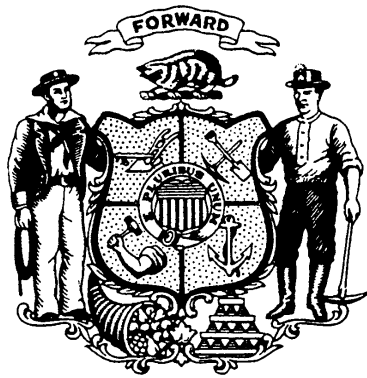


# WISCONSIN

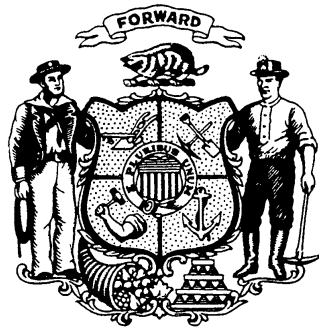
## COMPREHENSIVE ANNUAL FINANCIAL REPORT



For the fiscal year ended June 30, 1996

# STATE OF WISCONSIN

## COMPREHENSIVE ANNUAL FINANCIAL REPORT



For the fiscal year ended June 30, 1996

**Tommy G. Thompson, Governor**

Department of Administration  
Mark D. Bugher, Secretary  
William J. Raftery, State Controller

Prepared by the State Controller's Office

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on the World Wide Web: <http://www.doa.state.wi.us>

DOA-6082P (R12/96)

**Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 1996**

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# **FINANCIAL SECTION**

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**INDEPENDENT AUDITOR'S REPORT**

Honorable Members of the Legislature

The Honorable Tommy G. Thompson, Governor

We have audited the accompanying general purpose financial statements of the State of Wisconsin as of and for the year ended June 30, 1996, as listed in the table of contents. These general purpose financial statements are the responsibility of the State of Wisconsin's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Clean Water Fund and the Health Insurance Risk Sharing Plan, which represent 31 percent of the assets and 5 percent of the operating revenues of the enterprise funds, nor did we audit the financial statements of the Wisconsin Department of Transportation Revenue Bond Program, which represent 82 percent of the assets and 22 percent of the revenues and operating transfers of the debt service funds, 58 percent of the assets and 66 percent of the bond proceeds of the capital projects funds, and 22 percent of the liabilities of the general long-term debt account group. We did not audit the financial statements of the University of Wisconsin Hospitals and Clinics, which represent 8 percent of the assets of the University of Wisconsin System and 11 percent of the revenues, transfers, and other additions of the System's current funds. In addition, we did not audit the financial statements of the Wisconsin Housing and Economic Development Authority and the Wisconsin Health Care Liability Insurance Plan, which represent 100 percent of the financial activity of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely upon the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* 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 general purpose financial statements are free of material misstatement. The financial statements of the Clean Water Fund, Health Insurance Risk Sharing Plan, Wisconsin Department of Transportation Revenue Bond Program, University of Wisconsin Hospitals and Clinics, and Wisconsin Health Care Liability Insurance Plan were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audit and the reports of other auditors, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the State of Wisconsin as of June 30, 1996, and the results of its operations, the cash flows of its proprietary fund types, nonexpendable trust funds, and discretely presented component units, and the changes in fund balances of the University of Wisconsin System, for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we will issue reports dated December 13, 1996, on our consideration of the State of Wisconsin's internal control structure and its compliance with laws and regulations. Those reports will be included in the State's single audit report.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the State of Wisconsin. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

The introductory section and the statistical section listed in the table of contents were not audited by us and, accordingly, we express no opinion on them.

LEGISLATIVE AUDIT BUREAU

December 13, 1996

by



Dale Cattanaach  
State Auditor

*State of Wisconsin*

**Combined Balance Sheet - All Fund Types, Account Groups and  
Discretely Presented Component Units  
June 30, 1996**

(In Thousands)

	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
<b>Assets and Other Debits</b>						
Assets:						
Cash and Cash Equivalents	\$ 286,583	\$ 355,476	\$ 6,686	\$ 31,897	\$ 572,609	\$ 44,511
Investments	2,626	-	16,574	76,635	677,578	-
Investment in Variable Retirement Investment Fund	-	-	-	-	-	-
Receivables (net of allowance for uncollectibles):						
Taxes	623,891	73,825	-	-	-	-
Student Loans	-	-	-	-	9,982	-
Veterans Loans	-	-	-	-	33,462	-
Mortgage Loans	-	-	-	-	544,267	-
Insurance Policy Loans	-	-	-	-	3,738	-
Loans to Local Governments	-	-	-	-	606,071	-
Other Receivables	92,888	20,175	29,702	302	58,018	818
Due from Other Funds	80,900	33,354	3,553	2,114	25,081	21,317
Due from Component Units	-	-	-	-	8	-
Interfund Loans Receivable	53,690	23,864	-	21,570	-	-
Due from Other Governments	392,816	49,895	-	768	11,423	957
Inventories	79,082	15,750	-	-	8,665	7,194
Prepaid Items	220,061	9,768	-	-	58,514	511
Advances to Other Funds	-	-	-	-	6,000	3,792
Restricted Assets:						
Cash and Cash Equivalents	-	-	-	-	29,472	-
Investments	-	-	-	-	-	-
Deferred Charges	-	-	-	-	6,939	523
Fixed Assets	-	-	-	-	142,156	194,319
Other Assets	-	6	-	-	9,080	-
Other Debits:						
Amount Available in Debt Service Fund	-	-	-	-	-	-
Amount to be Provided for Retirement of General Long-term Obligations	-	-	-	-	-	-
<b>Total Assets and Other Debits</b>	<b>\$ 1,832,537</b>	<b>\$ 582,113</b>	<b>\$ 56,515</b>	<b>\$ 133,285</b>	<b>\$ 2,803,063</b>	<b>\$ 273,943</b>



Fiduciary Fund Type	Account Groups			University of Wisconsin System	Totals - Primary Government (Memorandum Only)	Component Units	Totals - Reporting Entity (Memorandum Only)
	Trust and Agency	General Fixed Assets	General Long-term Debt				
\$ 5,813,201	\$ -	\$ -	\$ 447,699	\$ 7,558,662	\$ 131,322	\$ 7,689,984	
37,478,874	-	-	184,062	38,436,350	444,278	38,880,628	
19,749,230	-	-	-	19,749,230	-	19,749,230	
-	-	-	-	697,716	-	697,716	
-	-	-	152,355	162,337	-	162,337	
-	-	-	-	33,462	-	33,462	
-	-	-	-	544,267	1,622,173	2,166,440	
-	-	-	-	3,738	-	3,738	
255,241	-	-	-	861,312	-	861,312	
580,098	-	-	104,626	886,627	17,808	904,434	
76,511	-	-	44,329	287,158	-	287,158	
-	-	-	-	8	-	8	
500,252	-	-	-	599,375	-	599,375	
87,745	-	-	36,649	580,252	-	580,252	
-	-	-	45,469	156,159	-	156,159	
3,897	-	-	15,054	307,806	-	307,806	
-	-	-	-	9,792	-	9,792	
-	-	-	-	29,472	-	29,472	
-	-	-	-	-	78,744	78,744	
-	-	-	7,486	14,948	17,325	32,273	
635	1,460,924	-	3,715,246	5,513,280	4,888	5,518,168	
223,256	-	-	-	232,342	10,418	242,760	
-	-	7,009	-	7,009	-	7,009	
-	-	3,408,713	-	3,408,713	-	3,408,713	
\$ 64,768,940	\$ 1,460,924	\$ 3,415,722	\$ 4,752,974	\$ 80,080,015	\$ 2,326,956	\$ 82,406,971	

(Continued)

*State of Wisconsin*

**Combined Balance Sheet - All Fund Types, Account Groups and  
Discretely Presented Component Units  
June 30, 1996**

(Continued)

	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
<b>Liabilities, Equity and Other Credits</b>						
Liabilities:						
Accounts Payable and Other						
Accrued Liabilities	\$ 396,142	\$ 145,864	\$ -	\$ 18,983	\$ 270,631	\$ 16,624
Due to Other Funds	93,908	43,006	468	1,293	23,647	5,521
Due to Primary Government	-	-	-	-	-	-
Interfund Loans Payable	-	21,571	-	23,827	26,721	26,968
Bank Overdraft	-	-	-	-	622	-
Due to Other Governments	1,245,557	64,350	-	846	1,012	47
Tax Refunds Payable	524,855	4,577	-	-	-	-
Tax and Other Deposits	61,361	7,975	-	-	8,324	-
Deferred Revenue	423,227	10,634	-	-	49,259	1,392
Interest Payable	-	-	22,917	-	5,493	1,412
Investment Due Fixed Retirement						
Investment Fund	-	-	-	-	-	-
Advances from Other Funds	6,000	-	-	-	-	3,792
Future Benefits and Loss Liabilities	-	-	-	-	641,939	69,920
Capital Leases	-	-	-	-	111	18,992
Compensated Absences	-	-	-	-	5,294	1,703
Employer Pension Costs	-	-	-	-	-	-
General Obligation Bonds Payable	-	-	735	-	538,371	97,558
Revenue Bonds and Notes Payable	-	-	25,385	-	373,329	-
Other Bonds Payable	-	-	-	-	-	-
Claims, Judgments and Commitments	-	-	-	-	-	-
Installment Contracts Payable	-	-	-	-	356	366
<b>Total Liabilities</b>	<b>2,751,050</b>	<b>297,977</b>	<b>49,505</b>	<b>44,949</b>	<b>1,945,110</b>	<b>244,296</b>
Equity and Other Credits:						
Contributed Capital	-	-	-	-	782,578	22,639
Investment in General Fixed Assets	-	-	-	-	-	-
Retained Earnings:						
Reserved	-	-	-	-	42,661	-
Unreserved	-	-	-	-	32,714	7,007
Fund Balances:						
Reserved	293,225	431,890	-	132,860	-	-
Unreserved:						
Designated	-	-	-	-	-	-
Undesignated	(1,211,738)	(147,754)	7,009	(44,524)	-	-
<b>Total Equity and Other Credits</b>	<b>(918,513)</b>	<b>284,136</b>	<b>7,009</b>	<b>88,336</b>	<b>857,954</b>	<b>29,646</b>
<b>Total Liabilities, Equity and Other Credits</b>	<b>\$ 1,832,537</b>	<b>\$ 582,113</b>	<b>\$ 56,515</b>	<b>\$ 133,285</b>	<b>\$ 2,803,063</b>	<b>\$ 273,943</b>

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

Fiduciary Fund Type	Account Groups			University of Wisconsin System	Totals - Primary Government (Memorandum Only)	Component Units	Totals - Reporting Entity (Memorandum Only)
	Trust and Agency	General Fixed Assets	General Long-term Debt				
\$ 908,591	\$ -	\$ -	\$ 146,542	\$ 1,903,377	\$ 9,870	\$ 1,913,247	
74,788	-	-	44,526	287,159	-	287,159	
-	-	-	-	-	8	8	
500,289	-	-	-	599,375	-	599,375	
-	-	-	-	622	-	622	
2,800,263	-	-	3,129	4,115,202	-	4,115,202	
-	-	-	-	529,432	-	529,432	
218,120	-	-	1,494	297,273	132,516	429,789	
1,768	-	-	66,362	552,643	3,010	555,652	
-	-	-	-	29,823	55,422	85,245	
19,749,230	-	-	-	19,749,230	-	19,749,230	
-	-	-	-	9,792	-	9,792	
-	-	-	-	711,860	138,660	850,520	
-	-	8,905	17,232	45,240	-	45,240	
247,626	-	682,498	42,725	979,848	242	980,090	
-	-	131,215	-	131,215	-	131,215	
-	-	1,720,373	728,489	3,085,526	-	3,085,526	
-	-	750,565	-	1,149,279	1,760,537	2,909,816	
-	-	-	1,842	1,842	-	1,842	
-	-	119,447	-	119,447	-	119,447	
-	-	2,719	1,051	4,493	-	4,493	
24,500,675	-	3,415,722	1,053,392	34,302,677	2,100,264	36,402,941	
-	-	-	-	805,217	-	805,217	
-	1,460,924	-	2,967,033	4,427,956	-	4,427,956	
-	-	-	-	42,661	117,971	160,632	
-	-	-	-	39,721	108,720	148,442	
41,926,688	-	-	690,521	43,475,182	-	43,475,182	
-	-	-	3,766	3,766	-	3,766	
(1,658,423)	-	-	38,263	(3,017,166)	-	(3,017,166)	
40,268,265	1,460,924	-	3,699,582	45,777,338	226,691	46,004,030	
\$ 64,768,940	\$ 1,460,924	\$ 3,415,722	\$ 4,752,974	\$ 80,080,015	\$ 2,326,956	\$ 82,406,971	

**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -  
All Governmental Fund Types and Expendable Trust Funds  
For the Fiscal Year Ended June 30, 1996**

(In Thousands)

	Governmental Fund Types				Fiduciary	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
<b>Revenues:</b>						
Taxes	\$ 8,173,163	\$ 801,321	\$ -	\$ -	\$ -	\$ 8,974,484
Intergovernmental	3,123,219	419,902	-	12,545	11,982	3,567,648
Licenses and Permits	175,421	450,495	58,354	60	-	684,330
Charges for Goods and Services	115,060	40,816	-	2,556	335	158,766
Contributions	-	-	-	-	485,541	485,541
Investment and Interest Income	41,412	13,029	4,654	5,909	153,843	218,846
Gifts and Donations	4,491	1,226	-	223	93	6,032
Other Revenues	56,939	10,093	1	6,691	34,662	108,386
Total Revenues	11,689,705	1,736,883	63,009	27,983	686,456	14,204,035
<b>Expenditures:</b>						
Current:						
Commerce	155,938	5,041	-	944	-	161,923
Education	3,280,166	141	-	3,204	14,266	3,297,776
Transportation	939	1,342,148	-	476	-	1,343,563
Environmental Resources	104,415	381,136	-	21,869	-	507,420
Human Relations and Resources	4,993,422	2,598	-	37,042	498,507	5,531,569
General Executive	228,320	11,831	-	6,410	92,932	339,493
Judicial	82,164	341	-	-	-	82,505
Legislative	50,165	-	-	-	-	50,165
Tax Relief and Other General						
Expenditures	574,655	-	-	116	-	574,771
Intergovernmental	1,010,618	-	-	-	-	1,010,618
Capital Outlay	-	-	-	153,809	-	153,809
Debt Service:						
Principal	-	-	144,925	-	-	144,925
Interest	-	-	125,463	-	-	125,463
Bond Administration Costs	-	-	167	-	-	167
Total Expenditures	10,480,802	1,743,235	270,554	223,870	605,705	13,324,166
Excess of Revenues Over (Under)						
Expenditures	1,208,903	(6,352)	(207,545)	(195,888)	80,751	879,868
<b>Other Financing Sources (Uses):</b>						
Proceeds from Sale of Bonds	-	8,758	2,155	333,421	-	344,335
Proceeds from Refunding Bonds	-	-	145,224	-	-	145,224
Payment to Refunding Bond						
Escrow Agent	-	-	(145,224)	-	-	(145,224)
Operating Transfers In	28,979	18,325	210,393	4,408	-	262,105
Operating Transfers Out	(1,091,593)	(30,549)	(2,399)	(3,892)	(3,952)	(1,132,385)
Capital Leases Acquisitions	6,208	-	-	-	-	6,208
Installment Purchase						
Acquisitions	-	98	-	1,634	-	1,732
Total Other Financing Sources (Uses)	(1,056,405)	(3,368)	210,149	335,572	(3,952)	(518,004)

(Continued)

**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -  
All Governmental Fund Types and Expendable Trust Funds  
For the Fiscal Year Ended June 30, 1996**

(Continued)

	Governmental Fund Types				Fiduciary	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	152,498	(9,720)	2,604	139,684	76,798	361,864
Fund Balances, Beginning of Year	(1,106,257)	312,371	405	(35,348)	1,608,249	779,420
Increase (Decrease) in Reserve for Inventories	620	1,335	-	-	-	1,955
Residual Equity Transfers In	36,100	1,250	4,000	-	-	41,350
Residual Equity Transfers Out	(1,474)	(21,100)	-	(16,000)	-	(38,574)
Fund Balances, End of Year	\$ (918,513)	\$ 284,136	\$ 7,009	\$ 88,336	\$ 1,685,047	\$ 1,146,015

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

**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -  
Budget and Actual (Budgetary Basis) - General and Budgeted Special  
Revenue Funds  
For the Fiscal Year Ended June 30, 1996**

(In Thousands)

	General Fund			Budgeted Special Revenue Funds		
	Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
<b>Revenues:</b>						
Taxes	\$ 8,216,558	\$ 8,221,241	\$ 4,683	\$ 801,818	\$ 801,818	\$ -
Departmental	5,620,912	5,583,158	(37,754)	1,116,872	1,116,872	-
Total Revenues	<u>13,837,469</u>	<u>13,804,399</u>	<u>(33,070)</u>	<u>1,918,691</u>	<u>1,918,691</u>	<u>-</u>
<b>Expenditures:</b>						
Current:						
Commerce	185,662	164,514	21,147	25,685	13,529	12,156
Education	6,052,759	5,837,139	215,620	11,346	10,583	763
Environmental Resources	252,846	242,361	10,485	1,929,671	1,679,960	249,711
Human Relations and Resources	5,282,920	5,255,874	27,046	136,809	123,305	13,504
General Executive	487,561	412,906	74,655	10,117	3,517	6,600
Judicial	83,188	82,154	1,034	691	349	342
Legislative	50,544	50,047	496	-	-	-
General	1,613,785	1,603,605	10,180	21,041	16,041	5,000
Total Expenditures	<u>14,009,264</u>	<u>13,648,601</u>	<u>360,663</u>	<u>2,135,359</u>	<u>1,847,283</u>	<u>288,077</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (171,794)</u>	<u>155,799</u>	<u>\$ 327,593</u>	<u>\$ (216,669)</u>	<u>71,408</u>	<u>\$ 288,077</u>
Fund Balances, Beginning of Year		847,255			329,095	
Prior Period Adjustment		(307)			-	
Residual Equity Transfers		(84,121)			(19,329)	
Fund Balances, End of Year		<u>\$ 918,625</u>			<u>\$ 381,174</u>	

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

*State of Wisconsin*

**Combined Statement of Revenues, Expenses, and Changes in Retained Earnings/  
Fund Balances - All Proprietary Fund Types, Similar Trust Funds and  
Discretely Presented Component Units  
For the Fiscal Year Ended June 30, 1996**

(In Thousands)

	Proprietary Fund Types		Fiduciary Fund Types		Totals - Primary Government	Component	Totals - Reporting Entity
	Enterprise	Internal Service	Nonexpendable Trust	Pension Trust	(Memorandum Only)	Units	(Memorandum Only)
<b>Operating Revenues:</b>							
Charges for Goods and Services	\$ 797,379	\$ 200,776	\$ 198	\$ -	\$ 998,353	\$ 9,002	\$ 1,007,355
Investment and Interest Income	116,152	-	819	5,115,783	5,232,754	142,319	5,375,073
Contributions	393,786	-	-	1,019,532	1,413,318	-	1,413,318
Fines and Forfeitures	-	-	15,845	-	15,845	-	15,845
Gifts and Donations	-	-	108	-	108	-	108
Other Income	4,804	1,691	4	-	6,499	1,061	7,560
<b>Total Operating Revenues</b>	<b>1,312,122</b>	<b>202,467</b>	<b>16,974</b>	<b>6,135,314</b>	<b>7,666,877</b>	<b>152,381</b>	<b>7,819,258</b>
<b>Operating Expenses:</b>							
Personal Services	201,514	39,866	128	-	241,507	8,749	250,256
Supplies and Services	400,837	108,191	241	20,598	529,868	11,434	541,301
Lottery Prize Awards	276,966	-	-	-	276,966	-	276,966
Depreciation	10,194	23,631	-	-	33,825	502	34,327
Benefit Expense	215,334	(16,165)	-	1,215,861	1,415,030	5,813	1,420,842
Interest Expense	56,554	-	-	-	56,554	124,237	180,791
Other Expenses	13,707	-	-	10,520	24,227	62,313	86,539
<b>Total Operating Expenses</b>	<b>1,175,106</b>	<b>155,523</b>	<b>368</b>	<b>1,246,979</b>	<b>2,577,976</b>	<b>213,047</b>	<b>2,791,023</b>
Operating Income (Loss)	137,016	46,944	16,605	4,888,336	5,088,901	(60,666)	5,028,235
<b>Nonoperating Revenues (Expenses):</b>							
Operating Grants	3,500	235	5	-	3,740	59,101	62,841
Investment and Interest Income	29,377	288	1	-	29,666	26,109	55,775
Gain (Loss) on Disposal of Fixed Assets	(32)	772	-	-	740	(39)	701
Interest Expense	(713)	(5,579)	-	-	(6,292)	-	(6,292)
Other Revenues	2,514	497	-	954	3,966	-	3,966
Other Expenses	(164,516)	-	-	-	(164,516)	-	(164,516)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(129,871)</b>	<b>(3,787)</b>	<b>6</b>	<b>954</b>	<b>(132,697)</b>	<b>85,171</b>	<b>(47,526)</b>
Income (Loss) Before Operating Transfers	7,145	43,157	16,611	4,889,290	4,956,204	24,505	4,980,709
Operating Transfers In	34,930	5,377	2,500	24,330	67,137	-	67,137
Operating Transfers Out	(21,321)	(2,088)	(6)	(24,330)	(47,745)	-	(47,745)
Net Income before Extraordinary Items	20,754	46,446	19,105	4,889,290	4,975,595	24,505	5,000,100
Extraordinary Items: Gain (Loss) from Extinguishment of Debt	104	-	-	-	104	(62)	42
Net Income (Loss)	20,858	46,446	19,105	4,889,290	4,975,699	24,443	5,000,142

(Continued)

**Combined Statement of Revenues, Expenses, and Changes in Retained Earnings/  
Fund Balances - All Proprietary Fund Types, Similar Trust Funds and  
Discretely Presented Component Units  
For the Fiscal Year Ended June 30, 1996**

(Continued)

	Proprietary Fund Types		Fiduciary Fund Types		Totals - Primary Government (Memorandum Only)	Component Units	Totals - Reporting Entity (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	Pension Trust			
Retained Earnings/Fund Balances, Beginning of Year	54,586	(37,998)	337,894	33,336,929	33,691,411	202,248	33,893,659
Residual Equity Transfers In	-	132	-	-	132	-	132
Residual Equity Transfers Out	(68)	(1,573)	-	-	(1,642)	-	(1,642)
Retained Earnings/Fund Balances, End of Year	\$ 75,376	\$ 7,007	\$ 356,998	\$ 38,226,219	\$ 38,665,600	\$ 226,691	\$ 38,892,292

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



**Combined Statement of Cash Flows - All Proprietary Fund Types,  
Nonexpendable Trust Funds and Discretely Presented Component Units  
For Fiscal Year Ended June 30, 1996**

