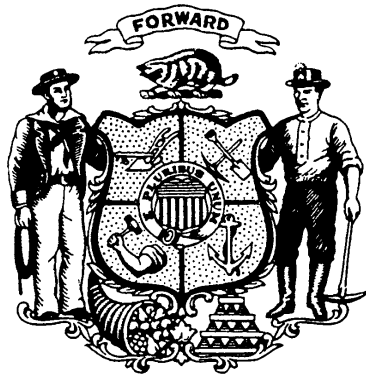


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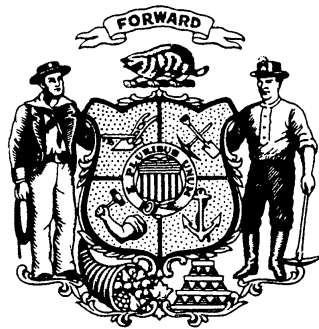
COMPREHENSIVE ANNUAL FINANCIAL REPORT



For the fiscal year ended June 30, 1998

STATE OF **WISCONSIN**

COMPREHENSIVE ANNUAL FINANCIAL REPORT



For the fiscal year ended June 30, 1998

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 (R12/98)

**Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 1998**

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FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

Honorable Members of the Legislature

The Honorable Tommy G. Thompson, Governor

We have audited the accompanying general purpose financial statements of the State of Wisconsin as of and for the year ended June 30, 1998, 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 Environmental Improvement Fund, which represents 31 percent of the assets and 2 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 88 percent of the assets and 25 percent of the revenues and operating transfers of the debt service funds, 42 percent of the assets of the capital projects funds, and 20 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.

Except as discussed in the following paragraph, 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 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.

Governmental Accounting Standards Board (GASB) Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosures of certain matters regarding the year 2000 issue. The State of Wisconsin has included such disclosures in Note 23 to the general purpose financial statements. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, in our judgment, it is not possible to obtain sufficient evidence to support the State of Wisconsin's disclosures with respect to the year 2000 issue made in Note 23. Further, we do not provide assurance that the State of Wisconsin

is or will be year 2000 ready, that the State of Wisconsin's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the State of Wisconsin does business will be year 2000 ready.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had it been possible to obtain sufficient evidence regarding year 2000 disclosures, 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, 1998, 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 net assets for the pension trust fund and investment trust funds; 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 1997-98, the State implemented GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as discussed in Note 12 to the general purpose financial statements. In addition, as discussed in Note 15 to the general purpose financial statements, the State implemented GASB Interpretation 5, *Property Tax Revenue Recognition in Governmental Funds*.

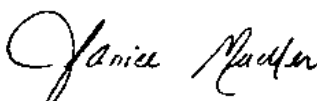
In accordance with *Government Auditing Standards*, we will issue our report dated December 18, 1998, on our consideration of the State of Wisconsin's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report 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 18, 1998

by 
Janice Mueller
State Auditor

State of Wisconsin

**Combined Balance Sheet - All Fund Types, Account Groups and
Discretely Presented Component Units
June 30, 1998**

(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:	\$ 134,167	\$ 420,843	\$ 7,180	\$ 58,511	\$ 885,111	\$ 22,171
Investments	445	-	53,227	41,497	906,318	-
Securities Lending Collateral	-	-	-	-	-	-
Receivables (net of estimated uncollectible accounts):						
Taxes	712,733	102,812	-	-	-	-
Student Loans	-	-	-	-	5,105	-
Veterans Loans	-	-	-	-	30,704	-
Mortgage Loans	-	-	-	-	659,566	-
Insurance Policy Loans	-	-	-	-	3,797	-
Loans to Local Government:	-	-	-	-	771,469	-
Patients Accounts Receivable	-	-	-	-	-	-
Prior Service Contributions Receivable	-	-	-	-	-	-
Other Receivables:	124,664	36,121	8	951	56,684	548
Due from Other Funds	143,106	69,269	368	2,196	59,980	30,929
Due from Component Units	-	-	-	-	11	210
Due from Primary Governments	-	-	-	-	-	-
Interfund Loans Receivable	70,713	-	-	4,297	-	-
Due from Other Governments:	443,629	106,118	-	-	10,166	299
Inventories	36,515	17,816	-	-	7,865	6,958
Prepaid Items	280,851	8,571	-	-	79,746	1,754
Advances to Other Funds	-	-	-	3,000	2,000	5,454
Restricted and Limited Use Assets						
Cash and Cash Equivalents:	-	-	-	-	40,755	-
Investments	-	-	-	-	-	-
Capital Lease Receivable - Component Units	-	-	-	-	-	-
Deferred Charges	-	-	-	-	8,693	478
Fixed Assets	-	-	-	-	141,818	223,168
Other Assets	-	4	-	-	9,725	-
Other Debits:						
Amount Available in Debt Service Fund	-	-	-	-	-	-
Amount to be Provided for Retirement of General Long-term Obligations:	-	-	-	-	-	-
Total Assets and Other Debits	\$ 1,946,824	\$ 761,554	\$ 60,783	\$ 110,451	\$ 3,679,514	\$ 291,970

Fiduciary Fund Type	Account Groups			University of Wisconsin System	Totals - Primary Government (Memorandum Only)	Component Units	Totals - Reporting Entity (Memorandum Only)
	Trust and Agency	General Fixed Assets	General Long-term Debt				
\$ 6,774,154	\$ -	\$ -	\$ 364,496	\$ 8,666,634	\$ 309,958	\$ 8,976,592	
52,201,005	-	-	282,072	53,484,564	478,616	53,963,180	
4,023,173	-	-	-	4,023,173	-	4,023,173	
-	-	-	-	815,545	-	815,545	
-	-	-	160,870	165,975	-	165,975	
-	-	-	-	30,704	-	30,704	
-	-	-	-	659,566	1,784,553	2,444,119	
-	-	-	-	3,797	-	3,797	
242,211	-	-	-	1,013,680	-	1,013,680	
-	-	-	-	-	57,966	57,966	
2,138,392	-	-	-	2,138,392	-	2,138,392	
895,386	-	-	55,130	1,169,493	28,868	1,198,361	
108,264	-	-	30,615	444,728	-	444,728	
-	-	-	3,579	3,800	-	3,800	
-	-	-	-	-	1,101	1,101	
-	-	-	-	75,011	-	75,011	
98,766	-	-	49,376	708,354	-	708,354	
-	-	-	24,424	93,579	2,307	95,885	
5,876	-	-	14,635	391,432	3,012	394,444	
-	-	-	-	10,454	-	10,454	
-	-	-	-	40,755	-	40,755	
-	-	-	-	-	200,365	200,365	
-	-	-	35,664	35,664	-	35,664	
-	-	-	7,268	16,439	16,176	32,615	
635	1,598,535	-	3,562,506	5,526,662	133,181	5,659,843	
239,763	-	-	-	249,492	80,408	329,900	
-	-	6,692	-	6,692	-	6,692	
-	-	3,518,906	-	3,518,906	-	3,518,906	
\$ 66,727,625	\$ 1,598,535	\$ 3,525,598	\$ 4,590,636	\$ 83,293,492	\$ 3,096,510	\$ 86,390,001	

(Continued)

**Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units
June 30, 1998**

(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	\$ 435,304	\$ 343,911	\$ -	\$ 9,580	\$ 306,169	\$ 15,508
Due to Other Funds	123,724	100,240	435	17,664	32,836	5,368
Due to Component Units	442	-	-	-	-	-
Due to Primary Government	-	-	-	-	-	-
Interfund Loans Payable	-	4,297	-	-	30,085	40,628
Due to Other Governments	1,406,053	81,120	-	1,764	620	234
Tax Refunds Payable	739,849	3,622	-	-	-	-
Tax and Other Deposits	55,462	9,001	-	2	9,379	-
Deferred Revenue	458,396	23,581	-	4	46,768	1,283
Interest Payable	-	-	21,698	848	7,874	1,188
Advances from Other Funds	2,000	3,558	-	-	-	1,896
Short-term Notes Payable	-	9,648	-	240,391	235	548
Securities Lending Collateral Liability	-	-	-	-	-	-
Future Benefits and Loss Liabilities	-	-	-	-	811,498	78,654
Capital Leases	-	-	-	-	645	14,648
Capital Leases - Primary Government	-	-	-	-	-	-
Installment Contracts Payable	-	-	-	-	-	-
Compensated Absences	-	-	-	-	5,462	2,223
Employer Pension Costs	-	-	-	-	-	-
General Obligation Bonds Payable	-	-	845	-	711,616	106,661
Revenue Bonds and Notes Payable	-	-	30,750	-	512,509	-
Other Bonds Payable	-	-	-	-	-	-
Claims, Judgments and Commitments	-	-	-	-	-	-
Total Liabilities	3,221,231	578,977	53,728	270,251	2,475,697	268,839
Equity and Other Credits:						
Contributed Capital	-	-	-	-	989,728	24,239
Investment in General Fixed Asset	-	-	-	-	-	-
Retained Earnings:						
Reserved	-	-	-	-	93,650	-
Unreserved	-	-	-	-	120,439	(1,107)
Fund Balances:						
Reserved	320,603	436,997	-	151,961	-	-
Unreserved:						
Designated	-	-	-	-	-	-
Undesignated	(1,595,010)	(254,421)	7,055	(311,761)	-	-
Total Equity and Other Credits	(1,274,406)	182,576	7,055	(159,800)	1,203,818	23,131
Total Liabilities, Equity and Other Credits	\$ 1,946,824	\$ 761,554	\$ 60,783	\$ 110,451	\$ 3,679,514	\$ 291,970

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

Fiduciary Fund Type	Account Groups			University of Wisconsin System	Totals - Primary Government (Memorandum Only)	Component Units	Totals - Reporting Entity (Memorandum Only)
	Trust and Agency	General Fixed Assets	General Long-term Debt				
\$ 562,501	\$ -	\$ -	\$ 131,080	\$ 1,804,052	\$ 77,771	\$ 1,881,824	
111,592	-	-	52,869	444,728	-	444,728	
6	-	-	652	1,101	-	1,101	
-	-	-	-	-	3,799	3,799	
-	-	-	-	75,011	-	75,011	
2,357	-	-	3,928	1,496,076	3,840	1,499,916	
-	-	-	-	743,472	-	743,472	
238,841	-	-	1,520	314,204	137,196	451,400	
2,220	-	-	80,705	612,957	1,539	614,496	
-	-	-	-	31,607	57,133	88,740	
-	-	-	3,000	10,454	-	10,454	
-	-	-	20,306	271,129	-	271,129	
4,023,173	-	-	-	4,023,173	-	4,023,173	
-	-	-	-	890,152	126,084	1,016,236	
-	-	6,141	11,899	33,333	988	34,321	
-	-	-	-	-	35,664	35,664	
-	-	1,616	83	1,699	-	1,699	
372,975	-	445,721	45,790	872,171	2,136	874,307	
-	-	643,089	-	643,089	-	643,089	
-	-	1,736,821	740,227	3,296,169	-	3,296,169	
-	-	690,105	-	1,233,364	2,174,531	3,407,895	
-	-	-	821	821	-	821	
-	-	2,105	-	2,105	-	2,105	
5,313,666	-	3,525,598	1,092,882	16,800,868	2,620,681	19,421,550	
-	-	-	-	1,013,967	-	1,013,967	
-	1,598,535	-	-	1,598,535	-	1,598,535	
-	-	-	-	93,650	145,850	239,500	
-	-	-	-	119,332	329,979	449,311	
57,271,993	-	-	3,455,432	61,636,985	-	61,636,985	
-	-	-	3,273	3,273	-	3,273	
4,141,967	-	-	39,050	2,026,882	-	2,026,882	
61,413,960	1,598,535	-	3,497,754	66,492,623	475,829	66,968,452	
\$ 66,727,625	\$ 1,598,535	\$ 3,525,598	\$ 4,590,636	\$ 83,293,492	\$ 3,096,510	\$ 86,390,001	

State of Wisconsin

**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, 1998**

(In Thousands)

	Governmental Fund Types				Fiduciary	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Revenues:						
Taxes	\$ 9,251,374	\$ 966,933	\$ -	\$ -	\$ -	\$ 10,218,307
Intergovernmenta	3,234,093	469,490	-	664	12,301	3,716,548
Licenses and Permits	177,394	382,246	71,929	301	-	631,871
Charges for Goods and Services	145,763	44,963	-	3,238	277	194,241
Contributions	-	-	-	-	589,452	589,452
Investment and Interest Income	53,660	15,642	4,258	12,087	339,508	425,155
Gifts and Donations	1,925	3,536	-	-	233	5,694
Other Revenues	126,733	17,863	882	3,922	38,248	187,648
Total Revenues	12,990,943	1,900,672	77,069	20,213	980,020	15,968,916
Expenditures:						
Current:						
Commerce	172,369	8,151	-	1,039	-	181,559
Education	4,394,766	94	-	3,110	29,912	4,427,883
Transportation	1,401	1,465,721	-	1,243	-	1,468,365
Environmental Resources	100,678	423,860	-	27,885	-	552,422
Human Relations and Resources	5,090,708	2,527	-	23,024	480,981	5,597,240
General Executive	287,248	14,244	-	7,244	168,552	477,287
Judicial	91,132	318	-	-	-	91,450
Legislative	55,144	-	-	-	-	55,144
Tax Relief and Other General Expenditures	725,286	-	-	30	-	725,316
Intergovernmenta	1,008,572	-	-	-	-	1,008,572
Capital Outlay	-	-	-	143,467	-	143,467
Debt Service:						
Principal	-	-	158,909	-	-	158,909
Interest	-	-	131,129	5,513	-	136,642
Other	-	-	297	-	-	297
Total Expenditures	11,927,305	1,914,914	290,335	212,555	679,445	15,024,554
Excess of Revenues Over (Under Expenditures)	1,063,638	(14,242)	(213,266)	(192,342)	300,575	944,362
Other Financing Sources (Uses):						
Proceeds from Sale of Bonds	-	9,034	737	150,699	-	160,469
Operating Transfers In	299,124	26,067	216,459	11,749	-	553,399
Operating Transfers Out	(1,159,043)	(296,805)	(4,686)	(4,021)	(10,395)	(1,474,951)
Capital Leases Acquisitions	3,232	224	-	-	-	3,456
Installment Purchase Acquisitions	-	-	-	856	-	856
Total Other Financing Sources (Uses)	(856,687)	(261,481)	212,510	159,282	(10,395)	(756,771)

(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, 1998**

(Continued)

	Governmental Fund Types				Fiduciary	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	206,951	(275,723)	(756)	(33,060)	290,179	187,591
Fund Balances, Beginning of Year	(1,481,624)	457,591	3,977	(98,861)	2,457,511	1,338,595
Increase (Decrease) in Reserve for Inventories	(147)	1,204	-	-	-	1,057
Residual Equity Transfers In	541	9,535	4,000	7,991	-	22,068
Residual Equity Transfers Out	(128)	(10,031)	(166)	(35,870)	-	(46,196)
Fund Balances, End of Year	\$ (1,274,406)	\$ 182,576	\$ 7,055	\$ (159,800)	\$ 2,747,691	\$ 1,503,115

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

State of Wisconsin

**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, 1998**

(In Thousands)

	General Fund			Budgeted Special Revenue Funds		
	Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
Revenues:						
Taxes	\$ 9,359,662	\$ 9,537,424	\$ 177,762	\$ 965,730	\$ 965,730	\$ -
Transfers from:						
Property Tax Relief Func	257,756	257,756	-	-	-	-
Recycling Fund	3,850	3,850	-	-	-	-
Departmenta	5,888,982	5,902,182	13,200	1,039,191	1,039,191	-
Total Revenues	15,510,250	15,701,212	190,962	2,004,920	2,004,920	-
Expenditures:						
Current:						
Commerce	225,761	195,401	30,360	130,303	120,205	10,098
Education	7,113,503	6,893,785	219,718	1,882	1,590	292
Environmental Resources	252,722	235,645	17,076	2,083,810	1,805,921	277,889
Human Relations and Resources	5,596,548	5,535,728	60,820	17,596	10,387	7,209
General Executive	750,485	717,969	32,516	6,829	4,779	2,051
Judicial	92,022	90,799	1,222	778	316	462
Legislative	55,287	55,051	236	-	-	-
General	1,736,334	1,735,913	421	271,429	271,429	-
Total Expenditures	15,822,661	15,460,291	362,370	2,512,627	2,214,626	298,000
Excess of Revenues Over (Under) Expenditures	<u>\$ (312,411)</u>	240,921	<u>\$ 553,332</u>	<u>\$ (507,706)</u>	(209,706)	<u>\$ 298,000</u>
Fund Balances, Beginning of Year		652,725			638,223	
Residual Equity Transfers		182			(182)	
Fund Balances, End of Year		893,828			428,336	
Less Encumbrances Outstanding at June 30, 1998		(304,796)			(663,520)	
Fund Balances, End of Year Budgetary Basis	<u>\$</u>	<u>589,032</u>		<u>\$</u>	<u>(235,185)</u>	

