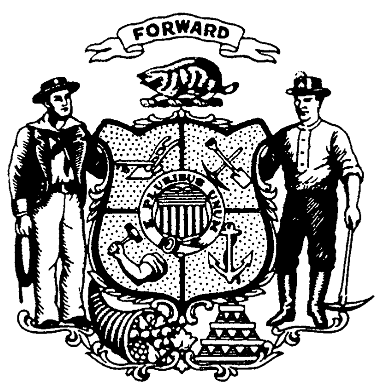
WISCONSIN

COMPREHENSIVE ANNUAL FINANCIAL REPORT



For the fiscal year ended June 30, 1997

STATE OF
WISCONSIN

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended June 30, 1997

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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DOA-6082P (R12/97)

State of Wisconsin

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 1997

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FINANCIAL SECTION

State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

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STATE AUDITOR

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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, 1997, 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 32 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 and Commercial Paper Program, which represent 90 percent of the assets and 25 percent of the revenues and operating transfers of the debt service funds, 83 percent of the assets of the capital projects funds, and 19 percent of the liabilities of the general long-term debt account group. In addition, we did not audit the financial statements of the Wisconsin Housing and Economic Development Authority, the Wisconsin Health Care Liability Insurance Plan, and the University of Wisconsin Hospitals and Clinics Authority, 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 Health Insurance Risk Sharing Plan, Wisconsin Department of Transportation Revenue Bond Program and Commercial Paper Program, Wisconsin Health Care Liability Insurance Plan, and University of Wisconsin Hospitals and Clinics Authority 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, 1997, and the results of its operations, the cash flows of its proprietary fund types, nonexpendable trust funds, and discretely presented component units, the changes in plan net assets for the Pension Trust Fund, and the changes in fund balances of the University of Wisconsin System, for the year then ended in conformity with generally accepted accounting principles.

During fiscal year 1996-97, the State of Wisconsin implemented several accounting changes, including, as discussed in Note 16 to the general purpose financial statements, those required by Governmental Accounting Standards Board (GASB) Statement 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement 27, *Accounting for Pensions by State and Local Governmental Employers*. The State implemented GASB Statement 28, *Accounting and Financial Reporting for Securities Lending Transactions*, as discussed in Note 3 to the general purpose financial statements. In addition, as discussed in Note 12 to the general purpose financial statements, the State implemented GASB Statement 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*.

In accordance with *Government Auditing Standards*, we will issue our report dated December 19, 1997, on our consideration of the State of Wisconsin's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 19, 1997 by Dale Cattanach

Dale Cattanach
State Auditor

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units
June 30, 1997

(In Thousands)

	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
Assets and Other Debits						
Assets:						
Cash and Cash Equivalents	$ 303,335	$ 363,011	$ 6,034	$ 21,876	$ 776,274	$ 29,080
Investments	5,814	-	51,498	134,845	757,436	-
Securities Lending Collatera	-	-	-	-	-	-
Receivables (net of estimated uncollectible accounts)						
Taxes	667,117	76,427	-	-	-	-
Student Loans	-	-	-	-	6,724	-
Veterans Loans	-	-	-	-	28,583	-
Mortgage Loans	-	-	-	-	583,175	-
Insurance Policy Loans	-	-	-	-	3,777	-
Loans to Local Governments	-	-	-	-	697,194	-
Patients Accounts Receivable	-	-	-	-	-	-
Prior Service Contributions Receivabl	-	-	-	-	-	-
Other Receivables	127,601	23,787	8	1,162	50,379	910
Due from Other Funds	90,014	315,148	4	1,781	61,077	34,746
Due from Component Units	-	-	-	-	10	196
Due from Primary Governmen	-	-	-	-	-	-
Interfund Loans Receivable	68,370	2,729	-	-	17,516	-
Due from Other Governments	362,321	78,519	-	496	9,165	438
Inventories	48,202	16,612	-	-	5,496	8,291
Prepaid Items	223,912	9,855	-	-	28,513	2,227
Advances to Other Funds	-	-	-	3,000	4,000	7,118
Restricted and Limited Use Assets						
Cash and Cash Equivalents	-	-	-	-	34,606	-
Investments	-	-	-	-	-	-
Capital Lease Receivable - Component Un	-	-	-	-	-	-
Deferred Charges	-	-	-	-	7,753	487
Fixed Assets	-	-	-	-	136,460	204,860
Other Assets	-	5	-	-	8,818	-
Other Debits:						
Amount Available in Debt Service Fund	-	-	-	-	-	-
Amount to be Provided for Retirement of General Long-term Obligations	-	-	-	-	-	-
Total Assets and Other Debits	$ 1,896,686	$ 886,093	$ 57,544	$ 163,160	$ 3,216,956	$ 288,353

Fiduciary Fund Type	Account Groups			Totals - Primary Government		Totals - Reporting Entity
Trust and Agency	General Fixed Assets	General Long-term Debt	University of Wisconsin System	(Memorandum Only)	Component Units	(Memorandum Only)
$ 6,662,803	$ -	$ -	$ 320,002	$ 8,482,415	$ 222,307	$ 8,704,722
44,118,993	-	-	196,734	45,265,319	392,398	45,657,717
2,678,622	-	-	-	2,678,622	-	2,678,622
-	-	-	-	743,544	-	743,544
-	-	-	157,310	164,034	-	164,034
-	-	-	-	28,583	-	28,583
-	-	-	-	583,175	1,743,543	2,326,718
-	-	-	-	3,777	-	3,777
254,178	-	-	-	951,372	-	951,372
-	-	-	-	-	52,526	52,526
2,090,431	-	-	-	2,090,431	-	2,090,431
682,048	-	-	58,249	944,143	27,595	971,739
313,172	-	-	52,020	867,961	-	867,961
16	-	-	14,804	15,025	-	15,025
-	-	-	-	-	863	863
-	-	-	-	88,615	-	88,615
97,718	-	-	33,598	582,255	-	582,255
-	-	-	43,326	121,928	1,947	123,874
4,385	-	-	13,756	282,648	964	283,612
-	-	-	-	14,118	-	14,118
-	-	-	-	34,606	-	34,606
-	-	-	-	-	278,544	278,545
-	-	-	37,815	37,815	-	37,815
-	-	-	7,018	15,258	16,324	31,582
635	1,542,648	-	3,370,110	5,254,713	121,993	5,376,706
231,514	-	-	-	240,337	109,316	349,654
-	-	4,295	-	4,295	-	4,295
-	-	3,728,583	-	3,728,583	-	3,728,583
$ 57,134,515	$ 1,542,648	$ 3,732,878	$ 4,304,742	$ 73,223,575	$ 2,968,320	$ 76,191,895

(Continued)

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units
June 30, 1997

(Continued)

	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
Liabilities, Equity and Other Credits						
Liabilities:						
Accounts Payable and Other Accrued Liabilities	$ 426,399	$ 276,100	$ -	$ 15,436	$ 294,586	$ 18,404
Due to Other Funds	591,335	55,147	167	16,486	25,101	7,034
Due to Component Units	863	-	-	-	-	-
Due to Primary Government	-	-	-	-	-	-
Interfund Loans Payable	-	4,488	-	15,726	32,564	35,799
Due to Other Governments	1,334,700	70,434	-	404	18	212
Tax Refunds Payable	518,078	4,110	-	-	-	-
Tax and Other Deposits	67,671	8,918	-	2	8,870	-
Deferred Revenue	426,396	15,312	-	4	42,438	823
Interest Payable	-	-	22,551	571	6,720	1,200
Advances from Other Funds	4,000	3,958	-	-	-	3,160
Short Term Notes Payable	-	4,599	-	216,493	267	1,107
Securities Lending Collateral Liabilit	-	-	-	-	-	-
Future Benefits and Loss Liabilities	-	-	-	-	727,939	77,544
Capital Leases	-	-	-	-	158	14,174
Capital Leases - Primary Governmer	-	-	-	-	-	-
Compensated Absences	-	-	-	-	5,411	1,697
Employer Pension Costs	-	-	-	-	-	-
General Obligation Bonds Payable	-	-	820	-	577,354	96,362
Revenue Bonds and Notes Payable	-	-	29,710	-	437,281	-
Other Bonds Payable	-	-	-	-	-	-
Claims, Judgments and Commitments	-	-	-	-	-	-
Installment Contracts Payable	-	-	-	-	398	432
Total Liabilities	3,369,441	443,067	53,248	265,121	2,159,106	257,949
Equity and Other Credits:						
Contributed Capital	-	-	-	-	866,250	23,045
Investment in General Fixed Assets	-	-	-	-	-	-
Retained Earnings						
Reserved	-	-	-	-	63,541	-
Unreserved	-	-	-	-	128,060	7,358
Fund Balances:						
Reserved	298,974	423,719	-	107,387	-	-
Unreserved:						
Designated	-	-	-	-	-	-
Undesignated	(1,771,729)	19,307	4,295	(209,347)	-	-
Total Equity and Other Credits	(1,472,755)	443,026	4,295	(101,960)	1,057,851	30,403
Total Liabilities, Equity and Other Credits	$ 1,896,686	$ 886,093	$ 57,544	$ 163,160	$ 3,216,956	$ 288,353

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

Fiduciary Fund Type: Trust and Agency	Account Groups: General Fixed Assets	Account Groups: General Long-term Debt	University of Wisconsin System	Totals - Primary Government (Memorandum Only)	Component Units	Totals - Reporting Entity (Memorandum Only)
$ 471,983	$ -	$ -	$ 107,329	$ 1,610,237	$ 53,963	$ 1,664,200
116,958	-	-	55,732	867,961	-	867,961
-	-	-	-	863	-	863
-	-	-	-	-	15,026	15,026
38	-	-	-	88,615	-	88,615
2,789,015	-	-	3,298	4,198,080	7,759	4,205,839
-	-	-	-	522,188	-	522,188
230,660	-	-	1,330	317,451	131,743	449,194
2,006	-	-	77,642	564,621	1,857	566,478
-	-	-	-	31,042	56,708	87,750
-	-	-	3,000	14,118	-	14,118
-	-	-	24,917	247,383	-	247,383
2,678,622	-	-	-	2,678,622	-	2,678,622
-	-	-	-	805,483	135,147	940,630
-	-	8,488	11,872	34,692	1,286	35,978
-	-	-	-	-	37,815	37,815
295,989	-	671,589	41,445	1,016,132	1,891	1,018,023
-	-	625,133	-	625,133	-	625,133
-	-	1,699,614	709,806	3,083,955	-	3,083,955
-	-	720,855	-	1,187,846	2,087,611	3,275,457
-	-	-	1,336	1,336	-	1,336
-	-	5,435	-	5,435	-	5,435
-	-	1,764	262	2,857	-	2,857
6,585,272	-	3,732,878	1,037,968	17,904,050	2,530,806	20,434,856
-	-	-	-	889,295	-	889,295
-	1,542,648	-	-	1,542,648	-	1,542,648
-	-	-	-	63,541	133,043	196,584
-	-	-	-	135,418	304,470	439,888
49,461,853	-	-	3,222,330	53,514,262	-	53,514,262
-	-	-	3,611	3,611	-	3,611
1,087,391	-	-	40,834	(829,249)	-	(829,249)
50,549,243	1,542,648	-	3,266,775	55,319,525	437,514	55,757,039
$ 57,134,515	$ 1,542,648	$ 3,732,878	$ 4,304,742	$ 73,223,575	$ 2,968,320	$ 76,191,895

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, 1997

(In Thousands)

	Governmental Fund Types				Fiduciary Fund Type	Totals
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	(Memorandum Only)
Revenues:						
Taxes	$ 8,849,247	$ 813,267	$ -	$ -	$ -	$ 9,662,513
Intergovernmental	3,131,641	454,165	-	2,175	14,193	3,602,175
Licenses and Permits	178,985	337,318	68,430	92	-	584,824
Charges for Goods and Services	131,763	150,155	-	694	632	283,243
Contributions	-	-	-	-	559,557	559,557
Investment and Interest Income	45,822	15,639	2,392	6,297	294,722	364,873
Gifts and Donations	1,771	1,319	-	87	36	3,213
Other Revenues	70,637	12,993	-	2,823	41,379	127,832
Total Revenues	12,409,866	1,784,856	70,822	12,168	910,518	15,188,229
Expenditures:						
Current:						
Commerce	178,259	5,322	-	-	-	183,582
Education	4,122,795	103	-	3,048	18,418	4,144,364
Transportation	802	1,414,180	-	3,280	-	1,418,263
Environmental Resources	104,490	462,381	-	21,843	-	588,714
Human Relations and Resources	4,886,726	2,514	-	17,127	495,820	5,402,186
General Executive	298,781	15,457	-	11,195	131,758	457,192
Judicial	87,218	307	-	-	-	87,525
Legislative	53,277	-	-	-	-	53,277
Tax Relief and Other General Expenditures	690,652	-	-	4,219	-	694,872
Intergovernmental	1,008,590	-	-	-	-	1,008,590
Capital Outlay	-	-	-	170,693	-	170,693
Debt Service:						
Principal	-	-	154,587	-	-	154,587
Interest	-	-	130,029	541	-	130,570
Total Expenditures	11,431,592	1,900,264	284,616	231,947	645,996	14,494,414
Excess of Revenues Over (Under) Expenditures	978,274	(115,409)	(213,794)	(219,779)	264,523	693,815
Other Financing Sources (Uses):						
Proceeds from Sale of Bonds	-	25,149	-	55,386	-	80,536
Proceeds from Refunding Bonds	-	-	23,304	-	-	23,304
Payment to Refunding Bond Escrow Agent	-	-	(23,487)	-	-	(23,487)
Operating Transfers In	36,931	272,564	212,948	16,971	-	539,414
Operating Transfers Out	(1,586,428)	(34,008)	(5,250)	(2,426)	(13,630)	(1,641,742)
Capital Leases Acquisitions	2,983	253	-	-	-	3,236
Installment Purchase Acquisitions	-	-	-	573	-	573
Total Other Financing Sources (Uses)	(1,546,514)	263,958	207,515	70,504	(13,630)	(1,018,168)

(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, 1997

(Continued)

	Governmental Fund Types				Fiduciary Fund Type	Totals
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	(Memorandum Only)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(568,240)	148,549	(6,279)	(149,276)	250,893	(324,353)
Fund Balances, Beginning of Yea	(919,838)	300,114	10,579	88,341	2,207,789	1,686,983
Increase (Decrease) in Reserve for Inventories	1,111	(195)	-	-	-	916
Residual Equity Transfers In	14,367	-	-	4	-	14,372
Residual Equity Transfers Out	(155)	(5,442)	(4)	(41,030)	-	(46,632)
Fund Balances, End of Year	$ (1,472,755)	$ 443,026	$ 4,295	$ (101,960)	$ 2,458,681	$ 1,331,287

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

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, 1997

(In Thousands)

	General Fund			Budgeted Special Revenue Funds		
	Budget	**Actual**	**Variance - Favorable (Unfavorable)**	**Budget**	**Actual**	**Variance - Favorable (Unfavorable)**
Revenues:						
Taxes	$ 8,661,580	$ 8,814,441	$ 152,861	$ 813,344	$ 813,344	$ -
Departmenta	5,933,045	5,854,881	(78,164)	1,338,888	1,338,888	-
Total Revenues	14,594,625	14,669,321	74,696	2,152,233	2,152,233	-
Expenditures:						
Current:						
Commerce	250,016	201,423	48,593	131,586	114,716	16,870
Education	6,786,848	6,554,863	231,986	19,620	11,980	7,640
Environmental Resources	249,988	238,410	11,579	2,015,384	1,730,523	284,861
Human Relations and Resources	5,696,413	5,478,021	218,392	20,585	10,292	10,293
General Executive	560,398	493,487	66,911	9,949	5,241	4,708
Judicial	87,718	86,749	969	744	306	438
Legislative	54,055	53,277	778	-	-	-
General	1,867,397	1,839,755	27,642	18,360	17,087	1,273
Total Expenditures	15,552,834	14,945,984	606,850	2,216,228	1,890,145	326,083
Excess of Revenues Over (Under) Expenditures	$ (958,209)	(276,663)	$ 681,546	$ (63,995)	262,088	$ 326,083
Fund Balances, Beginning of Year		918,625			381,174	
Residual Equity Transfers		10,762			(5,038)	
Fund Balances, End of Year		652,725			638,223	
Less Encumbrances Outstanding at June 30, 1997		(255,472)			(610,083)	
Fund Balances, End of Year Budgetary Basis		$ 397,252			$ 28,140	

