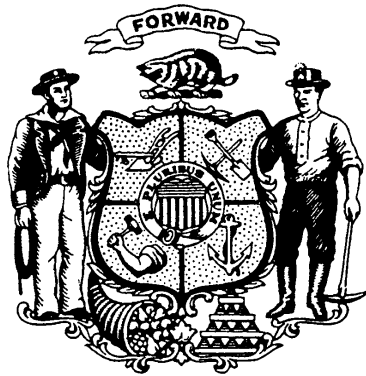


# WISCONSIN

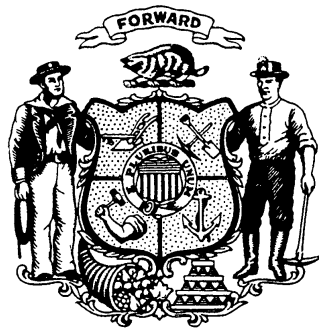
## COMPREHENSIVE ANNUAL FINANCIAL REPORT



For the fiscal year ended June 30, 1999

# STATE OF **WISCONSIN**

## COMPREHENSIVE ANNUAL FINANCIAL REPORT



For the fiscal year ended June 30, 1999

**Tommy G. Thompson, Governor**

Department of Administration  
George Lightbourn, Acting Secretary  
William J. Raftery, State Controller

Prepared by the State Controller's Office

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DOA-6082P (R12/99)

**Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 1999**

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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, 1999, 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 92 percent of the assets and 27 percent of the revenues and operating transfers of the debt service funds, 59 percent of the assets and 45 percent of the bond proceeds of the capital projects funds, and 21 percent of the liabilities of the general long-term debt account group. In addition, we did not audit the financial statements of the Wisconsin Housing and Economic Development Authority, the Wisconsin Health Care Liability Insurance Plan, and the University of Wisconsin Hospitals and Clinics Authority, which represent 100 percent of the financial activity of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely upon the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. The financial statements of the 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 audited by other auditors in accordance with generally accepted auditing standards, but not in accordance with the additional requirements of *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audit and the reports of other auditors, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the State of Wisconsin as of June 30, 1999, 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.

The required supplementary information on year 2000 is not a required part of the basic financial statements, but is supplementary information required by Governmental Accounting Standards Board technical bulletin 99-1. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the State of Wisconsin is or will be year 2000 compliant, that the State's remediation efforts will be successful in whole or in part, or that parties with which the State does business are or will become year 2000 compliant.

In accordance with *Government Auditing Standards*, we will issue our report dated December 17, 1999, 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 17, 1999

by

  
Janice Mueller  
State Auditor

*State of Wisconsin*

**Combined Balance Sheet - All Fund Types, Account Groups and  
Discretely Presented Component Units  
June 30, 1999**

(In Thousands)

|   | Governmental Fund Types |                   |                  |                   | Proprietary Fund Types |                   |
|---|-------------------------|-------------------|------------------|-------------------|------------------------|-------------------|
|   | General                 | Special Revenue   | Debt Service     | Capital Projects  | Enterprise             | Internal Service  |
| <b>Assets and Other Debits</b>  |                         |                   |                  |                   |                        |                   |
| Assets:   |                         |                   |                  |                   |                        |                   |
| Cash and Cash Equivalents   | \$ 349,584              | \$ 462,891        | \$ 57,477        | \$ 73,894         | \$ 896,619             | \$ 27,182         |
| Investments   | 445                     | -                 | 9,531            | 63,684            | 944,775                | -                 |
| Securities Lending Collateral   | -                       | -                 | -                | -                 | -                      | -                 |
| Receivables (net of estimated uncollectible accounts):                |                         |                   |                  |                   |                        |                   |
| Taxes   | 825,489                 | 104,881           | -                | -                 | -                      | -                 |
| Student Loans   | -                       | -                 | -                | -                 | 3,826                  | -                 |
| Veterans Loans  | -                       | -                 | -                | -                 | 33,861                 | -                 |
| Mortgage Loans  | -                       | -                 | -                | -                 | 682,557                | -                 |
| Insurance Policy Loans  | -                       | -                 | -                | -                 | 3,828                  | -                 |
| Loans to Local Governments  | 5,636                   | -                 | -                | -                 | 880,109                | -                 |
| Patients Accounts Receivable  | -                       | -                 | -                | -                 | -                      | -                 |
| Prior Service Contributions Receivable                                | -                       | -                 | -                | -                 | -                      | -                 |
| Other Receivables   | 160,001                 | 43,800            | 8                | 2,212             | 63,371                 | 1,164             |
| Due from Other Funds  | 112,509                 | 148,472           | 52               | 12,961            | 57,948                 | 33,635            |
| Due from Component Units  | 6                       | -                 | -                | -                 | 12                     | 268               |
| Due from Primary Government   | -                       | -                 | -                | -                 | -                      | -                 |
| Interfund Loans Receivable  | 84,707                  | -                 | -                | -                 | -                      | -                 |
| Due from Other Governments  | 397,434                 | 89,309            | -                | -                 | 11,234                 | 401               |
| Inventories   | 36,983                  | 18,796            | -                | -                 | 8,304                  | 7,330             |
| Prepaid Items   | 307,084                 | 8,959             | -                | -                 | 70,095                 | 21,001            |
| Advances to Other Funds   | -                       | -                 | -                | 2,500             | -                      | 3,308             |
| Restricted and Limited Use Assets:                                    |                         |                   |                  |                   |                        |                   |
| Cash and Cash Equivalents   | -                       | -                 | -                | -                 | 46,274                 | -                 |
| Investments   | 3                       | -                 | -                | -                 | -                      | -                 |
| Capital Lease Receivable - Component Unit                             | -                       | -                 | -                | -                 | -                      | -                 |
| Deferred Charges  | -                       | -                 | -                | -                 | 8,527                  | 474               |
| Fixed Assets  | -                       | -                 | -                | -                 | 131,107                | 218,180           |
| Other Assets  | -                       | 4                 | -                | -                 | 9,524                  | -                 |
| Other Debits:   |                         |                   |                  |                   |                        |                   |
| Amount Available in Debt Service Fund                                 | -                       | -                 | -                | -                 | -                      | -                 |
| Amount to be Provided for Retirement of General Long-term Obligations | -                       | -                 | -                | -                 | -                      | -                 |
| <b>Total Assets and Other Debits</b>                                  | <b>\$ 2,279,880</b>     | <b>\$ 877,111</b> | <b>\$ 67,067</b> | <b>\$ 155,251</b> | <b>\$ 3,851,971</b>    | <b>\$ 312,942</b> |



| Fiduciary<br>Fund Type | Account Groups      |                         |                           | University of<br>Wisconsin System | Totals -<br>Primary<br>Government<br>(Memorandum<br>Only) | Component<br>Units | Totals -<br>Reporting<br>Entity<br>(Memorandum<br>Only) |
|------------------------|---------------------|-------------------------|---------------------------|-----------------------------------|---|--------------------|---|
|                        | Trust and<br>Agency | General<br>Fixed Assets | General Long-term<br>Debt |                                   |   |                    |   |
| \$ 6,596,266           | \$ -                | \$ -                    | \$ 355,914                | \$ 8,819,827                      | \$ 424,654  | \$ 9,244,480       |   |
| 57,365,841             | -                   | -                       | 301,176                   | 58,685,451                        | 334,408   | 59,019,860         |   |
| 3,917,978              | -                   | -                       | -                         | 3,917,978                         | -   | 3,917,978          |   |
| -                      | -                   | -                       | -                         | 930,370                           | -   | 930,370            |   |
| -                      | -                   | -                       | 164,494                   | 168,320                           | -   | 168,320            |   |
| -                      | -                   | -                       | -                         | 33,861                            | -   | 33,861             |   |
| -                      | -                   | -                       | -                         | 682,557                           | 1,764,208   | 2,446,765          |   |
| -                      | -                   | -                       | -                         | 3,828                             | -   | 3,828              |   |
| 183,048                | -                   | -                       | -                         | 1,068,793                         | -   | 1,068,793          |   |
| -                      | -                   | -                       | -                         | -                                 | 62,323  | 62,323             |   |
| 2,093,634              | -                   | -                       | -                         | 2,093,634                         | -   | 2,093,634          |   |
| 1,082,390              | -                   | -                       | 66,855                    | 1,419,800                         | 19,430  | 1,439,231          |   |
| 73,314                 | -                   | -                       | 40,357                    | 479,248                           | -   | 479,248            |   |
| -                      | -                   | -                       | 4,879                     | 5,164                             | -   | 5,164              |   |
| -                      | -                   | -                       | -                         | -                                 | 1,426   | 1,426              |   |
| -                      | -                   | -                       | -                         | 84,707                            | -   | 84,707             |   |
| 95,246                 | -                   | -                       | 53,300                    | 646,924                           | 6,611   | 653,535            |   |
| -                      | -                   | -                       | 26,286                    | 97,699                            | 2,412   | 100,112            |   |
| 5,778                  | -                   | -                       | 16,292                    | 429,209                           | 2,955   | 432,164            |   |
| -                      | -                   | -                       | -                         | 5,808                             | -   | 5,808              |   |
| -                      | -                   | -                       | -                         | 46,274                            | -   | 46,274             |   |
| -                      | -                   | -                       | -                         | 3                                 | 254,530   | 254,533            |   |
| -                      | -                   | -                       | 33,307                    | 33,307                            | -   | 33,307             |   |
| -                      | -                   | -                       | 7,453                     | 16,454                            | 15,837  | 32,291             |   |
| 635                    | 1,649,521           | -                       | 3,695,815                 | 5,695,257                         | 155,752   | 5,851,009          |   |
| 250,842                | -                   | -                       | -                         | 260,370                           | 82,540  | 342,910            |   |
| -                      | -                   | 6,320                   | -                         | 6,320                             | -   | 6,320              |   |
| -                      | -                   | 3,599,888               | -                         | 3,599,888                         | -   | 3,599,888          |   |
| \$ 71,664,972          | \$ 1,649,521        | \$ 3,606,209            | \$ 4,766,127              | \$ 89,231,051                     | \$ 3,127,086  | \$ 92,358,137      |   |

(Continued)

*State of Wisconsin*

**Combined Balance Sheet - All Fund Types, Account Groups and  
Discretely Presented Component Units  
June 30, 1999**

(Continued)

|  | Governmental Fund Types |                   |                  |                   | Proprietary Fund Types |                   |
|--|-------------------------|-------------------|------------------|-------------------|------------------------|-------------------|
|  | General                 | Special Revenue   | Debt Service     | Capital Projects  | Enterprise             | Internal Service  |
| <b>Liabilities, Equity and Other Credits</b>       |                         |                   |                  |                   |                        |                   |
| Liabilities:                                       |                         |                   |                  |                   |                        |                   |
| Accounts Payable and Other                         |                         |                   |                  |                   |                        |                   |
| Accrued Liabilities                                | \$ 439,976              | \$ 322,712        | \$ -             | \$ 14,044         | \$ 320,167             | \$ 30,843         |
| Due to Other Funds                                 | 192,422                 | 60,398            | 735              | 48,650            | 32,890                 | 16,091            |
| Due to Component Units                             | 387                     | -                 | -                | -                 | -                      | -                 |
| Due to Primary Government                          | -                       | -                 | -                | -                 | -                      | -                 |
| Interfund Loans Payable                            | -                       | -                 | -                | -                 | 42,766                 | 41,941            |
| Due to Other Governments                           | 1,400,765               | 122,786           | -                | 10,405            | 1,475                  | 96                |
| Tax Refunds Payable                                | 629,846                 | 4,119             | -                | -                 | -                      | -                 |
| Tax and Other Deposits                             | 56,402                  | 5,083             | -                | -                 | 10,029                 | -                 |
| Deferred Revenue                                   | 468,796                 | 16,606            | -                | 4                 | 49,876                 | 8,331             |
| Interest Payable                                   | -                       | -                 | 28,201           | -                 | 9,085                  | 1,384             |
| Advances from Other Funds                          | -                       | 3,308             | -                | -                 | -                      | -                 |
| Short-term Notes Payable                           | -                       | -                 | -                | 277,833           | 233                    | 566               |
| Securities Lending Collateral Liability            | -                       | -                 | -                | -                 | -                      | -                 |
| Future Benefits and Loss Liabilities               | -                       | -                 | -                | -                 | 848,400                | 80,529            |
| Capital Leases                                     | -                       | -                 | -                | -                 | 660                    | 13,298            |
| Capital Leases - Primary Government                | -                       | -                 | -                | -                 | -                      | -                 |
| Installment Contracts Payable                      | -                       | -                 | -                | -                 | -                      | -                 |
| Compensated Absences                               | -                       | -                 | -                | -                 | 5,978                  | 2,524             |
| Employer Pension Costs                             | -                       | -                 | -                | -                 | -                      | -                 |
| General Obligation Bonds Payable                   | -                       | -                 | 950              | -                 | 776,102                | 104,564           |
| Revenue Bonds and Notes Payable                    | -                       | -                 | 30,860           | -                 | 488,281                | -                 |
| Other Bonds Payable                                | -                       | -                 | -                | -                 | -                      | -                 |
| Claims, Judgments and Commitments                  | -                       | -                 | -                | -                 | -                      | -                 |
| <b>Total Liabilities</b>                           | <b>3,188,594</b>        | <b>535,012</b>    | <b>60,747</b>    | <b>350,936</b>    | <b>2,585,942</b>       | <b>300,168</b>    |
| Equity and Other Credits:                          |                         |                   |                  |                   |                        |                   |
| Contributed Capital                                | -                       | -                 | -                | -                 | 1,062,561              | 26,315            |
| Investment in General Fixed Assets                 | -                       | -                 | -                | -                 | -                      | -                 |
| Retained Earnings:                                 |                         |                   |                  |                   |                        |                   |
| Reserved   | -                       | -                 | -                | -                 | 90,619                 | -                 |
| Unreserved   | -                       | -                 | -                | -                 | 112,850                | (13,541)          |
| Fund Balances:                                     |                         |                   |                  |                   |                        |                   |
| Reserved   | 321,232                 | 542,855           | -                | 177,763           | -                      | -                 |
| Unreserved:  |                         |                   |                  |                   |                        |                   |
| Designated   | -                       | -                 | -                | -                 | -                      | -                 |
| Undesignated                                       | (1,229,946)             | (200,756)         | 6,320            | (373,448)         | -                      | -                 |
| <b>Total Equity and Other Credits</b>              | <b>(908,714)</b>        | <b>342,099</b>    | <b>6,320</b>     | <b>(195,685)</b>  | <b>1,266,029</b>       | <b>12,774</b>     |
| <b>Total Liabilities, Equity and Other Credits</b> | <b>\$ 2,279,880</b>     | <b>\$ 877,111</b> | <b>\$ 67,067</b> | <b>\$ 155,251</b> | <b>\$ 3,851,971</b>    | <b>\$ 312,942</b> |

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

| Fiduciary<br>Fund Type | Account Groups      |                         |                           | University of<br>Wisconsin System | Totals -<br>Primary<br>Government<br>(Memorandum<br>Only) | Component<br>Units | Totals -<br>Reporting<br>Entity<br>(Memorandum<br>Only) |
|------------------------|---------------------|-------------------------|---------------------------|-----------------------------------|---|--------------------|---|
|                        | Trust and<br>Agency | General<br>Fixed Assets | General Long-term<br>Debt |                                   |   |                    |   |
| \$ 571,971             | \$ -                | \$ -                    | \$ 155,317                | \$ 1,855,030                      | \$ 70,807   | \$ 1,925,838       |   |
| 93,223                 | -                   | -                       | 34,838                    | 479,248                           | -   | 479,248            |   |
| 1                      | -                   | -                       | 1,039                     | 1,427                             | -   | 1,427              |   |
| -                      | -                   | -                       | -                         | -                                 | 5,164   | 5,164              |   |
| -                      | -                   | -                       | -                         | 84,707                            | -   | 84,707             |   |
| 14,876                 | -                   | -                       | 9,381                     | 1,559,783                         | 3,513   | 1,563,296          |   |
| -                      | -                   | -                       | -                         | 633,964                           | -   | 633,964            |   |
| 249,301                | -                   | -                       | 1,746                     | 322,562                           | 136,945   | 459,507            |   |
| 2,154                  | -                   | -                       | 78,244                    | 624,010                           | 1,228   | 625,238            |   |
| -                      | -                   | -                       | -                         | 38,671                            | 52,261  | 90,932             |   |
| -                      | -                   | -                       | 2,500                     | 5,808                             | -   | 5,808              |   |
| -                      | -                   | -                       | 34,705                    | 313,337                           | -   | 313,337            |   |
| 3,917,978              | -                   | -                       | -                         | 3,917,978                         | -   | 3,917,978          |   |
| -                      | -                   | -                       | -                         | 928,929                           | 115,776   | 1,044,705          |   |
| -                      | -                   | 10,494                  | 9,687                     | 34,139                            | 674   | 34,814             |   |
| -                      | -                   | -                       | -                         | -                                 | 33,307  | 33,307             |   |
| -                      | -                   | 1,066                   | 47                        | 1,113                             | -   | 1,113              |   |
| 455,847                | -                   | 429,911                 | 53,472                    | 947,732                           | 2,465   | 950,198            |   |
| -                      | -                   | 650,243                 | -                         | 650,243                           | -   | 650,243            |   |
| -                      | -                   | 1,743,029               | 754,707                   | 3,379,352                         | -   | 3,379,352          |   |
| -                      | -                   | 769,150                 | -                         | 1,288,291                         | 2,184,993   | 3,473,284          |   |
| -                      | -                   | -                       | 450                       | 450                               | -   | 450                |   |
| -                      | -                   | 2,316                   | -                         | 2,316                             | -   | 2,316              |   |
| 5,305,351              | -                   | 3,606,209               | 1,136,133                 | 17,069,091                        | 2,607,133   | 19,676,224         |   |
| -                      | -                   | -                       | -                         | 1,088,876                         | -   | 1,088,876          |   |
| -                      | 1,649,521           | -                       | -                         | 1,649,521                         | -   | 1,649,521          |   |
| -                      | -                   | -                       | -                         | 90,619                            | 153,576   | 244,196            |   |
| -                      | -                   | -                       | -                         | 99,309                            | 366,377   | 465,686            |   |
| 64,844,779             | -                   | -                       | 3,607,357                 | 69,493,986                        | -   | 69,493,986         |   |
| -                      | -                   | -                       | 3,267                     | 3,267                             | -   | 3,267              |   |
| 1,514,842              | -                   | -                       | 19,371                    | (263,617)                         | -   | (263,617)          |   |
| 66,359,621             | 1,649,521           | -                       | 3,629,994                 | 72,161,960                        | 519,953   | 72,681,913         |   |
| \$ 71,664,972          | \$ 1,649,521        | \$ 3,606,209            | \$ 4,766,127              | \$ 89,231,051                     | \$ 3,127,086  | \$ 92,358,137      |   |