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

State of Wisconsin

**Combined Statement of Revenues, Expenses, and Changes in Retained Earnings/
Fund Balances - All Proprietary Fund Types, Nonexpendable Trust Funds and
Discretely Presented Component Units
For the Fiscal Year Ended June 30, 1998**

(In Thousands)

	Proprietary Fund Types		Fiduciary	Totals -	Component	Totals -
	Enterprise	Internal Service	Fund Type	Primary Government		Reporting Entity
			Nonexpendable	(Memorandum	Units	(Memorandum
			Trust	Only)		Only)
Operating Revenues:						
Charges for Goods and Services	\$ 723,933	\$ 206,702	\$ 268	\$ 930,903	\$ 328,089	\$ 1,258,992
Contributions	427,184	-	-	427,184	-	427,184
Investment and Interest Income	180,971	6	1,883	182,859	149,847	332,706
Fines and Forfeitures	-	-	16,745	16,745	-	16,745
Gifts and Donations	-	-	546	546	-	546
Other Income	6,140	987	45	7,173	8,884	16,057
Total Operating Revenues	1,338,228	207,695	19,488	1,565,411	486,820	2,052,230
Operating Expenses:						
Personal Services	202,166	46,789	155	249,110	182,605	431,715
Supplies and Services	440,513	125,020	105	565,637	133,640	699,277
Lottery Prize Awards	238,389	-	-	238,389	-	238,389
Depreciation	9,305	24,456	-	33,761	21,508	55,269
Benefit Expense	230,062	20,482	-	250,544	(4,898)	245,646
Interest Expense	63,792	-	-	63,792	145,737	209,529
Other Expenses	15,589	2	-	15,591	84,395	99,986
Total Operating Expenses	1,199,816	216,748	259	1,416,824	562,986	1,979,810
Operating Income (Loss)	138,411	(9,053)	19,228	148,587	(76,166)	72,421
Nonoperating Revenues (Expenses):						
Operating Grants	3,043	288	20	3,351	57,201	60,552
Investment and Interest Income	79,059	465	-	79,524	56,347	135,871
Gain (Loss) on Disposal of Fixed Assets	(32)	200	-	168	60	228
Interest Expense	(631)	(3,689)	-	(4,320)	-	(4,320)
Other Revenues	6,361	1,704	-	8,066	1,174	9,240
Other Expenses	(162,880)	(21)	-	(162,901)	(175)	(163,076)
Total Nonoperating Revenues (Expenses)	(75,080)	(1,053)	20	(76,113)	114,607	38,495
Income (Loss) Before Operating Transfers	63,331	(10,106)	19,248	72,474	38,441	110,915
Operating Transfers In	46,508	9,061	7,514	63,083	-	63,083
Operating Transfers Out	(21,080)	(7,811)	(70)	(28,962)	-	(28,962)
Net Income before Extraordinary Item:	88,759	(8,856)	26,692	106,595	38,441	145,036
Extraordinary Items:						
Gain (Loss) from Extinguishment of Debt	-	-	-	-	(126)	(126)
Gain on Casualty Settlement	8	-	-	8	-	8
Net Income (Loss)	88,767	(8,856)	26,692	106,603	38,315	144,918

(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, 1998**

(Continued)

	<u>Proprietary Fund Types</u>		<u>Fiduciary</u>	<u>Totals -</u>	<u>Component</u>	<u>Totals -</u>
	<u>Enterprise</u>	<u>Internal</u>	<u>Nonexpendable</u>	<u>Primary</u>		<u>Reporting</u>
				<u>(Memorandum</u>	<u>Units</u>	<u>(Memorandum</u>
				<u>Only)</u>		<u>Only)</u>
Retained Earnings/Fund Balances, Beginning of Year	193,361	7,748	382,151	583,260	437,514	1,020,774
Residual Equity Transfers Out	(68,038)	-	-	(68,038)	-	(68,038)
Retained Earnings/Fund Balances, End of Year	\$ 214,089	\$ (1,107)	\$ 408,843	\$ 621,825	\$ 475,829	\$ 1,097,654

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, 1998**

(In Thousands)

	Proprietary Fund Types		Fiduciary	Totals -	Component Units *
	Enterprise	Internal Service	Nonexpendable	Primary Government	
			Trust	(Memorandum Only)	
Cash Flows from Operating Activities:					
Cash Receipts from Customers	\$ 1,154,511	\$ 210,217	\$ 271	\$ 1,364,999	\$ 2,862
Cash Payments to Suppliers for Goods and Services	(424,846)	(125,554)	(99)	(550,499)	(4,149)
Cash Payments to Employes for Services	(197,998)	(45,547)	(153)	(243,698)	(10,340)
Cash Payments for Lottery Prizes	(257,687)	-	-	(257,687)	-
Cash Payments for Loans Originated	(146,069)	-	-	(146,069)	(266,392)
Cash Payments for Benefits	(147,185)	(19,478)	-	(166,662)	(4,164)
Interest Income	44,092	-	-	44,092	140,578
Fines and Forfeitures	-	-	16,845	16,845	-
Collection of Loans	82,408	-	-	82,408	224,698
Other Operating Revenues	6,381	972	591	7,945	5,979
Other Operating Expenses	(36,796)	(4)	-	(36,800)	(79,298)
Other Sources of Cash	6,392	2,046	-	8,437	6,564
Other Uses of Cash	(5)	(18)	-	(23)	-
Net Cash Provided (Used) by Operating Activities	83,199	22,634	17,457	123,289	16,337
Cash Flows from Noncapital Financing Activities:					
Operating Grants Receipts	2,157	289	20	2,466	57,201
Grants for Loans to Governments	18,887	-	-	18,887	-
Proceeds from Issuance of Long-term Debt	233,122	-	-	233,122	568,110
Retirement of Long-term Debt	(26,547)	-	-	(26,547)	(453,739)
Interest Payments	(62,064)	-	-	(62,065)	(134,359)
Interfund Loans Received	1,784	10,193	-	11,978	-
Interfund Loans Repaid	(4,263)	(5,365)	-	(9,628)	-
Interfund Loans to Other Funds	17,516	-	-	17,516	-
Interfund Advances	2,000	1,664	-	3,664	-
Operating Transfers In	47,310	9,283	7,514	64,107	-
Operating Transfers Out	(21,700)	(7,922)	(70)	(29,692)	-
Residual Equity Transfers In	33,627	15	-	33,642	-
Residual Equity Transfers Out	(9,627)	-	-	(9,627)	-
Other Cash Inflows from Noncapital Financing Activities	6	1	-	7	-
Other Cash Outflows from Noncapital Financing Activities	(209,896)	-	-	(209,896)	(3,328)
Net Cash Provided (Used) by Noncapital Financing Activities	22,311	8,159	7,464	37,934	33,885
Cash Flows from Capital and Related Financing Activities:					
Proceeds from Issuance of Long-term Debt	750	16,191	-	16,941	-
Repayment of Long-term Debt	(790)	(6,255)	-	(7,046)	-
Proceeds of Short-term Notes	-	(559)	-	(559)	-
Interest Payments	(626)	(2,408)	-	(3,033)	-
Interfund Advances Repaid	-	(1,264)	-	(1,264)	-
Capital Lease Obligations	(98)	(5,860)	-	(5,958)	-
Proceeds from Sale of Fixed Assets	11	1,258	-	1,268	59
Payments for Purchase of Fixed Assets	(2,617)	(39,268)	-	(41,884)	(6,974)
Other Cash Inflows from Capital Financing Activities	130	-	-	130	-
Other Cash Outflows from Capital Financing Activities	(298)	-	-	(298)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(3,537)	(38,165)	-	(41,702)	(6,915)
Cash Flows from Investing Activities:					
Proceeds from Sale and Maturities of Investment Securities	66,160	-	982	67,143	490,002
Purchase of Investment Securities	(123,686)	-	(1,856)	(125,542)	(470,514)
Cash Payments for Loans Originated	(112,966)	-	(47,345)	(160,310)	-
Collection of Loans	38,671	-	59,340	98,011	-
Investment and Interest Receipts	146,425	464	722	147,610	46,418
Net Cash Provided (Used) by Investing Activities	14,605	464	11,843	26,911	65,906
Net Increase (Decrease) in Cash and Cash Equivalents	116,577	(6,908)	36,764	146,432	109,213
Cash and Cash Equivalents, Beginning of Year	809,289	29,080	119,216	957,585	169,848
Cash and Cash Equivalents, End of Year	\$ 925,866	\$ 22,171	\$ 155,979	\$ 1,104,017	\$ 279,061

* 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)

State of Wisconsin

**Combined Statement of Cash Flows - All Proprietary Fund Types,
Nonexpendable Trust Funds and Discretely Presented Component Units *
For Fiscal Year Ended June 30, 1998**

(Continued)

	Proprietary Fund Types		Fiduciary Fund Type	Totals - Primary Government	Component Units * \$
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)	
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations:					
Operating Income (Loss)	\$ 138,411	\$ (9,053)	\$ 19,228	\$ 148,587	\$ (82,717)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation	9,305	24,456	-	33,761	1,274
Amortization	622	-	-	622	3,844
Provision for Uncollectible Accounts	178	-	-	178	294
Operating Income (Investment Income) Classified as Investing Activity	(136,569)	-	(1,883)	(138,452)	(10,293)
Operating Expense (Interest Expense) Classified as Noncapital Financing Activity	62,673	-	-	62,673	137,688
Miscellaneous Nonoperating Income (Expense)	6,555	1,639	-	8,194	(4,819)
Changes in Assets and Liabilities:					
Decrease (Increase) in Receivables	(79,572)	280	3	(79,288)	(42,277)
Decrease (Increase) in Due from Other Funds	(3,876)	3,491	32	(353)	-
Decrease (Increase) in Due from Component Units	(1)	(26)	-	(28)	-
Decrease (Increase) in Due from Primary Government	-	-	-	-	(6)
Decrease (Increase) in Due from Other Governments	304	137	-	441	-
Decrease (Increase) in Inventories	(1,158)	1,703	-	546	-
Decrease (Increase) in Prepaid Items	(3,404)	473	(1)	(2,931)	-
Decrease (Increase) in Deferred Charges	(330)	-	-	(330)	-
Decrease (Increase) in Other Assets	(326)	-	-	(326)	1,652
Increase (Decrease) in Accounts Payable and Other Accrued Liabilities	(5,410)	(555)	6	(5,960)	20,986
Increase (Decrease) in Compensated Absences	51	553	-	604	85
Increase (Decrease) in Due to Other Funds	7,034	(2,058)	71	5,046	-
Increase (Decrease) in Due to Primary Government	-	-	-	-	8
Increase (Decrease) in Due to Other Governments	28	23	-	51	-
Increase (Decrease) in Tax and Other Deposits	509	-	-	509	-
Increase (Decrease) in Deferred Revenue	4,330	460	-	4,791	(319)
Increase (Decrease) in Interest Payable	287	-	-	287	-
Increase (Decrease) in Future Benefits and Loss Liabilities	83,559	1,110	-	84,669	(9,063)
Total Adjustments	(55,212)	31,686	(1,771)	(25,297)	99,055
Net Cash Provided by Operating Activities	\$ 83,200	\$ 22,634	\$ 17,457	\$ 123,290	\$ 16,337
Noncash Investing, Capital and Financing Activities:					
Capital Leases (Initial Year):					
Fair Market Value	\$ 250	\$ 127	\$ -	\$ 377	\$ -
Current Year Cash Receipts (Payments)	(36)	(3)	-	(39)	-
Contributions/Transfer In (Out) of Noncash Assets and Liabilities from/to Other Funds	3,266	(5)	-	3,261	-
Other	(6)	(4)	-	(11)	-
Reconciliation of Fiduciary Fund Type Cash and Cash Equivalents to the Combined Balance Sheet:					
Nonexpendable Trust Fund			\$ 155,979		
Fiduciary Funds, Other Than Nonexpendable Trust			6,618,175		
Total Fiduciary Fund Type Cash and Cash Equivalents, End of Year			\$ 6,774,154		

* 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)

State of Wisconsin

**Combined Statement of Cash Flows - All Proprietary Fund Types,
Nonexpendable Trust Funds and Discretely Presented Component Units *
For Fiscal Year Ended June 30, 1998**

(Continued)

	Component Units *
Cash Flows from Operating Activities:	
Operating Income	\$ 6,551
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used in) Operating Activities:	
Depreciation and Amortization	16,390
Provision for Bad Debt	6,015
Other Sources	577
Other Uses	(514)
Changes in Assets and Liabilities:	
Decrease (Increase) in Net Patient Receivables	(11,455)
Decrease (Increase) in Other Receivables	725
Decrease (Increase) in Due from Primary Government	(232)
Decrease (Increase) in Inventories	(360)
Decrease (Increase) in Prepaid Items	(2,048)
Decrease (Increase) in Other Assets	106
Increase (Decrease) in Accounts Payable and Other Accrued Expenses	8,246
Increase (Decrease) in Due to Other Governments	(3,919)
Increase (Decrease) in Due to Primary Government	(11,235)
Increase (Decrease) in Compensated Absences	160
Net Cash Provided (Used) by Operating Activities	<u>9,007</u>
Cash Flows from Capital and Related Financing Activities:	
Payments for Purchase of Fixed Assets	(22,481)
Capital Leases Payable - Primary Government	(2,152)
Capital Leases Payable	(298)
Proceeds from Sale of Fixed Assets	311
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(24,621)</u>
Cash Flows from Investing Activities:	
Purchase of Investment Securities	(13,908)
Interest and Dividends Receipts	7,209
Decrease in Investment in Affiliate	750
Net Cash Provided (Used) by Investing Activities	<u>(5,949)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(21,562)
Cash and Cash Equivalents at Beginning of Year	52,459
Cash and Cash Equivalents at End of Year	<u>\$ 30,897</u>

* 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.

State of Wisconsin

**Combined Statement of Changes in Net Assets - Pension Trust Fund and
Investment Trust Funds
For the Year Ended June 30, 1998**

(In Thousands)

	Wisconsin Retirement System	Investment Trust Funds	Totals (Memorandum Only)
Additions			
Contributions:			
Employer Contributions	\$ 447,583	\$ -	\$ 447,583
Employee Contributions	524,801	-	524,801
Total Contributions	972,384	-	972,384
Deposits	-	9,180,496	9,180,496
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	6,676,534	-	6,676,534
Interest	1,041,854	-	1,041,854
Dividends	452,031	-	452,031
Real Estate Income	51,522	-	51,522
Securities Lending Income	215,756	-	215,756
Other	70,104	-	70,104
Investment Income of Investment Trust Funds	-	176,546	176,546
Less:			
Investment Expense	(54,036)	(590)	(54,626)
Securities Lending Rebates and Fees	(203,952)	-	(203,952)
Investment Income Distributed to Other Funds	(153,034)	-	(153,034)
Net Investment Income	8,096,779	175,956	8,272,736
Interest on Prior Service Receivable	158,395	-	158,395
Miscellaneous Income	225	-	225
Total Additions	9,227,783	9,356,452	18,584,236
Deductions			
Benefits and Refunds:			
Retirement, Disability, and Beneficiary Separations	1,613,330	-	1,613,330
	42,666	-	42,666
Total Benefits and Refunds	1,655,996	-	1,655,996
Distributions	-	9,108,447	9,108,447
Disability Insurance Premiums	10,235	-	10,235
Administrative Expense	11,080	164	11,243
Total Deductions	1,677,311	9,108,610	10,785,921
Net Increase (Decrease)	7,550,472	247,842	7,798,314
Net Assets - Beginning of Year	47,697,195	2,761,917	50,459,112
Net Assets - End of Year	\$ 55,247,667	\$ 3,009,759	\$ 58,257,426

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

State of Wisconsin

**Combined Statement of Current Funds Revenues, Expenditures, and Other Changes - University of Wisconsin System
For the Fiscal Year Ended June 30, 1998**

(In Thousands)

	Unrestricted	Restricted	Totals
Revenues:			
Tuition and Fees	\$ 559,445	\$ -	\$ 559,445
Federal Appropriations	13,661	-	13,661
Federal Grants and Contracts	71,086	269,926	341,012
State Grants and Contracts	(5)	17,640	17,635
Local Grants and Contracts	5	7,566	7,572
Private Gifts, Grants and Contracts	7,600	193,803	201,403
Endowment Income	1,324	8,250	9,574
Sales and Services of Educational Activities	150,464	-	150,464
Sales and Services of Auxiliary Enterprises	204,079	-	204,079
Sales and Services to Hospital Authority	-	28,384	28,384
Other Sources	112,886	4,550	117,436
Total Revenues	1,120,547	530,119	1,650,666
Expenditures and Mandatory Transfers:			
Educational and General			
Instruction	647,827	49,350	697,177
Research	128,369	314,578	442,947
Public Service	140,371	43,802	184,173
Academic Support	229,851	6,831	236,682
Farm Operations	10,026	6	10,032
Student Services	175,855	11,213	187,069
Institutional Support	123,912	3,946	127,859
Operation and Maintenance of Plant	136,934	348	137,282
Financial Aid	108,471	74,966	183,437
Total Educational and General	1,701,617	505,041	2,206,657
Auxiliary Enterprises	179,101	180	179,281
Cost of Services Provided to UW Hospital Authority	-	27,868	27,868
Mandatory Transfers:			
Debt Service on Academic Facilities	87,882	-	87,882
Debt Service on Self-Amortizing Facilities	13,011	1,454	14,465
Debt Service on Hospital Facilities	-	4,065	4,065
Student Loan Matching	856	-	856
Total Mandatory Transfers	101,748	5,519	107,267
Total Expenditures and Mandatory Transfers	1,982,466	538,608	2,521,074
Other Transfers, Additions (Deductions):			
Operating Transfers In	883,660	8,994	892,655
Operating Transfers Out	(5,015)	(506)	(5,521)
Excess of Restricted Receipts Over Expenditures	-	46,569	46,569
Nonmandatory Transfers	1,386	375	1,761
Plant Additions	(15,993)	(52,370)	(68,363)
Other	(34)	(52)	(86)
Net Other Transfers, Additions (Deductions)	864,004	3,011	867,016
Prior Period Adjustments	(17,823)	(6,961)	(24,784)
Net Increase (Decrease) in Fund Balance	\$ (15,738)	\$ (12,438)	\$ (28,176)