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

Combined Statement of Revenues, Expenses, and Changes in Retained Earnings/ Fund Balances - All Proprietary Fund Types, Nonexpendable Trust Funds and Discretely Presented Component Units
For the Fiscal Year Ended June 30, 1997

(In Thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Totals - Primary Government		Totals - Reporting Entity
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)	Component Units	(Memorandum Only)
Operating Revenues:						
Charges for Goods and Services	$ 744,233	$ 204,162	$ 192	$ 948,587	$ 313,247	$ 1,261,834
Contributions	408,981	-	-	408,981	-	408,981
Investment and Interest Income	150,313	-	1,070	151,383	147,232	298,615
Fines and Forfeitures	-	-	15,848	15,848	-	15,848
Gifts and Donations	-	-	86	86	-	86
Other Income	4,634	1,745	30	6,408	7,090	13,498
Total Operating Revenues	1,308,161	205,907	17,226	1,531,294	467,568	1,998,863
Operating Expenses:						
Personal Services	199,419	40,598	137	240,153	171,695	411,848
Supplies and Services	420,873	118,652	122	539,647	129,044	668,691
Lottery Prize Awards	244,020	-	-	244,020	-	244,020
Depreciation	9,117	22,605	-	31,722	17,688	49,410
Benefit Expense	244,673	24,415	-	269,088	2,395	271,484
Interest Expense	55,221	-	-	55,221	138,076	193,297
Other Expenses	14,706	3	10	14,719	78,193	92,912
Total Operating Expenses	1,188,029	206,274	269	1,394,571	537,090	1,931,661
Operating Income (Loss)	120,132	(366)	16,957	136,723	(69,521)	67,202
Nonoperating Revenues (Expenses):						
Operating Grants	2,263	268	16	2,547	57,002	59,549
Investment and Interest Income	30,195	530	-	30,725	46,701	77,425
Gain (Loss) on Disposal of Fixed Assets	(48)	(123)	-	(171)	(7)	(178)
Interest Expense	(651)	(4,048)	-	(4,698)	-	(4,698)
Other Revenues	3,120	1,053	-	4,172	1,164	5,336
Other Expenses	(42,499)	(443)	-	(42,942)	(221)	(43,163)
Total Nonoperating Revenues (Expenses)	(7,619)	(2,763)	16	(10,367)	104,639	94,272
Income (Loss) Before Operating Transfers	112,513	(3,129)	16,973	126,356	35,118	161,473
Operating Transfers In	36,803	6,716	12,000	55,519	-	55,519
Operating Transfers Out	(23,440)	(3,391)	(73)	(26,904)	-	(26,904)
Net Income before Extraordinary Items	125,875	196	28,900	154,971	35,118	190,089
Extraordinary Items						
Gain (Loss) from Extinguishment of Debt	(56)	-	-	(56)	(35)	(91)
Net Income (Loss)	125,819	196	28,900	154,915	35,083	189,998

(Continued)

Combined Statement of Revenues, Expenses, and Changes in Retained Earnings/ Fund Balances - All Proprietary Fund Types, Nonexpendable Trust Funds and Discretely Presented Component Units
For the Fiscal Year Ended June 30, 1997

(Continued)

	Proprietary Fund Types		Fiduciary Fund Type	Totals - Primary Government		Totals - Reporting Entity
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)	Component Units	(Memorandum Only)
Retained Earnings/Fund Balances, Beginning of Year	66,152	7,163	356,998	430,313	402,431	832,744
Residual Equity Transfers In	-	1,319	-	1,319	-	1,319
Residual Equity Transfers Out	(371)	(1,319)	(4,895)	(6,585)	-	(6,585)
Retained Earnings/Fund Balances, End of Year	$ 191,600	$ 7,358	$ 381,003	$ 579,962	$ 437,514	$ 1,017,475

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, 1997

(In Thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Totals - Primary Government	
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)	Component Units *
Cash Flows from Operating Activities:					
Cash Receipts from Customers	$ 1,135,577	$ 191,157	$ 188	$ 1,326,922	$ 3,072
Cash Payments to Suppliers for Goods and Services	(396,546)	(117,829)	(183)	(514,559)	(4,330)
Cash Payments to Employes for Services	(200,071)	(40,727)	(139)	(240,938)	(9,336)
Cash Payments for Lottery Prizes	(252,605)	-	-	(252,605)	-
Cash Payments for Loans Originated	(99,319)	-	-	(99,319)	(238,418)
Cash Payments for Benefits	(161,562)	(16,685)	-	(178,247)	(5,908)
Interest Income	45,782	-	-	45,782	134,901
Fines and Forfeitures	-	-	15,809	15,809	-
Collection of Loans	67,818	-	-	67,818	116,506
Other Operating Revenues	4,166	1,740	116	6,021	34
Other Operating Expenses	(35,395)	(70)	(10)	(35,475)	(69,477)
Other Sources of Cash	2,834	324	-	3,158	10,131
Other Uses of Cash	(23)	-	-	(23)	-
Net Cash Provided (Used) by Operating Activities	110,656	17,910	15,781	144,347	(62,825)
Cash Flows from Noncapital Financing Activities:					
Operating Grants Receipts	3,009	268	16	3,293	57,002
Grants for Loans to Governments	45,568	-	-	45,568	-
Proceeds from Issuance of Long-term Debt	130,614	-	-	130,614	516,283
Retirement of Long-term Debt	(27,567)	-	-	(27,567)	(335,114)
Interest Payments	(52,928)	-	-	(52,928)	(129,038)
Interfund Loans	7,026	6,865	-	13,891	-
Interfund Loans Repaid	(1,502)	1,886	-	384	-
Interfund Loans to Other Funds	(17,516)	-	-	(17,516)	-
Interfund Advances	2,000	(3,326)	-	(1,326)	-
Operating Transfers In	37,070	7,303	12,000	56,373	-
Operating Transfers Out	(24,027)	(3,997)	(73)	(28,097)	-
Residual Equity Transfers In	41,000	550	-	41,550	-
Residual Equity Transfers Out	(4,371)	(340)	-	(4,711)	-
Other Cash Inflows from Noncapital Financing Activities	(988)	-	-	(988)	-
Other Cash Outflows from Noncapital Financing Activities	(11,231)	-	-	(11,231)	(2,451)
Net Cash Provided (Used) by Noncapital Financing Activities	126,156	9,210	11,943	147,309	106,682
Cash Flows from Capital and Related Financing Activities:					
Proceeds from Issuance of Long-term Debt	267	5,827	-	6,095	-
Repayment of Long-term Debt	(733)	(8,052)	-	(8,785)	-
Proceeds of Short-Term Notes	-	1,107	-	1,107	-
Interest Payments	(642)	(5,343)	-	(5,985)	-
Interfund Advances Repaid	-	(632)	-	(632)	-
Capital Lease Obligations	(57)	(17,776)	-	(17,833)	-
Proceeds from Sale of Fixed Assets	30	2,166	-	2,196	-
Payments for Purchase of Fixed Assets	(2,428)	(21,438)	-	(23,866)	(15,803)
Other Cash Inflows from Capital Financing Activities	170	262	-	432	-
Other Cash Outflows from Capital Financing Activities	(18)	-	-	(18)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(3,411)	(43,878)	-	(47,289)	(15,803)
Cash Flows from Investing Activities:					
Proceeds from Sale and Maturities of Investment Securities	102,028	-	9,785	111,813	589,914
Purchase of Investment Securities	(148,816)	-	(10,540)	(159,356)	(620,538)
Cash Payments for Loans Originated	(122,655)	-	(48,650)	(171,305)	-
Collection of Loans	31,493	-	49,735	81,228	-
Investment and Interest Receipts	113,674	517	1,046	115,237	41,097
Net Cash Provided (Used) by Investing Activities	(24,276)	517	1,378	(22,381)	10,472
Net Increase (Decrease) in Cash and Cash Equivalents	209,125	(16,242)	29,102	221,985	38,526
Cash and Cash Equivalents, Beginning of Year	601,754	45,321	90,130	737,206	131,322
Cash and Cash Equivalents, End of Year	$ 810,879	$ 29,080	$ 119,232	$ 959,191	$ 169,848

* The **Wisconsin Housing and Economic Development Authority** and the **Wisconsin Health Care Liability Insurance Plan** prepare the statement of cash flows using the direct method of reporting cash flows, as presented on Page 27 and 28 of the CAFR. The **University of Wisconsin Hospitals and Clinics Authority** prepares this statement using the indirect method, as presented on Page 29.

(Continued)

Combined Statement of Cash Flows - All Proprietary Fund Types, Nonexpendable Trust Funds and Discretely Presented Component Units *
For Fiscal Year Ended June 30, 1997

(Continued)

	Proprietary Fund Types		Fiduciary Fund Type	Totals - Primary Government	
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)	Component Units *
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations:					
Operating Income (Loss)	$ 120,132	$ (366)	$ 16,957	$ 136,723	$ (75,396)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation	9,118	22,605	-	31,724	648
Amortization	974	-	-	974	3,008
Provision for Uncollectible Accounts	(26)	-	-	(26)	561
Operating Income (Investment Income) Classified as Investing Activity	(101,827)	-	(1,070)	(102,897)	(10,874)
Operating Expense (Interest Expense) Classified as Noncapital Financing Activity	48,147	-	-	48,147	132,123
Miscellaneous Nonoperating Income (Expense)	2,062	308	-	2,370	-
Changes in Assets and Liabilities:					
Decrease (Increase) in Receivables	(28,705)	39	(3)	(28,669)	(125,793)
Decrease (Increase) in Due from Other Funds	(11,646)	(13,133)	(30)	(24,809)	-
Decrease (Increase) in Due from Component Units	(1)	(196)	-	(198)	-
Decrease (Increase) in Due from Other Governments	(12)	1	-	(11)	-
Decrease (Increase) in Inventories	2,112	(1,108)	-	1,004	-
Decrease (Increase) in Prepaid Items	(1,685)	(1,719)	-	(3,404)	-
Decrease (Increase) in Deferred Charges	50	-	-	50	-
Decrease (Increase) in Other Assets	839	-	-	839	(16)
Increase (Decrease) in Accounts Payable and Other Accrued Liabilities	(6,920)	750	(20)	(6,189)	17,578
Increase (Decrease) in Compensated Absences	173	33	-	206	-
Increase (Decrease) in Due to Other Funds	174	3,674	(52)	3,795	-
Increase (Decrease) in Due to Primary Government	-	-	-	-	1
Increase (Decrease) in Due to Other Governments	(8)	(99)	-	(107)	-
Increase (Decrease) in Tax and Other Deposits	545	-	-	545	-
Increase (Decrease) in Deferred Revenue	(5,527)	(502)	-	(6,029)	(1,152)
Increase (Decrease) in Interest Payable	293	-	-	293	-
Increase (Decrease) in Future Benefits and Loss Liabilities	82,393	7,624	-	90,017	(3,513)
Total Adjustments	(9,476)	18,276	(1,176)	7,624	12,571
Net Cash Provided by Operating Activities	$ 110,656	$ 17,910	$ 15,781	$ 144,347	$ (62,825)
Noncash Investing, Capital and Financing Activities:					
Capital Leases (Initial Year):					
Fair Market Value	$ -	$ 2,657	$ -	$ 2,657	$ -
Current Year Cash Receipts (Payments)	-	73	-	73	-
Contributions/Transfer In (Out) of Noncash Assets and Liabilities from/to Other Funds	7,211	114	-	7,325	-
Lottery Prize Annuity Investment Assumption	15,923	-	-	15,923	-
Lottery Prize Annuity Investment Liability	(15,923)	-	-	(15,923)	-
Other	431	-	-	431	-
Reconciliation of Fiduciary Fund Type Cash and Cash Equivalents to the Combined Balance Sheet:					
Nonexpendable Trust Fund			$ 119,232		
Fiduciary Funds, Other Than Nonexpendable Trust			6,543,572		
Total Fiduciary Fund Type Cash and Cash Equivalents, End of Year			$ 6,662,803		

* The **Wisconsin Housing and Economic Development Authority** and the **Wisconsin Health Care Liability Insurance Plan** prepare the statement of cash flows using the direct method of reporting cash flows, as presented on Page 27 and 28 of the CAFR. The **University of Wisconsin Hospitals and Clinics Authority** prepares this statement using the indirect method, as presented on Page 29.

(Continued)

Combined Statement of Cash Flows - All Proprietary Fund Types, Nonexpendable Trust Funds and Discretely Presented Component Units *
For Fiscal Year Ended June 30, 1997

(Continued)

	Component Units *
Cash Flows from Operating Activities:	
Operating Income	$ 5,876
Adjustments to Reconcile Operating Income to Net	
Cash Provided by (Used in) Operating Activities:	
Depreciation and Amortization	17,040
Provision for Bad Debt	6,449
Other Sources	327
Other Uses	(220)
Changes in Assets and Liabilities:	
Increase in Net Patient Receivables	(9,339)
Increase in Other Receivables	(658)
Increase in Due from Primary Government	(862)
Increase in Inventories	(223)
Increase in Prepaid Items	(209)
Decrease in Other Assets	223
Increase in Accounts Payable and Other Accrued Expenses	11,358
Increase in Due to Other Goverments	1,456
Increase in Due to Primary Government	13,128
Decrease in Deferred Revenue	(846)
Net Cash Provided (Used) by Operating Activities	43,499
Cash Flows from Capital Financing Activities:	
Proceeds from Issuance of Long-term Debt	50,000
Proceeds from Line of Credit	9,405
Repayment of Line of Credit	(9,405)
Payments for Purchase of Fixed Assets	(19,537)
Capital Leases Payable - Primary Government	(2,005)
Capital Leases Payable	(4,286)
Proceeds from Sale of Fixed Assets	131
Other Cash Flows from Capital Financing Activites	(1,082)
Net Cash Provided (Used) by Capital Financing Activities	23,222
Cash Flows from Investing Activities:	
Purchase of Investment Securities	(58,727)
Interest and Dividends Receipts	6,936
Decrease in Investment in Affiliate	635
Net Cash Provided (Used) by Investing Activities	(51,156)
Net Increase (Decrease) in Cash and Cash Equivalents	15,565
Cash and Cash Equivalents at Beginning of Year	36,894
Cash and Cash Equivalents at End of Year	$ 52,459
Noncash Investing, Capital and Financing Activities:	
Capital Leases (Initial Year):	
Fair Market Value	$ 1,649
Other	2,624

* The **University of Wisconsin Hospitals and Clinics Authority** prepares the statement of cash flows using the indirect method of reporting cash flows, as presented on this page. The **Wisconsin Housing and Economic Development Authority** and the **Wisconsin Health Care Liability Insurance Plan** prepare this statement using the direct method, as presented on Pages 27 and 28 of the CAFR.

