17. OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

The State of Wisconsin, Department of Employee Trust Funds (DETF), administers three postemployment benefit plans other than pension plans – the State Retiree Health Insurance Fund, the Duty Disability Fund, and the Retiree Life Insurance Fund.

Plan Descriptions

State Retiree Health Insurance Fund

The State *Retiree Health Insurance Fund* is a multiple-employer defined benefit OPEB plan offering group health insurance. Disclosures relating to the plan are provided in Note 16 – *Postemployment Benefits of the State Other Than Pensions – Health Insurance Program*.

Duty Disability Fund

The *Duty Disability Fund* is a cost-sharing multiple-employer defined benefit OPEB plan. The plan offers special disability insurance for state and local participants in protective occupations. The plan is self-insured, and risk is shared between the State and local government employers in the plan. The plan is administered under Wis. Stat. Section 40.65. The plan is reported as a pension and other employee benefit trust fund.

Contributions are actuarially determined in accordance with Wis. Stats. Section 40.05 (2)(ar). All contributions are employer paid based on a graduated, experienced-rated formula. During Calendar Year 2012 contribution rates ranged from 1.9 percent to 8.6 percent of covered payroll based on employer experience.

Eligibility for program benefits is based upon whether a duty-related injury or disease is likely to be permanent, which causes a protective occupation participant to retire, accept reduced pay or light duty assignment, or in some cases, that impairs promotional opportunities. Benefits approximate 80 percent of salary (75 percent if partially disabled and not a State Employee), less certain offsets such as; social security, unemployment compensation, worker’s compensation and other retirement benefits. Survivor benefits are also offset by certain benefits based on program requirements.

Retiree Life Insurance Fund

The *Retiree Life Insurance Fund* is a cost-sharing multiple-employer defined benefit OPEB plan. The plan provides post-employment life insurance coverage to all eligible employees. The plan is administered under Wis. Stats. Section 40.70. The plan is reported as a pension and other employee benefit trust fund.

Generally, members may enroll during a 30-day enrollment period once they satisfy a six-month waiting period. They may enroll after the initial 30-day enrollment period with evidence of insurability. Members under evidence of insurability enrollment must enroll in group life insurance coverage before age 55 to be eligible for Basic or Supplemental coverage.

Employers are required to pay the following contributions for active members to provide them with basic coverage after age 65. There are no employer contributions for pre-65 annuitant coverage. All contributions are actuarially determined.

| | State | Local |
|-------------------------------------|------------------------------------|--------------------------------|
| 50 percent post retirement coverage | 28 percent of the employee premium | 40 percent of employee premium |
| 25 percent post retirement coverage | N/A | 20 percent of employee premium |

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

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

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

After retirement, basic coverage is continued for life in amounts for the insurance in force before retirement. Additional coverage may be continued until age 65 at 100 percent of the amount of the insurance in force before retirement at the employee’s expense, and spouse and dependent coverage benefits is terminated.

Summary of Significant Accounting Policies

Basis of Accounting

The OPEB plans are reported in accordance with GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Method Used to Value Investments

Duty Disability Fund

Investments for the *Duty Disability Fund* are invested in the Core Retirement Investment Trust, which is managed by the State of Wisconsin Investment Board (SWIB). These investments are valued at fair value. Generally, fair value information represents actual bid prices or the quoted yield equivalent at the end of the year for securities of comparable maturity, quality, and type, as obtained from one or more major investment brokers. If quoted market prices are not available, a variety of third-party pricing methods are used, including appraisals, certifications, pricing models, and other methods deemed acceptable by industry standards.

Retiree Life Insurance Fund

Investments for the *Retiree Life Insurance Fund* are held with the insurance carrier (the Company). The Retiree Life Insurance Fund's investment is a share in the investment pool.

Fixed maturity securities, which may be sold prior to maturity, including fixed maturities on loan, are classified as available-for-sale and are carried at fair value. Premiums and discounts are amortized or accreted over the estimated lives of the securities based on the interest yield method.

The Company uses book value as cost for applying the retrospective adjustment method to loan-backed fixed maturity securities purchased. Prepayment assumptions for single class and multi-class mortgage-backed securities were obtained from broker/dealer survey values or internal estimates.

Marketable equity securities are classified as available-for-sale and are carried at fair value. Mutual funds and exchange traded fund investments in select asset classes that are sub-advised are carried at the fair value of the underlying net position of the funds.

Available-for-sale securities are stated at fair value.

Mortgage loans are carried at amortized cost less any valuation allowances. Premiums and discounts are amortized or accreted

over the terms of the mortgage loans based on the effective interest yield method. Impairments are determined by specific identification. A mortgage loan is considered impaired if it is probable that amounts due for principal and interest will not be collected in accordance with the contractual terms. Impaired mortgage loans are valued at the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the underlying collateral, if the loan is collateral dependent.

Private equity investments in limited partnerships are carried at the amount invested, adjusted to recognize the Company's ownership share of the earnings or losses of the investee after the date of the acquisition, adjusted for any distributions received (equity method accounting).

Investments in partnerships, which represent minority interests owned in certain general agencies, are carried at the amount invested, adjusted to recognize the Company's ownership share of the earnings or losses of the investee after acquisition adjusted for any distributions received (equity method accounting).

Fair values of fixed maturity securities are based on quoted market prices where available. Fair values of marketable equity securities are based on quoted market prices. Fair values of private equity investments are obtained from the financial statement valuations of the underlying fund or independent broker bids. For fixed maturity securities not based on quoted market prices, generally private placement securities, securities that do not trade regularly, and embedded derivatives, an internally developed pricing model using a commercial software application is most often used. The internally developed pricing model is developed by obtaining spreads versus the U.S. Treasury yield for corporate securities with varying weighted average lives and bond ratings.

Real estate is carried at cost less accumulated depreciation and an allowance for estimated losses.

The Company's derivative instrument holdings are carried at fair value. All derivatives are recorded as non-hedge transactions. Derivative instrument fair values are based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using current market assumptions and modeling techniques, which are then compared with quotes from counterparties.

For mortgage-backed securities of high credit quality, excluding interest-only securities, the Company recognizes income using a constant effective yield method based on prepayment assumptions obtained from an outside service provider or upon analyst review of the underlying collateral and the estimated economic life of the securities.

For interest-only securities and mortgage-backed securities not of high credit quality, the Company recognizes the excess of all cash flows, including estimated prepayments, attributable to the security estimated at the acquisition date over the initial investment using the effective yield method with adjustments made as a result of subsequent cash flow information recorded prospectively. If the fair value of the security has declined below its carrying amount, the Company will write the security down to fair value if the decline is deemed other-than-temporary.

Policy loans are carried at the unpaid principal balance.

Cash and cash equivalents are carried at cost, which approximates fair value. The Company considers all money market funds and commercial paper with original maturity dates of less than three months to be cash equivalents.

Finance receivables that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding unpaid principal balances reduced by any charge-offs.

The Company holds "To-Be-Announced" (TBA) Government National Mortgage Association forward contracts that require the Company to take delivery of a mortgage-backed security at a settlement date in the future. Most of the TBAs are settled at the first available period allowed under the contract. However, the deliveries of some of the Company's TBA securities happen at a later date, thus extending the forward contract date. These securities are reported at fair value as derivative instruments with the changes in fair value reported in net realized investment gains and losses on the consolidated statements of operations.

Required Supplementary Information

Required Supplementary Information about the OPEB plans is presented in the Department of Employee Trust Funds audited financial statements. The December 31, 2011 financial report is available at www.etf.wi.gov and on request from:

The Department of Employee Trust Funds
801 West Badger Road
P.O. Box 7931
Madison, Wisconsin 53707-7931

The December 31, 2012 financial report will be available at a later date.

**NOTE 18. PUBLIC ENTITY RISK POOLS
ADMINISTERED BY THE
DEPARTMENT OF EMPLOYEE
TRUST FUNDS**

The Department of Employee Trust Funds operates four public entity risk pools: group health insurance, group income continuation insurance, long-term disability insurance, and pharmacy benefits. The information provided in this note applies to the period ending December 31, 2012.

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 361 local employers plus the State currently participate. The State and local government portions of the fund are accounted for separately and have separate contribution rates, benefits, and actuarial valuations. The fund includes both a self-insured, fee-for-service plan as well as various prepaid plans, primarily Health Maintenance Organizations (HMO's) and a self-insured plan that provides for pharmacy benefits of covered members.

The Income Continuation Insurance Fund offers disability wage continuation insurance for current employees of the State government and of participating local public employers. All public employers in the State are eligible to participate. Approximately 192 local employers plus the State currently participate. The State and local government portions of the fund are accounted for separately and have separate contribution rates, benefits, and actuarial valuations. The plan is self-insured.

The Long-term Disability Insurance Fund offers long-term disability benefits to participants in the Wisconsin Retirement System (WRS). The long-term disability benefits provided by this program are an alternative coverage to that currently provided by the WRS. All new WRS participants on or after October 15, 1992, are eligible only for the long-term disability insurance coverage, while participating employees active prior to October 15, 1992, may elect coverage through WRS or the long-term disability insurance program.

B. Accounting Policies for Risk Pools

Basis of Accounting - All Public Entity Risk Pools are accounted for in enterprise funds using the full accrual basis of accounting and the flow of economic resources measurement focus.

Valuation of Investments - Assets of the Health Insurance Fund Income Continuation Insurance and Long-term Disability Insurance funds are invested in the Core Retirement Investment Trust. Investments are valued at fair value.

Unpaid Claims Liabilities - Claims liabilities are based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The estimate includes the effects of inflation and other societal and economic factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. Unpaid claims liability is presented at face value and is not discounted for health insurance. It is discounted using an interest rate of 7.2 percent for income continuation and long-term disability insurance. The liabilities for income continuation, long-term disability, and health insurance were determined by actuarial methods.

Administrative Expenses - All maintenance expenses are expensed in the period in which they are incurred. Acquisition costs are immaterial and are treated as maintenance expenses. Claim adjustment expenses are also immaterial.

Reinsurance - Health insurance plans provided by HMO's and health insurance for local government annuitants are fully insured by outside insurers. All remaining risk is self-insured with no reinsurance coverage.

Risk Transfer - Participating employers are not subject to supplemental assessments in the event of deficiencies. If the assets of the fund were exhausted, participating employers would not be responsible for the fund's liabilities.

Premium Setting - Premiums are established by the Group Insurance Board in consultation with actuaries.

C. Unpaid Claims Liabilities

As discussed in Section B of this Note, each fund establishes a liability for both reported and unreported insured events, which is an estimate of future payments of losses. The following represents changes in those aggregate liabilities for the nonreinsured portion of each fund during Calendar Year 2012 (in millions):

| | Health Insurance | | Income Continuation Insurance | | Long-term Disability Insurance | | Pharmacy Benefits | |
|--|------------------|--------|-------------------------------|---------|--------------------------------|----------|-------------------|----------|
| | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 |
| Unpaid claims at beginning of the calendar year | \$ 3.6 | \$ 2.7 | \$ 74.1 | \$ 88.1 | \$ 175.6 | \$ 189.0 | \$ (7.4) | \$ (6.1) |
| Incurred claims: | | | | | | | | |
| Provision for insured events of the current calendar year | 21.4 | 17.7 | 42.4 | 33.4 | 43.5 | 52.0 | 144.6 | 141.3 |
| Changes in provision for insured events of prior calendar years | (1.4) | (0.7) | (10.1) | (21.0) | (1.0) | 5.4 | (1.1) | 0.5 |
| Total incurred claims | 20.0 | 17.0 | 32.3 | 12.4 | 42.5 | 57.4 | 143.5 | 141.8 |
| Payments: | | | | | | | | |
| Claims and claim adjustment expenses attributable to insured events of the current calendar year | 18.7 | 15.1 | 6.7 | 5.9 | 1.9 | 2.5 | 150.7 | 134.2 |
| Claims and claim adjustment expenses attributable to insured events of prior calendar years | 2.2 | 2.0 | 11.6 | 12.4 | 27.2 | 30.8 | (8.5) | (5.6) |
| Total payments | 20.9 | 17.1 | 18.3 | 18.3 | 29.1 | 33.3 | 142.2 | 128.6 |
| Total unpaid claims expenses at end of the calendar year | \$ 2.7 | \$ 2.6 | \$ 88.1 | \$ 82.2 | \$ 189.0 | \$ 213.1 | \$ (6.1)* | \$ 7.1* |

* Total unpaid claims at the end of 2012 is the net of \$3.7 million in unpaid claims and \$10.8 million in rebates due from pharmaceutical companies; unpaid claims at the end of 2011 is the net of \$3.9 million in unpaid claims and \$10.0 million in rebates due from pharmaceutical companies.

D. Trend Information

Historical trend information showing revenue and claims development information is presented in the Department of Employee Trust Funds audited financial statements. The separately issued financial report for the year ended December 31, 2011 is available at www.etf.wi.gov and on request from:

The Department of Employee Trust Funds
801 West Badger Road
P.O. Box 7931
Madison, Wisconsin 53707-7931

The December 31, 2012 financial report will be available at a later date.

NOTE 19. SELF-INSURANCE

It is the general policy of the State not to purchase commercial insurance for the risks of losses to which it is exposed. Instead, the State believes it is more economical to manage its risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The fund services most claims for risk of loss to which the State is exposed, including damage to State owned property, liability for property damages and injuries to third parties, and worker's compensation. All funds and agencies of the State participate in the Risk Management Fund.

State Property Damage

Property damages to State-owned properties are covered by the State's self-funded property program up to \$3.0 million per occurrence and \$4.0 million annual aggregate. When claims, which exceed \$100,000 per occurrence, total \$4.0 million, the State's private insurance becomes available. Losses to property occurring after the threshold are first subject to a \$100,000 deductible. The amount of loss in excess of \$100,000 is covered by the State's private insurance company. During Fiscal Year 2013, the excess insurance limits were written to \$300 million.

The liabilities for State property damage are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. The estimate for future benefits and loss liabilities is based on the reserves on open claims and paid claims. Losses incurred but not reported are expected to be immaterial. Claims incurred but not paid as of June 30, 2013 are estimated to total \$20.7 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 2013 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, 2013 are estimated to total \$19.5 million.

Worker's Compensation

The Worker's Compensation Program was created by Wisconsin Statutes Chapter 102 to provide benefits to workers injured on the job. All employees of the State are included in the program. An injury is covered under worker's compensation if it is caused by an accident that arose out of and in the course of employment.

The responsibility for claiming compensation is on the employee. A claim must be filed with the program within two years from the date of injury; otherwise the claim is not allowable.

The worker's compensation liability has been determined by an actuary using paid claims and current claims reserves. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities are affected by external factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims incurred but not paid as of June 30, 2013 are estimated to total \$73.3 million.

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

| | 2013 | 2012 |
|--|------------------|------------------|
| Beginning of fiscal year liability | \$ 95,754 | \$ 91,675 |
| Current year claims and changes in estimates | 42,716 | 55,908 |
| Claim payments | (24,882) | (27,058) |
| | 113,588 | 120,525 |
| Excess insurance reimbursable | (14,021) | (24,771) |
| Balance at fiscal year-end | <u>\$ 99,567</u> | <u>\$ 95,754</u> |

Settlements have not exceeded coverages for each of the past three fiscal years.

Annuity Contracts

The Risk Management Fund purchased annuity contracts in various claimants' names to satisfy claim liabilities. The likelihood that the fund will be required to make future payments on those claims is remote and, therefore, the fund is considered to have satisfied its primary liability to the claimants. Accordingly, the annuity contracts are not reported in, and the related liabilities are removed from, the fund's balance sheet. The aggregate outstanding amount of liabilities removed from the financial statements at June 30, 2013 is \$6.7 million.

NOTE 20. INSURANCE FUNDS**A. Primary Government****1. Local Government Property Insurance Fund**

Created by the Legislature in 1911, the purpose of the Local Government Property Insurance Fund is to provide property insurance coverage to tax-supported local government units such as counties, towns, villages, cities, school districts and library boards. Property insured includes government buildings, schools, libraries and motor vehicles. Coverage is available on an optional basis. As of June 30, 2013 the Local Government Property Insurance Fund insured 1,019 local governmental units. The total amount of insurance in force as of June 30, 2013 was \$53.3 billion.

Valuation of Cash Equivalents and Investments - All investments of the Local Government Property Insurance Fund are managed by the State of Wisconsin Investment Board, as discussed in Note 5-B to the financial statements. At June 30, 2013, the fund had \$26.9 million of shares in the State Investment Fund which are considered cash equivalents.

Premium - Unearned premium reported as deferred revenue represents the daily pro rata portion of premium written which is applicable to the unexpired terms of the insurance policies in force. Policies are generally written for annual terms.

Unpaid Loss Liabilities - The Local Government Property Insurance Fund establishes the unpaid loss liability titled future benefits and loss liabilities on the financial statements based on estimates of the ultimate cost of losses (including future loss adjustment expenses) that have been reported but not settled, and of losses that have been incurred but not reported. Estimated amounts of excess-of-loss insurance recoverable on unpaid losses are deducted from the liability for unpaid losses. Loss liabilities are recomputed periodically to produce current estimates that reflect recent settlements, loss frequency, and other economic factors. Adjustments to future benefits and loss liabilities are charged or credited to expense in the periods in which they are made.

Policy Acquisition Costs - Since the Local Government Property Insurance Fund has no marketing staff and incurs no sales commissions, acquisition costs are minimal and charged to operations as incurred.

Excess-of-Loss Insurance Coverage - The Local Government Property Insurance Fund purchases excess-of-loss insurance coverage, the operation of which is analogous to "reinsurance," to reduce its exposure to large losses on all types of insured events. Excess-of-loss insurance permits recovery of a portion of losses from the excess-of-loss insurers, although it does not discharge the primary liability of the fund as direct insurer of the risks reinsured. The fund does not report excess-of-loss insured risks as liabilities unless it is probable that those risks will not be covered by excess-of-loss insurers. As of June 30, 2013 the fund had \$450.0 million of per occurrence excess of loss reinsurance in force with a \$1.8 million combined single limit retention for each occurrence, and an annual aggregate reinsurance contract with a \$22.0 million annual aggregate retention plus a per claim retention of \$5 thousand once the aggregate is met, as respects occurrences for the term of the agreement. Premiums ceded to excess-of-loss insurers, which is netted against premium revenue (charges for goods and services in the financial statements), amounted to \$7.1 million during the fiscal year. Excess-of-loss and adjusting expense recoveries earned would typically reduce claims paid (benefit expense on the financial statements). During the fiscal year the losses recovered through excess-of-loss insurance was \$2.1 million.

Unpaid Loss Liabilities

As discussed above, the Local Government Property Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related loss expenses. The following represents changes in those aggregate liabilities for the fund during the past two fiscal years (in thousands):

| | 2013 | 2012 |
|---|-----------------|-----------------|
| Unpaid loss liabilities at beginning of the year | \$13,018 | \$15,118 |
| Less: Excess-of-loss insurance recoverable | 13 | 1,743 |
| Net unpaid loss liabilities at beginning of year | <u>13,005</u> | <u>13,375</u> |
| Incurred losses and loss expenses: | | |
| Provision for insured events of the current year | 14,356 | 19,327 |
| Increase (decrease) in provision for insured events of prior years | 385 | 347 |
| Total incurred losses and loss expenses | <u>14,741</u> | <u>19,674</u> |
| Payments: | | |
| Losses and loss expenses attributable to insured events of the current year | 7,508 | 8,959 |
| Losses and loss expenses attributable to insured events prior years | 11,273 | 11,085 |
| Total payments | <u>18,781</u> | <u>20,044</u> |
| Net unpaid loss liabilities at end of year | 8,965 | 13,005 |
| Plus: Excess-of-loss liabilities recoverable | 1,641 | 13 |
| Total unpaid loss liabilities at end of year | <u>\$10,606</u> | <u>\$13,018</u> |

Trend Information

Historical trend information showing revenue and claims development information is presented in the Office of the Commissioner of Insurance June 30, 2013 financial statements. Copies of these statements may be requested from:

Office of the Commissioner of Insurance
125 South Webster Street
Madison, Wisconsin 53703

2. State Life Insurance Fund

The State Life Insurance Fund was created under Chapter 607, Wisconsin Statutes, to offer life insurance to residents of Wisconsin in a manner similar to private insurers. This fund functions much like a mutual life insurance company and is subject to the same regulatory requirements as any life insurance company licensed to operate in Wisconsin.

Premiums are reported as earned when due. Benefits and expenses are associated with earned premiums so as to result in recognition of profits over the life of the contracts. This association is accomplished by means of the provision for liabilities for future benefits and the amortization of acquisition costs.

The costs of policy issuance and underwriting, all of which vary with, and are primarily related to, the production of new business, have been deferred. These deferred acquisition costs are amortized over a forty year period, considered representative of the life of the contract. The amortization is in proportion to the ratio of annual in-force business to the amount of business issued. Such anticipated in-force business was estimated using similar assumptions to those used for computing liabilities for future policy benefits.

Deferred Acquisition Cost Assumptions

| Issue Years | Interest Rate | Lapse Rate | Mortality |
|-------------|---------------|------------|-----------|
| 1913-1966 | 3.0% | 2.0% | None |
| 1967-1976 | 3.0 | 2.0 | None |
| 1977-1985 | 4.0 | 2.0 | None |
| 1986-1994 | 5.0 | 2.0 | None |
| 1995-2012 | 4.0 | 2.0 | None |
| 2013+ | 3.5 | 2.0 | None |

The State Life Insurance Fund does not pay commissions nor does it incur agent expenses.

Future benefits and loss liabilities have been computed by the net level premium method based upon estimated future investment yield and mortality. The composition of liabilities and the more material assumptions pertinent thereto are presented below (in thousands):

| Issue Year | Ordinary Life Insurance in Force | Amount of Policy Liability |
|------------|----------------------------------|----------------------------|
| 1913-1966 | \$ 8,504 | 6,611 |
| 1967-1976 | 28,854 | 16,426 |
| 1977-1985 | 70,381 | 24,359 |
| 1986-1994 | 48,380 | 9,231 |
| 1995-2012 | 46,186 | 6,470 |
| 2013+ | 520 | 28 |
| | <u>\$ 202,825</u> | <u>\$ 63,125</u> |

Bases of Assumptions

| Issue Year | Interest Rate | Mortality |
|------------|---------------|---------------------------------------|
| 1913-1966 | 3.0% | American Experience, ANB* |
| 1967-1976 | 3.0 | 1958 CSO, ALB, Unisex |
| 1977-1985 | 4.0 | 1958 CSO, ALB, Female Setback 3 years |
| 1986-1994 | 5.0 | 1980 CSO, ALB, Aggregate |
| 1995-2008 | 4.0 | 1980 CSO, ALB, Aggregate |
| 2009-2012 | 4.0 | 2001 CSO, ALB, Aggregate |
| 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, 2012 were \$96.8 million and the statutory capital and surplus was \$10.6 million, and the fund equity at June 30, 2013 was \$27.5 million.

3. Injured Patients and Families Compensation Fund

The Injured Patients and Families Compensation Fund was created in 1975 for the purpose of providing excess medical malpractice coverage for claims exceeding the legal primary insurance limits prescribed in Wis. Stat. Section 655.23(4), or the maximum liability limit for which the health care provided is insured, whichever limit is greater. Management of the Injured Patients and Families Compensation Fund is vested with a 13-member Board of Governors, which is chaired by the Commissioner of Insurance. Most health care providers permanently practicing or operating in the State of Wisconsin are required to pay Injured Patients and Families Compensation Fund assessment fees. Risk of loss is retained by the fund.

The Future Benefits and Loss Liability account includes individual case estimates for reported losses and estimates for incurred but not reported losses based upon the projected ultimate losses recommended by a consulting actuary. Individual case estimates of the liability for reported losses and net losses paid from inception of the Injured Patients and Families Compensation Fund are deducted from the projected ultimate loss liabilities to determine the liability for incurred but not reported losses as of June 30, 2013 as follows (in thousands):

| | |
|--|-------------------|
| Projected ultimate loss liability | \$ 1,419,397 |
| Less: Net loss paid from inception | (833,144) |
| Less: Liability for reported losses | (8,065) |
| Liability for incurred but not reported losses | <u>\$ 578,188</u> |

The Future Benefits and Loss Liability account also includes an estimate of the loss adjustment expense (LAE). Using the data available through September 30 of the fiscal year, the actuary estimates the liability for LAE as 18 percent of the estimated unpaid losses as of June 30, 2013. The percentage used in the financial statements will differ slightly, since the actuary's estimate will be adjusted to reflect actual LAE payments. Specifically, the loss adjustment expenses paid from the inception of the Injured Patients and Families Compensation Fund through June 30, 2013, are deducted from the projected ultimate LAE to determine the liability for LAE as June 30, 2013 as follows (in thousands):

| | |
|--|-------------------|
| Projected ultimate loss adjustment expense liability | \$ 190,390 |
| Less: Loss adjustment expense paid from inception | (82,961) |
| Liability for loss adjustment expense | <u>\$ 107,429</u> |

In accordance with Section Ins. 17.27(3), Wis. Adm. Code, the liability for reported losses, liability for incurred but not reported losses, and liability for loss adjustment expense are maintained on a present value basis with the difference from full value being reported as a contra account to these estimated loss liabilities. These estimated loss liabilities are discounted only to the extent that they are matched by cash and invested assets. Using the actuarially determined discount factor of 0.8486, which is based on an investment yield assumption of 4.5 percent approved by the Board of Governors, the discounted loss liability would be as follows as of June 30, 2013 (in thousands):

| | |
|--|-------------------|
| Estimated liability for incurred but not reported losses | \$ 578,188 |
| Estimated liability for reported losses | 8,065 |
| Estimated liability for loss adjustment expense | 107,429 |
| Total estimated loss liabilities | 693,682 |
| Less: Amount representing interest | (105,012) |
| Discounted loss liabilities | <u>\$ 588,670</u> |

Included in the above estimates of loss liabilities, both undiscounted and discounted, is a 25 percent risk margin, which was recommended by the actuary and approved by the Board of Governors.

Once every three years, the Office of the Commissioner of Insurance contracts for an actuarial audit of the Injured Patients and Families Compensation Fund. This audit includes a review by another actuary of the reasonableness of the actuarial methodology and assumptions used in developing estimates of the Fund's liabilities. The actuarial audits have concluded that the Fund's loss liability estimates are reasonable, although conservative. The Fund's contracted actuary has considered the recommendations made in the actuarial audits and appropriately incorporated any necessary changes based on those recommendations into the actuarial methodology and assumptions used to calculate the Fiscal Year 2013 liabilities estimate.

In addition to discounted loss liabilities, the Future Benefit and Loss Liabilities account also includes a future medical expenses liability and a contributions being held liability. The future medical expenses liability consists of those accounts required by Wis. Stat. Sec. 655.015 to be established if a settlement or judgment provides for future medical expense payments in excess of \$100,000. The accounts are managed by the Fund and earn a proportionate share of the Fund's interest. Any account balance remaining when a claimant dies reverts back the Fund. The contributions being held liability consists of nonrefundable payments, generally in amounts equal to the primary coverage in effect for related claims, that primary insurers have voluntarily presented to the fund and which are negotiable with the fund in exchange for a release of payment for any future defense costs

that may be incurred on the claim. This amount is held as a liability to the Fund until a payment on the claim is made.

The breakdown of Future Benefit and Loss Liabilities, including the portions that are estimated as current and noncurrent as of June 30, 2013 (in thousands), is as follows:

| | |
|------------------------------------|-------------------|
| Discounted loss liabilities | \$ 588,670 |
| Future medical expense liability | 39,304 |
| Contributions being held liability | -- |
| Total estimated loss liabilities | 627,974 |
| Current portion | (85,522) |
| Noncurrent portion | <u>\$ 542,452</u> |

The uncertainties inherent in projecting the frequency and severity of large claims because of the Injured Patients and Families Compensation Fund's unlimited liability coverage and extended reporting and settlement periods makes it likely that the amounts ultimately paid will differ from the recorded estimated loss liabilities. These differences cannot be quantified.

The estimated amounts included in the balance of Future Benefits and Loss Liabilities are continually reviewed and adjusted as the Injured Patients and Families Compensation Fund gains additional experience. Such adjustments are reflected in current operations. Because of the changes in these estimates, the benefit expense for the fiscal year is not necessarily indicative of the loss experience for the year.

The following is a reconciliation of the change in the balance of Future Benefits and Loss Liabilities during FY 2013 (in thousands):

| | |
|--|-------------------|
| Liability at the beginning of the year | \$ 665,778 |
| Incurred claims and related expenses for the current year and the change in estimated amounts for claims incurred in prior years | (15,154) |
| Less: current year payments attributable to claims incurred in current and prior years | (22,650) |
| Liability at the end of the year | <u>\$ 627,974</u> |

B. Component Units

Wisconsin Health Care Liability Insurance Plan

The Wisconsin Health Care Liability Insurance Plan (the Plan) is a statutory unincorporated association established by rule of the Commissioner of Insurance of the State of Wisconsin as mandated by the State of Wisconsin legislature. The Plan provides health care liability insurance on an occurrence date basis to health care providers in the State of Wisconsin, calling for payment of premium, in part or in full, prior to the effective date of the policy. All insurers authorized to write personal injury liability insurance in the State of Wisconsin, with certain minor exceptions, are required to be members of the Plan.

The Plan generates its premium written revenue by selling medical malpractice insurance. Rates are calculated in accordance with generally accepted actuarial principles. The rates are set so that the Plan will be self-supporting. Profit is not the intent of the Plan.

Since the inception of the Plan in 1975, the health care liability coverage limits have increased from \$200 thousand per occurrence and \$600 thousand annual aggregate to the current limits of \$1.0 million per occurrence and \$3.0 million annual aggregate. A general liability coverage is also available to participating health care providers with limits of \$1.0 million per occurrence and \$3.0 million annual aggregate. The Plan is not covered under any reinsurance contracts.

In the event that sufficient funds are not available for the sound financial operation of the Plan, all members shall, on a temporary basis, contribute to the financial needs of the Plan. Members shall participate in the contributions in the proportion of their respective premiums to the aggregate premiums written by all members of the Plan. Such assessments shall be recouped by rate increases applied prospectively. There were no assessments for the year ended December 31, 2012.

The future benefits and loss liability includes amounts determined from individual reported losses (case reserves) and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on estimates and, while management believes that the amounts are adequate, the ultimate liability will differ from the amounts provided. The methods for making such estimates and for establishing the resulting liability are annually reviewed, and any adjustments are reflected in income currently. Specific account balances as of December 31, 2011, and December 31, 2012, are as follows (in thousands):

| | 2012 | 2011 |
|------------------------|-----------|-----------|
| Balance at January 1 | \$ 19,350 | \$ 20,487 |
| Incurred related to: | | |
| Current year | 2,157 | 2,482 |
| Prior years | (5,353) | (1,844) |
| Total Incurred | (3,196) | 638 |
| Paid related to: | | |
| Current year | 109 | 9 |
| Prior years | 1,205 | 1,766 |
| Total paid | 1,314 | 1,775 |
| Balance at December 31 | \$ 14,840 | \$ 19,350 |

There is inherent uncertainty in medical malpractice claims when establishing the estimates of unpaid losses and unpaid loss adjustment expenses. In 2012, the Plan decreased its estimates of unpaid losses and unpaid loss adjustment expenses related to insured events of prior years. This decrease caused the total of incurred losses and loss adjustment expense to be negative.

NOTE 21. SEGMENT INFORMATION AND CONDENSED FINANCIAL DATA**Primary Government**

The State issues revenue bonds to finance the Leveraged Loan Program, which is accounted for as part of the Environmental Improvement Fund. Investors in those bonds rely solely on the revenue generated within the Leveraged Loan Program. Assets of this program are used primarily for loans for Wisconsin municipal waste water projects. Condensed financial statement information of the Leveraged Loan Program as of and for the year ended June 30, 2013 is presented below (in thousands):

Condensed Balance Sheet

| | |
|--|---------------------|
| Assets: | |
| Current Assets | \$ 108,779 |
| Other Assets | 1,011,652 |
| Total Assets | <u>\$ 1,120,431</u> |
| Liabilities: | |
| Due to Other Funds | \$ 1,165 |
| Other Current Liabilities (Including Current Portion of Long-term Debt) | 60,330 |
| Noncurrent Liabilities | 817,105 |
| Total Liabilities | <u>878,600</u> |
| Net position: | |
| Restricted | 241,831 |
| Total Net Position | <u>241,831</u> |
| Total Liabilities and Net Position | <u>\$ 1,120,431</u> |

Condensed Statement of Revenues, Expenses and Changes in Net Position

| | |
|---|-------------------|
| Operating Revenues (Expenses): | |
| Interest Income used as Security for Revenue Bonds | \$ 21,401 |
| Interest Expense | (35,616) |
| Other Operating Expenses | (1,266) |
| Operating Income (Loss) | <u>(15,481)</u> |
| Nonoperating Revenues (Expenses): | |
| Investment Income | (2,092) |
| Income (Loss) before Transfers | <u>(17,573)</u> |
| Transfers In (Out) | 0 |
| Change in Net Position | <u>(17,573)</u> |
| Beginning Net Position | 259,403 |
| Ending Net Position | <u>\$ 241,830</u> |

Condensed Statement of Cash Flows

| | |
|-------------------------------------|------------------|
| Net Cash Provided (Used) by: | |
| Operating Activities | \$ (1,719) |
| Noncapital Financing Activities | (35,985) |
| Investing Activities | 34,655 |
| Net Increase (Decrease) | <u>(3,049)</u> |
| Beginning Cash and Cash Equivalents | 101,112 |
| Ending Cash and Cash Equivalents | <u>\$ 98,063</u> |

NOTE 22. COMPONENT UNITS – CONDENSED FINANCIAL INFORMATION

Significant financial data for the State's discretely presented component units for the year ended December 31, 2012 or June 30, 2013 is presented below (in thousands):

| | Wisconsin Housing and Economic Development Authority | Wisconsin Health Care Liability Insurance Plan | University of Wisconsin Hospitals and Clinics Authority | Wisconsin Economic Development Corporation ^(a) | University of Wisconsin Foundation | Total |
|--|---|---|--|--|--|--------------|
| Condensed Statement of Net Position | | | | | | |
| Assets: | | | | | | |
| Cash, Investments and Other Assets | \$ 2,432,731 | \$ 67,866 | \$ 909,982 | \$ 100,603 | \$ 2,744,300 | \$ 6,255,483 |
| Due from Primary Governments | 1,500 | - | 1,779 | 750 | - | 4,029 |
| Cash and Investments with Other Component Units | - | - | 279,875 | - | - | 279,875 |
| Capital Assets, net | 14,352 | - | 455,283 | 1,038 | 9,801 | 480,474 |
| Total Assets | 2,448,583 | 67,866 | 1,646,919 | 102,391 | 2,754,102 | 7,019,861 |
| Deferred Outflows of Resources | | | | | | |
| | 68,308 | - | 18,560 | - | - | 86,868 |
| Total Assets and Deferred Outflows | \$ 2,516,891 | \$ 67,866 | \$ 1,665,479 | \$ 102,391 | \$ 2,754,102 | \$ 7,106,729 |
| Liabilities: | | | | | | |
| Accounts Payable and Other Current Liabilities | \$ 132,079 | \$ 24,657 | \$ 191,453 | \$ 5,286 | \$ 62,453 | \$ 415,929 |
| Due to Primary Government | - | - | 9,894 | - | - | 9,894 |
| Amounts Held for Other Component Units | - | - | - | - | 260,231 | 260,231 |
| Other Liabilities | 68,308 | - | 9,394 | - | - | 77,702 |
| Long-term Liabilities (Current and Noncurrent portions) | 1,707,011 | 14,840 | 592,919 | 2,228 | 42,454 | 2,359,452 |
| Total Liabilities | 1,907,398 | 39,498 | 803,660 | 7,514 | 365,138 | 3,123,208 |
| Net Position: | | | | | | |
| Net Investment in Capital Assets | 6,222 | - | 197,200 | 934 | 9,801 | 214,157 |
| Restricted | 601,918 | 28,368 | 15,998 | 17,985 | 2,232,308 | 2,896,577 |
| Unrestricted | 1,353 | - | 648,621 | 75,958 | 146,854 | 872,787 |
| Total Net Position | 609,493 | 28,368 | 861,819 | 94,877 | 2,388,963 | 3,983,521 |
| Total Liabilities and Net Position | \$ 2,516,891 | \$ 67,866 | \$ 1,665,479 | \$ 102,391 | \$ 2,754,102 | \$ 7,106,729 |
| Condensed Statement of Activities | | | | | | |
| Program Expenses: | | | | | | |
| Depreciation | \$ 4,143 | \$ - | \$ 44,121 | \$ 116 | \$ 461 | \$ 48,841 |
| Payments to Primary Government | - | - | 42,648 | - | 214,000 | 256,648 |
| Other | 281,250 | 17,605 | 1,109,991 | 43,503 | 36,102 | 1,488,451 |
| Total Program Expenses: | 285,393 | 17,605 | 1,196,760 | 43,619 | 250,563 | 1,793,940 |
| Program Revenues: | | | | | | |
| Charges for Goods and Services | 7,068 | 1,837 | 1,233,280 | 818 | - | 1,243,003 |
| Investment and Interest Income | 101,866 | 2,232 | - | - | 222,273 | 326,371 |
| Operating Grants and Contributions | 171,032 | - | - | 60,420 | 211,289 | 442,740 |
| Capital Grants and Contributions | - | - | 2,678 | - | - | 2,678 |
| Miscellaneous | 15,374 | - | 24,367 | - | 649 | 40,390 |
| Total Program Revenues | 295,340 | 4,069 | 1,260,325 | 61,238 | 434,211 | 2,055,183 |
| Net Program Revenue/(Expense) | 9,947 | (13,536) | 63,565 | 17,620 | 183,648 | 261,243 |
| General Revenues: | | | | | | |
| Interest and Investment Earnings | 2,592 | - | 20,245 | 837 | - | 23,674 |
| Miscellaneous | - | - | 3,268 | 891 | - | 4,159 |
| Contributions to Endowments | - | - | (54) | - | - | (54) |
| Change in Net Position | 12,539 | (13,536) | 87,024 | 19,348 | 183,648 | 289,023 |
| Net Position, Beginning of Year | 596,954 | 41,905 | 774,795 | 75,529 | 2,205,315 | 3,694,498 |
| Net Position, End of Year | \$ 609,493 | \$ 28,368 | \$ 861,819 | \$ 94,877 | \$ 2,388,963 | \$ 3,983,521 |

(a) Beginning net position of the Wisconsin Economic Development Corporation increased by \$1.2 million as a result of a prior period adjustment.