*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, 1999**

(In Thousands)

|  | Governmental Fund Types |                    |                 |                     | Fiduciary           | Totals<br>(Memorandum<br>Only) |
|--|-------------------------|--------------------|-----------------|---------------------|---------------------|--------------------------------|
|  | General                 | Special<br>Revenue | Debt<br>Service | Capital<br>Projects | Expendable<br>Trust |                                |
| <b>Revenues:</b>                             |                         |                    |                 |                     |                     |                                |
| Taxes  | \$ 10,144,456           | \$ 1,014,060       | \$ -            | \$ -                | \$ -                | \$ 11,158,516                  |
| Intergovernmental                            | 3,289,535               | 520,870            | -               | 2,870               | 10,610              | 3,823,884                      |
| Licenses and Permits                         | 185,853                 | 420,605            | 80,631          | 677                 | -                   | 687,766                        |
| Charges for Goods and Services               | 173,282                 | 43,370             | -               | 493                 | 343                 | 217,488                        |
| Contributions                                | -                       | -                  | -               | -                   | 613,887             | 613,887                        |
| Investment and Interest Income               | 63,928                  | 18,163             | 4,324           | 8,674               | 330,231             | 425,321                        |
| Gifts and Donations                          | 13,232                  | 1,653              | -               | -                   | 10                  | 14,895                         |
| Other Revenues                               | 110,654                 | 20,371             | -               | 2,380               | 41,659              | 175,063                        |
| <b>Total Revenues</b>                        | <b>13,980,939</b>       | <b>2,039,091</b>   | <b>84,955</b>   | <b>15,094</b>       | <b>996,740</b>      | <b>17,116,820</b>              |
| <b>Expenditures:</b>                         |                         |                    |                 |                     |                     |                                |
| Current:                                     |                         |                    |                 |                     |                     |                                |
| Commerce                                     | 173,010                 | 20,906             | -               | 977                 | -                   | 194,892                        |
| Education                                    | 4,527,832               | 741                | -               | 13,766              | 19,620              | 4,561,959                      |
| Transportation                               | 3,119                   | 1,593,023          | -               | 5,820               | -                   | 1,601,963                      |
| Environmental Resources                      | 116,336                 | 327,277            | -               | 33,372              | -                   | 476,985                        |
| Human Relations and Resources                | 5,294,726               | 2,959              | -               | 25,369              | 500,953             | 5,824,006                      |
| General Executive                            | 301,042                 | 16,642             | -               | 15,350              | 186,252             | 519,286                        |
| Judicial                                     | 95,349                  | 356                | -               | -                   | -                   | 95,705                         |
| Legislative                                  | 62,789                  | -                  | -               | -                   | -                   | 62,789                         |
| Tax Relief and Other General Expenditures    | 727,328                 | 100,000            | -               | 4,198               | -                   | 831,525                        |
| Intergovernmental                            | 1,008,617               | -                  | -               | -                   | -                   | 1,008,617                      |
| Capital Outlay                               | -                       | -                  | -               | 164,360             | -                   | 164,360                        |
| Debt Service:                                |                         |                    |                 |                     |                     |                                |
| Principal                                    | -                       | -                  | 167,217         | -                   | -                   | 167,217                        |
| Interest                                     | -                       | -                  | 136,472         | 3,606               | -                   | 140,078                        |
| Other  | -                       | -                  | 808             | -                   | -                   | 808                            |
| <b>Total Expenditures</b>                    | <b>12,310,146</b>       | <b>2,061,903</b>   | <b>304,498</b>  | <b>266,817</b>      | <b>706,825</b>      | <b>15,650,189</b>              |
| Excess of Revenues Over (Under) Expenditures | 1,670,792               | (22,812)           | (219,543)       | (251,723)           | 289,916             | 1,466,630                      |
| <b>Other Financing Sources (Uses):</b>       |                         |                    |                 |                     |                     |                                |
| Proceeds from Sale of Bonds                  | -                       | 1                  | 2,461           | 246,545             | -                   | 249,007                        |
| Proceeds from Refunding Bonds                | -                       | -                  | 406,128         | 175                 | -                   | 406,303                        |
| Payment to Refunding Bond Escrow Agent       | -                       | -                  | (405,340)       | -                   | -                   | (405,340)                      |
| Operating Transfers In                       | 43,015                  | 191,282            | 219,263         | 31,051              | -                   | 484,610                        |
| Operating Transfers Out                      | (1,364,348)             | (35,164)           | (5,124)         | (13,045)            | (14,807)            | (1,432,487)                    |
| Capital Leases Acquisitions                  | 7,980                   | 1,599              | -               | -                   | -                   | 9,579                          |
| Installment Purchase Acquisitions            | -                       | -                  | -               | 995                 | -                   | 995                            |
| <b>Total Other Financing Sources (Uses)</b>  | <b>(1,313,353)</b>      | <b>157,718</b>     | <b>217,387</b>  | <b>265,722</b>      | <b>(14,807)</b>     | <b>(687,333)</b>               |

(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, 1999**

(Continued)

|   | Governmental Fund Types |                    |                 |                     | Fiduciary           | Totals<br>(Memorandum<br>Only) |
|---|-------------------------|--------------------|-----------------|---------------------|---------------------|--------------------------------|
|   | General                 | Special<br>Revenue | Debt<br>Service | Capital<br>Projects | Expendable<br>Trust |                                |
| Excess of Revenues and Other<br>Sources Over (Under) Expenditures<br>and Other Uses | 357,440                 | 134,905            | (2,155)         | 13,999              | 275,108             | 779,297                        |
| Fund Balances, Beginning of Year  | (1,264,249)             | 205,861            | 5,046           | (179,254)           | 2,747,691           | 1,515,094                      |
| Increase (Decrease) in Reserve<br>for Inventories                                   | (1,308)                 | 980                | -               | -                   | -                   | (328)                          |
| Residual Equity Transfers In  | -                       | 352                | 4,000           | 570                 | -                   | 4,923                          |
| Residual Equity Transfers Out   | (597)                   | -                  | (570)           | (31,000)            | -                   | (32,167)                       |
| Fund Balances, End of Year  | \$ (908,714)            | \$ 342,099         | \$ 6,320        | \$ (195,685)        | \$ 3,022,799        | \$ 2,266,819                   |

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, 1999**

(In Thousands)

|  | General Fund |              |                                    | Budgeted Special Revenue Funds |              |                                    |
|--|--------------|--------------|------------------------------------|--------------------------------|--------------|------------------------------------|
|  | Budget       | Actual       | Variance - Favorable (Unfavorable) | Budget                         | Actual       | Variance - Favorable (Unfavorable) |
| <b>Revenues:</b>                               |              |              |                                    |                                |              |                                    |
| Taxes  | \$ 9,675,582 | \$ 9,961,328 | \$ 285,746                         | \$ 1,020,591                   | \$ 1,020,591 | \$ -                               |
| Budgeted Transfers from:                       |              |              |                                    |                                |              |                                    |
| General Fund                                   | -            | -            | -                                  | 164,000                        | 164,000      | -                                  |
| Departmental                                   | 6,277,161    | 6,291,210    | 14,050                             | 1,181,416                      | 1,181,416    | -                                  |
| Total Revenues                                 | 15,952,743   | 16,252,539   | 299,796                            | 2,366,007                      | 2,366,007    | -                                  |
| <b>Expenditures:</b>                           |              |              |                                    |                                |              |                                    |
| Current:                                       |              |              |                                    |                                |              |                                    |
| Commerce                                       | 252,103      | 199,223      | 52,880                             | 149,098                        | 121,955      | 27,143                             |
| Education                                      | 7,446,755    | 7,207,857    | 238,898                            | 114,318                        | 113,844      | 474                                |
| Environmental Resources                        | 264,785      | 245,912      | 18,873                             | 2,293,154                      | 1,938,306    | 354,848                            |
| Human Relations and Resources                  | 5,959,333    | 5,833,402    | 125,931                            | 12,514                         | 6,818        | 5,696                              |
| General Executive                              | 592,370      | 515,591      | 76,779                             | 4,401                          | 2,863        | 1,537                              |
| Judicial                                       | 95,753       | 95,069       | 684                                | 675                            | 357          | 318                                |
| Legislative                                    | 59,523       | 58,025       | 1,498                              | -                              | -            | -                                  |
| General  | 1,835,309    | 1,757,560    | 77,749                             | 15,536                         | 15,536       | -                                  |
| Budgeted Transfers to:                         |              |              |                                    |                                |              |                                    |
| Property Tax Relief Fund                       | 100,000      | 100,000      | -                                  | -                              | -            | -                                  |
| Computer Escrow Fund                           | 64,000       | 64,000       | -                                  | -                              | -            | -                                  |
| Total Expenditures                             | 16,669,932   | 16,076,639   | 593,293                            | 2,589,695                      | 2,199,680    | 390,015                            |
| Excess of Revenues Over (Under) Expenditures   | \$ (717,189) | 175,900      | \$ 893,089                         | \$ (223,688)                   | 166,327      | \$ 390,015                         |
| Fund Balances, Beginning of Year               |              | 893,828      |                                    |                                | 428,336      |                                    |
| Prior Period Adjustment                        |              | 6,356        |                                    |                                | -            |                                    |
| Residual Equity Transfers                      |              | (58)         |                                    |                                | 58           |                                    |
| Fund Balances, End of Year                     |              | 1,076,025    |                                    |                                | 594,721      |                                    |
| Less Encumbrances Outstanding at June 30, 1999 |              | (326,744)    |                                    |                                | (801,318)    |                                    |
| Fund Balances, End of Year Budgetary Basis     | \$           | 749,282      |                                    | \$                             | (206,597)    |                                    |

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, 1999**

(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)            |
| <b>Operating Revenues:</b>                |                        |                  |               |                    |            |                  |
| Charges for Goods and Services            | \$ 741,113             | \$ 220,006       | \$ 176        | \$ 961,294         | \$ 353,593 | \$ 1,314,887     |
| Contributions                             | 456,320                | -                | -             | 456,320            | -          | 456,320          |
| Investment and Interest Income            | 124,426                | 6                | 1,478         | 125,910            | 145,739    | 271,649          |
| Fines and Forfeitures                     | -                      | -                | 16,596        | 16,596             | -          | 16,596           |
| Gifts and Donations                       | -                      | -                | 309           | 309                | -          | 309              |
| Other Income                              | 6,195                  | 926              | 9             | 7,129              | 19,480     | 26,609           |
| Total Operating Revenues                  | 1,328,054              | 220,938          | 18,567        | 1,567,560          | 518,811    | 2,086,370        |
| <b>Operating Expenses:</b>                |                        |                  |               |                    |            |                  |
| Personal Services                         | 203,824                | 49,770           | 129           | 253,723            | 196,664    | 450,387          |
| Supplies and Services                     | 470,189                | 133,110          | 215           | 603,513            | 151,108    | 754,621          |
| Lottery Prize Awards                      | 236,702                | -                | -             | 236,702            | -          | 236,702          |
| Depreciation                              | 9,026                  | 26,770           | -             | 35,796             | 22,772     | 58,568           |
| Benefit Expense                           | 192,526                | 20,769           | -             | 213,295            | (8,160)    | 205,135          |
| Interest Expense                          | 70,255                 | -                | -             | 70,255             | 135,761    | 206,017          |
| Other Expenses                            | 16,176                 | -                | -             | 16,176             | 77,639     | 93,814           |
| Total Operating Expenses                  | 1,198,697              | 230,419          | 344           | 1,429,460          | 575,784    | 2,005,244        |
| Operating Income (Loss)                   | 129,356                | (9,481)          | 18,224        | 138,099            | (56,973)   | 81,126           |
| <b>Nonoperating Revenues (Expenses):</b>  |                        |                  |               |                    |            |                  |
| Operating Grants                          | 4,802                  | 355              | 6             | 5,162              | 55,660     | 60,822           |
| Investment and Interest Income            | 18,889                 | 143              | -             | 19,032             | 46,876     | 65,908           |
| Gain (Loss) on Disposal of Fixed Assets   | (159)                  | 526              | -             | 367                | (30)       | 337              |
| Interest Expense                          | (703)                  | (5,242)          | -             | (5,946)            | -          | (5,946)          |
| Other Revenues                            | 2,360                  | 4,681            | -             | 7,041              | 1,298      | 8,339            |
| Other Expenses                            | (170,449)              | (37)             | -             | (170,485)          | (227)      | (170,713)        |
| Total Nonoperating Revenues (Expenses)    | (145,261)              | 426              | 6             | (144,829)          | 103,577    | (41,253)         |
| Income (Loss) Before Operating Transfers  | (15,904)               | (9,055)          | 18,229        | (6,730)            | 46,604     | 39,874           |
| Operating Transfers In                    | 53,019                 | 6,219            | 12,100        | 71,338             | -          | 71,338           |
| Operating Transfers Out                   | (30,972)               | (4,826)          | (58)          | (35,855)           | -          | (35,855)         |
| Operating Transfers to Primary Government | -                      | -                | -             | -                  | (2,400)    | (2,400)          |
| Net Income before Extraordinary Items     | 6,143                  | (7,662)          | 30,271        | 28,752             | 44,204     | 72,956           |
| <b>Extraordinary Items:</b>               |                        |                  |               |                    |            |                  |
| Gain (Loss) from Extinguishment of Debt   | -                      | -                | -             | -                  | (79)       | (79)             |
| Gain on Casualty Settlement               | 20                     | -                | -             | 20                 | -          | 20               |
| Net Income (Loss)                         | 6,163                  | (7,662)          | 30,271        | 28,772             | 44,125     | 72,897           |

(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, 1999**

(Continued)

|   | Proprietary Fund Types |                     | Fiduciary     | Totals -   | Component  | Totals -     |
|---|------------------------|---------------------|---------------|------------|------------|--------------|
|   | Enterprise             | Internal<br>Service | Fund Type     | Primary    |            | Reporting    |
|   |                        |                     | Nonexpendable | Government |            | Entity       |
|   |                        |                     | (Memorandum   | Only)      | Units      | (Memorandum  |
|   |                        |                     | Trust         | Only)      |            | Only)        |
| Retained Earnings/Fund Balances,<br>Beginning of Year | 197,306                | (5,879)             | 408,843       | 600,270    | 475,829    | 1,076,099    |
| Retained Earnings/Fund Balances,<br>End of Year       | \$ 203,469             | \$ (13,541)         | \$ 439,115    | \$ 629,043 | \$ 519,953 | \$ 1,148,996 |

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, 1999**

(In Thousands)