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

Statement of Changes in Plan Net Assets - Pension Trust Fund
For the Year Ended June 30, 1997

(In Thousands)

		Wisconsin Retirement System
Additions		
Contributions:		
Employer Contributions	$	463,717
Employe Contributions		504,487
Total Contributions		968,204
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments		6,222,563
Interest		938,204
Dividends		423,861
Real Estate Income		97,423
Securities Lending Income		142,249
Other		83
Less:		
Investment Expense		(42,946)
Securities Lending Rebates and Fees		(126,793)
Investment Income Distributed to Other Funds		(162,579)
Net Investment Income		7,492,064
Interest on Prior Service Receivable		154,842
Miscellaneous Income		134
Operating Transfer In		206,613
Total Additions		8,821,858
Deductions		
Benefits and Refunds:		
Retirement, Disability, and Beneficiary		1,330,661
Separations		39,291
Total Benefits and Refunds		1,369,952
Disability Insurance Premiums		13,677
Administrative Expense		9,514
Total Deductions		1,393,144
Net Increase (Decrease)		7,428,714
Fund Balance Reserved for Pension Benefits - Beginning of Year		40,280,845
Fund Balance Reserved for Pension Benefits - End of Year	$	47,709,559

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

Combined Statement of Current Funds Revenues, Expenditures, and Other Changes - University of Wisconsin System
For the Fiscal Year Ended June 30, 1997

(In Thousands)

	Unrestricted	Restricted	Totals
Revenues:			
Tuition and Fees	$ 495,458	$ -	$ 495,458
Federal Appropriations	14,637	-	14,637
Federal Grants and Contracts	70,206	258,072	328,277
State Grants and Contracts	12	13,852	13,864
Local Grants and Contracts	14	7,262	7,276
Private Gifts, Grants and Contracts	6,714	182,020	188,733
Endowment Income	1,421	7,487	8,908
Sales and Services of Educational Activitie	141,006	-	141,006
Sales and Services of Auxiliary Enterprise	196,222	-	196,222
Sales and Services to Hospital Authorit	-	30,178	30,178
Other Sources	101,474	4,460	105,935
Total Revenues	1,027,164	503,331	1,530,495
Expenditures and Mandatory Transfers:			
Educational and General			
Instruction	615,008	46,155	661,163
Research	114,278	301,498	415,775
Public Service	135,142	46,292	181,434
Academic Support	205,129	6,250	211,379
Farm Operations	9,646	-	9,646
Student Services	163,311	11,062	174,373
Institutional Support	117,860	3,536	121,396
Operation and Maintenance of Plan	135,922	687	136,609
Financial Aid	89,858	67,809	157,667
Total Educational and General	1,586,154	483,289	2,069,443
Auxiliary Enterprises	172,542	168	172,709
Cost of Services Provided to UW Hospital Authority	212	30,027	30,238
Mandatory Transfers:			
Debt Service on Academic Facilitie	82,114	13	82,127
Debt Service on Self-Amortizing Facilitie	11,102	1,571	12,673
Debt Service on Hospital Facilitie	-	4,018	4,018
Student Loan Matching	762	-	762
Total Mandatory Transfers	93,978	5,602	99,580
Total Expenditures and Mandatory Transfers	1,852,885	519,085	2,371,970
Other Transfers, Additions (Deductions):			
Operating Transfers In	852,935	15,754	868,689
Operating Transfers Out	(4,596)	-	(4,596)
Excess of Restricted Receipts Over Expenditures	-	46,141	46,141
Nonmandatory Transfers	44	2,146	2,190
Plant Additions	(13,663)	(33,944)	(47,607)
Other	(6)	80	74
Net Other Transfers, Additions (Deductions)	834,714	30,177	864,891
Equity Transfer to UW Hospital Authority	(60,808)	-	(60,808)
Prior Period Adjustments	(1,038)	3,645	2,606
Net Increase (Decrease) in Fund Balance	$ (52,853)	$ 18,067	$ (34,786)

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

Combined Statement of Changes in Fund Balances - University of Wisconsin System For the Fiscal Year Ended June 30, 1997

(In Thousands)

	Current Funds			Endowment and Similar	
	Unrestricted	**Restricted**	**Loan Funds**	**Funds**	**Plant Funds**
Revenues and Other Additions:					
Unrestricted Current Funds Revenues	$ 1,027,164	$ -	$ -	$ -	$ -
Grants and Contracts	-	347,798	-	-	-
Restricted Gifts Received	-	257,957	742	199	-
Investment Income - Restricted	-	460	344	-	975
Endowment Income - Restricted	-	7,155	268	-	-
Federal Reimbursement of Loan Cancellations	-	-	396	-	-
Delinquent Loan and Collection Penalty	-	-	560	-	-
U.S. Government Advances	-	-	79,589	-	-
Interest Accrued on Loans Outstanding	-	-	3,607	-	-
Gain on Sale of Securities	-	-	-	12,637	-
Proceeds from the Sale of Notes and Bonds	-	-	-	-	61,399
Retirement of Indebtedness	-	-	-	-	58,721
Additions to Land, Buildings and Improvements	-	-	-	-	83,575
Equipment and Library Acquisitions (Net of Disposals)	-	-	-	-	43,929
Gifts-in-Kind	-	-	-	-	4,835
Other Additions	-	4,039	491	-	2,336
Total Revenues and Other Additions	1,027,164	617,408	85,996	12,836	255,770
Expenditures and Other Deductions:					
Current Funds Expenditures	1,758,907	513,483	-	-	-
Indirect Costs Recovered	-	67,916	-	-	-
Loan Cancellations and Write-offs	-	-	1,347	-	-
Federal Direct Loans Granted	-	-	78,068	-	-
Administrative Allowances-Perkins Loans	-	-	703	-	-
Administrative Expenses	-	-	926	-	-
Notes and Bonds Issued	-	-	-	-	61,399
Expended for Plant Facilities	-	-	-	-	104,220
Disposal of Plant Facilities	-	-	-	-	2,475
Retirement of Indebtedness	-	-	-	-	58,721
Interest on Indebtedness	-	-	-	-	44,119
Other Deductions	6	(59)	834	2	2,547
Total Expenditures and Other Deductions	1,758,913	581,340	81,877	2	273,481

(Continued)

Combined Statement of Changes in Fund Balances - University of Wisconsin System For the Fiscal Year Ended June 30, 1997

(Continued)

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds
	Unrestricted	Restricted			
Transfers Among Funds:					
Operating Transfers In	852,935	15,754	-	-	4,885
Operating Transfers Out	(4,596)	-	-	-	(1,879)
Mandatory Transfers:					
Debt Service on Academic Facilities	(82,114)	(13)	-	-	82,127
Debt Service on Self-Amortizing Facilities	(11,102)	(1,571)	-	-	12,673
Debt Service on Hospital Facilities	-	(4,018)	-	-	4,018
Student Loan Matching	(762)	-	762	-	-
Nonmandatory Transfers	44	2,146	218	(2,408)	-
Transfers from Current Funds to Plant Funds	(13,663)	(33,944)	-	-	47,607
Net Transfers Among Funds	740,742	(21,645)	980	(2,408)	149,431
Fund Balance Adjustments:					
Capital Lease Receivable (UW Hosptial Authority)	-	-	-	-	37,815
Change in Capital Leases and Installment Debt	-	-	-	-	6,149
Net Fund Balance Adjustments	-	-	-	-	43,965
Net Increase (Decrease) for the Year	8,993	14,423	5,099	10,426	175,685
Fund Balances, Beginning of Year Restated	197,042	28,901	156,257	181,979	2,487,971
Fund Balances, End of Year	$ 206,035	$ 43,323	$ 161,356	$ 192,405	$ 2,663,656

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

Notes To The Financial Statements

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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 Governmental 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, the Wisconsin Health Care Liability Insurance Plan and the University of Wisconsin Hospitals and Clinics Authority 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
201 West Washington Avenue, Suite 700
Madison, WI 53702

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

University of Wisconsin Hospitals and Clinics Authority
205 WARF Building
610 Walnut Street
Madison, WI 53705

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 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.

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

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

The Affiliation Agreement requires the Hospital to continue to support the educational, research and clinical activities of the University of Wisconsin-Madison, which are administered by the Hospital. Under the terms of a Lease Agreement, the Hospital leases facilities, which were occupied by the Hospital as of June 29, 1996 (see Note 7A to the financial statements). Under a Conveyance Agreement, certain assets and liabilities related to the Hospital were identified and transferred to the Hospital effective July 1, 1996. Subject to the Contractual Services Agreement and Operating and Service Agreement between the Board of Regents and the Hospital, the two parties have entered into contracts for the continuation of services in support of programs and operations.

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 two-year colleges, 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 deed the property titles to 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. Within the Plant Funds, separate fund balances are reported in three sub-groupings: accounts related to current capital projects; resources associated with the retirement of indebtedness; and the investment in plant, including land, buildings, equipment and library holdings.

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.

- Employes' 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, 1997 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, except for the State Life Insurance Fund, the State applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure. The State Life Insurance Fund is reported as an insurance enterprise fund and, accordingly, applies the provisions of relevant pronouncements of FASB, including those issued after November 30, 1989.

The University of Wisconsin 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.

Component Units

The University of Wisconsin Hospitals and Clinics Authority (the Hospital) applies the provisions of the American Institute of Certified Public Accountants Audit and Accounting Guide, *Audits of Providers of Health Care Services*. In applying GAAP, the Hospital has elected to apply the provisions of relevant pronouncements of FASB.

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 Employe 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 $212.2 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, 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. Under budgetary reporting, encumbrances are treated like expenditures and are shown as a reduction of fund balance. Under GAAP reporting, 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

Primary Government

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

Investments are generally stated at lower of cost or market, or amortized cost, depending on the fund type, except for the Pension Trust Fund whose investments are reported at fair value, in accordance with Wis. Stat. Sec. 25.17(14), and the State's Deferred Compensation Plan whose investments are reported at market. Monthly, the investments of the Pension Trust Fund are adjusted to fair value, with unrealized gains and losses reflected in the Statement of Changes in Plan Net Assets.

Component Units

Effective July 1, 1996, the Wisconsin Housing and Economic Development Authority (the Authority) adopted the Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* Investments of the Authority are reported at fair value based on quoted market prices. Collateralized and uncollateralized investment agreements are not transferable and are considered nonparticipating contracts. As such, both types of investment agreements are reported at contract value.

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

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."

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 $1.2 million at June 30, 1997.

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 $1,542.6 million total fixed assets at June 30, 1997, 59 percent were valued using historical cost and 41 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:

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

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.

Property, plant and equipment of the University of Wisconsin Hospitals and Clinics Authority (a discretely presented component unit) are stated at cost. Donated assets are recorded at fair market value at the date of donation. Straight-line depreciation is taken over the estimated useful lives of the assets.

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 $566.5 million deferred revenues presented in the accompanying financial statements consists of $426.4 million reported within the General Fund. This amount includes $304.6 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, 1997, 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, 1997, 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, 1997 as Due To Other Governments.

State Property Tax Credit Program

At June 30, 1997, 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 June30. 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, 1997.

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, 1997.

The aggregated State Property Tax Credit Program liability of $360.2 million is reported in the General Fund as Due to Other Governments.

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 employes' 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 employes for hours worked in excess of forty hours per week. Each full-time employe is eligible for three and one-half personal holidays each calendar year, provided the employe is in pay status for at least one day in the year. If a holiday occurs on a Saturday, employes 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 employes 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 employe 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 employes. 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 and Limited Use Assets

Proprietary Fund and component unit assets required to be held and/or used as specified in bond indentures, bond resolutions, trustee agreements, board resolutions, and donor specifications have been reported as Restricted and Limited Use Assets. 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 employe, and worker's compensation costs for State employes. 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, 1997 is presented below (in thousands):

	General	Special Revenue
Fund balance June 30, 1997 (budgetary basis – budgetary fund structure) as reported on budget to actual combined statement	$ 397,252	$ 28,140
Reclassifications:		
To eliminate outstanding encumbrances from expenditures	255,472	610,083
To reclassify activities reported in another GAAP fund type	(243,056)	(4,785)
Fund balance June 30, 1997 (GAAP fund structure – budgetary basis, excluding encumbrances outstanding at year end)	409,669	633,439
Adjustments:		
To adjust expenditures for the municipal and county shared revenue program	(504,309)	
To adjust expenditures for State property tax credit program	(360,246)	
To accrue/defer revenues for individual income taxes (net)	(251,226)	
To defer revenues for gross receipts public utility taxes	(277,381)	
To adjust revenues and expenditures for tax-related items and Other tax credit/aid programs (net)	(207,601)	(20,961)
To adjust expenditures for settlement of special performance dividend pension-related lawsuit	(215,000)	
To adjust expenditures for petroleum environmental cleanup claims		(191,094)
To accrue unpaid Medicaid claims (net of receivable from federal government)	(82,339)	
To adjust revenues and expenditures for other items (net)	15,679	21,642
Fund balance June 30, 1997 (GAAP basis)	$ (1,472,755)	$ 443,026

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, 1997, the carrying amount of the primary government deposits was $(59.4) million and the bank balance was $118.2 million. Of the bank amount,

- $7.1 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,
- $2.0 million was collateralized with securities held by the pledging institution’s trust department or agent in the entity’s name, and
- $109.1 million was uncollateralized and uninsured.

The State’s unemployment compensation program had $1,559.0 million on deposit with the U.S. Treasury. This amount is presented as Cash and Cash Equivalents and is not included in the carrying amount of deposits nor is it categorized according to risk because it is neither a deposit with a financial institution nor an investment.

Petty cash and contingent accounts authorized under Wis. Stat. Sec 20.920, which are held by agencies and reported as “Cash and Cash Equivalents in the amount of $403 thousand, are not included in the carrying amount nor bank balance of deposits in this note because these are neither deposits nor investments.

Component Units

At June 30, 1997, the carrying amount of the component units’ deposits was $55.9 million and the bank balance was $56.3 million of which $0.7 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 $55.6 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." In addition, receivables of the State Investment Fund, totaling $8.9 million at June 30, 1997, are allocated among State funds and are presented as “Cash and Cash Equivalents.” This amount is not included in the categorization of investments of the State Investment Fund. 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, 1997, 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, 1997, 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 two bonds with swap agreements attached. These bonds had an estimated fair value of $49.4 million and a carrying value of $50.0 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 $.8 million at June 30, 1997.

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, 1997, the market value of the restructured investments was negative $65.7 million while the amortized deferred loss was negative $65.3 million.

Structured Bonds – The fund held no structured bonds as of June 30, 1997. However, during the fiscal year, the fund held highgrade securities with a $181.8 million carrying value which were sold at a gain of $4.0 million.

Interest Only and Principal Only Strips – There were no interest only and principal only strips held on June 30, 1997. However, during the fiscal year, the fund held one mortgage backed security which was comprised of 18 separate interest only strips and one principal only strip. This security, which had a carrying value of $4.2 million, was sold at a loss of $.9 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.

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, 1997, the carrying value of these certificates of deposit was $198.9 million.

Approximately $198.9 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.

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, 1997, the State Investment Fund's investments are as follows (in millions):

	Category 1	Category 2	Category 3	Carrying Amount	Fair Value
U.S. government and agency holdings	$ 2,937.0	--	--	$ 2,937.0	$ 2,942.2
Securities purchased under resale agreements	1,024.7	--	--	1,024.7	1,024.7
Commercial paper and nonsecured corporate notes and bonds	1,616.0	--	--	1,616.0	1,625.0
Asset backed securities	395.5	--	--	395.5	397.7
Mortgage backed securities	64.2	--	--	64.2	64.0
Restructured notes	35.0	--	--	35.0	18.2
Yankee/Euro dollar issue	292.1	--	--	292.1	292.7
	$ 6,364.5	--	--	6,364.5	6,364.5
Interest rate swaps				--	(55.2)
Certificates of deposit				198.9	198.9
				$ 6,563.4	$ 6,508.2

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 $12.7 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:

Pension Trust Fund – This trust is a pooled fund consisting of retirement contributions made by and on behalf of participants in the Wisconsin Retirement System (WRS) (see Note 16 to the financial statements). At June 30, 1997, the Pension Trust Fund held $43,444.0 million of investments consisting of bonds, stocks, limited partnerships, real estate, mortgages and other investments valued at fair value in accordance with Wis. Stat. Sec. 25.17(14). Further, the Pension Trust Fund held $354.4 million of investments, which are reported as cash and cash equivalents.

In addition, $2,678.6 million of securities lending transactions were held at June 30, 1997. These transactions are categorized consistent with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*.

Local Government Property Insurance, State Life Insurance, and Patients Compensation Funds - At June 30, 1997, investments of the funds were $.4 million for the Local Government Property Insurance Fund, $53.0 million for the State Life Insurance Fund, and $361.8 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, 1997, investments of $7.0 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, 1997, categorized in accordance with the requirements of GASB Statement No. 3.