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

State of Wisconsin

**Combined Statement of Changes in Fund Balances -
University of Wisconsin System
For the Fiscal Year Ended June 30, 1998**

(In Thousands)

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds
	Unrestricted	Restricted			
Revenues and Other Additions:					
Unrestricted Current Funds					
Revenues	\$ 1,120,547	\$ -	\$ -	\$ -	-
Grants and Contracts	-	356,399	-	-	-
Restricted Gifts Received	-	275,909	475	408	-
Investment Income - Restricted	-	485	256	-	984
Endowment Income - Restricted	-	8,926	310	-	-
Federal Reimbursement of Loan Cancellations	-	-	1,038	-	-
Delinquent Loan and Collection Penalty	-	-	590	-	-
U.S. Government Advances	-	-	87,408	-	-
Interest Accrued on Loans Outstanding	-	-	3,887	-	-
Gain on Sale of Securities	-	-	-	35,629	-
Proceeds from the Sale of Notes and Bonds	-	-	-	-	83,980
Retirement of Indebtedness	-	-	-	-	64,829
Additions to Land, Buildings and Improvements	-	-	-	-	62,232
Equipment and Library Acquisitions (Net of Disposals)	-	-	-	-	58,861
Gifts-in-Kind	-	-	-	-	6,236
Other Additions	1	4,065	263	108	75
Total Revenues and Other Additions	1,120,547	645,785	94,226	36,145	277,197
Expenditures and Other Deductions:					
Current Funds Expenditures	1,880,718	533,089	-	-	-
Indirect Costs Recovered	-	69,096	-	-	-
Loan Cancellations and Write-offs	-	-	1,192	-	-
Federal Direct Loans Granted	-	-	85,837	-	-
Administrative Allowances-Perkins Loans	-	-	715	-	-
Administrative Expenses	-	-	914	-	-
Decrease in Fair Market Value of Investments	-	-	-	-	-
Notes and Bonds Issued	-	-	-	-	83,980
Expended for Plant Facilities	-	-	-	-	92,783
Disposal of Plant Facilities	-	-	-	-	3,648
Retirement of Indebtedness	-	-	-	-	64,829
Interest on Indebtedness	-	-	-	-	41,716
Reduction of Capital Lease Receivable	-	-	-	-	2,000
Other Deductions	35	52	21	649	261
Total Expenditures and Other Deductions	1,880,753	602,237	88,680	649	289,217

(Continued)

**Combined Statement of Changes in Fund Balances -
University of Wisconsin System
For the Fiscal Year Ended June 30, 1998**

(Continued)

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds
	Unrestricted	Restricted			
Transfers Among Funds:					
Operating Transfers In	883,660	8,994	-	-	3,508
Operating Transfers Out	(5,015)	(506)	-	-	(3,211)
Mandatory Transfers:					
Debt Service on Academic Facilities	(87,882)	-	-	-	87,882
Debt Service on Self-Amortizing Facilities	(13,011)	(1,454)	-	-	14,465
Debt Service on Hospital Facilitie:	-	(4,065)	-	-	4,065
Student Loan Matching	(856)	-	856	-	-
Nonmandatory Transfers	1,386	375	103	(1,864)	-
Transfers from Current Funds to Plant Funds	(15,993)	(52,370)	-	-	68,363
Net Transfers Among Funds	762,290	(49,025)	959	(1,864)	175,071
Net Increase (Decrease) for the Yea	2,085	(5,477)	6,506	33,633	163,052
Fund Balances, Beginning of Yea Restated	188,212	36,362	161,118	247,686	2,664,578
Fund Balances, End of Yea:	\$ 190,297	\$ 30,885	\$ 167,624	\$ 281,318	\$ 2,827,630

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

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Notes To The Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying general purpose financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) for governments as prescribed by the 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, (d) investment trust funds and (e) 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, investment trust funds and discretely presented component units are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases, i.e., revenues, and decreases, i.e., expenses, in net total assets.

Governmental funds, expendable trust funds and agency funds are reported on the modified accrual basis of accounting. This basis of accounting recognizes revenues generally when they become measurable and available to pay current reporting period liabilities. Material revenue sources susceptible to accrual include individual and corporate income taxes, sales taxes, public utility taxes, motor fuel taxes and federal revenues. Individual and corporate income taxes, sales taxes and other taxes received in July and August that relate to the prior fiscal year are accrued for that fiscal year ended June 30.

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

- Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments of principal and interest to be made early in the following year.
- Employees' vested annual leave, compensatory time, personal holiday hours, Saturday/legal hours and sick leave are recorded as expenditures when utilized. Accumulated annual leave, compensatory time, personal holiday hours and Saturday/legal time and the long-term portion of accumulated sick leave unpaid at June 30, 1998 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, pension trust, and investment 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 budgeted special revenue funds. (The Employee Trust Funds Administration and the Environmental Local Assistance funds are extracted from other statutory unbudgeted 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 \$216.5 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 consistent with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. 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).

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

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

Component Units

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

Investments of the University of Wisconsin 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 \$2.2 million at June 30, 1998.

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 \$1,599.0 million total fixed assets at June 30, 1998, 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 Environmental Improvement 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 \$614.5 million deferred revenues presented in the accompanying financial statements consists of \$458.4 million reported within the General Fund. This amount includes \$305.8 million relating to tax revenues received in advance of the year in which earned.

Deferred revenues of the University of Wisconsin System consist of payments received but not earned at June 30, 1998, 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, 1998, 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, 1998 as Due To Other Governments.

State Property Tax Credit Program

At June 30, 1998, the State was liable to various taxing jurisdictions for property tax credits paid through the State Property Tax Credit Program. Under the program, payments to local taxing jurisdictions provide property tax relief directly to taxpayers in the form of State credits on individual property tax bills. State statutes require that payment to local taxing jurisdictions be made during July. Although the property tax credit is calculated on the property tax levy for school purposes, the State's July payment is paid to an administering municipality who treats the payment the same as other tax collections and distributes the collections to the various tax levying jurisdictions (e.g., cities; towns; villages; school districts; technical colleges).

The school portion of the property tax credit liability represents the amount of the July payment earned over the school districts' previous fiscal year ended June 30. Since the entire school districts' portion of the July payment occurs within the State's fiscal year, 100 percent of the July payment relating to the school taxing jurisdictions' levy is reported as a liability at June 30, 1998.

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, 1998.

The aggregated State Property Tax Credit Program liability of \$358.0 million is reported in the General Fund as Due to Other Governments.

Lottery Property Tax Credit Program

The Lottery Property Tax Credit provides direct property tax relief to taxpayers in the form of State Credits on property tax bills. Under the program, owners of property used as a primary residence receive a tax credit equal to the school property tax on a portion of the dwelling's value.

The State pays municipal treasurers for lottery credits who distribute the moneys to the various taxing jurisdictions. For credits reducing the calendar year 1998 property tax bills, the State made this payment in March 1998.

The Lottery Tax Credit Program is accounted for in the Lottery Fund, an enterprise fund, that records revenues and expenses on the accrual basis. A portion of the State's March payment distributed to the general government taxing jurisdictions applies to their fiscal year which ends on December 31. Therefore, part of the March distribution represents an expense of the State in Fiscal Year 1998, while the remaining portion represents a prepaid item. The resulting Prepaid Item reported within the Lottery Fund totals \$47.8 million at June 30, 1998.

P. Compensated Absences

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

Annual Leave

Full-time employees' annual leave days are credited on January 1 of each calendar year at a minimum of 10 days per year. There is no requirement to use annual leave. However, unused leave is lost unless approval to carry over the unused portion is obtained from the employing agency. Compensatory time accumulates for eligible employees for hours worked in excess of forty hours per week. Each full-time employee is eligible for three and one-half personal holidays each calendar year, provided the employee is in pay status for at least one day in the year. If a holiday occurs on a Saturday, employees receive leave time proportional to their working status to use at their discretion.

The State's compensated absence liability at June 30 consists of accumulated unpaid annual leave, compensatory time, personal holiday hours, and Saturday/legal hours earned and vested during January through June. The liability is reported in the General Long-term Debt Account Group for all governmental fund types and similar trust funds. These unpaid amounts will be paid from

expendable resources provided for in the budget of future years. In the proprietary fund types and similar trust funds, component units, and the University of Wisconsin System, the obligation is reported as a fund liability.

Sick Leave

Full-time employees earn sick leave at a rate of five hours per pay period. Unused sick leave is accumulated from year to year without limit until termination or retirement. Accumulated sick leave is not paid. However, at employee retirement the accumulated sick leave may be converted to pay for the retiree's health insurance premiums. The State accumulates resources to pay for the expected health insurance premiums of retired employees. 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 employee, and worker's compensation costs for State employees. A limited amount of insurance is purchased to limit the exposure to catastrophic losses. Annually, a charge is allocated to each agency for its proportionate share of the estimated cost attributable to the program per Wis. Stat. Sec. 16.865(8).

S. Forestation State Tax

The State levies an annual tax of two-tenths of one mill for each dollar of the assessed valuation of the property in the State, as

described in Wis. Stat. Sec. 70.58. This tax is levied for the purpose of acquiring, preserving and developing the forests of the state; for forest crop law and county forest law administration and aid payments; and for the acquisition, purchase and development of forests. The proceeds of the tax are paid to the Conservation Fund.

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

Effective July 1, 1997, the State early implemented the provisions of the Governmental Accounting Standards Board (GASB) Interpretation No. 5, *Property Tax Revenue Recognition in Governmental Funds*. As a result, collections received July 1 through August 31 which were due but unpaid at June 30 are accrued.

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, 1998 is presented below (in thousands):

	General	Special Revenue
Fund balance June 30, 1998 (budgetary basis – budgetary fund structure) as reported on budget to actual combined statement	\$ 589,032	\$ (235,185)
Reclassifications:		
To eliminate outstanding encumbrances from expenditures	304,796	663,520
To include non-budgeted funds		(1,022)
To reclassify activities reported in another GAAP fund type	(218,674)	4,983
Fund balance June 30, 1998 (GAAP fund structure – budgetary basis, excluding encumbrances outstanding at year end)	675,154	432,296
Adjustments:		
To adjust expenditures for the municipal and county shared revenue program	(504,309)	
To adjust expenditures for State property tax credit program	(357,955)	
To accrue receivables and establish payables for individual income taxes (net)	(483,904)	
To defer revenues for gross receipts public utility taxes	(276,477)	
To adjust revenues and expenditures for tax-related items and other tax credit/aid programs (net)	(227,260)	3,685
To adjust expenditures for petroleum environmental cleanup claims		(258,907)
To accrue unpaid Medicaid claims (net of receivable from federal government)	(78,051)	
To adjust expenditures/revenues for certain major health and family services accruals and deferrals (net)	(7,331)	
To adjust revenues and expenditures for other items (net)	(14,273)	5,502
Fund balance June 30, 1998 (GAAP basis)	<u>\$ (1,274,406)</u>	<u>\$ 182,576</u>

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 Department of Financial Institutions.

At June 30, 1998, the carrying amount of the primary government deposits was \$98.5 million and the bank balance was \$302.6 million. Of the bank amount, excluding a bank overdraft of \$7.5 million in two bank accounts that are covered by compensating balances in other accounts,

- \$9.7 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
- \$300.4 million was uncollateralized and uninsured.

The State's unemployment compensation program had \$1,645.3 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 \$672 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, 1998, the carrying amount of the component units' deposits was \$36.7 million and the bank balance was \$36.7 million of which \$.8 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 \$35.9 million was uncollateralized and uninsured.

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

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

Valuation of Securities

Investments are valued at fair value for financial statement purposes and amortized cost for purposes of calculating income to participants. The custodial bank has compiled fair value information for all securities by utilizing third party pricing services. Government and agency securities and commercial paper are priced using matrix pricing. This method estimates a security's fair value by using quoted market prices for securities with similar interest rates, maturities, and credit ratings. Repurchase agreements and certificates of deposit are valued at cost because they are nonparticipating contracts that do not capture interest rate changes in their value. Swaps are valued at the net present value of estimated expected future cash flows using discount rates commensurate with the risk involved. In addition, two bonds issued by other state agencies having a combined par value of \$9.1 million are valued at par, which management believes approximates fair value. The fair value of investments is determined at the end of each month.

Pool Earnings and Pool Shares

For purposes of calculating earnings to each participant, all investments are valued at amortized cost. Specifically, income is distributed to pool participants monthly based on their average daily share balance. Distributed income includes realized investment gains and losses calculated on an amortized cost basis, interest income based on stated rates (both paid and accrued), amortization of discounts and premiums on a straight-line basis, and investment and administrative expenses. This method differs from the fair value method used to value investments because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair values of the pool's investments.

Derivative Financial Instruments

As of June 30, 1998, the only derivative financial instruments held by the State Investment Fund were restructured interest rate swaps. 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 an increase in income. Entering into interest rate swap agreements subjects the investor to the possibility of financial loss in the event of adverse changes in market rates or nonperformance by the counterparty to the swap agreement. Selecting creditworthy counterparties mitigates credit risks arising from derivative transactions.

During the fiscal year, two asset backed securities (SCCMT 91-3A) with swap agreements (SCCMT 1 & 2) attached were held and

subsequently sold at a net loss of \$86,500. In addition, during the fiscal year two interest rate swaps (GBP Inverse and ESP Inverse) matured.

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, 1998, the market value of the restructured investments was negative \$50.5 million while the amortized deferred loss was negative \$50.4 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, 1998, the fair value of these certificates of deposit was \$296.4 million.

Approximately \$279.1 million are Category 1 risk level deposits which are insured by the FDIC, the Wisconsin State Deposit Guarantee Fund and Financial Securities Assurance Corporation insurance. The remaining \$17.3 million are considered Category 3 uncollateralized deposits.

Investments

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, 1998, the State Investment Fund's investments are as follows (in millions):

	Category			Fair Value
	1	2	3	
U.S. government and agency holdings	\$ 3,359.2	--	--	\$ 3,359.2
Repurchase agreements	1,203.8	--	--	1,203.8
Commercial paper	948.9	--	--	948.9
Asset backed securities	47.6	--	--	47.6
Mortgage backed securities	5.2	--	--	5.2
Yankee/Euro dollar issue	149.5	--	--	149.5
	<u>\$ 5,714.2</u>	--	--	5,714.2
Swaps				(62.8)
				<u>\$ 5,651.4</u>

Copies of the separately issued financial report that includes financial statements and other supplementary information for the State Investment Fund may be obtained by writing to:

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

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, 1998, the Pension Trust Fund held \$51,336.0 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 \$959.3 million of investments, which are included in the fund's \$1.5 billion of cash and cash equivalents.

In addition, \$4,023.0 million of securities lending transactions were held at June 30, 1998. These transactions are categorized consistent with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*.

At June 30, 1998, the Other Funds Managed by the Board investments consisted of (in millions):

	Category			Fair Value
	1	2	3	
Bonds	\$ 9,531.6	\$ --	\$ --	\$ 9,531.6
Stocks	17,563.0	7.3	--	17,570.3
Repurchase Agreements	1,592.5	--	--	1,592.5
Bankers Acceptances	250.0	--	--	250.0
	<u>\$ 28,937.1</u>	<u>\$ 7.3</u>	<u>\$ --</u>	<u>28,944.4</u>
Options				82.3
Private Placements				2,965.3
Limited Partnerships				2,117.6
Pooled Equity Funds				13,756.7
Pooled Bond Funds				3,010.8
Mortgages				100.2
Real Estate				492.1
International				959.2
Investments Held by Broker Dealers Under Securities Loans:				
Bonds				2,852.8
Equities				1,068.2
Securities Lending Cash Collateral Pooled Investments				500.0
Financial Futures				(1.7)
				<u>\$ 56,847.9</u>

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

Local Government Property Insurance, State Life Insurance, and Patients Compensation Funds - At June 30, 1998, investments were \$12.3 million for the Local Government Property Insurance Fund, \$60.9 million for the State Life Insurance Fund, and \$444.4 million for the Patients Compensation Fund, consisting of bonds and mortgages.