(In Thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Totals - Primary Government	Component	Totals - Reporting Entity
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)	Units	(Memorandum Only)
<b>Cash Flows from Operating Activities:</b>						
Cash Receipts from Customers	\$ 1,192,755	\$ 206,539	\$ 198	\$ 1,399,492	\$ 4,846	\$ 1,404,338
Cash Payments to Suppliers for Goods and Services	(377,826)	(110,304)	(195)	(488,325)	(3,875)	(492,200)
Cash Payments to Employees for Services	(198,334)	(39,594)	(126)	(238,054)	(8,568)	(246,622)
Cash Payments for Lottery Prizes	(287,161)	-	-	(287,161)	-	(287,161)
Cash Payments for Loans Originated	(75,863)	-	-	(75,863)	(248,799)	(324,662)
Cash Payments for Benefits	(189,113)	(17,829)	-	(206,941)	(5,413)	(212,354)
Interest Income	40,857	-	-	40,857	131,130	171,987
Fines and Forfeitures	-	-	15,845	15,845	-	15,845
Collection of Loans	71,394	-	-	71,394	156,891	228,285
Other Operating Revenues (Expenses)	(35,209)	2,111	124	(32,974)	(65,078)	(98,053)
Other Sources (Uses) of Cash	2,101	157	-	2,257	7,628	9,885
Net Cash Provided (Used) by Operating Activities	143,601	41,079	15,846	200,527	(31,239)	169,288
<b>Cash Flows from Noncapital Financing Activities:</b>						
Operating Grants Receipts	3,016	225	5	3,246	59,101	62,347
Grants for Loans to Governments	25,036	-	-	25,036	-	25,036
Proceeds from Issuance of Long-term Debt	125,371	-	-	125,371	345,868	471,239
Retirement of Long-term Debt	(61,694)	-	-	(61,694)	(311,400)	(373,094)
Interest Payments	(54,359)	-	-	(54,359)	(131,435)	(185,794)
Interfund Loans	3,992	2,657	-	6,649	-	6,649
Interfund Loans Repaid	(4,535)	(5,453)	-	(9,988)	-	(9,988)
Interfund Advances	476	632	-	1,108	-	1,108
Operating Transfers In	35,899	5,382	2,500	43,780	-	43,780
Operating Transfers Out	(22,357)	(2,394)	(6)	(24,757)	-	(24,757)
Residual Equity Transfers In	24,000	120	-	24,120	-	24,120
Residual Equity Transfers Out	(12,000)	(120)	-	(12,120)	-	(12,120)
Other Cash Flows from Noncapital Financing Activities	(166,729)	-	-	(166,729)	(2,552)	(169,281)
Net Cash Provided (Used) by Noncapital Financing Activities	(103,885)	1,048	2,499	(100,337)	(40,418)	(140,755)
<b>Cash Flows from Capital and Related Financing Activities:</b>						
Proceeds from Issuance of Long-term Debt	1,675	9,548	-	11,223	-	11,223
Repayment of Long-term Debt	(557)	(6,786)	-	(7,342)	-	(7,342)
Interest Payments	(643)	(5,389)	-	(6,032)	-	(6,032)
Interfund Advances Repaid	-	(632)	-	(632)	-	(632)
Capital Lease Obligations	(57)	(12,070)	-	(12,127)	-	(12,127)
Proceeds from Sale of Fixed Assets	10	1,961	-	1,971	-	1,971
Payments for Purchase of Fixed Assets	(4,680)	(13,900)	-	(18,580)	(4,215)	(22,795)
Other Cash Flows from Capital Financing Activities	260	297	-	557	-	557
Net Cash Provided (Used) by Capital and Related Financing Activities	(3,991)	(26,972)	-	(30,963)	(4,215)	(35,178)
<b>Cash Flows from Investing Activities:</b>						
Proceeds from Sale and Maturities of Investment Securities	118,668	-	6,716	125,384	548,040	673,424
Purchase of Investment Securities	(124,135)	-	(7,601)	(131,735)	(579,544)	(711,279)
Cash Payments for Loans Originated	(99,807)	-	(44,444)	(144,251)	-	(144,251)
Collection of Loans	28,107	-	50,177	78,284	-	78,284
Interest and Dividends Receipts	108,617	287	817	109,722	36,232	145,954
Net Cash Provided (Used) by Investing Activities	31,451	287	5,666	37,404	4,728	42,132
Net Increase (Decrease) in Cash and Cash Equivalents	67,176	15,443	24,011	106,631	(71,143)	35,487
Cash and Cash Equivalents, Beginning of Year	534,905	29,068	66,118	630,092	202,465	832,557
Cash and Cash Equivalents, End of Year	\$ 602,081	\$ 44,511	\$ 90,130	\$ 736,723	\$ 131,322	\$ 868,044
<b>Reconciliation of Fiduciary Fund Type Cash and Cash Equivalents to the Combined Balance Sheet:</b>						
Nonexpendable Trust Fund			\$ 90,130			
Fiduciary Funds, Other Than Nonexpendable Trust			5,723,071			
Total Fiduciary Fund Type Cash and Cash Equivalents, End of Year			\$ 5,813,201			

(Continued)

**Combined Statement of Cash Flows - All Proprietary Fund Types,  
Nonexpendable Trust Funds and Discretely Presented Component Units  
For Fiscal Year Ended June 30, 1996**

(Continued)

	Proprietary Fund Types		Fiduciary	Totals -	Component	Totals -
	Enterprise	Internal Service	Fund Type	Primary		Reporting
			Nonexpendable Trust	Government (Memorandum Only)		Entity (Memorandum Only)
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations:</b>						
Operating Income (Loss)	\$ 137,016	\$ 46,944	\$ 16,605	\$ 200,565	\$ (60,666)	\$ 139,899
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:						
Depreciation	10,194	23,631	-	33,825	502	34,327
Amortization	1,217	-	-	1,217	3,084	4,301
Provision for Uncollectible Accounts	(31)	-	-	(31)	332	301
Operating Income (Investment Income) Classified as Investing Activity	(74,003)	-	(806)	(74,809)	(11,485)	(86,294)
Operating Expense (Interest Expense) Classified as Noncapital Financing Activity	54,877	-	-	54,877	120,671	175,548
Miscellaneous Nonoperating Income (Expense)	492	181	-	672	-	672
Changes in Assets and Liabilities:						
Decrease (Increase) in Receivables	(3,406)	1,474	-	(1,932)	(89,073)	(91,004)
Decrease (Increase) in Due from Other Funds	(3,229)	4,369	23	1,163	-	1,163
Decrease (Increase) in Due from Component Units	1	-	-	1	-	1
Decrease (Increase) in Due from Other Governments	(1,091)	206	-	(885)	-	(885)
Decrease (Increase) in Inventories	(1,271)	112	-	(1,159)	-	(1,159)
Decrease (Increase) in Prepaid Items	(259)	86	(1)	(173)	-	(173)
Decrease (Increase) in Deferred Charges	79	-	-	79	-	79
Decrease (Increase) in Other Assets	(461)	-	-	(461)	(437)	(898)
Increase (Decrease) in Accounts Payable and Other Accrued Liabilities	(6,413)	(1,966)	15	(8,365)	6,662	(1,703)
Increase (Decrease) in Compensated Absences	433	229	-	662	-	662
Increase (Decrease) in Due to Other Funds	244	(132)	11	122	-	122
Increase (Decrease) in Due to Primary Government	-	-	-	-	(1)	(1)
Increase (Decrease) in Due to Other Governments	(3,737)	(26)	-	(3,763)	-	(3,763)
Increase (Decrease) in Tax and Other Deposits	476	-	-	476	-	476
Increase (Decrease) in Deferred Revenue	3,653	(34)	-	3,619	(1,229)	2,390
Increase (Decrease) in Interest Payable	326	-	-	326	-	326
Increase (Decrease) in Future Benefits and Loss Liabilities	28,495	(33,994)	-	(5,499)	400	(5,099)
Total Adjustments	6,585	(5,865)	(759)	(39)	29,427	29,389
Net Cash Provided by Operating Activities	\$ 143,601	\$ 41,079	\$ 15,846	\$ 200,527	\$ (31,239)	\$ 169,288
<b>Noncash Investing, Capital and Financing Activities:</b>						
Capital Leases (Initial Year):						
Fair Market Value	\$ -	\$ 4	\$ -	\$ 4	\$ -	\$ 4
Current Year Cash Receipts (Payments)	-	(1)	-	(1)	-	(1)
Contributions/Transfer In (Out) of Noncash Assets and Liabilities from/to Other Funds						
Lottery Prize Annuity Investment Assumption	11,050	21	-	11,070	-	11,070
Lottery Prize Annuity Investment Assumption	2,790	-	-	2,790	-	2,790
Lottery Prize Annuity Investment Liability	(2,790)	-	-	(2,790)	-	(2,790)
Other	37	(2)	-	35	-	35

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

*State of Wisconsin*

**Combined Statement of Current Funds Revenues, Expenditures, and Other Changes - University of Wisconsin System  
For the Fiscal Year Ended June 30, 1996**

(In Thousands)

	Unrestricted	Restricted	Totals
<b>Revenues:</b>			
Tuition and Fees	\$ 470,792	\$ -	\$ 470,792
Federal Appropriations	15,552	-	15,552
Federal Grants and Contracts	71,550	263,152	334,702
State Grants and Contracts	-	17,919	17,919
Local Grants and Contracts	23	7,845	7,867
Private Gifts, Grants and Contracts	6,097	169,844	175,941
Endowment Income	1,192	5,722	6,914
Sales and Services of Educational Activities	133,467	80	133,547
Sales and Services of Auxiliary Enterprises	185,580	-	185,580
Sales and Services of Hospitals	300,948	-	300,948
Other Sources	105,465	1,689	107,155
<b>Total Revenues</b>	<b>1,290,665</b>	<b>466,251</b>	<b>1,756,916</b>
<b>Expenditures and Mandatory Transfers:</b>			
Educational and General:			
Instruction	601,525	42,701	644,227
Research	115,930	293,911	409,842
Public Service	131,183	43,233	174,416
Academic Support	197,462	6,372	203,833
Farm Operations	8,954	8	8,963
Student Services	156,425	10,497	166,922
Institutional Support	118,170	3,175	121,345
Operation and Maintenance of Plant	131,382	56	131,438
Financial Aid	84,800	68,596	153,396
<b>Total Educational and General</b>	<b>1,545,831</b>	<b>468,551</b>	<b>2,014,382</b>
Auxiliary Enterprises	172,333	24	172,357
Hospitals	287,493	3,463	290,956
Mandatory Transfers:			
Debt Service on Academic Facilities	70,431	665	71,096
Debt Service on Self-Amortizing Facilities	9,263	886	10,149
Debt Service on Hospital Facilities	4,932	-	4,932
Student Loan Matching	831	-	831
<b>Total Mandatory Transfers</b>	<b>85,458</b>	<b>1,551</b>	<b>87,009</b>
<b>Total Expenditures and Mandatory Transfers</b>	<b>2,091,116</b>	<b>473,588</b>	<b>2,564,704</b>
<b>Other Transfers, Additions (Deductions):</b>			
Operating Transfers In	847,337	7,406	854,743
Operating Transfers Out	(5,330)	(69)	(5,399)
Excess of Restricted Receipts Over Expenditures	-	14,171	14,171
Nonmandatory Transfers	(16,494)	(42,291)	(58,785)
Residual Equity Transfers Out	(15,000)	-	(15,000)
Other	-	59	59
<b>Net Other Transfers, Additions (Deductions)</b>	<b>810,513</b>	<b>(20,723)</b>	<b>789,790</b>
Prior Period Adjustments	(7,404)	-	(7,404)
<b>Net Increase (Decrease) in Fund Balance</b>	<b>\$ 2,658</b>	<b>\$ (28,060)</b>	<b>\$ (25,403)</b>

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

**Combined Statement of Changes in Fund Balances -  
University of Wisconsin System  
For the Fiscal Year Ended June 30, 1996**

(In Thousands)

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds		
	Unrestricted	Restricted			Capital Projects	Retirement of Indebtedness	Net Investment in Plant
<b>Revenues and Other Additions:</b>							
Unrestricted Current Funds							
Revenues	\$ 1,295,994	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grants and Contracts	-	326,030	-	-	-	-	-
Restricted Gifts Received	-	216,419	264	427	-	-	-
Investment Income - Restricted	-	1,664	26	-	298	97	-
Endowment Income - Restricted	-	5,630	203	-	-	-	-
Proceeds from Sale of Bonds	-	-	-	-	126,466	-	-
U.S. Government Reimbursement of Loan Fund Cancellations	-	-	755	-	-	-	-
Delinquent Loan and Collection Penalty	-	-	601	-	-	-	-
U.S. Government Advances	-	-	54,353	-	-	-	-
Interest Accrued on Loans Outstanding	-	-	3,808	-	-	-	-
Interest Earned on Loan Funds Cash Balances	-	-	168	-	-	-	-
Gain on Sale of Securities	-	-	-	13,827	-	-	-
Expended for Plant Facilities	-	-	-	-	-	-	59,144
Gifts-in-Kind	-	-	-	-	-	-	5,155
Notes and Bonds Retired or Refunded	-	-	-	-	-	-	71,993
Equipment Additions (Net)	-	-	-	-	-	-	144,363
Other Additions	-	66	2	-	134	-	-
<b>Total Revenues and Other Additions</b>	<b>1,295,994</b>	<b>549,809</b>	<b>60,180</b>	<b>14,254</b>	<b>126,897</b>	<b>97</b>	<b>280,655</b>
<b>Expenditures and Other Deductions:</b>							
Current Funds Expenditures	2,010,987	472,037	-	-	-	-	-
Indirect Costs Recovered	-	69,320	-	-	-	-	-
Loan Cancellations, Write-offs and Adjustments	-	-	3,660	-	-	-	-
Federal Direct Student Loans Granted	-	-	51,921	-	-	-	-
Administrative Allowances-Perkins Loans	-	-	671	-	-	-	-
Loan Collection Expense	-	-	946	-	-	-	-
Notes and Bonds Issued	-	-	-	-	-	-	149,006
Expended for Plant Facilities	-	-	-	-	88,635	-	-
Disposal of Plant Facilities	-	-	-	-	-	-	67,365
Retirement of Indebtedness	-	-	-	-	-	52,689	-
Interest on Indebtedness	-	-	-	-	-	44,889	-
Other Deductions	-	7	-	172	1,954	877	2,392
<b>Total Expenditures and Other Deductions</b>	<b>2,010,987</b>	<b>541,364</b>	<b>57,197</b>	<b>172</b>	<b>90,589</b>	<b>98,455</b>	<b>218,764</b>

(Continued)

**Combined Statement of Changes in Fund Balances -  
University of Wisconsin System  
For the Fiscal Year Ended June 30, 1996**

(Continued)

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds		
	Unrestricted	Restricted			Capital Projects	Retirement of Indebtedness	Net Investment in Plant
<b>Transfers Among Funds:</b>							
Operating Transfers In	847,337	7,406	92	-	-	1,240	1,233
Operating Transfers Out	(5,330)	(69)	-	-	(23)	-	(997)
Residual Equity Transfer Out	(15,000)	-	-	-	-	-	-
Mandatory Transfers:							
Debt Service on Academic Facilities	(70,431)	(665)	-	-	-	71,096	-
Debt Service on Self-Amortizing Facilities	(9,263)	(886)	-	-	-	10,149	-
Debt Service on Hospital Facilities	(4,932)	-	-	-	-	4,932	-
Student Loan Matching	(831)	-	831	-	-	-	-
Transfers to Plant Funds	(16,632)	(18,425)	-	-	-	3,927	31,129
Nonmandatory Transfers	138	(23,867)	(459)	24,188	-	-	-
Net Transfers Among Funds	725,055	(36,505)	464	24,188	(23)	91,345	31,365
<b>Fund Balance Adjustments:</b>							
Capital Lease and Installment Purchase Obligations	-	-	-	-	-	-	(1,280)
Net Fund Balance Adjustments	-	-	-	-	-	-	(1,280)
Net Increase (Decrease) for the Year	10,062	(28,060)	3,446	38,270	36,285	(7,013)	91,976
Fund Balances, Beginning of Year	256,230	53,317	152,634	143,709	5,628	70,195	2,892,040
Prior Period Adjustments	(7,404)	-	-	-	3,480	1,771	(16,983)
Fund Balances, Beginning of Year Restated	248,826	53,317	152,634	143,709	9,108	71,966	2,875,056
Fund Balances, End of Year	\$ 258,888	\$ 25,256	\$ 156,080	\$ 181,979	\$ 45,393	\$ 64,953	\$ 2,967,033

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 general purpose financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) for governments as prescribed by the Government Accounting Standards Board (GASB). The financial statements of the University of Wisconsin System have been prepared in conformity with generally accepted accounting principles for colleges and universities as prescribed by the American Institute of Certified Public Accountants and the National Association of College and University Business Officers.

**B. Financial Reporting Entity**

For GAAP purposes, the State of Wisconsin includes all funds, account groups, 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 organizations for which the nature and significance of their relationship 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*, which 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.

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

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

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

Wisconsin Housing and Economic Development Authority  
One South Pinckney Street, Suite 500  
Madison, WI 53702

Wisconsin Health Care Liability Insurance Plan  
Office of the Commissioner of Insurance  
121 East Wilson Street, 1st Floor  
Madison, WI 53702

**Blended Component Units**

Blended component units are entities which 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. In addition to accountability for fiscal matters, the State has the ability to significantly influence operations of the Foundation through legislation. The Foundation is reported as an enterprise fund.

**Discrete Component Units**

These component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The Component Units' column of the combined financial statements include financial data of these entities. One of the component units reports on a fiscal year ended December 31.

*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



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income citizens. The State has significantly expanded the scope of services of the Authority by adding programs which 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 significantly influence operations of the Authority through legislation. The State appoints the Authority's Board and has the ability to impose its will on the Authority.

*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.

#### **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.

*World Dairy Center Authority* - an authority created to establish a center for the development of dairying in the United States and the world; to analyze worldwide trends in the dairy industry and recommend actions to be taken by the State; promote dairy cattle, technology, products and services; and develop new markets for dairy and dairy-related products.

*Wisconsin Advanced Telecommunications Foundation* - organized as a nonstock corporation, administers an endowment fund to support advanced telecommunications technology application projects and efforts to educate telecommunications users about advanced services.

## **C. Fund Structure**

The State uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly effect net expendable available financial resources.

The financial activities of the State are recorded in the fund types and account groups identified below.

#### **Governmental Fund Types**

*General Fund* - the primary operating fund of the State used to account for all financial transactions except those required to be accounted for in another fund.

*Special Revenue Funds* - used to account for the proceeds of specific revenue sources that are legally restricted for specified purposes.

*Capital Projects Funds* - used to account for the acquisition or construction of major State-owned capital facilities.

*Debt Service Funds* - used to account for the accumulation of resources for, and the payment of, principal, interest and related costs of general long-term obligations.

#### **Proprietary Fund Types**

*Enterprise Funds* - used to account for operations where the State's intent is that the cost of providing goods or services to the general public be financed or recovered primarily through user charges or where the periodic determination of net income is appropriate for capital maintenance, management control, public policy, accountability or other purposes.

*Internal Service Funds* - used to account for the operations of State agencies which render services or provide goods to other State units on a cost-reimbursement basis.

**Fiduciary Fund Types**

*Trust and Agency Funds* - used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include (a) expendable trust funds, (b) nonexpendable trust funds, (c) pension trust funds and (d) agency funds.

**Account Groups**

*General Fixed Assets Account Group* - used to account for fixed assets of the State not accounted for in specific proprietary or trust funds.

*General Long-term Debt Account Group* - used to account for the unmatured general long-term liabilities of the State, except for debt accounted for directly in proprietary or trust funds.

**University Funds**

The University of Wisconsin System is comprised of 13 State-owned universities, 13 university centers, the University of Wisconsin Extension and the System Administration. The accounts of the University of Wisconsin System are maintained in accordance with the concept of fund accounting; resources are segregated for control purposes in discrete funds in accordance with specified activities or objectives. Separate accounts are maintained for each fund. Funds are classified into the five groups described below. Included in these funds are the accounts of the Wisconsin State Colleges Building Corporation and the Wisconsin University Building Corporation. These corporations were established by the Wisconsin Legislature as a means for financing capital improvements at a time when the State Constitution prohibited the contracting on public debts. These corporations were empowered to borrow money to construct, equip and furnish buildings, structures, facilities and permanent improvements for the University of Wisconsin and the former State Universities. Upon debt retirement, the corporations deeded the property titles to the State.

Also included in these funds as a blended component unit is the University Medical Center Corporation. This corporation, while legally separate, is so intertwined with the University of Wisconsin System in providing service entirely or almost entirely to the System, that they are, in substance, the same as the University of Wisconsin System.

Currently, the University of Wisconsin Hospitals and Clinics (the Hospital) is also included in the University of Wisconsin System funds. However, effective June 29, 1996, in accordance with legislation passed by the Wisconsin State Legislature, the Hospital restructured as a public authority, a body corporate and politic created by State statutes. This legislation provided, among other things, for the University of Wisconsin System Board of Regents to execute various agreements with the Hospital that provide for the

Hospital to operate in the context of a close affiliation with the University of Wisconsin. The enabling legislation transferred various assets and liabilities to the Hospital effective July 1, 1996. Therefore, beginning with Fiscal Year 1997, the Hospital will be excluded from the University of Wisconsin System reporting entity and, instead, be reported as a component unit of the State.

*Current Funds* - are those resources which are available for current operating purposes. They are further designated as either "Unrestricted" or "Restricted." Unrestricted current funds consist of those funds over which the governing board retains full control for use in achieving its authorized institutional purposes. Restricted current funds are limited to specific purposes, programs or departments as specified in agreements with donors or agencies external to the University of Wisconsin System.

*Loan Funds* - consist of federal or institutional resources available for loans to students.

*Endowment and Similar Funds* - are funds with respect to which donors have stipulated as a condition of the gift, or management has determined, that the principal is to be maintained inviolate and invested for the purpose of producing income. Investment earnings on the principal amount are reported as endowment income in Current Funds and Loan Funds. Investment earnings and gifts which the governing board, rather than a donor, has elected to retain and invest are transferred into the Endowment and Similar Funds group.

*Plant Funds* - are resources invested in and available for the acquisition of capital assets. Plant Funds are reported in three sub-groups: accounts related to current capital projects; resources associated with the retirement of indebtedness; and the investment in plant, including land, buildings and equipment.

*Agency Funds* - consist of deposits held by the University of Wisconsin System on behalf of student organizations, individual students or faculty members. University of Wisconsin System institutions act solely as an agent in handling these funds and transactions do not effect the operating statements.

**D. Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds 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.

Proprietary funds, nonexpendable trust funds, pension trust funds, and discretely presented component units are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases, i.e., revenues, and decreases, i.e., expenses, in net total assets.

Governmental funds, expendable trust funds and agency 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. Material revenue sources susceptible to accrual include individual and corporate income taxes, sales taxes, public utility taxes, motor fuel taxes and federal revenues. Individual and corporate income taxes, sales taxes and other taxes received in July and August that relate to the prior fiscal year are accrued for that fiscal year ended June 30.