At June 30, 1997, the Other Funds Managed by the Board investments consisted of (in millions):

	Category 1	Category 2	Category 3	Carrying Amount	Fair Value
Bonds	$ 8,338.8	$ --	$ --	$ 8,338.8	$ 8,346.1
Stocks	18,362.8	7.3	--	18,370.1	18,370.9
Repurchase Agreements	783.7	--	--	783.7	783.7
Bankers Acceptances	478.8	--	--	478.8	478.8
Other	0.1	--	--	0.1	0.1
	$ 27,964.2	$ 7.3	$ --	27,971.5	27,979.6
Options				50.4	50.4
Private Placements				2,754.8	2,756.2
Limited Partnerships				1,702.6	1,702.6
Pooled Equity Funds				9,212.3	9,212.3
Pooled Bond Funds				1,277.9	1,277.9
Mortgages				135.8	135.8
Real Estate				468.6	468.6
International				354.4	354.4
Investments Held by Broker Dealers Under Securities Loans:					
Bonds				1,546.8	1,546.8
Equities				1,024.1	1,024.1
Securities Lending Cash Collateral Pooled Investments				400.0	400.0
				$ 46,899.2	$ 46,908.7

Securities Lending Transactions – State statutes and State of Wisconsin Investment Board policies permit the use of investments to enter into securities lending transactions. These transactions involve the lending of securities to broker-dealers and other entities for collateral, in the form of cash or securities, with the simultaneous agreement to return the collateral for the same securities in the future. The securities custodian is an agent in lending the domestic and international securities for collateral of 102 percent and 105 percent, respectively, of the loaned securities' market value. The cash collateral is reinvested by the lending agent in accordance with contractual investment guidelines which are designed to insure the safety of principal and obtain a moderate rate of return. The investment guidelines include very high credit quality standards and also allow for a portion of the collateral investments to be invested with short-term securities. The 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 the lending agent.

Securities on loan at June 30, 1997 are presented in the preceding schedule of custodial risk.

At year end, no credit risk exposure to borrowers existed because the amounts owed the borrowers exceeded the amounts the borrowers owed. The contract with the lending agent requires them to indemnify if the borrowers fail to return the loaned securities (and the collateral is inadequate to replace the securities lent).

The majority of securities loans can be terminated on demand, although the average term of the loans is approximately one week. The term to maturity of the securities loans is matched with the term to maturity of the investments of the cash collateral by investing in a variety of short term investments with a weighted average maturity of 11 days.

The ability to pledge or sell collateral securities cannot be made without a borrower default. In addition, no restrictions on the amount of the loans exist or can be made.

Derivative Financial Instruments in the Pension Trust Fund

As of June 30, 1997, the State of Wisconsin Investment Board utilized various derivative financial instruments, including forward contracts, options, and swap agreements, in the pension trust fund. 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, 1997 include (in millions):

Forward Contracts	Contract Amount	Fair Value
Assets	$ 2,378.9	$ 2,374.5
Liabilities	2,381.9	2,367.5

As of June 30, 1997, two foreign currency call options were also held to provide the pension trust fund 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	$ (20.2)	$ 36.0

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, 1997 (in millions):

Other Options	Premiums Received (Paid)	Fair Value
Purchased Put - Equity	$ (12.7)	$ 1.4
Purchased Calls - Equity	(20.7)	13.1

Interest Rate Swaps - As of June 30, 1997, no interest rate swaps were held. Swap transactions involve 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.

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, 1997, of $5.4 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, 1997 investments of $241.1 which meet Category 1 risk criteria.

Transportation Revenue Bond Funds - At June 30, 1997, the Transportation Revenue Bond Capital Projects Fund and the Transportation Revenue Bond Debt Service Fund had investments totaling $186.3 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, 1997, were $183.9 million, of which $90.3 million are reported as cash equivalents consisting of a repurchase agreement which is a Category 2 level of risk. Investments of $93.6 million consist of government and agency holdings and satisfy Category 1 risk criteria.

The Wisconsin Public Broadcasting Foundation Fund - The fund's investments at June 30, 1997 were $3.8 million, consisting of $1.0 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 criteria.

Health Insurance Risk Sharing Plan - At June 30, 1997, investments of $5.0 million consisted of government and agency holdings meeting Category 1 risk criteria.

Inmate and Resident Fund – At June 30, 1997, investments total $.1 million meeting risk Category No. 3.

At June 30, 1997, the State has approximately $223.7 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 $6.1 million of various investments which meet risk Category 1 and $1.5 million of mutual funds which meet risk Category 1.

The State's Section 457 *Deferred Compensation Plan Fund* investments, totaling $667.2 million at June 30, 1997, are in the form of equity securities, insured savings accounts and investment contracts with insurance companies.

The following table presents investments of the Other State Agencies and Funds at June 30, 1997, categorized in accordance with the requirements of GASB Statement No. 3.

At June 30, 1997, the Other State Agencies and Funds' investments consisted of (in millions):

	Category 1	Category 2	Category 3	Carrying Amount	Fair Value
Government and agency holdings	$ 654.6	$ --	$ .1	$ 654.7	$ 655.0
Municipal bonds	43.3	--	--	43.3	43.3
Commercial paper and nonsecured corporate notes and bonds	6.1	--	--	6.1	6.1
Repurchase agreements	51.5	90.3	--	141.8	141.8
Negotiable certificates of deposit	2.7	--	--	2.7	2.7
	$ 758.2	$ 90.3	$ .1	848.6	848.9
Mutual Funds				1.8	1.8
Money market funds				6.3	6.3
Deferred compensation investments				667.2	667.2
				$ 1,523.9	$ 1,524.2

University of Wisconsin System

The University of Wisconsin System investments of $196.7 million, with a fair value of $ 252.0 million, consist primarily of assets of endowment funds having a book value of $188.1 million, while current funds and loan funds have an aggregate book value of $8.6 million. Investments, which are Category 1 Risk level, of these funds at June 30, 1997, were comprised of the following:

	Carrying	Fair
Common and preferred stock	50.8%	61.5%
Bonds, notes and debentures	49.2	38.5
Total investments	100.0%	100.0%

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 had a cost of approximately $59.2 million and a fair value (carrying amount) of approximately $47.9 million as of June 30, 1997. The Authority currently intends to hold such mortgage-backed securities 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, 1997, were $545.6 million of which $161.4 million are reported as cash equivalents consisting of repurchase agreements, commercial paper, money market funds, and short-term investment agreements.

The Authority's investments except for uncollateralized investment agreements of $27.5 million are a Category 1 level of risk.

The Authority's investments in uncollateralized investment agreements are a Category 3 level of risk.

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

The Authority is also authorized to invest its funds in the State Investment Fund. The Authority 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, 1996 were $161.8 million, of which $5.2 million are reported as cash equivalents. All investments meet the Category 2 risk level.

University of Wisconsin Hospitals and Clinics Authority – The University of Wisconsin Hospitals and Clinics Authority (the Hospital) aggregate investments of $130.1 million consist of $112.2 million of restricted and limited use investments and $17.9 million of unrestricted investments. All investments, excluding the guaranteed investment contracts, are Category 2 level of risk.

Restricted and limited investments consisting of stocks, bonds, international equities and guaranteed investment contracts are limited or restricted by a trustee under a bond indenture agreement, the Board for capital replacement and debt retirement or donors. Unrestricted investments consist of stocks, bonds, international equities and other securities.

The guaranteed investment contracts, which are held with a financial institution in accordance with provisions of a bond indenture, matures in December, 2000 and guarantees a rate of return of 1.88 percent above the interest expense on the Hospitals Series 1997 Bonds. The guaranteed investment contract is recorded at original cost plus accrued earnings.

The following table presents investments of component units at December 31, 1996 or June 30, 1997, categorized in accordance with the requirements of GASB Statement No.3.

At December 31, 1996 or June 30, 1997, the component units' investments consisted of (in millions):

	Category			Carrying	Fair
	1	2	3	Amount	Value
Bonds	$ 123.0	$ 158.3	$ --	$ 281.3	$ 281.3
Stocks	--	31.8	--	31.8	31.8
Negotiable certificates of deposit	4.8	--		4.8	4.8
Uncollateralized investment agreements		--	27.5	27.5	27.5
Mortgage-backed securities	47.9	49.2	--	97.1	97.1
Collateralized investment contracts	181.1	--		181.1	181.1
	$ 356.8	$ 239.3	$ 27.5	623.6	623.5
Money market funds				159.5	159.6
Guaranteed investment contracts				46.4	46.4
International equities				8.0	8.0
				$ 837.5	$ 837.5

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

Other Funds Managed by the Board	$	46,899.2
Other State Agencies and Funds		1,523.9
University of Wisconsin System		196.7
Component Units		837.5
Total Investments	$	49,457.3

C. Lottery Investments and Related Future Price Obligations

Investments of the State Lottery Fund totaling $241.1 million are held to finance grand prizes payable over a 20-year or 25-year period. The investments in prize annuities are debt obligations of the U.S. government and backed by its full faith and credit as to both principal and interest. Liabilities related to the future prize obligations are presented at their present value and included as Accounts Payable and Other Accrued Liabilities. The following is a schedule of future prize obligations (in thousands):

Fiscal Year		Amount
1998	$	24,730
1999		24,884
2000		25,043
2001		25,209
2002		25,380
Thereafter		310,881
Total future value		436,127
Less: Present value adjustment		(187,346)
Present value of payments	$	248,781

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, 1996	Additions	Retirements	Completed Construction	Transfers to/from Other Funds	Balance June 30, 1997
Land	$ 326,451	$ 10,701	$ (791)	$ 2,113	$	$ 338,474
Buildings and improvements	663,692	2,124	(5,106)	31,597		692,307
Machinery and equipment	387,612	33,440	(29,112)		52	391,992
Construction in progress	66,174	87,411		(33,710)		119,875
Total general fixed assets	$ 1,443,929	$ 133,675	$ (35,009)	$ 0	$ 52	$ 1,542,648

Construction in progress reported in the General Fixed Asset Account Group at June 30, 1997 included the following projects (in thousands):

	Allotments	Expended to June 30, 1997	Encumbrances Outstanding	Unencumbered Allotment Balance
Phase I Youth Dormitory	$ 12,550	$ 9,151	$ 1,842	$ 1,557
Waupun Housing/Freezer/Locks	14,634	11,993	1,712	928
Youthful Offender Institution	25,275	17,953	4,219	3,103
Secured Juvenile School	11,500	10,683	178	639
Rail Acquisition/Development	14,500	8,383	--	6,117
Camp Williams Support Facility	14,103	13,898	36	168
Other projects with allotments totaling less than $10 million		47,813		
Total construction in progress		$ 119,875		

The following is a summary of proprietary and fiduciary fund-type, University of Wisconsin System, and component unit fixed assets at June 30, 1997 (in thousands):

	Enterprise	Internal Service	Nonexpendable Trust	University of Wisconsin System	Component Units
Land	$ 9,120	$ 8,391	$ 635	$ 89,500	$ 6,032
Buildings and improvements	199,378	145,948		1,928,603	138,985
Machinery and equipment	34,581	136,202		1,352,006	115,657
Less: Accumulated depreciation	(112,619)	(135,907)			(139,341)
Construction in progress	6,001	50,225			660
Total	$ 136,460	$ 204,860	$ 635	$ 3,370,109	$ 121,993

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

During the year ended June 30, 1997, the following changes occurred in liabilities reported in the General Long-term Debt Account Group (in thousands):

	Balance July 1, 1996	Additions	Reductions	Balance June 30, 1997
Capital Leases	$ 8,905	$ 3,236	$ 3,653	$ 8,488
Compensated Absences	682,498	--	10,909	671,589
Employer Pension Costs	607,047 *	46,306	28,220	625,133
General Obligation Bonds Payable	1,721,100 **	100,728 ***	122,214	1,699,614
Revenue Bonds Payable	750,565	--	29,710	720,855
Claims, Judgments and Commitments	119,447	888	114,900	5,435
Installment Contracts Payable	2,719	573	1,528	1,764
	$ 3,892,281	$ 151,731	$ 311,134	$ 3,732,878

* For the fiscal year ended June 30, 1997, the State adopted the Governmental Accounting Standards Board (GASB) Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers.* As a result of adopting GASB Statement No. 27, the Employer Pension Costs reported in the General Long-Term Debt Account Group, as of July 1, 1996, increased $475.8 million (see Note 16 to the financial statements).

** In prior years the State nursery operations were presented in an Enterprise fund, which reported the nursery share of general obligation debt outstanding as a fund specific liability. In Fiscal Year 1997, nursery operations were reclassified to the Conservation Fund, a special revenue fund. As a result, the General Obligation Bonds Payable in the General Long-Term Debt Account Group as of July 1, 1996 increased $727 thousand.

*** 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 1997, 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, NOTES AND OTHER FINANCING AGREEMENTS PAYABLE

The following schedule summarizes outstanding long-term bonds and notes payable at June 30, 1997 (in thousands):

Primary Government:	
General Long-term Debt Account Group:	
General Obligation Bonds	$1,699,614
Transportation Revenue Bonds	720,855
Total General Long-term Debt Account Group	2,420,469
Debt Service Funds:	
Bond Security and Redemption General Obligation	820
Transportation Revenue Bonds	29,710
Total Debt Service Funds	30,530
Enterprise Funds:	
State Fair Park General Obligation Bonds	12,383
Veterans Mortgage Loan Repayment General Obligation Bonds	564,971
Wisconsin Education Revenue Bonds	5,307
Clean Water Fund Revenue Bonds	431,975
Total Enterprise Funds	1,014,636
Internal Service Funds:	
Facilities Operations and Maintenance General Obligation Bonds	96,133
Badger State Industries General Obligation Bonds	228
Total Internal Service Funds	96,361
University of Wisconsin System:	
General Obligation Bonds	709,806
Other Bonds	1,336
Total University of Wisconsin System	711,142
Component Units:	
Wisconsin Housing and Economic Development Authority Bonds and Notes	2,037,611
University of Wisconsin Hospitals And Clinics Authority	50,000
	2,087,611
Total at June 30, 1997	$6,360,749

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 1998.

At June 30, 1997, $1,286.3 million of general obligation bonds were authorized but unissued.

General obligation bonds issued and outstanding as of June 30, 1997 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	$ 12,000
1979	1978 Series C	11/78	5.1	11/03	77,300	6,320
1986	1986 Series A	5/86	7.25 to 7.5	1/15	38,185	12,690
1988	Refunding Issue	5/88	6.7 to 6.8	5/98	447,455	43,148
1989	1988 Series A and 1989 Series A	7/88; 1/89	7.25 to 7.7	1/03	35,000	4,440
1990	1989 Series D, E and	8/89; 10/89				
	1990 Series A through D	1/90; 3/90; 5/90	6.4 to 7.6	1/20	341,889	65,134
1991	1990 Series E through G, 1991	8/90; 10/90; 12/90				
	Series A through C and Series I	4/91; 5/91; 6/91	5.85 to 7.6	1/21	528,291	207,437
1992	1991 Series D; 1992 Series A	9/91; 3/92				
	and B, and Refunding Issue	6/92; 3/92	5.1 to 6.7	1/22	794,975	498,260
1993	1992 C and 2	10/92; 11/92				
	1993 1, 2 and A	1/93; 3/93; 5/93	3.8 to 6.5	5/15	721,175	576,565
1994	1993 Refunding Issues	7/93; 12/93; 12/93;				
	3, 4, 5, 6; 1994 Refunding	10/93; 3/94;				
	Issues 1 and 2; and					
	1994 Series A and B	1/94; 6/94	3.5 to 6.2	5/24	929,825	817,434
1995	1994 Series 3 and C;	9/94; 9/94				
	1995 Series A, B, and 1	1/95; 2/95; 2/95	4.75 to 7.0	5/25	331,715	216,995
1996	1995 Series 2 and C;	10/95; 9/95;				
	1996 Series 1, A and B;	2/96; 1/96; 5/96				
	and Note 995B	and 7/95	4.0 to 7.3	11/26	448,536	436,083
1997	1996 C and D;	9/96; 10/96;				
	1997 1 and A	3/97; 3/97	4.75 to 6.0	5/28	190,230	190,230
Total					5,052,576	3,086,736
Proprietary Fund (Discounts)/Premiums						(2,781)
Total General Obligation Bonds and Notes, net of discounts					$ 5,052,576	$ 3,083,955

As of June 30, 1997, 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
1998	$ 217,186	$ 164,153	$ 381,339
1999	218,155	152,230	370,385
2000	220,259	141,549	361,808
2001	216,457	131,839	348,296
2002	211,555	120,631	332,186
Thereafter	2,060,306	782,981	2,843,287
Total	3,143,918	1,493,383	4,637,301
Proprietary Fund (Discounts)/Premiums	(2,781)		(2,781)
Unamortized zero coupon and CAB discounts	(57,182)		(57,182)
Total, net of discounts	$3,083,955	$ 1,493,383	$4,577,338

Zero Coupon Bonds

The general obligation bonds of 1990, Series D (Higher Education Series), are zero coupon bonds recorded in the amount of $37.0 million which is the accreted value at June 30, 1997. 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 $36.4 million which is the accreted value at June 30, 1997. 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 $65.3 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 $1,348.0 million Series A revenue bonds. Presently, there are nine issues of Transportation Revenue Bonds totaling $750.6 million. Debt service payments are secured by driver and vehicle registration fees and also a reserve fund, which will be used in the event that a deficiency exists in the redemption fund.