Historical Society Nonexpendable Trust Fund - At June 30, 1998, investments of \$10.1 million consisted of bonds and stocks.

Tuition Trust Fund – At June 30, 1998, investments of \$1.9 million consisted of bonds.

The following table presents investments of these funds at June 30, 1998, categorized in accordance with the requirements of GASB Statement No. 3.

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, 1998 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 8 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

As of June 30, 1998, the State of Wisconsin Investment Board utilized various derivative financial instruments, including forward contracts, and options 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 foreign exchange risk. Market risk is generally controlled by holding substantially offsetting purchase and sell positions.

Forward commitments represent obligations to purchase or sell foreign currencies, 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 or sell 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, 1998 include (in millions):

Forward Contracts	Contract Amount	Fair Value
Assets	\$ 2,668.7	\$ 2,668.3
Liabilities	2,664.3	2,654.3

As of June 30, 1998, 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	\$ (23.2)	\$ 62.9

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, 1998 (in millions):

Other Options	Premiums Received (Paid)	Fair Value
Purchased Put - Equity	\$ (33.2)	\$ 2.6
Purchased Calls - Equity	(32.2)	16.9

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:

Lottery Fund - Investments are all in the form of U.S. Treasury zero coupon bonds. At June 30, 1998 investments of \$264.6 million which meet Category 1 risk criteria were held.

Transportation Revenue Bond Funds - At June 30, 1998, the Transportation Revenue Bond Capital Projects Fund and the Transportation Revenue Bond Debt Service Fund had investments totaling \$94.7 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.

Environmental Improvement Fund - The fund's aggregate investments at June 30, 1998, were \$158.6 million, of which \$37.9 million are reported as cash equivalents consisting of a repurchase agreement which is a Category 2 level of risk. Investments of \$120.7 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, 1998 were \$4.7 million, which consists of \$1.0 million of money market funds and \$2.1 million of mutual funds which are reported as cash equivalents. All investments meet the Category 1 risk criteria.

Inmate and Resident Fund – At June 30, 1998, investments totaling \$.1 million meeting risk Category No. 3 were held.

At June 30, 1998, the State has approximately \$231.0 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 \$7.5 million of various investments which meet risk Category 1 and \$1.1 million of mutual funds which meet Category 1.

The State's Section 457 *Deferred Compensation Plan Fund* investments, totaling \$853.9 million at June 30, 1998, 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, 1998, categorized in accordance with the requirements of GASB Statement No.3.

At June 30, 1998, the Other State Agencies and Funds' investments consisted of (in millions):

	Category			Reported Amount	Fair Value
	1	2	3		
Government and agency holdings	\$ 615.2	\$ --	\$.1	\$ 615.3	\$ 615.9
Municipal bonds	43.0	--	--	43.0	43.0
Commercial paper and nonsecured corporate notes and bonds	8.6	--	--	8.6	8.6
Repurchase agreements	50.5	37.9	--	88.4	89.4
Negotiable certificates of deposit	2.8	--	--	2.8	2.8
	<u>\$ 720.1</u>	<u>\$ 37.9</u>	<u>\$.1</u>	758.1	759.7
Mutual Funds				3.1	3.1
Money market funds				1.1	1.1
Deferred compensation investments				853.9	853.9
				<u>\$ 1,616.2</u>	<u>\$ 1,617.8</u>

University of Wisconsin System

The University of Wisconsin System had investments as of June 30, 1998 with a reported fair value of \$282.1 million, primarily assets of Endowment and Similar Funds (\$273.8 million) with most of the remainder the property of Current Restricted Funds. Investments, which are Category 1 Risk level were comprised of the following:

	Book	Fair
Common and preferred stock	56.2%	60.4%
Bonds, notes and debentures	43.8	39.6
Total investments	<u>100.0%</u>	<u>100.0%</u>

Component Units

Wisconsin Housing and Economic Development Authority (Authority) - The Authority is required by statute to invest at least 50 percent of its General Fund funds in obligations of the State, of the United States, or of agencies or instrumentalities of the United States, or obligations the principal and interest of which are guaranteed by the United States, or agencies or instrumentalities of the United States. Each bond resolution specifies what constitutes a permitted investment and such investments may include obligations of the U.S. Treasury, agencies and instrumentalities; commercial paper; bankers acceptances; and repurchase agreements and investment agreements.

The Authority's investments in mortgage-backed securities had a fair value of approximately \$33.0 million as of June 30, 1998. 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, 1998, were \$648.1 million of which \$266.6 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 \$64.1 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, 1997 were \$158.3 million, of which \$6.7 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 \$145.9 million consist of \$114.9 million of restricted and limited use investments and \$31.0 million of unrestricted investments. All investments, excluding guaranteed investment contracts, money market funds and international equities 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 Hospital's Series 1997 Bonds. The guaranteed investment contract is recorded at original cost plus accrued earnings which approximates fair value.

The following table presents investments of component units at December 31, 1997 or June 30, 1998, categorized in accordance with the requirements of GASB Statement No.3.

At December 31, 1997 or June 30, 1998, the component units' investments consisted of (in millions):

	Category			Reported Amount	Fair Value
	1	2	3		
Bonds	\$ 84.6	\$ 157.8	\$ --	\$ 242.4	\$ 247.5
Stocks	--	38.2	--	38.2	38.7
Negotiable certificates of deposit	5.4	--	--	5.4	5.4
Uncollateralized investment agreements	--	--	64.1	64.1	64.1
Mortgage-backed securities	33.0	51.2	--	84.2	84.2
Collateralized investment contracts	194.3	--	--	194.3	194.3
	<u>\$ 317.3</u>	<u>\$ 247.2</u>	<u>\$ 64.1</u>	628.6	634.2
Money market funds				249.3	249.3
Guaranteed investment contracts				63.6	63.6
International equities				10.7	10.7
				<u>\$ 952.2</u>	<u>\$ 957.8</u>

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

Other Funds Managed by the Board	\$ 56,847.9
Other State Agencies and Funds	1,616.2
University of Wisconsin System	282.1
Component Units	952.2
Total Investments	<u>\$ 59,698.4</u>

C. Lottery Investments and Related Future Price Obligations

Investments of the State Lottery Fund totaling \$264.6 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
1999	\$ 24,737
2000	24,913
2001	25,095
2002	25,284
2003	25,480
Thereafter	294,754
Total future value	420,263
Less: Present value adjustment	(176,029)
Present value of payments	<u>\$ 244,234</u>

NOTE 4. FIXED ASSETS

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

	Balance July 1, 1997	Additions	Retirements	Completed Construction	Transfers to/from Other Funds	Balance June 30, 1998
Land	\$ 341,159	\$ 22,119	\$ (1,271)	\$ 760	\$ 134	\$ 362,901
Buildings and improvements	681,482	5,297	(3,885)	2,105	--	684,998
Machinery and equipment	393,055	34,801	(17,380)	--	23	410,499
Construction in progress	93,758	49,244	--	(2,865)	--	140,136
Total general fixed assets	\$ 1,509,454	\$ 111,460	\$ (22,536)	\$ 0	\$ 157	\$ 1,598,535

Construction in progress reported in the General Fixed Asset Account Group at June 30, 1998 included the following projects (in thousands):

	Allotments	Expended to June 30, 1998	Encumbrances Outstanding	Unencumbered Allotment Balance
Waupun Housing/Freezer/Locks	\$ 20,487	\$ 15,110	\$ 4,797	\$ 580
Youthful Offender Institution	25,275	24,687	272	316
Secured Juvenile School	11,910	11,503	219	188
Super Max Prison	38,850	7,185	28,721	2,944
Other projects with allotments totaling less than \$10 million		81,651		
Total construction in progress		\$ 140,136		

The following is a summary of proprietary and fiduciary fund-type, University of Wisconsin System, and component unit fixed assets at June 30, 1998 (in thousands):

	Enterprise	Internal Service	Nonexpendable Trust	University of Wisconsin System	Component Units
Land	\$ 9,931	\$ 8,388	\$ 635	\$ 91,069	\$ 6,032
Buildings and improvements	210,669	152,746		2,054,333	147,131
Machinery and equipment	32,974	153,782		1,417,104	124,476
Less: Accumulated depreciation	(121,104)	(156,855)			(152,322)
Construction in progress	9,349	65,107			7,865
Total	\$ 141,818	\$ 223,168	\$ 635	\$ 3,562,506	\$ 133,181

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

During the year ended June 30, 1998, the following changes occurred in liabilities reported in the General Long-term Debt Account Group (in thousands):

	Balance July 1, 1997	Additions	Reductions	Balance June 30, 1998
Capital Leases	\$ 8,488	\$ 3,456	\$ 5,803	\$ 6,141
Installment Contracts Payable	1,764	856	1,004	1,616
Compensated Absences	671,589	--	225,868	445,721
Employer Pension Costs	625,133	47,636	29,680	643,089
General Obligation Bonds Payable	1,699,614	166,203*	128,996	1,736,821
Revenue Bonds Payable	720,855	--	30,750	690,105
Claims, Judgments and Commitments	5,435	--	3,330	2,105
	<u>\$ 3,732,878</u>	<u>\$ 218,151</u>	<u>\$ 425,431</u>	<u>\$ 3,525,598</u>

* Due to the inclusion of accretion amounts on original issue discounts of the State's zero coupon bonds and underwriter discounts on new general obligation bond issues sold during Fiscal Year 1998, 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, 1998 (in thousands):

Primary Government:	
General Long-term Debt Account Group:	
General Obligation Bonds	\$1,736,821
Transportation Revenue Bonds	690,105
Total General Long-term Debt Account Group	<u>2,426,926</u>
Debt Service Funds:	
Bond Security and Redemption General Obligation	845
Transportation Revenue Bonds	30,750
Total Debt Service Funds	<u>31,595</u>
Enterprise Funds:	
State Fair Park General Obligation Bonds	13,277
Veterans Mortgage Loan Repayment General	
Obligation Bonds	697,495
Veterans Trust General Obligation Bonds	844
Wisconsin Education Revenue Bonds	3,482
Environmental Improvement Fund Revenue Bonds	509,027
Total Enterprise Funds	<u>1,224,125</u>
Internal Service Funds:	
Facilities Operations and Maintenance	
General Obligation Bonds	106,523
Badger State Industries General Obligation Bonds	138
Total Internal Service Funds	<u>106,661</u>
University of Wisconsin System:	
General Obligation Bonds	740,227
Other Bonds	821
Total University of Wisconsin System	<u>741,048</u>
Component Units:	
Wisconsin Housing and Economic	
Development Authority Bonds and Notes	2,124,531
University of Wisconsin Hospitals	
And Clinics Authority	50,000
	<u>2,174,531</u>
Total at June 30, 1998	<u><u>\$6,704,886</u></u>

A. General Obligation Bonds

Primary Government

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

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

The outstanding principal and interest for general obligation debt to be financed from governmental funds and similar trust funds are accounted for in the General Long-term Debt Account Group (GLTDAG). Repayment of the bonds is made from the Bond Security and Redemption Fund and the corresponding amount removed from the GLTDAG when paid. The bonds payable amount presented in the Bond Security and Redemption Fund represents the liability to be paid from resources accumulated to provide debt service payments in Fiscal Year 1999. Repayment of principal and interest and the related outstanding liability on general obligation bonds made from fees and revenues of proprietary funds and similar trust funds are recorded in those funds.

At June 30, 1998, \$2,141.2 million of general obligation bonds were authorized but unissued.

General obligation bonds issued and outstanding as of June 30, 1998 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	\$ 9,000
1979	1978 Series C	11/78	5.1	11/03	77,300	5,120
1986	1986 Series A	5/86	7.25 to 7.5	1/15	38,185	11,330
1989	1988 Series A and 1989 Series A	7/88; 1/89	7.25 to 7.7	1/03	35,000	3,990
1990	1989 Series D, 1990 Series B and D	8/89 3/90; 5/90	6.7 to 7.6	1/20	105,859	52,263
1991	1990 Series F through G, 1991 Series A through C and Series I	10/90; 12/90 4/91; 5/91; 6/91	6.00 to 7.6	1/21	461,481	199,965
1992	1991 Series D; 1992 Series A and B, and Refunding Issue	9/91; 3/92 6/92; 3/92	5.1 to 6.7	1/22	794,975	475,355
1993	1992 C and 2 1993 1, 2 and A	10/92; 11/92 1/93; 3/93; 5/93	3.8 to 6.5	5/15	721,175	546,100
1994	1993 Refunding Issues 3, 4, 5, 6; 1994 Refunding Issues 1 and 2; and 1994 Series A and B	7/93; 12/93; 12/93; 10/93; 3/94; 1/94; 6/94	3.5 to 6.2	5/24	929,825	760,365
1995	1994 Series 3 and C; 1995 Series A, B, and 1	9/94; 9/94 1/95; 2/95; 2/95	4.75 to 7.0	5/25	331,715	214,510
1996	1995 Series 2 and C; 1996 Series 1, A and B; and Note 995B	10/95; 9/95; 2/96; 1/96; 5/96 and 7/95	4.0 to 7.3	11/26	448,536	421,658
1997	1996 C and D; 1997 1 and A	9/96; 10/96; 3/97; 3/97	4.75 to 6.0	5/28	190,230	187,060
1998	1997 B, C and D; 1998 A, B and C	7/97; 9/97; 9/97; 3/98; 5/98; 5/98	4.25 to 6.95	11/28	411,765	411,765
Total					4,714,047	3,298,482
Proprietary Fund (Discounts)/Premiums						(2,313)
Total General Obligation Bonds and Notes, net of discounts					\$ 4,714,047	\$ 3,296,169

As of June 30, 1998, 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
1999	\$ 231,379	\$ 175,656	\$ 407,035
2000	234,752	163,299	398,051
2001	231,775	152,919	384,694
2002	227,318	141,017	368,335
2003	219,402	128,897	348,299
Thereafter	2,203,871	891,891	3,095,762
Total	3,348,497	1,653,679	5,002,176
Proprietary Fund (Discounts)/Premiums	(2,313)		(2,313)
Unamortized zero coupon	(50,015)		(50,015)
Total, net of discounts	\$3,296,169	\$ 1,653,679	\$4,949,848

Zero Coupon Bonds

The general obligation bonds of 1990, Series D (Higher Education Series), are zero coupon bonds recorded in the amount of \$35.1 million which is the accreted value at June 30, 1998. The bonds mature on May 1 through the year 2010.

The general obligation bonds of 1991, Series B, are zero coupon bonds recorded in the amount of \$62.7 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 eight issues of Transportation Revenue Bonds totaling \$720.9 million. Debt service payments are secured by driver and vehicle registration fees and also a reserve fund, which will be used in the event that a deficiency exists in the redemption fund.

The Transportation Revenue Bonds issued and outstanding as of June 30, 1998 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	\$ 111,475
1995A	9/95	4.45 to 6.25	7/15	105,000	98,505
1994A	7/94	4.6 to 7.5	7/14	100,000	90,630
1993A	9/93	3.75 to 5.0	7/12	116,450	111,210
1992A&B	7/92	4.6 to 5.8	7/22	299,150	284,525
1991A	10/91	5.75 to 6.2	7/02	42,085	22,385
1989A	4/89	7.25	7/98	14,715	2,125
Total				\$ 792,400	\$ 720,855

As of June 30, 1998, 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
1999	\$ 30,750	\$ 38,039	\$ 68,789
2000	29,490	37,062	66,552
2001	30,920	35,309	66,229
2002	32,425	33,196	65,621
2003	34,120	32,850	66,970
Thereafter	563,150	234,555	797,705
Total	\$ 720,855	\$ 411,011	\$ 1,131,866

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, 1998, there was one issue of Health Education Assistance Loan program bonds outstanding totaling \$3.5 million. These bonds are secured by student loan repayments and interest income.

The Health Education Assistance Loan program bonds issued and outstanding as of June 30, 1998 were as follows (in thousands):

Issue	Issue Date	Maturity Through	Issued	Outstanding
1994	12/94	12/04	\$ 19,100	\$ 3,885
Less: Unamortized discount				(403)
Total			<u>\$ 19,100</u>	<u>\$ 3,482</u>

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.

Environmental Improvement Fund

The Environmental Improvement Fund (the Fund) provides loans and grants to local municipalities to finance wastewater treatment planning and construction. The Fund is authorized to issue up to \$1,298.0 million in Revenue Bonds. At June 30, 1998, there were six issues of Revenue Bonds outstanding totaling \$509.0 million. These bonds are secured by payments on program loans and earnings of investments.