|  | Proprietary Fund Types |                     | Fiduciary              | Totals -              | Component<br>Units * |
|--|------------------------|---------------------|------------------------|-----------------------|----------------------|
|  | Enterprise             | Internal<br>Service | Fund Type              | Primary<br>Government |                      |
|  |                        |                     | Nonexpendable<br>Trust | (Memorandum<br>Only)  |                      |
| <b>Cash Flows from Operating Activities:</b>                         |                        |                     |                        |                       |                      |
| Cash Receipts from Customers   | \$ 1,165,961           | \$ 216,618          | \$ 176                 | \$ 1,382,755          | \$ 2,264             |
| Cash Payments to Suppliers for Goods and Services                    | (450,797)              | (134,865)           | (103)                  | (585,764)             | (4,432)              |
| Cash Payments to Employees for Services                              | (194,083)              | (49,400)            | (127)                  | (243,610)             | (10,257)             |
| Cash Payments for Lottery Prizes                                     | (247,635)              | -                   | -                      | (247,635)             | -                    |
| Cash Payments for Loans Originated                                   | (146,616)              | -                   | -                      | (146,616)             | (315,991)            |
| Cash Payments for Benefits   | (157,647)              | (18,894)            | -                      | (176,541)             | (2,147)              |
| Interest Income  | 50,575                 | -                   | -                      | 50,575                | 136,437              |
| Fines and Forfeitures  | -                      | -                   | 16,590                 | 16,590                | -                    |
| Collection of Loans  | 109,335                | -                   | -                      | 109,335               | 334,806              |
| Other Operating Revenues   | 6,078                  | 694                 | 318                    | 7,090                 | 15,908               |
| Other Operating Expenses   | (36,735)               | -                   | -                      | (36,735)              | (87,289)             |
| Other Sources of Cash  | 2,540                  | 19,550              | -                      | 22,090                | -                    |
| Other Uses of Cash   | (13)                   | (225)               | -                      | (238)                 | (3,688)              |
| Net Cash Provided (Used) by Operating Activities                     | 100,964                | 33,479              | 16,854                 | 151,297               | 65,610               |
| <b>Cash Flows from Noncapital Financing Activities:</b>              |                        |                     |                        |                       |                      |
| Operating Grants Receipts  | 4,651                  | 364                 | 6                      | 5,020                 | 55,660               |
| Grants for Loans to Governments                                      | 49,607                 | -                   | -                      | 49,607                | -                    |
| Proceeds from Issuance of Long-term Debt                             | 187,559                | -                   | -                      | 187,559               | 609,655              |
| Retirement of Long-term Debt   | (36,913)               | -                   | -                      | (36,913)              | (599,336)            |
| Interest Payments  | (67,419)               | (4)                 | -                      | (67,422)              | (137,506)            |
| Interfund Loans Received   | 12,558                 | 4,057               | -                      | 16,615                | -                    |
| Interfund Loans Repaid   | (311)                  | (2,744)             | -                      | (3,055)               | -                    |
| Interfund Advances   | 2,000                  | 2,146               | -                      | 4,146                 | -                    |
| Operating Transfers In   | 53,997                 | 6,236               | 12,100                 | 72,333                | -                    |
| Operating Transfers Out  | (24,890)               | (4,827)             | (58)                   | (29,774)              | -                    |
| Residual Equity Transfers In   | 31,000                 | -                   | -                      | 31,000                | -                    |
| Residual Equity Transfers Out  | (4,000)                | -                   | -                      | (4,000)               | -                    |
| Other Cash Inflows from Noncapital Financing Activities              | 25                     | 1                   | -                      | 26                    | -                    |
| Other Cash Outflows from Noncapital Financing Activities             | (266,350)              | -                   | -                      | (266,350)             | (2,968)              |
| Net Cash Provided (Used) by Noncapital Financing Activities          | (58,485)               | 5,229               | 12,048                 | (41,208)              | (74,495)             |
| <b>Cash Flows from Capital and Related Financing Activities:</b>     |                        |                     |                        |                       |                      |
| Proceeds from Issuance of Long-term Debt                             | 1,982                  | 6,631               | -                      | 8,613                 | -                    |
| Repayment of Long-term Debt  | (775)                  | (7,987)             | -                      | (8,762)               | -                    |
| Proceeds of Short-term Notes   | 10                     | 18                  | -                      | 28                    | -                    |
| Interest Payments  | (654)                  | (3,219)             | -                      | (3,873)               | -                    |
| Interfund Advances Repaid  | -                      | (1,896)             | -                      | (1,896)               | -                    |
| Capital Lease Obligations  | (156)                  | (6,524)             | -                      | (6,680)               | -                    |
| Proceeds from Sale of Fixed Assets                                   | 35                     | 1,495               | -                      | 1,530                 | -                    |
| Payments for Purchase of Fixed Assets                                | (3,738)                | (22,341)            | -                      | (26,079)              | (879)                |
| Other Cash Inflows from Capital Financing Activities                 | 625                    | -                   | -                      | 625                   | -                    |
| Other Cash Outflows from Capital Financing Activities                | (71)                   | -                   | -                      | (71)                  | -                    |
| Net Cash Provided (Used) by Capital and Related Financing Activities | (2,741)                | (33,823)            | -                      | (36,564)              | (879)                |
| <b>Cash Flows from Investing Activities:</b>                         |                        |                     |                        |                       |                      |
| Proceeds from Sale and Maturities of Investment Securities           | 70,182                 | -                   | 2,302                  | 72,484                | 886,396              |
| Purchase of Investment Securities                                    | (127,422)              | -                   | (2,797)                | (130,219)             | (807,594)            |
| Cash Payments for Loans Originated                                   | (151,858)              | -                   | (25,331)               | (177,189)             | -                    |
| Collection of Loans  | 43,586                 | -                   | 84,476                 | 128,062               | -                    |
| Investment and Interest Receipts                                     | 146,530                | 125                 | 828                    | 147,484               | 46,625               |
| Net Cash Provided (Used) by Investing Activities                     | (18,980)               | 125                 | 59,478                 | 40,623                | 125,427              |
| Net Increase (Decrease) in Cash and Cash Equivalents                 | 20,757                 | 5,011               | 88,379                 | 114,147               | 115,664              |
| Cash and Cash Equivalents, Beginning of Year                         | 922,136                | 22,171              | 155,979                | 1,100,287             | 279,061              |
| Cash and Cash Equivalents, End of Year                               | \$ 942,893             | \$ 27,182           | \$ 244,359             | \$ 1,214,434          | \$ 394,725           |

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

(Continued)

**Combined Statement of Cash Flows - All Proprietary Fund Types,  
Nonexpendable Trust Funds and Discretely Presented Component Units \*  
For Fiscal Year Ended June 30, 1999**

(Continued)

|  | Proprietary Fund Types |                     | Fiduciary<br>Fund Type | Totals -<br>Primary<br>Government | Component<br>Units * |
|--|------------------------|---------------------|------------------------|-----------------------------------|----------------------|
|  | Enterprise             | Internal<br>Service | Nonexpendable<br>Trust | (Memorandum<br>Only)              |                      |
| <b>Reconciliation of Operating Income (Loss) to Net Cash<br/>Provided by Operations:</b>   |                        |                     |                        |                                   |                      |
| Operating Income (Loss)  | \$ 129,356             | \$ (9,481)          | \$ 18,224              | \$ 138,099                        | \$ (60,629)          |
| Adjustments to Reconcile Operating Income to Net Cash<br>Provided by Operating Activities: |                        |                     |                        |                                   |                      |
| Depreciation   | 9,026                  | 26,770              | -                      | 35,796                            | 1,454                |
| Amortization   | 1,022                  | -                   | -                      | 1,022                             | 4,316                |
| Provision for Uncollectible Accounts   | (76)                   | -                   | -                      | (76)                              | -                    |
| Operating Income (Investment Income) Classified as<br>Investing Activity                   | (75,729)               | -                   | (1,478)                | (77,207)                          | (11,102)             |
| Operating Expense (Interest Expense) Classified as<br>Noncapital Financing Activity        | 68,132                 | -                   | -                      | 68,132                            | 130,461              |
| Miscellaneous Nonoperating Income (Expense)  | 2,391                  | 19,732              | -                      | 22,123                            | -                    |
| Changes in Assets and Liabilities:   |                        |                     |                        |                                   |                      |
| Decrease (Increase) in Receivables   | (59,351)               | (439)               | -                      | (59,789)                          | 22,001               |
| Decrease (Increase) in Due from Other Funds  | (721)                  | (2,916)             | (25)                   | (3,663)                           | -                    |
| Decrease (Increase) in Due from Component Units  | (1)                    | (66)                | -                      | (68)                              | -                    |
| Decrease (Increase) in Due from Other Governments  | (510)                  | (110)               | -                      | (621)                             | -                    |
| Decrease (Increase) in Inventories   | (439)                  | (372)               | -                      | (810)                             | -                    |
| Decrease (Increase) in Prepaid Items   | (3,263)                | (19,247)            | 1                      | (22,509)                          | -                    |
| Decrease (Increase) in Deferred Charges  | (1,406)                | -                   | -                      | (1,406)                           | -                    |
| Decrease (Increase) in Other Assets  | 853                    | -                   | -                      | 853                               | (5,801)              |
| Increase (Decrease) in Accounts Payable and<br>Other Accrued Liabilities                   | (9,640)                | 16,443              | 133                    | 6,936                             | (5,323)              |
| Increase (Decrease) in Compensated Absences  | 516                    | 274                 | -                      | 790                               | 29                   |
| Increase (Decrease) in Due to Other Funds  | 298                    | 1,607               | (1)                    | 1,905                             | -                    |
| Increase (Decrease) in Due to Primary Government   | -                      | -                   | -                      | -                                 | 33                   |
| Increase (Decrease) in Due to Other Governments  | (32)                   | (138)               | -                      | (170)                             | 790                  |
| Increase (Decrease) in Tax and Other Deposits  | 650                    | -                   | -                      | 650                               | -                    |
| Increase (Decrease) in Deferred Revenue  | 3,108                  | (454)               | -                      | 2,654                             | (311)                |
| Increase (Decrease) in Interest Payable  | (122)                  | -                   | -                      | (122)                             | -                    |
| Increase (Decrease) in Future Benefits and<br>Loss Liabilities                             | 36,902                 | 1,875               | -                      | 38,777                            | (10,308)             |
| Total Adjustments  | (28,392)               | 42,960              | (1,370)                | 13,198                            | 126,239              |
| Net Cash Provided by Operating Activities  | \$ 100,964             | \$ 33,479           | \$ 16,854              | \$ 151,297                        | \$ 65,610            |

**Noncash Investing, Capital and Financing Activities:**

Capital Leases (Initial Year):

|  |          |      |      |          |      |
|--|----------|------|------|----------|------|
| Fair Market Value  | \$ 250   | \$ - | \$ - | \$ 250   | \$ - |
| Current Year Cash Receipts (Payments)  | (46)     | -    | -    | (46)     | -    |
| Contributions/Transfer In (Out) of Noncash Assets<br>and Liabilities from/to Other Funds | (3,402)  | 401  | -    | (3,001)  | -    |
| Net change in unrealized gains and losses  | (40,519) | -    | 709  | (39,810) | 406  |
| Other  | (61)     | 607  | -    | 546      | -    |

**Reconciliation of Fiduciary Fund Type Cash and Cash  
Equivalents to the Combined Balance Sheet:**

|   |                     |
|---|---------------------|
| Nonexpendable Trust Fund  | \$ 244,359          |
| Fiduciary Funds, Other Than Nonexpendable Trust                     | 6,351,908           |
| Total Fiduciary Fund Type Cash and<br>Cash Equivalents, End of Year | <u>\$ 6,596,266</u> |

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

(Continued)

**Combined Statement of Cash Flows - All Proprietary Fund Types,  
Nonexpendable Trust Funds and Discretely Presented Component Units \*  
For Fiscal Year Ended June 30, 1999**

(Continued)

|   | Component<br>Units * |
|---|----------------------|
| <b>Cash Flows from Operating Activities:</b>  |                      |
| Operating Income  | \$ 3,656             |
| Adjustments to Reconcile Operating Income to Net<br>Cash Provided by (Used in ) Operating Activities: |                      |
| Depreciation and Amortization   | 17,002               |
| Provision for Bad Debt  | 5,497                |
| Other Sources   | 478                  |
| Other Uses  | (227)                |
| Changes in Assets and Liabilities:  |                      |
| Decrease (Increase) in Net Patient Receivables  | (9,853)              |
| Decrease (Increase) in Other Receivables  | 40                   |
| Decrease (Increase) in Due from Primary Government  | (331)                |
| Decrease (Increase) in Inventories  | (105)                |
| Decrease (Increase) in Prepaid Items  | 57                   |
| Decrease (Increase) in Other Assets   | 135                  |
| Increase (Decrease) in Accounts Payable and Other Accrued Expenses                                    | 3,186                |
| Increase (Decrease) in Due to Other Governments   | (1,117)              |
| Increase (Decrease) in Due to Primary Government  | 1,367                |
| Increase (Decrease) in Compensated Absences   | 302                  |
| Net Cash Provided (Used) by Operating Activities  | <u>20,086</u>        |
| <b>Cash Flows from Noncapital Financing Activities:</b>   |                      |
| Operating Transfers to Primary Government   | (2,400)              |
| Net Cash Provided (Used) by Noncapital Financing Activities   | <u>(2,400)</u>       |
| <b>Cash Flows from Capital and Related Financing Activities:</b>                                      |                      |
| Payments for Purchase of Fixed Assets   | (40,438)             |
| Capital Leases Payable - Primary Government   | (2,357)              |
| Capital Leases Payable  | (313)                |
| Proceeds from Sale of Fixed Assets  | 48                   |
| Net Cash Provided (Used) by Capital and Related Financing Activities                                  | <u>(43,060)</u>      |
| <b>Cash Flows from Investing Activities:</b>  |                      |
| Decrease (Increase) in Assets Whose Use is<br>Limited or Restricted                                   | 19,034               |
| Increase in Investments   | (1,531)              |
| Interest and Dividends Receipts   | 6,728                |
| Decrease in Investment in Affiliate   | 175                  |
| Net Cash Provided (Used) by Investing Activities  | <u>24,406</u>        |
| Net Increase (Decrease) in Cash and Cash Equivalents  | (968)                |
| Cash and Cash Equivalents at Beginning of Year  | 30,897               |
| Cash and Cash Equivalents at End of Year  | <u>\$ 29,929</u>     |
| <b>Noncash Investing, Capital and Financing Activities:</b>   |                      |
| Net change in unrealized gains and losses   | \$ 2,703             |

\* 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, 1999**

(In Thousands)

|  | Wisconsin<br>Retirement<br>System | Investment<br>Trust<br>Funds | Totals<br>(Memorandum<br>Only) |
|--|-----------------------------------|------------------------------|--------------------------------|
| <b>Additions</b>   |                                   |                              |                                |
| Contributions:   |                                   |                              |                                |
| Employer Contributions                                       | \$ 440,519                        | \$ -                         | \$ 440,519                     |
| Employee Contributions                                       | 515,415                           | -                            | 515,415                        |
| Total Contributions  | 955,934                           | -                            | 955,934                        |
| Deposits   | -                                 | 8,870,805                    | 8,870,805                      |
| Investment Income:   |                                   |                              |                                |
| Net Appreciation (Depreciation) in Fair Value of Investments | 3,699,058                         | -                            | 3,699,058                      |
| Interest   | 1,187,215                         | -                            | 1,187,215                      |
| Dividends  | 467,063                           | -                            | 467,063                        |
| Real Estate Income   | 49,524                            | -                            | 49,524                         |
| Securities Lending Income                                    | 211,635                           | -                            | 211,635                        |
| Other  | 66,943                            | -                            | 66,943                         |
| Investment Income of Investment Trust Funds                  | -                                 | 160,197                      | 160,197                        |
| Less:  |                                   |                              |                                |
| Investment Expense   | (78,456)                          | (516)                        | (78,973)                       |
| Securities Lending Rebates and Fees                          | (193,848)                         | -                            | (193,848)                      |
| Investment Income Distributed to Other Funds                 | (64,195)                          | -                            | (64,195)                       |
| Net Investment Income  | 5,344,939                         | 159,680                      | 5,504,619                      |
| Interest on Prior Service Receivable                         | 162,231                           | -                            | 162,231                        |
| Miscellaneous Income   | 258                               | -                            | 258                            |
| Total Additions  | 6,463,361                         | 9,030,485                    | 15,493,846                     |
| <b>Deductions</b>  |                                   |                              |                                |
| Benefits and Refunds:  |                                   |                              |                                |
| Retirement, Disability, and Beneficiary Separations          | 1,742,761                         | -                            | 1,742,761                      |
|  | 37,399                            | -                            | 37,399                         |
| Total Benefits and Refunds                                   | 1,780,161                         | -                            | 1,780,161                      |
| Distributions  | -                                 | 9,057,572                    | 9,057,572                      |
| Disability Insurance Premiums                                | 4,359                             | -                            | 4,359                          |
| Administrative Expense                                       | 11,236                            | 236                          | 11,473                         |
| Total Deductions   | 1,795,756                         | 9,057,809                    | 10,853,565                     |
| Net Increase (Decrease)                                      | 4,667,605                         | (27,323)                     | 4,640,281                      |
| Net Assets - Beginning of Year                               | 55,247,667                        | 3,009,759                    | 58,257,426                     |
| Net Assets - End of Year                                     | \$ 59,915,272                     | \$ 2,982,436                 | \$ 62,897,707                  |

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, 1999**

(In Thousands)

|  | Unrestricted     | Restricted       | Totals           |
|--|------------------|------------------|------------------|
| <b>Revenues:</b>                                   |                  |                  |                  |
| Tuition and Fees                                   | \$ 596,256       | \$ -             | \$ 596,256       |
| Federal Appropriations                             | 15,451           | -                | 15,451           |
| Federal Grants and Contracts                       | 75,909           | 283,234          | 359,143          |
| State Grants and Contracts                         | 19               | 12,513           | 12,532           |
| Local Grants and Contracts                         | 30               | 9,019            | 9,048            |
| Private Gifts, Grants and Contracts                | 6,782            | 223,155          | 229,937          |
| Endowment Income                                   | 1,215            | 9,722            | 10,937           |
| Sales and Services of Educational Activities       | 164,146          | -                | 164,146          |
| Sales and Services of Auxiliary Enterprises        | 211,619          | -                | 211,619          |
| Sales and Services to Hospital Authority           | -                | 35,356           | 35,356           |
| Other Sources                                      | 130,261          | 4,236            | 134,497          |
| <b>Total Revenues</b>                              | <b>1,201,686</b> | <b>577,236</b>   | <b>1,778,922</b> |
| <b>Expenditures and Mandatory Transfers:</b>       |                  |                  |                  |
| Educational and General:                           |                  |                  |                  |
| Instruction  | 663,727          | 54,903           | 718,630          |
| Research   | 134,864          | 336,293          | 471,158          |
| Public Service                                     | 146,329          | 47,091           | 193,419          |
| Academic Support                                   | 248,434          | 9,153            | 257,587          |
| Farm Operations                                    | 10,558           | -                | 10,558           |
| Student Services                                   | 197,583          | 12,293           | 209,876          |
| Institutional Support                              | 133,596          | 4,617            | 138,213          |
| Operation and Maintenance of Plant                 | 142,351          | 54               | 142,405          |
| Financial Aid                                      | 112,719          | 87,143           | 199,863          |
| <b>Total Educational and General</b>               | <b>1,790,163</b> | <b>551,548</b>   | <b>2,341,711</b> |
| Auxiliary Enterprises                              | 187,184          | 203              | 187,387          |
| Cost of Services Provided to UW Hospital Authority | -                | 34,726           | 34,726           |
| Mandatory Transfers:                               |                  |                  |                  |
| Debt Service on Academic Facilities                | 78,027           | -                | 78,027           |
| Debt Service on Self-Amortizing Facilities         | 15,922           | 1,036            | 16,958           |
| Debt Service on Hospital Facilities                | -                | 4,002            | 4,002            |
| Student Loan Matching                              | 832              | -                | 832              |
| <b>Total Mandatory Transfers</b>                   | <b>94,780</b>    | <b>5,038</b>     | <b>99,818</b>    |
| <b>Total Expenditures and Mandatory Transfers</b>  | <b>2,072,127</b> | <b>591,515</b>   | <b>2,663,642</b> |
| <b>Other Transfers, Additions (Deductions):</b>    |                  |                  |                  |
| Operating Transfers In                             | 904,200          | 14,908           | 919,108          |
| Operating Transfers Out                            | (6,742)          | (628)            | (7,370)          |
| Excess of Restricted Receipts Over Expenditures    | -                | 34,943           | 34,943           |
| Nonmandatory Transfers                             | 2,427            | (196)            | 2,231            |
| Plant Additions                                    | (18,581)         | (21,981)         | (40,562)         |
| Other  | (441)            | (14)             | (454)            |
| <b>Net Other Transfers, Additions (Deductions)</b> | <b>880,864</b>   | <b>27,032</b>    | <b>907,896</b>   |
| Prior Period Adjustments                           | (1,469)          | -                | (1,469)          |
| <b>Net Increase (Decrease) in Fund Balance</b>     | <b>\$ 8,954</b>  | <b>\$ 12,752</b> | <b>\$ 21,707</b> |