NOTE 23. RESTATEMENTS OF BEGINNING FUND BALANCES/NET POSITIONS AND OTHER CHANGES

The following reconciliations summarize restatements of the end-of-year fund balances/net positions as reported in the 2012 Comprehensive Annual Financial Report to the beginning-of-year amounts reported for Fiscal Year 2013 (in thousands):

A. Fund Statements – Governmental Funds

| | Major Funds | | | | | Total Governmental |
|---|-----------------------|-------------------|------------------------|---------------------|---------------------|-----------------------|
| | General | Transportation | Capital Improvement | Nonmajor Funds | | |
| Fund Balances June 30, 2012 as reported in the 2012 Comprehensive Annual Financial Report | \$ (2,211,006) | \$ 690,208 | \$ (595,235) | \$ 1,209,322 | \$ (906,710) | |
| DOT correction of accrual for federal revenue | - | 22,880 | - | - | 22,880 | |
| Reclassification of revenue between funds | - | 11,061 | - | (11,061) | - | |
| Other adjustments of assets and liabilities as of June 30, 2012 | 8,899 | (1,821) | - | (511) | 6,567 | |
| Fund Balances July 1, 2012 as restated | <u>\$ (2,202,107)</u> | <u>\$ 722,329</u> | <u>\$ (595,235)</u> | <u>\$ 1,197,751</u> | <u>\$ (877,263)</u> | |
| Effect of adjustments on the amount of excess revenues and other sources over expenditures and other uses of Fiscal Year 2012 | \$ 199 | \$ 26,113 | \$ - | \$ (5,564) | \$ 20,748 | |

B. Fund Statements – Proprietary Funds

| | Major Funds | | | | | | |
|---|--|------------------------------|--------------------------------------|-------------------------|-------------------|---------------------|------------------------------|
| | Injured Patients and Families Compensation | Environmental Improvement | University of Wisconsin System | Unemployment Reserve | Nonmajor Funds | Total Enterprise | Internal Service Funds |
| Net Positions June 30, 2012 as reported in the 2012 Comprehensive Annual Financial Report | \$ 361,165 | \$ 1,741,504 | \$ 5,647,570 | \$ (612,422) | \$ 471,815 | \$ 7,609,631 | \$ 14,501 |
| Other adjustments of assets and liabilities as of June 30, 2012 | - | - | - | - | (2,223) | (2,223) | (1,583) |
| Net Positions July 1, 2012 as restated | <u>\$ 361,165</u> | <u>\$ 1,741,504</u> | <u>\$ 5,647,570</u> | <u>\$ (612,422)</u> | <u>\$ 469,592</u> | <u>\$ 7,607,409</u> | <u>\$ 12,917</u> |
| Effect of adjustments on the amount of net change in net positions of Fiscal Year 2012 | \$ - | \$ - | \$ - | \$ - | \$ (2,223) | \$ (2,223) | \$ (1,583) |

C. Government-wide Statements

| | Primary Government | | | Component Units |
|--|----------------------------|-----------------------------|----------------------|---------------------|
| | Governmental Activities | Business-type Activities | Totals | |
| Net Positions June 30, 2012 as reported in the 2012 Comprehensive Annual Financial Report | \$ 7,239,135 | \$ 7,610,678 | \$ 14,849,813 | \$ 3,693,298 |
| DOT correction of accrual for federal revenue | 22,880 | - | 22,880 | 0 |
| DOC correction to capital assets | (20,384) | - | (20,384) | - |
| DOT restatement of capital assets and infrastructure | 46,656 | - | 46,656 | - |
| WEDC correction of unearned revenue, payables, leases, and capital assets | - | - | - | 1,200 |
| Other adjustments of assets and liabilities as of June 30, 2012 | 6,503 | (2,223) | 4,280 | - |
| Net Positions July 1, 2012 as restated | <u>\$ 7,294,790</u> | <u>\$ 7,608,455</u> | <u>\$ 14,903,246</u> | <u>\$ 3,694,498</u> |
| Effect of adjustments on the amount of net increase (decrease) in net positions of Fiscal Year 2012 | \$ (1,220) | \$ (2,223) | \$ (3,442) | \$ 1,468 |

NOTE 24. 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.

In October and November 2013, the State entered into agreements with certain pharmaceutical companies to resolve allegations of unlawful practices. These practices resulted in overcharges and fraudulent claims to the State Medical Assistance program over several years. As a result of the agreements, the State will receive \$35.6 million from the companies, of which \$20.9 million will be returned to the federal government. These amounts are included in the financial activity reported for the General Fund.

The State accrues liabilities related to legal proceedings, if a loss is probable and reasonably estimable. Such losses, totaling \$2.1 million on June 30, 2013 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 \$.9 million at June 30, 2013.

The U.S. Department of Agriculture determined that certain costs of services for the Food and Nutrition Service administered by the State of Wisconsin Department of Health Services, were not allowed under program requirements. Therefore, a liability for \$1.2 million is reported at June 30, 2013 in the General Fund.

Other Claims, Judgments, and Contingencies

The State is also named as a party in other legal proceedings where the ultimate disposition and consequence are not presently determinable. The potential liability amount relating to an unfavorable outcome for certain of these proceedings could not be reasonably determined at this time. However, the ultimate dispositions and consequences of any single legal proceeding or all legal proceedings collectively should not have a material adverse effect on the State's financial position.

Lawsuit and Related Claim – Talgo, Inc. (Talgo) and the State entered into two contracts. The first contract was for the construction and purchase of high speed passenger rail trains. The second contract was to maintain the trains and contained a non-appropriation clause that permitted either party to terminate the agreement if the Legislature did not appropriate funds necessary to perform the contract. The State decided to discontinue the project.

In November 2012, Talgo filed a lawsuit claiming the State defaulted on its legal obligations. The circuit court denied the State's motion to dismiss the case and the lawsuit is in the discovery phase. If Talgo were able to use the suit to fix the State's liability, Talgo could seek \$10 million in payments on the purchase agreement and a judgment in the \$26 million range if it could prove that the State improperly terminated the maintenance agreement. In November 2013, Talgo also filed a claim with the Wisconsin Claims Board. The parties have been in correspondence regarding these items.

The final outcome of the lawsuit and claim is unknown at this time.

Federal Grant – The U.S. Department of Housing and Urban Development (HUD) provided funding to the State through the Community Development Block Grant (CDBG) program. The funds were subgranted to units of general local government by the former Department of Commerce, the State agency responsible for administering CDBG prior to Fiscal Year 2012. Of the amounts subgranted, \$16.2 million were determined to not meet program requirements. The State is in the process of requesting a voluntary reduction of future grant awards from HUD as a potential resolution to \$15.2 million of unallowable costs. In addition, the State continues to work with HUD on a resolution for the remaining \$1.0 million of CDBG funds which were received under the American Recovery and Reinvestment Act. It is possible that those costs will ultimately be accepted by HUD as allowable and no loss exists.

Notice of Transferee Liability – In September 2008, the Internal Revenue Service (IRS) provided the State of Wisconsin Investment Board (SWIB) a Notice of Transferee Liability. This claim seeks taxes, penalties and interest relating to the sale of Shockley Communications Corporation (SCC) stock in 2001.

The IRS asserts that the shareholders' sale of SCC stock in 2001 should have been characterized as a sale of assets by SCC, on which SCC should have paid income taxes. The IRS asserts that the former SCC shareholders, including SWIB, would be liable for those taxes, plus penalties and interest. The SWIB's liability, as a putative transferee of SCC assets, would be limited to \$46.2 million including taxes, interest and potential penalties.

The SWIB believes that the loss, if any, resulting from the claim being upheld will not have a material impact on net investment position or net income in future years. Due to uncertainty in predicting an outcome, a liability has not been recorded.

B. Commitments

Primary Government

As of June 30, 2013, encumbrances of the General Fund totaled \$390.2 million, encumbrances of the Transportation Fund totaled \$1.38 billion, and encumbrances of other non-major governmental funds totaled \$560.7 million. Obligations at June 30, 2013 representing multi-year, long-term commitments included (in thousands):

| | |
|---|------------|
| Transportation Fund | \$ 448,964 |
| Transportation Revenue Bonds Capital Projects Fund | 61.9 |
| General Fund – Housing Programs | 18,816 |

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 \$210.9 million as of June 30, 2013. These loan commitments are expected to be met through additional federal grants and proceeds from issuance of revenue obligations.

In addition, the revenue obligation bonds of the Leveraged Loan Program in the Fund are collateralized by a security interest in all the assets of the Leveraged Loan Program. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the Fund’s revenue obligation bonds. However, as the loans granted to local units of government are at an interest rate less than the revenue bond rate, the State is obligated by the Fund’s General Resolution to fund, at the time each loan is made, a reserve which subsidizes the Leveraged Loan Program in an amount which offsets this interest disparity.

The *Injured Patients and Families Compensation Fund* may be required to purchase an annuity as a result of a claim settlement. Under specific annuity arrangements, the fund may have ultimate responsibility for annuity payments if the annuity company defaults on annuity payments. One of the fund’s annuity providers defaulted on \$108 thousand in annuity payments through June 30, 2013, which the fund subsequently paid. The annuity provider is currently making the majority of these annuity payments, but the fund continues to make monthly annuity payments to cover defaulted payments. The fund has received reimbursement for these payments, including interest of \$93 thousand through June 30, 2013. It is unclear when the annuity provider will be able to make the remaining annuity

payments and whether the fund will be able to recover the remaining annuity payments made on the behalf of the annuity provider. The total estimated replacement value of the fund’s annuities as of June 30, 2013 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, 2013, the appropriation available totaled \$49.9 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.

Component Units

The Wisconsin Housing and Economic Development Authority (Authority) administered the Wisconsin Development Reserve Fund Program for the State of Wisconsin. The program represents funds appropriated to subsidize interest and provide guarantees of principal balances of qualifying loans. The Authority is authorized to make loan guarantees up to \$49.5 million. At June 30, 2013, outstanding loan guarantees totaled \$18.5 million.

The Home Improvement Loan Program (HILP) is a State of Wisconsin program administered by the Authority. The HILP provides loans for eligible borrowers to make improvements to owner-occupied properties. As of June 30, 2013, \$927 thousand of loans were outstanding.

The State Small Business Credit Initiative (SSBCI) was established with the passage of the federal Small Business Jobs Act of September 2011. The SSBCI was created to make capital more assessable to entrepreneurs and small businesses. The Wisconsin Department of Administration has been allocated funds for the State of Wisconsin and the Authority will administer those funds on behalf of the State. As of June 30, 2013, the Authority had received \$14.8 million for SSBCI to be used on various programs and had disbursed a total of \$6.6 million.

NOTE 25. SUBSEQUENT EVENTS

Primary Government

Long-term Debt

General Obligation Bonds - In November 2013, the State issued \$405.5 million of 2013 Series 1 General Obligation Refunding Bonds. Proceeds from the bonds are being used for the refunding of general obligation bonds previously issued. The interest rates ranged from 2.0 percent to 5.0 percent payable semiannually, beginning May 1, 2014. The bonds mature beginning May 1, 2016 through 2033.

In October 2013, the State entered into a forward delivery bond purchase agreement for the issuance of general obligation refunding bonds. Subject to that agreement, the State expects to issue \$181.6 million of Series 1 general obligation refunding bonds in February 2014 to be used for the refunding of general obligation bonds previously issued. When issued, the interest rates are expected to be 5.0 percent payable semiannually beginning May 1, 2014 and maturing May 1, 2015 through 2020.

Short-term Debt

In November 2013, the State issued \$70.0 million of transportation revenue commercial paper notes to be used to pay the costs of major highway projects and certain State transportation facilities.

In December 2013, the State will issue \$58.8 million of general obligation commercial paper notes for the acquisition, construction, development, extension, enlargement or improvement of land, property, buildings, equipment, or facilities for public purposes.

Certificates of Participation

In August 2013, the Master Lease Certificates of Participation of 2013, Series A (Revolving Credit Agreement – Taxable) was issued. The scheduled termination date under the Revolving Credit Agreement is September 1, 2016. This Master Lease certificate shall bear interest at the rates and mature on the dates provided for in the Revolving Credit Agreement.

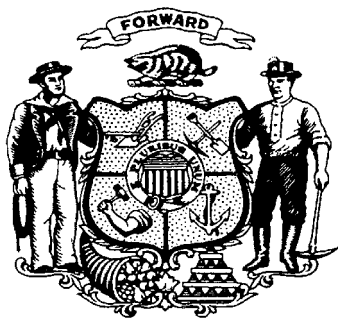
Component Units

Wisconsin Housing and Economic Development Authority (the Authority) – Subsequent to June 30, 2013, the Authority redeemed the following bonds (in thousands):

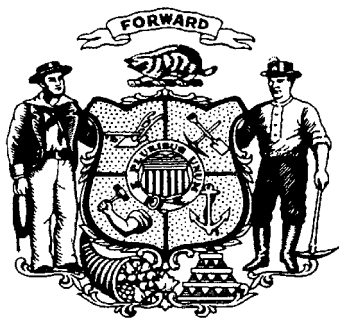
| Program/Bond Resolution | Redemptions Amount Retired |
|--------------------------------|---|
| Home Ownership Revenue Bonds: | |
| 1987 | \$ 59,030 |
| 1988 | 63,405 |
| 2009 | 6,495 |
| Housing Revenue Bonds | 19,535 |
| Multifamily Stand Alone Bonds | 6,840 |
| Total | \$ 155,305 |

In addition, subsequent to June 30, 2013, the Authority issued the following debt (in thousands):

| Program/Bond Resolution | Issuances |
|-------------------------------------|------------------|
| Line of Credit – Mortgage Financing | \$ 23,905 |



Required Supplementary Information



Required Supplementary Information

Postemployment Benefits - State Health Insurance Program

The funding progress for the State of Wisconsin Health Insurance Plan is provided below (in thousands):

| Actuarial Valuation Date | Actuarial Valuation Of Assets (a) | Actuarial Accrued Liability (AAL) – Entry Age (b) | Unfunded AAL (UAAL) (b – a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b – a) / c) |
|---------------------------------|--|--|------------------------------------|-----------------------------|----------------------------|--|
| 1/1/2011 | \$ 0 | \$ 953,110 | \$ 953,110 | 0.0% | \$ 3,244,518 | 29.4% |
| 1/1/2009 | \$ 0 | \$ 1,329,526 | \$ 1,329,526 | 0.0% | \$ 3,053,972 | 43.5% |
| 1/1/2007 | \$ 0 | \$ 1,472,774 | \$ 1,472,774 | 0.0% | \$ 2,842,917 | 51.8% |

Required Supplementary Information

Infrastructure Assets Reported Using the Modified Approach

The State has adopted the modified approach for reporting infrastructure assets. Under the modified approach, infrastructure assets are not depreciated as long as the State can demonstrate that these assets are properly managed and are being preserved at or above an established condition level. Instead of depreciation, the costs to maintain and preserve infrastructure assets are expensed, while additions and improvements are capitalized. The State owns approximately 11,200 centerline miles of road and 5,100 bridges.

Road Network

Condition assessments are completed on a two-year cycle with the most current results reported for each State road. 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 its primary condition measure. IRI is measured on a scale of 0 to 5, with an IRI of 2.69 or greater being defined as a "poor" ride. Roads with a "poor" IRI assessment cause negative impacts for the traveling public by decreasing driver comfort and increasing the damage to vehicles and goods. It is the State's policy to ensure no more than 15 percent of its roads receive a "poor" IRI assessment.

Recent condition assessment results are as follows:

| Year Ended June 30 | Miles of Road | Percent Rated "Poor" | Established Percent | Variance Favorable/ (Unfavorable) |
|--------------------|---------------|----------------------|---------------------|-----------------------------------|
| 2013 | 11,200 | 6.2 | 15.0 | 8.8 |
| 2012 | 11,200 | 7.0* | 15.0 | 8.0 |
| 2011 | 11,200 | 12.0** | 15.0 | 3.0 |
| 2010 | 11,200 | 9.3** | 15.0 | 5.7 |
| 2009 | 11,200 | 6.9 | 15.0 | 8.1 |
| 2008 | 11,200 | 6.9 | 15.0 | 8.1 |
| 2007 | 11,200 | 6.4 | 15.0 | 8.6 |
| 2006 | 11,200 | 5.4 | 15.0 | 9.6 |
| 2005 | 11,200 | 5.8 | 15.0 | 9.2 |
| 2004 | 11,200 | 6.1 | 15.0 | 8.9 |

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

** The 2011 and 2010 increase in the percentage of roads rated poor compared to previous years is partially attributable to the new equipment used in assessing the IRI. For 2011, all of the miles were tested using the new equipment. For 2010, approximately half of the miles were tested using the new equipment. DOT officials believe the current data collection methods provide a more accurate view of existing ride quality because of improvements in equipment and methodology.

Each year the State estimates the costs to maintain and preserve the road network at, or above, the established condition level. Actual maintenance/preservation costs compare to estimates as follows:

| Year Ended June 30 | Estimated Costs (In millions) | Actual Costs (In millions) | Variance (In millions) Favorable/ (Unfavorable) |
|--------------------|-------------------------------|----------------------------|---|
| 2013 | \$ 580.9 | \$ 561.8 | \$ 19.1 |
| 2012 | 611.0 | 585.3 | 25.7 |
| 2011 | 606.7 | 705.7 | (99.0) |
| 2010 | 660.7 | 669.1 | (8.4) |
| 2009 | 647.7 | 624.4 | 23.3 |
| 2008 | 531.8 | 537.3 | (5.5) |
| 2007 | 501.8 | 441.6 | 60.2 |
| 2006 | 495.7 | 367.5 | 128.2 |
| 2005 | 366.6 | 333.8 | 32.8 |
| 2004 | 450.8 | 341.1 | 109.7 |

Estimated costs are developed at the beginning of the fiscal year based on projects planned for the current and future years. The types of projects ultimately contracted and incurring costs during the year are often very different. In addition, the State of Wisconsin, Department of Transportation's multi-year contracting process, allowing encumbrances to carry forward, makes a comparison of actual to estimated amounts difficult since expenditures for the current year may have been budgeted and committed to a project in prior years. Estimated costs for 2005

and actual costs for 2005 through 2008 have been restated from amounts reported in prior years due to an error in classification of costs on a capital project as maintenance/preservation costs.

Bridge Network

Condition assessments are completed on a two-year cycle, with more frequent inspections completed if warranted. The most current assessment results are reported for each State bridge, making the overall assessment a blend of measures completed in the current fiscal year and those completed in the prior year.

The structural condition rating is a broad measure of the condition of a bridge. Each bridge is rated using three National Bridge Inventory (NBI) condition codes and two NBI appraisal ratings. The three NBI condition codes are Deck Condition, Superstructure Condition, and Substructure Condition. The two NBI appraisal ratings are Structural Evaluation and Waterway Adequacy. The NBI uses a 10-point scale for condition codes and appraisal ratings. A bridge is considered "structurally deficient" if any condition code is 4 or less, or if either appraisal code is 2 or less.

"Structurally deficient" bridges cause negative impacts for the public by increasing the likelihood that heavy loads will need to be rerouted to less efficient routes, thus increasing logistic costs for State businesses. It is the State's policy to ensure no more than 15 percent of its bridges are "structurally deficient".

Recent condition assessment results are as follows:

| Year Ended June 30 | Number of Bridges | Percent Structurally Deficient | Established Percent | Variance Favorable/ (Unfavorable) |
|--------------------|-------------------|--------------------------------|---------------------|-----------------------------------|
| 2013 | 5,100 | 3.1 | 15.0 | 11.9 |
| 2012 | 5,100 | 3.3 | 15.0 | 11.7 |
| 2011 | 5,100 | 3.6 | 15.0 | 11.4 |
| 2010 | 5,000 | 4.1 | 15.0 | 10.9 |
| 2009 | 5,000 | 3.8 | 15.0 | 11.2 |
| 2008 | 4,900 | 4.5 | 15.0 | 10.5 |
| 2007 | 4,900 | 4.1 | 15.0 | 10.9 |
| 2006 | 4,900 | 4.3 | 15.0 | 10.7 |
| 2005 | 4,900 | 5.1 | 15.0 | 9.9 |
| 2004 | 4,900 | 5.4 | 15.0 | 9.6 |

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) |
|--------------------|-------------------------------|----------------------------|---|
| 2013 | \$ 123.2 | \$ 115.3 | \$ 7.9 |
| 2012 | 101.9 | 61.1 | 40.8 |
| 2011 | 42.4 | 64.2 | (21.8) |
| 2010 | 91.7 | 93.0 | (1.3) |
| 2009 | 55.9 | 56.9 | (1.0) |
| 2008 | 61.0 | 46.2 | 14.8 |
| 2007 | 36.0 | 46.9 | (10.9) |
| 2006 | 42.4 | 31.3 | 11.1 |
| 2005 | 28.3 | 38.6 | (10.3) |
| 2004 | 47.8 | 52.3 | (4.5) |

Estimated costs are developed at the beginning of the fiscal year based on projects planned for the current and future years. The types of projects ultimately contracted and incurring costs during the year are often very different. The State of Wisconsin, Department of Transportation's multi-year contracting process, allowing encumbrances to carry forward, makes a comparison of actual to estimated amounts difficult since expenditures for the current year may have been budgeted and committed to a project in prior years.

**Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2013**

(In Thousands)

| | Original Budget | Final Budget | Actual Amounts |
|--|----------------------|----------------------|---------------------|
| Unexpended Budgetary Fund Balances, Beginning of Year | | | \$ 1,789,362 |
| Revenues and Transfers (Inflows): | | | |
| Taxes | \$ 13,801,378 | \$ 13,697,385 | 14,107,812 |
| Departmental: | | | |
| Tribal Gaming | 28,074 | 28,645 | 25,932 |
| Other | 15,519,666 (A) | 15,512,290 (A) | 15,301,437 |
| Transfers from: | | | |
| Transportation Fund | (A) | (A) | - |
| Nonmajor Governmental Funds | (A) | (A) | 82,162 |
| Nonmajor Enterprise Funds | (A) | (A) | - |
| Total Revenues and Transfers (Inflows) | 29,349,118 | 29,238,320 | 29,517,343 |
| Amounts Available for Appropriation | | | 31,306,705 |
| Appropriations (Outflows): | | | |
| Commerce | 252,525 | 284,774 | 207,342 |
| Education | 11,904,260 | 12,440,874 | 11,997,456 |
| Environmental Resources | 389,744 | 439,340 | 386,715 |
| Human Relations and Resources | 11,200,038 | 14,296,754 | 12,436,383 |
| General Executive | 1,400,076 | 1,687,941 | 1,016,971 |
| Judicial | 138,650 | 139,450 | 127,453 |
| Legislative | 75,229 | 78,164 | 64,552 |
| Tax Relief and Other General | 2,312,493 | 2,354,165 | 2,242,824 |
| Transfers to: | | | |
| Transportation Fund | 137,627 | 137,627 | 137,627 |
| Nonmajor Governmental Funds | - | - | 160,641 |
| Total Appropriations (Outflows) | \$ 27,810,641 | \$ 31,859,089 | 28,777,965 |
| Fund Balances, End of Year | | | 2,528,740 |
| Less Encumbrances Outstanding at June 30, 2013 | | | (522,364) |
| Fund Balances, End of Year Budgetary Basis | | | <u>\$ 2,006,376</u> |
| Reconciliation of the End of Year, Budgetary Basis, Fund Balance to the Detail Reported in the Annual Fiscal Report: | | | |
| General Purpose: | | | |
| Designated | | | \$ 18,771 |
| Undesignated | | | 759,205 |
| Total General Purpose | | | <u>777,976</u> |
| Program Revenue | | | <u>1,228,400</u> |
| Fund Balances, End of Year Budgetary Basis | | | <u>\$ 2,006,376</u> |

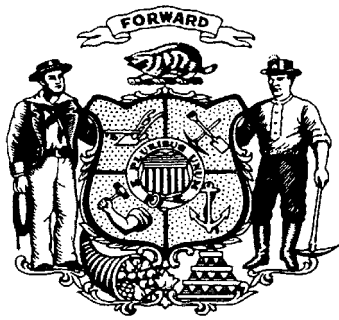
(A) Interfund transfers to the General Fund were budgeted under departmental revenue during Fiscal Year 2013.

State of Wisconsin

**Budgetary Comparison Schedule
Transportation Fund
For the Fiscal Year Ended June 30, 2013**

(In Thousands)

| | Original Budget | Final Budget | Actual Amounts |
|--|----------------------------|-------------------------|---------------------------|
| Unexpended Budgetary Fund Balances, Beginning of Year | | | <u>\$ 551,430</u> |
| Revenues (Inflows): | | | |
| Taxes | \$ 1,011,477 | \$ 1,011,477 | 1,011,477 |
| Departmental | 1,702,637 | 1,702,637 | 1,702,637 |
| Transfers from: | | | |
| General Fund | 137,627 | 137,627 | 137,627 |
| Nonmajor Governmental Funds | 19,500 | 19,500 | 19,500 |
| Total Revenues (Inflows) | <u>2,871,241</u> | <u>2,871,241</u> | <u>2,871,240</u> |
| Amounts Available for Appropriation | | | <u>3,422,670</u> |
| Appropriations and Transfers (Outflows): | | | |
| Environmental Resources | 2,789,999 | 5,368,772 | 2,720,025 |
| General Executive | 1,803 | 1,854 | 1,779 |
| Tax Relief and Other General | 21,860 | 22,473 | 21,740 |
| Total Appropriations and Transfers (Outflows) | <u>\$ 2,813,661</u> | <u>\$ 5,393,099</u> | <u>2,743,544</u> |
| Fund Balances, End of Year | | | 679,126 |
| Less Encumbrances Outstanding at June 30, 2013 | | | <u>(1,888,005)</u> |
| Fund Balances, End of Year Budgetary Basis | | | <u>\$ (1,208,879)</u> |



Notes To Required Supplementary Information

NOTE 1. BUDGETARY INFORMATION

A. Budgetary – GAAP Reporting Reconciliation

The accompanying Budgetary Comparison Schedule compares the legally adopted budget (more fully described in RSI Note 1-B) with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on the budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of basis and perspective differences as of June 30, 2013 is presented below (in thousands):

| | General Fund | Transportation Fund |
|---|----------------------|---------------------|
| Fund balance June 30, 2013 (budgetary basis – budgetary fund structure): | | |
| General Purpose Revenue – fund balance per budgetary basis <i>Annual Fiscal Report</i> | | |
| Undesignated fund balance | \$ 759,205 | |
| Designated fund balance | 18,771 | |
| Total General Purpose Revenue fund balance | 777,976 | |
| Program Revenue – fund balance per budgetary basis <i>Annual Fiscal Report</i> | 1,228,400 | |
| Fund balance June 30, 2013 (budgetary basis – budgetary fund structure) | | |
| As reported on the budgetary comparison schedule | 2,006,376 | \$(1,208,879) |
| Reclassifications: | | |
| To eliminate the effect of encumbrances that were reported as expenditures under budgetary reporting (<i>basis difference</i>) | 522,365 | 1,888,005 |
| To include activities of funds such as the Medical Assistance Trust, Hospital Assessment, Critical Hospital Assessment, Budget Stabilization, and Permanent Endowment Funds (reported as special revenue funds under budgetary reporting) as part of the General Fund (<i>perspective difference</i>) | 344,744 | -- |
| To remove activities reported in another GAAP fund type (<i>perspective differences</i>): | | |
| Enterprise funds (except for the University of Wisconsin System) | 22,313 | -- |
| University of Wisconsin System | (1,284,431) | -- |
| Internal Service funds | 12,372 | -- |
| Fiduciary funds | (5,570) | -- |
| Transportation Revenue Bonds capital project fund | -- | 17,306 |
| Fund balance June 30, 2013 (GAAP fund structure – budgetary basis, excluding encumbrances treated as expenditures at year end) | 1,618,169 | 696,432 |
| Adjustments (<i>basis differences</i>): | | |
| To accrue receivables and establish payables for individual income taxes (net) | (1,066,739) | -- |
| To defer revenues for gross receipts public utility taxes | (257,345) | -- |
| To adjust revenues and expenditures for tax-related items and other tax credit/aid programs (net) | (469,167) | (7,447) |
| To adjust expenditures for the municipal and county shared revenue program | (498,194) | -- |
| To adjust expenditures for State property tax credit program | (680,755) | -- |
| To accrue unpaid Medicaid payments to providers (net of receivable from federal government) | (243,753) | -- |
| To adjust revenues and expenditures for certain major Health Services, and Children and Families human services payments to local governments | (132,796) | -- |
| To accrue receivable for Medicaid drug rebates (net of payable to federal government) | 91,411 | -- |
| To adjust expenditures/revenues for other Health Services and Workforce Development accruals and deferrals | (147,900) | -- |
| To recognize the tobacco settlement revenue receivable | 70,714 | -- |
| To accrue State educational aids payments deferred until the subsequent year | (74,990) | -- |
| To adjust expenditures for State Energy Program loan activity | 34,464 | -- |
| To adjust revenues and expenditures for other items (net) | 23,091 | 74,527 |
| Fund balance June 30, 2013 (GAAP fund structure – GAAP basis) as reported on the governmental fund statements | \$(1,733,789) | \$763,512 |

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 and published on June 30, 2011. This legislation is recognized by State officials as the original budget and is treated as such on the Budgetary Comparison Schedules.

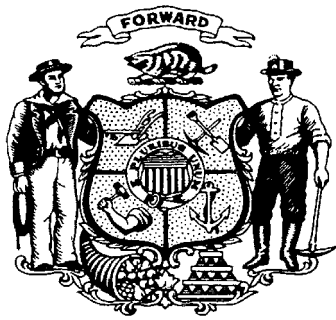
While the legal level of budgetary control for the reported funds is maintained at the appropriation line as specified by the Legislature in Chapter 20 of the Wisconsin Statutes, this level of detail is impractical for inclusion in the Comprehensive Annual Financial Report. Accordingly, a supplementary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

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

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

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

Supplementary Information



Nonmajor Governmental Funds

SPECIAL REVENUE: Special revenue funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for a specified purpose. The State's special revenue funds are described below:

The **Conservation Fund** accounts for the management of the State's fish, wildlife, parks and other natural resources with funds provided from hunting and fishing licenses, recreational fees and forestry taxes.

The **Police and Fire Protection Fund** accounts for the distribution of fees collected by communication providers and retailers for distribution to counties and municipalities as State shared revenue.

The **Utility Public Benefits Fund** accounts for voluntary contributions and public benefits fees collected from customers by utilities to assist in funding low income assistance grants and energy conservation and efficiency grants.

The **Petroleum Inspection Fund** accounts for revenues received from inspection fees on petroleum products shipped into Wisconsin and proceeds received from revenue bonds. These resources are used for petroleum inspection programs, environmental cleanup awards, clean air and water administration and other environmental programs in the State.

The **Wisconsin Public Broadcasting Foundation Fund** accounts for financial resources generated to support the activities of the Educational Communications Board. The primary revenue sources of the fund are from gifts, grants and contributions.

The **Economic Development Fund** accounts for economic development surcharges collected from Wisconsin businesses for the privilege of doing business in the state. Resources of the fund are provided to the Wisconsin Economic Development Corporation.

The **Other Environmental Special Revenue Funds**, in conjunction with the Conservation Fund, account for resources used to provide for the preservation of the State's parks, forests and environment, and includes the following:

- The **Heritage State Parks and Forests Fund** accounts for the funding for operations and maintenance of State parks, southern State forests, and recreation areas either by making partial matching grants to "friends groups" or by accepting expenditure transfers from park and forest programs in the Conservation Fund.

- The **Waste Management Fund** accounts for the closure and long-term care of approved landfills from fees imposed on landfill operators.
- The **Environmental Fund** accounts for the development and enforcement of groundwater standards, as well as assistance in the emergency response, investigation and clean up of contamination. This assistance is funded by fees on activities or substances which may contaminate groundwater and fees for solid waste tipping, pesticide licenses and oil inspections.
- The **Dry Cleaner Environmental Response Fund** accounts for the financial assistance for the remediation of environmental contamination caused by the spillage of dry cleaning solvents. Revenues used to fund this program are dry cleaning facility license and solvent fees.
- The **Recycling and Renewable Energy Fund**, accounted for the moneys from the recycling surcharge tax and recycling fees, used to reduce the amount of solid waste disposed of in landfills and incinerators. 2011 Wisconsin Act 32 ended the program and most of the remaining resources were provided to the Economic Development Fund.

The **Other Special Revenue Funds** account for resources that must be used for specific purposes and include the following:

- The **Unemployment Interest Payment Fund** accounts for assessments collected on employers in the state. Revenues are used to pay interest due on outstanding advances from the federal government that were used to pay unemployment claims.
- The **Investment and Local Impact Fund** accounts for grants and loans to municipalities where metalliferous minerals exist to offset the negative effects of mining projects. These grants and loans are funded with taxes which have been imposed on mining activities.
- The **Industrial Building Construction Loan Fund** accounts for economic development grants and loans for the construction of industrial buildings. These grants and loans are funded primarily with investment income.