Bonds issued and outstanding for the Fund as of June 30, 1998 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
1998-1	1/98	4.0 to 5.0	6/18	\$90,000	\$90,000
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	77,440
1993-2	9/93	3.9 to 5.3	6/13	84,345	78,570
1993-1	9/93	3.9 to 6.13	6/08	81,950	75,925
1991-1	4/91	5.9 to 6.9	6/11	225,000	111,165
				<u>641,295</u>	<u>513,100</u>
Unamortized Premium					3,413
Less: Unamortized discount and charge					(7,485)
Total, net of discount, charge and premium				<u>\$ 641,295</u>	<u>\$ 509,028</u>

As of June 30, 1998, debt service requirements for principal and interest for the Fund were as follows (in thousands):

Fiscal Year Ended June 30	Principal	Interest	Total
1999	\$ 22,400	\$ 28,056	\$ 50,456
2000	23,530	26,918	50,448
2001	24,740	25,702	50,442
2002	26,055	24,371	50,426
2003	27,515	22,924	50,439
Thereafter	<u>388,860</u>	<u>141,755</u>	<u>530,615</u>
Total	513,100	269,726	782,826
Unamortized Premium	3,413		3,413
Less: Unamortized discount and charge	(7,485)		(7,485)
Total, net	<u>\$ 509,028</u>	<u>\$ 269,726</u>	<u>\$ 778,754</u>

Component Units

Wisconsin Housing and Economic Development Authority

Bonds and notes payable at June 30, 1998 of the Wisconsin Housing and Economic Development Authority (Authority) consisted of the following (in thousands):

Revenue bonds and notes	\$ 1,949,958
Special obligation and subordinated	
Special obligation	175,757
Total	2,125,715
Less: Deferred amount on refunding	(1,184)
Total, net	<u>\$ 2,124,531</u>

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, 1998 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	\$ 2,495
1988 A&B	2/88	7.1 to 8.25	2018	9,870
1989 A, B&C	9/89	7.1 to 7.85	2020	13,510
1992 A	1/92	5.6 to 6.85	2012	61,270
1992 B, C, D	4/92	6.2 to 7.2	2022	70,120
1993 A&B	10/93	4.3 to 5.65	2023	67,915
1993 C	12/93	4.5 to 5.875	2019	130,790
1995 A&B	7/95	4.45 to 6.5	2026	49,060
1998 A, B & C	1/98	4.4 to 6.88	2032	39,895
				<u>444,925</u>

(Continued)

Series/ Issue	Date	Rates	Maturity Through	Outstanding
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Home Ownership Revenue Bonds:

1985 I	6/85	9.7 to 10.375	2012	6,725
1985 III	12/85	9.125 to 9.25	2005	664
1987 B&C	8/87	7.375 to 7.85	2016	11,645
1988 A&B	6/88	7.25 to 8.0	2000	2,050
1988 C	8/88	7.7	1998	1,085
1988 D	10/88	7.3 to 7.9	2005	15,120
1989 A	5/89	7.05 to 7.5	2017	18,775
1989 B&C	10/89	7.2 to 7.85	2021	56,073
1990 A&B	5/90	7.05 to 8.0	2020	24,115
1990 D&E	9/90	7.1 to 8.0	2021	23,400
1991 A&B	12/90	6.85 to 7.85	2024	56,010
1991 1,2&3	7/91	6.4 to 7.2	2022	52,090
1992 A&B	3/92	6.0 to 7.1	2023	68,170
1992 1,2	6/92	5.85 to 6.875	2024	70,345
1994 A&B	4/94	5.0 to 6.75	2025	71,080
1995 A&B	1/95	5.75 to 7.1	2025	102,960
1996 A&B	3/96	4.35 to 6.15	2027	72,230
1996 C&D	7/96	4.5 to 6.45	2027	73,510
1996 E&F	11/96	4.05 to 6.2	2027	59,545
1997 D & E	6/97	4.05 to 6.0	2028	85,000
1998 A, B&C	4/98	4.75 to 6.3	2028	126,785
1999 A & B	99	5.3 to 5.8	2021	68,215
				<u>1,065,592</u>

Home Ownership Revenue Bonds (Taxable):

1989 A	7/89	9.8	2019	1,860
1995 C,D&E	5/95	4.8 to 7.45	2026	90,290
1997 F	7/97	Variable	2007	10,000
1995 F,G&H	9/95	4.6 to 7.875	2026	65,010
1997 A, B & C	4/97	4.1 to 5.7	2028	85,000
1997 G, H&I	11/97	4.1 to 7.39	2028	75,000
				<u>327,160</u>

Business Development Bonds:

1988 4-5	Various	7.875 to 8.0	2003	640
1989 1,3-4,6-8,11-13,				
17,19,22 & 28	Various	7.1 to 8.0	2014	9,995
1990 2-4, 6	Various	7.1 to 7.50	2010	2,610
1991 1-6	Various	6.1 to 7.05	2006	6,665
1994 1-4	Various	Variable	2014	8,775
1995 1-2, 4-9	Various	Variable	2015	17,385
				<u>46,070</u>
Notes Payable	Various	Variable	1998	66,211

Authority's Total Revenue Bonds and Notes \$1,949,958

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, 1998 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	\$ 10,851
Home Ownership Revenue Bonds:				
1993 A	6/92	4.8 to 6.5	2025	80,825
1994 C&D	8/94	5.0 to 6.65	2025	42,345
1994 E&F	12/94	5.75 to 7.55	2026	23,425
				<u>146,595</u>
Home Ownership Revenue Bonds (Taxable):				
1993 B	4/93	6.45 to 7.4	2017	<u>10,721</u>
Home Improvement Revenue Bonds:				
1988 A	11/88	7.2 to 7.75	2006	4,090
1990 A&B	4/90	7.3 to 7.9	2006	1,005
1992 A&B	5/92	5.8 to 7.0	2010	2,495
				<u>7,590</u>
Total Special Obligation Bonds				<u>\$ 175,757</u>

As of June 30, 1998, 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
1999	\$ 111,230	\$ 124,940	\$ 236,170
2000	47,345	125,609	172,954
2001	49,332	124,017	173,349
2002	53,133	120,986	174,119
2003	55,867	118,034	173,901
Thereafter	<u>1,808,808</u>	<u>1,527,074</u>	<u>3,335,882</u>
Total	2,125,715	2,104,660	4,266,375
Less: Deferred			
Refunding Amount	<u>(1,184)</u>		<u>(1,184)</u>
Total	<u>\$ 2,124,531</u>	<u>\$ 2,140,660</u>	<u>\$ 4,265,191</u>

Under a Business Development Program and a Beginning Farmer Program, revenue bonds are issued which do not constitute indebtedness of the Authority within the meaning of any provision or limitation of the Constitution or Statutes of the State of Wisconsin. They do not constitute or give rise to a pecuniary liability of the Authority or a charge against its general credit. They are payable solely out of the revenues derived pursuant to the loan agreement, or in the event of default of the loan agreement, out of any revenues derived from the sale, releasing or other disposition of the mortgaged property. Therefore, the bonds are not reflected in the financial statements. As of June 30, 1998, the Authority had issued 121 series of such bonds in an aggregate principal amount of \$72.7 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, 1998, debt service requirements for the Hospital's revenue bonds were as follows (in thousands):

Fiscal Year			
Ended June 30	Principal	Interest	Total
1999	\$	\$ 2,000	\$ 2,000
2000		2,000	2,000
2001		2,000	2,000
2002		2,000	2,000
2003		2,000	2,000
Thereafter	50,000	34,984	84,984
Total	\$ 50,000	\$ 44,984	\$ 94,984

C. University of Wisconsin System

Bonds payable included in the University of Wisconsin System's Plant Funds at June 30, 1998 consist of general obligation bonds of \$740.6 million; Wisconsin University Building Corporation bonds with an outstanding balance of \$46 thousand maturing in the year 1999 and the Wisconsin State College Building Corporation bonds recorded in the amount of \$.8 million maturing in 2001.

Debt of these corporations are general obligations, 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, 1998, future principal payments on bonds payable were as follows (in thousands):

Fiscal Year	
Ended June 30	Total
1999	\$ 62.2
2000	63.4
2001	60.1
2002	56.2
2003	51.7
Thereafter	447.5
Total	\$ 741.1

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.

Prior Year Refundings/General Obligation Bonds

Government Accounting Standards Board Statement No. 7 *Advance Refundings Resulting in Defeasance of Debt*, provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. At June 30, 1998, approximately \$1,745.4 million of general obligation bond principal, defeased in prior years, is not included as a liability in the accompanying financial statements.

Prior Year Refundings/Revenue Bonds

For financial reporting purposes, the following primary government revenue bonds have been defeased, and therefore, removed as a liability from the balance sheet:

- Environmental Improvement Fund revenue bonds – At June 30, 1998, revenue bonds outstanding of \$73.8 million have been defeased.
- Transportation revenue bonds – At June 30, 1998, revenue bonds outstanding of \$258.0 million have been defeased.
- Wisconsin Education revenue bonds – At June 30, 1998, revenue bonds outstanding of \$104.6 million have been defeased.

In addition, the Wisconsin Housing and Economic Development Authority (the Authority), a proprietary component unit, defeased Insured Mortgage Revenue Bonds payable aggregating \$48.4 million and sold the related Insured Mortgage Loan portfolio on March 1, 1990. As of June 30, 1998, the remaining outstanding defeased debt was \$37.8 million.

Early Extinguishments

Component Units

Wisconsin Housing and Economic Development Authority

During 1998, the Wisconsin Housing and Economic Development Authority (the Authority) redeemed early various outstanding bonds according to the redemption provisions in the bond resolutions. These redemptions resulted in extraordinary losses due to the write-off of remaining unamortized deferred debt financing costs and, in certain instances, the payment of an early redemption premium. A summary of these early redemptions follows (in thousands):

Bond Issue	Extraordinary	
	Redemptions	Losses
	1998	1998
Home Ownership Revenue		
Bond Resolutions:		
1987	\$ 19,240	\$ --
1988	40,735	126
All Other	45,752	--
General funds	3,705	--

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, 1998, the State had issued two such notes in the form of commercial paper.

General Obligation Commercial Paper Notes

The State has authorized General Obligation Commercial Paper Notes for the acquisition, construction, development, extension, enlargement, or improvement of land, waters, property, highway, buildings, equipment or facilities. As of June 30, 1998, the State had authorized \$247.7 million and issued \$116.9 million of general obligation commercial paper notes. 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, 1998, the amount of commercial paper notes outstanding was \$113.1 million which had interest rates ranging from 3.50 percent to 3.75 percent and maturities ranging from July 6, 1998 to October 8, 1998.

Transportation Revenue Commercial Paper Notes

The State authorized transportation revenue commercial paper notes to pay the costs of major highway projects and certain State transportation facilities. As of June 30, 1998, the State had authorized \$189.0 million and issued \$154.8 million of transportation revenue commercial paper notes. 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, 1998, the amount of commercial paper notes outstanding was \$157.8 million which had interest rates ranging from 3.55 percent to 3.75 percent and maturities ranging from July 6, 1998 to January 11, 1999.

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, 1998, the following parity Master Lease certificates were outstanding:

- Master Lease Certificates of Participation of 1996, Series B, in the amount of \$14.4 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 \$27.2 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 Firststar 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, 1998, the State has deposited with the Trustee amounts, that when invested, will terminate lease schedules having an aggregate outstanding amount of \$1.0 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, 1998, 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 \$121.5 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 Firststar Bank of Milwaukee, Milwaukee, Wisconsin under which the Bank has agreed to provide to the State an open line of credit in the amount of \$50.0 million. The agreement provides for advances in anticipation of bond issuance proceeds. As of June 30, 1998, \$50.0 million was unused and available.

The State has previously 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, 1999, but is subject to annual renewal as provided for in the credit agreement. The cost of this line of credit is 0.04 percent per year.

Also, the State has previously 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. On March 27, 1998, the State amended this credit agreement and stand-by letter of credit to extend the termination date, modify the fee arrangement and remove one of the banks providing the stand-by letter of credit. The stand-by letter of credit is available to secure up to \$188.6 million of transportation revenue commercial paper and interest thereon. No advances were drawn during the fiscal year ended June 30, 1998. This stand-by letter of credit expires in May, 2000, but is subject to annual renewal as provided for in the credit agreement. The cost of this stand-by letter of credit is 0.085 percent on unutilized amounts and 0.160 percent per year on utilized amounts.

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, 1998 (in thousands):

	General Fixed Assets	Enterprise Funds	Internal Service Funds
Buildings and Improvements	\$ 628	\$	\$
Machinery and Equipment	9,851	1,043	26,686
Less: Accumulated Depreciation		(317)	(12,002)
Carrying Amount	<u>\$ 10,480</u>	<u>\$ 726</u>	<u>\$ 14,684</u>

The following is an analysis of the gross minimum lease payments along with the present value of the minimum lease payments as of June 30, 1998 for capital leases (in thousands):

Fiscal Year	General Long-term Debt Account Group	Proprietary Funds	University of Wisconsin System
	1999	\$ 2,952	\$ 7,113
2000	1,985	4,459	3,354
2001	982	3,129	2,171
2002	530	1,090	1,407
2003	186	698	802
Thereafter	394	384	1,947
Total minimum future payments	7,028	16,872	14,049
Less: Executory costs	(59)	--	--
Less: Interest	(828)	(1,579)	(2,150)
Present value of net minimum lease payments	<u>\$ 6,141</u>	<u>\$ 15,293</u>	<u>\$ 11,899</u>

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. Items acquired and outstanding on June 30, 1998 consisted of:

Balance Due	Average Life (Weighted Term)
\$41,174,219	1.516 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 3.5 percent to 7.8 percent, with final maturities due beginning in April 2000 through April 2016. Scheduled principal and interest payments through April 2016 are \$49.5 million.

In addition, scheduled principal and interest payments through December 2000 are \$1.2 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 1998 were \$35.5 million. Of this amount, \$34.7 million relates to minimum rental payments stipulated in lease agreements, \$736 thousand relates to contingent rentals, and \$143 thousand subrental payments. The University of Wisconsin System operating lease expenditures totaled \$3.0 million for Fiscal Year 1998.

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
1999	\$ 32,329	\$ 5,900	\$ 1,590
2000	24,920	3,782	828
2001	18,527	3,045	656
2002	15,858	2,397	240
2003	10,308	1,822	94
Thereafter	17,854	10,387	--
Minimum lease payments	<u>\$ 119,795</u>	<u>\$ 27,334</u>	<u>\$ 3,407</u>

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.

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, 1998 for installment purchases (in thousands):

Fiscal Year	General Long-term Debt Account Group
1999	\$ 1,004
2000	477
2001	145
2002	43
2003	--
Thereafter	--
Total minimum future payments	1,669
Less: Interest	(53)
Present value of net minimum installment payments	<u>\$ 1,616</u>

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, 1998 is presented below (in thousands):

	Home for Veterans (1)	Mental Health Institutes (2)	Developmental Disabilities Centers (3)	Lottery (4)	Health Insurance Risk Sharing Plan (5)	Local Government Property Insurance (6)
Operating revenues:						
Total revenues	\$ 36,338	\$ 34,708	\$ 115,899	\$418,763	\$ 30,565	\$ 9,367
Revenues from sales/services provided to other GAAP funds	--	--	--	--	--	--
Depreciation, depletion and amortization expense	2,161	1,664	3,042	626	--	33
Operating income or loss	(110)	(36,046)	(1,434)	124,862	(10,779)	1,544
Operating grants, entitlements, and shared revenues	12	177	95	--	--	--
Operating interfund transfers:						
In	20	35,777	188	--	6,000	--
Out	725	477	3,245	10,269	--	--
Extraordinary gain (loss)	--	--	--	--	--	--
Net income (loss)	(451)	4,568	(3,679)	3,047	(4,640)	1,544
Current capital:						
Contributions	723	1,237	692	--	--	--
Transfers In	--	--	--	--	--	--
Transfers Out	--	--	--	--	--	--
Property, plant and equipment:						
Additions	1,317	898	569	116	--	--
Deletions	397	1,230	217	111	9	--
Net working capital (current assets less current liabilities)	5,101	(2,080)	(6,021)	108,252	5,827	8,304
Total assets	33,922	60,866	64,201	402,585	9,490	29,467
Bonds and other material long-term liabilities outstanding:						
Amounts payable solely from operating revenues	226	94	--	219,947	10,461	--
Amounts potentially payable from other sources	--	--	--	--	--	--
Total equity	29,832	33,208	34,831	129,746	(4,634)	20,587

Description of Programs

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

State Life Insurance (7)	Patients Compensation (8)	Government Employee Benefit Plans (9)	Environmental Improvement (10)	Veterans Mortgage Loan Repayment (11)	State Fair Park (12)	Wisconsin Education Revenue Bonds (13)	Other (14)	Total
\$ 10,736	\$ 100,515	\$ 480,567	\$ 23,643	\$ 37,122	\$ 14,071	\$ 672	\$ 25,262	\$1,338,228
--	--	366,658	--	--	--	--	1,521	368,179
12	15	--	852	430	1,349	--	1,516	11,699
3,249	16,217	48,830	(6,737)	(5,573)	913	96	3,379	138,411
--	--	--	1,578	--	--	--	--	1,862
--	--	--	--	3,015	8	--	1,501	46,508
--	--	--	--	4	164	--	6,197	21,080
--	--	--	--	--	--	--	8	8
3,249	16,220	48,959	14,440	3,548	(136)	106	1,994	88,767
--	--	--	18,887	--	--	--	10	21,549
--	--	--	28,000	--	--	--	68,038	96,038
--	--	--	4,000	68,038	--	--	--	72,038
19	--	--	7	26	11,104	--	2,838	16,894
--	--	--	140	--	59	--	1,134	3,296
7,298	14,285	360,001	206,340	168,662	(536)	158	31,585	907,175
73,270	462,228	403,537	1,154,341	807,099	33,506	5,652	139,349	3,679,514
59,893	480,839	255,772	--	697,495	13,277	--	2,314	1,740,318
--	--	--	490,700	--	--	3,482	--	494,182
12,832	(22,172)	104,229	641,826	77,310	16,322	1,781	128,119	1,203,818