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, 1999**

(In Thousands)

|  | Current Funds    |                | Loan Funds    | Endowment<br>and Similar<br>Funds | Plant Funds    |
|--|------------------|----------------|---------------|-----------------------------------|----------------|
|  | Unrestricted     | Restricted     |               |                                   |                |
| <b>Revenues and Other Additions:</b>                     |                  |                |               |                                   |                |
| Unrestricted Current Funds                               |                  |                |               |                                   |                |
| Revenues   | \$ 1,201,686     | \$ -           | \$ -          | \$ -                              | -              |
| Grants and Contracts                                     | -                | 414,984        | -             | -                                 | -              |
| Restricted Gifts Received                                | -                | 257,824        | 504           | 721                               | -              |
| Investment Income - Restricted                           | -                | 234            | 309           | -                                 | 625            |
| Endowment Income - Restricted                            | -                | 8,229          | 294           | -                                 | -              |
| Federal Reimbursement of<br>Loan Cancellations           | -                | -              | 931           | -                                 | -              |
| Delinquent Loan and Collection<br>Penalty                | -                | -              | 746           | -                                 | -              |
| U.S. Government Advances                                 | -                | -              | 88,745        | -                                 | -              |
| Interest Accrued on Loans<br>Outstanding                 | -                | -              | 3,607         | -                                 | -              |
| Net Increase in Fair Market Value of<br>Investments      | -                | -              | -             | 20,083                            | -              |
| Proceeds from the Sale of Notes and<br>Bonds             | -                | -              | -             | -                                 | 92,852         |
| Retirement of Indebtedness                               | -                | -              | -             | -                                 | 63,440         |
| Additions to Land, Buildings and<br>Improvements         | -                | -              | -             | -                                 | 69,581         |
| Equipment and Library Acquisitions<br>(Net of Disposals) | -                | -              | -             | -                                 | 24,334         |
| Gifts-in-Kind  | -                | -              | -             | -                                 | 3,745          |
| Other Additions  | -                | 4,002          | 214           | -                                 | 752            |
| <b>Total Revenues and Other<br/>Additions</b>            | <b>1,201,687</b> | <b>685,274</b> | <b>95,350</b> | <b>20,804</b>                     | <b>255,330</b> |
| <b>Expenditures and Other Deductions:</b>                |                  |                |               |                                   |                |
| Current Funds Expenditures                               | 1,977,347        | 586,477        | -             | -                                 | -              |
| Indirect Costs Recovered                                 | -                | 73,095         | -             | -                                 | -              |
| Loan Cancellations and<br>Write-offs                     | -                | -              | 1,036         | -                                 | -              |
| Loans Granted  | -                | -              | 86,932        | -                                 | -              |
| Administrative Allowances-Perkins<br>Loans               | -                | -              | 622           | -                                 | -              |
| Administrative Expenses                                  | -                | -              | 1,014         | -                                 | -              |
| Notes and Bonds Issued                                   | -                | -              | -             | -                                 | 92,852         |
| Expended for Plant Facilities                            | -                | -              | -             | -                                 | 109,959        |
| Disposal of Plant Facilities                             | -                | -              | -             | -                                 | 2,827          |
| Retirement of Indebtedness                               | -                | -              | -             | -                                 | 63,440         |
| Interest on Indebtedness                                 | -                | -              | -             | -                                 | 40,499         |
| Reduction of Capital Lease<br>Receivable                 | -                | -              | -             | -                                 | 109            |
| Other Deductions   | 441              | 14             | 353           | 290                               | 165            |
| <b>Total Expenditures and Other<br/>Deductions</b>       | <b>1,977,788</b> | <b>659,586</b> | <b>89,957</b> | <b>290</b>                        | <b>309,851</b> |

(Continued)

**Combined Statement of Changes in Fund Balances -  
University of Wisconsin System  
For the Fiscal Year Ended June 30, 1999**

(Continued)

|   | Current Funds |            | Loan Funds | Endowment<br>and Similar<br>Funds | Plant Funds  |
|---|---------------|------------|------------|-----------------------------------|--------------|
|   | Unrestricted  | Restricted |            |                                   |              |
| <b>Transfers Among Funds:</b>                 |               |            |            |                                   |              |
| Operating Transfers In                        | 904,200       | 14,908     | -          | -                                 | 859          |
| Operating Transfers Out                       | (6,742)       | (628)      | -          | -                                 | (201)        |
| Mandatory Transfers:                          |               |            |            |                                   |              |
| Debt Service on Academic<br>Facilities        | (78,027)      | -          | -          | -                                 | 78,027       |
| Debt Service on Self-Amortizing<br>Facilities | (15,922)      | (1,036)    | -          | -                                 | 16,958       |
| Debt Service on Hospital Facilities           | -             | (4,002)    | -          | -                                 | 4,002        |
| Student Loan Matching                         | (832)         | -          | 832        | -                                 | -            |
| Nonmandatory Transfers                        | 2,427         | (196)      | 296        | (2,521)                           | (6)          |
| Transfers to Plant Funds                      | (18,581)      | (21,981)   | -          | (2,327)                           | 42,889       |
| Net Transfers Among Funds                     | 786,525       | (12,935)   | 1,127      | (4,847)                           | 142,527      |
| Net Increase (Decrease) for the Year          | 10,424        | 12,752     | 6,520      | 15,667                            | 88,006       |
| Fund Balances, Beginning of Year<br>Restated  | 188,827       | 30,885     | 167,624    | 281,318                           | 2,827,970    |
| Fund Balances, End of Year                    | \$ 199,251    | \$ 43,637  | \$ 174,145 | \$ 296,985                        | \$ 2,915,976 |

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

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Notes To The Financial Statements

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

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

**B. Financial Reporting Entity**

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

The decision to include a potential component unit in the State's reporting entity is based on the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*, which include the ability to appoint a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

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

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

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

Wisconsin Housing and Economic Development Authority  
201 West Washington Avenue, Suite 700  
Madison, WI 53702

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

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

**Blended Component Units**

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

*Wisconsin Public Broadcasting Foundation, Inc.* - The Wisconsin Public Broadcasting Foundation, Inc. (Foundation), created in 1983 by the Wisconsin Legislature, is a private, nonstock, nonprofit Wisconsin Corporation, wholly owned by the Wisconsin Educational Communications Board (ECB), a unit of the State. The Foundation solicits funds in the name of, and with the approval of, the ECB. The Foundation's funds are managed by a five member board of trustees consisting of the executive director of the ECB and four members of the ECB board. In addition to accountability for fiscal matters, the State has the ability to significantly influence operations of the Foundation through legislation. The Foundation is reported as an enterprise fund.

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## 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. This corporation was 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. This corporation was 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 corporation deeds 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, 1999 have been reported in the General Long-term Debt Account Group. (See Note 1-Q 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. 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 issued after November 30, 1989.

## 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 fund is extracted from a statutory unbudgeted fund type and consequently is not considered a special revenue fund 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 \$219.3 million reported in the Bond Security and Redemption Fund of the Debt Service funds primarily represent the appropriations from these other funds.

The legal level of budgetary control for Wisconsin is at the function, agency, program, 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.

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

**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 at market, and other inventories held by individual institutional cost centers are valued using a variety of cost flow assumptions that, for each type of inventory, are consistently applied from year to year.

In addition to inventories reported in the accompanying financial statements, the State had food commodities inventories valued at \$1.9 million at June 30, 1999.

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 \$1,649.5 million total fixed assets at June 30, 1999, 60 percent were valued using historical cost and 40 percent were valued using estimated historical cost. Public domain (infrastructure) fixed assets such as highways, bridges and rights of way are not capitalized. In addition, interest is not capitalized on constructed general fixed assets. General fixed assets are not depreciated.

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

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

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|                                      |              |
|--------------------------------------|--------------|
| Buildings and improvements           | 6 - 45 years |
| Equipment, machinery and furnishings | 2 - 40 years |

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

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 or expenses over the life of the loan using the effective interest method.

Mortgage loans of the Veterans Mortgage Loan Repayment Bonds and the Veterans Trust Fund programs, enterprise funds, 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. Support Collection Trust Fund Receivables**

The Support Collection Trust Fund, an agency fund, accounts for the receipt and disbursement of all court-ordered support, including child support, spousal support and medical support liability. Due to the uncertainty in determining the amount that will ultimately be collected on behalf of others, the accounts receivable reported for this fund do not include amounts for support in arrears.



## M. 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.

## N. 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 \$625.2 million deferred revenues presented in the accompanying financial statements consists of \$468.8 million reported within the General Fund. This amount includes \$288.5 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, 1999, primarily for summer session tuition, tuition and room deposits for the next fall term, and advance ticket sales for upcoming intercollegiate athletic events.

## O. Fund Equity Reserves

Reservations of fund balance represent amounts that are not appropriate 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.

## P. 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, 1999, 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, 1999 as Due To Other Governments.

### State Property Tax Credit Program

At June 30, 1999, 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, 1999.

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, 1999.

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 1999 property tax bills, the State made this payment in March 1999.

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 1999, while the remaining portion represents a prepaid item. The resulting Prepaid Item reported within the Lottery Fund totals \$34.0 million at June 30, 1999.

#### Q. 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.

#### R. 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.

#### S. 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).

**T. 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.

**U. 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, 1999 is presented below (in thousands):

|   | <b>General</b> | <b>Special<br/>Revenue</b> |
|---|----------------|----------------------------|
| Fund balance June 30, 1999 (budgetary basis – budgetary fund structure)<br>as reported on budget to actual combined statement | \$ 749,282     | \$ (206,597)               |
| Reclassifications:  |                |                            |
| To eliminate outstanding encumbrances from expenditures   | 326,744        | 801,318                    |
| To include non-budgeted funds   |                | 1,515                      |
| To reclassify activities reported in another GAAP fund type   | (235,161)      | 2,694                      |
| Fund balance June 30, 1999 (GAAP fund structure – budgetary basis, excluding<br>encumbrances outstanding at year end)         | 840,864        | 598,930                    |
| Adjustments:  |                |                            |
| To adjust expenditures for the municipal and county shared revenue program  | (504,309)      |                            |
| To adjust expenditures for State property tax credit program  | (357,655)      |                            |
| To accrue receivables and establish payables for individual income taxes (net)  | (332,724)      |                            |
| To defer revenues for gross receipts public utility taxes   | (258,150)      |                            |
| To adjust revenues and expenditures for tax-related items and<br>other tax credit/aid programs (net)                          | (222,217)      | (3,046)                    |
| To adjust expenditures for petroleum environmental cleanup claims   |                | (240,991)                  |
| To accrue unpaid Medicaid claims (net of receivable from federal government)  | (69,203)       |                            |
| To adjust expenditures/revenues for certain major health and family services<br>accruals and deferrals (net)                  | 18,329         |                            |
| To adjust revenues and expenditures for other items (net)   | (23,650)       | (12,795)                   |
| Fund balance June 30, 1999 (GAAP basis)   | \$ (908,714)   | \$ 342,099                 |

**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, 1999, the carrying amount of the primary government deposits was \$(59.1) million and the bank balance was \$381.4 million. Of the bank amount, excluding a bank overdraft of \$.4 million in four bank accounts that are covered by compensating balances in other accounts,

- \$10.3 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
- \$371.5 million was uncollateralized and uninsured.

The State's unemployment compensation program had \$1,718.6 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 \$180 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, 1999, the carrying amount of the component units' deposits was \$33.2 million and the bank balance was \$32.8 million. Of the bank amount, excluding a bank overdraft of \$.2 million, \$1.1 million was covered by federal depository insurance, the State Public Deposit Guarantee Fund or collateralized with securities held by the State or its agent in the State's name and \$32.0 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 \$5.9 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, 1999, 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.

*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, 1999, the market value of the restructured investments was negative \$33.4 million while the amortized deferred loss was negative \$34.6 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, 1999, the fair value of these certificates of deposit was \$292.2 million.

Approximately \$285.6 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 \$6.6 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, 1999, the State Investment Fund's investments are as follows (in millions):

|                                     | Category          |    |    | Fair Value        |
|-------------------------------------|-------------------|----|----|-------------------|
|                                     | 1                 | 2  | 3  |                   |
| U.S. government and agency holdings | \$ 5,049.6        | -- | -- | \$ 5,049.6        |
| Repurchase agreements               | 794.1             | -- | -- | 794.1             |
| Commercial paper                    | 350.0             | -- | -- | 350.0             |
| Asset backed securities             | 32.9              | -- | -- | 32.9              |
| Mortgage backed securities          | 4.0               | -- | -- | 4.0               |
| Certificates of Deposit             | 25.0              | -- | -- | 25.0              |
|                                     | <u>\$ 6,255.6</u> | -- | -- | 6,255.6           |
| Swaps                               |                   |    |    | (41.9)            |
|                                     |                   |    |    | <u>\$ 6,213.7</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, 1999, the Pension Trust Fund held \$56,302.4 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 \$649.6 million of investments, which are included in the fund's \$1.0 billion of cash and cash equivalents.

In addition, \$3,918.0 million of securities lending transactions were held at June 30, 1999. These transactions are categorized consistent with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*.

At June 30, 1999, the investments of the Other Funds Managed by the Board consisted of (in millions):

|  | Category           |               |              | Fair Value         |
|--|--------------------|---------------|--------------|--------------------|
|  | 1                  | 2             | 3            |                    |
| Bonds  | \$ 10,736.9        | \$ --         | \$ --        | \$ 10,736.9        |
| Stocks   | 18,039.7           | 7.3           | --           | 18,047.0           |
| Repurchase Agreements                                      | 659.8              | --            | --           | 659.8              |
| Bankers Acceptances  | 221.7              | --            | --           | 221.7              |
|  | <u>\$ 29,658.1</u> | <u>\$ 7.3</u> | <u>\$ --</u> | 29,665.4           |
| Options  |                    |               |              | 69.5               |
| Private Placements   |                    |               |              | 3,142.8            |
| Limited Partnerships                                       |                    |               |              | 2,265.0            |
| Pooled Equity Funds  |                    |               |              | 16,968.1           |
| Pooled Bond Funds  |                    |               |              | 3,815.3            |
| Mortgages  |                    |               |              | 87.0               |
| Real Estate  |                    |               |              | 503.4              |
| International  |                    |               |              | 651.8              |
| Investments Held by Broker Dealers Under Securities Loans: |                    |               |              |                    |
| Bonds  |                    |               |              | 2,374.9            |
| Equities   |                    |               |              | 1,434.8            |
| Securities Lending Cash Collateral Pooled Investments      |                    |               |              | 492.8              |
| Financial Futures  |                    |               |              | .1                 |
|  |                    |               |              | <u>\$ 61,470.9</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, 1999, investments were \$16.0 million for the Local Government Property Insurance Fund, \$61.6 million for the State Life Insurance Fund, and \$485.5 million for the Patients Compensation Fund, consisting of bonds and mortgages.

*Historical Society Nonexpendable Trust Fund* - At June 30, 1999, investments of \$11.3 million consisted of bonds and stocks.

*Tuition Trust Fund* – At June 30, 1999, investments of \$2.9 million consisted of bonds.

The following table presents investments of these funds at June 30, 1999, 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, 1999 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 10 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, 1999, the State of Wisconsin Investment Board (SWIB) 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. At June 30, 1999 the fair value of foreign currency forward contracts assets totaled \$3.2 billion, while the liabilities totaled \$3.1 billion.

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.

As of June 30, 1999, one foreign currency call option was 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.

*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.

*Futures Contracts* - One of the outside investment managers uses futures contracts to manage exposure to the stock market. Upon entering into a futures contract, the outside manager is required to deposit with the broker, in SWIB's name, an amount of U.S. government obligations in accordance with the initial margin requirements of the broker. Futures contracts are marked to market daily with gains and losses being recognized. The variation margin is settled daily until the contracts expire or are closed. Futures contracts involve, to varying degrees, risk of loss in excess of the variation. Losses may arise from the changes in the value of the underlying instrument, illiquidity in the secondary market for the contracts, or if the counterparties do not perform under the terms of the contract. Futures contracts are valued each day at the settlement price established by the board of trade or exchange on which they are traded.

#### Unfunded Capital Commitments

Partnership agreements generally set a limit on the total dollar amount that limited partners must commit to funding when entering the partnership. Over the life of the partnership, the general partner will request capital contributions totaling the agreed upon limit. As of June 30, 1999, unfunded capital commitments totaled \$1.2 billion.

**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, 1999 investments of \$261.1 million which meet Category 1 risk criteria were held.

*Transportation Revenue Bond Funds* - At June 30, 1999, the Transportation Revenue Bond Capital Projects Fund and the Transportation Revenue Bond Debt Service Fund had investments totaling \$73.2 million which 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, 1999, were \$149.4 million, of which \$35.7 million are reported as cash equivalents consisting of a repurchase agreement which is a Category 2 level of risk. Investments of \$113.7 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, 1999 were \$5.3 million, which consists of \$3.9 million of money market funds and \$1.4 million of mutual funds and money market funds which are reported as cash equivalents.

*Inmate and Resident Fund* – At June 30, 1999, investments totaling \$.1 million meeting risk Category No. 3 were held.

At June 30, 1999, the State has approximately \$241.0 million of securities 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 \$9.7 million securities, presented as "Other Assets" on the financial statements, include \$8.1 million of various investments which meet risk Category 1 and \$1.6 million of mutual funds which meet Category 1.

The State's Section 457 *Deferred Compensation Plan Fund* investments, totaling \$1,051.2 million at June 30, 1999, are in the form of equity securities, bonds, insured savings accounts and investment contracts with insurance companies.

The following table presents investments of the Other State Agencies and Funds at June 30, 1999, categorized in accordance with the requirements of GASB Statement No. 3.