(Continued)

Nonmajor Governmental Funds

- The **Election Administration Fund** accounts for federal and State moneys provided to develop, administer and manage a statewide voter registration system; enabling all qualified electors, including those with disabilities, the opportunity to vote while maintaining uniform standards within the voting process and safeguarding the vote of all electors.
- The **Self-insured Employers Liability Fund** collects fees assessed from employers who self-insure for workers compensation purposes. The reserve is used to pay judgements owed to employees of insolvent self-insured employers.
- The **Work Injury Supplemental Benefit Fund** accounts for compensatory payments to survivors of fatally injured employees or disabled employees with work-related injuries. This compensation is provided with funds collected from State employers and insurance carriers.
- The **Workers Compensation Fund** accounts for the expenditures related to administering the worker's compensation laws in Wisconsin. These expenditures are funded by annual assessments of insurers and self-insured employers doing business in the State.
- The **Uninsured Employers Fund** accounts for the administration of insurance enforcement activities and compensation to injured employees of uninsured employers. The revenue is primarily provided by funds collected from uninsured employers.
- The **Mediation Fund** accounts for the resolution of disputes regarding medical malpractice. Dispute filing fees and fees charged to health care providers are the primary revenue sources.
- The **Working Lands Fund** accounts for the deposit of farmland preservation conversion fees, gifts and grants. Proceeds are used to purchase agriculture conservation easements and to provide grants to counties for farmland preservation plan costs.
- The **State Capitol Restoration Fund** accounts for moneys from private donations used to offset the costs of restoration work at the State Capitol.
- The **Agricultural Chemical Cleanup Fund** accounts for the portion of the costs responsible persons pay to clean up fertilizer and pesticide spills and historical handling areas. Fertilizer and pesticide licenses and registration fees primarily provide the revenue.
- The **Agrichemical Management Fund** accounts for the regulation and enforcement of pesticide, feed and fertilizer industries. The revenue is generated by licenses and fees assessed to these industries.
- The **Agricultural Producer Security Fund** accounts for fees, surcharges, assessments, reimbursements and bond proceeds of surety bonds collected from contractors doing business with agricultural producers. Payments are made to producers from the fund if contractors default on amounts owed to producers.
- The **Historical Legacy Trust Fund** accounts for gifts, grants and bequests given to commemorate the 200th anniversary of statehood. All moneys received by the State Sesquicentennial Commission after September 30, 1998 are also reported in this fund.
- The **History Preservation Partnership Trust Fund** accounts for moneys received from admissions, sales, and other receipts of the Historical Society. The fund is supported primarily by program revenues from daily receipts, site deposits and other generated income from goods and services.
- The **Wireless 911 Fund** accounted for wireless telephone customer surcharges used to provide grants to wireless providers and local governments to devise wireless 911 emergency telephone service systems. 2009 Wisconsin Act 28 ended the grant program and most of the remaining resources were provided to local governments through shared revenue under Wisconsin Statutes 20.835(q).
- The **Military Family Relief Fund** accounts for donations received via designation on Wisconsin state income tax returns, gifts, and bequests. Resources are used to provide financial assistance to the spouse and dependent children of service members who are residents of this state and serving on active duty in the U.S. armed forces.
- The **Universal Service Fund** accounts for programs that ensure that all State residents receive essential telecommunication services at reasonable prices and that they have access to certain advanced telecommunications service capabilities. Assessment of entities in the telecommunications industry is the primary source of revenues.
- The **Children's Trust Fund** accounts for the program which provides information and encourages the development of child abuse and neglect prevention programs. This fund is supported primarily with investment income and moneys received as contributions, grants, gifts and bequests.

(Continued)

Nonmajor Governmental Funds

DEBT SERVICE: Debt service funds account for the accumulation of resources for, and the payment of, principal, interest and related costs of general long-term obligations.

The **Bond Security and Redemption Fund** accounts for the accumulation of resources for, and the payment of principal, interest and related costs of, general obligation bond debt.

The **Annual Appropriation Bonds Fund** accounts for the accumulation of resources for, and the payment of principal, interest and related costs of, the appropriation obligations issued in Fiscal Year 2004 to pay the State's unfunded accrued prior service (pension) liability and its unfunded accrued liability for sick leave conversion credits.

The **2009 Annual Appropriation Bonds Fund** accounts for the accumulation of resources for, and the payment of principal, interest and related costs of, the appropriation obligations issued in Fiscal Year 2009 to purchase tobacco settlement revenues that were previously sold by the State to the Badger Tobacco Asset Securitization Corporation.

The **Badger Tobacco Asset Securitization Fund** accounts for the accumulation of resources for, and the payment of principal, interest and related costs of bonds issued by the Badger Tobacco Asset Securitization Corporation (BTASC) in Fiscal Year 2002 for the purpose of making a one-time purchase of Tobacco Settlement Revenues from the State. These bonds are revenue obligations of the BTASC secured by, and payable solely and only out of, the moneys, assets or revenues pledged by the BTASC.

The **Petroleum Inspection Revenue Bonds Fund** accounts for the accumulation of resources for, and the payment of principal, interest and related costs of, petroleum inspection fee revenue bond obligations.

The **Transportation Revenue Bonds Fund** accounts for the accumulation of resources for, and the payment of principal, interest and related costs of, transportation revenue bond obligations.

CAPITAL PROJECTS: Capital projects funds account for financial resources used for the acquisition, construction, renovation or repair of major capital facilities (other than those financed by proprietary funds and trust funds). The State's capital projects funds are described below:

The **Building Trust Fund** accounts for repair projects of major capital facilities which are funded primarily through General Fund and agency transfers.

The **Transportation Revenue Bonds Fund** accounts for the accumulation of financing resources for the construction, maintenance, and repair of certain major highway projects and administrative facilities.

PERMANENT: Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used to support the State's programs.

The **Common School Fund** accounts for proceeds from the sale of land granted by the federal government to Wisconsin when it became a state. The fund also receives fines and forfeitures from penal law breaches and proceeds from the disposal of escheated property. The fund provides low cost loans to municipalities and school districts for public purposes. Earnings are distributed to aid local school districts as required by the state constitution.

The **Other Permanent Funds** account for various resources with legal restrictions requiring that principal remain intact and that only earnings be spent and includes the following:

- The **Historical Society** Fund accounts for investment income and donations received by the Wisconsin Historical Society to assist in the operations of the State's archives, research and library services, museums, historic preservation, and executive and administrative services.
- The **Agricultural College** and **University** statutory funds account for federal land grant revenues used as public purpose loans for municipalities and school districts.
- The **Normal School** statutory fund accounts for public purpose loans to municipalities and school districts. These loans are financed with revenues derived from the sale of federally granted land and timber. The interest generated from this fund is used to support and maintain State universities.
- The **Benevolent** statutory fund accounts for investment income used for the care, custody and education of residents committed to the Lincoln Hills School.

Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2013

(In Thousands)

| | Special Revenue Funds | | | | |
|---|-----------------------|----------------------------|-------------------------|----------------------|--|
| | Conservation | Police and Fire Protection | Utility Public Benefits | Petroleum Inspection | Wisconsin Public Broadcasting Foundation |
| Assets | | | | | |
| Cash and Cash Equivalents | \$ 66,486 | \$ 35,020 | \$ 16,348 | \$ 16,623 | 7,687 |
| Investments | - | - | - | - | 7,609 |
| Receivables (net of allowance): | | | | | |
| Taxes | 27,096 | - | - | - | - |
| Loans to Local Governments | 4,840 | - | - | - | - |
| Other Receivables | 6,355 | 4,790 | 6,603 | 5 | 269 |
| Due from Other Funds | 4,345 | - | 1,012 | 13,670 | - |
| Due from Other Governments | 5,288 | - | - | - | - |
| Inventories | 2,796 | - | - | - | - |
| Prepaid Items | 2,150 | - | 12 | 72 | - |
| Restricted and Limited Use Assets: | | | | | |
| Cash and Cash Equivalents | - | - | - | - | - |
| Investments | - | - | - | - | - |
| Other Assets | - | - | - | - | 74 |
| Total Assets | \$ 119,356 | \$ 39,810 | \$ 23,975 | \$ 30,370 | 15,638 |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts Payable and Other | | | | | |
| Accrued Liabilities | \$ 13,533 | \$ - | \$ 1,479 | \$ 431 | 90 |
| Due to Other Funds | 17,025 | 39,541 | 3,881 | 2,691 | 313 |
| Interfund Payables | - | - | - | - | - |
| Due to Other Governments | 6,208 | - | 635 | 181 | - |
| Due to Component Units | - | - | - | - | - |
| Tax Refunds Payable | - | - | - | - | - |
| Tax and Other Deposits | 1,792 | - | - | - | - |
| Unearned Revenue | 3,427 | 3 | 2,541 | - | 135 |
| Deferred Revenue | 522 | - | - | - | - |
| Interest Payable | - | - | - | - | - |
| Advances from Other Funds | - | - | - | - | - |
| Short-term Notes Payable | - | - | - | 71,150 | - |
| Revenue Bonds and Notes Payable | - | - | - | - | - |
| Total Liabilities | 42,507 | 39,544 | 8,535 | 74,454 | 539 |
| Fund Balances: | | | | | |
| Nonspendable | 4,946 | - | 12 | 72 | 35 |
| Restricted | 58,154 | 265 | - | - | 15,065 |
| Committed | 13,750 | - | 15,428 | - | - |
| Unassigned | - | - | - | (44,156) | - |
| Total Fund Balance | 76,849 | 265 | 15,440 | (44,083) | 15,100 |
| Total Liabilities and Fund Balance | \$ 119,356 | \$ 39,810 | \$ 23,975 | \$ 30,370 | 15,638 |

| Special Revenue Funds | | | | Debt Service Funds | | |
|-----------------------|-------------------------------------|-----------------------|-----------------------------|------------------------------|----------------------------|---------------------------------|
| Economic Development | Other Environmental Special Revenue | Other Special Revenue | Total Special Revenue Funds | Bond Security and Redemption | Annual Appropriation Bonds | 2009 Annual Appropriation Bonds |
| \$ 14,143 | \$ 21,835 | \$ 70,814 | \$ 248,956 | \$ 7,531 | \$ - | \$ - |
| - | - | - | 7,609 | - | - | - |
| 1,597 | - | - | 28,694 | - | - | - |
| - | - | - | 4,840 | - | - | - |
| 1 | 13,512 | 24,525 | 56,060 | 1 | - | - |
| 1,049 | 48,652 | 6,025 | 74,753 | 76 | - | - |
| - | 5,652 | 13 | 10,953 | - | - | - |
| - | - | 15 | 2,811 | - | - | - |
| 1 | 9,713 | 87 | 12,035 | - | - | - |
| - | - | - | - | - | - | 89 |
| - | - | - | - | - | 33,841 | - |
| - | - | - | 74 | - | - | - |
| \$ 16,791 | \$ 99,364 | \$ 101,479 | \$ 446,784 | \$ 7,608 | \$ 33,841 | \$ 89 |

| | | | | | | |
|------------------|------------------|-------------------|-------------------|-----------------|------------------|--------------|
| \$ 5 | \$ 1,492 | \$ 2,433 | \$ 19,463 | \$ - | \$ - | \$ - |
| 207 | 3,427 | 8,376 | 75,461 | 1,295 | - | - |
| - | 7,966 | - | 7,966 | - | - | - |
| - | 125 | 50 | 7,198 | - | - | - |
| - | - | - | - | - | - | - |
| 720 | - | - | 720 | - | - | - |
| - | 13,089 | - | 14,881 | - | - | - |
| - | - | - | 6,106 | - | - | - |
| 453 | - | 9,102 | 10,077 | - | - | - |
| - | - | - | - | - | - | - |
| - | 4,968 | - | 4,968 | - | - | - |
| - | - | - | 71,150 | - | - | - |
| - | - | - | - | - | - | - |
| 1,385 | 31,067 | 19,960 | 217,991 | 1,295 | - | - |
| 1 | 9,713 | 102 | 14,881 | - | - | - |
| - | 8,647 | 33,390 | 115,521 | 6,313 | 33,841 | 89 |
| 15,405 | 54,859 | 48,026 | 147,468 | - | - | - |
| - | (4,922) | - | (49,078) | - | - | - |
| 15,406 | 68,298 | 81,518 | 228,793 | 6,313 | 33,841 | 89 |
| \$ 16,791 | \$ 99,364 | \$ 101,479 | \$ 446,784 | \$ 7,608 | \$ 33,841 | \$ 89 |

(Continued)

Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2013

(Continued)

| | Debt Service Funds | | | | Capital Projects Funds |
|---|-------------------------------------|------------------------------------|------------------------------|--------------------------|------------------------|
| | Badger Tobacco Asset Securitization | Petroleum Inspection Revenue Bonds | Transportation Revenue Bonds | Total Debt Service Funds | Building Trust |
| Assets | | | | | |
| Cash and Cash Equivalents | \$ - | \$ - | \$ - | 7,531 | \$ 19,138 |
| Investments | - | - | - | - | - |
| Receivables (net of allowance): | | | | | |
| Taxes | - | - | - | - | - |
| Loans to Local Governments | - | - | - | - | - |
| Other Receivables | - | - | - | 1 | 2 |
| Due from Other Funds | - | - | - | 76 | 475 |
| Due from Other Governments | - | - | - | - | - |
| Inventories | - | - | - | - | - |
| Prepaid Items | 76 | - | - | 76 | - |
| Restricted and Limited Use Assets: | | | | | |
| Cash and Cash Equivalents | 8,059 | 27,646 | 74,516 | 110,311 | - |
| Investments | - | - | 93,628 | 127,469 | - |
| Other Assets | - | 1 | - | 1 | - |
| Total Assets | \$ 8,136 | \$ 27,647 | \$ 168,144 | \$ 245,465 | \$ 19,615 |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts Payable and Other | | | | | |
| Accrued Liabilities | \$ - | \$ 3 | \$ - | \$ 3 | \$ 1,666 |
| Due to Other Funds | 7,250 | - | 9 | 8,554 | 4 |
| Interfund Payables | - | - | - | - | - |
| Due to Other Governments | - | - | - | - | - |
| Due to Component Units | - | - | - | - | - |
| Tax Refunds Payable | - | - | - | - | - |
| Tax and Other Deposits | - | - | - | - | - |
| Unearned Revenue | - | - | - | - | - |
| Deferred Revenue | - | - | - | - | - |
| Interest Payable | - | 2,798 | 42,380 | 45,179 | - |
| Advances from Other Funds | - | - | - | - | - |
| Short-term Notes Payable | - | - | - | - | - |
| Revenue Bonds and Notes Payable | - | 24,165 | 94,835 | 119,000 | - |
| Total Liabilities | 7,250 | 26,966 | 137,224 | 172,736 | 1,671 |
| Fund Balances: | | | | | |
| Nonspendable | 76 | - | - | 76 | - |
| Restricted | 810 | 681 | 30,920 | 72,653 | - |
| Committed | - | - | - | - | 17,944 |
| Unassigned | - | - | - | - | - |
| Total Fund Balance | 886 | 681 | 30,920 | 72,729 | 17,944 |
| Total Liabilities and Fund Balance | \$ 8,136 | \$ 27,647 | \$ 168,144 | \$ 245,465 | \$ 19,615 |

| Permanent Funds | | | | | | |
|------------------------------|------------------------------|-------------------|------------------|-----------------------|-----------------------------------|--|
| Transportation Revenue Bonds | Total Capital Projects Funds | Common School | Other Permanent | Total Permanent Funds | Total Nonmajor Governmental Funds | |
| \$ - | \$ 19,138 | \$ 178,853 | \$ 1,580 | \$ 180,433 | \$ 456,058 | |
| - | - | 408,367 | 20,959 | 429,326 | 436,935 | |
| - | - | - | - | - | 28,694 | |
| - | - | 313,562 | 15,341 | 328,903 | 333,743 | |
| - | 2 | 3,364 | 82 | 3,446 | 59,509 | |
| 431 | 906 | 7,485 | 1,470 | 8,954 | 84,689 | |
| - | - | 3,865 | 186 | 4,051 | 15,004 | |
| - | - | - | - | - | 2,811 | |
| - | - | - | 4 | 4 | 12,115 | |
| 17,273 | 17,273 | - | - | - | 127,584 | |
| 70,931 | 70,931 | - | - | - | 198,399 | |
| - | - | - | - | - | 75 | |
| \$ 88,635 | \$ 108,250 | \$ 915,497 | \$ 39,622 | \$ 955,119 | \$ 1,755,618 | |

| | | | | | | |
|------------------|-------------------|-------------------|------------------|-------------------|---------------------|--|
| \$ 65 | \$ 1,731 | \$ - | \$ 11 | \$ 11 | \$ 21,209 | |
| 27,479 | 27,484 | 1,518 | 50 | 1,568 | 113,066 | |
| 6,260 | 6,260 | - | - | - | 14,225 | |
| - | - | - | - | - | 7,198 | |
| - | - | - | - | - | 0 | |
| - | - | - | - | - | 720 | |
| - | - | - | 32 | 32 | 14,913 | |
| - | - | - | - | - | 6,106 | |
| - | - | - | - | - | 10,077 | |
| - | - | - | - | - | 45,179 | |
| - | - | - | - | - | 4,968 | |
| 112,218 | 112,218 | - | - | - | 183,368 | |
| - | - | - | - | - | 119,000 | |
| 146,022 | 147,693 | 1,518 | 93 | 1,611 | 540,030 | |
| - | - | 898,396 | 37,675 | 936,071 | 951,028 | |
| - | - | 15,583 | 1,855 | 17,437 | 205,612 | |
| - | 17,944 | - | - | - | 165,412 | |
| (57,387) | (57,387) | - | - | - | (106,465) | |
| (57,387) | (39,443) | 913,979 | 39,529 | 953,508 | 1,215,587 | |
| \$ 88,635 | \$ 108,250 | \$ 915,497 | \$ 39,622 | \$ 955,119 | \$ 1,755,618 | |

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2013**

(In Thousands)

| | Special Revenue Funds | | | | |
|--|-----------------------|----------------------------|-------------------------|----------------------|--|
| | Conservation | Police and Fire Protection | Utility Public Benefits | Petroleum Inspection | Wisconsin Public Broadcasting Foundation |
| Revenues: | | | | | |
| Taxes | \$ 89,737 | \$ - | \$ - | \$ 42,051 | \$ - |
| Intergovernmental | 47,877 | - | - | - | - |
| Licenses and Permits | 107,059 | 53,126 | 102,072 | 94 | - |
| Charges for Goods and Services | 15,546 | - | 2 | 83 | 645 |
| Investment and Interest Income | (56) | 21 | 16 | 46 | 706 |
| Fines and Forfeitures | 307 | - | - | - | - |
| Gifts and Donations | 1,239 | - | - | - | 11,047 |
| Miscellaneous: | | | | | |
| Other | 1,038 | - | - | 69 | - |
| Total Revenues | 262,747 | 53,146 | 102,091 | 42,342 | 12,398 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Commerce | - | - | - | - | - |
| Education | - | - | - | - | 2,705 |
| Transportation | - | - | - | - | - |
| Environmental Resources | 258,254 | - | - | 17,349 | - |
| Human Relations and Resources | - | - | - | - | - |
| General Executive | - | - | 104,989 | - | - |
| Judicial | - | - | - | - | - |
| Tax Relief and Other | - | - | - | - | - |
| General Expenditures | - | - | - | - | - |
| Intergovernmental - Shared Revenue | - | 53,019 | - | - | - |
| Capital Outlay | 2,975 | - | - | 160 | - |
| Debt Service: | | | | | |
| Principal | - | - | - | - | - |
| Interest | - | - | - | 152 | - |
| Other Expenditures | - | - | - | - | - |
| Total Expenditures | 261,229 | 53,019 | 104,989 | 17,662 | 2,705 |
| Excess of Revenues Over (Under) Expenditures | 1,518 | 127 | (2,898) | 24,681 | 9,693 |
| Other Financing Sources (Uses): | | | | | |
| Long-term Debt Issued | - | - | - | - | - |
| Long-term Debt Issued - Refunding Bonds | - | - | - | - | - |
| Payments to Refunding Bond Escrow Agent | - | - | - | - | - |
| Premium on Bonds | - | - | - | - | - |
| Transfers In | 22,519 | - | - | - | - |
| Transfers Out | (24,089) | - | (9,159) | (27,649) | (8,464) |
| Total Other Financing Sources (Uses) | (1,570) | - | (9,159) | (27,649) | (8,464) |
| Net Change in Fund Balances | (52) | 127 | (12,057) | (2,969) | 1,229 |
| Fund Balances, Beginning of Year | 77,606 | 138 | 27,497 | (41,115) | 13,877 |
| Increase (Decrease) in Reserve for Inventories | (705) | - | - | - | (6) |
| Fund Balances, End of Year | \$ 76,849 | \$ 265 | \$ 15,440 | \$ (44,083) | \$ 15,100 |

| Special Revenue Funds | | | | Debt Service Funds | | |
|-----------------------|-------------------------------------|-----------------------|-----------------------------|------------------------------|----------------------------|---------------------------------|
| Economic Development | Other Environmental Special Revenue | Other Special Revenue | Total Special Revenue Funds | Bond Security and Redemption | Annual Appropriation Bonds | 2009 Annual Appropriation Bonds |
| \$ 29,827 | \$ - | \$ 1 | \$ 161,616 | \$ - | \$ - | \$ - |
| - | 2,028 | 193 | 50,098 | 8,631 | - | - |
| - | 80,005 | 67,119 | 409,475 | - | - | - |
| - | (532) | 3,236 | 18,980 | - | - | - |
| 6 | 47 | 111 | 896 | 54 | 502 | 82 |
| - | 128 | 2,450 | 2,885 | - | - | - |
| - | - | 149 | 12,434 | - | - | - |
| - | 1,537 | 18,071 | 20,715 | - | - | - |
| 29,833 | 83,213 | 91,330 | 677,101 | 8,686 | 502 | 82 |
| 23,394 | - | 48,525 | 71,920 | - | - | - |
| - | - | 3,299 | 6,004 | - | - | - |
| - | - | - | - | - | - | - |
| - | 54,635 | - | 330,239 | - | - | - |
| - | - | 22,826 | 22,826 | - | - | - |
| - | - | 2,239 | 107,229 | - | - | - |
| - | - | 225 | 225 | - | - | - |
| - | - | - | - | - | 206 | 1 |
| - | - | - | 53,019 | - | - | - |
| - | 547 | 7 | 3,690 | - | - | - |
| - | - | - | - | 377,687 | 36,505 | 6,630 |
| - | - | - | 152 | 254,671 | 102,662 | 86,439 |
| - | - | - | - | - | 1,555 | - |
| 23,394 | 55,182 | 77,123 | 595,303 | 632,358 | 140,928 | 93,070 |
| 6,438 | 28,031 | 14,208 | 81,797 | (623,672) | (140,427) | (92,987) |
| - | - | - | - | - | - | - |
| - | - | - | - | - | 251,555 | - |
| - | - | - | - | - | (250,000) | - |
| - | - | - | - | 213 | - | - |
| 278 | 13,020 | 9 | 35,826 | 605,467 | 138,759 | 93,012 |
| (2) | (33,721) | (1,993) | (105,077) | (61) | - | - |
| 276 | (20,701) | (1,984) | (69,250) | 605,619 | 140,314 | 93,012 |
| 6,715 | 7,330 | 12,224 | 12,547 | (18,053) | (112) | 24 |
| 8,691 | 60,968 | 69,291 | 216,954 | 24,366 | 33,953 | 65 |
| - | - | 3 | (708) | - | - | - |
| \$ 15,406 | \$ 68,298 | \$ 81,518 | \$ 228,793 | \$ 6,313 | \$ 33,841 | \$ 89 |

(Continued)

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2013**

(Continued)

| | Debt Service Funds | | | Capital Projects Funds | |
|--|-------------------------------------|------------------------------------|------------------------------|--------------------------|------------------|
| | Badger Tobacco Asset Securitization | Petroleum Inspection Revenue Bonds | Transportation Revenue Bonds | Total Debt Service Funds | Building Trust |
| Revenues: | | | | | |
| Taxes | \$ - | \$ 29,978 | \$ - | \$ 29,978 | \$ - |
| Intergovernmental | - | - | - | 8,631 | 14,364 |
| Licenses and Permits | - | - | 200,464 | 200,464 | - |
| Charges for Goods and Services | - | - | - | - | - |
| Investment and Interest Income | 5 | 2 | 164 | 809 | 31 |
| Fines and Forfeitures | - | - | - | - | - |
| Gifts and Donations | - | - | - | - | - |
| Miscellaneous: | | | | | |
| Other | - | - | - | - | 1,964 |
| Total Revenues | 5 | 29,979 | 200,627 | 239,882 | 16,359 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Commerce | - | - | - | - | - |
| Education | - | - | - | - | 20 |
| Transportation | - | - | - | - | 90 |
| Environmental Resources | - | 3 | - | 3 | 1,181 |
| Human Relations and Resources | - | - | - | - | 6,073 |
| General Executive | - | - | - | - | 252 |
| Judicial | - | - | - | - | - |
| Tax Relief and Other | | | | | |
| General Expenditures | 136 | - | - | 343 | - |
| Intergovernmental - Shared Revenue | - | - | - | - | 662 |
| Capital Outlay | - | - | - | - | 12,102 |
| Debt Service: | | | | | |
| Principal | - | 24,165 | 94,835 | 539,822 | - |
| Interest | - | 5,597 | 87,234 | 536,602 | - |
| Other Expenditures | - | - | 861 | 2,416 | - |
| Total Expenditures | 136 | 29,765 | 182,929 | 1,079,186 | 20,381 |
| Excess of Revenues Over (Under) Expenditures | (131) | 214 | 17,698 | (839,304) | (4,023) |
| Other Financing Sources (Uses): | | | | | |
| Long-term Debt Issued | - | - | - | - | - |
| Long-term Debt Issued - Refunding Bonds | - | - | 135,755 | 387,310 | - |
| Payments to Refunding Bond Escrow Agent | - | - | (164,970) | (414,970) | - |
| Premium on Bonds | - | - | 30,075 | 30,288 | - |
| Transfers In | - | - | - | 837,238 | 7,049 |
| Transfers Out | (7,250) | - | (17,630) | (24,941) | (869) |
| Total Other Financing Sources (Uses) | (7,250) | - | (16,769) | 814,926 | 6,180 |
| Net Change in Fund Balances | (7,381) | 214 | 929 | (24,379) | 2,157 |
| Fund Balances, Beginning of Year | 8,266 | 467 | 29,991 | 97,108 | 15,787 |
| Increase (Decrease) in Reserve for Inventories | - | - | - | - | - |
| Fund Balances, End of Year | \$ 886 | \$ 681 | \$ 30,920 | \$ 72,729 | \$ 17,944 |

| | | Permanent Funds | | | | |
|------------------------------|------------------------------|-----------------|-----------------|-----------------------|-----------------------------------|--|
| Transportation Revenue Bonds | Total Capital Projects Funds | Common School | Other Permanent | Total Permanent Funds | Total Nonmajor Governmental Funds | |
| \$ - | \$ - | \$ - | \$ - | \$ - | 191,593 | |
| - | 14,364 | 2 | - | 2 | 73,095 | |
| 380 | 380 | - | - | - | 610,319 | |
| - | - | 9 | 554 | 563 | 19,543 | |
| 40 | 71 | 13,908 | 1,513 | 15,421 | 17,197 | |
| - | - | 17,388 | - | 17,388 | 20,274 | |
| - | - | - | - | - | 12,434 | |
| - | 1,964 | 194 | 1,883 | 2,077 | 24,756 | |
| 420 | 16,778 | 31,501 | 3,950 | 35,451 | 969,211 | |
| - | - | - | - | - | 71,920 | |
| - | 20 | 30,100 | 567 | 30,667 | 36,692 | |
| 6,000 | 6,090 | - | - | - | 6,090 | |
| - | 1,181 | - | - | - | 331,423 | |
| - | 6,073 | - | - | - | 28,899 | |
| - | 252 | - | - | - | 107,481 | |
| - | - | - | - | - | 225 | |
| 301 | 301 | - | - | - | 644 | |
| - | 662 | - | - | - | 53,681 | |
| 149,597 | 161,700 | 240 | 1,888 | 2,128 | 167,517 | |
| - | - | - | - | - | 539,822 | |
| - | - | - | - | - | 536,754 | |
| 787 | 787 | - | - | - | 3,203 | |
| 156,685 | 177,067 | 30,340 | 2,455 | 32,795 | 1,884,351 | |
| (156,265) | (160,288) | 1,161 | 1,495 | 2,655 | (915,140) | |
| 123,925 | 123,925 | - | - | - | 123,925 | |
| - | - | - | - | - | 387,310 | |
| - | - | - | - | - | (414,970) | |
| 23,100 | 23,100 | - | - | - | 53,389 | |
| 17,630 | 24,679 | 20,000 | 300 | 20,300 | 918,043 | |
| (1,128) | (1,997) | (1,687) | (310) | (1,997) | (134,012) | |
| 163,527 | 169,707 | 18,313 | (10) | 18,303 | 933,685 | |
| 7,262 | 9,419 | 19,474 | 1,484 | 20,958 | 18,545 | |
| (64,649) | (48,861) | 894,506 | 38,045 | 932,551 | 1,197,751 | |
| - | - | - | - | - | (708) | |
| \$ (57,387) | \$ (39,443) | \$ 913,979 | \$ 39,529 | \$ 953,508 | \$ 1,215,587 | |

**Budgetary Comparison Schedule
Nonmajor Budgeted Governmental Funds
For the Fiscal Year Ended June 30, 2013**

(In Thousands)

| | Special Revenue | | | | | | | |
|---|-----------------|-----------|----------------------------|---------|--------------------------|-----------|---------------------|-----------|
| | Conservation | | Police and Fire Protection | | Medical Assistance Trust | | Hospital Assessment | |
| | Budget | Actual | Budget | Actual | Budget | Actual | Budget | Actual |
| Unexpended Budgetary Fund Balances, Beginning of Year | | \$ 61,098 | | \$ (5) | | \$ 10,028 | | \$ 25,038 |
| Revenues (Inflows): | | | | | | | | |
| Taxes | \$ 86,239 | 86,239 | \$ - | - | \$ - | - | \$ - | - |
| Budgeted Transfers from: | | | | | | | | |
| General Fund | - | - | - | - | 7,331 | 7,331 | - | - |
| Nonmajor Governmental Funds | - | - | - | - | 203,057 | 203,057 | - | - |
| Departmental | 202,815 | 202,815 | 53,014 | 53,014 | 154,423 | 154,423 | 414,615 | 414,615 |
| Total Revenues | 289,054 | 289,054 | 53,014 | 53,014 | 364,811 | 364,811 | 414,615 | 414,615 |
| Amounts Available for Appropriation | | 350,152 | | 53,009 | | 374,839 | | 439,653 |
| Appropriations and Transfers (Outflows): | | | | | | | | |
| Commerce | 1,641 | 1,641 | 167 | 5 | - | - | - | - |
| Education | 837 | 515 | - | - | - | - | - | - |
| Environmental Resources | 353,634 | 277,828 | - | - | - | - | - | - |
| Human Relations and Resources | - | - | - | - | 398,841 | 374,100 | 441,160 | 258,246 |
| General Executive | - | - | - | - | - | - | - | - |
| Judicial | - | - | - | - | - | - | - | - |
| Tax Relief and Other General | 75 | 45 | 54,128 | 53,014 | - | - | - | - |
| Budgeted Transfers to: | | | | | | | | |
| General Fund | - | - | - | - | 765 | 765 | - | - |
| Transportation Fund | - | - | - | - | - | - | - | - |
| Nonmajor Governmental Funds | - | - | - | - | - | - | 153,057 | 153,057 |
| Total Appropriations and Transfers | \$ 356,187 | 280,029 | \$ 54,295 | 53,019 | \$ 399,607 | 374,865 | \$ 594,217 | 411,303 |
| Fund Balances End of Year | | 70,123 | | (10) | | (27) | | 28,350 |
| Less Encumbrances Outstanding at June 30, 2013 | | (30,856) | | - | | - | | (28,355) |
| Fund Balances, End of Year Budgetary Basis | | \$ 39,267 | | \$ (10) | | \$ (27) | | \$ (4) |

| Special Revenue | | | | | | | | | |
|-------------------------|------------------|-------------------------------------|-------------------|----------------------|------------------|--------------------------|---------------|----------------------|------------------|
| Utility Public Benefits | | Critical Access Hospital Assessment | | Economic Development | | Read to Lead Development | | Petroleum Inspection | |
| Budget | Actual | Budget | Actual | Budget | Actual | Budget | Actual | Budget | Actual |
| | <u>\$ 21,172</u> | | <u>\$ (2,028)</u> | | <u>\$ 9,053</u> | | <u>\$ 400</u> | | <u>\$ 17,870</u> |
| \$ - | - | \$ - | - | 30,375 | 30,368 | - | - | 41,662 | 41,662 |
| - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | 9 | 9 | - | - | - | - |
| 103,196 | 103,196 | 9,133 | 9,133 | 6 | 6 | - | - | 292 | 292 |
| 103,196 | 103,196 | 9,133 | 9,133 | 30,390 | 30,384 | - | - | 41,953 | 41,953 |
| | <u>124,368</u> | | <u>7,105</u> | | <u>39,437</u> | | <u>400</u> | | <u>59,823</u> |
| 453 | 327 | - | - | 23,189 | 23,189 | - | - | 13,910 | 12,345 |
| - | - | 1,718 | 762 | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | 6,279 | 5,607 |
| 9,140 | 9,140 | 11,472 | 4,405 | - | - | - | - | 1,533 | 1,080 |
| 121,124 | 105,926 | - | - | 226 | 207 | - | - | 124 | 117 |
| - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | 6,884 | 6,453 |
| - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | 19,500 | 19,500 |
| - | - | - | - | - | - | - | - | - | - |
| \$ 130,716 | 115,393 | \$ 13,189 | 5,167 | 23,415 | 23,396 | - | - | 48,229 | 45,102 |
| | 8,975 | | 1,938 | | 16,040 | | 400 | | 14,721 |
| | <u>(1,444)</u> | | <u>(2,021)</u> | | <u>-</u> | | <u>-</u> | | <u>(60)</u> |
| | <u>\$ 7,531</u> | | <u>\$ (83)</u> | | <u>\$ 16,040</u> | | <u>\$ 400</u> | | <u>\$ 14,661</u> |

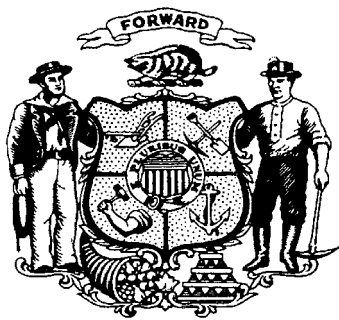
(Continued)

**Budgetary Comparison Schedule
Nonmajor Budgeted Governmental Funds
For the Fiscal Year Ended June 30, 2013**

(Continued)

| | Special Revenue | | | | | | | | |
|---|----------------------|------------|---------------------|---------|-------------------------------------|-----------|-----------------------|-----------|---|
| | Budget Stabilization | | Permanent Endowment | | Other Environmental Special Revenue | | Other Special Revenue | | |
| | Budget | Actual | Budget | Actual | Budget | Actual | Budget | Actual | |
| Unexpended Budgetary Fund Balances, Beginning of Year | | \$ 125,446 | | \$ - | | \$ 30,431 | | \$ 73,076 | |
| Revenues (Inflows): | | | | | | | | | |
| Taxes | - | - | \$ - | - | \$ - | - | - | \$ 1 | 1 |
| Budgeted Transfers from: | | | | | | | | | |
| General Fund | 9,954 | 153,217 | - | - | - | - | - | - | - |
| Nonmajor Governmental Funds | - | - | - | - | - | - | - | - | - |
| Departmental | 605 | 605 | 131,055 | 131,055 | 98,699 | 98,699 | 99,248 | 99,248 | |
| Total Revenues | 10,559 | 153,822 | 131,055 | 131,055 | 98,699 | 98,699 | 99,249 | 99,249 | |
| Amounts Available for Appropriation | | 279,268 | | 131,055 | | 129,129 | | 172,325 | |
| Appropriations and Transfers (Outflows): | | | | | | | | | |
| Commerce | - | - | - | - | 25,333 | 13,752 | 27,513 | 13,568 | |
| Education | - | - | - | - | 5,511 | 5,110 | 24,480 | 22,671 | |
| Environmental Resources | - | - | - | - | 83,001 | 69,281 | - | - | |
| Human Relations and Resources | - | - | - | - | 589 | 422 | 65,966 | 52,552 | |
| General Executive | - | - | - | - | 19 | 11 | 20,094 | 18,419 | |
| Judicial | - | - | - | - | - | - | 767 | 227 | |
| Tax Relief and Other General | - | - | - | - | 3 | - | 12 | - | |
| Budgeted Transfers to: | | | | | | | | | |
| General Fund | - | - | 81,055 | 81,055 | - | - | - | - | |
| Transportation Fund | - | - | - | - | - | - | - | - | |
| Nonmajor Governmental Funds | - | - | 50,000 | 50,000 | 9 | 9 | 250 | 250 | |
| Total Appropriations and Transfers | - | - | \$ 131,055 | 131,055 | \$ 114,464 | 88,585 | \$ 139,082 | 107,687 | |
| Fund Balances End of Year | | 279,268 | | - | | 40,544 | | 64,638 | |
| Less Encumbrances Outstanding at June 30, 2013 | | - | | - | | (12,960) | | (2,956) | |
| Fund Balances, End of Year Budgetary Basis | | \$ 279,268 | | \$ 0 | | \$ 27,584 | | \$ 61,683 | |

| Permanent | | | |
|----------------------|-------------------|------------------------|------------------|
| Common School | | Other Permanent | |
| Budget | Actual | Budget | Actual |
| | <u>\$ 876,306</u> | | <u>\$ 35,417</u> |
| \$ - | - | \$ - | - |
| - | - | - | - |
| - | - | - | - |
| 68,159 | 68,159 | 4,356 | 4,356 |
| 68,159 | 68,159 | 4,356 | 4,356 |
| | <u>944,464</u> | | <u>39,773</u> |
| - | - | - | - |
| 37,000 | 30,100 | 953 | 808 |
| - | - | - | - |
| - | - | - | - |
| 300 | 300 | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| \$ 37,300 | 30,400 | \$ 953 | 808 \$ |
| | 914,064 | | 38,965 |
| | <u>-</u> | | <u>-</u> |
| | <u>\$ 914,064</u> | | <u>\$ 38,965</u> |



Nonmajor Enterprise Funds

ENTERPRISE: Enterprise funds account for business-like State activities that provide goods and/or services to the public and are financed primarily through user charges. The State's enterprise funds are described below:

The **Lottery Fund** accounts for State managed lottery activities used to provide property tax relief to taxpayers. Revenues from ticket sales are used to pay winners, commissions to retailers, operating expenses and property tax relief.