Expenditures and related liabilities are recognized when obligations are incurred as a result of the receipt of goods and services. Modifications include:

- Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments of principal and interest to be made early in the following year.
- Employees' vested annual leave, compensatory time, personal holiday hours, Saturday/legal hours and sick leave are recorded as expenditures when utilized. Accumulated annual leave, compensatory time, personal holiday hours and Saturday/legal time and the long-term portion of accumulated sick leave unpaid at June 30, 1996 have been reported in the General Long-term Debt Account Group. (See Note 1-P to the financial statements.)
- Inventories are reported as expenditures when purchased. (See Note 1-I to the financial statements.)

Proprietary, nonexpendable trust and pension trust funds are reported on the accrual basis of accounting. Under the accrual basis, revenues are recorded when earned and expenses are recorded when the related liability is incurred.

In reporting the financial activity of its proprietary funds, the State applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The University of Wisconsin System's financial statements are reported on an accrual basis except that depreciation of the plant assets is not recorded, and Endowment and Similar Funds earnings are not accrued. In addition, revenues and expenditures of an academic term that spans two fiscal years are reported totally within the fiscal year in which the program is predominantly conducted.

## E. Budgets

The State's biennial budget is prepared primarily 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, Division of Executive Budget and Finance, 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 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 also 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 revenues 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 in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Budgetary Basis).

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. However, for continuing program revenue and segregated revenue appropriations, the amounts in the adopted budget are only an estimate of probable expenditures for the year. State statutes limit actual expenditures to the amount of available revenues. Consequently, for these types of appropriations, reported budgeted expenditures equal the amount of revenues received during the year plus any balances carried forward from the previous year. 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 the 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.

Budgets are required by State law for the statutorily defined General Fund, and certain special revenue and trust funds. The budgetary basis of accounting required by State law differs materially from the basis used to report revenues and expenditures in accordance with GAAP. In addition, the State's biennial budget is developed according to the statutory required fund structure which differs extensively from the fund structure used in the nonbudgetary financial statements. This difference is primarily caused by the elimination of the University of Wisconsin System, and various fiduciary, proprietary and other governmental fund category activity from the statutory General and Special Revenue funds. Consequently, a reconciliation between budgetary basis and GAAP basis is provided in Note 2 to the financial statements.

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Budgetary Basis) reports expenditures by function for the General Fund and all budgetary special revenue funds. (The Employee Trust Funds Administration and the Environmental Local Assistance funds are extracted from other statutory fund types and are not considered special revenue funds under budgetary reporting.) While budgetary control for the reported funds is maintained at the appropriation level 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.

The Capital Projects funds and Debt Service funds are not included in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Budgetary Basis). A comprehensive budget is not approved for the Capital Projects funds. Debt service expenditures reported in the Debt Service funds are budgeted through appropriations in the General Fund and the Special Revenue funds. The Operating Transfers In of \$209.3 million reported in the Bond Security and Redemption Fund of the Debt Service funds primarily represent the appropriations from these other funds.

The legal level of budgetary control for Wisconsin is at the function, agency, program, line-item (i.e., appropriation) level. Expenditure control is monitored through the use of allotments. Allotments are required for all appropriations and are utilized to establish spending limits. The State Controller's Office reviews all expenditures to ensure compliance with these spending guidelines. Initial allotments are prepared by the Division of Executive Budget and Finance with input from State agencies. 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.

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 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.

Encumbrance accounting is utilized in the General, Special Revenue, Capital Projects, and Trust funds and the University of Wisconsin System. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances may be carried over to the next fiscal year as a revision to the budgetary appropriation with Department of Administration approval. Encumbrances outstanding at year end for purchase orders and contracts expected to be honored in the following year are reported as reservations of fund balance since they do not constitute expenditures or liabilities.

## F. Cash and Cash Equivalents

Cash balances of most funds are deposited with the State Treasurer 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 at amortized cost. Cash balances not controlled by the State Treasurer 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.

**G. Investments**

The State may invest in direct obligations of the United States and Canada, securities guaranteed by the United States, certificates of deposit issued by banks in the United States and solvent financial institutions in the State, commercial paper and nonsecured corporate notes and bonds, bankers acceptances, participation agreements, privately placed bonds and mortgages, common and preferred stock and other securities approved by applicable sections of the Wisconsin Statutes, bond resolutions, and various trust indentures (see Note 3 to the financial statements).

Investments are generally stated at the lower of cost or market, or amortized cost, depending on the fund type, except for the Fixed Retirement Investment Trust Fund and the Variable Retirement Investment Trust Fund whose investments are stated at market in accordance with Wis. Stat. Sec. 25.17(14), and the State's Deferred Compensation Plan whose investments are stated at market.

**H. Interfund Assets/Liabilities**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. The balance sheet classifies these receivables and payables as "Due from Other Funds" or "Due to Other Funds." Short-term interfund loans are classified as "Interfund Loans Receivable" or "Interfund Loans Payable." Long-term interfund loans are classified as "Advances to Other Funds" and "Advances from Other Funds." The Fixed Retirement Investment Fund's share of combined stock equity securities reported in the Variable Retirement Investment Fund is classified as "Investment in Variable Retirement Investment Fund". A corresponding amount is classified as "Investment Due Fixed Retirement Investment Fund" in the Variable Retirement Investment Fund.

Transactions that occur between the primary government and component units are classified as "Due to/from Primary Government" and, correspondingly, "Due to/from Component Units".

**I. Inventories and Prepaid Items**

Inventories of governmental and proprietary funds are valued at cost, which approximates market, using the first-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 using the first-in/first-out method, 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.

In addition to inventories reported in the accompanying financial statements, the State had food commodities inventories valued at \$1.5 million at June 30, 1996.

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

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

**J. Fixed Assets**

General fixed assets are recorded as expenditures in the governmental funds and capitalized in the General Fixed Assets Account Group and are valued at cost or estimated historical cost if historical cost is not practicably determinable. Donated fixed assets are recorded at their fair value at the time received. Of the \$1,460.9 million total fixed assets at June 30, 1996, 58 percent were valued using historical cost and 42 percent were valued using estimated historical cost. Public domain (infrastructure) fixed assets such as highways, bridges and rights of way are not capitalized. In addition, interest is not capitalized on constructed general fixed assets. General fixed assets are not depreciated.

Proprietary and similar trust fund fixed assets are valued at cost or estimated historical cost if cost is not practicably determinable. Donated fixed assets are valued at their fair value at the time received. In accordance with Financial Accounting Standards Board (FASB) Statement No. 62, the State has adopted the policy of capitalizing net interest costs on funds borrowed to finance the construction of fixed assets, where appropriate.

Straight-line depreciation is taken on fund fixed assets with the following estimated useful lives:

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Buildings and improvements	5 - 40 years
Equipment, machinery and furnishings	2 - 25 years

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Fixed assets of the University of Wisconsin System are reported at cost at date of acquisition. Donated fixed assets are reported at fair value at the time received. Fixed assets of the University of Wisconsin System are not depreciated.

## K. Mortgage and Other Loans

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

Mortgage loans of the Veterans Mortgage Loan Repayment Bonds program, an enterprise fund, are stated at the outstanding loan balance with origination fees and associated costs deferred and recognized over a fifteen year period using the straight-line method.

## L. Deferred Charges

The most significant deferred charges are debt issuance costs. Significant deferred charges for the State include:

Debt issuance costs of the Wisconsin Housing and Economic Development Authority, a component unit, are amortized ratably over the life of the obligations to which they relate.

Issuance costs relating to revenue obligations of the Clean Water Fund, an enterprise fund, were capitalized and are being amortized using the effective interest rate method.

Issuance costs relating to general obligation bonds of the Veterans Mortgage Loan Repayment Fund, an enterprise fund, are amortized ratably over the life of the obligations to which they relate. Results from the use of this method do not vary materially from those that would be obtained by use of the effective interest rate method.

The University of Wisconsin System's debt issuance costs are amortized ratably over the life of the obligations to which they relate. Results from the use of this method do not vary materially from those that would be obtained by use of the effective interest method.

## M. Deferred Revenue

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Deferred revenues arise 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 deferred revenue is removed and revenue is recognized. Revenues are also deferred in governmental funds and expendable trust funds for amounts that are not yet available to pay current reporting period liabilities.

The majority of the \$555.7 million deferred revenues presented in the accompanying financial statements consists of \$423.2 million

reported within the General Fund. This amount includes \$284.8 million relating to tax revenues received in advance of the year in which earned.

Deferred revenues of the University of Wisconsin System consist of payments received but not earned at June 30, 1996, primarily for summer session tuition, tuition and room deposits for the next fall term, and advance ticket sales for upcoming intercollegiate athletic events.

## N. Fund Equity Reserves

Reservations of fund balance represent amounts that are not appropriable for expenditures or that are legally segregated for a specific purpose. Reservations of retained earnings reflect legal restrictions on the use of assets. Details related to the make-up of reserved fund balances and retained earnings are reported in Note 13.

## O. 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, 1996, 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 which are within the State's fiscal year. The result is that a liability of \$504.3 million representing one-half of the total appropriated amount is reported at June 30, 1996 as Due To Other Governments.

### State Property Tax Credit Program

At June 30, 1996, the State was liable to various taxing jurisdictions for property tax credits paid through the State Property Tax Credit Program. Under the program, payments to local taxing jurisdictions provide property tax relief directly to taxpayers in the form of State credits on individual property tax bills. State statutes require that payment to local taxing jurisdictions be made during July. Although the 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; villages; school districts; technical colleges).

The school portion of the property tax credit liability 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, 1996.

The general government portion of the property tax credit liability 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, 1996.

The aggregated State Property Tax Credit Program liability of \$253.1 million is reported in the General Fund as Due to Other Governments.

### Lottery Property Tax Credit Program

The Lottery Property Tax Credit provides direct property tax relief to taxpayers in the form of State credits on property tax bills. Under the program, 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.

The State pays municipal treasurers for lottery credits who distribute the moneys to the various taxing jurisdictions. For credits reducing the calendar year 1996 property tax bills, the State made this payment in March 1996.

The Lottery Tax Credit Program is accounted for in the Lottery Fund, an enterprise fund, that records revenues and expenses on the accrual basis. A portion of the State's March payment distributed to the general government taxing jurisdictions applies to their fiscal year which ends on December 31. Therefore, part of the March distribution represents an expense of the State in fiscal year 1996, while the remaining portion represents a prepaid item. The resulting Prepaid Item reported within the Lottery Fund totals \$30.8 million at June 30, 1996.

## P. Compensated Absences

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

### Annual Leave

Full-time employees' annual leave days are credited on January 1 of each calendar year at a minimum of 10 days per year. 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. Compensatory time accumulates for eligible employees for hours worked in excess of forty hours per week. Each full-time employee is eligible for three 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 General Long-term Debt Account Group for all governmental fund types and similar trust funds. These unpaid amounts will be paid from expendable resources provided for in the budget of future years. In the proprietary fund types and similar trust funds, component units, and the University of Wisconsin System, the obligation is reported as a fund liability.

**Sick Leave**

Full-time employees earn sick leave at a rate of four 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. That portion of the total health insurance obligation for which the State has already accumulated resources is presented in the Accumulated Sick Leave Fund, an expendable trust fund, while the remaining portion is reported in the General Long-term Debt Account Group.

**Q. Restricted Assets**

Proprietary Fund and component unit assets required to be held and/or used as specified in bond indentures and bond resolutions have been reported as Restricted Assets. These assets are classified into two categories: Cash and Cash Equivalents, and Investments.

**R. 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).

**S. 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 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.

**T. Total Columns - Memorandum Only**

Total columns on the Combined Financial Statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.



**NOTE 2. BUDGETARY-GAAP REPORTING RECONCILIATION**

The accompanying Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - General and Special Revenue Funds presents comparisons of the legally adopted budget (more fully described in Note 1-E to the financial statements) with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of basis, timing, perspective and entity differences in the fund balance as of June 30, 1996 is presented below (in thousands):

	General	Special Revenue
Fund balance June 30, 1996 (budgetary basis - budgetary fund structure) as reported on budget to actual combined statement	\$ 918,625	\$ 381,174
Reclassifications:		
To reclassify activities reported in another GAAP fund type	(233,133)	12,651
Fund balance June 30, 1996 (budgetary basis - GAAP fund structure)	685,493	393,825
Adjustments:		
To adjust expenditures for the municipal and county shared revenue program	(504,309)	
To adjust expenditures for State property tax credit program	(253,136)	
To accrue/defer revenues for individual income taxes (net)	(282,380)	
To defer revenues for gross receipts public utility taxes	(256,346)	
To adjust revenues and expenditures for tax-related items and other tax credit/aid programs (net)	(217,264)	(11,098)
To accrue unpaid Medicaid claims (net of receivable from federal government)	(87,146)	
To adjust expenditures/revenues for certain major health and family services accruals and deferrals (net)	7,985	
To adjust revenues and expenditures for other items (net )	(11,409)	(98,591)
Fund balance June 30, 1996 (GAAP basis)	\$ (918,513)	\$ 284,136

**NOTE 3. 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. Disclosures of the State's investment activities are presented in the following categories: State Investment Fund, other funds managed by the Board, other State agencies and funds, the University of Wisconsin System, and component units.

**A. Deposits****Primary Government**

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 State Treasurer. The State Treasurer 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.

The State's insured deposits are covered by the Federal Deposit Insurance Corporation (FDIC) and an appropriation for losses on public deposits. The State, as required by Wis. Stat. Sec. 34.08, is to make payments to public depositors for proofs of loss up to \$400 thousand per depositor above the amount of federal insurance. 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 Commissioner of Banking.

At June 30, 1996, the carrying amount of the primary government deposits was \$19.7 million and the bank balance was \$436.9 million. Of the bank amount,

- \$9.4 million was covered by federal depository insurance, the State Public Deposit Guarantee Fund or collateralized with securities held by the State or its agent in the State's name, and
- \$427.5 million was uncollateralized and uninsured.

**Component Units**

At June 30, 1996, the carrying amount of the component units' deposits was \$3.8 million and the bank balance was \$3.8 million of which \$3.8 million was uncollateralized and uninsured.

**B. Investments****Primary Government****State Investment Fund**

This fund 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 State Investment Fund 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 fund belonging to other participating public institutions are presented in the Local Government Pooled Investment Fund, an agency fund.

Wis. Stat. Secs. 25.17(3)(b), (ba) and (bd) enumerate the various types of securities in which the State Investment Fund can invest, which include direct obligations of the United States and Canada, securities guaranteed by the United States, securities of federally chartered corporations such as the African Development Bank, unsecured notes of financial and industrial issuers, Yankee/Euro dollar issues, certificates of deposit issued by banks in the United States and solvent financial institutions in this State, and bankers acceptances. Other prudent investments may be approved by the State of Wisconsin Investment Board's Board of Trustees. The Board of Trustees has given standing authority to the Board to invest in resale agreements, financial futures contracts, options and interest rate swaps.

**Derivative Financial Instruments**

As of June 30, 1996, the State of Wisconsin Investment Board utilized various derivative financial instruments, including interest rate swap agreements, options, structured bonds with interest rate and redemption value altering components, and interest only strips, for the purpose of increasing yield in the fund. Derivative transactions involve, to varying degrees, market and credit risk.

*Interest Rate Swap Agreements* - As of June 30, 1996, the fund held a variety of types of interest rate swap agreements. Each swap transaction involves the exchange of interest rate payment obligations without the exchange of underlying principal amounts. The notional amounts used to express the volume of these transactions do not represent the amounts subject to risk, but represent the amount on which both parties calculate interest rate obligations. The settlement of the interest rate exchange occurs at predetermined dates, with the net difference between the interest paid and interest received reflected as bond interest. Entering into interest rate swap agreements subjects the fund to the possibility of financial loss in the event of adverse changes in market rates or nonperformance by the counterparty to the swap agreement. Credit risks arising from derivative transactions are mitigated by selecting creditworthy counterparties.

The fund holds bonds with swap agreements attached. These bonds had an estimated fair value of \$161.3 million and a carrying value of \$164.9 million. In addition, the fund held two interest rate swap agreements, with notional amounts aggregating \$45.0 million, that were not attached to a bond. The market value of the two swap agreements totaled \$2.3 million at June 30, 1996.

*Restructured Investments* - During fiscal year 1995, the State of Wisconsin Investment Board became aware of the existence of market exposure in certain swap agreements and structured bonds which could impair the earnings of the fund.

The State of Wisconsin Investment Board entered into agreements with two counterparties which resulted in the counterparties' assumption of all future market risk associated with ten swap agreements and two structured bonds. At the time of the agreement the counterparties assigned a market value to these investments of negative \$95.3 million. Within this restructuring, one swap agreement requires periodic payments over a period of ten years, while the other agreement requires periodic payment of the loss over a period of five years. Interest costs associated with the periodic payment of the loss over time is estimated to be \$24.8 million. Future period earnings will be charged as payments are made.

As of June 30, 1996, the market value of the restructured investments was negative \$83.5 million while the amortized deferred loss was negative \$80.5 million.

The State of Wisconsin Investment Board has suspended the use of nonrisk reducing derivatives in the fund and investment guidelines prohibiting the use of such instruments were adopted by the Board on November 2, 1995.

*Structured Bonds* - The fund also holds high grade securities totaling \$181.2 million carrying value (\$177.1 million market) that have foreign interest rate altering components. These securities have minimum levels on the future potential coupons of zero percent or above. As a result, the underlying principal value of these securities is not at risk from foreign interest rate fluctuations.

*Options* - There were no options held on June 30, 1996. However, during the fiscal year the fund owned three call options on various foreign interest rates and one put option. The call options would have provided the fund with enhanced earnings in the event of an interest rate decline in the foreign markets. The put option gave the fund greater liquidity through the right to sell a Treasury Note. These options were of minimal market value on June 30, 1995, and expired out-of-the-money during fiscal year 1996. There was no market risk associated with owning these instruments beyond the initial cost of their purchase.

*Interest Only Strips* - The fund, in the past, invested in interest only strips, which are a form of asset-backed or mortgage-backed securities. At June 30, 1996, no securities of this type were owned.

However, at June 30, 1995, the fund held five of these securities which were sold during fiscal year 1996. These securities are based on cash flows from interest payments on underlying consumer credit card debt and mortgages. Therefore, they are sensitive to prepayments by card holders and mortgagees, which may result from a decline in interest rates or other factors. For example, if interest rates decline and underlying debt is refinanced, the cash flows from interest payments are reduced and the value of these securities declines. Likewise, if debt is paid off over a period longer than anticipated, the cash flows are greater and the return on the initial investment would be higher than anticipated.

In addition, at June 30, 1996, the fund owned a mortgage backed security that was comprised of 18 separate interest only strips and one principal only strip. This security had a carrying value of \$4.4 million and had an estimated fair value of \$3.3 million. Cash flows from the principal only portion of this instrument are based on principal payments on underlying mortgages and as such are sensitive to changes in interest rates. For example, in a falling interest rate environment, prepayments tend to increase resulting in accelerated cash flows. This translates to higher yields and market values and offsets the prepayment risk associated with interest only strips to some extent.

#### Deposits

The State Investment Fund holds certificates of deposit at various Wisconsin banks as part of the Wisconsin Certificate of Deposit Program implemented in July 1987. As of June 30, 1996, the carrying value of these certificates of deposit was \$91.3 million (\$91.3 million market value).

Approximately \$71.9 million are Category 1 risk level deposits which are insured by the FDIC, the Wisconsin State Deposit Guarantee Fund and Financial Securities Assurance Corporation insurance. The remaining \$19.4 million are Category 3 risk level deposits.

Investments

All investments are valued at amortized cost for purposes of calculating income to participants.

The following table presents investments held by the State Investment Fund categorized in accordance with GASB Statement No. 3 requirements to indicate the level of risk assumed by the fund at year-end:

- Category 1 are those investments which are insured or registered, or securities which are held by the State Investment Fund in this fund's name or its agent in the name of this Fund.

- Category 2 are those investments which are uninsured and unregistered, with the securities held by the counterparty's trust department or agent in the State Investment Fund's name.
- Category 3 are those investments which are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or agent, but not in the State Investment Fund's name.

At June 30, 1996, the State Investment Fund's investments are as follows (in millions):

	Category			Carrying Amount	Market Value
	1	2	3		
U.S. government and agency holdings	\$ 1,410.3	--	--	\$ 1,410.3	\$ 1,412.2
Securities purchased under resale agreements	1,938.5	--	--	1,938.5	1,938.5
Commercial paper and nonsecured corporate notes and bonds	1,064.9	--	--	1,064.9	1,060.7
Asset backed securities	567.1	--	--	567.1	570.4
Mortgage backed securities	205.9	--	--	205.9	200.8
Restructured notes	35.0	--	--	35.0	14.0
Bankers acceptances	67.6	--	--	67.6	67.4
Yankee/Euro dollar issue	176.1	--	--	176.1	173.9
	<u>\$ 5,465.4</u>	<u>--</u>	<u>--</u>	5,465.4	5,437.9
Interest rate swaps				--	(65.8)
Certificates of deposit				91.3	91.3
				<u>\$ 5,556.7</u>	<u>\$ 5,463.4</u>

Market 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 market makers for such securities. Investments not having quoted market prices have been valued using pricing methods deemed acceptable by industry standards. In addition, securities with a par value of \$37.8 million have been valued at par, which management believes approximates market value.

**Other Funds Managed by the Board**

Other investments under exclusive control of the Board which are not held in the cash management pool include those held by certain proprietary, trust and agency funds. A discussion of these investment activities follows:

*Fixed Retirement Investment Fund* - This trust is a pooled fund consisting of retirement contributions made by and on behalf of participants in the Wisconsin Retirement System (WRS).

At June 30, 1996, the investments of the Fixed Retirement Investment Fund totaled \$13,584.9 million, consisting of bonds,

limited partnerships, participation agreements, mortgages, real estate, and privately placed common and preferred stocks which are valued at market, in accordance with Wis. Stat. Sec. 25.17(14).

Valuation methods vary depending on the type of asset being valued. 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.

*Variable Retirement Investment Fund* - This fund consists of retirement contributions for participants in the WRS. The Variable Retirement Investment Fund consists primarily of common stocks and bonds convertible into common stock, although there may temporarily be other types of investments. All securities, totaling \$23,365.0 million, are valued at market at June 30, 1996.

*Local Government Property Insurance, State Life Insurance, and Patients Compensation Funds* - At June 30, 1996, investments of the funds were \$4.0 million for the Local Government Property Insurance Fund, \$52.4 million for the State Life Insurance Fund, and

\$312.1 million for the Patients Compensation Fund, consisting of bonds and mortgages which are valued at amortized cost.

*Historical Society Nonexpendable Trust Fund* - At June 30, 1996, investments of \$6.2 million consisted of bonds valued at the lower of cost or market value and stocks valued at cost.

The following table presents investments of these funds at June 30, 1996, categorized in accordance with the requirements of GASB Statement No. 3.