At June 30, 1999, the Other State Agencies and Funds' investments consisted of (in millions):

|   | Category        |                |                | Reported<br>Amount | Fair<br>Value     |
|---|-----------------|----------------|----------------|--------------------|-------------------|
|   | 1               | 2              | 3              |                    |                   |
| Government and agency holdings                            | \$ 579.1        | \$ --          | \$ .1          | \$ 579.2           | \$ 583.0          |
| Municipal bonds   | 43.1            | --             | --             | 43.1               | 43.1              |
| Commercial paper and nonsecured corporate notes and bonds | 8.1             | --             | --             | 8.1                | 8.1               |
| Repurchase agreements                                     | --              | 35.7           | --             | 35.7               | 35.7              |
| Negotiable certificates of deposit                        | 3.2             | --             | --             | 3.2                | 3.2               |
| Investment contracts                                      | .1              | --             | 63.6           | 63.7               | 63.7              |
|   | <u>\$ 633.6</u> | <u>\$ 35.7</u> | <u>\$ 63.7</u> | 733.0              | 736.8             |
| Mutual Funds  |                 |                |                | 1.8                | 1.8               |
| Money market funds  |                 |                |                | 5.1                | 5.1               |
| Deferred compensation investments                         |                 |                |                | 1,051.2            | 1,051.2           |
|   |                 |                |                | <u>\$ 1,791.1</u>  | <u>\$ 1,794.9</u> |

**University of Wisconsin System**

The University of Wisconsin System had investments as of June 30, 1999 with a reported fair value of \$301.2 million, primarily assets of Endowment and Similar Funds (\$290.3 million) with most of the remainder the property of Current Restricted Funds. Investments, which are Category 1 Risk level, except for \$32.6 million invested in unit trusts that is uncategorized, were comprised of the following:

|                             | Book          | Fair          |
|-----------------------------|---------------|---------------|
| Common and preferred stock  | 59.6%         | 65.5%         |
| Bonds, notes and debentures | 40.4          | 34.5          |
| 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 aggregate investments at June 30, 1999, were \$701.7 million of which \$375.7 million are reported as cash equivalents consisting of repurchase agreements, commercial paper, money market funds, and short-term investment agreements. The Authority's investments except for uncollateralized investment agreements of \$99.0 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 percent 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, 1999 were \$147.4 million, of which \$15.5 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 \$131.1 million consist of \$95.9 million of restricted and limited use investments and \$35.2 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 one of the following: 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, 1998 or June 30, 1999, categorized in accordance with the requirements of GASB Statement No. 3.

At December 31, 1998 or June 30, 1999, the component units' investments consisted of (in millions):

|  | Category        |                 |                | Reported<br>Amount | Fair<br>Value   |
|--|-----------------|-----------------|----------------|--------------------|-----------------|
|  | 1               | 2               | 3              |                    |                 |
| Bonds                                  | \$ 49.9         | \$ 151.9        | \$ --          | \$ 201.8           | \$ 207.6        |
| Stocks                                 | --              | 33.0            | --             | 33.0               | 33.0            |
| Negotiable certificates of deposit     | 4.7             | --              | --             | 4.7                | 4.7             |
| Uncollateralized investment agreements | --              | --              | 99.0           | 99.0               | 99.0            |
| Mortgage-backed securities             | --              | 60.1            | --             | 60.1               | 60.1            |
| Collateralized investment contracts    | 172.4           | --              | --             | 172.4              | 172.4           |
|  | <u>\$ 227.0</u> | <u>\$ 245.0</u> | <u>\$ 99.0</u> | 571.0              | 576.8           |
| Money market funds                     |                 |                 |                | 366.5              | 366.5           |
| Guaranteed investment contracts        |                 |                 |                | 38.0               | 38.1            |
| International equities                 |                 |                 |                | 4.7                | 4.7             |
|  |                 |                 |                | <u>\$ 980.2</u>    | <u>\$ 986.1</u> |

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

|                                  |                    |
|----------------------------------|--------------------|
| Other Funds Managed by the Board | \$ 61,470.9        |
| Other State Agencies and Funds   | 1,791.1            |
| University of Wisconsin System   | 301.2              |
| Component Units                  | 980.2              |
| Total Investments                | <u>\$ 64,543.4</u> |

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

Investments of the State Lottery Fund totaling \$261.1 million are held to finance grand prizes payable over a 20-year or 25-year period. The investments in prize annuities are debt obligations of the U.S. government and backed by its full faith and credit as to both principal and interest. Liabilities related to the future prize obligations are presented at their present value and included as Accounts Payable and Other Accrued Liabilities. The following is a schedule of future prize obligations (in thousands):

| Fiscal Year                    | Amount            |
|--------------------------------|-------------------|
| 2000                           | \$ 26,025         |
| 2001                           | 26,215            |
| 2002                           | 26,412            |
| 2003                           | 26,616            |
| 2004                           | 26,828            |
| Thereafter                     | 292,877           |
| Total future value             | 424,973           |
| Less: Present value adjustment | (172,279)         |
| Present value of payments      | <u>\$ 252,694</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<br>July 1, 1998 | Additions         | Retirements        | Completed<br>Construction | Transfers to/from<br>Other Funds | Balance<br>June 30, 1999 |
|----------------------------|-------------------------|-------------------|--------------------|---------------------------|----------------------------------|--------------------------|
| Land                       | \$ 362,483              | \$ 12,591         | \$ (1,095)         | \$ 4,283                  | \$ --                            | \$ 378,262               |
| Buildings and improvements | 690,610                 | 11,426            | (22,564)           | 65,435                    | 2,203                            | 747,109                  |
| Machinery and equipment    | 407,380                 | 43,810            | (68,350)           | 2,164                     | --                               | 385,003                  |
| Construction in progress   | 140,035                 | 73,196            | --                 | (71,882)                  | (2,203)                          | 139,146                  |
| Total general fixed assets | <u>\$ 1,600,507</u>     | <u>\$ 141,023</u> | <u>\$ (92,008)</u> | <u>\$ 0</u>               | <u>\$ 0</u>                      | <u>\$ 1,649,521</u>      |

Construction in progress reported in the General Fixed Asset Account Group at June 30, 1999 included the following projects (in thousands):

|  | Allotments | Expended to<br>June 30, 1999 | Encumbrances<br>Outstanding | Unencumbered<br>Allotment<br>Balance |
|--|------------|------------------------------|-----------------------------|--------------------------------------|
| Waupun Housing/Freezer/Locks                                   | \$ 20,487  | \$ 18,940                    | \$ 1,324                    | \$ 223                               |
| Milwaukee Probation/Parole Prison                              | 49,200     | 3,799                        | 38,504                      | 6,897                                |
| New Lisbon Correctional Institution                            | 28,250     | 361                          | 809                         | 27,080                               |
| Super Max Prison   | 43,570     | 37,229                       | 5,973                       | 368                                  |
| Red Granite Medium Security Correction Institution             | 51,300     | 10,610                       | 40,690                      | --                                   |
| Camp Williams - Combined Support                               | 14,103     | 14,058                       | --                          | 45                                   |
| Other projects with allotments totaling less than \$10 million |            | 54,150                       |                             |                                      |
| Total construction in progress                                 |            | <u>\$ 139,146</u>            |                             |                                      |

The following is a summary of proprietary and fiduciary fund-type, University of Wisconsin System, and component unit fixed assets at June 30, 1999 (in thousands):

|                                | Enterprise        | Internal Service  | Nonexpendable<br>Trust | University of<br>Wisconsin System | Component<br>Units |
|--------------------------------|-------------------|-------------------|------------------------|-----------------------------------|--------------------|
| Land                           | \$ 9,339          | \$ 8,386          | \$ 635                 | \$ 91,433                         | \$ 6,032           |
| Buildings and improvements     | 203,312           | 151,290           | --                     | 2,159,196                         | 172,495            |
| Machinery and equipment        | 33,729            | 143,321           | --                     | 1,445,184                         | 132,414            |
| Less: Accumulated depreciation | (120,181)         | (157,547)         | --                     |                                   | (163,892)          |
| Construction in progress       | 4,909             | 72,730            | --                     |                                   | 8,702              |
| Total                          | <u>\$ 131,107</u> | <u>\$ 218,180</u> | <u>\$ 635</u>          | <u>\$ 3,695,815</u>               | <u>\$ 155,751</u>  |

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

During the year ended June 30, 1999, the following changes occurred in liabilities reported in the General Long-term Debt Account Group (in thousands):

|                                   | <b>Balance<br/>July 1, 1998</b> | <b>Additions</b>  | <b>Reductions</b> | <b>Balance<br/>June 30, 1999</b> |
|-----------------------------------|---------------------------------|-------------------|-------------------|----------------------------------|
| Capital Leases                    | \$ 6,141                        | \$ 9,579          | \$ 5,226          | \$ 10,494                        |
| Installment Contracts Payable     | 1,616                           | 995               | 1,545             | 1,066                            |
| Compensated Absences              | 445,721                         | --                | 15,810            | 429,911                          |
| Employer Pension Costs            | 643,089                         | 48,997            | 41,843            | 650,243                          |
| General Obligation Bonds Payable  | 1,736,821                       | 297,228*          | 291,020           | 1,743,029                        |
| Revenue Bonds Payable             | 690,105                         | 240,590           | 161,545           | 769,150                          |
| Claims, Judgments and Commitments | 2,105                           | 211               | --                | 2,316                            |
|                                   | <b>\$ 3,525,598</b>             | <b>\$ 597,600</b> | <b>\$ 516,989</b> | <b>\$ 3,606,209</b>              |

\* 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 1999, 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, 1999 (in thousands):

**Primary Government:**

|  |                  |
|--|------------------|
| General Long-term Debt Account Group:      |                  |
| General Obligation Bonds                   | \$ 1,743,029     |
| Transportation Revenue Bonds               | 769,150          |
| Total General Long-term Debt Account Group | <u>2,512,179</u> |

Debt Service Funds:

|   |               |
|---|---------------|
| Bond Security and Redemption General Obligation | 950           |
| Transportation Revenue Bonds                    | 30,860        |
| Total Debt Service Funds                        | <u>31,810</u> |

Enterprise Funds:

|   |                  |
|---|------------------|
| State Fair Park General Obligation Bonds                  | 14,239           |
| Veterans Mortgage Loan Repayment General Obligation Bonds | 760,790          |
| Veterans Trust General Obligation Bonds                   | 1,073            |
| Wisconsin Education Revenue Bonds                         | 1,727            |
| Environmental Improvement Fund Revenue Bonds              | 486,554          |
| Total Enterprise Funds                                    | <u>1,264,383</u> |

Internal Service Funds:

|  |                |
|--|----------------|
| Facilities Operations and Maintenance            |                |
| General Obligation Bonds                         | 104,404        |
| Badger State Industries General Obligation Bonds | 160            |
| Total Internal Service Funds                     | <u>104,564</u> |

University of Wisconsin System:

|                                      |                |
|--------------------------------------|----------------|
| General Obligation Bonds             | 754,707        |
| Other Bonds                          | 450            |
| Total University of Wisconsin System | <u>755,157</u> |

**Component Units:**

|  |                  |
|--|------------------|
| Wisconsin Housing and Economic Development Authority Bonds and Notes |                  |
|  | 2,134,993        |
| University of Wisconsin Hospitals And Clinics Authority              |                  |
|  | 50,000           |
|  | <u>2,184,993</u> |

|                        |                     |
|------------------------|---------------------|
| Total at June 30, 1999 | <u>\$ 6,853,086</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 2000. 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, 1999, \$1,575.3 million of general obligation bonds were authorized but unissued.



General obligation bonds issued and outstanding as of June 30, 1999 were as follows (in thousands):

| <b>Fiscal<br/>Year<br/>Issued</b>                          | <b>Series</b>   | <b>Dates</b>                                       | <b>Interest Rates</b> | <b>Maturity<br/>Through</b> | <b>Amount<br/>Issued</b> | <b>Amount<br/>Outstanding</b> |
|--|---|--|-----------------------|-----------------------------|--------------------------|-------------------------------|
| 1977   | 1976 Series C and 1977 Series B   | 11/76; 5/77  | 5.0                   | 5/02                        | \$ 168,000               | \$ 6,000                      |
| 1979   | 1978 Series C   | 11/78  | 5.1                   | 11/03                       | 77,300                   | 3,920                         |
| 1986   | 1986 Series A   | 5/86   | 7.25 to 7.5           | 1/15                        | 38,185                   | 2,200                         |
| 1989   | 1988 Series A and 1989 Series A   | 7/88; 1/89   | 7.25 to 7.7           | 1/03                        | 35,000                   | 3,490                         |
| 1990   | 1989 Series D,<br>1990 Series B and D   | 8/89<br>3/90; 5/90                                 | 6.7 to 7.6            | 1/20                        | 105,859                  | 47,781                        |
| 1991   | 1990 Series F; 1991<br>Series A, B and Series I   | 10/90<br>4/91; 5/91; 6/91                          | 6.15 to 7.35          | 1/21                        | 272,136                  | 155,683                       |
| 1992   | 1991 Series D; 1992 Series A<br>and B, and Refunding Issue  | 9/91; 3/92<br>6/92; 3/92                           | 5.1 to 6.7            | 1/22                        | 794,975                  | 446,245                       |
| 1993   | 1992 C and 2<br>1993 1, 2 and A   | 10/92; 11/92<br>1/93; 3/93; 5/93                   | 3.8 to 6.5            | 5/15                        | 721,175                  | 445,690                       |
| 1994   | 1993 Refunding Issues<br>3, 4, 5, 6; 1994 Refunding<br>Issues 1 and 2; and<br>1994 Series A and B | 7/93; 12/93; 12/93;<br>10/93; 3/94;<br>1/94; 6/94  | 3.5 to 6.2            | 5/24                        | 929,825                  | 605,715                       |
| 1995   | 1994 Series 3 and C;<br>1995 Series A, B, and 1   | 9/94; 9/94<br>1/95; 2/95; 2/95                     | 4.75 to 7.0           | 5/25                        | 331,715                  | 171,540                       |
| 1996   | 1995 Series 2 and C;<br>1996 Series 1, A and B;<br>and Note 995B                                  | 10/95; 9/95;<br>2/96; 1/96; 5/96<br>and 7/95       | 4.0 to 7.3            | 11/26                       | 448,536                  | 383,681                       |
| 1997   | 1996 C and D;<br>1997 1 and A   | 9/96; 10/96;<br>3/97; 3/97                         | 4.75 to 6.0           | 5/28                        | 190,230                  | 125,970                       |
| 1998   | 1997 B, C and D;<br>1998 A, B and C   | 7/97; 9/97;<br>9/97; 3/98; 5/98; 5/98              | 4.25 to 6.95          | 11/28                       | 411,765                  | 398,825                       |
| 1999   | 1998 Series 1, 2, D, E and F;<br>1999 Series 1, A and B   | 8/98; 9/98; 9/98; 10/98<br>10/98; 2/99; 5/99; 5/99 | 4.0 to 7.25           | 11/30                       | 590,675                  | 585,710                       |
| Total  |   |  |                       |                             | 5,115,377                | 3,382,451                     |
| Proprietary Fund (Discounts)/Premiums                      |   |  |                       |                             |                          | (3,100)                       |
| Total General Obligation Bonds and Notes, net of discounts |   |  |                       |                             | \$ 5,115,377             | \$ 3,379,351                  |

As of June 30, 1999, general obligation debt service requirements for principal and interest in future years are as follows (in thousands):

| Fiscal Year<br>Ended June 30             | Principal          | Interest            | Total              |
|--|--------------------|---------------------|--------------------|
| 2000                                     | \$ 284,227         | \$ 177,563          | \$ 461,790         |
| 2001                                     | 239,632            | 164,740             | 404,372            |
| 2002                                     | 234,909            | 152,705             | 387,614            |
| 2003                                     | 230,247            | 140,406             | 370,653            |
| 2004                                     | 214,146            | 128,642             | 342,788            |
| Thereafter                               | 2,222,835          | 911,857             | 3,134,692          |
| Total                                    | 3,425,996          | 1,675,913           | 5,101,909          |
| Proprietary Fund<br>(Discounts)/Premiums | (3,100)            |                     | (3,100)            |
| Unamortized zero<br>coupon               | (43,545)           |                     | (43,545)           |
| Total, net of discounts                  | <u>\$3,379,351</u> | <u>\$ 1,675,913</u> | <u>\$5,055,264</u> |

Zero Coupon Bonds

The general obligation bonds of 1990, Series D (Higher Education Series), are zero coupon bonds recorded in the amount of \$33.2 million which is the accreted value at June 30, 1999. 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 \$59.4 million. The bonds mature on May 1 through the year 2011.