- (10) Funding for clean water projects, safe drinking water and the land recycling loan program.
- (11) Issuance and administration of veteran's first mortgage loans.
- (12) State Fair Park - State Fair Exposition Center revenues and operations.
- (13) Health education loans provided to full-time medical and dental students and eligible residents.
- (14) Other funds include: Transportation Infrastructure Loan – Federal and state funding for loans to finance infrastructure; 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, 1997 or June 30, 1998 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	\$ 583,983	\$ 168,622	\$ 97,762	\$ 850,367
Due From Primary Government	6	--	442	448
Long-term Receivables	1,784,553	--	--	1,784,553
Deferred Charges	16,176	--	--	16,176
Fixed Assets	24,800	--	108,381	133,181
Other Assets	163,666	--	148,119	311,785
Total Assets	<u>\$ 2,573,184</u>	<u>\$ 168,622</u>	<u>\$ 354,704</u>	<u>\$ 3,096,510</u>
Liabilities:				
Current Liabilities	\$ 211,292	\$ 24,500	\$ 45,593	\$ 281,385
Due to Primary Government	44	11	165	220
Future Benefits and Loss Liability	--	126,084	--	126,084
Other Liabilities	--	--	38,462	38,462
Bonds and Notes Payable	2,124,531	--	50,000	2,174,531
Total Liabilities	<u>2,335,867</u>	<u>150,595</u>	<u>134,220</u>	<u>2,620,682</u>
Equity:				
Retained Earnings	237,317	18,027	220,484	475,828
Total Equity	<u>237,317</u>	<u>18,027</u>	<u>220,484</u>	<u>475,828</u>
Total Liabilities and Equity	<u>\$ 2,573,184</u>	<u>\$ 168,622</u>	<u>\$ 354,704</u>	<u>\$ 3,096,510</u>
Condensed Statement of Revenues, Expenses and Changes in Retained Earnings				
Operating Revenues	\$ 144,830	\$ 13,295	\$ 328,695	\$ 486,820
Operating Expenses:				
Depreciation	5,118	--	16,390	21,508
Other	219,730	15,994	305,753	541,477
Operating Income (Loss)	(80,018)	(2,699)	6,552	(76,165)
Other Nonoperating Revenues (Expenses)	104,503	--	10,104	114,607
Net Income Before Extraordinary Item	24,485	(2,699)	16,656	38,442
Extraordinary Item	(126)	--	--	(126)
Net Income	24,359	(2,699)	16,656	38,316
Retained Earnings-Beginning of Year	212,958	20,726	203,829	437,513
Retained Earnings-End of Year	<u>\$ 237,317</u>	<u>\$ 18,027</u>	<u>\$ 220,485</u>	<u>\$ 475,829</u>

NOTE 10. INTERFUND ASSETS/LIABILITIES

Interfund assets and liabilities at June 30, 1998 consist of the following (in thousands):

A. Due from/to Other Funds:

Due from Other Funds	\$ 444,728
Due to Other Funds	\$ 444,728

Due from/to Other Funds represent short-term interfund accounts receivable and payable. The totals of Due from/to Other Funds at June 30, 1998 by individual fund were as follows (in thousands):

Fund	Due from Other Funds	Due to Other Funds
General	\$ 143,106	\$ 123,724
Special Revenue:		
Transportation	25,429	74,898
Conservation	11,025	8,343
Heritage State		
Parks and Forests	--	50
Wisconsin Health		
Education Loan		
Repayment	16	17
Work Injury		
Supplemental Benefit	--	--
Mediation	7	5
Agriculture Chemical		
Cleanup	2,983	507
Agrichemical Management	172	3,399
Employee Trust Fund		
Administration	1,361	919
Petroleum Inspection	8,986	1,785
Dry Cleaner		
Environmental Response	--	33
Environmental	6,353	3,065
Recycling	12,937	6,736
Info Tech Investment	--	400
Property Tax Relief	--	--
Environmental Local		
Assistance	--	83
Debt Service:		
Bond Security and		
Redemption	368	435
Capital Projects:		
Building Trust	1,187	148
Capital Improvement	1,007	2,032
Transportation Revenue		
Bonds	2	15,484

(Continued)

Fund	Due from Other Funds	Due to Other Funds
Enterprise:		
State Fair Park	13	1,000
Home for Veterans	2	1,502
Mendota Mental		
Health Institute	702	3,513
Winnebago Mental		
Health Institute	777	6,110
Central Developmental		
Disabilities Center	8,498	2,288
Northern Developmental		
Disabilities Center	4,664	2,618
Southern Developmental		
Disabilities Center	3,127	2,356
Institutional Farm		
Operations	48	36
Institutional Canteen		
Operations	7	70
Lottery	932	9,662
Health Insurance Risk		
Sharing Plan	--	13
Local Government		
Property Insurance	44	6
State Life Insurance	--	14
Patients Compensation	--	114
Income Continuation		
Insurance	8,032	48
Duty Disability	8,840	17
Long-term Disability		
Insurance	20,534	552
Health Insurance	1,170	162
Tuition Trust		658
Environmental		
Improvement	16	472
Veterans Trust	898	156
Veterans Mortgage Loan		
Repayment	1,100	1,035
Wisconsin Education		
Revenue Bonds	--	370
Wisconsin Public		
Broadcasting Foundation	201	63
Transportation		
Infrastructure Loan	375	--
Internal Service:		
Services to Nonstate		
Governmental Units	212	19
Materials and Services		
to State Agencies	694	557
Fleet Services	1,728	97

(Continued)

Fund	Due from Other Funds	Due to Other Funds
Building Construction		
Services	3,286	259
Printing and Other	1,985	138
Services		
State Telephone System	4,821	604
Financial Services	2,885	566
Risk Management	127	192
Facilities Operations		
and Maintenance	4,170	1,460
Information Technology		
Services	7,231	781
Institutional Power Plant	450	254
Central Warehouse	472	21
Badger State Industries	2,868	421
Expendable Trust:		
Petroleum Violation	57	1,013
Unclaimed Property		
Program	--	13
Accumulated Sick Leave	57,109	21
Special Death Benefits	125	2
Employee Reimbursement		
Accounts	220	855
Life Insurance	10	54
Deferred Compensation	--	9
Common School Income	--	1,113
Unemployment Insurance		
Reserve	286	744
Children's Trust	1	--
Nonexpendable:		
Common School	3	63
Historical Society	9	64
Pension:		
Wisconsin Retirement		
System	49,797	107,316
Investment Trust:		
Local Government Pooled		
Investment	--	19
Milwaukee Retirement		
Systems	166	--
Agency:		
Inmate and Resident	481	306
University of		
Wisconsin System	30,615	52,869
Total	<u>\$ 444,728</u>	<u>\$ 444,728</u>

B. Due to/from Component Units

Receivables and payables between funds and component units at June 30, 1998 were as follows (in thousands);

Fund/Component Unit	Due from Component Units/Primary Government	Due to Component Units/Primary Government
Primary Government:		
General Fund	--	\$ 442
Enterprise:		
Patients Compensation	11	--
Internal Service:		
Materials and Services		
to State Agencies	3	--
Fleet Services	1	--
Printing and Other		
Services	125	--
State Telephone System	73	--
Badger State Industries	8	--
Expendable Trust:		
Petroleum Violation	--	6
University of Wisconsin		
System	3,579	652
Component Unit:		
Wisconsin Housing and		
Economic Development		
Authority	6	44
Wisconsin Health Care		
Liability Insurance Plan	--	11
University of Wisconsin		
Hospitals and Clinics		
Authority	1,095	3,744
Total	<u>\$ 4,900</u>	<u>\$ 4,900</u>

C. Interfund Loans Receivable/Payable

Interfund Loans Receivable	\$ 75,011
Interfund Loans Payable	\$ 75,011

Interfund Loans Receivable/Payable represent loans from one fund to another to cover cash overdrafts. Interfund loans receivable/payable at June 30, 1998 by individual fund were as follows (in thousands):

Fund	Interfund Loans Receivable	Interfund Loans Payable
General	\$ 70,713	\$ --
Special Revenue:		
Environmental Local Assistance	--	4,297
Capital Projects:		
Capital Improvement	4,297	--
Enterprise:		
Mendota Mental Health Institute	--	4,915
Winnebago Mental Health Institute	--	7,686
Central Developmental Disabilities Center	--	7,068
Northern Developmental Disabilities Center	--	5,152
Southern Developmental Disabilities Center	--	480
Institutional Farm Operations	--	4,784
Internal Service:		
Services to Nonstate Governmental Units	--	1,911
Fleet Services	--	21,493
Printing and Other Services	--	3,822
State Telephone System	--	10,957
Financial Services	--	2,183
Institutional Power Plants	--	56
Badger State Industries	--	205
Total	\$ 75,011	\$ 75,011

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, 1998 by individual fund were as follows (in thousands):

Fund	Advances to Other Funds	Advances from Other Funds
General	\$ --	\$ 2,000
Special Revenue:		
Information Technology Investment	--	3,558
Capital Projects:		
Energy Efficiency	3,000	--
Enterprise:		
Local Government Property Insurance	2,000	--
Internal Service:		
State Telephone System Information Technology Services	5,454	--
University of Wisconsin System	--	1,896
Total	\$ 10,454	\$ 10,454

NOTE 11. INTERFUND TRANSFERS

A. Residual Equity Transfers

Residual equity transfers in and out that occurred during Fiscal Year 1998 were as follows (in thousands):

Fund	Residual Equity Transfers In	Residual Equity Transfers Out
General	\$ 541	\$ 128
Special Revenue:		
Badger	--	496
Agrichemical Management	--	9,535
Agricultural Chemical Cleanup	9,535	--
Debt Service:		
Bond Security and Redemption	4,000	166
Capital Projects:		
Building Trust	7,991	--
Capital Improvement	--	35,870
Enterprise:		
Environmental Improvement	28,000	4,000
Mendota Mental Health Institute	87	--
Winnebago Mental Health Institute	41	--
Veterans Mortgage Loan Repayment	--	68,038
Veterans Trust	68,038	--
Total Residual Equity Transfers	<u>\$ 118,233</u>	<u>\$ 118,233</u>

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 1998 were as follows (in thousands):

Fund	Operating Transfers In	Operating Transfers Out
General	\$ 299,124	\$ 1,159,043
Special Revenue:		
Transportation	--	20,718
Conservation	12,943	10,381
Wisconsin Elections Campaign	295	--
Agriculture Chemical Cleanup	--	507
Petroleum Inspection	--	1,814
Environmental	12,071	40
Recycling	314	4,471
Information Technology Investment	59	--
Universal Service	--	1,119
Property Tax Relief	--	257,756
Environmental Local Assistance	386	--
Debt Service:		
Bond Security and Redemption	216,459	4,686
Capital Projects:		
Building Trust	7,880	275
Capital Improvement	3,869	3,744
Transportation Revenue Bonds	--	1
Enterprise:		
State Fair Park	7	163
Home for Veterans	20	725
Mendota Mental Health Institute	19,873	241
Winnebago Mental Health Institute	15,903	236
Northern Developmental Disabilities Center	7	1,299
Central Developmental Disabilities Center	181	964
Southern Developmental Disabilities Center	--	983
Institutional Farm Operations	809	3
Institutional Canteen Operations	317	351
Lottery	--	10,269
Health Insurance Risk Sharing Plan	6,000	--
Veterans Trust	--	14
Veterans Mortgage Loan Repayment	3,015	4
Transportation Infrastructure Loan	375	--

(Continued)

Fund	Operating Transfers In	Operating Transfers Out
Wisconsin Public Broadcasting Foundation	--	5,828
Internal Service:		
Services to Nonstate Governmental Units	267	--
Information Technology Services	--	3,105
Materials and Services to State Agencies	257	--
Building Construction Services	--	24
Printing and Other Services	250	--
State Telephone System	335	--
Financial Services	--	404
Facilities Operations and Maintenance	7,952	4,170
Institutional Power Plants	--	50
Central Warehouse	--	25
Badger State Industries	--	33
Expendable Trust:		
Petroleum Violation	--	2,895
Unclaimed Property Program	--	7,500
Nonexpendable Trust:		
Common School	7,500	--
Historical Society	14	70
University of Wisconsin System	896,163	8,732
Total	<u>\$1,512,644</u>	<u>\$1,512,644</u>

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

For Fiscal Year 1998, 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, 1997 as previously reported	\$ (1,472,755)	\$ 443,026	\$ 4,295	\$ (101,960)	\$ 191,600	\$ 7,358	\$ 50,549,243
Restatement of fund balance/retained earnings for Implementation of GASB Statement No. 31 <i>Accounting and Financial Reporting for Certain Investments and for External Investment Pools</i>	(7,078)	(3,058)	(416)	674	1,038	--	2,749,843
Restatement of fund balance of Conservation Fund for implementation of GASB Interpretation No. 5 <i>Property Tax Revenue Recognition in Governmental Funds</i>	--	14,298	--	--	--	--	--
Reclassification of fund structure: Universal Service Fund	(5,225)	5,225	--	--	--	--	--
Change from capitalizing rental textbooks to expensing them at time of purchase	--	--	--	--	--	--	--
Other adjustments of assets and liabilities as of June 30, 1997	3,434	(1,900)	98	2,426	722	390	(312)
Fund balances/retained earnings, July 1, 1997 as restated	\$ (1,481,624)	\$ 457,591	\$ 3,977	\$ (98,861)	\$ 193,361	\$ 7,748	\$ 53,298,774
Effect of restatements on the amount of excess revenues and other sources over expenditures and other uses or the amount of the net income of Fiscal Year 1997 (excluding restatements for implementation of GASB Statement No. 31 and GASB Interpretation No. 5)	\$ 756	\$ 1,504	\$ 98	\$ 1,609	\$ 2,235	\$ 397	\$ (312)

As discussed above, the State implemented GASB Statement No. 31 *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* in Fiscal Year 1998. As a result, the Local Government Pooled Investment Fund and the Milwaukee Retirement Systems Fund, reported as agency funds in previous fiscal years, were reclassified as Investment Trust Funds in Fiscal Year 1998. Further, the amounts reported as cash and cash equivalents on the statements of cash flows at the beginning of the year have been restated to reflect the impact of GASB Statement No. 31.

Amounts reported for fixed assets as of July 1, 1997 in Note 4 have been restated from amounts previously reported in the 1997 Comprehensive Annual Financial Report to reflect additional assets identified as existing at that date.

University of Wisconsin System							Component Units
Current		Loan	Endowment And Similar	Plant			
Unrestricted	Restricted						
\$ 206,035	\$ 43,323	\$ 161,356	\$ 192,405	\$ 2,663,656	\$	437,514	
--	--	--	55,281	--	--	--	
--	--	--	--	--	--	--	
--	--	--	--	--	--	--	
(17,823)	--	--	--	--	--	--	
--	(6,961)	(237)	--	922	--	--	
<u>\$ 188,213</u>	<u>\$ 36,362</u>	<u>\$ 161,119</u>	<u>\$ 247,686</u>	<u>\$ 2,664,578</u>	<u>\$</u>	<u>437,514</u>	

NOTE 13. FUND EQUITY

The following schedule enumerates the components of Fund Equity of the various funds as of June 30, 1998 (in thousands):

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types		University of Wisconsin System	Component Units	Total
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust				
Contributed Capital	\$ --	\$ --	\$ --	\$ --	\$ 989,728	\$ 24,239	\$ --	\$ --	\$ --	\$ --	\$ 1,013,967
Retained Earnings:											
Reserved for:											
Future Benefits	--	--	--	--	12,832	--	--	--	--	3,787	16,619
Market Value											
Adjustments	--	--	--	--	80,818	--	--	--	--	--	80,818
Bonds	--	--	--	--	--	--	--	--	--	140,460	140,460
Donors for											
Operations	--	--	--	--	--	--	--	--	--	1,603	1,603
Unreserved	--	--	--	--	120,439	(1,107)	--	--	--	329,979	449,311
Fund Balances:											
Reserved for:											
Encumbrances	131,281	410,610	--	148,961	--	--	6,656	59,411	--	--	756,919
Inventory	12,123	17,816	--	--	--	--	--	24,424	--	--	54,363
Prepaid Items	177,200	8,571	--	--	--	--	3,877	14,635	--	--	204,283
Advances to											
Other Funds	--	--	--	3,000	--	--	--	--	--	--	3,000
Employee Benefits	--	--	--	--	--	--	42,059,251	--	--	--	42,059,251
Market Value											
Adjustments	--	--	--	--	--	--	13,454,979	--	--	--	13,454,979
Unemployment											
Compensation	--	--	--	--	--	--	1,747,229	--	--	--	1,747,229
Auxiliary Operations	--	--	--	--	--	--	--	78,022	--	--	78,022
Restricted Funds	--	--	--	--	--	--	--	2,366	--	--	2,366
Loan Funds	--	--	--	--	--	--	--	167,624	--	--	167,624
Endowment and											
Similar Funds	--	--	--	--	--	--	--	281,318	--	--	281,318
Plant Funds	--	--	--	--	--	--	--	2,827,630	--	--	2,827,630
Unreserved:											
Designated for											
University											
Contingent Fund	--	--	--	--	--	--	--	3,273	--	--	3,273
Undesignated	(1,595,010)	(254,421)	7,055	(311,761)	--	--	4,141,968	39,050	--	--	2,026,881
Total Fund Equity	\$(1,274,406)	\$182,576	\$7,055	\$(159,800)	\$1,203,818	\$23,131	\$61,413,960	\$3,497,754	\$475,829	\$65,369,916	

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, 1998 are (in thousands):

Special Revenue:		
Petroleum Inspection	\$	250,332
Information Technology Investment		3,448
Environmental Local Assistance		19,216
Capital Projects:		
Capital Improvement		64,263
Transportation Revenue Bonds		128,187
Enterprise:		
Home for Veterans		7,348
Mendota Mental Health Institute		12,146
Winnebago Mental Health Institute		10,770
Northern Developmental Disabilities Center		15,326
Central Developmental Disabilities Center		12,645
Southern Developmental Disabilities Center		18,453
Institutional Farm Operations		422
Health Insurance Risk Sharing Plan		4,634
Patients Compensation		22,172
Duty Disability		151,228
Tuition Trust		451
Veterans Trust		36,682
Internal Service:		
Services to Nonstate Governmental Units		900
Printing and Other Services		853
Risk Management		66,597
Institutional Power Plant		2,788

B. Excess of Expenditures over Appropriations:

The Self-Insured Employers Liability fund, established in Fiscal Year 1998, had no budgeted expenditures and actual expenditures of \$6 thousand.