At June 30, 1996, the Other Funds Managed by the Board investments consisted of (in millions):

	Category			Carrying Amount	Market Value
	1	2	3		
Bonds	\$ 8,423.6	\$ --	\$ --	\$ 8,423.6	\$ 8,428.0
Stocks	18,927.1	--	--	18,927.1	18,927.7
Other investments	77.6	7.3	8.4	93.3	93.3
	<u>\$ 27,428.3</u>	<u>\$ 7.3</u>	<u>\$ 8.4</u>	27,444.0	27,449.0
Private placements				2,811.4	2,813.0
Limited partnerships				1,487.6	1,487.6
Pooled equities				4,846.1	4,846.1
Mortgages				165.1	165.1
Real estate				412.2	412.2
Commingled real estate				155.3	155.3
Options				19.1	19.1
Swaps				(16.3)	(16.3)
				<u>\$ 37,324.5</u>	<u>\$ 37,331.1</u>

*Securities Lending* - Additional income is generated for participants by loaning securities to approved brokers who are paid a rebate through the State of Wisconsin Investment Board's custody bank, Mellon Trust, who serves as the lending agent. The securities are collateralized by cash for at least 102 percent of the loaned securities market value. The cash collateral is reinvested by Mellon Trust in accordance with contractual investment guidelines which are designed to insure safety of principal and obtain a moderate rate of return. These investment guidelines include very high credit quality standards and also allow for a portion of the collateral investment to be invested with short-term securities. The earnings generated from the collateral investments, less the amount of rebates paid to the dealers, results in the gross earnings from lending activities, which is then split on a percentage basis with Mellon Trust. As of June 30, 1996, the market value of securities on loan for the above funds was \$2,161.9 million.

Derivative Financial Instruments in the Retirement Funds

As of June 30, 1996, the State of Wisconsin Investment Board utilized various derivative financial instruments, including forward contracts, options, and swap agreements, in the retirement investment funds. All financial derivative instruments are reported at fair value, regardless of whether the instruments are held for trading or nontrading purposes. The instruments are marked to market monthly, with valuation changes recognized in income.

*Foreign Currency Forwards and Options* - The State of Wisconsin Investment Board's derivative trading activities primarily involve foreign currency forward contracts and options. Generally, foreign currency forwards and options are held to hedge market risk. Market risk is generally controlled by holding substantially offsetting purchase and sell positions.

Forward commitments represent obligations to purchase or sell, with the seller agreeing to make delivery at a specified future date and a specified price. Options on foreign currencies provide the holder the right, but not the obligation, to purchase (call) or sell (put) foreign currencies on a certain date at a specified price. The seller (writer) of an option contract is subject to market risk, while the purchaser is subject to credit risk and market risk to the extent of the premium paid.

Hedge related foreign currency commitments at June 30, 1996 include (in millions):

Forward Contracts	Contract Amount	Fair Value
Assets	\$ 2,341.4	\$ 2,338.2
Liabilities	2,341.3	2,328.5

As of June 30, 1996, two foreign currency call options were also held to provide the retirement investment funds enhanced earnings in the event of certain foreign currency fluctuations. There is no market risk associated with owning these instruments beyond the initial cost of their purchase.

Yield enhancing foreign currency commitments (in millions):

Options	Premiums Received (Paid)	Fair Value
Calls	\$ (12.0)	\$ 18.2

*Other Options* - Other options also are held for trading purposes. These option contracts give the purchaser of the contract the right to buy (call) or sell (put) the equity security or index underlying the contract at an agreed upon price (strike price) during or at the

conclusion of a specified period of time. The seller (writer) 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.

The following schedule summarizes the other options held at June 30, 1996 (in millions):

Other Options	Premiums Received (Paid)	Fair Value
Purchased Calls - Basket	\$ (3.5)	\$ .6

*Interest Rate Swaps* - As of June 30, 1996, the Fixed Retirement Investment Fund held a variety of interest rate swaps. Each swap transaction involves the exchange of interest rate or index rate payment obligations without the exchange of underlying principal amounts. The notional amounts used to express the volume of these transactions do not represent the amounts subject to risk, but represent the amount on which both parties calculate payment obligations. The settlement of payments occurs at predetermined dates, with the net difference between the amount received and the amount paid reflected as bond interest. Entering into interest rate swap agreements subjects the investor to the possibility of financial loss in the event of adverse market changes or nonperformance by the counterparty to the swap agreement. Credit risks arising from derivative transactions are mitigated by selecting creditworthy counterparties.

The retirement investment funds held seven swap agreements with notional amounts aggregating \$241.4 million and an estimated fair value of a negative \$16.3 million at June 30, 1996. Two of these swap agreements contain leverage, whereby a multiplier effect is embedded in the rate structure of the agreement and effectively results in an increase in the notional amount of the instrument. Leverage factors effectively increased the notional amount to \$321.4 million.

**Other State Agencies and Funds**

The following funds also make investments following pertinent State statutes and policy provisions as set out by the appropriate governing boards or bond resolutions:

*Public Service Commission* - Investments at June 30, 1996, of \$2.2 million consisted of money market funds which are reported in the General Fund.

*Lottery Fund* - Investments are all in the form of U.S. Treasury zero coupon bonds. At June 30, 1996 investments of \$218.8 million, \$216.0 million meet GASB No. 3 risk Category 1 while \$2.8 million meet risk Category 3.

*Veterans Mortgage Revenue Bonds Fund* - Investments at June 30, 1996, totaled \$.2 million which include direct obligations of the United States and its agencies or instrumentalities. All investments are a Category 3 risk.

*Transportation Revenue Bond Funds* - At June 30, 1996, the Transportation Revenue Bond Capital Projects Fund and the Transportation Revenue Bond Debt Service Fund had investments totaling \$93.2 million. These investments meet Category 1 risk criteria.

Repurchase agreements with the program's financial institution requires the institution to take possession of collateral having a market value of at least 102 percent of the cost of the repurchase agreement.

*Clean Water Fund* - The fund's aggregate investments at June 30, 1996, were \$117.5 million, of which \$37.9 million are reported as cash equivalents consisting of a repurchase agreement which is a Category 2 level of risk. Investments of \$79.6 million consist of government and agency holdings and satisfy Category 1 level of risk.

*The Wisconsin Public Broadcasting Foundation Fund* - The fund's investments at June 30, 1996 were \$3.9 million, consisting of \$1.1 million of money market funds and \$.3 million of mutual funds. In addition, the fund held \$2.5 million of government holding, which meet the Category 1 risk level.

*Health Insurance Risk Sharing Plan* - At June 30, 1996, investments of \$7.9 million consisted of government and agency holdings meeting Category 1 of GASB Statement No. 3.

*Insurance Company Liquidation Account* - The fund's investments at June 30, 1996 were \$1.3 million consisting of government and agency holdings meeting Category 1 risk criteria.

At June 30, 1996, the State has approximately \$212.2 million of investments which it holds for banks and insurance companies. These assets are held for the period of time specified by statute and then returned to their owner. The assets are presented in the *Bank and Insurance Company Deposits Fund* as "Other Assets". All investments meet risk category 1.

Unclaimed property, usually in the form of stocks, bank accounts, insurance proceeds, utility deposits and uncashed checks, are transferred periodically to the *Unclaimed Property Program Fund*. The securities, presented as "Other Assets" on the financial statements, include \$4.8 million of various investments which meet risk category 1 and \$1.0 of mutual funds.

The State's Section 457 *Deferred Compensation Plan Fund* investments, totaling \$520.6 million at June 30, 1996, are in the form of equity securities, insured savings accounts and investment contracts with insurance companies. Additional information on the State's deferred compensation plan is provided in Note 18 to the financial statements.

The following table presents investments of the Other State Agencies and Funds at June 30, 1996, categorized in accordance with the requirements of GASB Statement No. 3.

At June 30, 1996, the Other State Agencies and Funds' investments consisted of (in millions):

	Category			Carrying Amount	Market Value
	1	2	3		
Government and agency holdings	\$ 477.7	\$ --	\$ 3.1	\$ 480.8	\$ 480.8
Municipal bonds	40.6	--	--	40.6	40.6
Commercial paper and nonsecured corporate notes and bonds	4.8	--	--	4.8	4.8
Repurchase agreements	93.2	37.9	--	131.1	131.1
Negotiable certificates of deposit	1.2	--	--	1.2	1.2
	<u>\$ 617.5</u>	<u>\$ 37.9</u>	<u>\$ 3.1</u>	658.5	658.5
Mutual Funds				1.2	1.2
Money market funds				3.3	3.3
Deferred compensation investments				520.6	520.6
				<u>\$ 1,183.6</u>	<u>\$ 1,183.6</u>

**University of Wisconsin System**

The University of Wisconsin System investments of \$184.1 million, with a market value of \$219.2 million, consist primarily of assets of endowment funds having a book value of \$176.6 million, while current funds and loan funds have an aggregate book value of \$7.5 million. Investments, which are Category 1 Risk level, of these funds at June 30, 1996, were comprised of the following (in millions):

	Carrying	Market
Common and preferred stock	\$ 94.2	\$ 130.7
Bonds, notes and debentures	89.9	88.5
Total investments	<u>\$ 184.1</u>	<u>\$ 219.2</u>

**Component Units**

*Wisconsin Housing and Economic Development Authority (Authority)* - The Authority is required by statute to invest at least 50 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 bond resolution specifies what constitutes a permitted investment and such investments may include obligations of the U.S. Treasury, agencies and instrumentalities; commercial paper; bankers acceptances; and repurchase agreements and investment agreements.

The Authority's investments in mortgage-backed securities and structured notes had a carrying value of approximately \$92.6 million and a market value of approximately \$76.0 million as of June 30, 1996. The Authority currently intends to hold such mortgage-backed securities and structured notes until maturity or until they can be sold in more favorable market conditions. These securities are based on cash flows from principal and interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees which may result from a decline in interest rates.

The Authority's aggregate investments at June 30, 1996, were \$487.2 million of which \$122.7 million are reported as cash equivalents consisting of repurchase agreements, commercial paper, money market funds, and short-term investment agreements. The Authority's investments of \$4.3 million in certificates of deposit are a Category 1 level of risk while all other investments are a Category 2 level of risk.

The Authority enters into guaranteed investment contracts with various financial institutions. The investment contracts are generally collateralized by obligations of the United States government and are carried at cost which is equivalent to contract value. The fair value of these contracts is considered to approximate contract value.

The Authority is also authorized to invest its funds in the State Investment Fund. The Authority has established a Master Repurchase Agreement with its banking institutions to govern the purchase of repurchase agreements. This agreement requires the institution to take possession of collateral having a market value of at least 103% of the cost of the repurchase agreement. The underlying collateral must be maintained at this level at all times.

*Wisconsin Health Care Liability Insurance Plan* - The investments of the Wisconsin Health Care Liability Insurance Plan at December 31, 1995 were \$163.5 million, of which \$4.9 million are reported as cash equivalents. All investments meet the Category 2 risk level.

The following table presents investments of component units at December 31, 1995 or June 30, 1996, categorized in accordance with the requirements of GASB Statement No. 3.



At December 31, 1995 or June 30, 1996, the component units' investments consisted of (in millions):

	Category			Carrying Amount	Market Value
	1	2	3		
Government and agency holdings	\$ --	\$ 137.4	\$ --	\$ 137.4	\$ 133.7
Municipal bonds	--	42.3	--	42.3	42.3
Commercial paper and nonsecured corporate notes and bonds	--	63.7	--	63.7	63.6
Negotiable certificates of deposit	4.3	--	--	4.3	4.3
Mortgage-backed securities	--	138.4	--	138.4	121.8
	<u>\$ 4.3</u>	<u>\$ 381.8</u>	<u>\$ --</u>	386.1	365.7
Money market funds				127.6	127.6
Guaranteed investment contracts				137.1	137.1
				<u>\$ 650.8</u>	<u>\$ 630.4</u>

The following schedule summarizes investments presented in the above note discussions (in millions):

Other Funds Managed by the Board	\$ 37,324.7
Other State Agencies and Funds	1,183.7
University of Wisconsin System	184.1
Component Units	650.8
Total Investments	<u>\$ 39,343.3</u>

### C. Lottery Investments and Related Future Price Obligations

Investments of the State Lottery Fund totaling \$218.8 million are held to finance grand prizes payable over a 20-year or 25-year period. The investments in prize annuities are in the form of United States Treasury zero coupon bonds, securities guaranteed by the United States government, or investment instruments issued by various brokerage firms secured by United States Treasury bonds. Liabilities related to the future prize obligations are presented at their present value and included as Accounts Payable and Other Accrued Liabilities. The following is a schedule of future prize obligations (in thousands):

Fiscal Year	Amount
1997	\$ 22,290
1998	22,416
1999	22,541
2000	22,670
2001	22,803
Thereafter	<u>286,671</u>
Total future value	399,391
Less: Present value adjustment	<u>(172,867)</u>
Present value of payments	<u>\$ 226,524</u>

**NOTE 4. FIXED ASSETS**

The following is a summary of changes in the General Fixed Assets Account Group during the fiscal year (in thousands).

	Balance July 1, 1995	Additions	Retirements	Completed Construction	Transfers to/from Other Funds	Balance June 30, 1996
Land	\$ 301,091	\$ 17,509	\$ (1,467)	\$ 8,625	\$	\$ 325,758
Buildings and improvements	524,236	21,433	(1,431)	127,303		671,540
Machinery and equipment	367,218	52,950	(22,801)	391	(988)	396,770
Construction in progress	144,237	58,937		(136,319)		66,856
Total general fixed assets	<u>\$ 1,336,782</u>	<u>\$ 150,829</u>	<u>\$ (25,699)</u>	<u>\$ 0</u>	<u>\$ (988)</u>	<u>\$ 1,460,924</u>

Construction in progress reported in the General Fixed Asset Account Group at June 30, 1996 included the following projects (in thousands):

	Allotments	Expended to June 30, 1996	Encumbrances Outstanding	Unencumbered Allotment Balance
Waupun Housing/Freezer/Locks	\$ 14,634	\$ 1,168	\$ 1,630	\$ 11,836
Youthful Offender Institution	24,275	3,169	17,987	3,119
Secured Juvenile School	11,500	8,291	874	2,335
Rail Acquisition/Development	10,000	6,375		3,625
Camp Williams Support Facility	14,103	13,564	62	477
Other projects with allotments totaling less than \$10 million		34,289		
Total construction in progress		<u>\$ 66,856</u>		

The following is a summary of proprietary and fiduciary fund-type, University of Wisconsin System, and component unit fixed assets at June 30, 1996 (in thousands):

	Enterprise	Internal Service	Nonexpendable Trust	University of Wisconsin System	Component Units
Land	\$ 10,269	\$ 8,376	\$ 635	\$ 87,508	\$ 1,786
Buildings and improvements	191,617	150,370		1,907,391	855
Machinery and equipment	40,186	137,835		1,720,347	4,634
Less: Accumulated depreciation	(111,378)	(139,902)			(4,317)
Construction in progress	11,462	37,641			1,930
Total	<u>\$ 142,156</u>	<u>\$ 194,320</u>	<u>\$ 635</u>	<u>\$ 3,715,246</u>	<u>\$ 4,888</u>

**NOTE 5. CHANGES IN LONG-TERM OBLIGATIONS REPORTED IN THE GENERAL LONG-TERM DEBT ACCOUNT GROUP**

During the year ended June 30, 1996, the following changes occurred in liabilities reported in the General Long-term Debt Account Group (in thousands):

	Balance July 1, 1995	Additions	Reductions	Balance June 30, 1996
Capital Leases	\$ 5,621	\$ 6,208	\$ 2,924	\$ 8,905
Compensated Absences	410,783	271,715	--	682,498
Employer Pension Costs	114,208	44,966	27,959	131,215
General Obligation Bonds Payable	1,708,509	224,124*	212,260	1,720,373
Revenue Bonds Payable	555,950	220,000	25,385	750,565
Claims, Judgments and Commitments	167,269	6,917	54,739	119,447
Installment Contracts Payable	2,301	1,732	1,314	2,719
	<u>\$ 2,964,641</u>	<u>\$ 775,662</u>	<u>\$ 324,581</u>	<u>\$ 3,415,722</u>

\* Due to the inclusion of accretion amounts on original issue discounts of the State's zero coupon bonds and underwriter discounts on new general obligation bond issues sold during Fiscal Year 1996, the amount presented for "Additions" to general obligation bonds payable differs from the amount presented for "Proceeds from Sale of Bonds" on the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances, which is reported net of the discussed items.

**NOTE 6. BONDS AND NOTES PAYABLE**

The following schedule summarizes outstanding bonds and notes payable at June 30, 1996 (in thousands):

<b>Primary Government:</b>	
General Long-term Debt Account Group:	
General Obligation Bonds	\$1,720,373
Transportation Revenue Bonds	<u>750,565</u>
Total General Long-term Debt Account Group	<u>2,470,938</u>
Debt Service Funds:	
Bond Security and Redemption General Obligation	735
Transportation Revenue Bonds	<u>25,385</u>
Total Debt Service Funds	<u>26,120</u>
Enterprise Funds:	
State Fair Park General Obligation Bonds	13,040
State Nursery Operations General Obligation Bonds	734
Veterans Mortgage Loan Repayment General Obligation Bonds	524,597
Veterans Mortgage Revenue Bonds	195
Wisconsin Education Revenue Bonds	8,502
Clean Water Fund Revenue Bonds	<u>364,632</u>
Total Enterprise Funds	<u>911,700</u>
Internal Service Funds:	
Facilities Operations and Maintenance	
General Obligation Bonds	97,274
Badger Industries General Obligation Bonds	<u>285</u>
Total Internal Service Funds	<u>97,559</u>
University of Wisconsin System:	
General Obligation Bonds	728,489
Other Bonds	<u>1,842</u>
Total University of Wisconsin System	<u>730,331</u>
<b>Component Units:</b>	
Wisconsin Housing and Economic Development Authority Bonds and Notes	
	<u>1,760,537</u>
Total at June 30, 1996	<u><u>\$5,997,185</u></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. Sec. 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.

Repayment of the bonds is made from the Bond Security and Redemption Fund, which receives transfers from various departmental general purpose revenue, program revenue, and segregated revenue appropriations to pay principal and interest as it becomes due. The bonds payable amount shown in the Debt Service Fund represents the liability to be paid from resources accumulated to provide debt service payments early in Fiscal Year 1997.

At June 30, 1996, \$1,573.7 million of general obligation bonds were authorized but unissued.

General obligation bonds issued and outstanding as of June 30, 1996 were as follows (in thousands):

Fiscal Year Issued	Series	Dates	Interest Rates	Maturity Through	Amount Issued	Amount Outstanding
1977	1976 Series C and 1977 Series B	11/76; 5/77	5.0	5/02	\$ 168,000	\$ 15,900
1979	1978 Series C	11/78	5.1	11/03	77,300	7,520
1986	1986 Series A	5/86	7.25 to 7.5	1/15	38,185	23,645
1987	1986 Series B	7/86	7.2	8/96	247,800	11,960
1988	Refunding Issue	5/88	6.7 to 6.8	5/98	420,065	74,458
1989	1988 Series A, B and 1989 Series A through C	7/88; 12/88 1/89; 3/89; 5/89	6.8 to 7.7	1/04	294,150	15,960
1990	1989 Series D, E and 1990 Series A through D	8/89; 10/89 1/90; 3/90; 5/90	6.4 to 7.6	1/20	341,889	81,461
1991	1990 Series E through G, 1991 Series A through C and Series I	8/90; 10/90; 12/90 4/91; 5/91; 6/91	5.75 to 7.6	1/21	518,291	213,698
1992	1991 Series D; 1992 Series A and B, and Refunding Issue	9/91; 3/92 6/92; 3/92	5.1 to 6.6	1/22	794,975	521,600
1993	1992 C and 2 1993 1, 2 and A	10/92; 11/92 1/93; 3/93; 5/93	3.8 to 6.5	5/15	721,175	594,020
1994	1993 Refunding Issues 3, 4, 5, 6; 1994 Refunding Issues 1 and 2; and 1994 Series A and B	7/93; 12/93; 12/93; 10/93; 3/94; 1/94; 6/94	3.5 to 6.2	5/24	929,825	852,195
1995	1994 Series 3 and C; 1995 Series A, B, and 1	9/94; 9/94 1/95; 2/95; 2/95	4.5 to 6.65	5/25	331,715	228,555
1996	1995 Series 2 and C; 1996 Series 1, A and B; and Note 995B	10/95; 9/95; 2/96; 1/96; 5/96 and 7/95	4.0 to 7.3	11/26	448,536	446,946
Total					5,331,906	
Proprietary Fund (Discounts)/Premiums						(2,392)
Total General Obligation Bonds and Notes, net of discounts					\$ 5,331,906	\$ 3,085,526

As of June 30, 1996, general obligation debt service requirements for principal and interest in future years are as follows (in thousands):

Fiscal Year Ended June 30	Principal	Interest	Total
1997	\$ 207,739	\$ 166,494	\$ 374,233
1998	213,999	153,486	367,485
1999	213,692	142,067	355,759
2000	215,614	131,616	347,230
2001	211,616	122,165	333,781
Thereafter	2,103,281	783,627	2,886,908
Total	3,165,941	1,499,455	4,665,396
Proprietary Fund (Discounts)/Premiums	(2,392)		(2,392)
Unamortized zero coupon and CAB discounts	(78,023)		(78,023)
Total, net of discounts	<u>\$3,085,526</u>	<u>\$ 1,499,455</u>	<u>\$ 4,584,981</u>

Zero Coupon Bonds

The general obligation bonds of 1990, Series D (Higher Education Series), are zero coupon bonds recorded in the amount of \$38.8 million which is the accreted value at June 30, 1996. The bonds mature on May 1 through the year 2010.

The Refunding General Obligation Bonds of 1988 included capital appreciation bonds (CAB's). The bonds are recorded in the amount of \$13.7 million which is the accreted value at June 30, 1996. The bonds mature on May 1 through the year 1998. Funding for these bonds will be provided as they mature.

The general obligation bonds of 1991, Series B, are zero coupon bonds recorded in the amount of \$68.2 million. The bonds mature on May 1 through the year 2011.

**B. 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 \$1,083.0 million Series A revenue bonds. Presently, there are nine issues of Transportation Revenue Bonds totaling \$775.9 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, 1996 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
1996A	5/96	5.0 to 6.0	7/16	\$ 115,000	\$ 115,000
1995A	9/95	4.5 to 6.3	7/15	105,000	105,000
1994A	7/94	4.5 to 7.5	7/14	100,000	96,995
1993A	9/93	3.5 to 5.0	7/12	116,450	113,435
1992A&B	7/92	4.1 to 5.8	7/22	299,150	291,425
1991A	10/91	5.5 to 6.2	7/02	42,085	29,660
1989A	4/89	7.2 to 7.3	7/98	14,715	5,950
1988A	4/88	6.5 to 6.7	7/97	15,300	4,125
1986A	6/86	7.2 to 7.4	7/97	83,575	14,360
Total				<u>\$ 891,275</u>	<u>\$ 775,950</u>

As of June 30, 1996, debt service requirements for principal and interest for the Transportation Revenue Bonds are as follows (in thousands):

Fiscal Year Ended June 30	Principal	Interest	Total
1997	\$ 25,385	\$ 34,498	\$ 59,883
1998	29,710	37,705	67,415
1999	30,750	36,738	67,488
2000	29,490	35,741	65,231
2001	30,920	34,402	65,322
Thereafter	629,695	282,254	911,949
Total	<u>\$ 775,950</u>	<u>\$ 461,338</u>	<u>\$ 1,237,288</u>

**Veterans Mortgage Revenue Bonds**

The Department of Veterans Affairs provides funds to finance home loans to qualified veterans. The Department of Veterans Affairs is authorized to issue up to \$280.0 million in Veterans Mortgage and Veterans Home Loan Revenue Bonds. At June 30, 1996, there was one issue of Veterans Home Loan Revenue Bonds outstanding totaling \$195 thousand. These bonds are secured by payments on program loans and earnings of investments.