The **Income Continuation Insurance Fund** accounts for long-term and short-term disability benefits for employees of the State and of participating local public employers and operates on a self-insured basis. Contributions and investment activity provide funding for the benefits.

The **Long-term Disability Insurance Fund** accounts for long-term disability benefits paid to State employees and participating local public employees. Contributions and investment activity provide funding for the benefits.

The **Health Insurance Fund** accounts for group health insurance plans provided on a self-insured, fee for service basis or prepaid basis to current employees of the State and of participating local public employers.

The **Veterans Trust Fund** accounts for various programs for veterans, including loans and grants to individuals and organizations and the operations of the State Veterans Museum. Revenues to finance this program are primarily derived from veteran loan payments and investment income.

The **Veterans Mortgage Loan Repayment Fund** accounts for the issuance and administration of veterans' first mortgage loans. Funding sources are primarily derived from bond proceeds, mortgage payments, and investment income.

The **Care and Treatment Facilities Funds**, account for various resident facilities including:

- The **Mendota Mental Health Institute Fund** and the **Winnebago Mental Health Institute Fund** account for the diagnosis, care and treatment of individuals with mental and emotional disturbances. The services are provided with funds collected from third parties and contributions from the State.
- The **Homes For Veterans Fund** accounts for nursing home and assisted living facilities for veterans and their spouses. The costs associated with providing this care are funded by private pay charges, the U.S. Department of Veterans Affairs and Medical Assistance.

- The **Northern, Central, and Southern Developmental Disabilities Center Funds** account for services provided to developmentally disabled citizens with the goal of ultimately returning such persons to the community if possible. These services are provided with funds collected from third parties and contributions from the State.

The **Other Enterprise Funds** account for the following programs:

- The **State Fair Park Fund** accounts for the annual State Fair, and various year round major sports events, agricultural and industrial expositions, and other programs of civic interest. Its revenues are derived from admissions, fees, rents and sales, with no contributions from the State.
- The **Institutional Farm Operations Fund** accounts for the revenues and expenses associated with employing inmates in agricultural and other work activities. The associated costs are funded from farm product sales and a General Fund supplement.
- The **Correctional Canteen Operations Fund** accounts for the program which provides goods for the education, recreation, and convenience of inmates. Charges made to inmates are the primary source of funds for these activities.
- The **Local Government Property Insurance Fund** accounts for property insurance coverage provided to local governments. This insurance is financed with premiums collected from policyholders and income on investments.
- The **State Life Insurance Fund** accounts for the program to provide State sponsored life insurance to residents in a manner consistent with private insurers. This insurance is financed with premiums collected from policyholders and investment earnings.
- The **Transportation Infrastructure Loan Fund** accounts for the development of innovative financing mechanisms that will more effectively use federal financial transportation resources. Federal Highway Administration funds, and interest from the fund balance and from loan recipients, are the primary revenues for this fund.
- The **Life Insurance Fund** accounts for the collection and payment of premiums for State and local participating employees' group life insurance contracts with a life insurance carrier.

Combining Statement of Net Position - Nonmajor Enterprise Funds
June 30, 2013

(In Thousands)

| | Lottery | Income Continuation Insurance | Long-term Disability Insurance | Health Insurance | Veterans Trust |
|--|------------|-------------------------------|--------------------------------|------------------|----------------|
| Assets | | | | | |
| Current Assets: | | | | | |
| Cash and Cash Equivalents | \$ 68,212 | \$ 89,113 | \$ 195,637 | \$ 294,018 | \$ 16,078 |
| Investments | 6,255 | - | - | - | - |
| Receivables (net of allowance): | | | | | |
| Loans to Local Governments | - | - | - | - | - |
| Loans Receivable | - | - | - | - | 1,319 |
| Other Receivables | 21,059 | 3,768 | 97 | 11,595 | 128 |
| Due from Other Funds | 132 | 843 | - | 1,841 | 116 |
| Due from Other Governments | - | - | - | - | - |
| Inventories | 1,755 | - | - | - | 83 |
| Prepaid Items | 35,044 | - | - | - | 63 |
| Deferred Charges | - | - | - | - | - |
| Other Assets | 410 | - | - | - | - |
| Total Current Assets | 132,866 | 93,724 | 195,735 | 307,455 | 17,788 |
| Noncurrent Assets: | | | | | |
| Investments | 40,213 | - | - | - | - |
| Receivables (net of allowance): | | | | | |
| Loans to Local Governments | - | - | - | - | - |
| Loans Receivable | - | - | - | - | 4,542 |
| Other Receivables | - | - | - | - | - |
| Advances to Other Funds | - | - | - | - | - |
| Deferred Charges | - | - | - | - | - |
| Other Assets | 5,408 | - | - | - | 10 |
| Depreciable Capital Assets (net of accumulated depreciation) | 86 | - | - | - | 10,351 |
| Nondepreciable Capital Assets | - | - | - | - | 267 |
| Total Noncurrent Assets | 45,707 | - | - | - | 15,170 |
| Total Assets | \$ 178,573 | \$ 93,724 | \$ 195,735 | \$ 307,455 | \$ 32,958 |
| Liabilities | | | | | |
| Current Liabilities: | | | | | |
| Accounts Payable and Other Accrued Liabilities | \$ 40,323 | \$ 118 | \$ 157 | \$ 3,029 | \$ 709 |
| Due to Other Funds | 15,361 | - | 250 | 343 | 253 |
| Interfund Payables | - | - | - | - | - |
| Due to Other Governments | 64 | - | - | - | 9 |
| Tax and Other Deposits | - | - | - | - | - |
| Unearned Revenue | 754 | 574 | - | 106,143 | - |
| Interest Payable | - | - | - | - | 3 |
| Short-term Notes Payable | - | - | - | - | - |
| Current Portion of Long-term Liabilities: | | | | | |
| Future Benefits and Loss Liabilities | - | 17,218 | 32,677 | 5,203 | - |
| Capital Leases | - | - | - | - | - |
| Compensated Absences | 172 | - | - | - | 119 |
| General Obligation Bonds Payable | - | - | - | - | 62 |
| Total Current Liabilities | 56,675 | 17,911 | 33,083 | 114,718 | 1,156 |
| Noncurrent Liabilities: | | | | | |
| Accounts Payable and Other Accrued Liabilities | 33,623 | - | - | - | - |
| Noncurrent Portion of Long-term Liabilities: | | | | | |
| Future Benefits and Loss Liabilities | - | 64,985 | 180,391 | - | - |
| Capital Leases | - | - | - | - | - |
| Compensated Absences | 523 | - | - | - | 155 |
| Other Postemployment Benefits | 510 | - | - | - | 478 |
| General Obligation Bonds Payable | - | - | - | - | 335 |
| Total Noncurrent Liabilities | 34,657 | 64,985 | 180,391 | - | 967 |
| Total Liabilities | 91,332 | 82,895 | 213,474 | 114,718 | 2,123 |
| Net Position | | | | | |
| Net Investment in Capital Assets | 86 | - | - | - | 10,222 |
| Restricted for Future Benefits | - | 10,829 | - | 192,737 | - |
| Restricted for Other Purposes | 87,156 | - | - | - | - |
| Unrestricted | - | - | (17,740) | - | 20,613 |
| Total Net Position | 87,241 | 10,829 | (17,740) | 192,737 | 30,835 |
| Total Liabilities and Net Position | \$ 178,573 | \$ 93,724 | \$ 195,735 | \$ 307,455 | \$ 32,958 |

| Care and Treatment Facilities | | | | | | |
|--|--|--|--|---------------------|--------------------------------|--|
| Veterans Mortgage Loan Repayment | Mendota Mental Health Institute | Winnebago Mental Health Institute | Other Care and Treatment Facilities | Other Enterprise | Total All Nonmajor Funds | |
| \$ 15,512 | \$ 6,526 | \$ 6,052 | \$ 17,155 | \$ 42,632 | \$ 750,935 | |
| - | - | - | - | - | 6,255 | |
| - | - | - | - | 447 | 447 | |
| 2,942 | - | - | - | - | 4,262 | |
| 484 | 4,269 | 13,420 | 25,441 | 2,445 | 82,706 | |
| 2 | 2,141 | 1,108 | 6,119 | 1,758 | 14,059 | |
| - | - | 20 | 8,135 | 1,223 | 9,378 | |
| - | 1,071 | 407 | 2,318 | 4,575 | 10,209 | |
| 24 | 686 | 744 | 2,872 | 274 | 39,706 | |
| 60 | - | - | - | - | 60 | |
| - | - | - | - | - | 410 | |
| 19,025 | 14,692 | 21,750 | 62,039 | 53,354 | 918,427 | |
| - | - | - | - | 106,508 | 146,721 | |
| - | - | - | - | 1,281 | 1,281 | |
| 86,404 | - | - | - | 3,573 | 94,519 | |
| - | - | - | - | 10 | 10 | |
| 636 | - | - | - | - | 636 | |
| 520 | - | - | 53 | 539 | 1,113 | |
| 716 | - | - | - | - | 6,134 | |
| 11 | 18,161 | 10,870 | 102,844 | 65,563 | 207,887 | |
| - | 1,118 | 2,976 | 6,141 | 4,723 | 15,225 | |
| 88,287 | 19,279 | 13,846 | 109,039 | 182,197 | 473,525 | |
| \$ 107,312 | \$ 33,971 | \$ 35,596 | \$ 171,078 | \$ 235,551 | \$ 1,391,952 | |
| \$ 129 | \$ 2,101 | \$ 1,997 | \$ 8,489 | \$ 2,933 | \$ 59,985 | |
| 85 | 1,965 | 4,543 | 23,742 | 668 | 47,211 | |
| - | - | - | 49,623 | - | 49,623 | |
| 9 | - | 4 | 946 | - | 1,033 | |
| - | - | - | 59 | 19,793 | 19,852 | |
| - | 13 | - | - | 11,449 | 118,933 | |
| 774 | - | - | 112 | 260 | 1,150 | |
| - | - | - | 2,446 | 93 | 2,539 | |
| - | - | - | - | 11,001 | 66,099 | |
| - | 70 | 49 | 117 | 117 | 353 | |
| 66 | 925 | 773 | 2,900 | 177 | 5,132 | |
| 1,860 | - | - | 545 | 2,619 | 5,086 | |
| 2,923 | 5,075 | 7,366 | 88,980 | 49,109 | 376,997 | |
| - | - | - | - | - | 33,623 | |
| - | - | - | - | 64,556 | 309,932 | |
| - | 138 | 77 | 313 | 212 | 740 | |
| 192 | 1,480 | 1,134 | 3,824 | 297 | 7,604 | |
| 156 | 3,713 | 4,024 | 18,497 | 617 | 27,994 | |
| 92,924 | - | - | 14,678 | 31,410 | 139,347 | |
| 93,272 | 5,331 | 5,234 | 37,312 | 97,093 | 519,241 | |
| 96,195 | 10,405 | 12,601 | 126,292 | 146,202 | 896,238 | |
| 11 | 19,071 | 13,720 | 90,940 | 36,019 | 170,069 | |
| - | - | - | - | 41,654 | 245,219 | |
| - | - | - | - | 2,834 | 89,990 | |
| 11,106 | 4,495 | 9,275 | (46,154) | 8,841 | (9,564) | |
| 11,117 | 23,565 | 22,995 | 44,785 | 89,349 | 495,714 | |
| \$ 107,312 | \$ 33,971 | \$ 35,596 | \$ 171,078 | \$ 235,551 | \$ 1,391,952 | |

**Combining Statement of Revenues, Expenses, and Changes in
Fund Net Position - Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2013**

(In Thousands)

| | Lottery | Income Continuation Insurance | Long-term Disability Insurance | Health Insurance | Veterans Trust |
|---|------------------|-------------------------------------|--------------------------------------|---------------------|-------------------|
| Operating Revenues: | | | | | |
| Charges for Goods and Services | \$ 566,103 | \$ - | \$ - | \$ 2 | \$ 277 |
| Participant and Employer Contributions | - | 14,668 | - | 1,249,741 | - |
| Investment and Interest Income | - | - | - | - | 532 |
| Miscellaneous | 138 | 87 | - | 1 | - |
| Total Operating Revenues | 566,241 | 14,755 | - | 1,249,745 | 809 |
| Operating Expenses: | | | | | |
| Personal Services | 6,031 | - | - | - | 5,068 |
| Supplies and Services | 67,336 | 1,436 | 1,829 | 6,350 | 3,335 |
| Lottery Prize Awards | 329,202 | - | - | - | - |
| Depreciation | 2 | - | - | - | 917 |
| Benefit Expense | - | 12,775 | 58,927 | 1,238,038 | - |
| Interest Expense | - | - | - | - | - |
| Other Expenses | 196 | 366 | 739 | 4,787 | (33) |
| Total Operating Expenses | 402,767 | 14,577 | 61,495 | 1,249,175 | 9,286 |
| Operating Income (Loss) | 163,474 | 178 | (61,495) | 570 | (8,477) |
| Nonoperating Revenues (Expenses): | | | | | |
| Operating Grants | - | - | - | - | 1,299 |
| Investment and Interest Income | (2,683) | 8,498 | 24,853 | 19,693 | 11 |
| Gain (Loss) on Disposal of Capital Assets | - | - | - | - | 14 |
| Interest Expense | - | - | - | - | (20) |
| Gifts and Donations | - | - | - | - | 105 |
| Miscellaneous Revenues | 3 | - | 3 | - | 26 |
| Other Expenses: | | | | | |
| Property Tax Credits | (139,457) | - | - | - | - |
| Grants Disbursed | - | - | - | - | (1,899) |
| Other | - | - | - | - | - |
| Total Nonoperating Revenues (Expenses) | (142,137) | 8,498 | 24,855 | 19,693 | (465) |
| Income (Loss) before Transfers | 21,337 | 8,676 | (36,640) | 20,262 | (8,942) |
| Capital Contributions | - | - | - | - | 95 |
| Transfers In | 91 | - | - | - | 11 |
| Transfers Out | (573) | - | - | - | (224) |
| Change in Net Position | 20,855 | 8,676 | (36,640) | 20,262 | (9,060) |
| Total Net Position, Beginning of Year | 66,386 | 2,153 | 18,901 | 172,474 | 39,895 |
| Total Net Position, End of Year | \$ 87,241 | \$ 10,829 | \$ (17,740) | \$ 192,737 | \$ 30,835 |

| Veterans Mortgage Loan Repayment | Care and Treatment Facilities | | | Other Enterprise | Total All Nonmajor Funds |
|--|--|--|--|---------------------|--------------------------------|
| | Mendota Mental Health Institute | Winnebago Mental Health Institute | Other Care and Treatment Facilities | | |
| \$ - | \$ 20,630 | \$ 32,537 | \$ 234,353 | \$ 57,659 | 911,562 |
| - | - | - | - | - | 1,264,410 |
| 6,457 | - | - | - | 283 | 7,271 |
| - | - | - | - | 787 | 1,013 |
| 6,457 | 20,630 | 32,537 | 234,353 | 58,728 | 2,184,256 |
| 2,321 | 48,307 | 41,204 | 164,995 | 10,715 | 278,640 |
| 644 | 10,158 | 9,229 | 46,655 | 25,267 | 172,241 |
| - | - | - | - | - | 329,202 |
| 10 | 1,519 | 1,086 | 7,336 | 4,362 | 15,230 |
| - | - | - | - | 17,352 | 1,327,091 |
| 6,207 | - | - | - | 588 | 6,795 |
| 967 | - | - | 131 | 2,796 | 9,950 |
| 10,149 | 59,984 | 51,519 | 219,118 | 61,079 | 2,139,149 |
| (3,692) | (39,354) | (18,981) | 15,235 | (2,351) | 45,107 |
| - | 51 | 96 | 260 | - | 1,705 |
| 60 | - | - | 2 | (2,813) | 47,619 |
| 3 | 22 | (1) | (73) | 1,088 | 1,052 |
| - | (11) | (7) | (594) | (1,398) | (2,030) |
| - | - | - | 369 | 80 | 554 |
| 7 | 1,591 | 490 | 1,121 | 87 | 3,326 |
| - | - | - | - | - | (139,457) |
| (338) | - | - | (75) | - | (2,313) |
| - | - | - | - | - | - |
| (269) | 1,653 | 578 | 1,009 | (2,957) | (89,542) |
| (3,961) | (37,701) | (18,404) | 16,245 | (5,308) | (44,435) |
| - | - | - | 2,761 | - | 2,856 |
| - | 44,921 | 34,507 | 5,611 | 2,435 | 87,576 |
| (64) | (1,727) | (4,374) | (11,412) | (1,499) | (19,875) |
| (4,026) | 5,494 | 11,728 | 13,204 | (4,373) | 26,122 |
| 15,142 | 18,071 | 11,267 | 31,581 | 93,722 | 469,592 |
| \$ 11,117 | \$ 23,565 | \$ 22,995 | \$ 44,785 | \$ 89,349 | 495,714 |

**Combining Statement of Cash Flows - Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2013**

(In Thousands)

| | Lottery | Income Continuation Insurance | Long-term Disability Insurance | Health Insurance | Veterans Trust |
|--|------------|-------------------------------------|--------------------------------------|---------------------|-------------------|
| Cash Flows from Operating Activities: | | | | | |
| Cash Receipts from Customers | \$ 563,597 | \$ 14,255 | \$ - | \$ 1,251,107 | \$ 277 |
| Cash Payments to Suppliers for Goods and Services | (29,564) | (1,805) | (2,318) | (6,350) | (3,200) |
| Cash Payments to Employees for Services | (5,846) | - | - | (4,787) | (4,981) |
| Cash Payments for Lottery Prizes | (336,833) | - | - | - | - |
| Cash Payments for Loans Originated | - | - | - | - | - |
| Collection of Loans | - | - | - | - | 3,402 |
| Interest Income | - | - | - | - | 532 |
| Cash Payments for Benefits | - | (18,432) | (34,883) | (1,237,865) | - |
| Other Operating Revenues | - | 87 | - | - | - |
| Other Operating Expenses | (39,524) | - | - | - | (18) |
| Other Sources of Cash | - | - | 3 | 4 | - |
| Other Uses of Cash | - | - | - | - | - |
| Net Cash Provided (Used) by Operating Activities | 151,830 | (5,894) | (37,199) | 2,109 | (3,988) |
| Cash Flows from Noncapital Financing Activities: | | | | | |
| Operating Grants Receipts | - | - | - | - | 1,321 |
| Grants Disbursed | - | - | - | - | (2,008) |
| Repayment of Bonds and Notes | - | - | - | - | - |
| Interest Payments | - | - | - | - | - |
| Property Tax Credit Payments | (141,093) | - | - | - | - |
| Interfund Loans Received | - | - | - | - | - |
| Interfund Loans Repaid | - | - | - | - | - |
| Transfers In | 102 | - | - | - | - |
| Transfers Out | (554) | - | - | - | (216) |
| Other Cash Inflows from Noncapital Financing Activities | - | - | - | - | 123 |
| Other Cash Outflows from Noncapital Financing Activities: | | | | | |
| Other | - | - | - | - | - |
| Net Cash Provided (Used) by Noncapital Financing Activities | (141,544) | - | - | - | (780) |
| Cash Flows from Capital and Related Financing Activities: | | | | | |
| Proceeds from Issuance of Debt | - | - | - | - | - |
| Capital Contributions | - | - | - | - | 95 |
| Repayment of Bonds and Notes | - | - | - | - | (63) |
| Interest Payments | - | - | - | - | (23) |
| Transfers In | - | - | - | - | - |
| Capital Lease Obligations | - | - | - | - | - |
| Proceeds from Sale of Capital Assets | - | - | - | - | 1 |
| Payments for Purchase of Capital Assets | (21) | - | - | - | (113) |
| Other Cash Inflows from Capital Financing Activities | - | - | - | - | 11 |
| Other Cash Outflows from Capital Financing Activities | - | - | - | - | - |
| Net Cash Provided (Used) by Capital and Related Financing Activities | (21) | - | - | - | (92) |
| Cash Flows from Investing Activities: | | | | | |
| Proceeds from Sale and Maturities of Investment Securities | 7,382 | - | - | - | - |
| Purchase of Investment Securities | - | - | - | - | - |
| Cash Payments for Loans Originated | - | - | - | - | - |
| Collection of Loans | - | - | - | - | - |
| Investment and Interest Receipts | 128 | 8,498 | 24,853 | 19,693 | 11 |
| Net Cash Provided (Used) by Investing Activities | 7,510 | 8,498 | 24,853 | 19,693 | 11 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 17,774 | 2,603 | (12,346) | 21,801 | (4,849) |
| Cash and Cash Equivalents, Beginning of Year | 50,438 | 86,510 | 207,984 | 272,217 | 20,927 |
| Cash and Cash Equivalents, End of Year | \$ 68,212 | \$ 89,113 | \$ 195,637 | \$ 294,018 | \$ 16,078 |

| Veterans Mortgage Loan Repayment | Care and Treatment Facilities | | | Other Enterprise | Total All Nonmajor Funds |
|--|--|--|--|---------------------|--------------------------------|
| | Mendota Mental Health Institute | Winnebago Mental Health Institute | Other Care and Treatment Facilities | | |
| \$ - | \$ 19,132 | \$ 25,584 | \$ 218,313 | \$ 57,733 | 2,150,000 |
| (630) | (12,979) | (10,252) | (45,379) | (25,231) | (137,708) |
| (2,307) | (48,278) | (41,456) | (162,599) | (10,488) | (280,741) |
| - | - | - | - | - | (336,833) |
| (9) | - | - | - | (589) | (598) |
| 34,106 | - | - | - | 659 | 38,166 |
| 9,121 | - | - | - | 23 | 9,676 |
| - | - | - | - | (21,225) | (1,312,404) |
| - | - | - | - | 4,873 | 4,959 |
| (1,338) | - | - | - | (5,751) | (46,631) |
| - | 3,700 | 2,710 | 8,124 | 606 | 15,146 |
| - | - | - | (3,002) | (14) | (3,016) |
| 38,944 | (38,425) | (23,414) | 15,458 | 596 | 100,016 |
| - | 49 | 41 | 249 | - | 1,660 |
| (385) | - | - | (75) | - | (2,468) |
| (46,320) | - | - | - | - | (46,320) |
| (6,148) | - | - | - | (588) | (6,737) |
| - | - | - | - | - | (141,093) |
| - | - | - | 4,459 | - | 4,459 |
| - | - | - | (5,133) | - | (5,133) |
| - | 42,934 | 34,663 | 3,457 | 2,142 | 83,297 |
| (62) | (1,740) | (4,370) | (5,374) | (1,499) | (13,814) |
| 7 | - | - | 386 | 87 | 603 |
| - | - | - | (5,861) | - | (5,861) |
| (52,907) | 41,244 | 30,334 | (7,892) | 141 | (131,407) |
| - | - | - | 2,064 | 300 | 2,364 |
| - | - | - | 2,761 | - | 2,856 |
| - | - | - | (687) | (3,410) | (4,160) |
| - | (11) | (7) | (689) | (1,424) | (2,154) |
| - | 1,892 | - | 1,773 | 293 | 3,957 |
| - | (77) | (46) | (112) | (169) | (405) |
| - | - | 4 | - | 19 | 24 |
| (3) | (1,087) | (1,014) | (7,585) | (1,648) | (11,472) |
| - | - | - | 8 | 381 | 400 |
| - | (17) | - | (2,648) | - | (2,665) |
| (3) | 700 | (1,064) | (5,116) | (5,659) | (11,254) |
| - | - | - | - | 9,590 | 16,972 |
| - | - | - | - | (6,381) | (6,381) |
| - | - | - | - | (188) | (188) |
| - | - | - | - | 286 | 286 |
| 37 | - | - | 2 | 5,789 | 59,009 |
| 37 | - | - | 2 | 9,096 | 69,699 |
| (13,929) | 3,518 | 5,856 | 2,451 | 4,175 | 27,054 |
| 29,442 | 3,008 | 195 | 14,704 | 38,457 | 723,881 |
| \$ 15,512 | \$ 6,526 | \$ 6,052 | \$ 17,155 | \$ 42,632 | \$ 750,935 |

(Continued)

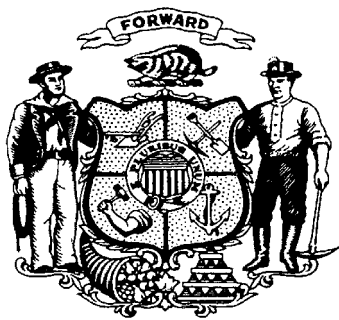
**Combining Statement of Cash Flows - Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2013**

(Continued)

| | Lottery | Income Continuation Insurance | Long-term Disability Insurance | Health Insurance | Veterans Trust |
|---|------------|-------------------------------------|--------------------------------------|---------------------|-------------------|
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operations: | | | | | |
| Operating Income (Loss) | \$ 163,474 | \$ 178 | \$ (61,495) | \$ 570 | \$ (8,477) |
| Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | | | |
| Depreciation | 2 | - | - | - | 917 |
| Provision for Uncollectible Accounts | - | - | - | - | (73) |
| Operating Income (Investment Income) Classified as Investing Activity | - | - | - | - | - |
| Operating Expense (Interest Expense) Classified as Noncapital Financing Activity | - | - | - | - | - |
| Miscellaneous Nonoperating Income (Expense) | (3) | - | 3 | - | - |
| Changes in Assets and Liabilities: | | | | | |
| Decrease (Increase) in Receivables | (2,222) | 279 | (28) | (2,159) | 3,420 |
| Decrease (Increase) in Due from Other Funds | (32) | (374) | - | (1,776) | 28 |
| Decrease (Increase) in Due from Other Governments | - | - | - | - | - |
| Decrease (Increase) in Inventories | (140) | - | - | - | (1) |
| Decrease (Increase) in Prepaid Items | (377) | - | - | - | 4 |
| Decrease (Increase) in Other Assets | (427) | - | - | - | (10) |
| Decrease (Increase) in Deferred Charges | - | - | - | - | - |
| Increase (Decrease) in Accounts Payable and Other Accrued Liabilities | (8,443) | (3) | 258 | 937 | 152 |
| Increase (Decrease) in Due to Other Funds | (127) | - | - | 276 | 64 |
| Increase (Decrease) in Due to Other Governments | (1) | - | - | - | (47) |
| Increase (Decrease) in Tax and Other Deposits | - | - | - | - | - |
| Increase (Decrease) in Unearned Revenue | 62 | (39) | - | 5,026 | - |
| Increase (Decrease) in Compensated Absences | 39 | - | - | - | 5 |
| Increase (Decrease) in Postemployment Benefits | 25 | - | - | - | 29 |
| Increase (Decrease) in Future Benefits and Loss Liabilities | - | (5,936) | 24,064 | (764) | - |
| Total Adjustments | (11,645) | (6,073) | 24,296 | 1,539 | 4,489 |
| Net Cash Provided (Used) by Operating Activities | \$ 151,830 | \$ (5,894) | \$ (37,199) | \$ 2,109 | \$ (3,988) |
| Noncash Investing, Capital and Financing Activities: | | | | | |
| Assets Acquired through Capital Leases | \$ - | \$ - | \$ - | \$ - | \$ - |
| Change in Investments for Prize Annuities Payable | 2,699 | - | - | - | - |
| Net Change in Unrealized Gains and Losses | (2,809) | - | - | - | - |
| Other | - | - | - | - | - |

| Veterans Mortgage Loan Repayment | Care and Treatment Facilities | | | Other Enterprise | Total All Nonmajor Funds |
|--|--|--|--|---------------------|--------------------------------|
| | Mendota Mental Health Institute | Winnebago Mental Health Institute | Other Care and Treatment Facilities | | |
| \$ (3,692) | \$ (39,354) | \$ (18,981) | \$ 15,235 | \$ (2,351) | 45,107 |
| 10 | 1,519 | 1,086 | 7,336 | 4,362 | 15,230 |
| (371) | - | - | (23) | 35 | (430) |
| - | - | - | - | (258) | (258) |
| 6,207 | - | - | - | 588 | 6,795 |
| - | 367 | 471 | 1,223 | 1,233 | 3,293 |
| 36,095 | (2,278) | (8,074) | (10,896) | (222) | 13,914 |
| (1) | 1,206 | 430 | 4,540 | (1,277) | 2,744 |
| - | - | - | (2,123) | (428) | (2,551) |
| - | (533) | 54 | (714) | (44) | (1,376) |
| (2) | (61) | (40) | (81) | 23 | (535) |
| 730 | - | - | - | - | 293 |
| - | - | - | - | 21 | 21 |
| 24 | 456 | 381 | (2,384) | (118) | (8,739) |
| (5) | 37 | 1,117 | 835 | 142 | 2,338 |
| (47) | - | - | 561 | (114) | 353 |
| - | - | - | 46 | 771 | 817 |
| - | - | - | - | 1,460 | 6,509 |
| (10) | 314 | 97 | 181 | 84 | 710 |
| 5 | (98) | 45 | 1,721 | 147 | 1,875 |
| - | - | - | - | (3,458) | 13,906 |
| 42,636 | 929 | (4,433) | 222 | 2,947 | 54,909 |
| \$ 38,944 | \$ (38,425) | \$ (23,414) | \$ 15,458 | \$ 596 | 100,016 |

| | | | | | |
|------|-------|------|------|---------|----------|
| \$ - | \$ 50 | \$ - | \$ - | \$ - | 50 |
| - | - | - | - | - | 2,699 |
| - | - | - | - | (8,239) | (11,048) |
| - | 89 | - | - | 625 | 714 |



Internal Service Funds

INTERNAL SERVICE: Internal service funds account for the operations of State agencies which render services to other State agencies, institutions, or other governmental units on a cost-reimbursement basis. The State's internal service funds are described below:

The **Technology Services Fund** accounts for computer and telephone services provided to State and local governmental agencies and school systems. The moneys to finance these services come from computing service charges and telephone and data network charges.

The **Fleet Services Fund** accounts for the costs associated with providing vehicle and aircraft services to State agencies. Moneys to finance these services come from user fees and the sale of used vehicles.

The **Financial Services Fund** accounts for the costs associated with providing accounting, auditing, payroll and other financial services to State agencies. Moneys to finance these services come from State agency user fees.

The **Facilities Operations and Maintenance Fund** accounts for the costs of operating State-owned facilities including utilities, heat, protective services, custodial and maintenance services and minor repair projects. The moneys to finance these costs are supplied from rents charged for facility and parking use and a general purpose revenue supplement for maintenance of the capitol and executive residence.

The **Risk Management Fund** accounts for the costs of losses for damage to property owned by agencies, personal injury or property damage liabilities incurred by a State officer, agent or employee, and workers' compensation costs for State employees. Moneys to finance these costs come from charges to State agencies.

The **Badger State Industries Fund** accounts for the program which gives inmates work experience in manufacturing goods and providing services. The sale of goods and services provides the moneys necessary to run the program.