**B. Revenue Bonds**

**Primary Government**

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

**Transportation Revenue Bonds**

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

The Department of Transportation is authorized to issue a total of \$1,348.0 million Series A revenue bonds. Presently, there are nine issues of Transportation Revenue Bonds totaling \$800.0 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, 1999 were as follows (in thousands):

| Issue   | Issue Date | Interest Rates | Maturity Through | Issued            | Outstanding       |
|---------|------------|----------------|------------------|-------------------|-------------------|
| 1998A&B | 8&10/98    | 3.5 to 5.5     | 7/19             | \$ 240,590        | \$ 240,590        |
| 1996A   | 5/96       | 5.0 to 6.0     | 7/10             | 67,330            | 60,140            |
| 1995A   | 9/95       | 4.45 to 6.25   | 7/15             | 97,930            | 87,985            |
| 1994A   | 7/94       | 4.75 to 7.5    | 7/14             | 62,615            | 49,845            |
| 1993A   | 9/93       | 4.1 to 5.0     | 7/12             | 116,450           | 100,735           |
| 1992A&B | 7/92       | 4.9 to 5.5     | 7/22             | 265,625           | 247,325           |
| 1991A   | 10/91      | 5.8 to 6.1     | 7/01             | 37,050            | 13,390            |
| Total   |            |                |                  | <u>\$ 887,590</u> | <u>\$ 800,010</u> |

As of June 30, 1999, debt service requirements for principal and interest for the Transportation Revenue Bonds are as follows (in thousands):

| Fiscal Year<br>Ended June 30 | Principal         | Interest          | Total               |
|------------------------------|-------------------|-------------------|---------------------|
| 2000                         | \$ 30,860         | \$ 41,063         | \$ 71,923           |
| 2001                         | 33,705            | 39,488            | 73,193              |
| 2002                         | 36,560            | 37,739            | 74,299              |
| 2003                         | 38,115            | 35,840            | 73,955              |
| 2004                         | 40,020            | 33,787            | 73,807              |
| Thereafter                   | 620,750           | 251,557           | 872,307             |
| Total                        | <u>\$ 800,010</u> | <u>\$ 439,474</u> | <u>\$ 1,239,484</u> |

**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, 1999, there was one issue of Health Education Assistance Loan program bonds outstanding totaling \$1.7 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, 1999 were as follows (in thousands):

|                            | <b>Issue</b> | <b>Maturity</b> |                  |                    |
|----------------------------|--------------|-----------------|------------------|--------------------|
| <b>Issue</b>               | <b>Date</b>  | <b>Through</b>  | <b>Issued</b>    | <b>Outstanding</b> |
| 1994                       | 12/94        | 12/04           | \$ 19,100        | \$ 1,930           |
| Less: Unamortized discount |              |                 |                  | (203)              |
| Total                      |              |                 | <u>\$ 19,100</u> | <u>\$ 1,727</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, 1999, there were seven issues of Revenue Bonds outstanding totaling \$486.6 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, 1999 were as follows (in thousands):

|  | <b>Issue</b> | <b>Interest</b> | <b>Maturity</b> |                   |                    |
|--|--------------|-----------------|-----------------|-------------------|--------------------|
| <b>Issue</b>                               | <b>Date</b>  | <b>Rates</b>    | <b>Through</b>  | <b>Issued</b>     | <b>Outstanding</b> |
| 1998-2                                     | 8/98         | 4.0 to 5.5      | 6/17            | \$104,360         | \$102,560          |
| 1998-1                                     | 1/98         | 4.0 to 5.0      | 6/18            | 90,000            | 87,060             |
| 1997-1                                     | 2/97         | 4.5 to 6.0      | 6/17            | 80,000            | 53,865             |
| 1995-1                                     | 7/95         | 4.0 to 6.25     | 6/15            | 80,000            | 37,380             |
| 1993-2                                     | 9/93         | 2.75 to 6.13    | 6/08            | 81,950            | 77,995             |
| 1993-1                                     | 9/93         | 3.6 to 5.3      | 6/13            | 84,345            | 40,720             |
| 1991-1                                     | 4/91         | 5.4 to 6.9      | 6/11            | 225,000           | 89,575             |
|  |              |                 |                 | <u>745,655</u>    | <u>489,155</u>     |
| Unamortized Premium                        |              |                 |                 |                   | 10,508             |
| Less: Unamortized discount and charge      |              |                 |                 |                   | (13,109)           |
| Total, net of discount, charge and premium |              |                 |                 | <u>\$ 745,655</u> | <u>\$ 486,554</u>  |

As of June 30, 1999, debt service requirements for principal and interest for the Fund were as follows (in thousands):

| <b>Fiscal Year</b>                    |                   |                   |                   |
|---------------------------------------|-------------------|-------------------|-------------------|
| <b>Ended June 30</b>                  | <b>Principal</b>  | <b>Interest</b>   | <b>Total</b>      |
| 2000                                  | \$ 23,530         | \$ 26,591         | \$ 50,121         |
| 2001                                  | 24,740            | 25,375            | 50,115            |
| 2002                                  | 26,055            | 24,044            | 50,099            |
| 2003                                  | 27,555            | 22,597            | 50,152            |
| 2004                                  | 29,045            | 21,229            | 50,274            |
| Thereafter                            | <u>358,230</u>    | <u>118,796</u>    | <u>477,026</u>    |
| Total                                 | 489,155           | 238,632           | 727,787           |
| Unamortized Premium                   | 10,508            |                   | 10,508            |
| Less: Unamortized discount and charge | (13,109)          |                   | (13,109)          |
| Total, net                            | <u>\$ 486,554</u> | <u>\$ 238,632</u> | <u>\$ 725,186</u> |

**Component Units**

**Wisconsin Housing and Economic Development Authority**

Bonds and notes payable at June 30, 1999 of the Wisconsin Housing and Economic Development Authority (Authority) consisted of the following (in thousands):

|                                     |                     |
|-------------------------------------|---------------------|
| Revenue bonds and notes             | \$ 1,829,622        |
| Special obligation and subordinated |                     |
| Special obligation                  | 306,412             |
| Total                               | 2,136,034           |
| Less: Deferred amount on refunding  | (1,041)             |
| Total, net                          | <u>\$ 2,134,993</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, 1999 consisted of the following (in thousands):

| Series/<br>Issue       | Date  | Rates         | Maturity<br>Through | Outstanding    |
|------------------------|-------|---------------|---------------------|----------------|
| Housing Revenue Bonds: |       |               |                     |                |
| 1986 A&B               | 9/86  | 7.625 to 8.5  | 2017                | \$ 2,440       |
| 1988 A&B               | 2/88  | 7.25 to 8.25  | 2018                | 5,100          |
| 1989 A, B&C            | 9/89  | 7.1 to 7.85   | 2020                | 13,270         |
| 1992 A                 | 1/92  | 5.8 to 6.85   | 2012                | 58,665         |
| 1992 B, C, D           | 4/92  | 6.4 to 7.2    | 2022                | 69,135         |
| 1993 A&B               | 10/93 | 4.5 to 5.65   | 2023                | 65,130         |
| 1993 C                 | 12/93 | 4.65 to 5.875 | 2019                | 126,010        |
| 1995 A&B               | 7/95  | 4.7 to 6.5    | 2026                | 47,550         |
| 1998 A, B & C          | 2/98  | 4.4 to 6.88   | 2032                | 39,555         |
|                        |       |               |                     | <u>426,855</u> |

(Continued)

| Series/<br>Issue | Date | Rates | Maturity<br>Through | Outstanding |
|------------------|------|-------|---------------------|-------------|
|------------------|------|-------|---------------------|-------------|

Home Ownership Revenue Bonds:

|             |       |               |      |                |
|-------------|-------|---------------|------|----------------|
| 1985 I      | 6/85  | 9.7 to 10.375 | 2016 | 4,430          |
| 1987 B&C    | 8/87  | 7.375 to 7.85 | 2016 | 3,180          |
| 1988 D      | 10/88 | 7.4 to 7.7    | 2005 | 945            |
| 1989 A      | 5/89  | 7.1 to 7.5    | 2017 | 16,355         |
| 1989 B&C    | 10/89 | 7.3 to 7.85   | 2021 | 51,688         |
| 1990 D&E    | 9/90  | 7.2 to 8.0    | 2021 | 495            |
| 1991 A&B    | 12/90 | 6.95 to 7.25  | 2024 | 2,105          |
| 1991 1,2&3  | 7/91  | 6.6 to 7.2    | 2022 | 33,710         |
| 1992 A&B    | 3/92  | 6.1 to 7.1    | 2023 | 53,495         |
| 1992 1,2    | 6/92  | 6.05 to 6.875 | 2024 | 60,525         |
| 1994 A&B    | 4/94  | 5.0 to 6.75   | 2025 | 64,745         |
| 1995 A&B    | 1/95  | 5.9 to 7.1    | 2025 | 98,670         |
| 1996 A&B    | 3/96  | 4.55 to 6.15  | 2027 | 66,705         |
| 1996 C&D    | 7/96  | 4.75 to 6.45  | 2027 | 67,315         |
| 1996 E&F    | 11/96 | 4.35 to 6.2   | 2027 | 53,720         |
| 1997 D & E  | 6/97  | 4.05 to 6.0   | 2028 | 83,975         |
| 1998 A, B&C | 4/98  | 4.75 to 6.3   | 2028 | 122,050        |
| 1999 A & B  | 8/99  | 5.3 to 5.8    | 2021 | 68,215         |
| 1999 C, D&E | 4/99  | 3.4 to 7.29   | 2029 | 90,000         |
|             |       |               |      | <u>942,323</u> |

Home Ownership Revenue Bonds (Taxable):

|               |       |               |      |                |
|---------------|-------|---------------|------|----------------|
| 1989 A        | 7/89  | 9.8           | 2019 | 1,070          |
| 1995 C,D&E    | 5/95  | 4.95 to 6.3   | 2026 | 73,130         |
| 1997 F        | 7/97  | Variable      | 2007 | 6,645          |
| 1995 F,G&H    | 9/95  | 4.75 to 7.875 | 2026 | 47,630         |
| 1997 A, B & C | 4/97  | 4.4 to 8.36   | 2028 | 71,025         |
| 1997 G, H&I   | 11/97 | 4.2 to 7.39   | 2028 | 73,140         |
| 1998 D & E    | 6/98  | 3.85 to 6.04  | 2028 | 114,575        |
|               |       |               |      | <u>387,215</u> |

Business Development Bonds:

|                     |         |              |      |               |
|---------------------|---------|--------------|------|---------------|
| 1989 3, 6-8, 11-12, |         |              |      |               |
| 17, 19 & 28         | Various | 7.25 to 7.75 | 2014 | 7,010         |
| 1990 4, 6           | Various | 7.2 to 7.50  | 2010 | 2,250         |
| 1991 4-6            | Various | 6.1 to 7.05  | 2006 | 3,545         |
| 1994 1-4            | Various | Variable     | 2014 | 7,995         |
| 1995 1-2, 4-9       | Various | Variable     | 2015 | 16,240        |
|                     |         |              |      | <u>37,040</u> |
| Notes Payable       | Various | Variable     | 1999 | <u>36,189</u> |

**Authority's Total Revenue Bonds and Notes** \$1,829,622

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, 1999 consist of the following (in thousands):

| Series/<br>Issue                      | Date  | Rates        | Maturity<br>Through | Outstanding       |
|---------------------------------------|-------|--------------|---------------------|-------------------|
| Housing Revenue Bonds:                |       |              |                     |                   |
| 1994                                  | 1/94  | 8.31 to 9.25 | 2017                | \$ 10,473         |
| Home Ownership Revenue Bonds:         |       |              |                     |                   |
| 1993 A                                | 6/92  | 5.0 to 6.5   | 2025                | 79,225            |
| 1994 C&D                              | 8/94  | 5.2 to 6.65  | 2025                | 37,000            |
| 1994 E&F                              | 12/94 | 6.1 to 7.55  | 2026                | 4,040             |
| 1998 F&G                              | 10/98 | 3.7 to 6.7   | 2029                | 95,000            |
|                                       |       |              |                     | <u>215,265</u>    |
| Single Family Drawdown Revenue Bonds: |       |              |                     |                   |
| 1998                                  | 8/98  | Variable     | 2001                | <u>74,549</u>     |
| Home Improvement Revenue Bonds:       |       |              |                     |                   |
| 1988 A                                | 11/88 | 7.3 to 7.75  | 2006                | 3,775             |
| 1992 A&B                              | 5/92  | 6.1 to 7.0   | 1999                | 2,350             |
|                                       |       |              |                     | <u>6,125</u>      |
| Total Special Obligation Bonds        |       |              |                     | <u>\$ 306,412</u> |

As of June 30, 1999, debt service requirements for principal and interest of the Authority's revenue bonds and special obligation bonds were as follows (in thousands):

| Fiscal Year<br>Ended June 30       | Principal           | Interest            | Total               |
|------------------------------------|---------------------|---------------------|---------------------|
| 2000                               | \$ 136,521          | \$ 131,242          | \$ 267,763          |
| 2001                               | 69,976              | 118,287             | 188,263             |
| 2002                               | 52,198              | 115,725             | 167,923             |
| 2003                               | 54,637              | 112,592             | 167,229             |
| 2004                               | 58,119              | 109,574             | 167,693             |
| Thereafter                         | 1,764,583           | 1,379,347           | 3,143,930           |
| Total                              | 2,136,034           | 1,966,767           | 4,102,801           |
| Less: Deferred<br>Refunding Amount | (1,041)             |                     | (1,041)             |
| Total                              | <u>\$ 2,134,993</u> | <u>\$ 1,966,767</u> | <u>\$ 4,101,760</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, 1999, the Authority had issued 125 series of such bonds in an aggregate principal amount of \$73.5 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, 1999, debt service requirements for the Hospital's revenue bonds were as follows (in thousands):

| Fiscal Year<br>Ended June 30 | Principal        | Interest         | Total            |
|------------------------------|------------------|------------------|------------------|
| 2000                         | \$               | \$ 2,000         | \$ 2,000         |
| 2001                         |                  | 2,000            | 2,000            |
| 2002                         |                  | 2,000            | 2,000            |
| 2003                         |                  | 2,000            | 2,000            |
| 2004                         |                  | 2,000            | 2,000            |
| Thereafter                   | 50,000           | 32,984           | 82,984           |
| Total                        | <u>\$ 50,000</u> | <u>\$ 42,984</u> | <u>\$ 92,984</u> |

**C. University of Wisconsin System**

Bonds payable included in the University of Wisconsin System's Plant Funds at June 30, 1999 consist of general obligation bonds of \$754.7 million; and the Wisconsin State College Building Corporation bonds recorded in the amount of \$.5 million maturing in 2000 and 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, 1999, future principal payments on bonds payable were as follows (in thousands):

| Fiscal Year<br>Ended June 30 | Total            |
|------------------------------|------------------|
| 2000                         | \$ 68,366        |
| 2001                         | 65,260           |
| 2002                         | 61,459           |
| 2003                         | 57,145           |
| 2004                         | 52,641           |
| Thereafter                   | 450,286          |
| Total                        | <u>\$755,157</u> |

**D. Refundings and Early Extinguishments**

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

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

In February 1996, the State participated in a refunding (1996 Series 1) of general obligation debt that fell 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.

**Current Year Refundings/General Obligation Bonds**

In August 1998, the State issued \$157.6 million of general obligation refunding bonds (1998 Series 1), the proceeds of which were deposited in an escrow account to provide for the future debt service requirements on \$156.5 million of various general obligation bonds outstanding at the time of the refunding. As a result of the refunding, the bonds are considered defeased and the associated liability removed from the financial statements. The refunding resulted in a decrease in total debt service payments by \$10.9 million and an economic gain of \$7.9 million.

In September 1998, the State issued \$94.3 million of general obligation refunding bonds (1998 Series 2), the proceeds of which were deposited in an escrow account to provide for the future debt service requirements on \$92.4 million of various general obligation bonds outstanding at the time of the refunding. As a result of the refunding, the bonds are considered defeased and the associated liability removed from the financial statements. The refunding resulted in a decrease in total debt service payments by \$2.2 million and an economic gain of \$2.5 million.

In May 1999, the State issued \$15.8 million of general obligation refunding bonds for the purposes of currently refunding general obligation bonds previously issued to fund veterans housing loans and to pay for costs of issuance. The following issues and amounts were refunded in July 1999 (in thousands):

| Issue  | Principal Refunded |
|--------|--------------------|
| 1988-A | \$ 1,140           |
| 1989-A | 2,050              |
| 1989-D | 12,300             |

**Current Year Refundings/Revenue Bonds**

In September 1998, the Environmental Improvement Fund issued \$104.7 million in State of Wisconsin Clean Water Refunding Bonds, 1998 Series 2, with a weighted average interest rate of 5.4 percent. The refunding bonds were issued at a premium, resulting in proceeds of \$112.7 million, including accrued interest of \$.6 million. The purpose of the issue was primarily to advance refund \$104.1 million of outstanding Revenue Obligation Bonds from various previously issued series with a weighted average interest rate of 5.6 percent. Approximately \$111.4 million of the proceeds were used to purchase U.S. Treasury Securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on a portion of the 1991 Series 1, 1993 Series 1, 1995 Series 1 and 1997 Series 1 Revenue Obligation Bonds. As a result, \$104.1 million of Revenue Obligation Bonds are considered to be defeased; the liability for those bonds has been removed from the Fund's balance sheet as of the date of defeasance and the Treasury

securities in the irrevocable trust are not reported on the Fund's balance sheet.

As a result of the defeasance, the Fund reduced its aggregate debt service payments by approximately \$4.8 million and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$3.2 million. In accordance with GASB Statement 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, the Fund deferred \$7.6 million related to the defeasance of debt described above which will be amortized over the life of the 1998 Series 2 Bonds.

In August 1998, the Transportation Revenue Bond Program issued the 1998 Series A revenue bonds. Bond proceeds of \$138.6 million were applied to the partial refunding of the State of Wisconsin Transportation Revenue Bonds, 1991 Series A, 1992 Series A, 1992 Series B, 1994 Series A, 1995 Series A and 1996 Series A. Such proceeds of the bonds, together with the assets transferred from the refunded series, were deposited with a trustee bank in a separate Escrow Fund. The total amount of principal outstanding for the related defeased bonds was \$130.7 million at June 30, 1999.

The proceeds and assets transferred were invested by the Trustee in U.S. Treasury obligations and certain other government securities so that sufficient monies will be available to pay the principal, interest and redemption price on the refunded bonds at redemption or maturity. Accordingly, the 1991 Series A, 1992 Series A, 1992 Series B, 1994 Series A, 1995 Series A and 1996 Series A bonds, which were refunded, are considered to be extinguished in the year ended June 30, 1999, and are not included as liabilities in the accompanying financial statements. This transaction resulted in an extraordinary loss of \$7.9 million, cash flow savings of \$5.9 million and an economic gain of \$4.1 million.

**Prior Year Refundings/General Obligation Bonds**

Government Accounting Standards Board Statement No. 7 *Advance Refundings Resulting in Defeasance of Debt*, provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. At June 30, 1999, approximately \$591.2 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, 1999, revenue bonds outstanding of \$73.8 million have been defeased.

- Transportation revenue bonds – At June 30, 1999, revenue bonds outstanding of \$130.7 million have been defeased.
- Wisconsin Education revenue bonds – At June 30, 1999, revenue bonds outstanding of \$103.8 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, 1999, the remaining outstanding defeased debt was \$36.8 million.

**Early Extinguishments**

**Component Units**

Wisconsin Housing and Economic Development Authority

During 1999, 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 |
|                             | 1999          | 1999   |
| Home Ownership Revenue      |               |        |
| Bond Resolutions:           |               |        |
| 1987                        | \$ 61,051     | \$ --  |
| 1988                        | 163,465       | --     |
| Single Family               | 91,090        | --     |
| All Other                   | 54,970        | --     |
| General funds               | 4,605         | --     |
| State of Wisconsin Programs | 375           | 13     |
| Housing Revenue Bonds       | 4,640         | 66     |

## 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.

### 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, 1999, the State issued \$166.7 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, 1999, the amount of commercial paper notes outstanding was \$160.9 million which had interest rates ranging from 3.0 percent to 3.6 percent and maturities ranging from July 12, 1999 to January 28, 2000.