The Transportation Revenue Bonds issued and outstanding as of June 30, 1997 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	101,815
1994A	7/94	4.5 to 7.5	7/14	100,000	93,880
1993A	9/93	3.7 to 5.0	7/12	116,450	112,340
1992A&B	7/92	4.4 to 5.8	7/22	299,150	288,045
1991A	10/91	5.6 to 6.2	7/02	42,085	26,125
1989A	4/89	7.25	7/98	14,715	4,105
1988A	4/88	6.7	7/97	15,300	2,125
1986A	6/86	7.4	7/97	83,575	7,130
Total				$ 891,275	$ 750,565

As of June 30, 1997, 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
1998	$ 29,710	$ 39,005	$ 68,715
1999	30,750	38,039	68,789
2000	29,490	37,062	66,552
2001	30,920	35,723	66,643
2002	32,425	33,546	65,971
Thereafter	597,270	266,366	863,636
Total	$ 750,565	$ 449,741	$ 1,200,306

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, 1997, there was one issue of Health Education Assistance Loan program bonds outstanding totaling $5.3 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, 1997 were as follows (in thousands):

Issue	Issue Date	Maturity Through	Issued	Outstanding
1994	12/94	12/04	$ 19,100	$ 5,920
Less: Unamortized discount				(613)
Total			$ 19,100	$ 5,307

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, 1997, there were five issues of Clean Water Revenue Bonds outstanding totaling $437.4 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, 1997 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
1997-1	2/97	4.5 to 6.0	6/17	$ 80,000	$ 80,000
1995-1	7/95	4.0 to 6.25	6/15	80,000	78,750
1993-1	9/93	3.9 to 5.3	6/13	84,345	79,395
1993-2	9/93	3.9 to 6.13	6/08	81,950	79,120
1991-1	4/91	5.9 to 6.9	6/11	225,000	120,105
				551,295	437,370
Unamortized Premium					3,033
Less: Unamortized discount and charge					(8,428)
Total, net of discount, charge and premium				$ 551,295	$ 431,975

As of June 30, 1997, 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
1998	$ 14,270	$ 24,603	$ 38,873
1999	19,460	23,850	43,310
2000	20,485	22,829	43,314
2001	21,575	21,734	43,309
2002	22,770	20,530	43,300
Thereafter	338,810	129,522	468,332
Total	437,370	243,068	680,438
Unamortized Premium	3,033		3,033
Less: Unamortized discount and charge	(8,428)		(8,428)
Total, net	$ 431,975	$ 243,068	$ 675,043

Component Units

Wisconsin Housing and Economic Development Authority

Bonds and notes payable at June 30, 1997 of the Wisconsin Housing and Economic Development Authority (Authority) consisted of the following (in thousands):

Revenue bonds and notes	$	1,846,034
Special obligation and subordinated		
Special obligation		192,437
Total		2,038,471
Less: Deferred amount on refunding		(860)
Total, net	$	2,037,611

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 Authority's revenue bonds and notes outstanding at June 30, 1997 consisted of the following (in thousands):

Series/ Issue	Date	Rates	Maturity Through	Outstanding
Housing Revenue Bonds:				
1986 A&B	9/86	7.625 to 8.5	2017	$ 2,530
1988 A&B	2/88	7.1 to 8.25	2018	10,060
1989 A, B&C	9/89	7.1 to 7.85	2020	13,735
1992 A	1/92	5.4 to 6.85	2012	63,740
1992 B, C, D	4/92	6.0 to 7.2	2022	71,040
1993 A&B	10/93	4.3 to 5.65	2023	70,580
1993 C	12/93	4.5 to 5.875	2019	135,335
1995 A&B	7/95	4.45 to 6.5	2026	50,485
				417,505

(Continued)

Series/ Issue	Date	Rates	Maturity Through	Outstanding
Home Ownership Revenue Bonds:				
1985 I	6/85	9.7 to 10.375	2012	7,271
1985 III	12/85	8.90 to 9.125	2005	868
1986 A	8/86	7.7 to 8.125	2016	5,165
1986 B	11/86	6.6 to 7.375	2017	22,200
1987 A	5/87	7.7 to 7.75	2014	450
1987 B&C	8/87	7.7 to 7.85	2016	17,215
1988 A&B	6/88	7.25 to 8.0	2000	3,260
1988 C	8/88	7.7	1998	3,140
1988 D	10/88	7.3 to 7.9	2005	16,890
1989 A	5/89	7.05 to 7.5	2017	19,430
1989 B&C	10/89	7.2 to 7.85	2021	59,029
1990 A&B	5/90	7.05 to 8.0	2020	39,390
1990 D&E	9/90	7.1 to 8.0	2021	28,875
1991 A&B	12/90	6.85 to 7.85	2024	59,885
1991 1,2&3	7/91	6.2 to 7.2	2022	58,645
1992 A&B	3/92	6.0 to 7.1	2023	73,845
1992 1,2	6/92	5.85 to 6.875	2024	76,555
1994 A&B	4/94	5.05 to 6.75	2025	74,685
1995 A&B	1/95	5.75 to 7.1	2025	112,525
1996 A&B	3/96	4.0 to 6.15	2027	75,000
1996 C&D	7/96	4.5 to 6.45	2027	75,000
1996 E&F	11/96	4.05 to 6.2	2027	60,000
1996 G	12/96	4.05	1998	83,440
1997 D & E	6/97	4.05 to 6.0	2028	85,000
				1,057,763
Home Ownership Revenue Bonds (Taxable):				
1989 A	7/89	9.8	2019	2,160
1995 C,D&E	5/95	4.8 to 7.45	2026	96,815
1997 F	7/97	Variable	2007	10,000
1995 F,G&H	9/95	4.4 to 7.875	2026	68,740
1997 A, B & C	4/97	4.1 to 5.7	2028	85,000
				262,715
Business Development Bonds:				
1988 3-5	Various	7.875 to 8.0	2003	965
1989 1,3-9,11-12,17				
19,20,22 & 28	Various	7.1 to 8.0	2014	14,240
1990 2-4, 6	Various	7.1 to 7.75	2010	3,930
1991 1-6	Various	6.1 to 7.05	2006	7,565
1994 1-4	Various	Variable	2014	9,550
1995 1-2, 4-9	Various	Variable	2015	18,300
				54,550
Notes Payable	Various	Variable	1998	53,501
Authority’s Total Revenue Bonds and Notes				$1,846,034

Authority's Special Obligation Bonds

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

Special obligation bonds at June 30, 1997 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	$ 11,198
Home Ownership Revenue Bonds:				
1993 A	6/92	4.8 to 6.5	2025	82,350
1994 C&D	8/94	5.0 to 6.65	2025	46,210
1994 E&F	12/94	5.75 to 7.55	2026	26,200
				154,760
Home Ownership Revenue Bonds (Taxable):				
1993 B	4/93	6.45 to 7.4	2017	18,339
Home Improvement Revenue Bonds:				
1988 A	11/88	7.2 to 7.75	2006	4,375
1990 A&B	4/90	7.3 to 7.9	2006	1,130
1992 A&B	5/92	5.8 to 7.0	2010	2,635
				8,140
Total Special Obligation Bonds				$ 192,437

As of June 30, 1997, 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
1998	$ 182,686	$ 105,677	$ 288,363
1999	46,253	97,291	143,544
2000	45,925	99,360	145,285
2001	46,528	96,727	143,255
2002	50,829	93,945	144,774
Thereafter	1,666,250	1,231,855	2,898,105
Total	2,038,471	1,724,855	3,763,326
Less: Deferred Refunding Amount	(860)		(860)
Total	$ 2,037,611	$ 1,724,855	$ 3,762,466

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, 1997, the Authority had issued 112 series of such bonds in an aggregate principal amount of $70.4 million for economic projects in Wisconsin.

University of Wisconsin Hospitals and Clinics Authority

In April 1997, the University of Wisconsin Hospitals and Clinics Authority (the Hospital) issued $50.0 million of Variable Rate Demand Hospital Revenue Bonds, Series 1997. The bond proceeds are designated to finance qualified capital projects. Principal payments on the Series 1997 Bonds are due annually commencing in April 2010 through April 2026. Interest is payable at an initial weekly mode rate. The effective annual estimated interest rate was 4.0 percent at the time of issuance.

The Series 1997 bonds are collateralized by a security interest in substantially all of the Hospital's revenue. The borrowing agreements contain various covenants and restrictions including the establishment and maintenance of certain funds under the control of a trustee. These funds are held by the trustee and are reflected in Restricted and Limited Use Assets – Investments in the accompanying financial statements.

The Hospital is limited to total borrowings, exclusive of amounts outstanding prior to issuance of the Series 1997 bonds, to $50.0 million, with limited exceptions.

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

As of June 30, 1997, debt service requirements for the Hospital's revenue bonds were as follows (in thousands):

Fiscal Year Ended June 30	Principal	Interest	Total
1998	$	$ 1,917	$ 1,917
1999		2,000	2,000
2000		2,000	2,000
2001		2,000	2,000
2002		2,000	2,000
Thereafter	50,000	36,984	86,984
Total	$ 50,000	$ 46,901	$ 96,901

C. University of Wisconsin System

Bonds payable included in the University of Wisconsin System's Plant Funds at June 30, 1997 consist of general obligation bonds of $709.8 million; Wisconsin University Building Corporation bonds with an outstanding balance of $0.3 million maturing in the years 1997 - 1999 and the Wisconsin State College Building Corporation bonds recorded in the amount of $1.1 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, 1997, future principal payments on bonds payable of these corporations were as follows (in thousands):

Fiscal Year Ended June 30	Total
1998	$ 468
1999	417
2000	325
2001	126
Total	$ 1,336

D. Refundings and Early Extinguishments

Refunding Provisions of GASB Statement No. 23

The State 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	1997 Amortization of Deferred Amount	Net Deferred Amount Outstanding
Facilities Operations and Maintenance	$ 248,517	$ 16,158	$ 232,359
University of Wisconsin System	1,898,210	123,555	1,774,655
	$ 2,146,727	$139,713	$2,007,014

Current Year Refundings/General Obligation Bonds

In March 1997, the State issued $23.6 million of general obligation refunding bonds (1997 Series 1), the proceeds of which were deposited in an escrow account to provide for future debt service requirements on $23.3 million of various 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 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. On June 30, 1997, $189.3 million was outstanding.

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, 1997, 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, 1997, the outstanding principal on these defeased bonds was $13.5 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, 1997, 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, 1997, 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, 1997, 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, 1997, the outstanding principal on these defeased bonds was $49.2 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, 1997, the outstanding principal on these defeased bonds was $165.9 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, 1997, the outstanding principal on these defeased bonds was $143.6 million.

At June 30, 1997, approximately $1,722.1 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, 1997, $73.8 million of the bonds are considered defeased.

Transportation Revenue Bonds

In Fiscal Year 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. 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, 1997, $105.2 million of the bonds are considered defeased.

In Fiscal Year 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. 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, 1997, 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, 1997, $26.0 million of principal is outstanding.

At June 30, 1997, 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 March1, 1990. As of June 30, 1997, the remaining outstanding defeased debt was $38.8 million.

Early Extinguishments

Component Units

Wisconsin Housing and Economic Development Authority

During 1997, 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	Redemptions 1997	Extraordinary Losses 1997
Home Ownership Revenue Bond Resolutions:		
1987	$ 20,395	$ --
1988	57,185	--
All Other	26,183	--
State of Wisconsin Programs	2,020	35
General funds	1,505	--

E. Short-Term Financing

The State of Wisconsin Building Commission, an agency of the State, is empowered by law to consider, authorize, issue, and sell debt obligations of the State. To date, the Commission has authorized the issuance of notes in anticipation of revenue or bond financing. When this short-term debt does not meet long-term financing criteria, it is classified among fund liabilities. At June 30, 1997, the State had issued two such notes in the form of commercial paper.

General Obligation Commercial Paper Notes

In April 1997, the State authorized $99.0 million and issued $92.0 million of General Obligation Commercial Paper Notes, 1997 Series A, for the acquisition, construction, development, extension, enlargement, or improvement of land, waters, property, highway, buildings, equipment or facilities. Periodically, additional commercial paper notes are issued to pay for maturing commercial paper notes and accrued interest on the maturing notes. The State intends to make annual May 1 payments on the outstanding commercial paper notes that reflect principal amortization of the notes. The State also intends to make semi-annual May 1 and November 1 payments on the outstanding commercial paper notes that will be equal to the interest accrued and accruing for that period. At June 30, 1997, the amount of commercial paper notes outstanding was $93.0 million which had interest rates ranging from 3.55 percent to 4.15 percent and maturities ranging from July 7, 1997 to November 14, 1997.

Transportation Revenue Commercial Paper Notes

In May 1997, the State authorized $189.0 million and issued $154.8 million of transportation revenue commercial paper notes, 1997 Series A, to pay the costs of major highway projects and certain State transportation facilities. Periodically, additional commercial paper notes are issued to pay for maturing commercial paper notes and accrued interest on the maturing notes. The State intends to make annual July 1 payments on the commercial paper notes that reflect principal amortization of the notes. The State also intends to make semi-annual January 1 and July 1 payments on the commercial paper notes that will be equal to (i) the amounts determined by the State, as set forth in the Supplemental Resolution, for the semi-annual periods ending on July 1, 1999, and (ii) the interest accrued and accruing for that applicable semi-annual period commencing July 1, 1999. At June 30, 1997, the amount of commercial paper notes outstanding was $154.9 million which had interest rates ranging from 3.65 percent to 3.80 percent and maturities ranging from July 8, 1997 to September 12, 1997.

F. Certificates of Participation

The State established a facility in 1992 that provides lease purchase financing for equipment and certain service items acquired by State agencies. This facility is the Amended and Restated Master Lease 1992-1. Pursuant to the terms and conditions of this agreement, the trustee for the facility issues parity Master Lease certificates of participation that evidence proportionate interest of the owners thereof in lease payments to be made for rental of certain equipment and service items. A common pool of collateral ratably secures all Master Lease certificates. Title in the equipment and service items purchased under the facility remains with the State and the State grants to the Trustee, for the benefit of all Master Lease certificate holders, a first security interest in the leased items. At June 30, 1997, the following parity Master Lease certificates were outstanding:

- Master Lease Certificates of Participation of 1996, Series B, in the amount of $28.7 million. This series of Master Lease certificates had interest rates ranging from 4.25 percent to 4.90 percent and matures semi-annually through September 1, 2003.

- Master Lease Certificate of participation of 1996, Series A, in the amount of $11.8 million. This Master Lease certificate evidences the State's obligation to repay, but solely from sources specified, revolving loans under a Revolving Credit Agreement, dated July 1, 1996 between Firstar Trust Company, Milwaukee, Wisconsin (Trustee) and the Bank of America Illinois. This Master Lease certificate shall bear interest at the rates provided for in the Revolving Credit Agreement and matures on March 1, 2006.

The Second Amended and Restated Master Lease 1992-1 provides that certain lease schedules to the facility can be terminated if the State deposits with the Trustee an amount that is equal to the outstanding amount of the lease schedule, or in amounts that are sufficient to purchase investments that mature on dates and in amounts to make the lease payments when due. At June 30, 1997, the State has deposited with the Trustee amounts, that when invested, will terminate lease schedules having an aggregate outstanding amount of $4.2 million. As a result of terminating these lease schedules, the associated liability is removed from the financial statements.

G. Arbitrage Rebate

The Tax Reform Act of 1986 requires that governmental entities issuing tax-exempt debt subsequent to August 1986, calculate and rebate arbitrage earnings to the federal government. Specifically, the excess of the aggregated amount earned on investments purchased with bond proceeds over the amount that would have been earned if the proceeds were invested at a rate equal to the bond yield, is to be rebated to the federal government. As of June 30, 1997, no arbitrage liability existed.