Bonds issued and outstanding for the Veterans Mortgage Revenue Bonds as of June 30, 1996 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
1981	8/81	9.75 to 11.5	8/12	\$ 10,055	\$ 195

As of June 30, 1996, debt service requirements for principal and interest are as follows (in thousands):

Fiscal Year Ended June 30	Principal	Interest	Total
1997	\$ 10	\$ 22	\$ 32
1998	10	21	31
1999	10	20	30
2000	10	19	29
2001	10	18	28
Thereafter	145	113	258
Total	\$ 195	\$ 213	\$ 408

**Wisconsin Education Revenue Bonds**

The Wisconsin Higher Educational Aids Board (HEAB) was created in 1967 to replace the State Commissioner for Higher Educational Aids and to administer the State's Student Loan Program. Through its administration of the Student Loan Program, HEAB provides funds to finance Health Education Assistance Loans.

*Health Education Assistance Loan Program*

At June 30, 1996, there was one issue of Health Education Assistance Loan program bonds outstanding totaling \$8.5 million. These bonds are secured by student loan repayments and interest income.

The Health Education Assistance Loan program bonds issued and outstanding as of June 30, 1996 were as follows (in thousands):

Issue	Issue Date	Maturity Through	Issued	Outstanding
1994	12/94	12/04	\$ 19,100	\$ 9,485
Less: Unamortized discount				(983)
Total			\$ 19,100	\$ 8,502

The provisions of the 1994 Series A bond issue requires interest and principal payments are to be made to the bond holder on the first working day of the month until maturity in December 2004. The interest portion of each monthly payment is based on the Treasury Bill rate plus 0.25% for each day in the month. The principal amount paid each month varies depending on the amount of student loans receivable that is collected and working cash flow for each month. Therefore, bond amortization varies through final maturity in the year 2004.

**Clean Water Fund**

The Clean Water Fund provides loans and grants to local municipalities to finance wastewater treatment planning and construction. The Fund is authorized to issue up to \$1,298.0 million in Clean Water Revenue Bonds. At June 30, 1996, there were four issues of Clean Water Revenue Bonds outstanding totaling \$371.0 million. These bonds are secured by payments on program loans and earnings of investments.

Bonds issued and outstanding for the Clean Water Fund as of June 30, 1996 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
1995-1	7/95	4.0 to 6.25	6/15	\$ 80,000	\$ 80,000
1993-1	9/93	3.6 to 5.3	6/13	84,345	82,735
1993-2	9/93	2.75 to 6.13	6/08	81,950	79,650
1991-1	4/91	5.4 to 6.9	6/11	225,000	128,545
				471,295	370,930
Unamortized Premium					3,080
Less: Unamortized discount and charge					(9,378)
Total, net of discount, charge and premium				\$ 471,295	\$ 364,632

As of June 30, 1996, debt service requirements for principal and interest for the Clean Water Fund were as follows (in thousands):

Fiscal Year Ended June 30	Principal	Interest	Total
1997	\$ 13,560	\$ 21,101	\$ 34,661
1998	14,270	20,393	34,663
1999	16,820	19,639	36,459
2000	17,725	18,737	36,462
2001	18,695	17,767	36,462
Thereafter	289,860	112,785	402,645
Total	370,930	210,422	581,352
Unamortized Premium	3,080		3,080
Less: Unamortized discount and charge	(9,378)		(9,378)
Total, net	\$ 364,632	\$ 210,422	\$ 575,054

**Component Units**

**Wisconsin Housing and Economic Development Authority**

Bonds and notes payable at June 30, 1996 of the Wisconsin Housing and Economic Development Authority (Authority) consisted of the following (in thousands):

Revenue bonds and notes	\$ 1,540,809
Special obligation and subordinated special obligation	220,708
Total	1,761,517
Less: Deferred amount on refunding	(980)
Total, net	\$ 1,760,537

*Authority's Revenue Bonds and Notes*

The Authority's revenue bonds and notes are collateralized by the revenues and assets of the Authority, subject to the provisions of resolutions and note agreements which pledge particular revenues or assets to specific bonds or notes. The bonds are subject to mandatory sinking fund requirements and may be redeemed at the Authority's option at various dates after approximately 10 years from the date of issuance at prices ranging from 103 percent to 100 percent of par value. Any particular series contains both term bonds and serial bonds which mature at various dates.

The notes payable of \$16.0 million bear a variable interest rate based upon an index, and is reset periodically.

The Authority's revenue bonds and notes outstanding at June 30, 1996 consisted of the following (in thousands):

Series/ Issue	Date	Rates	Maturity Through	Outstanding
<b>Housing Revenue Bonds:</b>				
1986 A&B	9/86	7.25 to 8.5	2017	\$ 2,575
1988 A&B	2/88	6.8 to 8.25	2018	10,245
1989 A, B&C	9/89	7.1 to 7.85	2020	13,950
1992 A	1/92	5.2 to 6.85	2012	66,090
1992 B, C, D	4/92	5.8 to 7.2	2022	71,910
1993 A&B	10/93	3.9 to 5.65	2023	73,145
1993 C	12/93	4.0 to 5.875	2019	139,670
1995 A&B	7/95	3.9 to 6.5	2026	51,700
				<u>429,285</u>
<b>Home Ownership Revenue Bonds:</b>				
1985 I	6/85	8.4 to 9.125	2012	9,669
1985 III	12/85	8.45 to 9.125	2010	1,380
1986 A	8/86	7.4 to 8.125	2016	6,540
1986 B	11/86	6.2 to 7.375	2017	25,565
1987 A	5/87	7.3 to 7.75	2014	6,365
1987 B&C	8/87	7.3 to 7.85	2016	21,520
1987 D&E	12/87	7.45 to 7.9	1996	280
1988 A&B	6/88	7.0 to 8.0	2000	4,380
1988 C	8/88	7.4 to 7.8	2003	5,050
1988 D	10/88	7.1 to 7.9	2005	19,160
1989 A	5/89	6.95 to 7.5	2017	19,825
1989 B&C	10/89	7.0 to 7.85	2021	60,368
1990 A&B	5/90	6.85 to 8.0	2020	66,755
1990 D&E	9/90	6.9 to 8.0	2021	42,140
1991 A&B	12/90	6.65 to 7.85	2024	64,470
1991 1,2&3	7/91	6.0 to 7.2	2022	66,940
1992 A&B	3/92	5.5 to 7.1	2023	81,565
1992 1,2	6/92	5.3 to 6.875	2024	84,205
1994 A&B	4/94	4.4 to 6.75	2025	79,215
1995 A&B	1/95	5.4 to 7.1	2025	121,420
1996 A&B	3/96	4.0 to 6.15	2027	75,000
				<u>861,812</u>
<b>Home Ownership Revenue Bonds (Taxable):</b>				
1989 A	7/89	9.8	2019	2,745
1995 C,D&E	5/95	4.5 to 7.45	2026	99,905
1995 F,G&H	9/95	4.2 to 7.875	2026	70,000
				<u>172,650</u>
<b>Business Development Bonds:</b>				
1988 3-6	Various	7.625 to 8.0	2003	1,660
1989 1,3-9,11-12,17				
19-22,28 & 29	Various	6.6 to 8.0	2014	16,950
1990 1-4, 6	Various	6.9 to 7.75	2010	4,650
1991 1-6	Various	5.7 to 7.05	2006	8,465
1994 1-4	Various	Variable	2014	10,310
1995 1-2, 4-9	Various	Variable	2015	18,985
				<u>61,020</u>
Notes Payable	Various	Variable	1998	16,042
<b>Authority's Total Revenue Bonds and Notes</b>				<u>\$1,540,809</u>



*Authority's Special Obligation and Subordinated Special Obligation Bonds*

The Authority's Special Obligation and Subordinated Special Obligation Bonds are special limited obligations of the Authority and are collateralized by the revenues and assets of each bond resolution.

The subordinated bond R-1 is a special obligation of the Authority issued to the State Investment Board for the purpose of providing funds to purchase home improvement loans under the Housing Rehabilitation Loan Program. The bond is expressly subordinate to the payment of all Housing Rehabilitation Loan Revenue Bonds now or at any time outstanding under the general resolution. The principal and interest on the bond are payable solely from a subordinated pledge of the revenues and assets of the Housing Rehabilitation Program Funds.

The subordinated bond R-2 is a special obligation of the Authority issued to the Firststar Trust Company and is collateralized by a subordinated pledge of the revenues and assets of the Housing Rehabilitation Loan Program.

Special obligation and subordinated special obligation bonds at June 30, 1996 consist of the following (in thousands):

Series/ Issue	Date	Rates	Maturity Through	Outstanding
Housing Revenue Bonds:				
1994	1/94	7.4 to 9.25	2024	\$ 11,858
Housing Rehabilitation Loan Revenue Bonds:				
R-1	8/79	5.0	1996	4,880
R-2	11/88	None	1996	1
				<u>4,881</u>
Home Ownership Revenue Bonds:				
1993 A	6/92	4.4 to 6.5	2025	83,805
1994 C&D	8/94	4.45 to 6.65	2025	49,370
1994 E&F	12/94	5.2 to 7.55	2026	29,855
				<u>163,030</u>
Home Ownership Revenue Bonds (Taxable):				
1993 B	4/93	6.45 to 7.4	2017	24,619
Home Improvement Revenue Bonds:				
1988 A	11/88	7.0 to 7.75	2006	6,705
1990 A&B	4/90	7.1 to 7.9	2006	4,560
1992 A&B	5/92	5.375 to 7.0	2010	5,055
				<u>16,320</u>
Total Special and Subordinated Obligation Bonds				<u>\$ 220,708</u>

As of June 30, 1996, debt service requirements for principal and interest of the Authority's revenue bonds and special obligation bonds were as follows (in thousands):

Fiscal Year Ended June 30	Principal	Interest	Total
1997	\$ 62,724	\$ 114,833	\$ 177,557
1998	48,105	111,821	159,926
1999	43,523	109,470	152,993
2000	42,012	107,266	149,278
2001	42,322	104,564	146,886
Thereafter	1,522,831	1,447,260	2,970,091
Total	1,761,517	1,995,214	3,756,731
Less: Deferred			
Refunding Amount	(980)		(980)
Total	<u>\$ 1,760,537</u>	<u>\$ 1,995,214</u>	<u>\$ 3,755,751</u>

Under a Business Development Program and a Beginning Farmer 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, 1996, the Authority had issued 100 series of such bonds in an aggregate principal amount of \$62.3 million for economic projects in Wisconsin.

**C. University of Wisconsin System**

Bonds payable included in the University of Wisconsin System's Plant Funds at June 30, 1996 consist of general obligation bonds of \$728.5 million; Wisconsin University Building Corporation bonds with an outstanding balance of \$0.4 million maturing in the years 1997 - 1999 and the Wisconsin State College Building Corporation bonds recorded in the amount of \$1.4 million maturing in 2001.

Debt of these corporations are general obligations of the corporations, but not of the State. Revenues pledged to the repayment of these bonds are derived through lease-rental agreements between the University of Wisconsin System and the corporations.

On June 30, 1996, future principal payments on bonds payable of these corporations were as follows (in thousands):

Fiscal Year Ended June 30	Total
1997	\$ 506
1998	469
1999	417
2000	450
Total	<u>\$ 1,842</u>

**D. Refundings and Early Extinguishments**

**Refunding Provisions of GASB Statement No. 23**

The State has applied the provisions of GASB Statement No. 23. "Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities" during 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.

In February 1996, the State participated in a refunding (1996 Series 1) of general obligation debt that fall within the provisions of GASB Statement No. 23. The State is amortizing these deferred amounts over a period of approximately 19 years, using the straight-line method. Below are the Gross Deferred Amounts, Amortization of Deferred Amounts, and the Outstanding Deferred Amounts for the two funds impacted:

	Gross Deferred Amount	1996 Amortization of Deferred Amount	Net Deferred Amount Outstanding
Facilities Operations and Maintenance	\$ 248,517	\$ 4,808	\$ 243,709
University of Wisconsin System	1,898,210	36,727	1,861,483
	<u>\$ 2,146,727</u>	<u>\$ 41,535</u>	<u>\$ 2,105,192</u>

**Current Year Refundings/General Obligation Bonds**

In October 1995, the State issued \$42.9 million of general obligation bonds (1995 Series 2), the proceeds of which were deposited in the Bond Security and Redemption fund to be used for a replacement refunding (no change in cash flows nor an economic gain or loss resulted), whereby the bond proceeds replace a portion of the moneys available to redeem certain of the State's outstanding general obligation bonds previously issued for the purpose of veterans housing loans, including (in millions):

1976C Series	\$ .8
1978C Series	1.0
1985B Series	40.8
19935 Series	.1
19936 Series	.2

In February 1996, the State issued \$104.8 million of general obligation refunding bonds (1996 Series 1), the proceeds of which were deposited in an escrow account to provide for future debt service requirements on \$189.3 million of the 1995A general obligation bonds outstanding at the time of the refunding. As a result, the bonds are considered defeased and the associated liability removed from the financial statements. The refunding resulted in decrease in total debt service payments by \$4.0 million and an economic gain of \$3.0 million.

#### **Prior Year Refundings/General Obligation Bonds**

In February 1995, the State issued \$15.7 million of general obligation bonds (1995 Series 1) for the purpose of replacement refunding certain outstanding general obligation bond principal amounts due May, 1995. The bonds had previously been issued for the purpose of veterans housing loans. This refunding allowed moneys available in the amount of \$15.7 million to be used to originate veterans housing loans.

In September 1994, the State issued \$10.4 million of general obligation refunding bonds (1994 Series 3), the proceeds of which were deposited in an escrow account to provide for the future debt service requirements on the 1983 Series A general obligation bonds outstanding at the time of the refunding. As a result, the bonds are considered defeased and the associated liability removed from the financial statements. On June 30, 1996, the outstanding principal was \$10.4 million.

In March 1994, the State issued \$106.6 million of general obligation refunding bonds (1994 Series 1) and \$58.5 million of general obligation refunding bonds (1994 Series 2) the proceeds of which were deposited in an escrow account to provide for the future debt service requirements on \$136.3 million of various general obligation bonds. As a result of the refunding, the bonds are considered defeased and the associated liability removed from the financial statements. On June 30, 1996, the outstanding principal on these defeased bonds was \$95.4 million.

In October 1993, the State issued \$20.0 million of general obligation refunding bonds (1993 Series 6), the proceeds of which were used for a replacement refunding, whereby the proceeds replace a portion of moneys that are available to be used to redeem certain general obligation 1985 Series B that were used for the purpose of veterans housing loans. Pursuant to a special redemption provision, the State redeemed certain 1985 Series B bonds allowing moneys on hand and attributable to those bonds to be used to originate veterans housing loans.

In December 1993, the State issued \$135.3 million of general obligation refunding bonds (1993 Series 5), the proceeds of which were deposited in an escrow account to provide for the future debt service requirements on \$133.7 million of various general obligation bonds. As a result of the refunding, the bonds are considered

defeased and the associated liability removed from the financial statements. On June 30, 1996, the outstanding principal on these defeased bonds was \$98.0 million.

In December 1993, the State issued \$77.6 million of general obligation refunding bonds (1993 Series 4), the proceeds of which were deposited in an escrow account to provide for the future debt service requirements on \$76.0 million of various general obligation bonds outstanding at the time of the refunding. As a result of the refunding, the bonds are considered defeased and the associated liability removed from the financial statements. On June 30, 1996, the outstanding principal on these defeased bonds was \$10.2 million.

In August 1993, the State issued \$302.0 million of general obligation refunding bonds (1993 Series 3), the proceeds of which were deposited in an escrow account to provide for the future debt service requirements on \$271.9 million of various general obligation bonds outstanding at the time of the refunding. As a result of the refunding, the bonds are considered defeased and the associated liability removed from the financial statements. On June 30, 1996, the outstanding principal on these defeased bonds was \$94.2 million.

In March 1993, the State issued \$137.5 million of 1993-2 general obligation refunding bonds, the proceeds of which were deposited in an escrow fund to provide for the future debt service requirements on \$126.0 million of various general obligation bonds outstanding at the time of the refunding. As a result of the refunding, the bonds are considered defeased and the associated liability removed from the financial statements. On June 30, 1996, the outstanding principal on these defeased bonds was \$70.0 million.

In January 1993, the State issued \$280.1 million of 1993-1 general obligation refunding bonds, the proceeds of which were used for refunding \$259.9 of various general obligation bonds outstanding at the time of the refunding. As a result, these bonds are considered to be defeased and the liability removed from the financial statements. On June 30, 1996, the outstanding principal on these defeased bonds was \$233.0 million.

On March 1, 1992, the State issued \$448.9 million in general obligation refunding bonds with an average interest rate of 6.16 percent to advance refund certain general obligation bonds. The net proceeds of \$440.0 million were used to purchase state and local securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments. As a result, these bonds are considered to be defeased and the liability removed from the financial statements. On June 30, 1996, the outstanding principal on these defeased bonds was \$323.2 million.

On May 1, 1988, the State issued general obligation bonds in the present value amount of \$420.1 million for the purpose of refunding \$378.8 million of various general obligation bonds outstanding at the

time of the refunding. The outstanding principal at June 30, 1996, for these defeased bonds was \$27.0 million.

At June 30, 1996, approximately \$1,868.7 million of general obligation bonds, defeased in prior years, are not included as a liability in the accompanying financial statements.

### Prior Year Refundings/Revenue Bonds

#### Primary Government

##### Clean Water Fund Revenue Bonds

In September 1993, the Clean Water Fund defeased a portion of the 1991 Series I Revenue Obligation Bonds by placing proceeds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds has been removed from the Fund's balance sheet as of the date of the defeasance. On June 30, 1996, \$73.8 million of the bonds are considered defeased.

##### Transportation Revenue Bonds

In 1994, \$114.7 million of the 1993 Series A Transportation Revenue Bond proceeds were applied to the partial refunding of previously issued Transportation Revenue Bonds, 1986 Series A, 1988 Series A, 1989 Series A, 1991 Series A, and the 1992 Series B, with an outstanding principal balance of \$105.2 million. In order to provide for the refunding, a portion of the proceeds of the 1993 Series A Bonds along with associated assets transferred from the refunded bonds were used to acquire direct obligations of the United States and certain other government securities to pay the principal, interest and redemption price on the refunded bonds at redemption or maturity. Accordingly, these bonds are considered to be defeased and are not included in the accompanying financial statements. On June 30, 1996, \$105.2 million of the bonds are considered defeased.

In 1993, \$136.6 million of the 1992 Series A Transportation Revenue Bond proceeds were applied to the partial refunding of previously issued Transportation Revenue Bonds, 1986 Series A, 1988 Series A, 1989 Series A, and the 1991 Series A, with an outstanding principal balance of \$126.8 million. A portion of the proceeds of the 1992 Series A Bonds along with associated assets transferred from the refunded bonds were used to acquire direct obligations of the United States and certain other government securities to pay the principal, interest and redemption price on the refunded bonds at redemption or maturity. Accordingly, the above bonds are considered to be defeased and are not included in the accompanying financial statements. As of June 30, 1996, the remaining outstanding defeased principal is \$126.8 million.

In prior years, a portion of the 1986 Series A bond issue was used to defease the 1984 revenue bond issue of \$65.0 million. The

securities were deposited in an irrevocable trust with a trustee to provide for all future debt service payments on the Series A 1984 Transportation Revenue Bonds. Accordingly, the liability relating to the defeased bonds and the related trust accounts are not included in the financial statements. On June 30, 1996, \$26.0 million of principal is outstanding.

At June 30, 1996, the amount of outstanding defeased Transportation Revenue Bond debt is \$258.0 million.

##### Wisconsin Education Revenue Bonds

##### Guaranteed Student Loan Program

In prior years, the Guaranteed Student Loan Program (GSL) entered into a Loan Purchase Agreement for the purchase of the Direct Student Loan Portfolio. The sale resulted in the Program receiving an amount equal to par plus a 1.6 percent premium on \$31.0 million of loans and par for the remaining \$7.3 million balance in the portfolio. If the loan documentation is not adequate to obtain reimbursement under the insured provisions of the loan purchase agreement, the Bank has recourse from the bond portfolio or the State.

Proceeds from the sale of the loans along with proceeds from the liquidation of the investments totaling \$104.6 million were irrevocably placed in accounts to fund the scheduled principal, interest and redemption premium payments on certain revenue bonds. For financial reporting purposes, the transaction is accounted for as an in-substance defeasance and, accordingly, the revenue obligation bonds along with related investments are removed from the balance sheet.

#### Component Units

##### Wisconsin Housing and Economic Development Authority

The Authority defeased Insured Mortgage Revenue Bonds payable aggregating \$48.4 million and sold the related Insured Mortgage Loan portfolio on March 1, 1990. As of June 30, 1996, the remaining outstanding defeased debt was \$39.7 million.

**Early Extinguishments**

**Component Units**

Wisconsin Housing and Economic Development Authority

During 1996, the Wisconsin Housing and Economic Development Authority (the Authority) redeemed early various outstanding bonds according to the redemption provisions in the bond resolutions. These redemptions resulted in extraordinary losses due to the write-off of remaining unamortized deferred debt financing costs and, in certain instances, the payment of an early redemption premium. A summary of these early redemptions follows (in thousands):

Bond Issue	Extraordinary	
	Redemptions	Losses
	1996	1996
Home Ownership Revenue		
Bond Resolutions:		
1987	\$ 15,860	\$ --
1988	55,095	--
All Other	25,060	42
Housing Revenue Bonds	35,280	--
State of Wisconsin Programs	1,465	20
General funds	1,620	--

**E. 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.

During Fiscal Year 1996, arbitrage calculations were performed on the Department of Transportation's 1988 Series A and 1989 Series A revenue bonds. The arbitrage liability at June 30, 1996 was determined to be approximately \$1.0 million for the 1988 Series A, and \$.2 million for the 1989 Series A revenue bonds.

**F. Moral Obligation Debt**

Through legislation enacted in 1994, the State authorized the creation of local exposition districts. These districts are authorized to issue bonds for costs related to an exposition center, 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 reserve funds that secure up to \$200 million principal amount of bonds. To date, one such district has been created, and it has issued \$120.5 million of bonds that are subject to the moral obligation.

**G. Line of Credit Agreement**

The State has, as part of the working bank contract, a letter of credit agreement with the Firststar Bank of Milwaukee, Milwaukee, Wisconsin 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, 1996, \$50.0 million was unused and available.