NOTE 15. CONTRIBUTED CAPITAL

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

	Enterprise	Internal Service
Veterans Trust Fund-Residual equity transfer from Veterans	\$	\$
Mortgage Loans Repayment Fund	68,038	--
Environmental Improvement Fund – Environmental Protection Agency grant for State revolving fund loans to municipalities	18,887	--
Environmental Improvement Fund – Residual equity transfers in from the Capital Improvement Fund totaling \$28,000 less return of Contributed Capital to the Bond Security and Redemption Fund of \$4,000	24,000	--
Other changes to contributed capital	3,429	1,193
Subtotal	114,354	1,193
Contributed capital, beginning of year	875,374	23,045
Contributed capital, end of year	<u>\$ 989,728</u>	<u>\$ 24,239</u>

NOTE 16. RETIREMENT PLAN

The Wisconsin Retirement System (WRS) was established and is administered by the State of Wisconsin to provide pension benefits for State and local government public employees. The WRS consists of the fixed retirement investment trust, the variable retirement investment trust, and the police and firefighters trust. Although separated for accounting purposes, the assets of these trust funds can be used to pay benefits for any member of the WRS, and are reported as one pension plan.

The WRS is considered part of the State of Wisconsin's financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information for the year ending December 31, 1997, may be obtained by writing to:

Department of Employee 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 employees. Any employee of a participating employer who is expected to work at least 600 hours per year for at least one year must be covered by the WRS. As of December 31, 1997, the number of participating employers was:

State Agencies	59
Cities	153
Counties	71
4 th Class Cities	34
Villages	182
Towns	134
School Districts	438
Wisconsin Technical College System Board Districts	16
Other	143
Total Employers	1,230

For employees beginning participation on or after January 1, 1990 and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 are immediately vested. Employees who retire at or after age 65 (55 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

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

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

Accounting Policies and Plan Asset Matters

The financial statements of the WRS have been prepared in accordance with generally accepted accounting principles, using the flow of economic resources measurement focus and a full accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Plan member contributions are recognized in the period in which contributions are 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 equity securities. Shares in the fixed retirement investment trust are purchased as funds are made available from retirement contributions and investment income, and sold when funds for benefit payments and other expenses are needed.

The assets of the fixed and variable retirement investment trusts are carried at fair value with all market value adjustments recognized in current operations. Investments are revalued monthly to current market value. The resulting valuation gains or losses are recognized as income, although revenue has not been realized through a market-place transaction.

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

State Contributions Required and Contributions Made

Covered State employees in the General/Teacher category are required by statute to contribute 6.4% of their salary (4.7% for Executives and Elected Officials, 5.8% for Protective Occupations with Social Security, and 6.2% for Protective Occupations without Social Security) to the plan. Employers may make these contributions to the plan on behalf of employees.

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, 1995. State contributions required and made for the years ended December 31, 1997, 1996, and 1995 were as follows (in millions):

	1997	1996	1995
Employer current service	\$ 125.0	\$ 120.5	\$ 114.2
Percent of payroll	5.4%	5.6%	5.3%
Employer prior service	\$ 29.7	\$ 28.2	\$ 28.0
Percent of payroll	1.3%	1.3%	1.3%
Employe required	\$ 116.9	\$ 111.1	\$ 110.4
Percent of payroll	5.0%	5.1%	5.1%
Benefit adjustment contrib.	\$ 29.3	\$ 30.2	\$ 24.6
Percent of payroll	1.3%	1.4%	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 (UAAL) is generally affected only by the monthly amortization payments, compound interest, the added liability created by new employer units, and any liabilities caused by changes in benefit provisions. The UAAL is being amortized over a 40 year period beginning January 1, 1990. However, periodically, the Employe Trust Funds Board has reviewed and, when appropriate, adjusted the actuarial assumptions used to determine this liability. Changes in the assumptions may affect the UAAL, and the resulting actuarial gains or losses are credited or charged to employers' unfunded liability accounts. The Employe Trust Funds Board does not credit or charge an employer's account if the employer previously fully funded its actuarial accrued liability. The Wisconsin Department of Employe Trust Funds has requested an Attorney General's opinion regarding the Board's authority to adjust the UAAL in this manner and, if it does not have the authority, whether previous adjustments to the UAAL balance must be reversed. In total, these adjustments to the UAAL approximate \$235.2 million.

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

As of December 31, 1997 and 1996, the WRS's unfunded actuarial accrued liability was \$2.14 billion and \$2.09 billion, respectively. These amounts are presented as Prior Service Contributions Receivable on the financial statements. New prior service liabilities resulting from employers entering the WRS or increasing their prior service coverage are recognized as contributions in the year service is granted and are added to the Prior Service Contributions Receivable. Employer contributions for prior service reduce the receivable. The receivable is increased as of calendar year end with interest at the assumed interest rate of 8 percent.

Employer Pension Costs

The State's unfunded liability as of December 31, 1997, was \$643.1 million, or 30.1 percent of the total WRS unfunded liability of \$2.14 billion. This liability is determined in accordance with the provisions of GASB Statement No. 27. The State's unfunded liability for prior service is recorded in the General Long-term Debt Account Group.

NOTE 17. MILWAUKEE RETIREMENT SYSTEMS

The Milwaukee Retirement Systems (MRS), consisting of the City of Milwaukee Retirement System and the Milwaukee Public Schools Retirement System, is reported as an Investment Trust Fund. MRS provides assets to the State of Wisconsin, Department of Employee Trust Funds (ETF) for investing in its Fixed Retirement Investment Trust (FRIT), a "fund" of the Wisconsin Retirement System (WRS). Participation of the MRS in the FRIT is described in the ETF Administrative Code, Chapter 10.12. The State of Wisconsin Investment Board (SWIB) manages the FRIT with oversight by a Board of Trustees as authorized in Wis. Stat. 25.14 and 25.17. SWIB is not registered with the Securities and Exchange Commission as an investment company.

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

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

Monthly, the ETF distributes a pro-rata share of the total FRIT earnings less administrative expenses to the MRS accounts. The MRS accounts are adjusted to fair value and gains/losses are recorded directly in the accounts per ETF Administrative Code, Chapter 10.12(2).

Neither State statute, a legal provision nor a legally binding guarantee exists to support the value of shares.

At June 30, 1998, the FRIT held a number of nonnegotiable short-term certificates of deposit. The fair value of these certificates of deposit was approximately \$196.0 million, all of which was uncollateralized.

At June 30, 1998, the FRIT held \$45,623.9 million of investments of which \$850.7 million are classified as cash equivalents. In addition, the FRIT held \$3,796.3 million of securities lending collateral. The following table presents investments of the FRIT at June 30, 1998, categorized in accordance with the level of risk requirements of GASB Statement No. 3 (in millions):

	Category			Fair Value
	1	2	3	
Bonds	\$ 8,926.0	\$ --	\$ --	\$ 8,926.0
Stocks	14,211.6	7.3	--	14,218.9
Repurchase Agreements	1,504.8	--	--	1,504.8
Bankers Acceptances	236.2	--	--	236.2
Total	\$ 24,878.6	\$ 7.3	\$ --	\$ 24,885.9
Options				82.3
Private Placements				2,941.7
Limited Partnerships				2,117.6
Pooled Equities				10,762.7
Pooled Bonds				3,010.8
Mortgages				100.2
Real Estate Owned				492.1
Financial Futures Contracts				(1.4)
International Cash and Cash Equivalents				850.7
Investments Held by Broker Dealers under Securities Loans:				
Bonds				2,852.8
Equities				852.3
Securities Lending Cash Collateral Pooled Investments				472.5
				\$ 49,420.2

The following schedule provides summary information by investment classification for the FRIT at June 30, 1998 (in thousands):

Classification	Interest/Coupon Rates	Maturity Dates	Cost	Fair Value
Bonds	.90 to 13.5	7/98 to 1/36	\$ 12,350,404	\$ 13,206,592
Common and Preferred Stock	N/A	N/A	20,782,989	25,834,011
Options	N/A	N/A	88,644	82,363
Limited Partnerships Real Estate	N/A	N/A	992,392	995,027
Other Partnerships	N/A	N/A	799,796	1,122,552
Mortgages	7.00 to 12.25	7/99 to 6/22	86,298	100,178
Real Estate	N/A	N/A	480,090	492,065
Financial Futures Contracts	N/A	N/A	--	(1,340)
Private Placements	Variable and 6.00 to 14.75	8/98 to 11/27	2,671,252	2,941,754
Total Investments			<u>\$ 38,251,865</u>	<u>\$ 44,773,202</u>

Significant financial data for the FRIT for the year ended June 30, 1998 is presented below (in thousands):

Fixed Retirement Investment Trust Condensed Statement of Net Assets As of June 30, 1998		Fixed Retirement Investment Trust Condensed Statement of Changes in Net Assets For the Year Ended June 30, 1998	
Assets:		Additions:	
Cash and Cash Equivalents	\$ 2,188,910	Net Appreciation (Depreciation) in Fair Value of Investments	\$ 5,588,317
Securities Lending Collateral	3,796,346	Interest	1,030,619
Prepaid Items	1,392	Dividends	366,411
Due from Other Funds	61	Real Estate Income	51,522
Investment Receivables	745,601	Securities Lending Income	172,485
Investments, at Fair Value	<u>44,773,202</u>	Other	<u>70,066</u>
Total Assets	<u>\$ 51,505,512</u>	Total Additions	<u>7,279,420</u>
Liabilities:		Deductions:	
Securities Lending Collateral Liability	\$ 3,796,346	Investment Expense	39,215
Due to Other Funds	117	Securities Lending Rebates and Fees	162,269
Investment Payables	<u>357,247</u>	Net Withdrawals by Pool Participants	<u>184,371</u>
Total Liabilities	<u>4,153,709</u>	Total Deductions	<u>385,855</u>
Net Assets Held in Trust of:		Net Increase (Decrease)	
Internal Investment Pool Participants	47,193,868		6,893,565
Milwaukee Retirement Systems	<u>157,934</u>	Net Assets Held in Trust for Pool Participants	
	<u>\$ 47,351,802</u>	Beginning of Year	<u>40,458,237</u>
		End of Year	<u>\$ 47,351,802</u>

NOTE 18. OTHER POSTEMPLOYMENT BENEFITS

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

Post retirement life insurance is provided to employees 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 employee's expense (employee must pay the full premium) until age 65 when reduced coverage is provided at no cost. Employees 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 11,500 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 employee'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, 1997, determined through an actuarial valuation performed as of that date, was \$215.2 million. On that date program assets of \$224.1 million were \$8.9 million more than accrued liabilities.

In accordance with Chapter 40, Wisconsin Statutes, the State also provides that employees 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 employee's death, that employee's accumulated unused sick leave balance may be converted at the employee's current rate of pay to credits for the payment of health insurance premiums for the employee or the employee'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 employee, or employee's dependents behalf, until the sick leave conversion credits are exhausted. At that time, the employee has the option to continue coverage by paying the total cost of the premiums. Approximately 7,300 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 employees and 7.3 days per year for University employees. 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, 1997, determined through an actuarial valuation performed on that date,

was \$757.2 million. The program's assets on that date were \$350.9 million. The unfunded liability was \$406.3 million.

Assets of the life insurance and health insurance benefit programs are valued at fair value.

The State's postemployment life and health insurance required and actual contributions totaled \$3.1 million and \$56.8 million, respectively, during the calendar year ended December 31, 1997.

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

The Department of Employee Trust Funds operates four public entity risk pools: group health insurance, group income continuation insurance, protective occupation duty disability insurance and long-term disability insurance. The information provided in this note applies to the period ending December 31, 1997.

A. Description of Funds

The Health Insurance Fund offers group health insurance for current and retired employees of the State government and of participating local public employers. All public employers in the State are eligible to participate. One hundred sixty-eight local employers plus the State currently participate. The State and local government portions of the fund are accounted for separately and have separate contribution rates, benefits, and actuarial valuations. The fund includes both a self-insured, fee-for-service plan as well as various prepaid plans, primarily Health Maintenance Organizations (HMO's).

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

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

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

B. Accounting Policies for Risk Pools

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

Valuation of Investments - Assets of the Health Insurance Fund are invested in the State Investment Fund. 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 fair value.

Unpaid Claims Liabilities - Claims liabilities are based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The estimate includes the effects of inflation and other societal and economic factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. Unpaid claims liability is presented at face value and is not discounted for health insurance. It is discounted using interest rates of 8 percent for health insurance, 5 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. The Duty Disability Fund's accounting deficit is being amortized over a twenty-seven year period beginning January 1, 1997. Face values are not available.

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 Employee 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 1997 (in millions):

	Health Insurance		Income Continuation Insurance		Duty Disability		Long-term Disability Insurance	
	1997	1996	1997	1996	1997	1996	1997	1996
Unpaid claims at beginning of the calendar year	\$ 9.1	\$12.3	\$42.5	\$41.0	\$187.4	\$145.6	\$10.8	\$ 8.4
Incurred claims:								
Provision for insured events of the current calendar year	55.5	54.9	19.1	18.7	14.1	15.5	4.5	4.5
Changes in provision for insured events of prior calendar years	(0.5)	(1.1)	(9.8)	(9.5)	9.3	39.8	1.2	(0.7)
Total incurred claims	55.0	53.8	9.3	9.2	23.4	55.3	5.7	3.8
Payments:								
Claims and claim adjustment expenses attributable to insured events of the current calendar year	45.8	46.1	2.5	2.4	0.0	0.1	0.0	0.1
Claims and claim adjustment expenses attributable to insured events of prior calendar years	9.4	10.9	5.1	5.3	14.4	13.4	2.0	1.3
Total Payments	55.2	57.0	7.6	7.7	14.4	13.5	2.0	1.4
Total unpaid claims expenses at end of the calendar year	\$ 8.9	\$ 9.1	\$44.2	\$42.5	\$197.0	\$187.4	\$14.6	\$10.8

D. Trend Information

Historical trend information showing revenue and claims development information is presented in the Department of Employee Trust Funds December 31, 1997 audited financial statements. Copies of these statements may be requested from:

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

NOTE 20. SELF-INSURANCE

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

State Property Damage

Property damages to State-owned properties are covered by the State self-funded property program up to \$2.5 million in an annual aggregate. Insurance is purchased for losses in excess of this amount. The excess limits were written to \$200 million during Fiscal Year 1998.

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, 1998 are estimated to total \$3.7 million. This amount, less \$1.9 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 1998 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, 1998 are estimated to total \$37.7 million.

Worker's Compensation

The Worker's Compensation Program was created by Wisconsin Statutes Chapter 102 to provide benefits to workers injured on the job. All employees of the State are included in the program. An injury is covered under worker's compensation if it is caused by an accident that arose out of and in the course of employment.

The responsibility for claiming compensation is on the employee. A claim must be filed with the program within two years from the date of injury, otherwise the claim is not allowable.

For the prior fiscal year, the estimate for future benefits and loss liabilities was determined by developing the prior paid claims to the ultimate expected costs by using insurance industry loss development factors. 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, 1998 are estimated to total \$39.0 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	1998
Beginning of fiscal year liability	\$ 69,920	\$ 77,544
Current year claims and changes in estimates	24,266	20,365
Claim payments	(16,642)	(19,255)
Balance at fiscal year-end	<u>\$ 77,544</u>	<u>\$ 78,654</u>

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, 1998 is \$ 2.2 million.