### 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, 1999, the State 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, 1999, the amount of commercial paper notes outstanding was \$155.4 million which had interest rates ranging from 3.0 percent to 3.6 percent and maturities ranging from July 1, 1999 to September 14, 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 Second 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, 1999, the following parity Master Lease certificates were outstanding:

- Master Lease Certificates of Participation of 1996, Series B, in the amount of \$6.1 million. This series of Master Lease certificates had interest rates ranging from 4.25 percent to 4.9 percent and matures semi-annually through September 1, 2000 and annually through 2003.
- Master Lease Certificate of Participation of 1996, Series A, in the amount of \$13.2 million. This Master Lease certificate evidences the State's obligation to repay revolving loans under a Revolving Credit Agreement, dated July 1, 1996 between Firststar Trust Company, Milwaukee, Wisconsin (Trustee) and the Bank of America Illinois, as amended. This Master Lease certificate shall bear interest at the rates provided for in the Revolving Credit Agreement and matures on March 1, 2009. The balance of this certificate of participation may include some accrued interest that will be payable at the next semi-annual interest payment date.
- Master Lease Certificates of Participation of 1999, Series A, in the amount of \$28.9 million. These series of Master Lease certificates have interest rates ranging from 3.3 percent to 3.9 percent and mature semi-annually through March 1, 2005.
- Master lease Certificates of Participation of 1999, Series B (Taxable), in the amount of \$14.1 million. These series of Master Lease certificates have interest rates ranging from 5.1 percent to 5.6 percent and mature semi-annually through September 1, 2005.

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, 1999, the State has deposited with the Trustee



amounts, that when invested, will terminate lease schedules having an aggregate outstanding amount of \$1.3 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, 1999, 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 \$125.8 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 National Association, 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, 1999, \$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, 2000, but is subject to annual renewal as provided for in the credit agreement. The cost of this line of credit is 0.06 percent per year.

Also, the State has previously entered into a credit agreement with two banks to provide a stand-by letter of credit for credit and liquidity support for its transportation revenue commercial paper program. The stand-by letter of credit is available to secure up to \$188.6 million of transportation revenue commercial paper and interest thereon. No advances were drawn during the fiscal year ended June 30, 1999. 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 Plant Funds.

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, 1999 (in thousands):

|                                | General Fixed<br>Assets | Enterprise<br>Funds | Internal<br>Service<br>Funds |
|--------------------------------|-------------------------|---------------------|------------------------------|
| Buildings and Improvements     | \$ 628                  | \$ --               | \$ --                        |
| Machinery and Equipment        | 16,174                  | 920                 | 23,807                       |
| Less: Accumulated Depreciation | --                      | (209)               | (10,482)                     |
| Carrying Amount                | <u>\$ 16,802</u>        | <u>\$ 712</u>       | <u>\$ 13,325</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, 1999 for capital leases (in thousands):

| Fiscal Year                                 | General Long-term  |                   | University of Wisconsin System |
|---|--------------------|-------------------|--------------------------------|
|   | Debt Account Group | Proprietary Funds |                                |
| 2000  | \$ 4,082           | \$ 6,507          | \$ 3,830                       |
| 2001  | 3,584              | 5,283             | 3,096                          |
| 2002  | 2,013              | 1,863             | 2,021                          |
| 2003  | 869                | 1,074             | 1,096                          |
| 2004  | 706                | 399               | 511                            |
| Thereafter                                  | 730                | 12                | --                             |
| Total minimum future payments               | 11,985             | 15,138            | 10,554                         |
| Less: Executory costs                       | (64)               | --                | --                             |
| Less: Interest                              | (1,427)            | (1,180)           | (867)                          |
| Present value of net minimum lease payments | <u>\$ 10,494</u>   | <u>\$ 13,958</u>  | <u>\$ 9,687</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, 1999 consisted of:

| Balance Due  | Average Life (Weighted Term) |
|--------------|------------------------------|
| \$60,792,544 | 1.972 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 \$45.5 million.

In addition, scheduled principal and interest payments through December 2000 are \$.8 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 1999 were \$37.7 million. Of this amount, \$37.2 million relates to minimum rental payments stipulated in lease agreements, \$415 thousand relates to contingent rentals, and \$362 thousand subrental payments. The University of Wisconsin System operating lease expenditures totaled \$3.7 million for Fiscal Year 1999.

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

| Fiscal Year            | Governmental<br>and<br>Proprietary<br>Funds | University of<br>Wisconsin<br>System | Component<br>Units |
|------------------------|---|--------------------------------------|--------------------|
| 2000                   | \$ 32,914                                   | \$ 6,629                             | \$ 2,757           |
| 2001                   | 24,937                                      | 5,534                                | 2,710              |
| 2002                   | 20,938                                      | 3,762                                | 2,402              |
| 2003                   | 14,981                                      | 3,262                                | 2,213              |
| 2004                   | 9,508                                       | 2,617                                | 2,157              |
| Thereafter             | 21,305                                      | 15,500                               | 9,384              |
| Minimum lease payments | \$ 124,582                                  | \$ 37,304                            | \$ 21,622          |

**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, 1999 for installment purchases (in thousands):

| Fiscal Year                                       | General<br>Long-term<br>Debt Account<br>Group |
|---|---|
| 2000  | \$ 589  |
| 2001  | 306   |
| 2002  | 174   |
| 2003  | 106   |
| 2004  | --  |
| Thereafter  | --  |
| Total minimum future payments                     | 1,175   |
| Less: Interest                                    | (109)   |
| Present value of net minimum installment payments | \$ 1,066                                      |

**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, 1999 is presented below (in thousands):

|   | Home for<br>Veterans<br>(1) | Mental<br>Health<br>Institutes<br>(2) | Developmental<br>Disabilities<br>Centers<br>(3) | Lottery<br>(4) | Health<br>Insurance<br>Risk Sharing<br>Plan<br>(5) | Local<br>Government<br>Property<br>Insurance<br>(6) |
|---|-----------------------------|---------------------------------------|---|----------------|--|---|
| Operating revenues:   |                             |                                       |   |                |  |   |
| Total revenues  | \$ 36,413                   | \$ 42,363                             | \$ 113,836                                      | \$428,352      | \$ 29,994  | \$ 10,373   |
| Revenues from sales/services provided to other GAAP funds     | --                          | --                                    | --  | --             | --   | --  |
| Depreciation, depletion and amortization expense              | 2,168                       | 1,369                                 | 2,852   | 346            | --   | 70  |
| Operating income or loss                                      | (1,707)                     | (32,680)                              | 182   | 134,299        | (5,055)  | 964   |
| Operating grants, entitlements, and shared revenues           | 17                          | 190                                   | 82  | --             | --   | --  |
| Operating interfund transfers:                                |                             |                                       |   |                |  |   |
| In  | 23                          | 37,958                                | 55  | --             | 11,900   | --  |
| Out   | 593                         | 2,756                                 | 8,074   | 13,154         | --   | --  |
| Extraordinary gain (loss)                                     | --                          | --                                    | --  | --             | --   | --  |
| Net income (loss)   | (1,942)                     | 3,079                                 | (6,801)   | (41,132)       | 7,142  | 964   |
| Current capital:  |                             |                                       |   |                |  |   |
| Contributions   | --                          | 153                                   | 305   | --             | --   | --  |
| Transfers In  | 175                         | 244                                   | --  | 51             | --   | --  |
| Transfers Out   | --                          | --                                    | --  | --             | --   | --  |
| Property, plant and equipment:                                |                             |                                       |   |                |  |   |
| Additions   | 510                         | 1,134                                 | 797   | 93             | --   | --  |
| Deletions   | 122                         | 9,533                                 | 3,475   | 356            | --   | --  |
| Net working capital (current assets less current liabilities) | 4,851                       | (7,839)                               | (10,459)  | 79,459         | 6,751  | 5,535   |
| Total assets  | 32,856                      | 49,146                                | 73,569  | 372,906        | 11,809   | 30,759  |
| Bonds and other material long-term liabilities outstanding:   |                             |                                       |   |                |  |   |
| Amounts payable solely from operating revenues                | 193                         | --                                    | --  | 227,176        | 9,456  | --  |
| Amounts potentially payable from other sources                | --                          | --                                    | --  | --             | --   | --  |
| Total equity  | 28,066                      | 21,903                                | 26,644  | 88,669         | (2,705)  | 21,550  |

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<br>(7) | Patients Compensation<br>(8) | Government Employee Benefit Plans<br>(9) | Environmental Improvement<br>(10) | Veterans Mortgage Loan Repayment<br>(11) | State Fair Park<br>(12) | Wisconsin Education Revenue Bonds<br>(13) | Other<br>(14) | Total       |
|-----------------------------|------------------------------|--|-----------------------------------|--|-------------------------|---|---------------|-------------|
| \$ 4,074                    | \$ 61,677                    | \$ 492,611                               | \$ 26,010                         | \$ 42,207                                | \$ 14,286               | \$ 501                                    | \$ 25,358     | \$1,328,054 |
| --                          | --                           | 398,370                                  | --                                | --                                       | --                      | --  | 1,797         | 400,167     |
| 16                          | 6                            | --                                       | 3,035                             | 574                                      | 1,616                   | --  | 597           | 12,649      |
| (3,701)                     | 30,317                       | 17,259                                   | (6,696)                           | (6,271)                                  | 191                     | 25  | 2,231         | 129,356     |
| --                          | --                           | --                                       | 2,008                             | --                                       | --                      | --  | 2,504         | 4,802       |
| --                          | --                           | --                                       | --                                | 1,797                                    | 19                      | --  | 1,268         | 53,019      |
| --                          | --                           | --                                       | --                                | 3  | 304                     | --  | 6,087         | 30,972      |
| --                          | --                           | --                                       | --                                | --                                       | --                      | --  | 20            | 20          |
| (3,701)                     | 30,750                       | 17,256                                   | 261                               | 937                                      | (2,575)                 | 31  | 1,894         | 6,163       |
| --                          | --                           | --                                       | 49,607                            | --                                       | --                      | --  | 172           | 50,237      |
| --                          | --                           | --                                       | 31,000                            | --                                       | --                      | --  | 565           | 32,035      |
| --                          | --                           | --                                       | 4,000                             | --                                       | --                      | --  | --            | 4,000       |
| 25                          | 30                           | --                                       | --                                | 37                                       | 521                     | --  | 3,364         | 6,511       |
| --                          | 1                            | --                                       | 48                                | --                                       | 4,976                   | --  | 108           | 18,618      |
| 5,134                       | 11,519                       | 400,827                                  | 153,455                           | 172,357                                  | (773)                   | --  | 41,054        | 861,870     |
| 73,924                      | 501,132                      | 451,385                                  | 1,210,438                         | 862,032                                  | 32,970                  | 3,919                                     | 145,127       | 3,851,971   |
| 62,172                      | 488,491                      | 279,341                                  | --                                | 720,015                                  | 14,239                  | --  | 4,920         | 1,806,004   |
| --                          | --                           | --                                       | 465,625                           | --                                       | --                      | --  | --            | 465,625     |
| 9,131                       | 8,577                        | 121,485                                  | 718,694                           | 76,578                                   | 14,565                  | 1,812                                     | 131,060       | 1,266,029   |

(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, 1998 or June 30, 1999 is presented below (in thousands):

|   | <b>Wisconsin Housing<br/>and Economic<br/>Development Authority</b> | <b>Wisconsin Health<br/>Care Liability<br/>Insurance Plan</b> | <b>University of<br/>Wisconsin Hospitals<br/>and Clinics Authority</b> | <b>Total</b>        |
|---|---|---|--|---------------------|
| <b>Condensed Balance Sheet</b>  |   |   |  |                     |
| Assets:   |   |   |  |                     |
| Current Assets  | \$ 561,025  | \$ 156,088  | \$ 100,506   | \$ 817,619          |
| Due From Primary Government   | --  | --  | 1,426  | 1,426               |
| Long-term Receivables   | 1,764,208   | --  | --   | 1,764,208           |
| Deferred Charges  | 15,837  | --  | --   | 15,837              |
| Fixed Assets  | 23,983  | --  | 131,769  | 155,752             |
| Other Assets  | 238,416   | --  | 133,828  | 372,244             |
| Total Assets  | <u>\$ 2,603,469</u>   | <u>\$ 156,088</u>   | <u>\$ 367,529</u>  | <u>\$ 3,127,086</u> |
| Liabilities:  |   |   |  |                     |
| Current Liabilities   | \$ 204,146  | \$ 16,890   | \$ 44,083  | \$ 265,119          |
| Due to Primary Government   | 40  | --  | 5,112  | 5,152               |
| Future Benefits and Loss Liability  | --  | 115,776   | --   | 115,776             |
| Other Liabilities   | --  | --  | 36,092   | 36,092              |
| Bonds and Notes Payable   | 2,134,993   | --  | 50,000   | 2,184,993           |
| Total Liabilities   | <u>2,339,179</u>  | <u>132,666</u>  | <u>135,287</u>   | <u>2,607,132</u>    |
| Equity:   |   |   |  |                     |
| Retained Earnings   | 264,290   | 23,422  | 232,242  | 519,954             |
| Total Equity  | <u>264,290</u>  | <u>23,422</u>   | <u>232,242</u>   | <u>519,954</u>      |
| Total Liabilities and Equity  | <u>\$ 2,603,469</u>   | <u>\$ 156,088</u>   | <u>\$ 367,529</u>  | <u>\$ 3,127,086</u> |
| <b>Condensed Statement of Revenues, Expenses and Changes in Retained Earnings</b> |   |   |  |                     |
| Operating Revenues  | \$ 149,672  | \$ 13,541   | \$ 355,597   | \$ 518,810          |
| Operating Expenses:   |   |   |  |                     |
| Depreciation  | 5,770   | --  | 17,002   | 22,772              |
| Other   | 209,925   | 8,147   | 334,938  | 553,010             |
| Operating Income (Loss)   | (66,023)  | 5,394   | 3,656  | (56,972)            |
| Other Nonoperating Revenues (Expenses)  | 93,075  | --  | 10,502   | 103,577             |
| Income (Loss) Before Operating Transfer   | 27,052  | 5,394   | 14,158   | 46,604              |
| Operating Transfer to Primary Government  | --  | --  | (2,400)  | (2,400)             |
| Net Income Before Extraordinary Item  | 27,052  | 5,394   | 11,758   | 44,204              |
| Extraordinary Item  | (79)  | --  | --   | (79)                |
| Net Income  | 26,973  | 5,394   | 11,758   | 44,125              |
| Retained Earnings-Beginning of Year   | 237,317   | 18,027  | 220,484  | 475,828             |
| Retained Earnings-End of Year   | <u>\$ 264,290</u>   | <u>\$ 23,421</u>  | <u>\$ 232,242</u>  | <u>\$ 519,953</u>   |

**NOTE 10. INTERFUND ASSETS/LIABILITIES**

Interfund assets and liabilities at June 30, 1999 consist of the following (in thousands):

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

|                      |            |
|----------------------|------------|
| Due from Other Funds | \$ 479,248 |
| Due to Other Funds   | \$ 479,248 |

Due from/to Other Funds represent short-term interfund accounts receivable and payable. The totals of Due from/to Other Funds at June 30, 1999 by individual fund were as follows (in thousands):

| Fund                    | Due from<br>Other Funds | Due to<br>Other Funds |
|-------------------------|-------------------------|-----------------------|
| General                 | \$ 112,509              | \$ 192,422            |
| Special Revenue:        |                         |                       |
| Transportation          | 49,239                  | 31,987                |
| Conservation            | 7,477                   | 11,635                |
| Heritage State          |                         |                       |
| Parks and Forests       | --                      | 38                    |
| Wisconsin Health        |                         |                       |
| Education Loan          |                         |                       |
| Repayment               | 16                      | 36                    |
| Uninsured Employers     | --                      | 2                     |
| Mediation               | 13                      | 6                     |
| Agriculture Chemical    |                         |                       |
| Cleanup                 | --                      | 481                   |
| Agrichemical Management | 25                      | 110                   |
| Employe Trust Fund      |                         |                       |
| Administration          | --                      | 977                   |
| Historical Legacy Trust | 670                     | 570                   |
| Petroleum Inspection    | 10,969                  | 3,730                 |
| Environmental           | 7,538                   | 2,811                 |
| Dry Cleaner             |                         |                       |
| Environmental Response  | --                      | 41                    |
| Recycling               | 8,133                   | 6,551                 |
| Information Technology  |                         |                       |
| Investment              | --                      | 256                   |
| Universal Service       | 391                     | 1,167                 |
| Computer Escrow         | 64,000                  | --                    |
| Debt Service:           |                         |                       |
| Bond Security and       |                         |                       |
| Redemption              | 52                      | 463                   |
| Transportation Revenue  |                         |                       |
| Bonds                   | --                      | 272                   |
| Capital Projects:       |                         |                       |
| Building Trust          | 2,179                   | 840                   |
| Energy Efficiency       | 1                       | --                    |
| Capital Improvement     | 10,509                  | 3,447                 |
| Transportation Revenue  |                         |                       |
| Bonds                   | 272                     | 44,363                |