Combining Statement of Net Position - Internal Service Funds
June 30, 2013

(In Thousands)

| | Technology Services | Fleet Services | Financial Services |
|--|------------------------|-------------------|-----------------------|
| Assets | | | |
| Current Assets: | | | |
| Cash and Cash Equivalents | \$ - | \$ - | \$ 4,227 |
| Receivables (net of allowance): | | | |
| Other Receivables | 630 | 232 | 124 |
| Due from Other Funds | 11,316 | 1,551 | 575 |
| Due from Component Units | - | - | - |
| Due from Other Governments | 427 | 20 | - |
| Inventories | 899 | 77 | - |
| Prepaid Items | 2,283 | 24 | 35 |
| Deferred Charges | - | - | - |
| Total Current Assets | 15,554 | 1,905 | 4,962 |
| Noncurrent Assets: | | | |
| Prepaid Items | 2,626 | - | - |
| Deferred Charges | - | - | - |
| Depreciable Capital Assets (net of accumulated depreciation) | 18,645 | 28,677 | 10 |
| Nondepreciable Capital Assets | - | - | - |
| Total Noncurrent Assets | 21,271 | 28,677 | 10 |
| Total Assets | \$ 36,825 | \$ 30,581 | \$ 4,971 |
| Liabilities | | | |
| Current Liabilities: | | | |
| Accounts Payable and Other Accrued Liabilities | \$ 4,859 | \$ 3,009 | \$ 115 |
| Due to Other Funds | 1,325 | 173 | 939 |
| Interfund Payables | 20,554 | 21,318 | - |
| Due to Other Governments | - | 1 | 164 |
| Interest Payable | - | - | - |
| Short-term Notes Payable | - | - | - |
| Current Portion of Long-term Liabilities: | | | |
| Future Benefits and Loss Liabilities | - | - | - |
| Capital Leases | 164 | - | - |
| Compensated Absences | 569 | 56 | 130 |
| General Obligation Bonds Payable | - | - | - |
| Total Current Liabilities | 27,471 | 24,556 | 1,348 |
| Noncurrent Liabilities: | | | |
| Accounts Payable and Other Accrued Liabilities | 151 | - | - |
| Noncurrent Portion of Long-term Liabilities: | | | |
| Future Benefits and Loss Liabilities | - | - | - |
| Capital Leases | 42 | - | - |
| Compensated Absences | 1,391 | 91 | 345 |
| Other Postemployment Benefits | 1,072 | 178 | 218 |
| General Obligation Bonds Payable | - | - | - |
| Total Noncurrent Liabilities | 2,656 | 269 | 563 |
| Total Liabilities | 30,127 | 24,825 | 1,911 |
| Net Position | | | |
| Invested in Capital Assets, Net of Related Debt | 16,951 | 28,677 | 10 |
| Unrestricted | (10,252) | (22,921) | 3,051 |
| Total Net Position | 6,698 | 5,756 | 3,060 |
| Total Liabilities and Net Position | \$ 36,825 | \$ 30,581 | \$ 4,971 |

| | Facilities Operations and Maintenance | Risk Management | Badger State Industries | Totals |
|----|--|--------------------|-------------------------------|-----------|
| \$ | 31,604 | \$ 9,303 | \$ - | 45,134 |
| | 607 | 174 | 96 | 1,864 |
| | 3,085 | 1,809 | 2,236 | 20,572 |
| | - | - | - | - |
| | 43 | - | 74 | 564 |
| | 87 | - | 3,404 | 4,468 |
| | 163 | 18 | 80 | 2,602 |
| | 74 | - | - | 74 |
| | 35,663 | 11,303 | 5,891 | 75,277 |
| | - | - | - | 2,626 |
| | 431 | - | 2 | 434 |
| | 199,063 | - | 3,630 | 250,025 |
| | 69,101 | - | 74 | 69,175 |
| | 268,596 | - | 3,706 | 322,260 |
| \$ | 304,259 | \$ 11,303 | \$ 9,597 | 397,537 |
| \$ | 4,509 | \$ 141 | \$ 1,547 | 14,181 |
| | 6,174 | 197 | 366 | 9,176 |
| | - | - | 3,637 | 45,509 |
| | 97 | - | 1 | 262 |
| | 1,336 | - | 10 | 1,346 |
| | 23,977 | - | - | 23,978 |
| | - | 46,800 | - | 46,800 |
| | 23 | - | 138 | 325 |
| | 409 | 30 | 102 | 1,295 |
| | 14,922 | - | 65 | 14,987 |
| | 51,449 | 47,168 | 5,867 | 157,859 |
| | - | - | - | 151 |
| | - | 52,767 | - | 52,767 |
| | 50 | - | 654 | 746 |
| | 635 | 33 | 133 | 2,628 |
| | 1,023 | 114 | 571 | 3,176 |
| | 161,072 | - | 590 | 161,662 |
| | 162,781 | 52,914 | 1,948 | 221,130 |
| | 214,230 | 100,082 | 7,814 | 378,989 |
| | 107,566 | - | 2,260 | 155,464 |
| | (17,537) | (88,779) | (477) | (136,916) |
| | 90,030 | (88,779) | 1,783 | 18,548 |
| \$ | 304,259 | \$ 11,303 | \$ 9,597 | 397,537 |

**Combining Statement of Revenues, Expenses, and Changes in
Fund Net Position - Internal Service Funds
For the Fiscal Year Ended June 30, 2013**

(In Thousands)

| | Technology Services | Fleet Services | Financial Services |
|---|------------------------|-------------------|-----------------------|
| Operating Revenues: | | | |
| Charges for Goods and Services | \$ 109,459 | \$ 12,514 | \$ 8,670 |
| Miscellaneous | 7 | - | - |
| Total Operating Revenues | <u>109,466</u> | <u>12,514</u> | <u>8,670</u> |
| Operating Expenses: | | | |
| Personal Services | 15,714 | 1,967 | 3,540 |
| Supplies and Services | 79,325 | 8,363 | 2,780 |
| Depreciation | 4,197 | 4,096 | 8 |
| Benefit Expense | - | - | - |
| Total Operating Expenses | <u>99,236</u> | <u>14,426</u> | <u>6,328</u> |
| Operating Income (Loss) | <u>10,230</u> | <u>(1,913)</u> | <u>2,341</u> |
| Nonoperating Revenues (Expenses): | | | |
| Operating Grants | - | - | - |
| Investment and Interest Income | - | - | - |
| Gain (Loss) on Disposal of Capital Assets | (1,609) | 229 | - |
| Interest Expense | (17) | (1) | - |
| Miscellaneous Revenues | 1,481 | 31 | - |
| Other Expenses: | | | |
| Federal Settlement | - | - | (164) |
| Total Nonoperating Revenues (Expenses) | <u>(144)</u> | <u>259</u> | <u>(164)</u> |
| Net Income (Loss) | 10,086 | (1,654) | 2,178 |
| Transfers In | 22 | 474 | 5 |
| Transfers Out | (1,377) | (106) | (886) |
| Net Change in Net Position | 8,732 | (1,285) | 1,296 |
| Total Net Position, Beginning | (2,033) | 7,041 | 1,764 |
| Total Net Position, Ending | <u>\$ 6,698</u> | <u>\$ 5,756</u> | <u>\$ 3,060</u> |

| | Facilities Operations and Maintenance | Risk Management | Badger State Industries | Totals |
|----|--|----------------------------|--|---------------|
| \$ | 58,830 | \$ 32,514 | \$ 16,473 | 238,459 |
| | - | - | - | 7 |
| | 58,830 | 32,514 | 16,473 | 238,466 |
| | 16,383 | 1,288 | 4,157 | 43,049 |
| | 28,188 | 4,564 | 11,573 | 134,792 |
| | 11,270 | - | 313 | 19,884 |
| | - | 28,180 | - | 28,180 |
| | 55,840 | 34,031 | 16,044 | 225,906 |
| | 2,990 | (1,518) | 430 | 12,561 |
| | 184 | - | - | 184 |
| | 12 | - | - | 12 |
| | - | - | (30) | (1,410) |
| | (7,385) | (1) | (38) | (7,442) |
| | 117 | 289 | 150 | 2,069 |
| | - | - | - | (164) |
| | (7,072) | 288 | 83 | (6,750) |
| | (4,082) | (1,230) | 512 | 5,810 |
| | 8,903 | - | 134 | 9,538 |
| | (7,166) | (33) | (151) | (9,718) |
| | (2,345) | (1,262) | 496 | 5,631 |
| | 92,375 | (87,517) | 1,287 | 12,917 |
| \$ | 90,030 | \$ (88,779) | \$ 1,783 | 18,548 |

**Combining Statement of Cash Flows - Internal Service Funds
For the Fiscal Year Ended June 30, 2013**

(In Thousands)

| | Technology Services | Fleet Services | Financial Services |
|---|------------------------|-------------------|-----------------------|
| Cash Flows from Operating Activities: | | | |
| Cash Receipts from Customers | \$ 110,741 | \$ 12,848 | \$ 8,830 |
| Cash Payments to Suppliers for Goods and Services | (82,797) | (8,794) | (3,985) |
| Cash Payments to Employees for Services | (15,834) | (2,005) | (3,476) |
| Cash Payments for Benefits | - | - | - |
| Other Operating Revenues | 7 | - | - |
| Other Sources of Cash | 1,211 | 31 | - |
| Other Uses of Cash | (1,275) | - | - |
| Net Cash Provided (Used) by Operating Activities | 12,054 | 2,080 | 1,370 |
| Cash Flows from Noncapital Financing Activities: | | | |
| Interest Payments | (1) | (1) | - |
| Interfund Loans Received | 76 | 1,574 | - |
| Interfund Loans Repaid | - | - | - |
| Transfers In | 22 | 474 | 5 |
| Transfers Out | (1,377) | (106) | (886) |
| Net Cash Provided (Used) by Noncapital Financing Activities | (1,280) | 1,942 | (881) |
| Cash Flows from Capital and Related Financing Activities: | | | |
| Proceeds from Issuance of Debt | - | - | - |
| Repayment of Bonds and Notes | - | - | - |
| Interest Payments | (16) | - | - |
| Capital Lease Obligations | (157) | - | - |
| Proceeds from Sale of Capital Assets | - | 698 | - |
| Payments for Purchase of Capital Assets | (10,601) | (4,720) | - |
| Other Cash Inflows from Capital Financing Activities | - | - | - |
| Other Cash Outflows from Capital Financing Activities | - | - | - |
| Net Cash Provided (Used) by Capital and Related Financing Activities | (10,774) | (4,022) | - |
| Net Increase (Decrease) in Cash and Cash Equivalents | - | - | 488 |
| Cash and Cash Equivalents, Beginning of Year | 0 | 0 | 3,739 |
| Cash and Cash Equivalents, End of Year | \$ 0 | \$ 0 | \$ 4,227 |

| | Facilities Operations and Maintenance | Risk Management | Badger State Industries | Totals |
|----|--|--------------------|-------------------------------|------------|
| \$ | 67,932 | \$ 30,759 | \$ 16,262 | \$ 247,372 |
| | (24,795) | (4,840) | (11,084) | (136,295) |
| | (15,048) | (1,273) | (4,120) | (41,756) |
| | - | (24,367) | - | (24,367) |
| | - | - | 15 | 23 |
| | 105 | 289 | - | 1,637 |
| | - | - | - | (1,275) |
| | 28,193 | 568 | 1,074 | 45,338 |
| | - | (1) | - | (3) |
| | - | - | - | 1,650 |
| | - | - | (866) | (866) |
| | 8,903 | - | 134 | 9,538 |
| | (7,140) | (33) | (151) | (9,691) |
| | 1,764 | (34) | (882) | 628 |
| | 38,126 | - | - | 38,126 |
| | (14,165) | - | (59) | (14,225) |
| | (8,142) | - | (42) | (8,200) |
| | (22) | - | (56) | (236) |
| | - | - | 51 | 748 |
| | (24,828) | - | (85) | (40,234) |
| | 754 | - | - | 754 |
| | (20) | - | - | (20) |
| | (8,299) | - | (191) | (23,286) |
| | 21,658 | 534 | - | 22,680 |
| | 9,946 | 8,768 | - | 22,454 |
| \$ | \$ 31,604 | \$ 9,303 | \$ 0 | \$ 45,134 |

(Continued)

**Combining Statement of Cash Flows - Internal Service Funds
For the Fiscal Year Ended June 30, 2013**

(Continued)

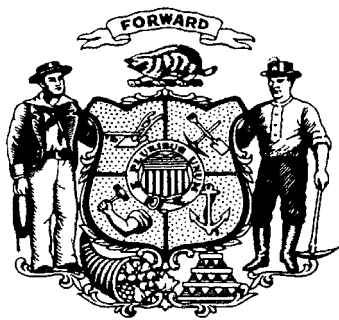
| | Technology Services | Fleet Services | Financial Services |
|---|------------------------|-------------------|-----------------------|
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | |
| Operating Income (Loss) | \$ 10,230 | \$ (1,913) | \$ 2,341 |
| Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | |
| Depreciation | 4,197 | 4,096 | 8 |
| Miscellaneous Nonoperating Income (Expense) | (64) | 31 | - |
| Changes in Assets and Liabilities: | | | |
| Decrease (Increase) in Receivables | 303 | (149) | (33) |
| Decrease (Increase) in Due from Other Funds | 1,187 | 413 | 193 |
| Decrease (Increase) in Due from Component Units | - | 74 | - |
| Decrease (Increase) in Due from Other Governments | (209) | (4) | - |
| Decrease (Increase) in Inventories | (35) | (11) | - |
| Decrease (Increase) in Prepaid Items | (4,750) | - | (3) |
| Increase (Decrease) in Accounts Payable and Other Accrued Liabilities | 1,649 | (9) | (1) |
| Increase (Decrease) in Due to Other Funds | (392) | (411) | (797) |
| Increase (Decrease) in Due to Other Governments | - | - | (409) |
| Increase (Decrease) in Compensated Absences | (5) | (21) | 82 |
| Increase (Decrease) in Postemployment Benefits | (59) | (17) | (12) |
| Increase (Decrease) in Future Benefits and Loss Liabilities | - | - | - |
| Total Adjustments | 1,823 | 3,993 | (972) |
| Net Cash Provided (Used) by Operating Activities | \$ 12,054 | \$ 2,080 | \$ 1,370 |

Noncash Investing, Capital and Financing Activities:

| | | | |
|--|------|------|------|
| Assets Acquired through Capital Leases | \$ - | \$ - | \$ - |
| Other | \$ - | \$ - | \$ - |

| | Facilities Operations and Maintenance | Risk Management | Badger State Industries | Totals |
|----|--|--------------------|-------------------------------|---------|
| \$ | 2,990 \$ | (1,518) \$ | 430 \$ | 12,561 |
| | 11,270 | - | 313 | 19,884 |
| | 105 | 289 | 150 | 513 |
| | (451) | (49) | (82) | (460) |
| | 9,559 | (1,705) | (275) | 9,372 |
| | - | - | - | 74 |
| | (6) | - | 10 | (208) |
| | 17 | - | 271 | 243 |
| | (12) | - | 4 | (4,761) |
| | (122) | (93) | 312 | 1,737 |
| | 4,697 | (184) | (41) | 2,872 |
| | - | - | (52) | (461) |
| | 50 | (7) | (15) | 83 |
| | 97 | 22 | 47 | 78 |
| | - | 3,812 | - | 3,812 |
| | 25,204 | 2,085 | 644 | 32,778 |
| \$ | 28,193 \$ | 568 \$ | 1,074 \$ | 45,338 |

| | | | | |
|----|------|------|--------|-----|
| \$ | - \$ | - \$ | 684 \$ | 684 |
| \$ | - \$ | - \$ | 30 \$ | 30 |



Fiduciary Funds

FIDUCIARY: Fiduciary funds are maintained to account for assets held by the State acting in the capacity as a trustee or agent. The State's fiduciary funds, consisting of pension and other employee benefit trust, investment trust, private-purpose trust, and agency funds, are described below:

PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS: Pension and other employee benefit trust funds are used to report resources that are required to be held in trust for members and beneficiaries of the public employee retirement system or other employee benefit plans.

The **Wisconsin Retirement System Fund** accounts for the collection of employee and employer contributions, the investment of assets, and the payment of retirement, disability, and death benefits to current and former employees of the State and participating local Wisconsin governments and their beneficiaries.

The **Accumulated Sick Leave Fund** accounts for the collection of employer contributions, the investment of assets, and termination payments of employees' unused sick leave balances at the time they retire.

The **Duty Disability Fund** accounts for the compensation of protective category employees of the Wisconsin Retirement System for duty-related disabilities, as well as the collection of contributions and investment activity providing funding for the benefits.

The **Reimbursed Employee Expense Fund** accounts for the collection of voluntary payroll deferrals, the investment of assets, and the reimbursement of qualifying medical, dependent care, and transportation expenses of State employees, in compliance with Internal Revenue Code Sections 132 and 425.

The **Local Retiree Life Insurance Fund** accounts for the accumulation of employer contributions, during the course of local government employees working lifetimes, for postretirement life insurance coverage for retired participants.

The **Retiree Life Insurance Fund** accounts for the accumulation of employer contributions, during the course of State employees working lifetimes, for postretirement life insurance coverage for retired participants.

INVESTMENT TRUST FUNDS: Investment trust funds account for assets invested on a commingled basis by the State on behalf of other governmental entities. The State's investment trust funds are described below:

The **Local Government Pooled Investment Fund** was established to enable local governments in the State to voluntarily invest any idle local moneys. The sources of this fund are local government investment deposits and their share of the investment earnings of the fund. Deductions occur as withdrawals are requested by local governments.

The **Milwaukee Retirement System Fund** accounts for funds of the Milwaukee Public Schools invested as part of the fixed and variable investment trusts of the Wisconsin Retirement System.

PRIVATE-PURPOSE TRUST: Private-purpose trust funds are used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

The **Tuition Trust Fund** accounts for the program that allows participants to invest in order to meet the cost of future tuition expenses.

The **BadgerRx for Individuals Fund** accounts for the program that, through the leveraged bargaining powers established by the State for employee health insurance, provides discounts and rebates on prescription drugs to participating individuals in the State.

The **College Savings Program Trust Fund** accounts for the program that allows participants to invest in a college savings account to cover tuition, fees and the costs of room and board, books, supplies and equipment required for the enrollment or attendance of a beneficiary at an eligible educational institution.

The **Retiree Health Insurance Fund** accounts for the accumulation of premiums for group health insurance plans provided on a self-insured, fee for service basis or prepaid basis to retired employees of the State.

AGENCY FUNDS: Agency funds report those assets for which the State acts solely in a custodial capacity. The State's agency funds are described below:

The **Insurance Company Liquidation Account Fund** accounts for the assets of insurance companies that are liquidated. These assets are used to pay claims and administrative costs associated with the liquidation.

The **Local Retiree Health Insurance Fund** accounts for the accumulation of premiums for group health insurance plans provided on a self-insured, fee for service basis or prepaid basis to retired employees of participating local public employers.

The **Inmate and Resident Fund** accounts for the assets of inmates and residents in State institutions.

The **Bank and Insurance Company Deposits Fund** accounts for the statutorily required deposits of securities with the State by banks and insurance companies doing business in the State.

The **Support Collection Trust Fund** accounts for the centralized receipt and disbursement of court ordered temporary or permanent maintenance, child support or family support and related fees.

Combining Statement of Fiduciary Net Position - Pension and Other Employee Benefit Trust Funds
June 30, 2013

(In Thousands)

| | Wisconsin Retirement System | Accumulated Sick Leave | Duty Disability | Reimbursed Employee Expense | Local Retiree Life Insurance | Retiree Life Insurance | Totals |
|-----------------------------------|-----------------------------|------------------------|-----------------|-----------------------------|------------------------------|------------------------|---------------|
| Assets | | | | | | | |
| Cash and Cash Equivalents | \$ 52,710 | \$ 2,157,458 | \$ 539,810 | \$ 3,288 | \$ - | \$ - | 2,753,266 |
| Securities Lending Collateral | 1,436,021 | - | - | - | - | - | 1,436,021 |
| Prepaid Items | 6,036 | 11,144 | - | 871 | - | - | 18,052 |
| Receivables (net of allowance): | | | | | | | |
| Prior Service Contributions | | | | | | | |
| Receivable | 65,165 | - | - | - | - | - | 65,165 |
| Benefits Overpayment Receivable | 3,600 | - | - | - | - | - | 3,600 |
| Due from Other Funds | 46,880 | - | 150 | 764 | 15 | 11 | 47,820 |
| Due from Component Units | 5,004 | - | - | - | - | - | 5,004 |
| Interfund Receivables | - | 17,361 | - | - | - | - | 17,361 |
| Due from Other Governments | 158,708 | - | - | - | - | - | 158,708 |
| Interest and Dividends Receivable | 261,315 | - | - | - | - | - | 261,315 |
| Investment Sales Receivable | 913,001 | - | - | - | - | - | 913,001 |
| Other Receivables | 2,206 | 8,900 | 321 | - | - | - | 11,427 |
| Total Receivables | 1,455,879 | 26,261 | 471 | 764 | 15 | 11 | 1,483,400 |
| Investments: | | | | | | | |
| Fixed Income | 25,350,610 | - | - | - | - | - | 25,350,610 |
| Stocks | 44,307,119 | - | - | - | - | - | 44,307,119 |
| Options | (34,856) | - | - | - | - | - | (34,856) |
| Financial Futures Contracts | (37,785) | - | - | - | - | - | (37,785) |
| Limited Partnerships | 10,003,179 | - | - | - | - | - | 10,003,179 |
| Preferred Securities | 154,827 | - | - | - | - | - | 154,827 |
| Convertible Securities | 52,226 | - | - | - | - | - | 52,226 |
| Real Estate | 756,622 | - | - | - | - | - | 756,622 |
| Multi-asset Investments | 3,300,780 | - | - | - | - | - | 3,300,780 |
| External Investment Pool | - | - | - | - | 238,716 | 367,324 | 606,040 |
| Foreign Currency Contracts | 14,047 | - | - | - | - | - | 14,047 |
| Total Investments | 83,866,770 | - | - | - | 238,716 | 367,324 | 84,472,810 |
| Inventories | 93 | - | - | - | - | - | 93 |
| Capital Assets | 2,729 | - | - | - | - | - | 2,729 |
| Total Assets | 86,820,238 | 2,194,863 | 540,281 | 4,923 | 238,731 | 367,335 | 90,166,370 |
| Liabilities | | | | | | | |
| Accounts Payable and Other | | | | | | | |
| Accrued Liabilities | 47,471 | - | 2,634 | 3,851 | - | - | 53,956 |
| Reverse Repurchase Agreements | 968,176 | - | - | - | - | - | 968,176 |
| Securities Lending Collateral | | | | | | | |
| Liability | 1,436,021 | - | - | - | - | - | 1,436,021 |
| Annuities Payable | 284,387 | - | - | - | - | - | 284,387 |
| Due to Other Funds | 63,220 | 290 | - | 168 | - | - | 63,677 |
| Interfund Payables | - | - | - | - | 15 | 11 | 26 |
| Due to Other Governments | 35,088 | - | - | - | - | - | 35,088 |
| Short Sales of Securities | 98,277 | - | - | - | - | - | 98,277 |
| Investment Payable | 903,349 | - | - | - | - | - | 903,349 |
| Unearned Revenue | 146 | - | - | 429 | - | - | 575 |
| Compensated Absences Payable | - | 2,125,501 | - | - | - | - | 2,125,501 |
| Other Postemployment Benefits | 1,282 | - | - | - | - | - | 1,282 |
| Total Liabilities | 3,837,416 | 2,125,791 | 2,634 | 4,448 | 15 | 11 | 5,970,315 |
| Net Position | | | | | | | |
| Held in Trust for Pension | | | | | | | |
| Benefits and Other Purposes | \$ 82,982,822 | \$ 69,072 | \$ 537,647 | \$ 474 | \$ 238,716 | \$ 367,324 | \$ 84,196,055 |

**Combining Statement of Changes in Fiduciary Net Position - Pension and Other
Employee Benefit Trust Funds
For the Fiscal Year Ended June 30, 2013**

(In Thousands)

| | Wisconsin Retirement System | Accumulated Sick Leave | Duty Disability | Reimbursed Employee Expense | Local Retiree Life Insurance | Retiree Life Insurance | Totals |
|--|-----------------------------------|---------------------------|--------------------|-----------------------------------|---------------------------------------|------------------------------|---------------|
| Additions | | | | | | | |
| Contributions: | | | | | | | |
| Employer Contributions | \$ 862,086 | \$ 49,225 | \$ 54,456 | \$ - | \$ 1,783 | \$ 1,231 | \$ 968,781 |
| Employee Contributions | 825,277 | - | - | 27,381 | 5,681 | 3,619 | 861,958 |
| Total Contributions | 1,687,363 | 49,225 | 54,456 | 27,381 | 7,464 | 4,849 | 1,830,739 |
| Investment Income: | | | | | | | |
| Net Appreciation (Depreciation) in Fair Value of Investments | 7,279,613 | - | - | - | - | - | 7,279,613 |
| Interest | 654,911 | - | - | - | - | - | 654,911 |
| Dividends | 1,147,133 | - | - | - | - | - | 1,147,133 |
| Securities Lending Income | 16,635 | - | - | - | - | - | 16,635 |
| Other | 174,347 | - | - | - | - | - | 174,347 |
| Investment Income of Investment, Private Purpose, and Other Employee Benefit Trust Funds | - | 220,046 | 50,821 | 6 | 9,731 | 15,140 | 295,744 |
| Less: | | | | | | | |
| Investment Expense | (330,907) | - | - | - | - | - | (330,907) |
| Securities Lending Rebates and Fees | 8,852 | - | - | - | - | - | 8,852 |
| Investment Income Distributed to Other Funds | (340,149) | - | - | - | - | - | (340,149) |
| Net Investment Income | 8,610,434 | 220,046 | 50,821 | 6 | 9,731 | 15,140 | 8,906,179 |
| Interest on Prior Service Receivable | 4,683 | - | - | - | - | - | 4,683 |
| Miscellaneous Income | 910 | - | 6 | - | 43 | 32 | 990 |
| Interfund Transfer In | 4 | - | - | - | - | - | 4 |
| Total Additions | 10,303,394 | 269,272 | 105,282 | 27,388 | 17,238 | 20,022 | 10,742,595 |
| Deductions | | | | | | | |
| Retirement Benefits and Refunds: | | | | | | | |
| Retirement, Disability, and Beneficiary | 4,207,720 | - | - | - | - | - | 4,207,720 |
| Separations | 29,835 | - | - | - | - | - | 29,835 |
| Total Retirement Benefits and Refunds | 4,237,555 | - | - | - | - | - | 4,237,555 |
| Distributions | - | - | - | 26,507 | - | - | 26,507 |
| Other Benefit Expense | - | 97,042 | 30,715 | - | 10,370 | 16,168 | 154,295 |
| Administrative Expense | 22,294 | 698 | 368 | 1,205 | 1,252 | 826 | 26,643 |
| Transfer Out | 452 | - | - | - | - | - | 452 |
| Total Deductions | 4,260,301 | 97,740 | 31,084 | 27,712 | 11,621 | 16,995 | 4,445,453 |
| Net Increase (Decrease) | 6,043,093 | 171,532 | 74,199 | (325) | 5,616 | 3,027 | 6,297,142 |
| Net Position - Beginning of Year | 76,939,729 | (102,460) | 463,448 | 799 | 233,100 | 364,297 | 77,898,913 |
| Net Position - End of Year | \$ 82,982,822 | \$ 69,072 | \$ 537,647 | \$ 474 | \$ 238,716 | \$ 367,324 | \$ 84,196,055 |

**Combining Statement of Fiduciary Net Position - Investment Trust Funds
June 30, 2013**

(In Thousands)

| | Local Government Pooled Investment | Milwaukee Retirement System | Totals |
|---|---|--|---------------|
| Assets | | | |
| Cash and Cash Equivalents | \$ 2,658,367 | \$ 173,124 | \$ 2,831,492 |
| Total Assets | 2,658,367 | 173,124 | 2,831,492 |
| Liabilities | | | |
| Due to Other Funds | 172 | - | 172 |
| Total Liabilities | 172 | - | 172 |
| Net Position | | | |
| Held in Trust for Pool Participants and Other Purposes | \$ 2,658,195 | \$ 173,124 | \$ 2,831,319 |

**Combining Statement of Changes in Fiduciary Net Position - Investment Trust Funds
For the Fiscal Year Ended June 30, 2013**

(In Thousands)

| | Local Government Pooled Investment | Milwaukee Retirement System | Totals |
|----------------------------------|---|--|---------------|
| Additions | | | |
| Deposits | \$ 10,016,923 | \$ 8,500 | \$ 10,025,423 |
| Investment Income | 4,281 | 18,908 | 23,189 |
| Less: Investment Expense | - | - | - |
| Net Investment Income | 4,281 | 18,908 | 23,189 |
| Total Additions | 10,021,205 | 27,408 | 10,048,613 |
| Deductions | | | |
| Distributions | 9,683,825 | 17,500 | 9,701,325 |
| Administrative Expense | 170 | - | 170 |
| Total Deductions | 9,683,994 | 17,500 | 9,701,494 |
| Net Increase (Decrease) | 337,210 | 9,908 | 347,118 |
| Net Position - Beginning of Year | 2,320,985 | 163,216 | 2,484,201 |
| Net Position - End of Year | \$ 2,658,195 | \$ 173,124 | \$ 2,831,319 |

**Combining Statement of Fiduciary Net Position - Private-Purpose Trust Funds
June 30, 2013**

(In Thousands)

| | Tuition Trust | BadgerRx for Individuals | College Savings Program Trust | Retiree Health Insurance | Totals |
|---|------------------|--------------------------------|--|--------------------------------|--------------|
| Assets | | | | | |
| Cash and Cash Equivalents | \$ 1,428 | \$ 311 | \$ 54,285 | \$ - | \$ 56,024 |
| Prepaid Items | - | - | 1 | - | 1 |
| Receivables (net of allowance): | | | | | |
| Due from Other Funds | - | - | 140 | 113 | 253 |
| Other Receivables | 11 | 33 | 3,598 | 4,897 | 8,539 |
| Due From Other Governments | - | - | - | 5,311 | 5,311 |
| Total Receivables | 11 | 33 | 3,738 | 10,321 | 14,104 |
| Investments: | | | | | |
| Investments of Private Purpose Trust Funds | 5,290 | - | 3,098,683 | - | 3,103,973 |
| Total Investments | 5,290 | - | 3,098,683 | - | 3,103,973 |
| Total Assets | 6,729 | 344 | 3,156,707 | 10,321 | 3,174,102 |
| Liabilities | | | | | |
| Accounts Payable | - | 12 | 4,428 | 1,273 | 5,712 |
| Due to Other Funds | 140 | - | 5 | - | 145 |
| Interfund Payables | - | - | - | 17,335 | 17,335 |
| Future Benefit and Loss Liabilities | - | - | - | 4,440 | 4,440 |
| Unearned Revenue | - | - | - | 15,544 | 15,544 |
| Total Liabilities | 140 | 12 | 4,432 | 38,592 | 43,176 |
| Net Position | | | | | |
| Held in Trust | \$ 6,589 | \$ 333 | \$ 3,152,275 | \$ (28,271) | \$ 3,130,925 |

Combining Statement of Changes in Fiduciary Net Position - Private-Purpose Trust Funds For the Fiscal Year Ended June 30, 2013

(In Thousands)

| | Tuition Trust | BadgerRx for Individuals | College Savings Program Trust | Retiree Health Insurance | Totals |
|----------------------------------|------------------|--------------------------------|--|--------------------------------|--------------|
| Additions | | | | | |
| Contributions: | | | | | |
| Other | \$ - | \$ 201 | \$ - | \$ - | 201 |
| Premiums | | | | 198,850 | 198,850 |
| Federal Subsidy | | | | 14,272 | 14,272 |
| Deposits | - | - | 334,029 | - | 334,029 |
| Investment Income | 63 | - | 305,766 | (1,798) | 304,032 |
| Less: | | | | | |
| Investment Expense | - | - | (3,508) | - | (3,508) |
| Net Investment Income | 63 | - | 302,258 | (1,798) | 300,523 |
| Miscellaneous Income | - | - | 140 | - | 140 |
| Total Additions | 63 | 201 | 636,427 | 211,324 | 848,015 |
| Deductions | | | | | |
| Distributions | 878 | - | 355,781 | - | 356,659 |
| Benefit Expense | | | | 224,758 | 224,758 |
| Administrative Expense | 14 | 161 | 6,135 | 6,759 | 13,069 |
| Transfers Out | - | - | 2 | - | 2 |
| Total Deductions | 891 | 161 | 361,919 | 231,517 | 594,488 |
| Net Increase (Decrease) | (828) | 40 | 274,508 | (20,193) | 253,527 |
| Net Position - Beginning of Year | 7,417 | 292 | 2,877,768 | (8,078) | 2,877,399 |
| Net Position - End of Year | \$ 6,589 | \$ 333 | \$ 3,152,275 | \$ (28,271) | \$ 3,130,925 |

**Combining Statement of Fiduciary Net Position - Agency Funds
June 30, 2013**

(In Thousands)

| | Insurance Company Liquidation Account | Local Retiree Health Insurance | Inmate and Resident | Bank and Insurance Company Deposits | Support Collection Trust | Totals |
|---------------------------------|--|---|---------------------------|--|--------------------------------|------------|
| Assets | | | | | | |
| Cash and Cash Equivalents | \$ 5,259 | \$ - | \$ 13,338 | \$ - | \$ 10,388 | \$ 28,985 |
| Receivables (net of allowance): | | | | | | |
| Due from Other Funds | - | 32 | 1,611 | - | 77 | 1,720 |
| Due from Other Governments | - | 783 | - | - | - | 783 |
| Due from Employers | - | 9,717 | - | - | - | 9,717 |
| Other Receivables | - | 869 | 479 | - | - | 1,348 |
| Total Receivables | - | 11,401 | 2,090 | - | 77 | 13,568 |
| Investments | - | - | 251 | - | - | 251 |
| Other Assets | - | - | - | 313,035 | - | 313,035 |
| Total Assets | \$ 5,259 | \$ 11,401 | \$ 15,679 | \$ 313,035 | \$ 10,465 | \$ 355,839 |
| Liabilities | | | | | | |
| Accounts Payable | \$ 5,259 | \$ 9,615 | \$ 1 | \$ - | \$ 10,465 | \$ 25,340 |
| Due to Other Funds | - | 34 | - | - | - | 34 |
| Tax and Other Deposits | - | 1,752 | 15,678 | 313,035 | - | 330,465 |
| Total Liabilities | \$ 5,259 | \$ 11,401 | \$ 15,679 | \$ 313,035 | \$ 10,465 | \$ 355,839 |

**Combining Statement of Changes in Assets and Liabilities - Agency Funds
For the Fiscal Year Ended June 30, 2013**

(In Thousands)

| | Balance July 1, 2012 | Additions | Deductions | Balance June 30, 2013 |
|---|-------------------------|------------------|------------------|--------------------------|
| Insurance Company Liquidation Account | | | | |
| Assets: | | | | |
| Cash and Cash Equivalents | \$ 255 | \$ 5,003 | \$ - | \$ 5,259 |
| Total Assets | <u>\$ 255</u> | <u>\$ 5,004</u> | <u>\$ -</u> | <u>\$ 5,259</u> |
| Liabilities: | | | | |
| Accounts Payable and Other Accrued Liabilities | \$ 255 | \$ 5,004 | \$ - | \$ 5,259 |
| Total Liabilities | <u>\$ 255</u> | <u>\$ 5,004</u> | <u>\$ -</u> | <u>\$ 5,259</u> |
| Local Retiree Health Insurance | | | | |
| Assets: | | | | |
| Cash and Cash Equivalents | \$ - | \$ - | \$ - | - |
| Receivables (net of allowance): | | | | |
| Due from Other Funds | - | 32 | - | 32 |
| Due from Other Governments | 370 | 1,308 | 895 | 783 |
| Due from Employers | 7,201 | 26,750 | 24,234 | 9,717 |
| Other Receivables | 471 | 1,973 | 1,575 | 869 |
| Total Assets | <u>\$ 8,042</u> | <u>\$ 30,063</u> | <u>\$ 26,704</u> | <u>\$ 11,401</u> |
| Liabilities: | | | | |
| Accounts Payable and Other Accrued Liabilities | \$ 6,291 | \$ 3,324 | \$ - | \$ 9,615 |
| Due to Other Funds | - | 164 | 130 | 34 |
| Tax and Other Deposits | 1,751 | 1,752 | 1,751 | 1,752 |
| Total Liabilities | <u>\$ 8,042</u> | <u>\$ 5,240</u> | <u>\$ 1,881</u> | <u>\$ 11,401</u> |
| Inmate and Resident | | | | |
| Assets: | | | | |
| Cash and Cash Equivalents | \$ 14,130 | \$ 85,009 | \$ 85,802 | \$ 13,338 |
| Receivables (net of allowance): | | | | |
| Due from Other Funds | 876 | 7,393 | 6,658 | 1,611 |
| Other Receivables | 217 | 6,926 | 6,664 | 479 |
| Investments | 256 | 53 | 58 | 251 |
| Total Assets | <u>\$ 15,480</u> | <u>\$ 99,381</u> | <u>\$ 99,182</u> | <u>\$ 15,679</u> |
| Liabilities: | | | | |
| Accounts Payable and Other Accrued Liabilities | \$ 1 | \$ 167 | \$ 167 | \$ 1 |
| Due to Other Funds | - | 224 | 224 | - |
| Tax and Other Deposits | 15,479 | 75,995 | 75,796 | 15,678 |
| Total Liabilities | <u>\$ 15,480</u> | <u>\$ 76,387</u> | <u>\$ 76,188</u> | <u>\$ 15,679</u> |

(Continued)