**NOTE 7. LEASE COMMITMENTS**

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 noncancelable and reported in the General Long-term Debt Account Group or appropriate proprietary fund or university fund types.

**A. Capital Leases**

Capital lease commitments for the governmental fund types are reported in the General Long-term Debt Account Group and the related assets are reported in the General Fixed Assets Account Group. Capital lease commitments for proprietary funds are reported as liabilities of those funds. The related assets along with the depreciation are also reported in those proprietary funds. Capital lease commitments for the University of Wisconsin System are reported in the University of Wisconsin System financial statements.

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 General Fixed Assets and proprietary fund type assets leased under capital leases as of June 30, 1996 (in thousands):

	General Fixed Assets	Enterprise Funds	Internal Service Funds
Buildings and Improvements	\$ 619	\$	\$
Machinery and Equipment	13,091	168	53,617
Less: Accumulated Depreciation		(87)	(34,144)
Carrying Amount	<u>\$ 13,710</u>	<u>\$ 82</u>	<u>\$ 19,473</u>

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, 1996 for capital leases (in thousands):

Fiscal Year	General Long-term		University of Wisconsin System
	Debt Account Group	Proprietary Funds	
1997	\$ 3,577	\$ 9,124	\$ 6,539
1998	3,264	6,539	4,731
1999	1,334	3,668	3,472
2000	730	1,381	2,320
2001	594	599	1,480
Thereafter	893		2,407
Total minimum future payments	10,392	21,311	20,950
Less: Executory costs	(99)	(1)	
Less: Interest	(1,388)	(2,208)	(3,718)
Present value of net minimum lease payments	<u>\$ 8,905</u>	<u>\$ 19,103</u>	<u>\$ 17,232</u>

**Master Lease Program**

Under the Master Lease Program, the Department of Administration entered into a Master Lease Agreement with Firststar National Bank, NA, Milwaukee, Wisconsin, on September 30, 1992. Lease/purchase payment obligations under the Master Lease Agreement 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. During the year the program operated exclusively on a 90 day variable interest rate basis. Equipment acquired and outstanding on June 30, 1996 consisted of:

Equipment Schedules	Balance Due	Blended Interest Rate	Average Life (Weighted Term)
160	\$43,157,200	6.107%	1.47 Yrs.

The assets acquired and corresponding obligations are reported in the General Fixed Asset Account Group and the General Long-term Debt Account Group respectively, or in the fund acquiring the equipment.

**B. Operating Leases**

Operating leases, those leases not recorded as capital leases as required by FASB Statement No. 13, are not recorded in the balance sheet. 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. The State has adopted the operating lease scheduled rent increase provisions of FASB Statement No. 13 prospectively. Operating lease expenditures/expenses are recognized as incurred or paid.

Governmental and proprietary fund rental expenditures/expenses under operating leases for Fiscal Year 1996 were \$27.2 million. Of this amount, \$26.8 million relates to minimum rental payments stipulated in lease agreements, \$0.4 million relates to contingent rentals, and \$108 thousand subrental payments. The University of Wisconsin System operating lease expenditures totaled \$20.5 million for Fiscal Year 1996.

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

Fiscal Year	Governmental and Proprietary Funds	University of Wisconsin System	Component Units
1997	\$ 25,836	\$ 4,842	\$ 671
1998	20,292	4,479	39
1999	14,836	2,798	32
2000	10,007	1,776	1
2001	6,675	1,392	
Thereafter	14,077	5,176	
Minimum lease payments	\$ 91,724	\$ 20,463	\$ 743

**NOTE 8. INSTALLMENT PURCHASES**

Installment purchase liabilities for the governmental fund types are reported in the General Long-term Debt Account Group and the related assets are reported in the General Fixed Assets Account Group. Installment purchase liabilities for proprietary funds are reported in those funds. The related assets along with the depreciation are also reported in those proprietary funds.

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, 1996 for installment purchases (in thousands):

Fiscal Year	General Long-term Debt Account Group	Proprietary Funds	University of Wisconsin System
1997	\$ 1,489	\$ 150	\$ 824
1998	809	172	182
1999	373	163	28
2000	205	117	28
2001	3	110	22
Thereafter		149	
Total minimum future payments	2,878	861	1,086
Less: Interest	(159)	(138)	(34)
Present value of net minimum installment payments	\$ 2,719	\$ 722	\$ 1,051

**NOTE 9. SEGMENT INFORMATION AND CONDENSED FINANCIAL DATA****Primary Government**

The State maintains 26 enterprise funds which are intended to be self-supporting through user fees charged to the public. Financial statement information as of and for the year ended June 30, 1996 is presented below (in thousands):

	Home for Veterans (1)	Mental Health Institutes (2)	Developmental Disabilities Centers (3)	Lottery (4)	Health Insurance Risk Sharing Plan (5)	Local Government Property Insurance (6)
Operating revenues:						
Total revenues	\$ 36,443	\$ 29,879	\$ 118,974	\$482,213	\$ 43,267	\$ 8,988
Revenues from sales/services provided to other GAAP funds	--	--	--	--	--	--
Depreciation, depletion and amortization expense	2,155	1,778	3,238	620	1	1
Operating income or loss	1,946	(37,762)	185	147,693	(527)	1,527
Operating grants, entitlements, and shared revenues	10	112	172	--	--	--
Operating interfund transfers:						
In	23	32,364	362	--	--	--
Out	553	196	2,341	13,191	--	--
Extraordinary gain (loss)	--	--	--	--	--	--
Net income (loss)	1,678	(3,961)	(974)	(13,963)	(88)	616
Current capital:						
Contributions	1,079	8,625	1,739	51	--	--
Transfers In	--	--	--	--	--	--
Transfers Out	--	--	--	65	--	--
Property, plant and equipment:						
Additions	1,247	9,670	1,975	300	5	--
Deletions	383	1,481	370	261	--	--
Net working capital (current assets less current liabilities)	4,194	(9,453)	(2,655)	52,042	8,488	15,653
Total assets	35,382	50,259	59,204	298,772	18,579	29,840
Bonds and other material long-term liabilities outstanding:						
Amounts payable solely from operating revenues	--	96	--	204,572	8,503	6,889
Amounts potentially payable from other sources	--	--	--	--	--	--
Total equity	31,974	24,624	43,671	46,218	(9)	18,741

## Description of Programs

- (1) Nursing home care for veterans and their spouses.
- (2) Diagnosis, care and treatment of individuals with mental and emotional disturbances (two institutes).
- (3) Services provided to developmentally disabled citizens (three centers).
- (4) State managed lottery activities used to provide property tax relief.
- (5) Medical insurance provided to Wisconsin residents under sixty-five who are unable to obtain private coverage.
- (6) Property insurance coverage provided to local governments.
- (7) State sponsored life insurance.
- (8) Excess medical malpractice insurance for Wisconsin health care providers.
- (9) Government Employee Benefit Plans include:
  - Income Continuation Insurance - disability benefits for government employees.
  - Duty Disability - Compensation for duty-related disabilities of government employees.
  - Health Insurance - Group health insurance for government employees.
  - Long Term Disability Insurance - Long term disability benefits for government employees.



State Life Insurance (7)	Patients Compensation (8)	Government Employee Benefit Plans (9)	Clean Water (10)	Veterans Mortgage Loan Repayment (11)	Veterans Mortgage Revenue Bonds (12)	Wisconsin Education Revenue Bonds (13)	Other (14)	Total
\$ 8,209	\$ 77,091	\$ 418,274	\$ 18,322	\$ 37,263	\$ 45	\$ 1,304	\$ 31,849	\$1,312,122
--	--	350,504	--	--	--	--	1,143	351,647
52	18	--	1,710	36	--	--	904	10,513
693	7,611	25,205	(8,278)	(1,319)	(1)	105	(64)	137,016
--	--	--	2,083	--	--	--	--	2,377
--	--	--	--	747	100	--	1,333	34,930
--	--	--	--	427	--	--	4,611	21,321
--	--	--	--	104	--	--	--	104
693	7,617	25,205	324	5,449	108	126	(1,973)	20,858
--	--	--	26,923	--	--	--	200	38,618
--	--	--	12,000	--	--	--	5	12,005
--	--	--	--	--	--	--	--	65
21	--	--	17	54	--	--	3,430	16,719
--	1	--	60	--	--	--	322	2,877
6,451	17,010	232,863	128,670	114,590	236	147	16,890	585,126
64,009	336,177	265,723	862,613	674,191	580	10,573	97,161	2,803,063
49,498	379,336	205,782	--	524,597	185	--	13,774	1,393,232
--	--	--	357,370	--	--	8,502	--	365,872
13,875	(50,201)	27,081	495,398	133,648	374	1,629	70,931	857,954

- (10) Funding for clean water projects.
- (11) Issuance and administration of veteran's first mortgage loans.
- (12) Bond proceeds used to provide veteran's loans to finance residential housing.
- (13) Health education loans provided to full-time medical and dental students and eligible residents.
- (14) Other funds include: State Fair Park - State Fair Exposition Center revenues and operations; Institutional Farm Operations - Funds associated with employing inmates in agricultural activities; Institutional Canteen Operations - Sale of goods for the use of institutionalized patients and inmates; State Nursery Operations - Reforestation of State lands and public sale of nursery stock; Wisconsin Natural Resources Magazine - Subscription sales and publication; Veterans Trust - Various programs for veterans, including loans and grants; Wisconsin Public Broadcasting Foundation - Raises funds for the Wisconsin Educational Communications Board.

**Component Units**

Significant financial data for the State's two component units for the year ended June 30, 1996 is presented below (in thousands):

	<b>Wisconsin Housing and Economic Development Authority</b>	<b>Wisconsin Health Care Liability Insurance Plan</b>	<b>Total</b>
<b>Condensed Balance Sheet</b>			
Assets:			
Current Assets	\$ 426,447	\$ 166,960	\$ 593,407
Long-term Receivables	1,622,173		1,622,173
Deferred Charges	17,325		17,325
Fixed Assets	4,888		4,888
Other Assets	89,162		89,162
Total Assets	<u>\$ 2,159,995</u>	<u>\$ 166,960</u>	<u>\$ 2,326,955</u>
Liabilities:			
Current Liabilities	\$ 195,948	\$ 5,111	\$ 201,059
Due to Primary Government		8	8
Future Benefits and Loss Liability		138,660	138,660
Bonds and Notes Payable	1,760,537		1,760,537
Total Liabilities	<u>1,956,485</u>	<u>143,779</u>	<u>2,100,264</u>
Equity:			
Retained Earnings	203,510	23,181	226,691
Total Equity	<u>203,510</u>	<u>23,181</u>	<u>226,691</u>
Total Liabilities and Equity	<u>\$ 2,159,995</u>	<u>\$ 166,960</u>	<u>\$ 2,326,955</u>

**Condensed Statement of Revenues, Expenses and Changes in Retained Earnings**

Operating Revenues	\$ 135,107	\$ 17,274	\$ 152,381
Operating Expenses:			
Depreciation	502		502
Other	203,294	9,251	212,545
Operating Income (Loss)	(68,689)	8,023	(60,666)
Other Nonoperating Revenues (Expenses)	85,171		85,171
Net Income Before Extraordinary Item	16,482	8,023	24,505
Extraordinary Item	(62)		(62)
Net Income	16,420	8,023	24,443
Retained Earnings-Beginning of Year	187,090	15,158	202,248
Retained Earnings-End of Year	<u>\$ 203,510</u>	<u>\$ 23,181</u>	<u>\$ 226,691</u>

**NOTE 10. INTERFUND ASSETS/LIABILITIES**

Interfund assets and liabilities at June 30, 1996 consist of the following (in thousands):

**A. Due from/to Other Funds:**

Due from Other Funds	\$ 287,158
Due to Other Funds	287,158

Due from/to Other Funds represent short-term interfund accounts receivable and payable. The totals of Due from/to Other Funds at June 30, 1996 by individual fund were as follows (in thousands):

Fund	Due from Other Funds	Due to Other Funds
General	\$ 80,900	\$93,908
Special Revenue:		
Transportation	1,018	25,050
Conservation	2,779	7,362
Wisconsin Health		
Education Loan		
Repayment	26	27
Work Injury		
Supplemental Benefit		1
Uninsured Employers	1	34
Mediation	39	5
Agrichemical Management	48	235
Employe Trust Fund		
Administration	2	571
Petroleum Inspection	9,546	1,494
Environmental	5,318	1,770
Recycling	14,577	6,458
Debt Service:		
Bond Security and		
Redemption	3,553	468
Capital Projects:		
Building Trust		64
Capital Improvement	2,114	1,202
Transportation Revenue		
Bonds		27
Enterprise:		
State Fair Park	3	1,159
Home for Veterans	2	1,305
Mendota Mental		
Health Institute	1,434	1,288
Winnebago Mental		
Health Institute	1,101	1,355
Central Developmental		
Disabilities Center	148	449

(Continued)

Fund	Due from Other Funds	Due to Other Funds
Northern Developmental		
Disabilities Center		422
Southern Developmental		
Disabilities Center		280
Institutional Farm		
Operations	40	42
Institutional Canteen		
Operations	5	65
State Nursery Operations	287	250
Wisconsin Natural Resource		
Magazine	320	7
Lottery	985	12,058
Health Insurance Risk		
Sharing Plan	2,051	2,052
Local Government Property		
Insurance	3,235	2
State Life Insurance		19
Patients Compensation		52
Income Continuation		
Insurance	10,377	
Duty Disability	3,165	1,122
Long Term Disability		
Insurance	1,327	
Health Insurance	236	68
Clean Water	126	615
Veterans Trust	14	155
Veterans Mortgage Loan		
Repayment	223	149
Wisconsin Education Revenue		
Bonds		402
Wisconsin Public Broadcasting		
Foundation	2	329
Internal Service:		
Services to Nonstate		
Governmental Units	188	8
Materials and Services		
to State Agencies	570	297
Fleet Services	1,274	75
Building Construction		
Services	2,609	116
Printing and Other Services	2,164	241
State Telephone System	4,315	200
Financial Services	315	223
Risk Management	214	177
Facilities Operations		
and Maintenance	1,900	2,901

(Continued)

Fund	Due from Other Funds	Due to Other Funds
Information Technology		
Services	5,108	448
Terminal Charges		184
Institutional Power Plant	392	372
Central Warehouse	575	15
Badger State Industries	1,693	265
Expendable Trust:		
Petroleum Violation		401
Unclaimed Property Program		10
Accumulated Sick Leave	23,865	
Employe Reimbursement		
Accounts	428	
Life Insurance	5	
Common School Income		515
Unemployment Insurance		
Reserve	328	713
Nonexpendable:		
Common School	1	
Historical Society	12	110
Pension:		
Fixed Retirement		
Investment	25,475	71,644
Variable Retirement		
Investment	2,130	1,256
Special Death		
Benefits	169	
Police and Firefighters	13,674	
Agency:		
City of Milwaukee Retirement		
System	9,963	2
Inmate and Resident	463	139
University of		
Wisconsin System	44,329	44,526
Total	<u>\$287,158</u>	<u>\$287,158</u>

**B. Due to/from Component Units**

Receivables and payables between funds and component units at June 30, 1996 were as follows (in thousands);

Fund/Component Unit	Due from Component Units	Due to Primary Government
Enterprise Fund:	\$	\$
Patients Compensation	8	
Component Unit:		
Wisconsin Health Care		
Liability Insurance Plan		8
	<u>\$</u>	<u>\$</u>
	8	8

**C. Interfund Loans Receivable/Payable**

Interfund Loans Receivable	\$ 599,375
Interfund Loans Payable	\$ 599,375

Interfund Loans Receivable/Payable represent loans from one fund to another to cover cash overdrafts. Interfund loans receivable/payable at June 30, 1996 by individual fund were as follows (in thousands):

Fund	Interfund Loans Receivable	Interfund Loans Payable
General	\$ 53,690	\$
Special Revenue:		
Transportation	23,827	
Wisconsin Health Education		
Loan Repayment		1
Employe Trust Fund		
Administration	37	
Environmental Local		
Assistance		21,570
Capital Projects:		
Capital Improvement	21,570	
Transportation Revenue		
Bonds		23,827
Enterprise:		
Mendota Mental Health		
Institute		7,752
Winnebago Mental Health		
Institute		9,847
Central Developmental		
Disabilities Center		2,300
Northern Developmental		
Disabilities Center		1,590
Institutional Farm Operations		5,217
Institutional Canteen		
Operations		15
Internal Service:		
Services to Nonstate		
Governmental Units		2,689
Materials and Services to		
State Agencies		962
Fleet Services		19,233
Printing and Other Services		2,089
Terminal Charges		77
Badger State Industries		1,918
Expendable Trust:		
Accumulated Sick Leave	263,100	

(Continued)

Fund	Interfund Loans Receivable	Interfund Loans Payable
Pension:		
Fixed Retirement		
Investment		500,252
Agency:		
Milwaukee Retirement		
Systems	237,151	
Deferred Compensation		
Plan		37
Total	\$ 599,375	\$ 599,375

**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, 1996 by individual fund were as follows (in thousands):

Fund	Advances to Other Funds	Advances from Other Funds
General	\$	\$ 6,000
Enterprise:		
Local Government		
Property Insurance	6,000	
Internal Service:		
State Telephone		
System	3,792	
Information		
Technology Services		3,792
Total	\$ 9,792	\$ 9,792

**E. Investment in Variable Retirement Investment Fund/Due Fixed Retirement Investment Fund**

The Fixed Retirement Investment Fund's share of combined stock equity securities included in the Variable Retirement Investment Fund is reported as "Investment in Variable Retirement Investment Fund" and "Investment Due Fixed Retirement Investment Fund." The related asset and liability at June 30, 1996 by individual fund were as follows (in thousands):

Fund	Investment in Variable Retirement Investment Fund	Investment Due Fixed Retirement Investment Fund
Fixed Retirement Investment	\$ 19,749,230	\$
Variable Retirement Investment		19,749,230
<b>Total</b>	<b>\$ 19,749,230</b>	<b>\$ 19,749,230</b>

**NOTE 11. INTERFUND TRANSFERS**

**A. Residual Equity Transfers**

Residual equity transfers in and out that occurred during Fiscal Year 1996 were as follows (in thousands):

Fund	Residual Equity Transfers In	Residual Equity Transfers Out
General	\$ 36,100	\$ 1,474
Special Revenue:		
Environmental	1,250	
Recycling		21,100
Debt Service:		
Bond Security and Redemption	4,000	
Capital Projects:		
Capital Improvement		16,000
Enterprise:		
Mendota Mental Health Institute	113	
Winnebago Mental Health Institute	111	
Lottery		65
Clean Water	16,000	4,003
Internal Service:		
Material and Services to State Agencies		1,505
Information Technology Services	183	
Records Storage and Microfilm Services		200
Printing and Other Services	1,779	257
University of Wisconsin System		15,000
<b>Total Residual Equity Transfers</b>	<b>59,536</b>	<b>59,604</b>
Transfer of Purchased Fixed Assets from proprietary funds to General Fixed Assets Account Group	68	
<b>Total</b>	<b>\$ 59,604</b>	<b>\$ 59,604</b>

Residual equity transfers to proprietary fund types are reported as additions to contributed capital; those from proprietary fund types are reported as reductions of retained earnings or contributed capital depending on whether the transfers represent a return of contributions. Transfers of purchased fixed assets from a proprietary fund to the General Fixed Assets Account Group are reported as a residual equity transfer out in the proprietary fund type and as an asset in the account group. Transfers of long-term debt from a proprietary fund to the General Long-term Debt Account Group are reported as a reduction of the residual equity transfer out of the proprietary fund and as a liability in the account group.

**B. Operating Transfers**

Operating transfers in and out that occurred during Fiscal Year 1996 were as follows (in thousands):

Fund	Operating Transfers In	Operating Transfers Out
General	\$ 28,979	\$ 1,091,593
Special Revenue:		
Transportation	557	21,137
Conservation	11,764	2,119
Wisconsin Elections Campaign	315	
Petroleum Inspection	3,349	1,809
Environmental	1,809	28
Recycling	531	5,457
Debt Service:		
Bond Security and Redemption	209,316	2,399
Transportation Revenue Bonds	1,077	
Capital Projects:		
Building Trust	1,855	481
Capital Improvement	2,553	2,334
Transportation Revenue Bonds		1,077
Enterprise:		
State Fair Park	12	197
Home for Veterans	23	553
Mendota Mental Health Institute	18,185	92
Winnebago Mental Health Institute	14,180	104
Central Developmental Disabilities Center	344	636
Northern Developmental Disabilities Center	12	857
Southern Developmental Disabilities Center	6	848
Institutional Farm Operations	687	5
Institutional Canteen Operations	245	213
State Nursery Operations	389	
Lottery		13,191
Veterans Trust		100
Veterans Mortgage Loan Repayment	747	427
Veterans Mortgage Revenue Bonds	100	
Wisconsin Public Broadcasting Foundation		4,096

(Continued)

Fund	Operating Transfers In	Operating Transfers Out
Internal Service:		
Services to Nonstate Governmental Units	152	21
Materials and Services to State Agencies	308	100
Fleet Services	21	1
Printing and Other Services	353	54
State Telephone System		103
Financial Services		381
Facilities Operations and Maintenance	4,441	1,348
Information Technology Services	100	3
Institutional Power Plants		49
Central Warehouse		9
Badger State Industries	1	20
Expendable Trust:		
Petroleum Violation		1,441
Unclaimed Property Program		2,500
Other Trust		11
Nonexpendable Trust:		
Common School	2,500	
Historical Society		6
Pension Trust:		
Fixed Retirement Investment	19,170	5,160
Variable Retirement Investment	5,160	19,170
University of Wisconsin System	857,307	6,419
<b>Total</b>	<u>\$ 1,186,548</u>	<u>\$ 1,186,548</u>

**NOTE 12. RESTATEMENTS OF BEGINNING FUND BALANCE/RETAINED EARNINGS AND OTHER CHANGES**

For Fiscal Year 1996, the following reclassifications and adjustments have resulted in beginning fund balance/retained earnings restatement (in thousands):

	<u>Governmental Fund Types</u>				<u>Proprietary Fund Types</u>		<u>Fiduciary</u>
	<u>General</u>	<u>Special</u>	<u>Debt</u>	<u>Capital</u>	<u>Enterprise</u>	<u>Internal</u>	<u>Trust</u>
		<u>Revenue</u>	<u>Service</u>	<u>Projects</u>		<u>Service</u>	
Fund Balances/Retained Earnings June 30, 1995, as previously reported	\$ (1,128,722)	\$ 313,768	\$ 405	\$ (22,952)	\$ 54,224	\$ (36,337)	\$ 35,283,072
Restatements:							
Restatement for adjustment of Capital Improvement Fund interest allocation				(2,896)	1,101		
Restatement to remove 1995 bond proceeds reported in the Facilities Operations and Maintenance Fund				(9,500)			
Restatement of General Purpose Revenue provided to the University of Wisconsin System	22,299						
Restatement to adjust for revenues that should have been recognized in Fiscal Year 1996 rather than 1995							
Restatement to adjust for revenues earned in prior year and previously reported as deferred revenue as of June 30, 1995							
Restatement for interest revenues and interest expenditures underreported and accounts payable overreported in prior year							
Restatement for refinements in valuing equipment inventory (\$12.5 million) and for underreported capital lease obligations (\$4.5 million)							
Other adjustments of assets and liabilities as of June 30, 1995	166	(1,396)			(739)	(1,661)	
Fund balances/retained earnings, July 1, 1995, as restated	\$ (1,106,257)	\$ 312,371	\$ 405	\$ (35,348)	\$ 54,586	\$ (37,998)	\$ 35,283,072
Effect of restatements on the amount of excess revenues and other sources over expenditures and other uses or the amount of the net income of Fiscal Year 1995	\$ 22,465	\$ (1,396)	\$ 0	\$ (12,396)	\$ 362	\$ (1,661)	\$ 0

Amounts reported for fixed assets as of July 1, 1995 in Note 4 have been restated from amounts previously reported in the 1995 Comprehensive Annual Financial Report to reflect additional assets identified as existing at that date.