H. 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.

I. Credit Agreements

Primary Government

The State has, as part of the working bank contract, a letter of credit agreement with the Firstar 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, 1997, $50.0 million was unused and available.

In addition, during Fiscal Year 1997, the State entered into a credit agreement with two banks to provide a line of credit for liquidity support for up to $300.0 million of general obligation commercial paper notes. The line of credit expires in April, 1998, but is subject to annual renewal as provided for in the credit agreement. The cost of this line of credit is 0.04 percent.

Also, during Fiscal Year 1997, the State entered into a credit agreement with three banks to provide a stand-by letter of credit for credit and liquidity support for its transportation revenue commercial paper program. The stand-by letter of credit is available to secure up to $200.0 million of transportation revenue commercial paper and interest thereon. No advances were drawn during the fiscal year ended June 30, 1997. This stand-by letter of credit expires in May, 1998, but is subject to annual renewal as provided for in the credit agreement. The cost of this stand-by letter of credit is 0.08 percent on unutilized amounts and 0.145 percent on utilized amounts.

Component Units

In December 1996, the University of Wisconsin Hospitals and Clinics Authority (the Hospital) authorized a $10.0 million unsecured line of credit with a bank of which approximately $9.4 million was drawn and used to provide interim financing for several capital projects. Borrowings under the line of credit were reimbursed in full from the proceeds of the Series 1997 Bonds. The line of credit expired on June 1, 1997.

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

Primary Government

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, 1997 (in thousands):

	General Fixed Assets	Enterprise Funds	Internal Service Funds
Buildings and Improvements	$ 653	$	$
Machinery and Equipment	14,712	264	22,183
Less: Accumulated Depreciation		(108)	(8,166)
Carrying Amount	$ 15,366	$ 155	$ 14,017

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, 1997 for capital leases (in thousands):

Fiscal Year	General Long-term Debt Account Group	Proprietary Funds	University of Wisconsin System
1998	$ 4,587	$ 5,694	$ 4,372
1999	2,320	5,041	3,652
2000	1,142	2,440	2,296
2001	516	1,351	1,251
2002	350	682	467
Thereafter	490	640	1,968
Total minimum future payments	9,404	15,847	14,005
Less: Executory costs	(80)	(1)	
Less: Interest	(835)	(1,514)	(2,133)
Present value of net minimum lease payments	$ 8,488	$ 14,332	$ 11,872

Master Lease Program

The State established a facility in 1992 that provides lease purchase financing for equipment and certain service items acquired by state agencies. This facility is the second amended and restated Master Lease #1992-1 between the State acting by and through the Department of Administration and Firstar Bank Milwaukee, N.A. Lease purchase obligations under the Master Lease are not general obligations of the State, but are payable from appropriations of State agencies participating in the Master Lease Program, subject to annual appropriation. The interest component of each lease/purchase payment is subject to a separate determination. Pursuant to terms of the Master Lease, the Trustee for the facility issues parity Master Lease Certificates of Participation that evidence proportionate interest of the owners thereof in lease payments to be made for rental of equipment and certain service items. Equipment acquired and outstanding on June 30, 1997 consisted of:

Balance Due	Blended Interest Rate	Average Life (Weighted Term)
$36,344,030	4.947%	1.589 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.

Component Unit

Under the terms of a lease agreement, the University of Wisconsin Hospitals and Clinics Authority (the Hospital) leases facilities which were occupied by the Hospital as of June, 1996 (see Note 1B to the financial statements). The initial term of the lease is 30 years to be renewed annually with automatic extensions of one additional year on each July 1 until action is taken to stop the extensions. Included in the consideration for the lease is an amount equal to the debt service during the term of the lease agreement on all outstanding bonds issued by the State for the purpose of financing the acquisition, construction or improvement of the leased facilities. Interest rates on the related bonds range from 4.2 percent to 7.4 percent, with final maturities due beginning in April 1998 through April 2016. Scheduled principal and interest payments through April 2016 are $57.6 million.

In addition, scheduled principal and interest payments through December 2000 are $1.5 million for equipment acquired under a capital lease agreement.

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 1997 were $29.7 million. Of this amount, $28.9 million relates to minimum rental payments stipulated in lease agreements, $0.8 million relates to contingent rentals, and $107 thousand subrental payments. The University of Wisconsin System operating lease expenditures totaled $2.6 million for Fiscal Year 1997.

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
1998	$ 28,112	$ 4,097	$ 2,144
1999	20,808	2,971	1,217
2000	13,889	2,037	675
2001	8,667	1,275	373
2002	7,426	1,130	144
Thereafter	11,491	7,022	10
Minimum lease payments	$ 90,393	$ 18,531	$ 4,564

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, 1997 for installment purchases (in thousands):

Fiscal Year	General Long-term Debt Account Group	Proprietary Funds	University of Wisconsin System
1998	$ 981	$ 209	$ 190
1999	471	200	36
2000	296	155	28
2001	85	148	22
2002		125	
Thereafter		111	
Total minimum future payments	1,834	948	277
Less: Interest	(70)	(118)	(15)
Present value of net minimum installment payments	$ 1,764	$ 831	$ 262

NOTE 9. SEGMENT INFORMATION AND CONDENSED FINANCIAL DATA

Primary Government

The State maintains 25 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, 1997 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	$ 33,588	$ 33,986	$ 115,093	$431,146	$ 37,929	$ 8,955
Revenues from sales/services ppvided to other GAAP funds	--	--	--	--	--	--
Depreciation, depletion and amortization expense	2,130	1,483	2,919	616	2	11
Operating income or loss	(1,777)	(36,401)	(3,057)	132,333	(324)	1,426
Operating grants, entitlements, and shared revenues	9	16	18	--	--	--
Operating interfund transfers:						
In	25	34,710	433	--	--	--
Out	1,047	152	3,336	13,389	--	--
Extraordinary gain (loss)	--	--	--	--	--	--
Net income (loss)	(2,431)	53	(5,221)	92,186	15	1,425
Current capital:						
Contributions	192	4,422	631	--	--	--
Transfers In	--	155	--	--	--	--
Transfers Out	--	--	--	--	--	--
Property, plant and equipment:						
Additions	560	4,850	1,726	528	--	--
Deletions	1,857	--	108	64	--	--
Net working capital (current assets less current liabilities)	3,612	(8,322)	(5,203)	144,349	7,299	18,075
Total assets	32,556	55,912	66,602	411,707	13,727	25,520
Bonds and other material long-term liabilities outstanding:						
Amounts payable solely from operating revenues	--	--	--	224,513	7,298	3,243
Amounts potentially payable from other sources	--	--	--	--	--	--
Total equity	29,560	28,796	37,888	138,404	6	19,175

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 Employe Benefit Plans include:

Income Continuation Insurance - disability benefits for government employes.

Duty Disability - Compensation for duty-related disabilities of government employes.

Health Insurance - Group health insurance for government employes.

Long Term Disability Insurance - Long term disability benefits for government employes.

State Life Insurance (7)	Patients Compensation (8)	Government Employe Benefit Plans (9)	Clean Water (10)	Veterans Mortgage Loan Repayment (11)	Veterans Mortgage Revenue Bonds (12)	Wisconsin Education Revenue Bonds (13)	Other (14)	Total
$ 8,112	$ 84,255	$ 463,843	$ 20,953	$ 39,418	$ 3	$ 923	$ 29,958	$1,308,161
--	--	358,719	--	--	--	--	1,471	360,190
53	17	--	1,002	394	--	--	1,823	10,450
432	6,101	27,457	(5,915)	2,554	(4)	30	(2,723)	120,132
--	--	--	1,054	--	--	--	1,167	2,263
--	--	--	16	468	--	--	1,150	36,803
829	--	--	--	--	--	--	4,687	23,440
--	--	--	--	(56)	--	--	--	(56)
(397)	6,101	27,465	2,143	8,939	(3)	47	(4,501)	125,819
--	--	--	43,680	--	--	--	1,514	50,438
--	--	--	41,000	--	--	--	371	41,526
--	--	--	4,000	--	371	--	--	4,371
3	--	--	--	29	--	--	4,064	11,760
--	--	--	39	--	--	--	425	2,494
7,561	14,077	302,511	174,404	124,254	--	258	16,675	799,549
65,493	376,788	336,631	1,013,016	723,950	--	7,411	87,642	3,216,956
58,017	420,106	247,965	--	564,971	--	--	12,383	1,538,496
--	--	--	423,100	--	--	5,307	--	428,407
7,047	(44,100)	54,545	578,222	142,933	--	1,675	63,700	1,057,851

(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; Tuition Trust – Taxpayers’ investment to cover future tuition expenses; 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 three component units for the year ended December 31, 1996 or June 30, 1997 is presented below (in thousands):

	Wisconsin Housing and Economic Development Authority	Wisconsin Health Care Liability Insurance Plan	University of Wisconsin Hospitals and Clinics Authority	Total
Condensed Balance Sheet				
Assets:				
Current Assets	$ 399,147	$ 169,158	$ 111,548	$ 679,853
Due From Primary Government	--	--	863	863
Long-term Receivables	1,743,543	--	--	1,743,543
Deferred Charges	16,324	--	--	16,324
Fixed Assets	19,732	--	102,261	121,993
Other Assets	273,170	--	132,574	405,744
Total Assets	$ 2,451,916	$ 169,158	$ 347,246	$ 2,968,320
Liabilities:				
Current Liabilities	$ 201,347	$ 13,274	$ 37,688	$ 252,309
Due to Primary Government	--	10	14,979	14,989
Future Benefits and Loss Liability	--	135,147	--	135,147
Other Liabilities	--	--	40,750	40,750
Bonds and Notes Payable	2,037,611	--	50,000	2,087,611
Total Liabilities	2,238,958	148,431	143,417	2,530,806
Equity:				
Retained Earnings	212,958	20,727	203,829	437,514
Total Equity	212,958	20,727	203,829	437,514
Total Liabilities and Equity	$ 2,451,916	$ 169,158	$ 347,246	$ 2,968,320
Condensed Statement of Revenues, Expenses and Changes in Retained Earnings				
Operating Revenues	$ 140,698	$ 14,596	$ 312,275	$ 467,569
Operating Expenses:				
Depreciation	648	--	17,040	17,688
Other	212,992	17,051	289,359	519,402
Operating Income (Loss)	(72,942)	(2,455)	5,876	(69,521)
Other Nonoperating Revenues (Expenses)	95,093	--	9,546	104,639
Net Income Before Extraordinary Item	22,151	(2,455)	15,422	35,118
Extraordinary Item	(35)	--	--	(35)
Net Income	22,116	(2,455)	15,422	35,083
Retained Earnings-Beginning of Year	190,842	23,181	188,408	402,431
Retained Earnings-End of Year	$ 212,958	$ 20,727	$ 203,830	$ 437,514

NOTE 10. INTERFUND ASSETS/LIABILITIES

Interfund assets and liabilities at June 30, 1997 consist of the following (in thousands):

A. Due from/to Other Funds:

Due from Other Funds	$ 867,961
Due to Other Funds	867,961

Due from/to Other Funds represent short-term interfund accounts receivable and payable. The totals of Due from/to Other Funds at June 30, 1997 by individual fund were as follows (in thousands):

Fund	Due from Other Funds	Due to Other Funds
General	$ 90,014	$591,335
Special Revenue:		
Transportation	16,940	26,741
Conservation	13,618	7,484
Wisconsin Health Education Loan Repayment	48	21
Work Injury Supplemental Benefit	10	
Mediation	20	3
Agrichemical Management	117	259
Employe Trust Fund Administration	59	757
Badger		5,442
Petroleum Inspection	9,659	1,255
Environmental	5,397	5,112
Recycling	11,411	8,073
Info Tech Investment	112	
Property Tax Relief	257,756	
Debt Service:		
Bond Security and Redemption	4	167
Capital Projects:		
Building Trust	4	36
Capital Improvement	1,777	1,645
Transportation Revenue Bonds		14,805
Enterprise:		
State Fair Park	74	897
Home for Veterans	14	767
Mendota Mental Health Institute	2,069	2,563
Winnebago Mental Health Institute	1,232	2,537
Central Developmental Disabilities Center	7,695	1,804

(Continued)

Fund	Due from Other Funds	Due to Other Funds
Northern Developmental Disabilities Center	5,269	1,680
Southern Developmental Disabilities Center	6,166	1,554
Institutional Farm Operations	172	113
Institutional Canteen Operations	5	65
Lottery	530	9,944
Health Insurance Risk Sharing Plan		2
Local Government Property Insurance	87	8
State Life Insurance	1	15
Patients Compensation		48
Income Continuation Insurance	16,331	32
Duty Disability	6,121	1,196
Long Term Disability Insurance	14,761	6
Health Insurance	359	246
Tuition Trust		264
Clean Water	39	594
Veterans Trust	6	208
Veterans Mortgage Loan Repayment	130	128
Wisconsin Education Revenue Bonds		402
Wisconsin Public Broadcasting Foundation	15	28
Internal Service:		
Services to Nonstate Governmental Units	123	14
Materials and Services to State Agencies	732	866
Fleet Services	1,351	62
Building Construction Services	1,960	118
Printing and Other Services	1,651	121
State Telephone System	3,694	458
Financial Services	269	453
Risk Management	155	2,494
Facilities Operations and Maintenance	2,974	936
Information Technology Services	18,316	765
Institutional Power Plant	1,043	356
Central Warehouse	413	16
Badger State Industries	2,064	375

(Continued)

Fund	Due from Other Funds	Due to Other Funds
Expendable Trust:		
Petroleum Violation	66	77
Unclaimed Property Program		10
Accumulated Sick Leave	48,134	
Special Death Benefits	217	
Employe Reimbursement Accounts	249	
Life Insurance	27	17
Common School Income		506
Unemployment Insurance Reserve	290	334
Children's Trust	3	
Nonexpendable:		
Common School	40	
Historical Society	3	57
State Housing Authority Reserve		16
Pension:		
Wisconsin Retirement System	242,808	115,833
Agency:		
Milwaukee Retirement Systems	20,868	2
Inmate and Resident	466	106
University of Wisconsin System	52,020	55,732
Total	$867,961	$867,961

B. Due to/from Component Units

Receivables and payables between funds and component units at June 30, 1997 were as follows (in thousands);

Fund/Component Unit	Due from Component Units/Primary Government	Due to Component Units/Primary Government
Primary Government:		
General Fund	$	$ 863
Enterprise:		
Patients Compensation	10	
Internal Service:		
Materials and Services to State Agencies	5	
Fleet Services	3	
Printing and Other Services	128	
State Telephone System	53	
Badger State Industries	8	
Expendable Trust:		
Employe Reimbursement Account	15	
University of Wisconsin System	14,804	
Component Unit:		
Wisconsin Housing and Economic Development Authority		37
Wisconsin Health Care Liability Insurance Plan		10
University of Wisconsin Hospitals and Clinics Authority	863	14,978
	$ 15,888	$ 15,888

C. Interfund Loans Receivable/Payable

Interfund Loans Receivable	$ 88,615
Interfund Loans Payable	$ 88,615

Interfund Loans Receivable/Payable represent loans from one fund to another to cover cash overdrafts. Interfund loans receivable/payable at June 30, 1997 by individual fund were as follows (in thousands):

Fund	Interfund Loans Receivable	Interfund Loans Payable
General	$ 68,370	$ --
Special Revenue:		
Transportation	2,691	--
Wisconsin Health Education Loan Repayment	--	7
Employe Trust Fund Administration	38	--
Environmental Local Assistance	--	4,481
Capital Projects:		
Capital Improvement	--	13,034
Transportation Revenue Bonds	--	2,691
Enterprise:		
Mendota Mental Health Institute	--	7,104
Winnebago Mental Health Institute	--	9,694
Central Developmental Disabilities Center	--	6,708
Northern Developmental Disabilities Center	--	3,966
Southern Developmental Disabilities Center	--	242
Institutional Farm Operations	--	4,850
Veterans Mortgage Loan Repayment	17,516	--
Internal Service:		
Services to Nonstate Governmental Units	--	2,371
Fleet Services	--	21,643
Printing and Other Services	--	3,251
State Telephone System	--	3,518
Information Technology Services	--	3,091
Institutional Power Plant	--	203
Badger State Industries	--	1,723
Expendable Trust:		
Deferred Compensation Plan	--	38
Total	$ 88,615	$ 88,615