**Combining Statement of Changes in Assets and Liabilities - Agency Funds
For the Fiscal Year Ended June 30, 2013**

(Continued)

| | Balance July 1, 2012 | Additions | Deductions | Balance June 30, 2013 |
|---|-------------------------|---------------------|---------------------|--------------------------|
| Bank and Insurance Company Deposits | | | | |
| Assets: | | | | |
| Other Assets: | | | | |
| Assets Held in Custody for Others | \$ 316,803 | \$ 99,874 | \$ 103,642 | \$ 313,035 |
| Total Assets | <u>\$ 316,803</u> | <u>\$ 99,874</u> | <u>\$ 103,642</u> | <u>\$ 313,035</u> |
| Liabilities: | | | | |
| Tax and Other Deposits | \$ 316,803 | \$ 99,874 | \$ 103,642 | \$ 313,035 |
| Total Liabilities | <u>\$ 316,803</u> | <u>\$ 99,874</u> | <u>\$ 103,642</u> | <u>\$ 313,035</u> |
| Support Collection Trust | | | | |
| Assets: | | | | |
| Cash and Cash Equivalents | \$ 11,439 | \$ 976,986 | \$ 978,036 | \$ 10,388 |
| Receivables (net of allowance): | | | | |
| Due from Other Funds | 76 | 77 | 76 | 77 |
| Total Assets | <u>\$ 11,514</u> | <u>\$ 977,062</u> | <u>\$ 978,112</u> | <u>\$ 10,465</u> |
| Liabilities: | | | | |
| Accounts Payable and Other Accrued Liabilities | \$ 11,514 | \$ 977,062 | \$ 978,112 | \$ 10,465 |
| Total Liabilities | <u>\$ 11,514</u> | <u>\$ 977,062</u> | <u>\$ 978,112</u> | <u>\$ 10,465</u> |
| Total - All Agency Funds | | | | |
| Assets: | | | | |
| Cash and Cash Equivalents | \$ 25,824 | \$ 1,066,999 | \$ 1,063,838 | \$ 28,985 |
| Receivables (net of allowance): | | | | |
| Due from Other Funds | 952 | 7,502 | 6,734 | 1,720 |
| Due from Other Governments | 370 | 1,308 | 895 | 783 |
| Due from Employers | 7,201 | 26,750 | 24,234 | 9,717 |
| Other Receivables | 688 | 8,899 | 8,239 | 1,348 |
| Investments | 256 | 53 | 58 | 252 |
| Other Assets: | | | | |
| Assets Held in Custody for Others | 316,803 | 99,874 | 103,642 | 313,035 |
| Total Assets | <u>\$ 352,094</u> | <u>\$ 1,211,384</u> | <u>\$ 1,207,640</u> | <u>\$ 355,839</u> |
| Liabilities: | | | | |
| Accounts Payable and Other Accrued Liabilities | \$ 18,061 | \$ 985,558 | \$ 978,279 | \$ 25,340 |
| Due to Other Funds | - | 388 | 355 | 34 |
| Tax and Other Deposits | 334,033 | 177,621 | 181,189 | 330,465 |
| Total Liabilities | <u>\$ 352,094</u> | <u>\$ 1,163,567</u> | <u>\$ 1,159,823</u> | <u>\$ 355,839</u> |

STATISTICAL SECTION

Statistical Section Narrative and Table of Contents

Narrative

The statistical section of Wisconsin's Comprehensive Annual Financial Report provides additional historical perspective, context, and detail to assist financial statement users in understanding the government's economic condition. The State's financial trends, revenue capacity, debt capacity, demographic and economic information, and operating information are presented in the following sections:

| | Page |
|--|-------------|
| Financial Trends Information | |
| The following schedules are intended to assist users in understanding and assessing how the State's financial position has changed over time. Information is presented at both the entity wide and fund level perspective. | |
| <i>Entity-Wide Perspective (Accrual Basis of Accounting)</i> | |
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| The following information is intended to assist users in understanding and assessing the factors affecting the State's ability to generate tax revenues to finance its continued operations. | |
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| The following information is presented to assist the user in understanding and assessing the State's debt burden and its ability to issue additional debt. | |
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| Schedule C-7 Wisconsin Housing and Economic Development Authority Revenue Bond Coverage | 238 |
| Demographic and Economic Information | |
| The following information provides demographic and economic indicators to assist the reader in understanding the socioeconomic environment within which the State's financial activities takes place. | |
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Net Position by Component (Accrual Basis of Accounting)

For the Last Ten Fiscal Years

| | 2013 | 2012 | 2011 | 2010 |
|---|---------------|---------------|---------------|---------------|
| Governmental Activities: | | | | |
| Net Investment in Capital Assets | \$ 16,284,840 | \$ 15,249,918 | \$ 14,405,385 | \$ 13,914,376 |
| Restricted | 1,409,449 | 1,392,163 | 1,269,746 | 1,125,016 |
| Unrestricted | (9,101,649) | (9,402,946) | (9,751,338) | (9,456,213) |
| Total Governmental Activities Net Position | \$ 8,592,640 | \$ 7,239,135 | \$ 5,923,792 | \$ 5,583,179 |
| Business-type Activities: | | | | |
| Net Investment in Capital Assets | \$ 4,383,457 | \$ 4,270,087 | \$ 4,108,668 | \$ 3,932,783 |
| Restricted | 3,628,036 | 3,235,508 | 3,078,086 | 2,668,608 |
| Unrestricted | 700,149 | 105,083 | (417,321) | (491,209) |
| Total Business-type Activities Net Position | \$ 8,711,641 | \$ 7,610,678 | \$ 6,769,433 | \$ 6,110,183 |
| Primary Government: | | | | |
| Net Investment in Capital Assets | \$ 20,668,297 | \$ 19,520,005 | \$ 18,514,053 | \$ 17,847,159 |
| Restricted | 5,037,485 | 4,627,671 | 4,347,832 | 3,793,624 |
| Unrestricted | (8,401,500) | (9,297,863) | (10,168,659) | (9,947,422) |
| Total Primary Government Net Position | \$ 17,304,281 | \$ 14,849,813 | \$ 12,693,225 | \$ 11,693,362 |

(a) In 2008, the Life Insurance Fund was reclassified from a fiduciary to a proprietary fund.

(b) In 2007, GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was implemented. In the same year, the Health Insurance Risk Sharing Plan, an enterprise fund, became an authority and is no longer included in the Comprehensive Annual Financial Report.

(c) In 2005, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, was implemented.

Source: State of Wisconsin, Department of Administration, State Controller's Office

Schedule A-1

(In Thousands)

| | 2009 | | 2008 (a) | | 2007 (b) | | 2006 | | 2005 (c) | | 2004 |
|-----------|-------------------|-----------|-------------------|-----------|-------------------|-----------|-------------------|-----------|-------------------|-----------|-------------------|
| \$ | 13,492,047 | \$ | 12,900,350 | \$ | 12,275,649 | \$ | 12,291,617 | \$ | 11,499,433 | \$ | 11,146,113 |
| | 1,105,242 | | 1,309,409 | | 1,331,102 | | 1,218,005 | | 1,314,931 | | 1,321,877 |
| | (8,939,033) | | (8,322,198) | | (8,168,852) | | (8,238,766) | | (7,723,238) | | (7,776,238) |
| \$ | 5,658,256 | \$ | 5,887,562 | \$ | 5,437,898 | \$ | 5,270,855 | \$ | 5,091,125 | \$ | 4,691,753 |
| | | | | | | | | | | | |
| \$ | 3,649,767 | \$ | 3,438,954 | \$ | 3,225,114 | \$ | 3,243,637 | \$ | 2,997,647 | \$ | 2,870,433 |
| | 2,494,489 | | 3,161,901 | | 3,503,289 | | 3,336,784 | | 3,222,638 | | 2,852,436 |
| | 28,756 | | 298,301 | | 457,089 | | 140,047 | | 178,697 | | 439,290 |
| \$ | 6,173,012 | \$ | 6,899,157 | \$ | 7,185,492 | \$ | 6,720,467 | \$ | 6,398,984 | \$ | 6,162,158 |
| | | | | | | | | | | | |
| \$ | 17,141,814 | \$ | 16,339,304 | \$ | 15,500,763 | \$ | 15,535,254 | \$ | 14,497,080 | \$ | 14,016,546 |
| | 3,599,731 | | 4,471,310 | | 4,834,391 | | 4,554,789 | | 4,537,569 | | 4,174,313 |
| | (8,910,277) | | (8,023,897) | | (7,711,763) | | (8,098,719) | | (7,544,541) | | (7,336,948) |
| \$ | 11,831,268 | \$ | 12,786,719 | \$ | 12,623,390 | \$ | 11,991,322 | \$ | 11,490,109 | \$ | 10,853,911 |

Changes in Net Position (Accrual Basis of Accounting)

For the Last Ten Fiscal Years

| | 2013 | 2012 | 2011 | 2010 |
|---|-----------------|-----------------|-----------------|-----------------|
| Expenses | | | | |
| Governmental Activities: | | | | |
| Commerce | \$ 244,141 | \$ 274,384 | \$ 411,297 | \$ 329,954 |
| Education | 6,234,973 | 6,226,185 | 6,737,282 | 6,662,846 |
| Transportation | 2,117,768 | 1,967,864 | 2,264,460 | 2,281,649 |
| Environmental Resources | 488,515 | 431,983 | 506,235 | 487,361 |
| Human Relations and Resources | 12,169,309 | 12,157,044 | 11,970,708 | 11,539,481 |
| General Executive | 596,605 | 755,504 | 727,015 | 650,196 |
| Judicial | 126,399 | 124,784 | 132,940 | 129,753 |
| Legislative | 63,673 | 58,737 | 65,641 | 65,232 |
| Tax Relief and Other General Expenses | 1,327,934 | 1,359,015 | 1,352,293 | 1,288,156 |
| Intergovernmental - Shared Revenue | 957,061 | 989,906 | 1,023,532 | 1,032,162 |
| Interest on Debt | 518,277 | 523,737 | 479,142 | 467,850 |
| Total Governmental Activities | 24,844,656 | 24,869,142 | 25,670,547 | 24,934,640 |
| Business-type Activities: | | | | |
| Injured Patients and Families Compensation | (14,326) | 36,725 | (42,589) | 58,515 |
| Environmental Improvement | 51,646 | 59,434 | 90,037 | 148,594 |
| University of Wisconsin System | 4,513,243 | 4,418,333 | 4,393,866 | 4,195,430 |
| Unemployment Insurance Reserve | 1,366,991 | 1,763,830 | 2,513,060 | 3,416,939 |
| Other Business-type | 2,282,914 | 2,283,938 | 2,273,768 | 2,139,171 |
| Total Business-type Activities | 8,200,467 | 8,562,260 | 9,228,143 | 9,958,649 |
| Total Primary Government Expenses | \$ 33,045,124 | \$ 33,431,402 | \$ 34,898,690 | \$ 34,893,289 |
| Revenues | | | | |
| Program Revenues (All Types Consolidated): | | | | |
| Governmental Activities: | | | | |
| Charges for Services: | | | | |
| Commerce | \$ 240,663 | \$ 248,448 | \$ 245,893 | \$ 253,713 |
| Education | 21,383 | 19,107 | 21,594 | 21,586 |
| Transportation | 707,599 | 713,537 | 678,493 | 684,360 |
| Environmental Resources | 249,807 | 222,587 | 231,990 | 214,332 |
| Human Relations and Resources | 718,946 | 705,026 | 701,312 | 634,789 |
| General Executive | 244,075 | 240,439 | 271,082 | 275,349 |
| Judicial | 56,636 | 60,593 | 63,623 | 66,881 |
| Intergovernmental - Shared Revenue | 53,126 | 53,490 | 54,199 | 46,090 |
| Other | 1,777 | 2,002 | 1,831 | 1,983 |
| Operating Grants and Contributions | 8,571,743 | 8,805,070 | 9,416,373 | 9,288,956 |
| Capital Grants and Contributions | 775,963 | 861,484 | 1,019,793 | 1,109,437 |
| Total Governmental Activities | 11,641,718 | 11,931,783 | 12,706,183 | 12,597,476 |
| Business-type Activities: | | | | |
| Charges for Services: | | | | |
| University of Wisconsin System | 3,541,438 | 3,461,615 | 3,284,047 | 3,098,677 |
| Health Insurance | 1,249,745 | 1,260,103 | 1,288,426 | 1,183,544 |
| Unemployment Insurance Reserve | 1,324,308 | 1,328,158 | 1,205,063 | 1,037,608 |
| Other Activities | 1,027,624 | 989,391 | 948,977 | 924,374 |
| Operating Grants and Contributions | 976,734 | 1,117,774 | 1,863,453 | 2,263,961 |
| Capital Grants and Contributions | 68,821 | 103,505 | 99,521 | 109,829 |
| Total Business-type Activities | 8,188,670 | 8,260,546 | 8,689,487 | 8,617,993 |
| Total Primary Government Revenues | \$ 19,830,388 | \$ 20,192,329 | \$ 21,395,670 | \$ 21,215,469 |
| Net (Expense)/Revenue | | | | |
| Governmental Activities | \$ (13,202,938) | \$ (12,937,359) | \$ (12,964,364) | \$ (12,337,164) |
| Business-type Activities | (11,797) | (301,714) | (538,656) | (1,340,656) |
| Total Primary Government Net Expense | \$ (13,214,735) | \$ (13,239,074) | \$ (13,503,019) | \$ (13,677,818) |

(a) In 2004, Annual Appropriation Bonds were issued to payoff the State's unfunded accrued prior service (pension) liability and its unfunded accrued liability for accumulated sick leave. The 2004 balance for Tax Relief and Other General Expenses includes \$782.4 million of employee benefit liability expenses.

(b) In 2005, the Veterans Mortgage Loan Repayment Fund was no longer considered a major fund.

Schedule A-2

(In Thousands)

| 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| \$ 298,908 | \$ 293,362 | \$ 289,452 | \$ 267,195 | \$ 257,112 | \$ 281,753 |
| 6,707,734 | 6,477,194 | 6,413,120 | 6,270,218 | 5,818,372 | 5,749,391 |
| 2,069,477 | 1,911,514 | 1,850,586 | 1,774,161 | 1,801,595 | 1,795,548 |
| 534,850 | 486,531 | 471,767 | 466,997 | 418,616 | 444,295 |
| 10,398,237 | 9,078,665 | 8,698,915 | 8,436,702 | 8,441,099 | 8,000,799 |
| 551,358 | 536,527 | 540,268 | 542,303 | 478,782 | 425,265 |
| 130,916 | 125,798 | 119,991 | 114,853 | 111,690 | 109,788 |
| 65,626 | 65,356 | 62,457 | 59,938 | 57,047 | 57,631 |
| 1,274,940 | 1,135,551 | 956,749 | 857,866 | 837,970 | 1,572,126 (a) |
| 1,035,050 | 1,019,275 | 1,016,313 | 1,016,718 | 1,011,052 | 1,058,182 |
| 665,367 | 500,270 | 479,402 | 477,465 | 424,217 | 382,219 |
| <u>23,732,463</u> | <u>21,630,043</u> | <u>20,899,020</u> | <u>20,284,418</u> | <u>19,657,549</u> | <u>19,876,997</u> |
| (58,215) | 137,747 | 57,873 | (2,307) | 77,624 | 36,094 |
| 48,486 | 43,436 | 42,671 | 42,764 | 39,482 | 42,246 |
| 4,016,459 | 3,920,563 | 3,663,119 | 3,519,740 | 3,425,045 | 3,278,414 |
| 2,215,332 | 950,923 | 882,622 | 821,122 | 844,869 | 1,068,647 |
| 2,057,077 | 1,966,242 | 1,862,525 | 2,082,861 | 1,959,230 (b) | 1,881,562 |
| <u>8,279,139</u> | <u>7,018,911</u> | <u>6,508,810</u> | <u>6,464,181</u> | <u>6,346,250</u> | <u>6,306,963</u> |
| \$ <u>32,011,602</u> | \$ <u>28,648,954</u> | \$ <u>27,407,830</u> | \$ <u>26,748,598</u> | \$ <u>26,003,799</u> | \$ <u>26,183,959</u> |
| \$ 173,231 | \$ 208,363 | \$ 196,564 | \$ 181,332 | \$ 158,494 | \$ 166,249 |
| 19,859 | 23,291 | 21,614 | 21,781 | 23,298 | 22,431 |
| 676,871 | 610,421 | 515,046 | 520,807 | 486,406 | 478,126 |
| 214,277 | 201,790 | 190,149 | 198,344 | 184,416 | 178,603 |
| 562,382 | 226,343 | 233,679 | 203,413 | 175,584 | 167,552 |
| 244,988 | 275,298 | 248,221 | 325,570 | 217,128 | 231,016 |
| 67,096 | 66,165 | 61,698 | 60,777 | 61,377 | 56,606 |
| - | - | - | - | - | - |
| 1,375 | 5,800 | 5,854 | 6,612 | 6,896 | 6,903 |
| 7,901,598 | 6,030,638 | 5,819,764 | 5,723,527 | 5,826,288 | 5,559,517 |
| 861,984 | 726,671 | 717,758 | 600,681 | 666,843 | 635,565 |
| <u>10,723,661</u> | <u>8,374,780</u> | <u>8,010,347</u> | <u>7,842,844</u> | <u>7,806,730</u> | <u>7,502,568</u> |
| 2,845,573 | 2,606,437 | 2,515,487 | 2,403,104 | 2,330,027 | 2,130,641 |
| 1,075,757 | 977,165 | 907,984 | 1,009,013 | 947,530 | 875,475 |
| 772,779 | 735,536 | 719,517 | 729,124 | 766,985 | 695,099 |
| 906,014 | 918,147 | 885,770 | 1,170,031 | 1,141,562 | 1,136,024 |
| 743,051 | 397,889 | 389,004 | 332,362 | 356,738 | 457,859 |
| 126,336 | 70,949 | 112,773 | 35,719 | 34,523 | 20,799 |
| <u>6,469,510</u> | <u>5,706,123</u> | <u>5,530,535</u> | <u>5,679,353</u> | <u>5,577,365</u> | <u>5,315,897</u> |
| \$ <u>17,193,171</u> | \$ <u>14,080,903</u> | \$ <u>13,540,882</u> | \$ <u>13,522,197</u> | \$ <u>13,384,095</u> | \$ <u>12,818,465</u> |
| \$ (13,008,802) | \$ (13,255,263) | \$ (12,888,673) | \$ (12,441,574) | \$ (11,850,819) | \$ (12,374,429) |
| (1,809,629) | (1,312,788) | (978,275) | (784,827) | (768,884) | (991,065) |
| \$ <u>(14,818,431)</u> | \$ <u>(14,568,050)</u> | \$ <u>(13,866,946)</u> | \$ <u>(13,226,400)</u> | \$ <u>(12,619,705)</u> | \$ <u>(13,365,494)</u> |

(Continued)

Changes in Net Position (Accrual Basis of Accounting)

For the Last Ten Fiscal Years

| | 2013 | 2012 | 2011 | 2010 |
|--|---------------|---------------|---------------|---------------|
| General Revenues and Other Changes in Net Position | | | | |
| Governmental Activities: | | | | |
| Taxes: | | | | |
| Income Taxes | \$ 8,290,429 | \$ 8,059,907 | \$ 7,478,058 | \$ 6,798,690 |
| Sales and Excise Taxes | 5,096,132 | 4,978,948 | 4,820,894 | 4,700,287 |
| Public Utility Taxes | 335,753 | 358,822 | 324,480 | 309,983 |
| Motor Fuel (Transportation-related) Taxes | 1,016,542 | 1,026,181 | 1,029,857 | 1,008,047 |
| Other Taxes | 439,339 | 451,420 | 396,040 | 403,369 |
| Investment Earnings | 1,789 | (204) | 2,072 | 4,847 |
| Contributions and Miscellaneous | 431,680 | 422,722 | 402,172 | 406,971 |
| Special Items - Sale of Future Tobacco Settlement Revenues | - | - | - | - |
| Special Items - Purchase of Future Tobacco Settlement Revenues | - | - | - | - |
| Transfers | (1,110,877) | (1,122,833) | (1,187,273) | (1,263,325) |
| Total Governmental Activities | 14,500,788 | 14,174,963 | 13,266,301 | 12,368,869 |
| Business-type Activities: | | | | |
| Investment Earnings | (67) | 20,607 | 6,286 | 15,664 |
| Contributions and Miscellaneous | 4,172 | 1,550 | 2,709 | 1,236 |
| Transfers | 1,110,877 | 1,122,833 | 1,187,273 | 1,262,747 |
| Total Business-type Activities | 1,114,983 | 1,144,990 | 1,196,268 | 1,279,648 |
| Total Primary Government | \$ 15,615,771 | \$ 15,319,952 | \$ 14,462,568 | \$ 13,648,517 |
| Change in Net Position | | | | |
| Governmental Activities | \$ 1,297,849 | \$ 1,237,602 | \$ 301,937 | \$ 31,706 |
| Business-type Activities | 1,103,186 | 843,276 | 657,612 | (61,008) |
| Total Primary Government | \$ 2,401,035 | \$ 2,080,878 | \$ 959,549 | \$ (29,301) |

Source: State of Wisconsin, Department of Administration, State Controller's Office

Schedule A-2

(Continued)

(In Thousands)

| 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
|---------------|---------------|---------------|---------------|---------------|---------------|
| \$ 6,809,733 | \$ 7,503,616 | \$ 7,365,400 | \$ 6,867,020 | \$ 6,467,377 | \$ 5,956,292 |
| 4,755,163 | 4,809,262 | 4,517,594 | 4,489,663 | 4,395,292 | 4,249,709 |
| 307,552 | 286,501 | 271,222 | 250,088 | 255,727 | 254,229 |
| 1,001,921 | 1,037,740 | 1,020,793 | 990,688 | 989,638 | 950,497 |
| 425,665 | 575,251 | 565,583 | 565,252 | 564,583 | 524,729 |
| 40,112 | 75,998 | 80,472 | 72,643 | 42,710 | 23,507 |
| 498,044 | 366,080 | 422,605 | 405,356 | 444,184 | 466,711 |
| 1,518,000 | - | - | - | - | - |
| (1,518,000) | - | - | - | - | - |
| (1,051,574) | (1,002,000) | (1,163,529) | (1,022,896) | (1,008,160) | (1,007,395) |
| 12,786,616 | 13,652,449 | 13,080,141 | 12,617,813 | 12,151,349 | 11,418,280 |
| 8,455 | 15,460 | 213,850 | 49,660 | 11,484 | (4,813) |
| 795 | 1,283 | 3,062 | 9,388 | 678 | 5,378 |
| 1,052,151 | 1,002,000 | 1,163,529 | 1,022,896 | 1,008,160 | 1,007,395 |
| 1,061,401 | 1,018,743 | 1,380,441 | 1,081,945 | 1,020,323 | 1,007,961 |
| \$ 13,848,017 | \$ 14,671,191 | \$ 14,460,582 | \$ 13,699,757 | \$ 13,171,672 | \$ 12,426,241 |
| \$ (222,186) | \$ 397,187 | \$ 191,468 | \$ 176,239 | \$ 300,529 | \$ (956,149) |
| (748,227) | (294,045) | 402,166 | 297,117 | 251,438 | 16,895 |
| \$ (970,414) | \$ 103,141 | \$ 593,636 | \$ 473,357 | \$ 551,967 | \$ (939,254) |

Fund Balances of Governmental Funds (Modified Accrual Basis of Accounting)

For the Last Ten Fiscal Years

| | 2013 | 2012 | 2011 | 2010 |
|--|----------------|----------------|----------------|----------------|
| General Fund (Per GASB 54) (a) | | | | |
| Nonspendable | \$ 90,971 | \$ 92,164 | \$ 158,629 | |
| Restricted | 239,380 | 202,222 | 166,256 | |
| Committed | 279,390 | 125,507 | 16,586 | |
| Unassigned | (2,343,530) | (2,630,900) | (3,336,276) | |
| General Fund (Prior to GASB 54) (a) | | | | |
| Reserved | - | - | - | \$ 510,083 |
| Unreserved | - | - | - | (3,453,386) |
| Total General Fund | \$ (1,733,789) | \$ (2,211,006) | \$ (2,994,806) | \$ (2,943,303) |
| All Other Governmental Funds (per GASB 54) (a) | | | | |
| Nonspendable | \$ 976,434 | \$ 962,462 | \$ 904,327 | |
| Restricted | 233,968 | 275,264 | 231,609 | |
| Committed | 875,162 | 771,591 | 909,973 | |
| Assigned | - | - | - | |
| Unassigned | (618,459) | (705,021) | (706,066) | |
| All Other Governmental Funds (prior GASB 54) (a) | | | | |
| Reserved | - | - | - | \$ 1,834,786 |
| Unreserved, Reported in: | | | | |
| Special Revenue Funds | - | - | - | (177,799) |
| Debt Service Funds | - | - | - | 80,780 |
| Capital Projects Funds | - | - | - | (904,840) |
| Permanent Funds | - | - | - | 247,142 |
| Total All Other Governmental Funds | \$ 1,467,105 | \$ 1,304,296 | \$ 1,339,843 | \$ 1,080,069 |

(a) Prior to 2011 and the implementation of GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*, fund balances were classified as Reserved or Unreserved. Under GASB Statement 54, fund balances are classified as Nonspendable, Restricted, Committed, or Unassigned.

(b) In 2008, the Medical Assistance Trust Fund (a special revenue fund with fund balance of \$2.7 million at June 30, 2007) was reclassified to be included in the General Fund. Prior years have not been restated.

(c) In 2007, the Budget Stabilization Fund (a special revenue fund with fund balance of \$6 million at June 30, 2006) was reclassified to be included in the General Fund. Prior years have not been restated.

(d) In 2005, the Unclaimed Property Fund was reclassified from a private purpose trust fund to be included in the General Fund. Prior years have not been restated.

Source: State of Wisconsin, Department of Administration, State Controller's Office

Schedule A-3

(In Thousands)

| 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
|-----------------------|----------------------------|----------------------------|-----------------------|----------------------------|-----------------------|
| \$ 409,756 | \$ 349,825 | \$ 419,680 | \$ 356,451 | \$ 337,245 | \$ 365,739 |
| (3,121,381) | (2,852,559) ^(b) | (2,863,822) ^(c) | (2,506,925) | (2,459,480) ^(d) | (2,296,847) |
| <u>\$ (2,711,626)</u> | <u>\$ (2,502,734)</u> | <u>\$ (2,444,142)</u> | <u>\$ (2,150,474)</u> | <u>\$ (2,122,235)</u> | <u>\$ (1,931,108)</u> |

| | | | | | |
|-------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
| \$ 1,648,775 | \$ 1,730,277 | \$ 1,619,918 | \$ 1,761,116 | \$ 1,500,475 | \$ 1,481,174 |
| (302,048) | (232,826) | (158,992) ^(b) | (265,660) | (157,366) | (526,460) |
| 78,222 | 82,691 | 62,612 | 123,093 | 231,994 | 314,488 |
| (867,803) | (888,941) | (718,729) | (667,392) | (530,032) | (363,325) |
| 296,675 | 337,560 | 301,394 | 230,420 | 241,776 | 283,939 |
| <u>\$ 853,821</u> | <u>\$ 1,028,761</u> | <u>\$ 1,106,203</u> | <u>\$ 1,181,577</u> | <u>\$ 1,286,847</u> | <u>\$ 1,189,816</u> |

Changes in Fund Balances of Governmental Funds (Modified Accrual Basis of Accounting)

For the Last Ten Fiscal Years

| | 2013 | 2012 | 2011 | 2010 |
|--|-------------------|-------------------|-------------------|-------------------|
| Revenues: | | | | |
| Taxes | \$ 15,201,494 | \$ 14,878,798 | \$ 14,046,595 | \$ 13,225,609 |
| Intergovernmental | 9,224,190 | 9,515,862 | 10,300,640 | 10,258,850 |
| Licenses and Permits | 1,892,709 | 1,901,824 | 1,876,325 | 1,819,994 |
| Charges for Goods and Services | 378,822 | 320,518 | 350,162 | 330,513 |
| Investment and Interest Income | 17,199 | 52,143 | 35,969 | 40,413 |
| Fines and Forfeitures | 59,687 | 59,606 | 61,716 | 66,140 |
| Gifts and Donations | 22,681 | 19,866 | 16,878 | 19,295 |
| Miscellaneous: | | | | |
| Intergovernmental Transfer | - | - | - | - |
| Tobacco Settlement | 129,353 | 131,298 | 128,592 | 136,841 |
| Other | 289,133 | 292,854 | 271,657 | 250,139 |
| Total Revenues | 27,215,268 | 27,172,768 | 27,088,534 | 26,147,794 |
| Expenditures: | | | | |
| Current Operating: | | | | |
| Commerce | 249,012 | 280,640 | 416,201 | 333,287 |
| Education | 6,197,593 | 6,185,478 | 6,702,922 | 6,624,497 |
| Transportation | 1,995,910 | 1,939,758 | 2,210,158 | 2,244,078 |
| Environmental Resources | 475,755 | 425,009 | 498,620 | 476,613 |
| Human Relations and Resources | 12,083,013 | 12,080,339 | 11,851,182 | 11,417,637 |
| General Executive | 617,920 | 755,828 | 724,037 | 637,175 |
| Judicial | 124,420 | 125,010 | 129,386 | 125,803 |
| Legislative | 62,987 | 63,030 | 64,777 | 64,071 |
| Tax Relief and Other General Expenditures: | | | | |
| Employee Benefit Liability | - | - | - | - |
| Other | 1,325,954 | 1,362,116 | 1,350,793 | 1,289,265 |
| Intergovernmental - Shared Revenue | 957,061 | 989,906 | 1,023,532 | 1,032,162 |
| Debt Service: | | | | |
| Principal | 539,822 | 166,080 | 187,136 | 117,568 |
| Interest and Other Charges | 543,778 | 528,484 | 507,430 | 487,853 |
| Capital Outlay | 1,028,300 | 1,117,222 | 963,772 | 780,325 |
| Total Expenditures | 26,201,524 | 26,018,901 | 26,629,947 | 25,630,333 |
| Excess of Revenues Over (Under) Expenditures | 1,013,744 | 1,153,867 | 458,587 | 517,462 |
| Other Financing Sources (Uses): | | | | |
| Long-term Debt Issued | 629,965 | 575,705 | 825,903 | 725,132 |
| Long-term Debt Issued - Refunding Bonds | 387,310 | 849,969 | 256,481 | 372,980 |
| Payments for Refunded Bonds | - | (305,887) | (224,373) | (349,907) |
| Payment to Refunding Bond Escrow Agent | (414,970) | (693,061) | (69,960) | - |
| Discount on Bonds | - | - | (144) | (932) |
| Premium on Bonds | 104,659 | 222,536 | 91,246 | 63,317 |
| Transfers In | 1,287,517 | 737,360 | 1,280,954 | 850,773 |
| Transfers Out | (2,397,765) | (1,863,467) | (2,482,937) | (2,095,926) |
| Capital Leases Acquisitions | 5,711 | 9,592 | 16,483 | 10,044 |
| Installment Purchase Acquisitions | 1,302 | 113 | 308 | 1,428 |
| Total Other Financing Sources (Uses) | (396,270) | (467,140) | (306,039) | (423,092) |
| Net Change in Fund Balances | \$ 617,474 | \$ 686,726 | \$ 152,548 | \$ 94,370 |
| Debt Service as a Percentage of Noncapital Expenditures | 4.3% | 2.8% | 2.7% | 2.4% |

(a) In 2009, the State issued \$1,518.0 million of Annual Appropriation Bonds to purchase tobacco settlement revenues that had been sold to the Badger Tobacco Asset Securitization Corporation.

(b) In 2005, the Unclaimed Property Fund was reclassified from a private purpose trust fund to the General Fund. Years prior to 2005 have not been restated for this reclassification.

(c) In 2004, the State issued \$1,794.9 million of Annual Appropriation Bonds to pay for the unfunded accrued prior service (pension) liability for sick leave conversion credits. The General Fund reported a related Employee Benefit Liability expenditure of \$1,487.6 million.