NOTE 21. INSURANCE FUNDS**A. Local Government Property Insurance Fund**

Created by the Legislature in 1911, the purpose of the Local Government Property Insurance Fund is to provide property insurance coverage to tax-supported local government units such as counties, towns, villages, cities, school districts and library boards. Property insured includes government buildings, schools, libraries and motor vehicles. Coverage is available on an optional basis. As of June 30, 1998, the Local Government Property Insurance Fund insured 1,138 local governmental units. The total amount of insurance in force as of June 30, 1998 was \$21.4 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, 1998, the fund had \$11.2 million of shares in the State Investment Fund which are considered cash equivalents and \$12.3 million of high grade, long-term, fixed income obligations.

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, 1998.

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, 1998 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. Due to a change in the reinsurance term to coincide with the fund's fiscal year, a short period reinsurance contract was implemented for the period December 1, 1997 through June 30, 1998, with a prorated aggregate retention for that period of \$3.5 million. Premium ceded to reinsurers during the fiscal year amounted to \$1.1 million on a written basis and \$1.9 million on an earned basis. The amount deducted from the unpaid claim liability as of June 30, 1998 for reinsurance was \$6.7 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	1998
Unpaid claims and claim adjustment expenses at beginning of the year	7,389	4,298
Less: Reinsurance recoverable	(3,303)	(1,055)
Net unpaid loss liability at beginning of year	<u>\$4,086</u>	<u>\$3,243</u>
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	7,157	8,050
Increase (decrease) in provision for insured events of prior years	(433)	(1,036)
Total incurred claims and claim adjustment expenses	<u>6,724</u>	<u>7,014</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	4,059	4,561
Claims and claim adjustment expenses attributable to insured events prior years	3,508	1,334
Total payments	<u>7,567</u>	<u>5,895</u>
Net unpaid claims and claim adjustment expenses at end of year	3,243	4,362
Reinsurance recoverable	<u>1,055</u>	<u>6,687</u>
Total unpaid claims and claim adjustment expenses	<u>\$4,298</u>	<u>\$11,049</u>

Trend Information

Historical trend information showing revenue and claims development information is presented in the Office of the Commissioner of Insurance June 30, 1998 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 forty 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, 1998 amounted to \$32 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 and mortality. The composition of liabilities and the more material assumptions pertinent thereto are presented below (in thousands):

Issue Year	Ordinary Life Insurance in Force	Amount of Policy Liability
1913-1966	\$ 16,553	\$ 9,485
1967-1976	45,064	14,234
1977-1985	91,306	17,264
1986-1994	58,003	4,067
1995+	17,946	866
	<u>\$ 228,872</u>	<u>\$ 45,916</u>

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, 1997 were \$64.9 million and the statutory capital and surplus were \$6.7 million, and the capital and surplus at June 30, 1998 was \$12.8 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, 1998 as follows (in thousands):

Projected ultimate loss liability	\$ 1,017,061
Less: Net loss paid from inception	(403,360)
Less: Liability for reported losses	<u>(14,712)</u>
Liability for incurred but not reported losses	<u>\$ 598,989</u>

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, 1998 are estimated at 4.5 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, 1998 as follows (in thousands):

Projected ultimate loss adjustment expense liability	\$ 45,768
Less: Loss adjustment expense paid from inception	<u>(20,738)</u>
Liability for loss adjustment expense	<u>\$ 25,030</u>

The uncertainties inherent in projecting the frequency and severity of large claims because of the Patients Compensation Fund's unlimited liability coverage, and extended reporting and settlement periods, makes it likely that the amounts ultimately paid will differ from the recorded estimated 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 benefit expense for the fiscal year is 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, or have tested positive for the presence of HIV, products of HIV, or an antibody to HIV. The Health Insurance Risk Sharing Plan is funded primarily by premiums paid by insureds of the plan, assessments made to participating insurers, reduction of provider payments rates, and general purpose revenue 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.

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 the Future Benefit and Loss Liability account balances for the prior two fiscal years (in thousands):

	1997	1998
Balance, beginning of year	\$ 8,503	\$ 7,298
Incurred related to:		
Current year	40,999	41,682
Prior years	(3,076)	(768)
Total Incurred	37,923	40,914
Paid related to:		
Current year	33,839	31,304
Prior years	5,289	6,447
Total Paid	39,128	37,751
Balance, end of year	\$ 7,298	\$ 10,461

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 \$1.0 million per occurrence and \$3.0 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, 1997.

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, 1996 and December 31, 1997, are as follows (in thousands):

	1996	1997
Balance at January 1	\$ 138,660	\$ 135,147
Incurred related to:		
Current year	12,488	7,354
Prior years	(10,093)	(12,252)
Total Incurred	2,395	(4,898)
Paid related to:		
Current year	157	122
Prior years	5,751	4,043
Total paid	5,908	4,165
Balance at December 31	\$ 135,147	\$ 126,084

As a result of changes in estimates of insured events of prior years, the provisions for losses and loss adjustment expenses were decreased as indicated in the table above. Also, because of the significant length of time between the date these type of losses are reported and paid, these changes were greater than actual losses incurred for the current year, causing negative incurred losses.

NOTE 22. LITIGATION, CONTINGENCIES AND COMMITMENTS

A. Litigation and Contingencies

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

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

The State accrues liabilities related to legal proceedings, if a loss is probable and reasonably estimable. Such losses, totaling \$2.1 million on June 30, 1998 and reported in the General Long-term Debt Account Group, are discussed below:

Litigation - The Department of Health and Family Services is involved in various legal proceedings where the ultimate disposition is estimated at \$.5 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, provides compensatory payments to survivors of fatally injured employees or disabled employees with work-related injuries. The liability for annuities to be paid to the above individuals totaled \$1.6 million at June 30, 1998, and is reported in the General Long-term Debt Account Group.

Tax Refunds Reported in the General Fund

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 increased \$1.9 million to total \$9.6 million, which is reported in the General Fund as Tax Refunds Payable, with a current year reduction in tax revenue of \$1.9 million.

Other Claims, Judgments, and Contingencies

The State is also named as a party in other legal proceedings where the ultimate disposition and consequence are not presently determinable. 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 employees who have been categorized exempt from the Fair Labor Standards Act (FLSA) overtime provisions. The plaintiffs sought back-pay for overtime worked, plus liquidated damages, and attorney's fees.

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

Currently, the State has petitioned the U.S. Supreme Court to review by writ of certiorari. Although at this time it is premature to estimate the potential impact of an unfavorable decision, a preliminary estimate indicates that the liability of the State could be approximately \$3.0. Due to the uncertainty in predicting the outcome and the amount of the settlement, a liability has not been recorded as of June 30, 1998.

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, 1998.

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, 1998.

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 Department of Revenue is currently engaged in litigation with various individuals as to whether or not they were federal employees and, thus, included under the *Davis V. Michigan Department of the Treasury* decision. The Department of Revenue has prevailed on the major remaining issue before the Wisconsin Tax Appeals Commission. The Department of Revenue is confident that it will prevail on this issue, as well as the

others. Because a fiscal impact cannot be readily determined if the State were not to prevail, and due to the uncertainty in predicting the outcome, a liability has not been recorded.

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 thirteen sites have soil and/or groundwater contamination associated with underground storage tank releases with an estimated remediation cost of \$6.4 million. The cost of remediation has not been determined for approximately 42 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 \$0.6 million.

The State is also involved in environmental remediations on 10 properties that do not involve releases from underground storage tanks, with an estimated cost of \$2.8 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, 1998 reported as Fund Balance - Reserved for Encumbrances, additional obligations at June 30, 1998 representing multi-year, long-term commitments included (in thousands):

Transportation Fund	\$ 132,718
Transportation Revenue Bonds Capital Projects Fund	24,197
General Fund – Department of Commerce programs, including economic and community development programs	2,129

The Environmental Improvement Fund (the Fund) was established to administer the Clean Water Fund Loan Program. Loans are made to local units of government for wastewater treatment projects for terms of up to 20 years. These loans are made at a number of prescribed interest rates based on environmental priority. The loans contractually are revenue obligations or general obligations of the local governmental unit. Additionally, various statutory provisions exist which provide further security for payment. The fund has made financial assistance commitments of \$115.4 million as of June 30, 1998. These loan commitments are expected to be met through additional federal grants and proceeds from issuance of revenue obligations.

In addition, the revenue obligation bonds of the Leveraged Loan Program in the Fund are collateralized by a security interest in all the assets of the Leveraged Loan Program. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the Fund's revenue obligation bonds. However, as the loans granted to local units of government are at an interest rate less than the revenue bond rate, the State is obligated by the Fund's General Resolution to fund, at the time each loan is made, a reserve which subsidizes the Leveraged Loan Program in an amount which offsets this interest disparity.

Also, Wisconsin Statutes require that the Fund provide financial hardship assistance for those communities that qualify under Wis. Stat. Sec. 281.58. This assistance may come in the form of reduced interest rates or grants (not to exceed 70 percent of project costs). At fiscal year ended June 30, 1998, future commitments for hardship grants totaled \$6.5 million.

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, 1998, outstanding loan guarantees totaled \$38.7 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, 1998 was \$115.2 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 Department of Financial Institutions, until the designated appropriation is exhausted. At June 30, 1998, the appropriation available totaled \$24.1 million. Losses become fixed as of the date of the loss. A public depositor experiencing a loss must assign its interest in the deposit, to the extent of the amount paid, to the Department of Financial Institutions. Any recovery made by the Department of Financial Institutions under the assignment is to be repaid to the appropriation. The possibility of a material loss resulting from payments to and recovery from public depositors is remote.

NOTE 23. YEAR 2000

The State of Wisconsin, Department of Administration (DOA), which has overall responsibility for the coordination of information technology in State government, is coordinating the State's Year 2000 compliance efforts.

In 1996, the DOA identified approximately 100 critical business applications (that is, applications that support core State government operations and services). The DOA has deemed some of these as the "highest priority" critical applications. Among the financial-related systems within the group of highest priority critical applications are WiSMART (the State's accounting system), Income Tax Processing, Shared Revenues, Motor Vehicle Registration, Wisconsin Employee Benefit System, Investment Accounting System and Local Government Investment Pool.

The DOA created an interagency executive taskforce to advise on ways to coordinate Year 2000 compliance oversight activities. This approach allows the State to focus on the highest priority Year 2000 compliance needs.

The DOA is requiring agencies to report monthly on efforts to ensure operation of critical business functions within the agency, progress on making information technology systems supporting those critical business functions and efforts to address issues related to equipment with embedded microprocessors which support critical business functions. The reporting on information technology systems measures progress in four stages: (1) awareness, (2) assessment, (3) remediation, and (4) validation/testing.

Based on this reporting, as of November 1998, the following information is available:

- Year 2000 work on some of the most critical applications is completed through validation/testing stage and implementation of changes, or has been certified as Year 2000 ready by the private vendor responsible for the system;
- Some of the most critical applications are in final acceptance validation/testing of changes made to make the system ready for Year 2000;
- Certain of the most critical applications are in the remediation stage and the agencies have indicated the work is proceeding and are expected to be completed before the end of 1999.

The DOA is continuing to work with all agencies to ensure full reporting of critical business functions and the work needed to remedy Year 2000 problems. In addition, as part of the enterprise Year 2000 project plan, the department has instituted independent risk assessment studies of the State's most critical business functions.

The State has not to date identified any significant Year 2000 consequences or unbudgeted costs to make the critical business applications Year 2000 compliant. The costs to the State to become Year 2000 compliant have been and will continue to be absorbed within existing base operating budgets because most Year 2000 compliance work is being completed by State agencies as part of ongoing maintenance and upgrades previously identified and budgeted for by the State.

In addition, the following is a summary of the efforts currently being undertaken by the State:

- The Governor issued Executive Order 341 on July 27, 1998, which directs all state agencies to make Year 2000 compliance activities their top technology priority. In addition, Executive Order 341 created a blue ribbon commission to recommend ways to enhance communication and coordination between public and private efforts to address Year 2000 issues.
- The State has also created a central Year 2000 test environment for use by State agencies to verify the effectiveness of Year 2000 compliance activities. The State maintains a web site that provides specific technical information to assist agency Year 2000 compliance efforts. The Internet address for this is <http://y2k.state.wi.us/>
- Agencies are preparing contingency plans designed to address possible problems arising from failures of information technology systems or other disruptions of business processes. The DOA has provided agencies with instructions and templates for their contingency planning efforts and will offer use of standardized software for documenting contingency planning. This last element will allow the department to "roll-up" agencies plans and provide an enterprise contingency plan for state government, and allow for better coordination with local governments and the private sector.

The State has contacted each of its paying agents, registrars, escrow agents, trustees and depositories and has been informed by each of these firms that they intend to meet the federal regulation that all securities processing institutions be Year 2000 compliant by the fourth quarter of Calendar Year 1998. The State will continue to monitor these compliance activities and take appropriate steps to ensure timely compliance, as needed. For example, the Department of Health and Family Services (DHFS) is the State agency that interfaces with the Federal Government for Medicare and Medicaid reimbursement payments. The DHFS is addressing Year 2000 efforts with the Federal Government and is also working on contingency plans in the event of a problem.

The State is also assessing those Year 2000 issues, which could possibly disrupt actual mechanical processes such as debt service payments to bond holders. For example, in the event computer

payment systems fail, the State has planned alternative methodologies to deliver services

The State cannot provide absolute assurances that all Year 2000 problems will be corrected by January 1, 2000, nor that all information technology systems will continue to work efficiently on January 1, 2000. There remains a possibility that some Year 2000 problems will not be identified or corrected by January 1, 2000. However, the actions that the State is currently completing should minimize such potential problems, especially for critical business applications.

NOTE 24. SUBSEQUENT EVENTS**Bonds and Notes****Primary Government****Short-term Debt**

Operating Notes – On July 1, 1998 the state issued \$350.0 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, 1999.

In December 1998, the State sold \$50.0 million of General Obligation Commercial Paper Notes. The proceeds are to be used for loans to school districts and public libraries, and for other public purposes. The notes mature no later than 270 days from the date of issuance.

Long-term Debt

State of Wisconsin General Obligation Bonds – In August 1998, the State issued \$157.6 million of 1998 Series 1 general obligation refunding bonds, the proceeds of which were used for the purpose of refunding certain general obligation bonds outstanding at June 30, 1998. Interest is payable on May 1 and November 1, commencing on November 1, 1998. The bonds mature on May 1, 1999 and November 1, 2004 – 2016.

In September 1998, the State issued \$94.3 million of 1998 Series 2 general obligation refunding bonds, the proceeds of which were used for the purpose of refunding certain general obligation bonds outstanding at June 30, 1998. Interest is payable on May 1 and November 1, commencing on May 1, 1999. The bonds mature on May 1, 1999 – 2001, 2004 – 2009.

In September 1998, the State issued \$74.8 million of 1998 Series D general obligation bonds to be used for the acquisition, construction, development, extension, enlargement, or improvement of land, water, property, highways, buildings, equipment or facilities for public purposes. Interest is payable on May 1 and November 1 commencing on May 1, 1999, with the bonds maturing on May 1 of the years 2000 through 2019.

In October 1998, the State issued \$6.2 million of 1998 Series E general obligation bonds to be used for a replacement refunding of certain outstanding general obligation bonds previously issued for funding veterans housing loans. Interest is payable on May 1 and

November 1, commencing on May 1, 1999, with the bonds maturing on May 1 of the years 2012 through 2017.

In October 1998, the State issued \$55.0 million of 1998 Series F general obligation bonds to be used for veterans housing loans. Interest is payable on May 1 and November 1, commencing on May 1, 1999, with the bonds maturing on November 1 of the years 1999 through 2029.

Revenue Bonds – In August 1998, the Environmental Improvement Fund issued \$104.4 million of 1998 Refunding Series 2 revenue bonds, the proceeds of which were used to refund certain revenue bonds outstanding at June 30, 1998.

In August 1998, the Transportation Revenue Bond program issued \$130.6 million of Refunding Series 1998 A, the proceeds of which were used to refund certain revenue bonds outstanding at June 30, 1998.

In October 1998, the Transportation Revenue Bond program issued \$110.0 million of 1998 Series B revenue bonds, the proceeds of which are to be used for certain highway and administrative facility projects.

Component Unit

Wisconsin Housing and Economic Development Authority – In August, 1998, the Authority issued \$80.6 million of Single Family Draw Down Revenue Bonds, 1998 Series 1, to refund certain previously issued single family revenue bonds.

The Authority issued \$115.0 million of Home Ownership Revenue Bonds, 1998 Series D and E. The bonds were dated June 15, 1998, but cash was not received until July 16, 1998.

The Authority entered into a bond purchase agreement for the issuance of \$95.0 million of Home Ownership Revenue Bonds, 1998 Series F and G.

The Authority early-redeemed \$138.4 million of Home Ownership Revenue Bonds in September and October 1998.

The Authority redeemed \$1.3 million of Housing Revenue Bonds and \$.9 million of Home Improvement Revenue Bonds in November, 1998.