(Continued)

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, 1997 by individual fund were as follows (in thousands):

Fund	Advances to Other Funds	Advances from Other Funds
General	$ --	$ 4,000
Special Revenue:		
Information Technology Investment	--	3,958
Capital Projects:		
Energy Efficiency	3,000	--
Enterprise:		
Local Government Property Insurance	4,000	--
Internal Service:		
State Telephone System	7,118	--
Information Technology Services	--	3,160
University of Wisconsin System	--	3,000
Total	$ 14,118	$ 14,118

NOTE 11. INTERFUND TRANSFERS

A. Residual Equity Transfers

Residual equity transfers in and out that occurred during Fiscal Year 1997 were as follows (in thousands):

Fund	Residual Equity Transfers In	Residual Equity Transfers Out
General	$ 14,367	$ 155
Special Revenue:		
Badger	--	5,442
Debt Service:		
Bond Security and Redemption	--	4
Capital Projects:		
Capital Improvement	--	41,000
Building Trust	4	30
Enterprise:		
Mendota Mental Health Institute	98	--
Winnebago Mental Health Institute	57	--
Clean Water	41,000	4,000
Veterans Mortgage Revenue Bonds	--	371
Veterans Trust	371	--
Internal Service:		
Material and Services to State Agencies	1,303	16
Information Technology Services	16	--
Fleet Services	--	2
Printing and Other Services	--	1,301
Non-expendable Trust:		
State Housing Authority Reserve	--	4,895
Total Residual Equity Transfers	$ 57,217	$ 57,217

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 1997 were as follows (in thousands):

Fund	Operating Transfers In	Operating Transfers Out
General	$ 36,931	$ 1,586,429
Special Revenue:		
Transportation	20	20,105
Conservation	12,260	1,152
Wisconsin Elections Campaign	307	--
Employe Trust Funds Administration	--	180
Petroleum Inspection	8	1,809
Environmental	1,809	--
Recycling	404	7,034
Information Technology Investment	--	3,727
Property Tax Relief	257,756	--
Debt Service:		
Bond Security and Redemption	212,158	5,250
Transportation Revenue Bonds	790	--
Capital Projects:		
Building Trust	936	11
Capital Improvement	16,035	1,625
Transportation Revenue Bonds	--	790
Enterprise:		
State Fair Park	37	250
Home for Veterans	25	1,047
Mendota Mental Health Institute	19,489	79
Winnebago Mental Health Institute	15,221	73
Central Developmental Disabilities Center	432	935
Northern Developmental Disabilities Center	1	1,348
Southern Developmental Disabilities Center	--	1,054
Institutional Farm Operations	840	6
Institutional Canteen Operations	274	138
Lottery	--	13,389
State Life Insurance	--	829
Clean Water	16	--
Veterans Mortgage Loan Repayment	468	--
Wisconsin Public Broadcasting Foundation	--	4,292
Internal Service:		
Services to Nonstate Governmental Units	148	--
Materials and Services to State Agencies	316	--
Printing and Other Services	250	--
State Telephone System	335	386
Financial Services	--	356
Facilities Operations and Maintenance	5,456	2,195
Information Technology Services	211	335
Institutional Power Plants	--	80
Central Warehouse	--	7
Badger State Industries	--	32
Expendable Trust:		
Petroleum Violation	--	1,630
Unclaimed Property Program	--	12,000
Nonexpendable Trust:		
Common School	12,000	--
Historical Society	--	73
Pension Trust:		
Wisconsin Retirement System	206,613	--
University of Wisconsin System	873,575	6,475
Total	$1,675,121	$ 1,675,121

(Continued)

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

For Fiscal Year 1997, the following reclassifications and adjustments have resulted in beginning fund balance/retained earnings restatement (in thousands):

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust
Fund Balances/Retained Earnings June 30, 199 as previously reporte	$ (918,513)	$ 284,136	$ 7,009	$ 88,336	$ 75,376	$ 7,007	$ 40,268,265
Inclusion of University of Wisconsin Hospitals and Clinics Authority in reporting entity as a component unit	--	--	--	--	--	--	--
Restatement of Pension Trust Fund's fund for Implementation of GASB Statement No. 2 *Accounting for Pensions by State and Local Governmental Employers*	--	--	--	--	--	--	2,055,718
Restatement of the Wisconsin Housing and Economi Development Authority's retained earnings fo implementation of GASB Statement No. 3 *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*	--	--	--	--	--	--	--
Restatement of Deferred Compensation Fund's balance for implementation of GASB Statement No. 3 *Accounting and Financial Reporting for Internal Code Section 457 Deferred Compensation Plans*	--	--	--	--	--	--	521,984
Restatement of State Life Insurance Fund's retaine earnings for implementation of FASB Statement No. 12 *Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Long-Duration Participating Contracts*	--	--	--	--	(6,431)	--	--
Reclassifications of GAAP fund structure:							
State Nursery Operations	--	1,406	--	--	(514)	--	--
Wisconsin Natural Resources Magazine	--	99	--	--	(90)	--	--
Terminal Charges	(206)	--	--	--	--	435	--
Other Trusts	67	--	--	--	268	--	(335)
Restatement of Transportation Fund's fund balance based on further analysis of activity	--	14,472	--	--	--	--	--
Change in fixed assets capitalization dollar threshol from $1000 to $5000	--	--	--	--	(4,062)	(263)	--
Other adjustments of assets and liabilities as o June 30, 1996	(1,186)	--	3,569	5	1,606	(16)	--
Fund balances/retained earnings, July 1, 199 as restated	$ (919,838)	$ 300,114	$ 10,579	$ 88,341	$ 66,152	$ 7,163	$ 42,845,632
Effect of restatements on the amount of exces revenues and other sources over expenditure and other uses or the amount of the net incom of Fiscal Year 1996	$ 3,307	$ 14,514	$ 3,569	$ 0	$ 783	$ (826)	$ 149,423

Amounts reported for fixed assets as of July 1, 1996 in Note 4 have been restated from amounts previously reported in the 1996 Comprehensive Annual Financial Report to reflect items removed as a result of the change in the capitalization threshold and additional assets identified as existing at that date.

As discussed above, the State implemented GASB Statement No. 32 *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* in Fiscal Year 1997. As a result, the Deferred Compensation Plan Fund, reported as an agency fund in previous fiscal years, was reclassified as an expendable trust fund in Fiscal Year 1997.

University of Wisconsin System						
Current			Endowment		Component
Unrestricted	Restricted	Loan	And Similar	Plant	Units
$ 258,888	$ 25,256	$ 156,080	$ 181,979	$ 3,077,379	$ 226,691
(60,808)	--	--	--	(266,515)	188,408
--	--	--	--	--	--
--	--	--	--	--	(12,668)
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	(322,893)	--
(1,038)	3,645	177	--	--	--
$ 197,042	$ 28,901	$ 156,257	$ 181,979	$ 2,487,971	$ 402,431

NOTE 13. FUND EQUITY

The following schedule enumerates the components of Fund Equity of the various funds as of June 30, 1997 (in thousands):

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types			
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust	University of Wisconsin System	Component Units	Total
Contributed Capital	$ --	$ --	$ --	$ --	$ 866,250	$23,045	$ --	$ --	$ --	$ 889,295
Retained Earnings:										
Reserved for:										
Future Benefits	--	--	--	--	7,047	--	--	--	3,620	10,667
Market Value Adjustments	--	--	--	--	56,494	--	--	--	--	56,494
Bonds	--	--	--	--	--	--	--	--	127,865	127,865
Donors for Operations	--	--	--	--	--	--	--	--	1,559	1,559
Unreserved	--	--	--	--	128,060	7,358	--	--	304,470	439,888
Fund Balances:										
Reserved for:										
Encumbrances	146,444	397,253	--	107,387	--	--	9,049	131,005	--	791,138
Inventory	12,270	16,612	--	--	--	--	--	43,325	--	72,207
Prepaid Items	140,260	9,853	--	--	--	--	2,625	13,756	--	166,494
Employe Benefits	--	--	--	--	--	--	37,419,529	--	--	37,419,529
Market Value Adjustments	--	--	--	--	--	--	10,364,582	--	--	10,364,582
Unemployment Compensation	--	--	--	--	--	--	1,666,068	--	--	1,666,068
Auxiliary Operations	--	--	--	--	--	--	--	78,976	--	78,976
Restricted Funds	--	--	--	--	--	--	--	15,322	--	15,322
Loan Funds	--	--	--	--	--	--	--	161,356	--	161,356
Endowment and Similar Funds	--	--	--	--	--	--	--	192,405	--	192,405
Plant Funds	--	--	--	--	--	--	--	2,586,184	--	2,586,184
Unreserved:										
Designated for University Contingent Fund	--	--	--	--	--	--	--	3,611	--	3,611
Undesignated	(1,771,729)	19,307	4,295	(209,347)	--	--	1,087,391	40,834	--	(829,249)
Total Fund Equity	$(1,472,755)	$443,026	$4,295	$(101,960)	$1,057,851	$30,403	$50,549,243	$3,266,775	$437,514	$54,214,392

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NOTE 14. DEFICIT FUND BALANCES/RETAINED EARNINGS AND EXCESS OF EXPENDITURES OVER APPROPRIATIONS

A. Deficit Fund Balances/Retained Earnings:

In addition to the General Fund, funds reporting a deficit fund balance or retained earnings position at June 30, 1997 are (in thousands):

Special Revenue:		
Petroleum Inspection	$	178,336
Information Technology Investment		3,693
Environmental Local Assistance		14,283
Capital Projects:		
Capital Improvement		89,356
Transportation Revenue Bonds		37,240
Enterprise:		
Home for Veterans		6,896
Mendota Mental Health Institute		14,303
Winnebago Mental Health Institute		13,307
Northern Developmental Disabilities Center		13,904
Central Developmental Disabilities Center		11,916
Southern Developmental Disabilities Center		16,933
Institutional Farm Operations		684
Patients Compensation		44,100
Duty Disability		157,561
Tuition Trust		247
Clean Water		20,014
Veterans Trust		37,055
Internal Service:		
Services to Nonstate Governmental Units		1,145
Printing and Other Services		1,125
Risk Management		63,206
Institutional Power Plant		2,488

B. Excess of Expenditures over Appropriations:

The Wisconsin Health Education Loan Repayment fund had budgeted expenditures of $93 thousand and actual expenditures of $102 thousand.

NOTE 15. CONTRIBUTED CAPITAL

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

	Enterprise	Internal Service
Clean Water Fund – Environmental Protection Agency grant for State revolving fund loans to municipalities	$ 43,680	$ --
Clean Water Fund – Residual equity transfers in from the Capital Improvement Fund totaling $41,000 less return of Contributed Capital to the General Fund of $4,000	37,000	--
Other changes to contributed capital	8,191	406
Subtotal	88,871	406
Contributed capital, beginning of year	777,379	22,639
Contributed capital, end of year	$ 866,250	$ 23,045

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 employes. The WRS consists of the fixed retirement investment trust, the variable retirement investment trust, and the police and firefighters trust. Prior to Fiscal Year 1997, the fixed retirement investment trust, the variable retirement investment trust, and the police and firefighters trust were reported as individual pension trust funds. With the implementation of GASB Statement No. 25 *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* in Fiscal Year 1997, these trusts are reported in one pension trust fund. Further, during Fiscal Year 1997, the Special Death Benefit Fund was reclassified from a pension trust fund to an expendable trust fund in order to more consistently reflect its similarity to a life insurance program. This reclassification has no effect on fund balance.

The WRS is considered part of the State of Wisconsin's financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information for the year ending December 31, 1996, may be obtained by writing to:

Department of Employe Trust Funds
P.O. Box 7931
Madison, WI 53707-7931.

Plan Description

The WRS, governed by Chapter 40 of the Wisconsin Statutes, is a cost-sharing multiple-employer defined benefit pension plan. It provides coverage to all eligible State of Wisconsin, local government and other public employes. Any employe 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. As of December 31, 1996, the number of participating employers was:

State Agencies	63
Cities	153
Counties	71
4^{th} Class Cities	34
Villages	174
Towns	128
School Districts	438
WTCSB Districts	16
Other	141
Total Employers	1,218

Prior to January 1, 1990, benefits for WRS members were fully vested at the time they met the participation requirements. Effective January 1, 1990, creditable service in each of five years is required for eligibility for a retirement annuity. Employes who retire at or after age 65 (55 for protective occupation employes, 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.

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

Accounting Policies and Plan Asset Matters

The financial statements of the WRS have been prepared in accordance with generally accepted accounting principles, using the flow of economic resources measurement focus and a full accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

All assets of the WRS are invested by the State of Wisconsin Investment Board. The retirement fund assets consist of shares in the variable retirement investment trust and the fixed retirement investment trust. The variable retirement investment trust consists primarily of equity securities. The fixed retirement investment trust is a balanced investment fund made up of fixed income securities and an investment in the variable retirement investment trust. Shares in the fixed retirement investment trust and the variable retirement investment trust 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 trusts 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.

The WRS does not have any investments (other than those issued or guaranteed by the U.S. Government) in any one organization that represent 5.0 percent or more of plan net assets.

State Contributions Required and Contributions Made

Covered State employes in the General/Teacher category are required by statute to contribute 6.5% of their salary (4.6% for Executives and Elected Officials, 6.1% for Protective Occupations with Social Security, and 6.8% for Protective Occupations without Social Security) to the plan. Employers may make these contributions to the plan on behalf of employes.

Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits. Required contributions were determined as part of an actuarial valuation at December 31, 1994. State contributions required and made for the years ended December 31, 1996, 1995, and 1994 were as follows (in millions):

	1996	1995	1994
Employer current service	$ 120.5	$ 114.2	$ 108.6
Percent of payroll	5.6%	5.3%	5.3%
Employer prior service	$ 28.2	$ 28.0	$ 26.7
Percent of payroll	1.3%	1.3%	1.3%
Employe required	$ 30.2	$ 24.6	$ 23.6
Percent of payroll	5.1%	5.1%	5.1%
Benefit adjustment contrib.	$ 111.1	$ 110.4	$ 105.2
Percent of payroll	1.4%	1.1%	1.1%
Percent of Required contributions	100%	100%	100%

The WRS uses the "Entry Age Normal with Frozen Initial Liability" actuarial method in establishing employer contribution rates. Under this method, the unfunded actuarial accrued liability is affected only by the monthly amortization payments, compound interest, the added liability created by new employer units, and any liabilities caused by changes in benefit provisions. All actuarial gains or losses arising from the difference between actual and assumed experience are reflected in the determination of the normal cost. The unfunded liability is being amortized over a 40 year period beginning January 1, 1990.

During Fiscal Year 1997, the WRS chose to early implement GASB Statement No. 25 *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. In accordance with Statement No. 25, the unfunded actuarial accrued liability, excluding that of the police and firefighters trust, has been reclassified as pension-related debt of the participating employers and a receivable of the WRS.

As of December 31, 1996 and 1995, the WRS's unfunded actuarial accrued liability was $2.09 billion and $2.06 billion, respectively. These amounts are presented as Prior Service Contributions Receivable. New prior service liabilities resulting from employers entering the WRS or increasing their prior service coverage are recognized as contributions in the year service is granted and are added to the Prior Service Contributions Receivable. Employer contributions for prior service reduce the receivable. The receivable is increased as of calendar year end with interest at the assumed interest rate of 8 percent. Reclassification of the unfunded actuarial accrued liability resulted in a $2.06 billion increase in Fund Balance Reserved for Pension Benefits at the beginning of Fiscal Year 1997.

Employer Pension Costs

The State's unfunded liability as of December 31, 1996, was $625.1 million, or 29.9 percent of the total WRS unfunded liability of $2.09 billion. This liability was determined in accordance with GASB Statement No. 27; however, the calculation does not differ from that used for Statement No. 5. The State's unfunded liability for prior service is recorded in the General Long-term Debt Account Group. In prior fiscal years, the employer pension liability was the sum of the excess of interest costs over contributions retroactive to 1989, the first year data was available. The change to recording the entire unfunded liability increases the liability for Employer Pension Costs in the General Long-term Debt Account Group as of July 1, 1996, by $475.8 million.