Food stamps, reported in the Food Stamps and Commodities Fund, an agency fund, in the 1995 Comprehensive Annual Financial Report, are now reported in the General Fund in accordance with GASB Statement No. 24. Commodities at year end are reported in Note 1-I.



University of Wisconsin System							
Current		Loan	Endowment and Similar	Plant			Component Units
Unrestricted	Restricted			Capital Projects	Retirement of Indebtedness	Net Investment In Plant	
\$ 256,230	\$ 53,317	\$152,634	\$ 143,709	\$ 5,628	\$ 70,195	\$ 2,892,040	\$202,248
(8,455)							
1,050							
				3,480			
						(16,983)	
						1,771	
<u>\$ 248,826</u>	<u>\$ 53,317</u>	<u>\$ 152,634</u>	<u>\$ 143,709</u>	<u>\$ 9,108</u>	<u>\$ 71,966</u>	<u>\$ 2,875,056</u>	<u>\$ 202,248</u>

**NOTE 13. FUND EQUITY**

The following schedule enumerates the components of Fund Equity of the various funds as of June 30, 1996 (in thousands):

	Governmental Fund Types			Proprietary	Fiduciary	University of		Total		
	General	Special Revenue	Debt Service	Capital Projects	Fund Types		Wisconsin System		Component Units	
					Enterprise	Internal Service				Trust
Contributed Capital	\$	\$	\$	\$	\$	\$	\$	\$	805,217	
Investment in Fixed Assets							2,967,033		2,967,033	
Retained Earnings:										
Reserved for:										
Future Benefits				13,875				4,211	18,086	
Market Value Adjustments				28,786					28,786	
Bonds								113,760	113,760	
Unreserved				32,714	7,007			108,720	148,441	
Fund Balances:										
Reserved for:										
Encumbrances	126,168	406,372		132,860		9,529	129,220		804,149	
Inventory	11,159	15,750					45,469		72,378	
Prepaid Items	155,898	9,768				2,389	15,054		183,109	
Employe Benefits							33,184,283		33,184,283	
Market Value Adjustments						7,136,575			7,136,575	
Unemployment Compensation						1,593,912			1,593,912	
Auxiliary Operations							77,489		77,489	
Hospital Operations							58,329		58,329	
Restricted Funds							26,900		26,900	
Loan Funds							156,080		156,080	
Endowment and Similar Funds							181,979		181,979	
Unreserved:										
Designated for University										
Contingent Fund							3,766		3,766	
Undesignated	(1,211,738)	(147,754)	7,009	(44,524)		(1,658,423)	38,263		(3,017,167)	
<b>Total Fund Equity</b>	<b>\$ (918,513)</b>	<b>\$ 284,136</b>	<b>\$ 7,009</b>	<b>\$ 88,336</b>	<b>\$ 857,954</b>	<b>\$ 29,646</b>	<b>\$ 40,268,265</b>	<b>\$ 3,699,582</b>	<b>\$ 226,691</b>	<b>\$ 44,543,106</b>

**NOTE 14. DEFICIT FUND BALANCES/RETAINED EARNINGS**

In addition to the General Fund, funds reporting a deficit fund balance or retained earnings position at June 30, 1996 are (in thousands):

<b>Special Revenue:</b>	
Wisconsin Health Education	
Loan Repayment	\$ 2
Petroleum Inspection	58,242
Environmental Local Assistance	21,644
<b>Enterprise:</b>	
Home for Veterans	6,592
Mendota Mental Health Institute	13,861
Winnebago Mental Health Institute	13,344
Northern Developmental Disabilities Center	12,279
Central Developmental Disabilities Center	10,931
Southern Developmental Disabilities Center	13,226
Institutional Farm Operations	315
Health Insurance Risk Sharing Plan	9
Patients Compensation	50,201
Duty Disability	128,250
Clean Water	22,157
Veterans Trust	33,518
<b>Internal Service:</b>	
Services to Nonstate Governmental Units	1,255
Materials and Services to State Agencies	826
Risk Management	55,467
Terminal Charges	435
Institutional Power Plant	2,285

**NOTE 15. CONTRIBUTED CAPITAL**

During the year, contributed capital increased by the following amounts (in thousands):

	<b>Enterprise</b>	<b>Internal Service</b>
Clean Water Fund - Environmental Protection Agency grant for State revolving fund loans to municipalities	\$ 26,923	\$
Clean Water Fund - Residual equity transfers in from the Capital Improvement Fund and the General Fund totaling \$16,000, less return of contributed capital to the General Fund of \$4,000	12,000	
Other changes to contributed capital	<u>11,695</u>	<u>1,552</u>
Subtotal	50,618	1,552
Contributed capital, beginning of year	<u>731,960</u>	<u>21,087</u>
Contributed capital, end of year	<u>\$ 782,578</u>	<u>\$ 22,639</u>

**NOTE 16. 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 Fixed Retirement Investment Fund, the Variable Retirement Investment Fund, the Special Death Benefits Fund, and the Police and Firefighters Fund. It is considered part of the State of Wisconsin's financial reporting entity.

**Plan Description**

The WRS, governed by Chapter 40 of the Wisconsin Statutes, is a cost-sharing multiple-employer retirement system. It provides coverage to all eligible State of Wisconsin, local government and other public employees. Any employee of a participating employer who is expected to work at least 600 hours per year for at least one year must be covered by the WRS. The WRS membership consists of 1,202 employers participating in the plan representing total employee participants as follows:

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Current employees:	
General/teachers	218,579
Elected/executive/judges	1,488
Protective with social security	13,563
Protective without social security	<u>2,644</u>
Total current employees	<u>236,274</u>
Terminated and vested participants	<u>88,437</u>
Retirees and beneficiaries currently receiving benefits:	
Retirement annuitants	82,333
Disability annuitants	5,279
Death beneficiary annuitants	<u>1,386</u>
Total annuitants	<u>88,998</u>
Total participants	<u><u>413,709</u></u>

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Prior to January 1, 1990, benefits for WRS members were fully vested at the time they met the participation requirements. Effective January 1, 1990, a five year vesting requirement for annuities is required. Employees who retire at or after age 65 (55 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is 2.0 percent for executives, elected officials and protective occupations with social security; 2.5 percent for protective occupations without social security; and 1.6 percent for all others.

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 benefit.

**Accounting Policies and Plan Asset Matters**

All assets of the retirement system are invested by the State of Wisconsin Investment Board (the Board). The retirement fund assets consist of shares in the Variable Retirement Investment Fund and the Fixed Retirement Investment Fund. The Variable Retirement Investment Fund consists primarily of equity securities. The Fixed Retirement Investment Fund is a balanced investment fund made up of fixed income securities and the Investment in Variable Retirement Investment Fund. Shares in the Fixed Retirement Investment Fund and the Variable Retirement Investment Fund are purchased as funds are made available from retirement contributions and investment income, and sold as funds are needed for benefit payments and other expenses.

The assets of the Fixed and Variable Retirement Investment Funds are carried at market 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.

**Funding Status and Progress**

The "pension benefit obligation" (PBO) amount is the standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The standard measure is intended to help users assess the funding status of the system on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and for comparisons with other public employees' retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The WRS does not make a separate measurement of assets and pension benefit obligation for individual employers. The pension benefit obligation at December 31, 1995 for the WRS as a whole was \$28,467.9 million. The WRS's net assets available for benefits on that date (valued at market) were \$35,969.8 million, leaving assets over pension benefit obligation of \$7,501.9 million. The State's contribution represents 28.6 percent of total contributions required of all participating entities.

The pension benefit obligation is based on an actuarial cost method that assigns higher costs to the later years of a participant's working life rather than the earlier years. The pension benefit obligation recognizes a relatively lower accumulated benefit at any time in a

participant's working life and, therefore, gives the appearance of a better funded system by deferring higher contributions until future years. However, the WRS's funding of the pension benefit obligation is based on an actuarial cost method which allocates the cost of benefits evenly over the participant's working life. The WRS's funding method avoids increasing contribution rates as the system matures.

The pension benefit obligation was determined as part of an actuarial valuation at December 31, 1995. Significant actuarial assumptions used include:

- a. A rate of return on the investment of present and future assets of 8.0 percent per year compounded annually;
- b. Projected salary increases of 5.3 percent per year compounded annually, attributable to inflation;
- c. Additional projected salary increases ranging from 0.0 percent to 8.0 percent per year, depending on age and type of employment, attributable to seniority/merit; and
- d. 2.9 percent annual post-retirement benefit increases.

At December 31, 1995, the assets over pension benefit obligation was \$7,501.9 million determined as follows (in millions):

Retirees and beneficiaries currently receiving benefits	\$ 11,327.5
Terminated employes not yet receiving benefits	1,309.3
Current employes:	
Accumulated employe contributions including allocated investment income	8,187.8
Employer contributions	<u>7,643.3</u>
Total pension benefit obligation	28,467.9
Net assets available for benefits	<u>35,969.8</u>
Assets over pension benefit obligation	<u>\$ 7,501.9</u>

**WRS Actuarial Assumptions and Calculations**

Significant actuarial assumptions used for the WRS include:

- a. *Investment Return:* The assumed investment return is 8.0 percent for active participants and 5.0 percent for current retirees, compounded annually. The assumption for retirees is not intended to be a predictor of future actual investment earnings. The statutory intent is that this percentage be set at a level which will produce excess earnings during inflationary periods. These excess earnings may be then used to increase the benefits paid to retirees to offset the effect of inflation on the value of the benefit payments.
- b. *Future Salary Increases:* Past history has demonstrated a stable relationship between across-the-board salary increases and

investment returns. The factors may deviate from each other in the short run, but in the long run, high investment returns have been accompanied by high salary increases. Likewise, low investment returns have been accompanied by low salary increases.

Based on past experience, this spread between assumptions has been set at 2.7 percent (8.0 percent investment return for active employes, 5.3 percent across-the-board salary increases). This spread is the key factor in evaluating the appropriateness of these two assumptions. There would be little change in funding requirements from changing one assumption, as long as the other assumption was changed by the same amount.

**Contributions Required and Contributions Made**

Covered employes are required by statute to contribute a percentage of their salary to the plan as follows:

	<u>Required BAC*</u>	
General employes/teachers	5.0%	1.2%
Executives and elected officials	5.5%	0.1%
Protective occupations with social security	6.0%	0.5%
Protective occupations without social security	7.2%	0.0%

**\* Benefit Adjustment Contribution**

Part or all of the employe contributions may be paid by the employer on behalf of the employe.

Employer contribution rates are determined by an actuarial method identified as the "entry age normal with frozen initial liability" method, based in part on the provisions of Accounting Principles Board (APB) Statement No. 8, with the intent of maintaining the rates at a level percentage of payroll. Required contributions were determined as part of an actuarial valuation at December 31, 1993. Significant actuarial assumptions used include:

- a. A rate of return on the investment of present and future assets of 8.0 percent per year compounded annually;
- b. Projected salary increases of 5.6 percent per year compounded annually, attributable to inflation;
- c. Additional projected salary increases ranging from 0.0 percent to 8.0 percent per year, depending on age and type of employment, attributable to seniority/merit; and
- d. 2.9 percent annual post-retirement benefit increases.

Contributions made by category for the year ended December 31, 1995 were as follows:

Employer current service	\$ 396,976,044
Percent of payroll	5.3%
Employer prior service	\$ 103,734,398
Percent of payroll	1.4%
Employe required	\$ 380,993,431
Percent of payroll	5.1%
Benefit adjustment contribution	\$ 84,131,969
Percent of payroll	1.1%

Covered payroll for the WRS in Calendar Year 1995 was \$7,454.3 million.

**Funding Deficit**

WRS's unfunded actuarial accrued liability is being amortized as a level percentage of payroll over a 40-year period beginning January 1, 1990. As of December 31, 1995 and 1994, the WRS unfunded actuarial accrued liability was \$2.06 billion and \$2.01 billion respectively.

Net funding deficits are the amount by which retirement costs calculated in accordance with APB Statement No. 8 exceed contributions made by the State. The Calendar Year 1995 employer contributions were \$28.0 million, while the interest on unfunded prior service cost liability totaled \$45.0 million, resulting in a \$17.0 million excess of costs over contributions (the excess between the prior service contribution and the total interest accrued on the unfunded liability).

The General Long-term Debt Account Group employer pension liability of \$131.2 million is the sum of the excess of interest costs over contributions retroactive to 1989, the first year data are available.

**Trend Information**

Ten-year historical trend information showing the WRS progress in accumulating sufficient assets to pay benefits when due is presented in the Department of Employee Trust Funds December 31, 1995 audited financial statements. Copies of these statements may be requested from:

The Department of Employee Trust Funds  
 801 West Badger Road  
 Madison, Wisconsin 53713

**NOTE 17. OTHER POSTEMPLOYMENT BENEFITS**

In addition to providing pension benefits, the State participates in the Department of Employee Trust Funds administered post retirement life insurance and health insurance benefit programs. The State provides life and health insurance benefits for retired employes in accordance with Chapter 40 of the Wisconsin Statutes.

Post retirement life insurance is provided to employes retiring before age 65 if they (1) have 20 years of creditable service, and (2) are eligible for a retirement annuity. This coverage is at the employe's expense (employe must pay the full premium) until age 65 when reduced coverage is provided at no cost. Employes retiring at or after age 65 are immediately eligible for reduced coverage at no cost. Beginning in the month in which an insured annuitant reaches age 65, premiums are no longer collected and coverage is continued for life. Approximately 10,651 annuitants currently qualify for coverage without premium. Post retirement life insurance is fully insured by the State's life insurance carrier. Premiums are prefunded with employer paid premiums during the employe's active career. The amount of premiums is determined by the insurer. The accrued liability for the post retirement life insurance benefits at December 31, 1995, determined through an actuarial valuation performed as of that date, was \$197.0 million. The program's assets on that date were \$196.0 million. The unfunded liability was \$1.0 million.

In accordance with Chapter 40, Wisconsin Statutes, the State also provides that employes retiring and beginning an immediate annuity are eligible for conversion of unused sick leave to post retirement health insurance. At the time of eligibility for an immediate annuity or employe's death, that employe's accumulated unused sick leave balance may be converted at the employe's current rate of pay to credits for the payment of health insurance premiums for the employe or the employe's surviving dependents. The program also provides partial matching of sick leave accumulation depending on years of service and employment category. Health insurance premiums are paid on the employe, or employe's dependents behalf, until the sick leave conversion credits are exhausted. At that time, the employe has the option to continue coverage by paying the total cost of the premiums. Approximately 6,600 annuitants are currently receiving health insurance coverage through sick leave conversion credits. Accumulated sick leave conversion is prefunded based on an actuarially determined percentage of payroll. The actuarial valuation is based on the entry age actuarial cost method.

Significant actuarial assumptions include an 8 percent assumed interest rate, 5.3 percent assumed annual salary growth, and an average sick leave accumulation of 5.7 days per year for non-University employes and 7.4 days per year for University employes. The assets and reserves of the sick leave conversion program are accounted for as an expendable trust fund. The accrued liability for the post retirement health insurance benefits at December 31, 1995, determined through an actuarial valuation performed on that date, was \$875.7 million. The program's assets on that date were \$236.8

million. The unfunded liability was \$638.9 million. The unfunded liability increased by \$268.8 million as a result of the partial matching benefit enhancement described above.

Assets of the life insurance and health insurance benefit programs are valued at amortized cost, which approximates market value.

The State's life and health insurance required and actual contributions totaled \$3.1 million and \$45.7 million, respectively, during the calendar year ended December 31, 1995.

#### **NOTE 18. DEFERRED COMPENSATION PLAN**

The State offers its employees, as well as local government and other employees, a deferred compensation plan established pursuant to Internal Revenue Code Section 457 and Wis. Stat. Secs. 40.80, 40.81 and 40.82. The multiple-employer plan is accounted for as an agency fund. The plan allows employees to defer a portion of their salary until future years. Amounts deferred are invested through an independent agent and are not subject to federal income taxes until they are paid to employees. The deferred compensation is not available to employees until termination or retirement from employment, death, or unforeseeable emergency.

The assets in the plan remain the property of the State until paid or made available to participants, subject only to the claims of the State's general creditors, although it is unlikely the State will use the assets to satisfy such claims. Although the State retains ownership of the deferred compensation assets, it assumes no liability for the investment results or for the ultimate payment of benefits. Of the \$471.3 million in the plan at December 31, 1995, \$382.6 million was applicable to the State, \$87.6 million represented the assets of other participating jurisdictions, and \$1.1 million is reserved for operation of the plan.

#### **NOTE 19. PUBLIC ENTITY RISK POOLS ADMINISTERED BY THE DEPARTMENT OF EMPLOYE TRUST FUNDS**

The Department of Employee Trust Funds operates four public entity risk pools: group health insurance, group income continuation insurance, protective occupation duty disability insurance and long term disability insurance. The information provided in this note applies to the period ending December 31, 1995.

##### **A. Description of Funds**

The Health Insurance Fund offers group health insurance for current and retired employees of the State government and of participating local public employers. All public employers in the State are eligible to participate. One hundred forty 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).

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. Seventy local employers plus the State currently participate. The State and local government portions of the fund are accounted for separately and have separate contribution rates, benefits, and actuarial valuations. The plan is self-insured.

The Duty Disability Fund offers special disability insurance for State and local Wisconsin Retirement System participants in protective occupations. Participation in the program is mandatory for all Wisconsin Retirement System employers with protective occupation employees. Four hundred eleven local employers plus the State currently participate. The plan is self-insured and risk is shared between the State and local portions of the plan.

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 1, 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 are invested in the State Investment Fund. Investments are valued at amortized cost, which approximates market value.

Assets of the Income Continuation Insurance, Duty Disability and Long Term Disability Insurance funds are invested in the Fixed Retirement Investment Fund. Investments are valued at current market.

*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 interest rates of 8 percent for income continuation and long-term disability insurance, and 5 percent for duty disability insurance. The unpaid claims liability for health insurance was calculated by the State. The liabilities for income continuation, long-term disability, and duty disability insurance were determined by actuarial methods. Face values are not available.

In developing the Duty Disability unpaid claim liabilities and the corresponding contribution rates necessary to fund the liabilities, the Department assumes mortality assumptions similar to that used for disability benefits provided as part of the Wisconsin Retirement System, which is healthy life twelve years older. As additional experience is gained and analyzed in the Duty Disability program, the mortality assumptions may change to more closely correspond to the population participating in the program, which is likely to have different characteristics because only protective occupation employees are allowed to participate and the program has less restrictive disability requirements than for disability benefits provided under the Wisconsin Retirement System.

*Administrative Expenses* - All maintenance expenses are expensed in the period in which they are incurred. Acquisition costs are immaterial and are treated as maintenance expenses. Premium deficiencies are not calculated because acquisition costs are immaterial. Claim adjustment expenses are also immaterial.

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

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

*Premium Setting* - Premiums are established by the Group Insurance Board (Health, Income Continuation Insurance and Long Term Disability Insurance) and the Employe Trust Funds Board (Duty Disability) in consultation with actuaries.



**C. Unpaid Claims Liabilities**

As discussed in Section B of this Note, each fund establishes a liability for both reported and unreported insured events, which is an estimate of future payments of losses. The following represents changes in those aggregate liabilities for the nonreinsured portion of each fund during Calendar Year 1995 (in millions):

	Health Insurance		Income Continuation Insurance		Duty Disability		Long-term Disability Insurance	
	1994	1995	1994	1995	1994	1995	1994	1995
Unpaid claims at beginning of the calendar year	\$10.0	\$11.1	\$34.9	\$39.5	\$127.7	\$135.5	\$1.9	\$4.3
Incurred claims:								
Provision for insured events of the current calendar year	61.6	65.8	17.2	19.4	5.1	4.8	3.3	5.4
Changes in provision for insured events of prior calendar years	0.6	0.6	(6.4)	(10.9)	14.4	18.1	(0.6)	(0.6)
Total incurred claims	62.2	66.4	10.8	8.5	19.5	22.9	2.7	4.8
Payments:								
Claims and claim adjustment expenses attributable to insured events of the current year	50.3	53.6	1.9	2.7	0.0	0.0	0.0	0.1
Claims and claim adjustment expenses attributable to insured events of prior calendar years	10.8	11.6	4.3	4.3	11.7	12.8	0.3	0.6
Total Payments	61.1	65.2	6.2	7.0	11.7	12.8	0.3	0.7
Total unpaid claims expenses at end of the calendar year	\$11.1	\$12.3	\$39.5	\$41.0	\$135.5	\$145.6	\$4.3	\$8.4

**D. Trend Information**

Historical trend information showing revenue and claims development information is presented in the Department of Employee Trust Funds December 31, 1995 audited financial statements. Copies of these statements may be requested from:

The Department of Employee Trust Funds  
801 West Badger Road  
Madison, Wisconsin 53713

**NOTE 20. 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 self-funded property program up to \$2.5 million in an annual aggregate. Insurance is purchased for losses in excess of this amount. The excess limits were written to \$200 million during Fiscal Year 1996.

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, 1996 are estimated to total \$4.9 million. This amount, less \$2.4 million of which the State will be reimbursed through excess insurance coverage, is reported as future benefits and loss liabilities.

**Property Damages and Bodily Injuries to Third Parties**

The State is self-funded for third party liability to a level of \$2 million per occurrence and purchases insurance in excess of this self-funded retention. The policy limit during Fiscal Year 1996 was \$50 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. Starting with Fiscal Year 1996, 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 incurred but not reported because prior experience is insufficient to make a reasonable estimate. 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. Claims incurred but not paid as of June 30, 1996 are estimated to total \$32.2 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.

For the prior fiscal year, the estimate for future benefits and loss liabilities was determined by developing the prior paid claims to the ultimate expected costs by using insurance industry loss development factors. Starting with Fiscal Year 1996, 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, 1996 are estimated to total \$35.3 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):

	1995	1996
Beginning of fiscal year liability	\$ 80,750	\$ 103,914
Current year claims and changes in estimates	40,040	(16,165)
Claim payments	(16,876)	(17,829)
Balance at fiscal year-end	<u>\$ 103,914</u>	<u>\$ 69,920</u>

**NOTE 21. INSURANCE FUNDS**

**A. 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, 1996, the Local Government Property Insurance Fund insured 1,046 local governmental units. The total amount of insurance in force as of June 30, 1996 was \$18.3 billion. Ninety-one percent of the Local Government Property Insurance Fund's insureds are using the valuation project service, which began in 1988.