Source: State of Wisconsin, Department of Administration, State Controller's Office

Schedule A-4

(In Thousands)

| | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
|----|---------------|---------------|---------------|---------------|---------------|---------------|
| | | | | | (b) | |
| \$ | 13,249,082 | \$ 14,229,280 | \$ 13,743,355 | \$ 13,170,610 | \$ 12,647,472 | \$ 11,913,325 |
| | 8,680,730 | 6,638,741 | 6,428,024 | 6,230,782 | 6,399,774 | 6,118,198 |
| | 1,606,833 | 1,202,109 | 1,141,117 | 1,123,956 | 1,043,742 | 1,016,729 |
| | 316,781 | 378,769 | 307,449 | 361,804 | 230,479 | 269,649 |
| | 70,340 | 109,850 | 116,123 | 103,482 | 70,148 | 47,654 |
| | 66,782 | 58,430 | 57,976 | 72,263 | 66,764 | 68,737 |
| | 19,816 | 17,447 | 18,881 | 18,687 | 17,469 | 13,006 |
| | - | - | - | - | 87,300 | 95,000 |
| | 306,179 | 150,165 | 125,908 | 121,227 | 132,055 | 130,110 |
| | 238,194 | 191,087 | 279,590 | 274,820 | 216,117 | 210,335 |
| | 24,554,736 | 22,975,877 | 22,218,423 | 21,477,631 | 20,911,320 | 19,882,743 |
| | 301,885 | 294,650 | 294,861 | 270,530 | 260,077 | 284,930 |
| | 6,673,017 | 6,445,647 | 6,385,551 | 6,245,252 | 5,792,108 | 5,726,586 |
| | 2,029,347 | 1,857,435 | 1,767,266 | 1,672,697 | 1,684,549 | 1,653,448 |
| | 503,411 | 471,737 | 462,502 | 462,841 | 412,322 | 439,734 |
| | 10,298,086 | 8,969,935 | 8,620,586 | 8,375,997 | 8,370,108 | 7,966,656 |
| | 559,262 | 535,493 | 562,573 | 549,582 | 486,351 | 451,469 |
| | 126,851 | 121,720 | 117,289 | 111,495 | 108,184 | 107,423 |
| | 63,798 | 63,964 | 61,949 | 60,169 | 57,174 | 58,301 |
| | - | - | - | - | - | 1,487,574 (c) |
| | 1,275,882 | 1,085,775 | 955,796 | 857,113 | 837,581 | 812,498 |
| | 1,035,050 | 1,019,275 | 1,016,313 | 1,016,718 | 1,011,052 | 1,058,182 |
| | 1,812,219 | 420,188 | 407,677 | 426,357 | 337,196 | 126,358 |
| | 678,052 | 542,458 | 493,397 | 482,815 | 425,349 | 381,145 |
| | 775,189 | 688,598 | 759,780 | 787,998 | 778,510 | 672,955 |
| | 26,132,047 | 22,516,874 | 21,905,540 | 21,319,565 | 20,560,561 | 21,227,259 |
| | (1,577,311) | 459,003 | 312,883 | 158,066 | 350,759 | (1,344,516) |
| | 2,172,974 (a) | 284,979 | 454,408 | 627,497 | 455,845 | 2,551,901 (c) |
| | - | 1,007,120 | 436,193 | 133,829 | 719,779 | 524,658 |
| | - | - | - | - | - | - |
| | - | (944,850) | (472,849) | (93,592) | (780,044) | (534,937) |
| | (371) | (4,377) | - | - | - | (2,857) |
| | 28,843 | 15,515 | 48,898 | 44,896 | 96,993 | 98,214 |
| | 1,157,010 | 1,003,771 | 1,026,728 | 1,454,568 | 1,028,319 | 1,274,917 |
| | (2,196,922) | (2,007,375) | (2,192,666) | (2,466,960) | (2,038,387) | (2,253,763) |
| | 20,077 | 8,529 | 12,712 | 5,985 | 5,875 | 3,379 |
| | 671 | 770 | 653 | 2,457 | 1,068 | 1,124 |
| | 1,182,281 | (635,918) | (685,924) | (291,319) | (510,552) | 1,662,636 |
| \$ | (395,029) | \$ (176,915) | \$ (373,041) | \$ (133,253) | \$ (159,793) | \$ 318,120 |
| | 9.8% | 4.4% | 4.3% | 4.4% | 3.9% | 2.5% |

Personal Income by Industry

For the Last Ten Calendar Years

(In Millions)

| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Personal Income by Source: | | | | | | | | | | |
| Farm Earnings | \$ 2,575 | \$ 2,983 | \$ 1,989 | \$ 998 | \$ 1,894 | \$ 2,067 | \$ 1,386 | \$ 1,671 | \$ 1,881 | \$ 1,542 |
| Forestry, Fishing, Related Activities | 432 | 476 | 331 | 368 | 360 | 343 | 328 | 310 | 313 | 303 |
| Mining | 305 | 209 | 182 | 243 | 272 | 228 | 247 | 226 | 218 | 188 |
| Utilities | 1,626 | 1,500 | 1,458 | 1,339 | 1,298 | 1,193 | 1,206 | 1,158 | 1,165 | 1,059 |
| Construction | 8,604 | 8,475 | 8,266 | 8,167 | 9,698 | 10,193 | 10,292 | 9,942 | 9,650 | 9,050 |
| Manufacturing | 33,329 | 31,672 | 30,283 | 28,733 | 32,125 | 31,234 | 31,069 | 30,100 | 29,696 | 28,802 |
| Wholesale Trade | 9,099 | 8,675 | 8,284 | 8,131 | 8,645 | 8,459 | 8,198 | 7,721 | 7,225 | 6,727 |
| Retail Trade | 10,250 | 10,023 | 9,742 | 9,386 | 9,731 | 9,947 | 9,861 | 9,680 | 9,541 | 9,329 |
| Transportation and Warehousing | 6,015 | 5,544 | 5,268 | 5,565 | 5,867 | 5,838 | 5,718 | 5,583 | 5,273 | 5,008 |
| Information | 3,719 | 3,431 | 3,272 | 3,480 | 3,585 | 3,417 | 3,166 | 3,057 | 2,984 | 2,770 |
| Finance and Insurance | 10,985 | 10,996 | 10,316 | 9,602 | 9,640 | 9,761 | 9,813 | 9,037 | 8,755 | 8,327 |
| Real Estate and Rental and Leasing | 1,675 | 1,564 | 1,415 | 1,501 | 1,542 | 1,524 | 1,768 | 1,898 | 1,829 | 1,715 |
| Professional and Technical Services | 9,658 | 9,282 | 8,907 | 9,042 | 9,356 | 8,785 | 8,247 | 7,656 | 7,211 | 6,698 |
| Management of Companies and Enterprises | 5,707 | 5,235 | 4,851 | 4,424 | 4,392 | 4,456 | 4,237 | 3,752 | 3,703 | 3,549 |
| Administrative and Waste Services | 5,375 | 5,158 | 4,795 | 4,211 | 4,734 | 4,631 | 4,311 | 4,015 | 3,743 | 3,500 |
| Educational Services | 2,499 | 2,369 | 2,229 | 2,106 | 2,015 | 1,885 | 1,754 | 1,628 | 1,632 | 1,490 |
| Health Care and Social Assistance | 21,426 | 20,805 | 20,111 | 19,712 | 19,060 | 17,905 | 17,166 | 16,326 | 15,743 | 14,644 |
| Arts, Entertainment, and Recreation | 1,387 | 1,419 | 1,355 | 1,289 | 1,346 | 1,301 | 1,233 | 1,137 | 1,126 | 1,081 |
| Accommodations and Food Services | 4,468 | 4,141 | 4,092 | 3,748 | 3,825 | 3,943 | 3,829 | 3,698 | 3,623 | 3,383 |
| Other Services, except Public Administration | 6,070 | 5,968 | 5,694 | 5,554 | 5,660 | 5,626 | 5,562 | 5,359 | 5,017 | 4,801 |
| Federal, Civilian | 2,478 | 2,746 | 2,741 | 2,604 | 2,522 | 2,442 | 2,401 | 2,288 | 2,252 | 2,072 |
| Military | 607 | 807 | 856 | 886 | 801 | 708 | 706 | 742 | 679 | 622 |
| State and Local | 23,496 | 20,711 | 19,783 | 19,607 | 19,143 | 18,265 | 18,230 | 17,392 | 16,562 | 16,874 |
| Other (a) | 69,418 | 61,853 | 61,046 | 60,782 | 55,867 | 52,228 | 47,828 | 42,170 | 40,483 | 39,717 |
| Total Personal Income | \$ 241,203 | \$ 226,042 | \$ 217,265 | \$ 211,478 | \$ 213,379 | \$ 206,380 | \$ 198,556 | \$ 186,545 | \$ 180,303 | \$ 173,248 |
| Per Capita Personal Income (in Dollars) | \$ 42,121 | \$ 39,575 | \$ 38,177 | \$ 37,398 | \$ 37,916 | \$ 36,843 | \$ 35,637 | \$ 33,664 | \$ 32,715 | \$ 31,633 |

(a) Includes dividends, interest, rental income, residence adjustment, government transfer to individuals, and deductions for social insurance.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Personal Income Tax Rates

For the Last Ten Calendar Years

| Year | Top Rate | Top Income Tax Rate is Applied to Taxable Income in Excess of | | | Average Tax Rate (a) |
|------|----------|---|------------------------|---------------------------|----------------------|
| | | Single or Head of Household | Married Filing Jointly | Married Filing Separately | |
| 2013 | 7.75 % | \$ 236,600 | \$ 315,460 | \$ 157,730 | (b) % |
| 2012 | 7.75 | 232,660 | 310,210 | 155,110 | (b) |
| 2011 | 7.75 | 224,210 | 298,940 | 149,470 | (b) |
| 2010 | 7.75 | 221,660 | 295,550 | 147,770 | 4.48 |
| 2009 | 6.75 | 153,280 | 204,370 | 102,190 | 4.45 |
| 2008 | 6.75 | 145,460 | 193,950 | 96,980 | 4.43 |
| 2007 | 6.75 | 142,650 | 190,210 | 95,100 | 4.47 |
| 2006 | 6.75 | 137,410 | 183,210 | 91,600 | 4.44 |
| 2005 | 6.75 | 132,580 | 176,770 | 88,390 | 4.48 |
| 2004 | 6.75 | 129,150 | 172,200 | 86,100 | 4.47 |

(a) Average tax rate as a percentage of Wisconsin Adjusted Gross Income (WAGI)

(b) Information is currently not available.

Source: Wisconsin Department of Revenue

Personal Income Filers and Liability by Income Level Calendar Year 2010^(a) and Ten Years Prior

| 2010 | | | | | |
|------------------------|------------------|---------------------|-------------------------------|---------------------|-------------------------|
| Income Level | Number of Filers | Percentage of Total | Personal Income Tax Liability | Percentage of Total | Net Income Tax Rate (b) |
| \$1,000,000 and Higher | 3,530 | 0.12 % | \$ 631,018,340 | 10.40 % | 6.40 % |
| \$500,000 to 999,999 | 7,560 | 0.26 | 335,632,410 | 5.53 | 6.58 |
| \$200,000 to 499,999 | 42,800 | 1.50 | 714,304,840 | 11.78 | 5.83 |
| \$100,000 to 199,999 | 231,220 | 8.08 | 1,544,084,980 | 25.45 | 5.14 |
| \$70,000 to 99,999 | 292,140 | 10.21 | 1,139,246,960 | 18.78 | 4.68 |
| \$50,000 to 69,999 | 318,450 | 11.13 | 794,454,630 | 13.10 | 4.20 |
| \$30,000 to 49,999 | 491,290 | 17.16 | 666,018,300 | 10.98 | 3.46 |
| \$10,000 to 29,999 | 732,290 | 25.58 | 233,737,450 | 3.85 | 1.64 |
| Less than \$10,000 | 743,120 | 25.96 | 7,732,370 | 0.13 | 0.53 |
| Total | 2,862,400 | 100.00 % | \$ 6,066,230,280 | 100.00 % | 4.48 % |

| 2000 | | | | | |
|------------------------|------------------|---------------------|-------------------------------|---------------------|-------------------------|
| Income Level | Number of Filers | Percentage of Total | Personal Income Tax Liability | Percentage of Total | Net Income Tax Rate (b) |
| \$1,000,000 and Higher | 2,156 | 0.08 % | \$ 324,479,455 | 6.63 % | 6.30 % |
| \$500,000 to 999,999 | 4,678 | 0.17 | 198,071,806 | 4.05 | 6.28 |
| \$200,000 to 499,999 | 26,158 | 0.96 | 455,108,605 | 9.30 | 6.02 |
| \$100,000 to 199,999 | 117,006 | 4.27 | 827,441,035 | 16.91 | 5.47 |
| \$70,000 to 99,999 | 229,063 | 8.36 | 945,695,780 | 19.32 | 5.03 |
| \$50,000 to 69,999 | 336,437 | 12.29 | 923,405,464 | 18.87 | 4.64 |
| \$30,000 to 49,999 | 496,276 | 18.12 | 813,330,564 | 16.62 | 4.17 |
| \$10,000 to 29,999 | 789,849 | 28.84 | 392,805,813 | 8.03 | 2.56 |
| Less than \$10,000 | 736,798 | 26.91 | 14,219,372 | 0.29 | 0.60 |
| Total | 2,738,421 | 100.00 % | \$ 4,894,557,894 | 100.00 % | 4.58 % |

(a) Tax information is gathered on a calendar year basis. Since tax forms are filed in the following year, the information from tax year 2010 is the most current data available.

(b) Net income tax rate equals personal income tax liability as a percentage of Wisconsin Adjusted Gross Income (WAGI).

Source: Wisconsin Department of Revenue

Ratio of Outstanding Debt by Type

For the Last Ten Fiscal Years

(In Thousands, except for Per Capita Calculation)

| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 (a) | 2006 | 2005 | 2004 |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Governmental Activities: | | | | | | | | | | |
| General Obligation Bonds | \$ 5,841,630 | \$ 5,708,860 | \$ 5,337,914 | \$ 4,779,727 | \$ 4,244,746 | \$ 4,080,880 | \$ 4,066,286 | \$ 4,041,982 | \$ 3,763,973 | \$ 3,560,219 |
| Annual Appropriation Bonds (b) | 3,256,447 | 3,298,422 | 3,331,570 | 3,357,795 | 3,378,300 | 1,850,802 | 1,792,686 | 1,792,488 | 1,792,290 | 1,792,092 |
| Transportation Revenue Bonds | 1,963,177 | 1,914,824 | 1,796,522 | 1,671,255 | 1,591,971 | 1,485,849 | 1,566,842 | 1,485,558 | 1,386,493 | 1,359,849 |
| Petroleum Inspection Revenue Bonds | 121,636 | 124,381 | 127,133 | 129,878 | 89,373 | 111,142 | 132,189 | 190,984 | 210,446 | 224,658 |
| Badger Tobacco Asset | | | | | | | | | | |
| Securitization Corporation Bonds | - | - | - | - | - | 1,388,778 | 1,436,063 | 1,474,084 | 1,520,788 | 1,566,993 (c) |
| Capital Leases | 24,038 | 33,831 | 40,718 | 31,572 | 32,263 | 37,830 | 41,208 | 36,840 | 22,856 | 20,326 |
| Installment Contracts | 984 | 113 | 265 | 729 | 475 | 316 | 451 | 666 | 1,571 | 2,770 |
| Business-type Activities: | | | | | | | | | | |
| General Obligation Bonds | 1,650,362 | 1,569,878 | 1,392,358 | 1,235,410 | 1,117,248 | 1,154,594 | 1,122,337 | 896,268 | 893,196 | 859,262 |
| Environmental Improvement | | | | | | | | | | |
| Revenue Bonds | 873,355 | 873,650 | 936,960 | 882,167 | 829,269 | 797,979 | 746,181 | 690,873 | 652,213 | 692,111 |
| Capital Leases | 20,292 | 26,548 | 31,607 | 34,839 | 110,110 | 116,439 | 121,183 | 47,686 | 48,427 | 48,577 |
| Total Primary Government | \$ 13,751,921 | \$ 13,550,507 | \$ 12,995,047 | \$ 12,123,372 | \$ 11,393,755 | \$ 11,024,609 | \$ 11,025,426 | \$ 10,657,429 | \$ 10,292,253 | \$ 10,126,857 |
| Percentage of | | | | | | | | | | |
| Personal Income (d) | 5.70% | 5.99% | 5.98% | 5.79% | 5.29% | 5.33% | 5.55% | 5.71% | 5.71% | 5.85% |
| Per Capita | 2,401 | 2,372 | 2,283 | 2,139 | 2,020 | 1,965 | 1,977 | 1,922 | 1,867 | 1,848 |

(a) 2007 bonds restated to report net of issuance premiums/discounts and refundings and to include internal service funds in governmental activities.

(b) In 2004, the State issued appropriation obligations to obtain proceeds to pay the State's anticipated unfunded accrued prior service (pension) liability and its unfunded accrued liability for sick leave conversion credits. In 2009, the State issued additional appropriation bonds to purchase future tobacco settlement revenues that had been sold.

(c) In 2004, GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, was implemented. Prior years have not been restated.

(d) These ratios are calculated using personal income and population for the prior calendar year.

SOURCE: Details regarding the State's outstanding debt can be found in the notes to the financial statements. Schedule C-2 lists personal income and population data by year.

Ratio of General Obligation Bonded Debt and Appropriation Bonds to Personal Income and Per Capita

For the Last Ten Fiscal Years

| | 2013 | 2012 | 2011 | 2010 |
|---|----------------|----------------|----------------|----------------|
| General Obligation Bonds: | | | | |
| Payable from Governmental Funds | \$ 5,664,981 | \$ 5,540,586 | \$ 5,182,769 | \$ 4,628,075 |
| Payable from Internal Service Funds | 176,649 | 168,274 | 155,145 | 151,652 |
| Payable from Enterprise Funds | 1,650,362 | 1,569,878 | 1,392,358 | 1,235,410 |
| Total General Obligation Bonds | 7,491,992 | 7,278,738 | 6,730,272 | 6,015,137 |
| Annual Appropriation Bonds (b) | 3,256,447 | 3,298,422 | 3,331,570 | 3,357,795 |
| Bonded Debt to be Paid with General Resources | \$ 10,748,439 | \$ 10,577,160 | \$ 10,061,842 | \$ 9,372,932 |
| Personal Income | \$ 241,201,961 | \$ 226,042,141 | \$ 217,265,390 | \$ 209,347,374 |
| Ratio of Bonded Debt to Personal Income (c) | 4.5% | 4.7% | 4.6% | 4.5% |
| Population | 5,726 | 5,712 | 5,691 | 5,669 |
| Bonded Debt per Capita (in Dollars) (c) | \$ 1,877 | \$ 1,852 | \$ 1,768 | \$ 1,653 |

(a) 2007 bonds restated to report net of issuance premiums/discounts and refundings.

(b) 2003 Wisconsin Acts 33 and 84 were enacted and authorized the issuance of appropriation obligations 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. 2007 Wisconsin Act 226 authorized the issuance of additional appropriation obligations for the purpose of purchasing tobacco settlement revenues that had been sold by the State under s. 16.63 of Wisconsin statutes. Appropriation bonds 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 bonds 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 on the Bonds.

(c) These ratios are calculated using personal income and population for the prior calendar year.

SOURCES OF INFORMATION:

U.S. Department of Commerce, Bureau of Census
U.S. Department of Commerce, Bureau of Economic Analysis
Wisconsin Department of Administration
Wisconsin Department of Revenue

Schedule C-2

(In Thousands, except for Net Bonded Debt Per Capita)

| | 2009 | | 2008 | | 2007 (a) | | 2006 | | 2005 | | 2004 |
|----|-------------|----|-------------|----|-------------|----|-------------|----|-------------|----|-------------|
| \$ | 4,091,223 | \$ | 3,921,719 | \$ | 3,907,010 | \$ | 3,879,823 | \$ | 3,596,453 | \$ | 3,389,177 |
| | 153,523 | | 159,161 | | 159,276 | | 162,159 | | 167,520 | | 171,042 |
| | 1,117,248 | | 1,154,594 | | 1,122,337 | | 896,267 | | 893,195 | | 859,261 |
| | 5,361,994 | | 5,235,474 | | 5,188,623 | | 4,938,249 | | 4,657,168 | | 4,419,480 |
| | 3,378,300 | | 1,850,802 | | 1,792,686 | | 1,792,488 | | 1,792,290 | | 1,792,092 |
| \$ | 8,740,294 | \$ | 7,086,276 | \$ | 6,981,309 | \$ | 6,730,737 | \$ | 6,449,458 | \$ | 6,211,572 |
| \$ | 215,207,301 | \$ | 206,647,824 | \$ | 198,556,011 | \$ | 186,545,156 | \$ | 180,303,031 | \$ | 173,247,922 |
| | 4.1% | | 3.4% | | 3.5% | | 3.6% | | 3.6% | | 3.6% |
| | 5,641 | | 5,611 | | 5,578 | | 5,546 | | 5,514 | | 5,479 |
| \$ | 1,549 | \$ | 1,263 | \$ | 1,252 | \$ | 1,214 | \$ | 1,170 | \$ | 1,134 |

Legal Debt Margin

For the Last Ten Calendar Years

(In Thousands)

| Calendar Year | Annual Debt Limit | Total Net Debt Applicable to Limit (a) | Legal Debt Margin | Legal Debt Margin as a Percentage of Debt Limit |
|---------------|-------------------|--|-------------------|---|
| 2013 (b) | \$ 3,506,269 | \$ 583,470 | \$ 2,922,799 | 83.4 % |
| 2012 | 3,533,194 | 735,585 | 2,797,609 | 79.2 |
| 2011 | 3,651,482 | 758,000 | 2,893,482 | 79.2 |
| 2010 | 3,719,281 | 809,293 | 2,909,988 | 78.2 |
| 2009 | 3,839,340 | 542,765 | 3,296,575 | 85.9 |
| 2008 | 3,857,955 | 493,635 | 3,364,320 | 87.2 |
| 2007 | 3,734,403 | 483,280 | 3,251,123 | 87.1 |
| 2006 | 3,517,374 | 891,285 | 2,626,089 | 74.7 |
| 2005 | 3,209,502 | 471,640 | 2,737,862 | 85.3 |
| 2004 | 2,933,909 | 664,435 | 2,269,474 | 77.4 |

Calculation of Annual Public Debt Limit for 2013:

Wis. Stat. Sec. 18.05 limits the amount of public debt contracted in any calendar year to the lesser of:

| | |
|---|----------------------|
| (1) Three-fourths of one percent of the aggregate value of taxable property | \$ 3,506,269 |
| or | |
| (2) Five percent of aggregate value of taxable property | \$ 23,375,128 |
| <u>Less:</u> Net indebtedness at January 1 | <u>8,385,973</u> |
| | <u>\$ 14,989,155</u> |
| The lesser of (1) or (2) is: | \$ 3,506,269 |

(a) Consists of bonds issued less refundings.

(b) Debt issued through October 21, 2013.

SOURCE: Wisconsin Department of Administration

Department of Transportation Revenue Bond Coverage

For the Last Ten Fiscal Years

(In Thousands)

| Year | Gross Revenues (a) | Operating Expenses (b) | Net Revenues | Debt Service | | Total Debt Service | Pledged Revenue Coverage |
|------|--------------------|------------------------|--------------|--------------|-----------|--------------------|--------------------------|
| | | | | Principal | Interest | | |
| 2013 | \$ 632,680 | \$ 41 | \$ 632,639 | \$ 94,715 | \$ 85,651 | \$ 180,366 | 3.51 |
| 2012 | 634,334 | 44 | 634,290 | 81,200 | 84,623 | 165,823 | 3.83 |
| 2011 | 603,768 | 39 | 603,729 | 77,195 | 79,500 | 156,695 | 3.85 |
| 2010 | 610,471 | 66 | 610,405 | 79,395 | 73,018 | 152,413 | 4.00 |
| 2009 | 603,548 | 68 | 603,480 | 80,395 | 70,787 | 151,182 | 3.99 |
| 2008 | 544,739 | 89 | 544,650 | 75,065 | 68,173 | 143,238 | 3.80 |
| 2007 | 458,077 | 78 | 457,999 | 71,640 | 68,460 | 140,100 | 3.27 |
| 2006 | 467,368 | 98 | 467,270 | 61,120 | 63,739 | 124,859 | 3.74 |
| 2005 | 436,724 | 138 | 436,586 | 57,885 | 65,433 | 123,318 | 3.54 |
| 2004 | 425,588 | 55 | 425,533 | 46,870 | 57,083 | 103,953 | 4.09 |

The State of Wisconsin, Department of Transportation finances certain state highway projects and related transportation facilities through the issuance of revenue bonds. The revenue bonds, \$1,804.1 million outstanding at June 30, 2013, are secured by a pledge of the registration and registration-related fees collected under Wis. Stat. Sec. 341.25 and investments.

(a) Includes revenues from Wis. Stat. Sec. 341.25 registration and registration-related fees including fees collected under the International Registration Plan (IRP), a multi-state plan for the collection of registration fees from interstate trucking, and interest earnings.

For fiscal years 2003 through 2006, IRP revenues due Wisconsin were mistakenly recorded as a liability to other states. Gross revenues are corrected (increased) for those years.

(b) Includes administrative operating expenses.

SOURCE: Wisconsin Department of Transportation

Environmental Improvement Fund Revenue Bond Coverage

For the Last Ten Fiscal Years

(In Thousands)

| Year | Gross Revenues (a) | Operating Expenses (b) | Net Revenues | Debt Service | | | Pledged Revenue Coverage |
|------|--------------------|------------------------|--------------|--------------|-----------|--------------------|--------------------------|
| | | | | Principal | Interest | Total Debt Service | |
| 2013 | \$ 106,343 | \$ 1,165 | \$ 105,178 | \$ 59,170 | \$ 35,616 | \$ 94,786 | 1.11 |
| 2012 | 100,912 | 1,321 | 99,591 | 58,170 | 39,522 | 97,692 | 1.02 |
| 2011 | 117,325 | 2,163 | 115,162 | 70,690 | 41,783 | 112,473 | 1.02 |
| 2010 | 110,429 | 1,603 | 108,826 | 66,865 | 39,387 | 106,252 | 1.02 |
| 2009 | 106,305 | 2,346 | 103,959 | 60,730 | 39,282 | 100,012 | 1.04 |
| 2008 | 99,761 | 2,515 | 97,246 | 53,810 | 36,439 | 90,249 | 1.08 |
| 2007 | 98,288 | 2,416 | 95,872 | 47,085 | 36,163 | 83,248 | 1.15 |
| 2006 | 86,289 | 2,348 | 83,941 | 44,775 | 33,197 | 77,972 | 1.08 |
| 2005 | 64,321 | 2,292 | 62,029 | 39,340 | 33,677 | 73,017 | 0.85 |
| 2004 | 66,741 | 2,088 | 64,653 | 37,545 | 34,527 | 72,072 | 0.90 |

(a) Includes operating revenue from loan repayment and interest income from revenue bonds.

(b) Includes allocated administrative and general costs.

SOURCE: Wisconsin Department of Administration

Petroleum Inspection Fee Revenue Bond Coverage

For Last Ten Fiscal Years

(In Thousands)

| Year | Fees Remitted to the Trustees (a) | Debt Service | | | Pledged Revenue Coverage |
|----------|--------------------------------------|--------------|----------|-----------------------|--------------------------------|
| | | Principal | Interest | Total Debt Service | |
| 2013 | \$ 71,900 | \$ 0 | \$ 5,749 | \$ 5,749 | 12.51 |
| 2012 | 74,328 | 0 | 5,770 | 5,770 | 12.88 |
| 2011 | 73,809 | 0 | 6,985 | 6,985 | 10.57 |
| 2010 | 72,540 | 22,350 | 2,632 | 24,982 | 2.90 |
| 2009 | 73,359 | 21,280 | 6,898 | 28,178 | 2.60 |
| 2008 | 76,558 | 20,270 | 10,086 | 30,356 | 2.52 |
| 2007 (b) | 75,361 | 19,775 | 12,722 | 32,497 | 2.32 |
| 2006 | 114,949 | 18,205 | 13,728 | 31,933 | 3.60 |
| 2005 | 115,901 | 12,735 | 13,555 | 26,290 | 4.41 |
| 2004 | 116,634 | 12,070 | 11,507 | 23,577 | 4.95 |

(a) The table presents the calculation of revenue bond coverage based on a ratio of petroleum inspection fees remitted to the trustee during the respective fiscal years, divided by the senior debt service payments made from those fees during each fiscal year.

(b) The 2006-2007 information does not include \$37,885,000 in principal or \$36,140 interest that were paid with monies transferred from the State's Petroleum Inspection Fund. Fiscal year 2006-2007 is the first full fiscal year at the reduced rate for petroleum inspection fees. 2005 Wisconsin Acts 25 and 85 amended Wis. Stat. Sec. 168.12 (1) by reducing the petroleum inspection fee imposed from \$0.03 per gallon to \$0.02 per gallon, effective April 1, 2006.

Wisconsin Housing and Economic Development Authority Revenue Bond Coverage

For the Last Ten Fiscal Years

(In Thousands)

| Year | Gross Revenues (a) | Direct Operating Expenses (b) | Net Revenues | Debt Service | | Total Debt Service | Pledged Revenue Coverage (c) |
|--|--------------------|-------------------------------|--------------|--------------|-----------|--------------------|------------------------------|
| | | | | Principal | Interest | | |
| Home Ownership Revenue Bonds | | | | | | | |
| 2013 | \$ 281,345 | \$ 12,372 | \$ 268,973 | \$ 357,615 | \$ 50,263 | \$ 407,878 | 0.66 |
| 2012 | 341,606 | 13,536 | 328,070 | 313,410 | 65,690 | 379,100 | 0.87 |
| 2011 | 396,743 | 13,690 | 383,053 | 324,835 | 80,506 | 405,341 | 0.95 |
| 2010 | 389,628 | 15,430 | 374,198 | 339,225 (d) | 95,116 | 434,341 | 0.86 |
| 2009 | 464,514 | 13,381 | 451,133 | 226,545 | 125,480 | 352,025 | 1.28 |
| 2008 | 349,724 | 13,149 | 336,575 | 154,885 | 114,035 | 268,920 | 1.25 |
| 2007 | 291,008 | 11,359 | 279,649 | 138,000 | 95,035 | 233,035 | 1.20 |
| 2006 | 273,512 | 11,039 | 262,473 | 172,640 | 75,490 | 248,130 | 1.06 |
| 2005 | 261,337 | 9,799 | 251,538 | 181,650 (f) | 62,099 | 243,749 | 1.03 |
| 2004 | 439,960 (e) | 9,431 | 430,529 | 396,415 (f) | 59,809 | 456,224 | 0.95 |
| Housing Revenue Bonds | | | | | | | |
| 2013 | \$ 95,619 | \$ 5,711 | \$ 89,908 | \$ 56,225 | \$ 19,036 | \$ 75,261 | 1.19 |
| 2012 | 100,763 | 8,567 | 92,196 | 28,630 | 18,203 | 46,833 | 1.97 |
| 2011 | 53,399 | 5,258 | 48,141 | 18,095 | 18,016 | 36,111 | 1.33 |
| 2010 | 61,141 | 4,445 | 56,696 | 12,965 | 19,460 | 32,425 | 1.75 |
| 2009 | 88,197 | 4,692 | 83,505 | 43,915 | 21,892 | 65,807 | 1.27 |
| 2008 | 79,701 | 4,574 | 75,127 | 27,092 | 22,847 | 49,939 | 1.50 |
| 2007 | 80,325 | 3,924 | 76,401 | 24,945 | 21,960 | 46,905 | 1.62 |
| 2006 | 87,115 | 4,313 | 82,802 | 44,165 (f) | 22,448 | 66,613 | 1.25 |
| 2005 | 72,123 | 3,381 | 68,742 | 40,160 (f) | 22,384 | 62,544 | 1.10 |
| 2004 | 70,811 | 4,099 | 66,712 | 32,040 (f) | 22,942 | 54,982 | 1.23 |
| Housing Rehabilitation and Home Improvement Revenue Bonds | | | | | | | |
| 2013 | \$ 1,392 | \$ 371 | \$ 1,021 | \$ - | \$ - | \$ - | n/a |
| 2012 | 1,614 | 887 | 727 | - | - | - | n/a |
| 2011 | 1,872 | 533 | 1,339 | - | - | - | n/a |
| 2010 | 2,379 | 531 | 1,848 | - | - | - | n/a |
| 2009 | 2,867 | 482 | 2,385 | - | - | - | n/a |
| 2008 | 2,858 | 516 | 2,342 | - | - | - | n/a |
| 2007 | 2,826 | 560 | 2,266 | - | - | - | n/a |
| 2006 | 2,442 | 370 | 2,072 | - | - | - | n/a |
| 2005 | 2,283 | 333 | 1,950 | - | - | - | n/a |
| 2004 | 1,941 | 297 | 1,644 | - | - | - | n/a |

(Continued)

Wisconsin Housing and Economic Development Authority Revenue Bond Coverage

For the Last Ten Fiscal Years

(Continued)

| Year | Gross Revenues (a) | Direct Operating Expenses (b) | Net Revenues | Debt Service | | Total Debt Service | Pledged Revenue Coverage (c) |
|---|--------------------|-------------------------------|--------------|--------------|----------|--------------------|------------------------------|
| | | | | Principal | Interest | | |
| Business Development Revenue Bonds | | | | | | | |
| 2013 | \$ 566 | \$ 9 | \$ 557 | \$ 565 | \$ 1 | \$ 566 | 0.98 |
| 2012 | 171 | 8 | 163 | 165 | 2 | 167 | 0.98 |
| 2011 | 244 | 6 | 238 | 235 | 7 | 242 | 0.98 |
| 2010 | 2,154 | 4 | 2,150 | 2,125 | 27 | 2,152 | 1.00 |
| 2009 | 1,260 | 3 | 1,257 | 1,150 | 105 | 1,255 | 1.00 |
| 2008 | 765 | 5 | 760 | 605 | 154 | 759 | 1.00 |
| 2007 | 1,521 | 5 | 1,516 | 1,290 | 224 | 1,514 | 1.00 |
| 2006 | 3,894 | 6 | 3,888 | 3,630 | 256 | 3,886 | 1.00 |
| 2005 | 2,734 | 9 | 2,725 | 2,450 | 271 | 2,721 | 1.00 |
| 2004 | 5,240 | 7 | 5,233 | 4,935 | 288 | 5,223 | 1.00 |
| Single Family Drawdown Revenue Bonds | | | | | | | |
| 2013 | (g) \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | n/a |
| 2012 | (g) 0 | 0 | 0 | 0 | 0 | 0 | n/a |
| 2011 | (g) 1 | 2 | (1) | 0 | 0 | 0 | n/a |
| 2010 | (g) 1 | 3 | (1) | 0 | 18 | 18 | (0.06) |
| 2009 | 80,832 | 2 | 80,829 | 80,257 | 566 | 80,823 | 1.00 |
| 2008 | 73,891 | 3 | 73,888 | 70,712 | 3,166 | 73,878 | 1.00 |
| 2007 | 28,461 | 2 | 28,459 | 25,677 | 2,785 | 28,462 | 1.00 |
| 2006 | 129,329 | 2 | 129,327 | 127,215 | 2,092 | 129,307 | 1.00 |
| 2005 | 188,601 | 5 | 188,596 | 185,976 | 2,924 | 188,900 | 1.00 |
| 2004 | 212,366 | 6 | 212,360 | 209,050 | 3,252 | 212,302 | 1.00 |

(a) Includes mortgage payments received.

(b) Includes administrative and general costs, mortgage insurance premiums, lender service fees, and for the Housing Revenue Bonds includes the FAF (financial adjustment factor) expense and that portion of the FAF not yet expensed.

(c) Includes gains/losses due to the increases/decreases in fair market value of investments as a result of the implementation of GASB Statement No. 31. The Pledged Revenue Coverage excludes these amounts.

(d) Includes \$290.0 million of special redemptions, \$164.6 million of special redemptions July 1, 2009 through September 30, 2009.

(e) Gross revenues include revised mortgage payments that exclude mortgage loans between programs.

(f) Revised debt service principal payments exclude debt refunding issues.

(g) On October 1, 2008, the Authority purchased \$80.3 million, or 100% of the Authority's outstanding Single Family Drawdown Revenue Bonds, at a purchase price of par.

SOURCE: Wisconsin Housing and Economic Development Authority

Demographic and Economic Statistics

For the Last Ten Years

| Calendar Year | Population (In Thousands) | Personal Income (In Thousands) | Per Capita Personal Income | Unemployment Rate (a) | Public School Enrollment (b) |
|---------------|------------------------------|-----------------------------------|----------------------------|-----------------------|------------------------------|
| 2012 | 5,726 | \$ 241,201,961 | \$ 42,121 | 6.9 % | 817,436 |
| 2011 | 5,712 | 226,042,141 | \$ 39,575 | 7.5 | 816,667 |
| 2010 | 5,691 | 217,265,390 | 38,177 | 8.3 | 822,086 |
| 2009 | 5,669 | 209,347,374 | 36,927 | 8.7 | 825,382 |
| 2008 | 5,641 | 215,207,301 | 38,151 | 4.9 | 830,433 |
| 2007 | 5,611 | 206,647,824 | 36,831 | 4.8 | 836,860 |
| 2006 | 5,578 | 198,556,011 | 35,598 | 4.7 | 842,879 |
| 2005 | 5,546 | 186,545,156 | 33,635 | 4.8 | 837,313 |
| 2004 | 5,514 | 180,303,031 | 32,699 | 5.0 | 853,363 |
| 2003 | 5,479 | 173,247,922 | 31,619 | 5.6 | 855,139 |

(a) Not seasonally adjusted

(b) Data is based on school year for Kindergarten through Grade 12. For example, for the calendar year 2012, the school year is 2012-2013.

Calendar year information is not yet available for 2013.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis
 Wisconsin Department of Public Instruction
 Wisconsin Department of Workforce Development

**Principal Employers
2013 and Nine Years Prior (a)**

| Employer | 2013 | | 2004 | |
|-----------------------------------|--------------------|------|--------------------|------|
| | Employees (b) | Rank | Employees (b) | Rank |
| Wal-mart Associates Inc. | Greater than 9,999 | 1 | Greater than 9,999 | 1 |
| UW-Madison | Greater than 9,999 | 2 | Greater than 9,999 | 3 |
| Milwaukee Public Schools | Greater than 9,999 | 3 | Greater than 9,999 | 2 |
| US Postal Service | Greater than 9,999 | 4 | | |
| Menards Inc. | 7,500 - 9,999 | 5 | 7,500 - 9,999 | 5 |
| Department of Corrections | 7,500 - 9,999 | 6 | 7,500 - 9,999 | 4 |
| Marshfield Clinic | 7,500 - 9,999 | 7 | | |
| Department of Veterans Affairs | 7,500 - 9,999 | 8 | | |
| City of Milwaukee | 5,000 - 7,499 | 9 | 7,500 - 9,999 | 6 |
| University of Wisconsin Hospitals | 5,000 - 7,499 | 10 | | |
| Kohl's Department Stores, Inc. | | | 5,000 - 7,499 | 7 |
| Kohler Co. | | | 5,000 - 7,499 | 8 |
| Target Corporation | | | 5,000 - 7,499 | 9 |
| Shopko Stores | | | 5,000 - 7,499 | 10 |

(a) March data

(b) Number of employees per employer and percentage of total employment is confidential information.