NOTE 17. OTHER POSTEMPLOYMENT BENEFITS

In addition to providing pension benefits, the State participates in the Department of Employe 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 11,100 State annuitants currently qualify for coverage without premium. Post retirement life insurance is fully insured by an independent 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, 1996, determined through an actuarial valuation performed as of that date, was $208.6 million. The program's assets on that date were $208.2 million. The unfunded liability was $0.4 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 6,900 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 7.3 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, 1996, determined through an actuarial valuation performed on that date, was $910.9 million. The program's assets on that date were $283.3 million. The unfunded liability was $627.6 million.

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

The State's postemployment life and health insurance required and actual contributions totaled $3.2 million and $41.8 million, respectively, during the calendar year ended December 31, 1996.

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

The Department of Employe 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, 1996.

A. Description of Funds

The Health Insurance Fund offers group health insurance for current and retired employes of the State government and of participating local public employers. All public employers in the State are eligible to participate. One hundred fifty 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 employes of the State government and of participating local public employers. All public employers in the State are eligible to participate. Seventy-five 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. As a result of favorable investment experience and actuarial gains, the State Income Continuation Insurance program accumulated sufficient assets to allow the suspension of premiums in April 1988. Premium collection resumed in August 1996. 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 employes. Four hundred eighteen 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 employes 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 trust. 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 claims liabilities and the corresponding contribution rates necessary to fund the liabilities, the actuarial assumption for mortality was changed from healthy life twelve years older to a three year set forward with mortality multipliers of 98 percent for males and 97 percent for females. As a result of this change, the December 31, 1996 estimated incurred liability increased by $19.1 million. The Fund's accounting deficit is being amortized over a twenty-seven year period beginning January 1, 1997.

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 1996 (in millions):

	Health Insurance		**Income Continuation Insurance**		**Duty Disability**		**Long-term Disability Insurance**	
	1995	1996	1995	1996	1995	1996	1995	1996
Unpaid claims at beginning of the calendar year	$11.1	$12.3	$39.5	$41.0	$135.5	$145.6	$4.3	$ 8.4
Incurred claims:								
Provision for insured events of the current calendar year	65.8	54.9	19.4	18.7	4.8	15.5	5.4	4.5
Changes in provision for insured events of prior calendar years	0.6	(1.1)	(10.9)	(9.5)	18.1	39.8	(0.6)	(0.7)
Total incurred claims	66.4	53.8	8.5	9.2	22.9	55.3	4.8	3.8
Payments:								
Claims and claim adjustment expenses attributable to insured events of the current year	53.6	46.1	2.7	2.4	0.0	0.1	0.1	0.1
Claims and claim adjustment expenses attributable to insured events of prior calendar years	11.6	10.9	4.3	5.3	12.8	13.4	0.6	1.3
Total Payments	65.2	57.0	7.0	7.7	12.8	13.5	0.7	1.4
Total unpaid claims expenses at end of the calendar year	$12.3	$ 9.1	$41.0	$42.5	$145.6	$187.4	$8.4	$10.8

D. Trend Information

Historical trend information showing revenue and claims development information is presented in the Department of Employe Trust Funds December 31, 1996 audited financial statements. Copies of these statements may be requested from:

The Department of Employe Trust Funds
P.O. Box 7931
Madison, Wisconsin 53707-7931

NOTE 19. SELF-INSURANCE

It is the general policy of the State not to purchase commercial insurance for the risks of losses to which it is exposed. Instead, the State believes it is more economical to manage its risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The fund services most claims for risk of loss to which the State is exposed, including damage to State owned property, liability for property damages and injuries to third parties, and worker's compensation. All funds and agencies of the State participate in the Risk Management Fund.

State Property Damage

Property damages to State-owned properties are covered by the State 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 1997.

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, 1997 are estimated to total $4.4 million. This amount, less $2.3 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 1997 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. 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, 1997 are estimated to total $36.0 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 employes 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 employe. 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. 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, 1997 are estimated to total $37.2 million.

Changes in the balances of claims liability for the Risk Management Fund during the current and prior fiscal years are as follows (in thousands):

	1997	1996
Beginning of fiscal year liability	$ 69,920	$ 103,914
Current year claims and changes in estimates	24,266	(16,165)
Claim payments	(16,642)	(17,829)
Balance at fiscal year-end	$ 77,544	$ 69,920

Annuity Contracts

The Risk Management Fund purchased annuity contracts in various claimants' names to satisfy claim liabilities. The likelihood that the fund will be required to make future payments on those claims is remote and, therefore, the fund is considered to have satisfied its primary liability to the claimants. Accordingly, the annuity contracts are not reported in, and the related liabilities are removed from, the fund's balance sheet. The aggregate outstanding amount of liabilities removed from the financial statements at June 30, 1997 is $ 2.2 million.

NOTE 20. 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, 1997, the Local Government Property Insurance Fund insured 1,099 local governmental units. The total amount of insurance in force as of June 30, 1997 was $19.4 billion.

Valuation of Cash Equivalents and Investments - All investments of the Local Government Property Insurance Fund are managed by the State of Wisconsin Investment Board, as discussed in Note 3-B to the financial statements. At June 30, 1997, the fund had $16.7 million of shares in the State Investment Fund which are considered cash equivalents and $.3 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. The liability for losses is not discounted to present value. 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.

Premium Deficiency – Investment income is considered in determining whether a premium deficiency exists. No premium deficiency existed at June 30, 1997.

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. As of June 30, 1997 the fund had $200 million of per occurrence excess of loss reinsurance in force with a $500 thousand combined single limit retention for each occurrence, and an annual aggregate reinsurance contract with a $6 million annual aggregate retention plus a per claim retention of $10 thousand once the aggregate is met, as respects occurrences for the term of the agreement Premium ceded to reinsurers during the fiscal year amounted to $1.9 million on a written basis and $1.7 million on an earned basis. The amount deducted from the unpaid claim liability as of June 30, 1997 for reinsurance was $1.0 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):

	1997	1996
Unpaid claims and claim adjustment expenses at beginning of the year	$4,086	$2,127
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	7,157	7,311
Increase (decrease) in provision for insured events of prior years	(433)	417
Total incurred claims and claim adjustment expenses	6,724	7,728
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	4,059	3,475
Claims and claim adjustment expenses attributableto insured events prior years	3,508	2,294
Total payments	7,567	5,769
Net unpaid claims and claim adjustment expenses at end of year	3,243	4,086
Reinsurance recoverable	1,055	3,303
Total unpaid claims and claim adjustment expenses	$4,298	$7,389

Trend Information

Historical trend information showing revenue and claims development information is presented in the Office of the Commissioner of Insurance June 30, 1997 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	3.0%	2.0%	None
1967-1976	3.0	2.0	None
1977-1985	4.0	2.0	None
1986-1994	5.0	2.0	None
1995+	4.0	2.0	None

Amortization for the year ended June 30, 1997 amounted to $53 thousand. The State Life Insurance Fund does not pay commissions nor does it incur agent expenses.

Future benefits and loss liabilities have been computed by the net level premium method based upon estimated future investment yield, 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	$ 17,058	$ 9,516
1967-1976	46,673	13,928
1977-1985	93,194	16,763
1986-1994	58,483	3,673
1995+	14,062	623
	$ 229,470	$ 44,503

Bases of Assumptions

Issue Year	Interest Rate	Mortality
1913-1966	3.0%	American Experience, ALB*
1967-1976	3.0	1958 CSO, ALB, Unisex
1977-1985	4.0	1958 CSO, ALB, Female Setback 3 years
1986-1994	5.0	1980 CSO, ALB, Aggregate
1995+	4.0	1980 CSO, ALB, Aggregate

* 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, 1996 were $63.9 million and the statutory capital and surplus were $6.2 million, and the capital and surplus at June 30, 1997 was $7.5 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, 1997 as follows (in thousands):

Projected ultimate loss liability	$	953,016
Less: Net loss paid from inception		(379,613)
Less: Liability for reported losses		(17,969)
Liability for incurred but not reported losses	$	555,434

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, 1997 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, 1997 as follows (in thousands):

Projected ultimate loss adjustment expense liability	$	38,121
Less: Loss adjustment expense paid from inception		(16,894)
Liability for loss adjustment expense	$	21,227

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 pro rata basis. Policy acquisition costs are expensed as incurred. Assessments made to participating insurers are recognized as earned as loss claims and administrative expenses are incurred. At June 30, the excess of claims and administrative expenses incurred are calculated and compared to premium revenues earned. The excess of claims and administrative expenses incurred over premium and investment revenues determines the amount of assessments needed to fund the plan. Under Wisconsin statutes, each participating insurer shall share in the operating and administrative expenses of the plan. Any deficit incurred by the plan shall be recouped by assessments apportioned among participating insurers based on a formula defined in the statutes.

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):

	1997	1996
Balance, beginning of year	$ 8,503	$ 11,118
Incurred related to:		
Current year	40,999	46,708
Prior years	(3,076)	(3,049)
Total Incurred	37,923	43,659
Paid related to:		
Current year	33,839	38,333
Prior years	5,289	7,941
Total Paid	39,128	46,274
Balance, end of year	$ 7,298	$ 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, 1996.

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, 1995 and December 31, 1996, are as follows (in thousands):

	1996	1995
Balance at January 1	$ 138,660	$ 138,260
Incurred related to:		
Current year	12,488	14,499
Prior years	(10,093)	(8,686)
Total Incurred	2,395	5,813
Paid related to:		
Current year	157	204
Prior years	5,751	5,209
Total paid	5,908	5,413
Balance at December 31	$ 135,147	$ 138,660

NOTE 21. 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 $5.4 million on June 30, 1997 and reported in the General Long-term Debt Account Group, are discussed below:

Litigation – 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 Court of Appeals ruled against the State in February, 1997. A liability of $2.0 million is reported in the General Long-term Debt Account Group at June 30, 1997.

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 $1.0 million which is 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 employes or disabled employes with work-related injuries. The liability for annuities to be paid to the above individuals totaled $2.5 million at June 30, 1997, 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, $26.2 million and $3.0 million were made in Fiscal Year 1994, Fiscal Year 1995, Fiscal Year 1996, and Fiscal Year 1997, respectively. Subsequent payments will be made in Fiscal Year 1998. The liability of $9.0 million as of June 30, 1997 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 $7.7 million, which is reported in the General Fund as Tax Refunds Payable and a reduction in tax revenue.

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 Court of Appeals, District IV affirmed the ruling in August, 1996. The Supreme Court denied review in December, 1996. The Wisconsin Department of Revenue estimated that the amount to be paid by the State is $11.6 million, which is reported in the General Fund as Tax Refunds Payable and a reduction in tax revenue.

Special Performance Dividend Reported in the General Fund

In January 1997, the State Supreme Court ruled that the Special Performance Dividend (SPD), which had been paid from January 1988 to present, is unconstitutional. The case was remanded to the Circuit Court, with directions that the Circuit Court order defendants to pay from the State treasury to the fixed annuity reserve account of the Wisconsin Retirement System (WRS) an amount equal to all disbursed SPD payments (including a $3.8 million reimbursement to the State for State funds advanced to finance the SPD), plus interest at the "effective rate" for the fixed annuity division of the WRS on all SPD payments from the date that the payments left the annuity reserve account. The Circuit Court approved a settlement of the matters remanded to the Circuit Court and in September 1997 entered an Order and Judgment ordering payments of $215.0 million from the State treasury in settlement of the lawsuit. The order directs that $210.9 million of the settlement must be paid on or before November 1997, and that $4.1 million of the settlement must be paid in January 1998.

In prior years the actuarial calculation of the estimated cost of the settlement had been reported in the General Long-term Debt Account Group. However, because of Order and Judgment entered by the Circuit Court, the $215.0 million is reported as a liability in the General Fund. In Fiscal Year 1997, an operating transfer out and a corresponding operating transfer in of $206.6 million are reported in the General Fund and the WRS, respectively.

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 Fiedler et al*, an action which was originally brought on behalf of certain State employes 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 employes 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 $4.3 million for all funds, $1.3 million for the Risk Management Fund and $3.0 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, 1997.

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 14 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 $14.0 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, 1997.

Corporate Tax Measured by Interest from U.S. Securities - In this corporate franchise tax case, American Family Mutual Insurance Company and American Standard Insurance Company sought refunds of taxes paid that were measured by U.S. interest.

Federal law prohibits an income tax on U.S. interest, but allows a non-discriminatory franchise tax measured on U.S. interest. The insurance companies argued that because bonds authorized by the State for housing and development were exempt from State taxes, that the franchise tax was discriminatory. The State had heretofore held that the exemption applied only to direct State taxes and had uniformly included interest on the State authorized bonds in the franchise tax measure. The Wisconsin Tax Appeals Commission and the County Circuit Court upheld the State.

The Court of Appeals, District IV, reversed the decisions holding that the exemption from State taxes of the State authorized bonds included being exempt from the measure of the franchise tax. Thus, the franchise tax was discriminatory and outside the Federal exception.

The State intends to contest the case vigorously to the State Supreme Court. If the State were not to prevail, a preliminary estimate indicates that claims of approximately $85.5 million would have to be paid. However, due to the uncertainty in predicting the outcome, a liability has not been recorded as of June 30, 1997.

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. One hundred forty-eight sites have soil and/or groundwater contamination associated with underground storage tank releases with an estimated remediation cost of $7.7 million. The cost of remediation has not been determined for approximately 96 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 $1.6 million.

The State is also involved in environmental remediations on 17 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, 1997 reported as Fund Balance - Reserved for Encumbrances, additional obligations at June 30, 1997 representing multi-year, long-term commitments included (in thousands):

Transportation Fund	$ 111,616
Transportation Revenue Bonds Capital Projects Fund	18,643
General Fund – Department of Commerce programs, including economic and community development programs	2,346

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 $134.0 million as of June 30, 1997. 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, 1997, the Clean Water Fund committed to award $6.3 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, 1997, outstanding loan guarantees totaled $36.2 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 $65 thousand in annuity payments, which the fund subsequently paid. The total estimated replacement value of the fund's annuities as of June 30, 1997 was $112.6 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, 1997, the appropriation available totaled $22.9 million. Losses become fixed as of the date of the loss. A public depositor experiencing a loss must assign its interest in the deposit, to the extent of the amount paid, to the 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 22. SUBSEQUENT EVENTS

Bonds and Notes

Primary Government

Short-term Debt

Operating Notes – On July 1, 1997 the state issued $300.0 million of operating notes, and on November 12, 1997, the State issued an additional $150.0 million of operating notes. The proceeds of the notes 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 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 15, 1998.

On June 25, 1997, the State of Wisconsin Building Commission resolved to sell $82.7 million of General Obligation Commercial Paper Notes to acquire, construct, develop, extend, enlarge, or improve land, waters, property, highways, buildings, equipment, or facilities. In July 1997, the State sold $25.0 million of the amounts so authorized. The Notes will mature no later than 270 days from the date of issuance.

Long-term Debt

State of Wisconsin General Obligation Bonds - In July 1997, the State issued $101.0 million of 1997 Series B 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, 1998, with the bonds maturing on May 1 of the years 1999 through 2018.

In September 1997, the State issued $45.0 million of the 1997 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, 1998 with the bonds maturing on May 1 of the years 1999 through 2012. In addition, term bonds mature on November 1, 2017 and 2028.

In September 1997, the State issued $45.0 million of 1997 Series C 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, 1998. The bonds mature on November 1 of the years 2000 through 2013. In addition, term bonds mature on November 1, 2017, 2023, and 2026.

In October 1997, the State issued $5.0 million of general obligation bonds to provide proceeds to be used by the Clean Water Fund in its loan credit reserve account for the Fund's revenue bond program.

Component Unit

Wisconsin Housing and Economic Development Authority – In 1997 the Authority redeemed early $28.5 million of Home Ownership Revenue Bonds and Business Development Revenue Bonds as follows:

Home Ownership Revenue Bonds:
- July redemptions: $4.5 million – includes $2.7 million taxable Home Ownership Revenue Bonds
- September redemptions: $230 million – includes $150.0 thousand taxable Home Ownership Revenue Bonds

Business Development Revenue Bonds:

		Redemption
89 Series 5	$900,000	July 1, 1997
95 Series 5	20,000	August 1, 1997
95 Series 6	10,000	September 1, 1997

Further, in December 1997, the Authority issued an additional $75.0 million of Home Ownership Revenue Bonds Series G, H and I.