*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 3-B to the financial statements. At June 30, 1996, the fund had \$8.5 million of shares in the State Investment Fund which are considered cash equivalents and \$4.0 million of high grade, long-term, fixed income obligations. Fixed income obligations are valued at amortized cost.

*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 Claims Liabilities* - The Local Government Property Insurance Fund establishes future benefits and loss liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Claims liabilities are recomputed periodically to produce current estimates that reflect recent settlements, claim frequency, and other economic factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. 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.

*Reinsurance* - The Local Government Property Insurance Fund uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the fund as direct insurer of the risks reinsured. The fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. The amount deducted from claim liability as of June 30, 1996 for reinsurance was \$3.3 million.

**Unpaid Claims 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 claim adjustment expenses. The following represents changes in those aggregate liabilities for the fund during the past two fiscal years (in thousands):

	1995	1996
Unpaid claims and claim adjustment expenses at beginning of the year	\$3,230	\$2,127
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	4,458	6,733
Increase (decrease) in provision for insured events of prior years	(186)	(66)
Total incurred claims and claim adjustment expenses	4,272	6,667
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	2,509	3,398
Claims and claim adjustment expenses attributable to insured events prior years	2,866	1,810
Total payments	5,375	5,208
Net unpaid claims and claim adjustment expenses at end of year	2,127	3,586
Reinsurance recoverable	2,326	3,303
Total unpaid claims and claims adjustment expenses	\$4,453	\$6,889

**Trend Information**

Historical trend information showing revenue and claims development information is presented in the Office of the Commissioner of Insurance June 30, 1996 financial statements. Copies of these statements may be requested from:

Office of the Commissioner of Insurance  
121 East Wilson Street  
Madison, Wisconsin 53702

**B. State Life Insurance Fund**

The State Life Insurance Fund was created under Chapter 607, Wisconsin Statutes, to offer life insurance to residents of Wisconsin in a manner similar to private insurers. This fund functions much like a mutual life insurance company and is subject to the same regulatory requirements as any life insurance company licensed to operate in Wisconsin.

Premiums are reported as earned when due. Benefits and expenses are associated with earned premiums so as to result in recognition of profits over the life of the contracts. This association is accomplished by means of the provision for liabilities for future benefits and the amortization of acquisition costs.

The 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 being amortized over a thirty year period. This period approximates the aggregate premium paying period. The amortization is in proportion to the ratio of the annual premium revenue to the total premium revenue anticipated. Such anticipated premium revenue 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	4.0%	2.0%	None
1967-1976	5.5	2.0	None
1977-1985	7.0	2.0	None
1986-1994	8.0	2.0	None
1995+	7.5	2.0	None

Amortization for the year ended June 30, 1996 amounted to \$33 thousand. The State Life Insurance Fund does not pay commissions nor does it incur agency expenses.

Future benefits and loss liabilities have been computed by the net level premium method based upon estimated future investment yield, mortality and withdrawals. 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	\$ 17,773	\$ 9,317
1967-1976	48,117	11,400
1977-1985	94,614	12,589
1986-1994	58,936	2,699
1995+	9,030	314
	<u>\$ 228,470</u>	<u>\$ 36,319</u>

**Bases of Assumptions**

Issue Year	Interest Rate	Mortality	Withdrawals
1913-1966	4.0%	American Men, ALB*	2%
1967-1976	5.5	1950-54 Intercompany experience, ALB	2
1977-1985	7.0	1965-70 Intercompany experience, ALB	2
1986-1994	8.0	1975-80 Intercompany experience, ALB	2
1995+	7.5	1975-80 Intercompany experience, ALB	2

\* Age Last Birthday

All of the State Life Insurance Fund's ordinary 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, 1995 were \$62.2 million and the statutory capital and surplus were \$6.6 million, and the capital and surplus at June 30, 1996 was \$13.9 million.

**C. Patients Compensation Fund**

The Patients Compensation Fund was created in 1975 for the purpose of providing excess medical malpractice insurance for health care providers in the state. The Patients Compensation Fund pays that portion of a medical malpractice claim which is in excess of the legal primary insurance limit prescribed under law, or the maximum liability limit for which the health provider is insured, whichever limit is greater. Most health care providers permanently practicing or operating in the State of Wisconsin are required to pay Patients Compensation Fund operating fees.

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. Individual case estimates of the liability for reported losses and net losses paid from inception of the Patients Compensation Fund are deducted from the projected ultimate loss liabilities to determine the liability for incurred but not reported losses as of June 30, 1996 as follows (in thousands):

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Projected ultimate loss liability	\$ 862,350
Less: Net loss paid from inception	(337,351)
Less: Liability for reported losses	<u>(35,702)</u>
Liability for incurred but not reported losses	<u>\$ 489,297</u>

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The Future Benefits and Loss Liability Account also includes a provision for the estimated future payment of the costs to settle claims. These ultimate loss adjustment expenses as of June 30, 1996 are estimated at four percent of the projected ultimate loss liabilities. The loss reserves are actuarially determined. The loss adjustment expenses paid from the inception of the Patients Compensation Fund are deducted from the projected ultimate loss adjustment expenses provision to determine the liability for loss adjustment expenses as of June 30, 1996 as follows (in thousands):

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Projected ultimate loss adjustment expense liability	\$ 34,494
Less: Loss adjustment expense paid from inception	<u>(14,702)</u>
Liability for loss adjustment expense	<u>\$ 19,792</u>

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The uncertainties inherent in projecting the frequency and severity of large claims because of the Patients Compensation Fund's relatively short history, unlimited liability coverage, and extended reporting and settlement periods, makes it likely that the amounts ultimately paid will differ from the recorded estimated liabilities. These differences cannot be quantified.

The future benefits and loss liabilities are continually reviewed as adjustments to these liabilities become necessary. Such adjustments are reflected in current operations. Because of the changes in these estimates, the incurred but not reported losses and loss adjustment expenses for the fiscal year are not necessarily indicative of the loss experience for the year.

**D. Health Insurance Risk Sharing Plan**

The Health Insurance Risk Sharing Plan Fund was established in 1981 to provide major medical and Medicare supplemental insurance for persons unable to obtain this insurance in the private market or who can only obtain substandard or excessively costly insurance due to their health status. The Health Insurance Risk Sharing Plan is funded primarily by premiums paid by insureds of the plan, assessments made to participating insurers and premium and claim payment subsidies from the State of Wisconsin.

The financial statements of the Health Insurance Risk Sharing Plan Fund are prepared in conformity with accounting practices prescribed or permitted by the regulatory agency, the State's Office of the Commissioner of Insurance. Premiums are recognized as revenues ratably over the terms of the policies. Unearned premiums are computed on the daily pro rata basis. Assessments made to participating insurers are recognized as a receivable when the assessment is authorized. Assessments are earned when levied. Deferred policy acquisition costs have not been recorded. Rather, policy acquisition costs are expensed as incurred.

The future benefits and loss liabilities include loss reserves reflecting the accumulation of losses reported but not paid prior to the close of the accounting period and estimates of incurred but unreported losses. Loss reserves are actuarially determined and are based on historical patterns of claim payments and represent the estimated ultimate cost of settling claims incurred prior to June 30. Due to the inherent uncertainties in the reserving process, loss reserves as computed may not reflect the actual payments ultimately to be made. The methods for making such estimates and for establishing the resulting reserves are continually reviewed, and any adjustments are reflected in earnings currently.

The following represents changes in specific account balances for the prior two fiscal years (in thousands):

	1995	1996
Balance, beginning of year	\$ 8,921	\$ 11,118
Incurred related to:		
Current year	49,994	46,708
Prior years	(959)	(3,049)
Total Incurred	49,035	43,659
Paid related to:		
Current year	38,985	38,333
Prior years	7,853	7,941
Total Paid	46,838	46,274
Balance, end of year	\$ 11,118	\$ 8,503

The Future Benefits and Loss Liability Account also includes a reserve for loss adjustment costs to be incurred in settlement of the claims provided for in the loss reserves.

**E. Wisconsin Health Care Liability Insurance Plan**

The Wisconsin Health Care Liability Insurance Plan (the Plan) is a statutory unincorporated association established by rule of the Commissioner of Insurance of the State of Wisconsin as mandated by the State of Wisconsin legislature. The Plan provides health care liability insurance and liability coverages normally incidental to health care liability insurance to eligible health care providers in the State of Wisconsin calling for payment of premium prior to the effective date of the policy. All insurers authorized to write personal injury liability insurance in the State of Wisconsin, with certain minor exceptions, are required to be members of the Plan.

The Plan generates its premium written revenue by selling medical malpractice insurance. Rates are calculated in accordance with generally accepted actuarial principles. The rates are set so that the Plan will be self-supporting. Profit is not the intent of the Plan.

Since the inception of the Plan in 1975, the health care liability coverage limits have increased from \$200 thousand per occurrence and \$600 thousand annual aggregate to the current limits of \$400 thousand per occurrence and \$1.0 million annual aggregate effective July 1, 1988. 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 effective July 1, 1990. 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, 1995.

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, 1994 and December 31, 1995, are as follows (in thousands):

	1994	1995
Balance at January 1	\$ 136,423	\$ 138,260
Incurred related to:		
Current year	16,353	14,499
Prior years	(7,108)	(8,686)
Total Incurred	9,245	5,813
Paid related to:		
Current year	241	204
Prior years	7,167	5,209
Total paid	7,408	5,413
Balance at December 31	<u>\$ 138,260</u>	<u>\$ 138,660</u>

## NOTE 22. LITIGATION, CONTINGENCIES AND COMMITMENTS

### A. Litigation and Contingencies

The State is a defendant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations.

#### Claims and Judgments Reported in General Long-term Debt Account Group

The State accrues liabilities related to legal proceedings, if a loss is probable and reasonably estimable. Such losses, totaling \$119.4 million on June 30, 1996 and reported in the General Long-term Debt Account Group, are discussed below:

*Litigation* - In February 1994, the Courts entered judgment relating to the *Special Performance Dividend* lawsuit ordering the State to deposit in the trust funds an amount sufficient to allow the Department of Employee Trust Funds to make a one-time payment and to provide a prospective increase in annuities to approximately 47,000 annuitants or their beneficiaries. In May 1994, the Courts stayed the monetary relief portion of the judgment pending appeal. Two separate appeals were filed by two groups of defendants. In July 1995, the Court of Appeals affirmed the prior decision requiring repayment of the special performance dividend with interest. Oral arguments for an appeal to the State Supreme Court were heard in September, 1996. The most recent (December 31, 1994) actuarial calculation of the estimated cost of the payments of \$96.9 million is reported in the General Long-term Debt Account Group.

*Computer Software* - This is a sales tax case, brought on by *Manpower International against the Wisconsin Department of Revenue*, with the issue being whether or not computer software is tangible personal property, subjecting it to the State's sales and use tax. Both the Wisconsin Tax Appeals Commission and the Circuit Court ruled that it was not tangible personal property. The ruling was appealed to the Court of Appeals, District IV, and has been fully briefed but no decision has been issued. The potential impact of an adverse ruling is estimated at \$10.0 million to \$50.0 million, with \$10.0 million reported in the General Long-term Debt Account Group at June 30, 1996.

*Domestic Mutual Insurance Companies* - This case involves the question of whether Heritage Mutual Insurance Company and all other domestic mutual insurance companies are statutorily entitled to reduce the amount of their previously required add backs of federally exempt interest and dividend income solely as a result of the newly enacted fifteen percent federal reduction in the deduction for losses incurred under the Tax Reform Act of 1986. The State intends to contest the cases vigorously. A liability of \$10.0 million is reported in the General Long-term Debt Account Group at June 30, 1996.

*Other Litigation* - The Department of Health and Family Services, formerly the Department of Health and Social Services, is involved in other various legal proceedings where the ultimate disposition is estimated at \$.2 million to \$2.9 million with \$.2 million reported in the General Long-term Debt Account Group.

*Other Claims - Work Injury Supplemental Benefits* - The Work Injury Supplemental Benefit Fund, administered by the Department of Workforce Development, formerly the Department of Industry, Labor and Human Relations, provides compensatory payments to survivors of fatally injured employees or disabled employees with work-related injuries. The liability for annuities to be paid to the above individuals totaled \$2.4 million at June 30, 1996, and is reported in the General Long-term Debt Account Group.

#### Tax Refunds Reported in the General Fund

*Federal Pension Income* - Due to an adverse decision in *Hogan et al v. Wisconsin Department of Revenue*, settlement has been reached with approximately 3,200 military retirees and 14,000 federal civilian retirees for refunds of State income taxes, with interest, for the period 1984 through 1988. Hogan relied on the United States Supreme Court ruling in *Davis v. Michigan Department of the Treasury* that state governments may not discriminate against federal retirees in the taxation of their retirement benefits based on the source of such payments. The Wisconsin Department of Revenue estimated that the amount to be paid by the State totaled \$77.4 million as of June 30, 1993. Payments of \$10.1 million, \$28.4 million and \$26.2 million were made in Fiscal Year 1994, Fiscal Year 1995, and Fiscal Year 1996 respectively. Subsequent payments will be made in Fiscal Year 1997. The liability of \$13.1 million as of June 30, 1996 is reported in the General Fund as Tax Refunds Payable.

*Corporate Tax Apportionment Methodology* - Due to a Wisconsin Tax Appeals Commission (the Commission) ruling in *NCR Corporation v. Wisconsin Department of Revenue*, settlement has been reached for refunds of State corporate income taxes, with interest. The Commission ruled that the method used by the State for apportioning taxable income to Wisconsin by multi-state corporations was unconstitutional. The Wisconsin Department of Revenue estimated that the amount to be paid by the State totals \$32.5 million, which is reported in the General Fund as Tax Refunds Payable and a reduction in tax revenue.



**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. 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, except as noted below.

*Grants* - The State has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a review or audit may become a liability of the State.

*Wage Overtime Case* - In May 1995, the Seventh Circuit Court of Appeals entered judgment relating to *Gerald Mueller vs Ronald Fielder et al*, an action which was originally brought on behalf of certain State employees who have been categorized exempt from the Fair Labor Standards Act (FLSA) overtime provisions. The plaintiffs sought back-pay for overtime worked, plus liquidated damages, and attorney's fees.

The Seventh Circuit Court of Appeals reversed an earlier Federal District Court decision. The District Court had held that the Federal Department of Labor's criterion (known as the "salary basis test") for ruling that exempt employees are entitled to overtime pay was contrary to the intent of Congress because it would be unconstitutional to apply it to the State. The Circuit Court of Appeals held that the criterion was not unconstitutional as applied to the State because the test was equally valid in both the private sector as well as the public sector.

Currently, the State has petitioned the U.S. Supreme Court to review by writ of certiorari. Although at this time it is premature to estimate the potential impact of an unfavorable decision, a preliminary estimate indicates that the liability to the State could be approximately \$30.0 million for all funds, \$10.0 million for the Risk Management Fund and \$20.0 million for the General Fund and other funds. Due to the uncertainty in predicting the outcome and the amount of the settlement, a liability has not been recorded as of June 30, 1996.

*Wisconsin Central Ltd. v. Wisconsin Department of Revenue, et al (1989-1993); Wisconsin Central Ltd., and Fox Valley & Western Ltd. v. Wisconsin Department of Revenue (1994) and Wisconsin Central Ltd. and Fox Valley & Western Ltd. v. Wisconsin Department of Revenue (1995)* - These are court actions in which 15 railroads are challenging the Wisconsin Department of Revenue's assessment of taxes for the 1989 through 1993 tax years. The Wisconsin Department of Revenue issued assessments on previously untaxed personal property of railroads based on a 1994 U.S. Supreme Court decision favorable to states under the

Federal Railroad Revitalization and Regulatory Reform Act (4-R Act). The railroads allege that the reassessment violates State and Federal statutory and constitutional provisions. In addition, the railroads are challenging a portion of their 1994 and 1995 assessments under the 4-R Act.

The State has prevailed in the federal court actions, both of which were sustained on appeal. The State has prevailed on a number of preliminary issues in the State court actions. If the State were not to prevail, a preliminary estimate indicates that refunds of approximately \$18.8 million would have to be paid to the claimants. Due to the uncertainty in predicting the outcome, a liability has not been recorded as of June 30, 1996.

*American Trucking Associations, Inc., et al v. The State of Wisconsin et al* - In this case, the trucking association challenged the State's hazardous materials transportation registration fee on Commerce Clause grounds.

The Circuit Court granted the State's motion for summary judgment, upholding the validity of the State's hazardous materials transportation registration fee. The plaintiffs appealed this decision to the Court of Appeals. In October, 1996, the Court of Appeals reversed the Trial Court, holding the fees unconstitutional. The State anticipates petitioning the Wisconsin Supreme Court for review.

If the State were not to prevail, preliminary estimates indicate a fee refund exposure to the State of approximately \$2.3 million. However, due to the uncertainty in predicting the outcome, a liability has not been recorded as of June 30, 1996.

*Medicare-Medicaid Provider Reimbursement* - This is a class action for declaratory and injunctive relief in which plaintiffs allege that the Wisconsin Department of Health and Family Services (formerly the Department of Health and Social Services) is violating Federal law by not reimbursing providers for the full value of their services for Medicare-Medicaid eligibles who are unable to pay Medicare co-insurance costs. The action is brought under the Declaratory Judgment Act and 42 U.S.C. s. 1983 on behalf of an unspecified number of State health care providers who serve low-income Medicaid beneficiaries.

Currently, a trial date has not been set. An adverse Federal court decision could give rise to State court based claims for retroactive relief estimated at \$4.0 million to \$36.0 million depending upon what statute of limitations the Court would apply. Due to the uncertainty in predicting the outcome at this time, a liability has not been recorded as of June 30, 1996.

*Environmental Clean-up Actions* - The State is involved in environmental clean-up of property owned by the State that has the potential to cause soil and groundwater contamination. Three hundred nineteen sites have soil and/or groundwater contamination associated with underground storage tank releases with an estimated remediation cost of \$13.6 million. The cost of remediation has not been determined for approximately 196 storage tanks installed prior to the enactment of the new underground storage tank regulations which remain in service. The estimated cost of removing the tanks is \$2.6 million.

The State is also involved in environmental remediations on 21 properties that do not involve releases from underground storage tanks, with an estimated cost of \$3.4 million.

**B. Commitments**

In addition to legal proceedings, the State is party to commitments which normally occur in governmental operations.

In addition to the amount of encumbrances outstanding at June 30, 1996 reported as Fund Balance - Reserved for Encumbrances, additional obligations at June 30, 1996 representing multi-year, long-term commitments included (in thousands):

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Transportation Fund	\$ 107,740
Recycling Fund	4,204
Environmental Local Assistance Fund	9,150
Capital Improvement Fund	2,634
General Fund - Department of Commerce (formerly the Department of Development) programs, including economic and community development programs	2,229
Other	175

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Further, the Wisconsin Housing and Economic Development Authority, a component unit of the State, has approximately \$17.4 million of commitments on a building construction project outstanding as of June 30, 1996.

*The Clean Water 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 \$184.8 million as of June 30, 1996. 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 Clean Water 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 Clean Water Fund 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 Clean Water Fund 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.

Also, Wisconsin Statutes require that the Clean Water Fund provide financial hardship assistance for those communities that qualify under Wis. Stat. Sec. 144.241(13). This assistance may come in the form of reduced interest rates or grants (not to exceed 90 percent of project costs). At fiscal year ended June 30, 1996, the Clean Water Fund committed to award \$15.5 million of hardship grants.

*The Wisconsin Housing and Economic Development Authority's* mission was expanded since its creation to include administration of the Agricultural and Business Programs. These programs administer funds that are legislatively appropriated to subsidize interest and provide guarantees of principal balances of qualifying loans. At June 30, 1996, outstanding loan guarantees totaled \$38.2 million.

*The Patients 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 and the reassignment company default on annuity payments. One of the fund's annuity providers has defaulted on \$36 thousand in annuity payments, which the fund subsequently paid. 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 annuity payments made on behalf of the annuity provider. The estimated replacement value of the annuities in default is \$2.9 million, while the total estimated replacement value of the fund's annuities as of June 30, 1996 was \$106.4 million. 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 Commissioner of Banking, until the designated appropriation is exhausted. At June 30, 1996, the appropriation available totaled \$21.8 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 Commissioner of Banking. Any recovery made by the Commissioner of Banking under the assignment is to be repaid to the appropriation. The possibility of a material loss resulting from payments to and recovery from public depositors is remote.

## NOTE 23. SUBSEQUENT EVENTS

### Bonds and Notes

#### Primary Government

##### Short-term Debt

*Operating Notes* - On July 11, 1996, the State issued \$150.0 million of operating notes. The proceeds were to be used within six months to fund local assistance payments to the State's municipalities and school districts, and finance day-to-day operations in anticipation of revenues received later in the fiscal year. The notes were issued because of an imbalance between the timing of payments disbursed and receipts collected. The imbalance exists because approximately 52 percent of all receipts are received in the second half of the fiscal year, primarily January, March and April. The notes will be paid at maturity on June 16, 1997.

##### Long-term Debt

*State of Wisconsin General Obligation Bonds* - In September 1996, the State issued \$115.2 million of 1996 Series C general obligation bonds to provide proceeds to be used for the acquisition, construction, development, extension, enlargement, or improvement of land, water, property, highways, buildings, equipment or facilities for public purposes. Interest is payable on May 1 and November 1, commencing on May 1, 1997, with the bonds maturing on May 1 of the years 1998 through 2017.

In October 1996, the State issued \$30.0 million of the 1996 Series D general obligation bonds to provide proceeds to be used for making veterans housing loans. Interest is payable on May 1 and November 1, commencing on May 1, 1997, with the bonds maturing on May 1 of the years 2007 through 2027.

*Department of Veterans Affairs* - In August 1996, the State made a call on the Veteran's Mortgage Revenue Bonds for \$190 thousand.

##### Certificates of Participation

Certificates of Participation 1996, Series A, were sold on July 1, 1996, for the State's Master Lease Program. The certificates evidence an obligation of the State to repay, but solely from sources specified, revolving loans for the State's Master Lease Program under a Revolving Credit Agreement, dated July 1, 1996, between Firststar Trust Company, Milwaukee, Wisconsin ("Trustee") and Bank of America Illinois. The certificates mature on March 1, 2006 and shall bear interest at the rates provided in the Revolving Credit

Agreement. As of September 30, 1996, the principal amount of the State's obligation on these certificates was \$39.7 million.

##### Component Unit

*Wisconsin Housing and Economic Development Authority* - In August, 1996, the Authority issued \$75.0 million of Home Ownership Revenue Bonds 1996 Series C and D to finance single family homes for low and moderate income families.

In November 1996, the Authority issued \$60.0 million of 1996 Series E and F Home Ownership Revenue Bonds.

In December 1996, the Authority issued \$70.0 million of Home Ownership Revenue Bonds 1996 Series G.

In addition, the Authority redeemed early \$46.4 million of Home Ownership Revenue Bonds.