SOURCE: Wisconsin Department of Workforce Development

Full Time Equivalent State Government Employees by Function/Program

For the Last Ten Fiscal Years

| Functions/Programs | 2013 | 2012 | 2011 | 2010 | 2009 |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| Commerce | 1,241 | 1,244 | 1,375 | 1,397 | 1,424 |
| Education | | | | | |
| University of Wisconsin System | 33,117 | 32,617 | 32,882 | 32,205 | 31,552 |
| Other Education | 830 | 807 | 838 | 859 | 859 |
| Transportation | 3,122 | 3,156 | 2,942 | 3,174 | 3,238 |
| Environmental Resources | 2,366 | 2,294 | 2,275 | 2,470 | 2,470 |
| Human Relations and Resources | 20,138 | 19,798 | 19,541 | 20,163 | 20,191 |
| General Executive | 2,897 | 2,874 | 2,774 | 2,877 | 2,935 |
| Judicial | 826 | 825 | 832 | 808 | 804 |
| Legislative | 717 | 704 | 710 | 726 | 734 |
| Totals | 65,254 | 64,319 | 64,168 | 64,679 | 64,206 |
| Percentage Change | 1.45% | 0.24% | -0.79% | 0.74% | 0.84% |

Totals exclude limited term employees.

Measurement date for most positions is the last full payperiod prior to June 30. In the case of the University of Wisconsin System, the March payroll is used to better capture individuals who do not have full-year appointments.

Sources: State of Wisconsin, Department of Administration, State Controller's Office
University of Wisconsin System
Wisconsin State Legislature and legislative service agencies

| 2008 | 2007 | 2006 | 2005 | 2004 | Change from 2004 to 2013 |
|--------|--------|--------|--------|--------|-----------------------------|
| 1,467 | 1,468 | 1,476 | 1,499 | 1,571 | -20.98% |
| 30,982 | 30,668 | 30,458 | 30,443 | 30,570 | 8.33% |
| 880 | 872 | 886 | 862 | 869 | -4.45% |
| 3,315 | 3,350 | 3,247 | 3,348 | 3,558 | -12.26% |
| 2,581 | 2,586 | 2,609 | 2,613 | 2,738 | -13.59% |
| 19,972 | 19,656 | 19,337 | 19,604 | 20,114 | 0.12% |
| 2,953 | 2,990 | 3,036 | 2,985 | 3,055 | -5.18% |
| 802 | 784 | 783 | 779 | 777 | 6.29% |
| 717 | 732 | 732 | 732 | 726 | -1.27% |
| 63,670 | 63,106 | 62,563 | 62,866 | 63,978 | 1.99% |
| 0.89% | 0.87% | -0.48% | -1.74% | | |

Operating Indicators by Function

For the Last Ten Fiscal Years

| | 2013 | 2012 | 2011 | 2010 |
|---|-------------|-------------|-------------|-------------|
| Commerce | | | | |
| Agriculture | | | | |
| Farm Inspections (Calendar Year) | (a) | 13,115 | 19,853 | 20,835 |
| State Fair Park | | | | |
| State Fair Attendance (Calendar Year) | 1,012,552 | 920,962 | 911,231 | 876,020 |
| Education | | | | |
| Historical Society | | | | |
| Visitors to Historic Sites and State Museum | 248,166 | 262,441 | 230,001 | 240,723 |
| Public Instruction | | | | |
| Licensed School Staff | 65,608 | 65,446 | 67,077 | 68,036 |
| Ratio of Students to Licensed Staff | 13.3 | 13.3 | 13.0 | 12.8 |
| State's Share of Spending per Student | (a) | 5,553 | 6,050 | 5,742 |
| University of Wisconsin System | | | | |
| Enrollment (Full Time Equivalent) | 154,843 | 155,163 | 156,039 | 153,193 |
| Number of Degrees Conferred | (a) | 35,708 | 34,608 | 33,442 |
| Technical College System | | | | |
| Enrollment (Degree/Career Programs) | (a) | 194,623 | 200,271 | 199,752 |
| Number of Degrees Granted | (a) | 28,167 | 27,837 | 26,310 |
| Transportation | | | | |
| Motor Vehicle Registrations (Calendar Year) | (a) | 5,569,097 | 5,526,798 | 5,482,518 |
| Licensed Drivers (Calendar Year) | (a) | 4,171,428 | 4,142,823 | 4,114,622 |
| Environmental Resources | | | | |
| Natural Resources | | | | |
| Park Visitors (Calendar Year) (Excludes Lakeshore Park) | (a) | 15,480,894 | 14,176,871 | 14,469,998 |
| Annual Park Admission Stickers (Calendar Year) | (a) | 596,223 | 629,439 | 677,938 |
| Fishing and Hunting Licenses (License Year) | (a) | 4,699,572 | 4,633,559 | 4,736,620 |
| State Hatchery Fish Stocked | (a) | 7,600,000 | 12,000,000 | 8,723,781 |
| Human Relations and Resources | | | | |
| Corrections (Average Daily Population) | | | | |
| Adults in Correctional Facilities | 22,396 | 22,351 | 22,491 | 23,015 |
| Juveniles in Detention Facilities | 252 | 315 | 349 | 466 |
| Health Services | | | | |
| Medicaid Caseload (Average Monthly) | 1,165,699 | 1,175,346 | 1,158,284 | 1,094,058 |
| Clients in Care and Treatment Centers (c) | 1,561 | 1,532 | 1,501 | 1,571 |
| FoodShare Recipients (Average Monthly) | 852,810 | 830,559 | 785,300 | 681,826 |
| Children and Families (Calendar Year) | | | | |
| Wisconsin Works (W-2) Participants | (a) | 31,982 | 32,402 | 27,835 |
| Workforce Development | | | | |
| Unemployment Insurance Initial Claims | 702,828 | 802,736 | 949,796 | 1,209,972 |
| Unemployment Insurance Benefits (In Thousands) | \$1,400,524 | \$1,798,590 | \$2,415,151 | \$3,131,688 |
| Military Affairs | | | | |
| National Guard Assigned Strength | 9,886 | 9,825 | 9,717 | 10,180 |
| Veterans Affairs (Calendar Year) | | | | |
| Residents of Veterans Homes | (a) | 851 | 1,032 | 1,040 |
| General Executive | | | | |
| Administration | | | | |
| Construction Projects Initiated (Calendar Year) | (a) | 874 | 723 | 787 |
| State Patrol Troopers/Inspectors (Authorized) | 377/112 | 382/112 | 382/112 | 382/112 |
| State Patrol Citations Issued (Calendar Year) | 136,410 | 141,728 | 136,671 | 141,490 |
| Employee Trust Funds (Calendar Year) | | | | |
| Active Employees in Pension Plan | (a) | 72,269 | 70,391 | 72,740 |
| Active Employees in Group Health Plan | (a) | 69,650 | 70,656 | 72,313 |

(a) Information is currently not available.

(b) FoodShare Wisconsin replaced the Food Stamp Program in Wisconsin on October 15, 2004.

(c) Care and Treatment Center population is based on a daily average, except for the Wisconsin Resource Center from 2002 through 2006 (which is based on a client count on the last day of the month).

SOURCE: Wisconsin Blue Book, Various State Departments/Agencies

Schedule E-2

| 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
|-------------|------------|------------|------------|------------|-------------|
| 21,446 | 21,331 | 21,134 | 23,435 | 23,539 | 24,766 |
| 833,285 | 872,458 | 801,420 | 861,408 | 860,078 | 879,322 |
| 248,689 | 242,121 | 244,783 | 234,515 | 242,931 | 235,523 |
| 68,681 | 67,939 | 68,071 | 68,284 | 68,853 | 68,692 |
| 12.7 | 12.9 | 12.9 | 12.8 | 12.5 | 12.8 |
| \$5,533 | \$6,018 | \$5,985 | \$5,847 | \$5,500 | \$5,445 |
| 149,493 | 147,955 | 144,814 | 144,298 | 142,209 | 141,500 |
| 33,044 | 32,475 | 32,057 | 30,703 | 30,976 | 32,189 |
| 185,878 | 178,447 | 177,126 | 175,955 | 174,894 | 176,082 |
| 24,121 | 23,617 | 24,054 | 23,198 | 23,355 | 21,649 |
| 5,539,105 | 5,402,565 | 5,455,985 | 5,326,693 | 5,371,800 | 5,278,402 |
| 4,085,833 | 4,079,562 | 4,075,764 | 4,066,273 | 4,049,450 | 3,993,348 |
| 14,435,928 | 13,291,541 | 13,063,165 | 13,161,106 | 13,410,803 | 14,300,000 |
| 579,125 | 571,844 | 517,445 | 516,109 | 367,251 | 346,730 |
| 4,786,631 | 4,648,467 | 3,183,074 | 3,156,267 | 3,125,816 | 3,106,580 |
| 12,409,996 | 7,720,740 | 18,209,232 | 9,966,000 | 10,929,000 | 10,913,000 |
| 23,162 | 23,341 | 23,094 | 22,412 | 22,596 | 22,331 |
| 563 | 587 | 581 | 596 | 658 | 693 |
| 952,175 | 873,229 | 849,630 | 834,027 | 805,702 | 775,052 |
| 1,639 | 1,681 | 1,762 | 1,775 | 1,825 | 1,874 |
| 507,228 | 408,360 | 379,046 | 363,678 | 339,820 | 320,219 (b) |
| 20,904 | 19,030 | 19,289 | 19,174 | 24,244 | 27,754 |
| 1,206,008 | 668,665 | 630,013 | 604,013 | 615,122 | 631,263 |
| \$2,093,627 | \$939,832 | \$803,753 | \$833,284 | \$846,984 | \$919,619 |
| 9,944 | 9,979 | 10,035 | 9,764 | 9,777 | 9,936 |
| 891 | 870 | 921 | 854 | 730 | 798 |
| 846 | 960 | 817 | 894 | 780 | 889 |
| 382/112 | 382/112 | 382/112 | 382/111 | 372/111 | 393/115 |
| 146,835 | 142,363 | 150,053 | 146,545 | 158,379 | 184,220 |
| 72,415 | 72,165 | 71,162 | 70,366 | 70,006 | 70,933 |
| 71,924 | 71,925 | 70,119 | 68,688 | 68,044 | 68,758 |

Capital Asset Statistics by Function

For the Last Ten Fiscal Years

| | 2013 | 2012 | 2011 | 2010 |
|---|-----------|-----------|-----------|-----------|
| Commerce | | | | |
| State Fair Park | | | | |
| Number of Buildings | 40 | 39 | 39 | 39 |
| Acres of Land | 190 | 191 | 191 | 191 |
| Education | | | | |
| Educational Communications Board | | | | |
| Communication Tower Sites | 17 | 17 | 16 | 16 |
| Historical Society | | | | |
| Historic Sites Operated by the Historical Society | 9 | 9 | 9 | 9 |
| Public Instruction | | | | |
| Residential Schools | 2 | 2 | 2 | 2 |
| University of Wisconsin System | | | | |
| Number of Campuses | 26 | 26 | 26 | 26 |
| Technical College System | | | | |
| Number of Districts and Campuses | 16 and 49 | 16 and 49 | 16 and 49 | 16 and 48 |
| Transportation | | | | |
| Miles of State Highways | 11,800 | 11,800 | 11,774 | 11,774 |
| Environmental Resources | | | | |
| Natural Resources | | | | |
| Number of State Parks and Recreational Areas | 66 | 55 | 55 | 54 |
| Acres of State Parks and Recreational Areas | 102,043 | 93,925 | 85,424 | 85,045 |
| Number of State Forests | 14 | 14 | 12 | 12 |
| Acres of State Forests | 526,947 | 519,620 | 518,650 | 508,734 |
| Number of State Trails | 41 | 41 | 41 | 42 |
| Miles of State Trails | 1,998 | 1,980 | 1,980 | 1,908 |
| Number of Fish Hatcheries | 14 | 14 | 14 | 14 |
| Human Relations and Resources | | | | |
| Corrections | | | | |
| Number of Adult Correctional Institutions | 19 | 19 | 19 | 19 |
| Number of Adult Correctional Centers | 16 | 16 | 16 | 16 |
| Number of Juvenile Facilities | 2 | 2 | 3 | 4 |
| Health and Family Services | | | | |
| Number of Care and Treatment Centers | 7 | 7 | 7 | 7 |
| Military Affairs | | | | |
| National Guard Armories | 69 | 69 | 67 | 69 |
| Flight Centers | 3 | 3 | 3 | 3 |
| Veterans Affairs | | | | |
| Number of Veterans Homes | 3 | 2 | 2 | 2 |
| General Executive | | | | |
| Administration | | | | |
| Number of DOA Owned Buildings | 26 | 26 | 26 | 26 |
| Number of General Fleet Vehicles (All Agencies) | 5,702 | 5,706 | 5,777 | 5,762 |
| Number of Aircraft | 20 | 20 | 20 | 19 |
| Public Lands | | | | |
| Acres of Land | 75,322 | 74,907 | 76,508 | 76,292 |

SOURCE: Wisconsin Blue Book, Various State Departments/Agencies

Schedule E-3

| 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
|-----------|-----------|-----------|-----------|-----------|-----------|
| 42 | 41 | 41 | 42 | 42 | 42 |
| 191 | 188 | 188 | 197 | 197 | 197 |
| 19 | 19 | 19 | 18 | 17 | 17 |
| 9 | 9 | 9 | 8 | 8 | 8 |
| 2 | 2 | 2 | 2 | 2 | 2 |
| 26 | 26 | 26 | 26 | 26 | 26 |
| 16 and 47 | 16 and 47 | 16 and 47 | 16 and 47 | 16 and 47 | 16 and 47 |
| 11,774 | 11,783 | 11,782 | 11,782 | 11,772 | 11,772 |
| 54 | 54 | 50 | 50 | 50 | 49 |
| 85,001 | 85,001 | 83,582 | 83,304 | 82,083 | 79,250 |
| 12 | 12 | 13 | 13 | 13 | 13 |
| 506,727 | 506,727 | 506,727 | 506,620 | 506,620 | 506,620 |
| 42 | 42 | 35 | 33 | 33 | 33 |
| 1,898 | 1,762 | 1,104 | 987 | 984 | 978 |
| 14 | 13 | 13 | 13 | 14 | 14 |
| 19 | 19 | 19 | 19 | 19 | 19 |
| 16 | 16 | 16 | 16 | 16 | 16 |
| 4 | 4 | 4 | 4 | 4 | 4 |
| 7 | 7 | 7 | 7 | 7 | 7 |
| 69 | 77 | 76 | 76 | (a) | (a) |
| 3 | 3 | 3 | 3 | 3 | 3 |
| 2 | 2 | 2 | 2 | 2 | 2 |
| 26 | 26 | 24 | 24 | 24 | 24 |
| 6,087 | 6,202 | 6,285 | 6,261 | 6,350 | 7,228 |
| 19 | 19 | 19 | 19 | 21 | 27 |
| 78,000 | 75,700 | 76,200 | 77,845 | 77,755 | 79,490 |

Local Government Property Insurance Fund Ten-Year Claims Development Information

Fiscal and Policy Year Ended June 30

(In Thousands)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| 1. Premium and investment revenues: | | | | | | | | | | |
| Earned | \$ 26,920 | \$ 26,291 | \$ 27,018 | \$ 24,732 | \$ 23,929 | \$ 22,644 | \$ 21,919 | \$ 21,179 | \$ 21,370 | \$ 23,898 |
| Ceded | 5,710 | 4,506 | 3,965 | 3,956 | 4,739 | 4,689 | 5,207 | 5,532 | 6,394 | 7,091 |
| Net Earned | 21,210 | 21,785 | 23,053 | 20,776 | 19,190 | 17,955 | 16,712 | 15,647 | 14,976 | 16,807 |
| 2. Loss expenses | 618 | 623 | 522 | 404 | 182 | 247 | 408 | 440 | 554 | 536 |
| 3. Estimated incurred claims and allocated expense, end of policy year | | | | | | | | | | |
| Direct incurred | 11,118 | 11,367 | 16,564 | 22,226 | 22,037 | 11,372 | 12,113 | 42,174 | 20,301 | 14,356 |
| Ceded | 0 | 1,744 | 912 | 5,966 | 621 | 0 | 0 | 17,115 | 974 | 0 |
| Net Incurred | 11,118 | 9,623 | 15,652 | 16,260 | 21,416 | 11,372 | 12,113 | 25,059 | 19,327 | 14,356 |
| 4. Paid (cumulative) as of: | | | | | | | | | | |
| End of policy year | 7,138 | 6,074 | 8,790 | 7,855 | 9,917 | 6,896 | 6,228 | 11,426 | 8,959 | 7,508 |
| One year later | 10,841 | 9,313 | 16,498 | 16,387 | 19,416 | 11,137 | 13,033 | 21,646 | 17,836 | |
| Two years later | 11,105 | 9,983 | 16,286 | 16,619 | 21,353 | 11,500 | 13,872 | 23,309 | | |
| Three years later | 11,105 | 9,983 | 16,475 | 16,740 | 21,392 | 11,514 | 13,885 | | | |
| Four years later | 11,105 | 10,844 | 16,580 | 16,740 | 21,403 | 11,514 | | | | |
| Five years later | 11,105 | 10,844 | 16,580 | 16,740 | 22,123 | | | | | |
| Six years later | 11,105 | 10,844 | 16,580 | 16,740 | | | | | | |
| Seven years later | 11,105 | 10,844 | 16,580 | | | | | | | |
| Eight years later | 11,105 | 10,844 | | | | | | | | |
| Nine years later | 11,105 | | | | | | | | | |

The table above illustrates how the Local Government Property Insurance Fund's earned revenues (net of insurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as of the end of each of the last ten years. The rows of the table are defined as follows:

- (1) These lines show the total of each fiscal year's earned contribution revenues and investment revenues, amount of reinsurance premium ceded and net earned revenues.
- (2) This line shows each fiscal year's other operating cost of the fund including overhead and claims expense not allocable to individual claims.
- (3) This section shows the fund's incurred claims and allocated claims adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (4) This section of ten rows shows the cumulative amounts paid as of the end of successive years for each policy year.

SOURCE: Wisconsin Office of Commissioner of Insurance

(Continued)

**Local Government Property Insurance Fund
Ten-Year Claims Development Information**

Fiscal and Policy Year Ended June 30

(Continued)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|--------|----------|----------|----------|--------|--------|--------|-----------|----------|--------|
| 5. Reestimated ceded losses and expenses | \$ 0 | \$ 1,775 | \$ 1,639 | \$ 5,858 | \$ 0 | \$ 0 | \$ 0 | \$ 18,862 | \$ 1,944 | \$ 0 |
| 6. Reestimated incurred claims and expense: | | | | | | | | | | |
| End of policy year | 11,118 | 9,623 | 15,652 | 16,260 | 21,416 | 11,372 | 12,113 | 23,963 | 19,327 | 14,356 |
| One year later | 11,024 | 10,087 | 16,629 | 16,923 | 21,561 | 11,489 | 13,871 | 23,258 | 19,354 | |
| Two years later | 11,977 | 10,978 | 16,286 | 16,619 | 21,392 | 11,500 | 13,872 | 23,719 | | |
| Three years later | 11,105 | 10,978 | 16,475 | 16,740 | 21,392 | 11,514 | 13,885 | | | |
| Four years later | 11,105 | 11,013 | 16,580 | 16,740 | 22,428 | 11,514 | | | | |
| Five years later | 11,105 | 10,844 | 16,580 | 16,740 | 22,123 | | | | | |
| Six years later | 11,105 | 10,844 | 16,580 | 16,740 | | | | | | |
| Seven years later | 11,105 | 10,844 | 16,580 | | | | | | | |
| Eight years later | 11,105 | 10,844 | | | | | | | | |
| Nine years later | 11,105 | | | | | | | | | |
| 7. Increase (decrease) in estimated incurred claims and expense from end of policy year | (13) | 1,221 | 928 | 480 | 707 | 142 | 1,772 | (244) | 216 | N/A |

(5) This line represents the reestimated losses assumed by reinsurers as of the end of the current fiscal year for each of the policy years presented.

(6) This section of ten rows shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.

(7) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

Income Continuation Insurance Risk Pool Ten-Year Claims Development Information

Calendar and Policy Year Ended December 31

(In Millions)

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---------|---------|---------|---------|---------|----------|---------|---------|---------|---------|
| 1. Net earned required contributions and investment revenues | \$ 25.5 | \$ 20.5 | \$ 17.9 | \$ 24.4 | \$ 20.5 | \$ (9.1) | \$ 28.8 | \$ 25.0 | \$ 16.6 | \$ 25.0 |
| 2. Unallocated expenses | 1.9 | 2.1 | 2.1 | 2.4 | 2.4 | 2.4 | 1.8 | 2.0 | 2.3 | 1.9 |
| 3. Estimated incurred claims as of the end of the policy year | 23.4 | 29.2 | 31.6 | 29.1 | 27.4 | 22.4 | 33.4 | 34.3 | 42.4 | 33.4 |
| 4. Paid (cumulative) as of: | | | | | | | | | | |
| End of policy year | 4.5 | 4.5 | 5.1 | 4.4 | 2.5 | 5.1 | 5.5 | 6.0 | 6.7 | 5.9 |
| One year later | 8.8 | 9.7 | 12.9 | 9.3 | 6.8 | 9.2 | 9.7 | 11.0 | 11.9 | |
| Two years later | 10.5 | 11.9 | 17.0 | 10.4 | 7.8 | 10.0 | 10.8 | 12.2 | | |
| Three years later | 11.7 | 13.1 | 18.1 | 11.2 | 8.6 | 10.6 | 11.7 | | | |
| Four years later | 12.3 | 13.6 | 18.8 | 11.7 | 9.3 | 11.1 | | | | |
| Five years later | 12.6 | 14.1 | 19.5 | 12.2 | 10.0 | | | | | |
| Six years later | 13.0 | 14.6 | 20.2 | 12.7 | | | | | | |
| Seven years later | 13.3 | 15.1 | 20.8 | | | | | | | |
| Eight years later | 13.6 | 15.5 | | | | | | | | |
| Nine years later | 13.9 | | | | | | | | | |
| 5. Reestimated incurred claims: | | | | | | | | | | |
| End of policy year | 23.4 | 29.2 | 31.6 | 29.1 | 27.4 | 22.4 | 33.4 | 34.3 | 42.4 | 33.4 |
| One year later | 17.0 | 20.5 | 25.1 | 16.7 | 22.5 | 15.8 | 17.5 | 23.0 | 22.3 | |
| Two years later | 16.6 | 21.1 | 25.9 | 17.8 | 13.4 | 15.3 | 17.5 | 20.1 | | |
| Three years later | 17.1 | 19.7 | 27.0 | 16.8 | 13.9 | 14.7 | 17.7 | | | |
| Four years later | 15.8 | 20.2 | 24.7 | 16.0 | 13.9 | 14.5 | | | | |
| Five years later | 16.0 | 18.5 | 24.4 | 16.1 | 14.3 | | | | | |
| Six years later | 15.6 | 18.5 | 24.8 | 16.3 | | | | | | |
| Seven years later | 15.5 | 18.2 | 24.7 | | | | | | | |
| Eight years later | 15.8 | 18.6 | | | | | | | | |
| Nine years later | 16.0 | | | | | | | | | |
| 6. Increase (decrease) in estimated incurred claims from end of policy year | (7.4) | (10.6) | (6.9) | (12.8) | (13.1) | (7.9) | (15.7) | (14.2) | (20.1) | 0.0 |

The table above illustrates how the Income Continuation Insurance Fund Risk Pool's earned revenues and investment income compare to related costs of loss assumed by the fund as of the end of each of the last ten years. The rows of the table are defined as follows:

- (1) This line shows the total of each calendar year's earned contribution and investment revenues.
- (2) This line shows each calendar year's other operating costs of the funds including overhead and claims expenses not allocable to individual claims.
- (3) This line shows the fund's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (4) This section shows the cumulative amounts paid as of the end of successive years for each policy year.
- (5) This section shows each policy year's incurred claims as reestimated at the end of each successive policy year. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
- (6) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought.
As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

SOURCE: Wisconsin Department of Employee Trust Funds

Long-term Disability Insurance Risk Pool Ten-Year Claims Development Information

Calendar and Policy Year Ended December 31

(In Millions)

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|---------|---------|---------|---------|---------|-----------|---------|---------|--------|---------|
| 1 Net earned required contributions and investment revenues | \$ 52.5 | \$ 33.4 | \$ 24.1 | \$ 47.3 | \$ 27.8 | \$ (88.3) | \$ 49.3 | \$ 29.8 | \$ 3.0 | \$ 29.9 |
| 2 Unallocated expenses | 0.7 | 1.1 | 1.0 | 1.1 | 1.4 | 1.3 | 2.2 | 2.0 | 2.1 | 2.4 |
| 3 Estimated incurred claims as of the end of the policy year | 15.9 | 19.4 | 30.6 | 34.6 | 48.3 | 31.1 | 50.2 | 54.2 | 43.5 | 52.0 |
| 4 Paid (cumulative) as of: | | | | | | | | | | |
| End of policy year | 0.3 | 0.1 | 0.7 | 1.1 | 1.4 | 1.1 | 1.7 | 1.9 | 1.6 | 2.5 |
| One year later | 1.6 | 1.9 | 2.8 | 3.5 | 5.8 | 5.7 | 7.0 | 7.6 | 8.6 | |
| Two years later | 3.9 | 3.9 | 5.4 | 6.8 | 9.4 | 9.4 | 11.3 | 12.5 | | |
| Three years later | 6.0 | 6.4 | 8.0 | 9.9 | 12.6 | 12.7 | 15.2 | | | |
| Four years later | 8.5 | 8.0 | 10.3 | 12.7 | 15.5 | 15.7 | | | | |
| Five years later | 10.6 | 9.5 | 12.5 | 15.2 | 18.1 | | | | | |
| Six years later | 12.5 | 10.8 | 14.6 | 17.4 | | | | | | |
| Seven years later | 14.2 | 12.0 | 16.5 | | | | | | | |
| Eight years later | 15.7 | 13.0 | | | | | | | | |
| Nine years later | 17.0 | | | | | | | | | |
| 5 Reestimated incurred claims: | | | | | | | | | | |
| End of policy year | 15.9 | 19.4 | 30.6 | 34.6 | 48.3 | 31.1 | 50.2 | 54.2 | 43.5 | 52.0 |
| One year later | 12.0 | 14.1 | 22.2 | 26.2 | 25.6 | 26.9 | 32.3 | 35.8 | 41.4 | |
| Two years later | 18.3 | 14.9 | 22.1 | 29.5 | 29.9 | 29.5 | 35.0 | 39.6 | | |
| Three years later | 19.2 | 16.1 | 24.7 | 27.1 | 31.0 | 31.8 | 36.6 | | | |
| Four years later | 20.3 | 17.7 | 23.4 | 28.3 | 33.7 | 32.7 | | | | |
| Five years later | 22.4 | 19.2 | 24.5 | 30.5 | 34.8 | | | | | |
| Six years later | 24.3 | 17.8 | 26.6 | 30.9 | | | | | | |
| Seven years later | 21.3 | 18.7 | 26.4 | | | | | | | |
| Eight years later | 22.6 | 18.7 | | | | | | | | |
| Nine years later | 22.7 | | | | | | | | | |
| 6 Increase (decrease) in estimated incurred claims from end of policy year | 6.8 | (0.7) | (4.2) | (3.7) | (13.5) | 1.6 | (13.6) | (14.6) | (2.1) | 0.0 |

The table above illustrates how the Long-term Disability Insurance Fund Risk Pool's earned revenues and investment income compare to related costs of loss assumed by the fund as of the end of each of the last ten years. The rows of the table are defined as follows:

- (1) This line shows the total of each calendar year's earned contribution and investment revenues.
- (2) This line shows each calendar year's other operating costs of the funds including overhead and claims expenses not allocable to individual claims.
- (3) This line shows the fund's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (4) This section shows the cumulative amounts paid as of the end of successive years for each policy year.
- (5) This section shows each policy year's incurred claims as reestimated at the end of each successive policy year. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
- (6) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought.
As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

SOURCE: Wisconsin Department of Employee Trust Funds

Health Insurance Risk Pool (Standard Plan) Ten-Year Claims Development Information

Calendar and Policy Year Ended December 31

(In Millions)

| | 2003 | 2004 | 2005 | 2006 (a) | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|---------|---------|---------|----------|---------|---------|---------|---------|---------|---------|
| 1 Net earned required contributions and investment revenues | \$ 85.1 | \$ 90.4 | \$ 90.9 | \$ 82.9 | \$ 42.1 | \$ 22.5 | \$ 41.5 | \$ 36.6 | \$ 27.9 | \$ 33.1 |
| 2 Unallocated expenses | 5.7 | 6.8 | 7.7 | 4.9 | 3.4 | 5.3 | 5.0 | 5.4 | 6.2 | 5.5 |
| 3 Estimated incurred claims as of the end of the policy year | 73.2 | 74.6 | 73.6 | 60.1 | 23.7 | 30.5 | 25.9 | 24.0 | 21.4 | 17.7 |
| 4 Paid (cumulative) as of: | | | | | | | | | | |
| End of policy year | 65.1 | 65.2 | 65.8 | 51.8 | 20.3 | 25.7 | 21.6 | 20.5 | 18.7 | 15.1 |
| One year later | 73.4 | 72.2 | 73.6 | 58.3 | 23.5 | 28.3 | 23.4 | 22.6 | 20.7 | |
| Two years later | 73.7 | 72.3 | 73.7 | 58.2 | 23.5 | 28.2 | 23.5 | 22.6 | | |
| Three years later | 73.7 | 72.3 | 73.7 | 58.2 | 23.5 | 28.2 | 23.5 | | | |
| Four years later | 73.7 | 72.3 | 73.7 | 58.2 | 23.5 | 28.2 | | | | |
| Five years later | 73.7 | 72.3 | 73.7 | 58.2 | 23.5 | | | | | |
| Six years later | 73.7 | 72.3 | 73.7 | 58.2 | | | | | | |
| Seven years later | 73.7 | 72.3 | 73.7 | | | | | | | |
| Eight years later | 73.7 | 72.3 | | | | | | | | |
| Nine years later | 73.7 | | | | | | | | | |
| 5 Reestimated incurred claims: | | | | | | | | | | |
| End of policy year | 73.2 | 74.6 | 73.6 | 60.1 | 23.7 | 30.5 | 25.9 | 24.0 | 21.4 | 17.7 |
| One year later | 73.5 | 72.2 | 73.7 | 58.4 | 23.6 | 28.3 | 23.5 | 22.6 | 20.7 | |
| Two years later | 73.7 | 72.3 | 73.7 | 58.2 | 23.5 | 28.2 | 23.5 | 22.6 | | |
| Three years later | 73.7 | 72.3 | 73.7 | 58.2 | 23.5 | 28.2 | 23.5 | | | |
| Four years later | 73.7 | 72.3 | 73.7 | 58.2 | 23.5 | 28.2 | | | | |
| Five years later | 73.7 | 72.3 | 73.7 | 58.2 | 23.5 | | | | | |
| Six years later | 73.7 | 72.3 | 73.7 | 58.2 | | | | | | |
| Seven years later | 73.7 | 72.3 | 73.7 | | | | | | | |
| Eight years later | 73.7 | 72.3 | | | | | | | | |
| Nine years later | 73.7 | | | | | | | | | |
| 6 Increase (decrease) in estimated incurred claims from end of policy year | 0.5 | (2.3) | 0.1 | (1.9) | (0.2) | (2.3) | (2.4) | (1.4) | (0.7) | 0.0 |

The table above illustrates how the Health Insurance Fund Risk Pool's earned revenues and investment income compare to related costs of loss assumed by the fund as of the end of each of the last ten years. The rows of the table are defined as follows:

- (1) This line shows the total of each calendar year's earned contribution and investment revenues.
- (2) This line shows each calendar year's other operating costs of the funds including overhead and claims expenses not allocable to individual claims.
- (3) This line shows the fund's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (4) This section shows the cumulative amounts paid as of the end of successive years for each policy year.
- (5) This section shows each policy year's incurred claims as reestimated at the end of each successive policy year. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
- (6) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought.
As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

(a) Starting in 2006, in accordance with GASB 43, retiree health is reported separately in an agency fund and is not included with the active health information in this table.

SOURCE: Wisconsin Department of Employee Trust Funds

Health Insurance Risk Pool (Pharmacy Benefit) Nine-Year Claims Development Information

Calendar and Policy Year Ended December 31

(In Millions)

| | 2004 | 2005 | 2006 (a) | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| 1. Net earned required contributions and investment revenues | \$ 205.7 | \$ 191.6 | \$ 164.7 | \$ 170.0 | \$ 138.8 | \$ 155.5 | \$ 178.9 | \$ 169.9 | \$ 153.7 |
| 2. Unallocated expenses | 7.6 | 9.5 | 7.4 | 8.4 | 8.8 | 6.4 | 8.7 | 6.4 | 8.0 |
| 3. Estimated incurred claims as of the end of the policy year | 158.1 | 160.6 | 110.1 | 116.9 | 124.0 | 134.8 | 148.4 | 144.6 | 141.3 |
| 4. Paid (cumulative) as of: | | | | | | | | | |
| End of policy year | 162.4 | 168.8 | 116.8 | 118.0 | 126.3 | 139.1 | 155.8 | 150.7 | 134.2 |
| One year later | 159.8 | 159.6 | 111.0 | 119.4 | 123.9 | 134.1 | 147.3 | 145.1 | |
| Two years later | 159.8 | 159.6 | 111.0 | 119.4 | 123.9 | 134.1 | 147.3 | | |
| Three years later | 159.8 | 159.6 | 111.0 | 119.4 | 123.9 | 134.1 | | | |
| Four years later | 159.8 | 159.6 | 111.0 | 119.4 | 123.9 | | | | |
| Five years later | 159.8 | 159.6 | 111.0 | 119.4 | | | | | |
| Six years later | 159.8 | 159.6 | 111.0 | | | | | | |
| Seven years later | 159.8 | 159.6 | | | | | | | |
| Eight years later | 159.8 | | | | | | | | |
| 5. Reestimated incurred claims: | | | | | | | | | |
| End of policy year | 158.1 | 160.6 | 110.1 | 116.9 | 124.0 | 134.8 | 148.4 | 144.6 | 141.3 |
| One year later | 159.8 | 159.6 | 111.0 | 119.4 | 123.9 | 134.1 | 147.3 | 145.1 | |
| Two years later | 159.8 | 159.6 | 111.0 | 119.4 | 123.9 | 134.1 | 147.3 | | |
| Three years later | 159.8 | 159.6 | 111.0 | 119.4 | 123.9 | 134.1 | | | |
| Four years later | 159.8 | 159.6 | 111.0 | 119.4 | 123.9 | | | | |
| Five years later | 159.8 | 159.6 | 111.0 | 119.4 | | | | | |
| Six years later | 159.8 | 159.6 | 111.0 | | | | | | |
| Seven years later | 159.8 | 159.6 | | | | | | | |
| Eight years later | 159.8 | | | | | | | | |
| 6. Increase (decrease) in estimated incurred claims from end of policy year | 1.7 | (1.0) | 0.9 | 2.5 | (0.1) | (0.7) | (1.1) | 0.5 | 0.0 |

The table above illustrates how the BadgerRX for Individuals Fund Risk Pool's earned revenues and investment income compare to related costs of loss assumed by the fund as of the end of the calendar year. The pharmacy benefit plan began operation in 2004. The rows of the table are defined as follows:

- (1) This line shows the total of each calendar year's earned contribution and investment revenues.
 - (2) This line shows each calendar year's other operating costs of the funds including overhead and claims expenses not allocable to individual claims.
 - (3) This line shows the fund's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
 - (4) This section shows the cumulative amounts paid as of the end of successive years for each policy year. Paid claims include payments expected to be reimbursed as rebate payments from participating pharmaceutical companies.
 - (5) This section shows each policy year's incurred claims as reestimated at the end of each successive policy year. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Incurred claims are presented net of anticipated rebates.
 - (6) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought.
As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy.
- (a) Starting in 2006, in accordance with GASB 43, retiree health is reported separately in an agency fund and is not included with the active health information in this table.

SOURCE: Wisconsin Department of Employee Trust Funds

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Cover photo of Wisconsin's State Capitol courtesy of Man M. Le, photographer.