(Continued)

| Fund                    | Due from<br>Other Funds | Due to<br>Other Funds |
|-------------------------|-------------------------|-----------------------|
| Enterprise:             |                         |                       |
| State Fair Park         | 13                      | 1,556                 |
| Home for Veterans       | 35                      | 1,372                 |
| Mendota Mental          |                         |                       |
| Health Institute        | 4,595                   | 1,722                 |
| Winnebago Mental        |                         |                       |
| Health Institute        | 4,344                   | 1,537                 |
| Northern Developmental  |                         |                       |
| Disabilities Center     | 5,312                   | 2,893                 |
| Central Developmental   |                         |                       |
| Disabilities Center     | 8,403                   | 3,525                 |
| Southern Developmental  |                         |                       |
| Disabilities Center     | 6,493                   | 2,861                 |
| Institutional Farm      |                         |                       |
| Operations              | 57                      | 236                   |
| Institutional Canteen   |                         |                       |
| Operations              | 2                       | 83                    |
| Lottery                 | 692                     | 12,911                |
| Health Insurance Risk   |                         |                       |
| Sharing Plan            | 13                      | 94                    |
| Local Government        |                         |                       |
| Property Insurance      | --                      | 3                     |
| State Life Insurance    | --                      | 28                    |
| Patients Compensation   | --                      | 31                    |
| Income Continuation     |                         |                       |
| Insurance               | 5,011                   | --                    |
| Duty Disability         | 8,233                   | --                    |
| Long-term Disability    |                         |                       |
| Insurance               | 13,112                  | --                    |
| Health Insurance        | 526                     | 60                    |
| Tuition Trust           | --                      | 725                   |
| Environmental           |                         |                       |
| Improvement             | 1                       | 1,233                 |
| Veterans Trust          | 798                     | 206                   |
| Veterans Mortgage Loan  |                         |                       |
| Repayment               | 302                     | 896                   |
| Wisconsin Education     |                         |                       |
| Revenue Bonds           | --                      | 370                   |
| Transportation          |                         |                       |
| Infrastructure Loan     | 5                       | --                    |
| Wisconsin Public        |                         |                       |
| Broadcasting Foundation | 1                       | 547                   |
| Internal Service:       |                         |                       |
| Services to Nonstate    |                         |                       |
| Governmental Units      | 216                     | 102                   |
| Information Technology  |                         |                       |
| Services                | 7,348                   | 2,720                 |
| Materials and Services  |                         |                       |
| to State Agencies       | 756                     | 379                   |

(Continued)

| Fund   | Due from Other Funds | Due to Other Funds |
|--|----------------------|--------------------|
| Fleet Services                               | 1,345                | 78                 |
| Building Construction Services               | 1,968                | 325                |
| Printing and Other Services                  | 2,274                | 184                |
| State Telephone System                       | 9,131                | 160                |
| Financial Services                           | 47                   | 338                |
| Facilities Operations and Maintenance        | 5,817                | 10,897             |
| Risk Management                              | 136                  | 168                |
| Institutional Power Plant                    | 557                  | 300                |
| Central Warehouse                            | 335                  | 18                 |
| Badger State Industries                      | 3,706                | 422                |
| Expendable Trust:                            |                      |                    |
| Petroleum Violation                          | 43                   | 140                |
| Unclaimed Property Program                   | --                   | 28                 |
| Children's Trust                             | 3                    | --                 |
| Accumulated Sick Leave                       | 39,822               | 57                 |
| Special Death Benefits                       | 74                   | --                 |
| Employee Reimbursement Accounts              | 454                  | 25                 |
| Life Insurance                               | 14                   | 32                 |
| Deferred Compensation                        | --                   | --                 |
| Common School Income                         | --                   | 645                |
| Unemployment Insurance Reserve               | 205                  | 794                |
| Nonexpendable:                               |                      |                    |
| Common School                                | 12                   | 66                 |
| Historical Society                           | 25                   | 61                 |
| Pension:                                     |                      |                    |
| Wisconsin Retirement System                  | 27,746               | 84,902             |
| Investment Trust:                            |                      |                    |
| Local Government Pooled Investment           | --                   | 34                 |
| Milwaukee Retirement Systems                 | 4,455                | --                 |
| Agency:                                      |                      |                    |
| Inmate and Resident Support Collection Trust | 461                  | 79                 |
| University of Wisconsin System               | -                    | 6,361              |
| University of Wisconsin System               | 40,357               | 34,838             |
| <b>Total</b>                                 | <b>\$ 479,248</b>    | <b>\$ 479,248</b>  |

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

Receivables and payables between funds and component units at June 30, 1999 were as follows (in thousands):

| Fund/Component Unit                                     | Due from Component Units/Primary Government | Due to Component Units/Primary Government |
|---|---|---|
| Primary Government:                                     |   |   |
| General Fund  | \$ 6  | \$ 387                                    |
| Enterprise:   |   |   |
| Patients Compensation                                   | 12  | --  |
| Internal Service:                                       |   |   |
| Materials and Services to State Agencies                | 2   | --  |
| Fleet Services  | 1   | --  |
| Printing and Other Services                             | 195   | --  |
| State Telephone System                                  | 70  | --  |
| Expendable Trust:                                       |   |   |
| Petroleum Violation                                     | --  | 1   |
| University of Wisconsin System                          | 4,879                                       | 1,039                                     |
| Component Unit:   |   |   |
| Wisconsin Housing and Economic Development Authority    | --  | 40  |
| Wisconsin Health Care Liability Insurance Plan          | --  | 12  |
| University of Wisconsin Hospitals and Clinics Authority | 1,426                                       | 5,112                                     |
| <b>Total</b>  | <b>\$ 6,591</b>                             | <b>\$ 6,591</b>                           |



**C. Interfund Loans Receivable/Payable**

|                            |           |
|----------------------------|-----------|
| Interfund Loans Receivable | \$ 84,707 |
| Interfund Loans Payable    | \$ 84,707 |

Interfund Loans Receivable/Payable represent loans from one fund to another to cover cash overdrafts. Interfund loans receivable/payable at June 30, 1999 by individual fund were as follows (in thousands):

| Fund                                       | Interfund<br>Loans<br>Receivable | Interfund<br>Loans<br>Payable |
|--|----------------------------------|-------------------------------|
| General                                    | \$ 84,707                        | \$ --                         |
| Enterprise:                                |                                  |                               |
| Mendota Mental Health Institute            | --                               | 8,012                         |
| Winnebago Mental Health Institute          | --                               | 9,203                         |
| Central Developmental Disabilities Center  | --                               | 9,467                         |
| Northern Developmental Disabilities Center | --                               | 6,669                         |
| Southern Developmental Disabilities Center | --                               | 4,943                         |
| Institutional Farm Operations              | --                               | 4,473                         |
| Internal Service:                          |                                  |                               |
| Services to Nonstate Governmental Units    | --                               | 1,410                         |
| Fleet Services                             | --                               | 23,425                        |
| Printing and Other Services                | --                               | 3,762                         |
| State Telephone System                     | --                               | 12,721                        |
| Institutional Power Plants                 | --                               | 122                           |
| Badger State Industries                    | --                               | 501                           |
| <b>Total</b>                               | <b>\$ 84,707</b>                 | <b>\$ 84,707</b>              |

**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, 1999 by individual fund were as follows (in thousands):

| Fund                              | Advances to<br>Other Funds | Advances from<br>Other Funds |
|-----------------------------------|----------------------------|------------------------------|
| Special Revenue:                  |                            |                              |
| Information Technology Investment | \$ --                      | \$ 3,308                     |
| Capital Projects:                 |                            |                              |
| Energy Efficiency                 | 2,500                      | --                           |
| Internal Service:                 |                            |                              |
| State Telephone System            | 3,308                      | --                           |
| University of Wisconsin System    | --                         | 2,500                        |
| <b>Total</b>                      | <b>\$ 5,808</b>            | <b>\$ 5,808</b>              |

**NOTE 11. INTERFUND TRANSFERS**

**A. Residual Equity Transfers**

Residual equity transfers in and out that occurred during Fiscal Year 1999 were as follows (in thousands):

| Fund                                 | Residual Equity<br>Transfers In | Residual Equity<br>Transfers Out |
|--------------------------------------|---------------------------------|----------------------------------|
| General                              | \$ --                           | \$ 597                           |
| Special Revenue:                     |                                 |                                  |
| Transportation                       | 352                             | --                               |
| Debt Service:                        |                                 |                                  |
| Bond Security and<br>Redemption      | 4,000                           | 570                              |
| Capital Projects:                    |                                 |                                  |
| Building Trust                       | 570                             | --                               |
| Capital Improvement                  | --                              | 31,000                           |
| Enterprise:                          |                                 |                                  |
| Environmental<br>Improvement         | 31,000                          | 4,000                            |
| Mendota Mental<br>Health Institute   | 51                              | --                               |
| Winnebago Mental<br>Health Institute | 193                             | --                               |
| Total Residual Equity<br>Transfers   | <u>\$ 36,167</u>                | <u>\$ 36,167</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 1999 were as follows (in thousands):

| Fund                                       | Operating<br>Transfers In | Operating<br>Transfers Out |
|--|---------------------------|----------------------------|
| General                                    | \$ 43,015                 | \$ 1,364,348               |
| Special Revenue:                           |                           |                            |
| Transportation                             | 49                        | 20,810                     |
| Conservation                               | 13,996                    | 10,599                     |
| Wisconsin Elections Campaign               | 312                       | --                         |
| Agriculture Chemical Cleanup               | --                        | 479                        |
| Petroleum Inspection                       | --                        | 1,816                      |
| Environmental                              | 12,656                    | 18                         |
| Recycling                                  | 269                       | 543                        |
| Universal Service                          | --                        | 899                        |
| Computer Escrow                            | 64,000                    | --                         |
| Property Tax Relief                        | 100,000                   | --                         |
| Debt Service:                              |                           |                            |
| Bond Security and Redemption               | 219,263                   | 2,750                      |
| Transportation Revenue Bonds               | --                        | 2,374                      |
| Capital Projects:                          |                           |                            |
| Building Trust                             | 19,968                    | 6,027                      |
| Capital Improvement                        | 8,709                     | 6,438                      |
| Transportation Revenue Bonds               | 2,374                     | 579                        |
| Enterprise:                                |                           |                            |
| State Fair Park                            | 19                        | 304                        |
| Home for Veterans                          | 23                        | 593                        |
| Mendota Mental Health Institute            | 21,197                    | 905                        |
| Winnebago Mental Health Institute          | 16,760                    | 1,851                      |
| Northern Developmental Disabilities Center | 11                        | 2,696                      |
| Central Developmental Disabilities Center  | 44                        | 2,802                      |
| Southern Developmental Disabilities Center | --                        | 2,576                      |
| Institutional Farm Operations              | 867                       | 115                        |
| Institutional Canteen Operations           | 323                       | 331                        |
| Lottery                                    | --                        | 13,154                     |
| Health Insurance Risk Sharing Plan         | 11,900                    | --                         |
| Veterans Trust                             | 77                        | 18                         |
| Veterans Mortgage Loan Repayment           | 1,797                     | 3                          |

(Continued)

| Fund                                     | Operating<br>Transfers In | Operating<br>Transfers Out |
|--|---------------------------|----------------------------|
| Wisconsin Public Broadcasting Foundation | --                        | 5,624                      |
| Internal Service:                        |                           |                            |
| Services to Nonstate Governmental Units  | 236                       | 94                         |
| Information Technology Services          | --                        | 102                        |
| Materials and Services to State Agencies | 65                        | --                         |
| Fleet Services                           | 71                        | 55                         |
| Building Construction Services           | 91                        | --                         |
| Printing and Other Services              | 250                       | --                         |
| State Telephone System                   | 9                         | --                         |
| Financial Services                       | --                        | 421                        |
| Facilities Operations and Maintenance    | 5,491                     | 3,694                      |
| Institutional Power Plants               | 5                         | 41                         |
| Central Warehouse                        | --                        | 5                          |
| Badger State Industries                  | --                        | 412                        |
| Expendable Trust:                        |                           |                            |
| Petroleum Violation                      | --                        | 771                        |
| Unclaimed Property Program               | --                        | 12,000                     |
| Capitol Restoration                      | --                        | 240                        |
| Common School Income                     | --                        | 1,797                      |
| Nonexpendable Trust:                     |                           |                            |
| Common School                            | 12,000                    | --                         |
| Historical Society                       | 100                       | 58                         |
| University of Wisconsin System           | 919,967                   | 7,572                      |
| <b>Total</b>                             | <b>\$1,475,914</b>        | <b>\$1,475,914</b>         |

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

For Fiscal Year 1999, 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    | Debt       | Capital      | Enterprise             | Internal   | Trust                |
|  |                         | Revenue    | Service    | Projects     |                        | Service    |                      |
| Fund Balances/Retained Earnings June 30, 1998 as previously reported   | \$ (1,274,406)          | \$ 182,576 | \$ 7,055   | \$ (159,800) | \$ 214,089             | \$ (1,107) | \$ 61,413,960        |
| Reclassification of fund structure:  |                         |            |            |              |                        |            |                      |
| Environmental Local Assistance   | --                      | 19,216     | --         | (19,216)     | --                     | --         | --                   |
| Other adjustments of assets and liabilities as of June 30, 1998  | 10,158                  | 4,068      | (2,009)    | (238)        | (16,784)               | (4,771)    | --                   |
| Fund balances/retained earnings, July 1, 1998 as restated  | \$ (1,264,249)          | \$ 205,861 | \$ 5,046   | \$ (179,254) | \$ 197,306             | \$ (5,878) | \$ 61,413,960        |
| 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 1998 | \$ 9,607                | \$ 4,068   | \$ (2,009) | \$ (238)     | \$ (9,910)             | \$ 5,247   | \$ 0                 |

Amounts reported for fixed assets as of July 1, 1998 in Note 4 have been restated from amounts previously reported in the 1998 Comprehensive Annual Financial Report to reflect additional assets identified as existing at that date.

| University of Wisconsin System |                  |                   |                          |                     |    |                   | Component<br>Units |
|--------------------------------|------------------|-------------------|--------------------------|---------------------|----|-------------------|--------------------|
| Current                        |                  | Loan              | Endowment<br>And Similar | Plant               |    |                   |                    |
| Unrestricted                   | Restricted       |                   |                          |                     |    |                   |                    |
| \$ 190,297                     | \$ 30,885        | \$ 167,624        | \$ 281,318               | \$ 2,827,630        |    | \$ 475,829        |                    |
| --                             | --               | --                | --                       | --                  | -- | --                |                    |
| (1,469)                        | --               | --                | --                       | 340                 |    | --                |                    |
| <b>\$ 188,827</b>              | <b>\$ 30,885</b> | <b>\$ 167,624</b> | <b>\$ 281,318</b>        | <b>\$ 2,827,970</b> |    | <b>\$ 475,829</b> |                    |

**NOTE 13. FUND EQUITY**

The following schedule enumerates the components of Fund Equity of the various funds as of June 30, 1999 (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  | \$ --                   | \$ --           | \$ --        | \$ --            | \$1,062,561            | \$26,315         | \$ --                | \$ --       | \$ --                          | \$ --           | \$ 1,088,876 |
| Retained Earnings:   |                         |                 |              |                  |                        |                  |                      |             |                                |                 |              |
| Reserved for:        |                         |                 |              |                  |                        |                  |                      |             |                                |                 |              |
| Future Benefits      | --                      | --              | --           | --               | 9,131                  | --               | --                   | --          | --                             | 3,880           | 13,011       |
| Market Value         |                         |                 |              |                  |                        |                  |                      |             |                                |                 |              |
| Adjustments          | --                      | --              | --           | --               | 81,488                 | --               | --                   | --          | --                             | --              | 81,488       |
| Bonds                | --                      | --              | --           | --               | --                     | --               | --                   | --          | --                             | 147,859         | 147,859      |
| Donors for           |                         |                 |              |                  |                        |                  |                      |             |                                |                 |              |
| Operations           | --                      | --              | --           | --               | --                     | --               | --                   | --          | --                             | 1,837           | 1,837        |
| Unreserved           | --                      | --              | --           | --               | 112,850                | (13,541)         | --                   | --          | --                             | 366,377         | 465,686      |
| Fund Balances:       |                         |                 |              |                  |                        |                  |                      |             |                                |                 |              |
| Reserved for:        |                         |                 |              |                  |                        |                  |                      |             |                                |                 |              |
| Encumbrances         | 132,509                 | 514,844         | --           | 175,263          | --                     | --               | 6,863                | 77,535      | --                             | --              | 907,014      |
| Inventory            | 10,814                  | 18,796          | --           | --               | --                     | --               | --                   | 26,286      | --                             | --              | 55,896       |
| Prepaid Items        | 177,908                 | 8,959           | --           | --               | --                     | --               | 3,845                | 16,292      | --                             | --              | 207,004      |
| Advances to          |                         |                 |              |                  |                        |                  |                      |             |                                |                 |              |
| Other Funds          | --                      | --              | --           | 2,500            | --                     | --               | --                   | --          | --                             | --              | 2,500        |
| Employe Benefits     | --                      | --              | --           | --               | --                     | --               | 46,593,039           | --          | --                             | --              | 46,593,039   |
| Pool Participants    | --                      | --              | --           | --               | --                     | --               | 2,982,436            | --          | --                             | --              | 2,982,436    |
| Market Value         |                         |                 |              |                  |                        |                  |                      |             |                                |                 |              |
| Adjustments          | --                      | --              | --           | --               | --                     | --               | 13,433,781           | --          | --                             | --              | 13,433,781   |
| Unemployment         |                         |                 |              |                  |                        |                  |                      |             |                                |                 |              |
| Insurance            | --                      | --              | --           | --               | --                     | --               | 1,824,816            | --          | --                             | --              | 1,824,816    |
| Auxiliary Operations | --                      | --              | --           | --               | --                     | --               | --                   | 95,639      | --                             | --              | 95,639       |
| Restricted Funds     | --                      | 257             | --           | --               | --                     | --               | --                   | 4,500       | --                             | --              | 4,757        |
| Loan Funds           | --                      | --              | --           | --               | --                     | --               | --                   | 174,145     | --                             | --              | 174,145      |
| Endowment and        |                         |                 |              |                  |                        |                  |                      |             |                                |                 |              |
| Similar Funds        | --                      | --              | --           | --               | --                     | --               | --                   | 296,985     | --                             | --              | 296,985      |
| Plant Funds          | --                      | --              | --           | --               | --                     | --               | --                   | 2,915,976   | --                             | --              | 2,919,976    |
| Unreserved:          |                         |                 |              |                  |                        |                  |                      |             |                                |                 |              |
| Designated for       |                         |                 |              |                  |                        |                  |                      |             |                                |                 |              |
| University           |                         |                 |              |                  |                        |                  |                      |             |                                |                 |              |
| Contingent Fund      | --                      | --              | --           | --               | --                     | --               | --                   | 3,267       | --                             | --              | 3,267        |
| Undesignated         | (1,229,946)             | (200,756)       | 6,320        | (373,448)        | --                     | --               | 1,514,842            | 19,371      | --                             | --              | (263,617)    |
| Total Fund Equity    | \$ (908,714)            | \$342,099       | \$6,320      | \$(195,685)      | \$1,266,029            | \$12,774         | \$66,359,621         | \$3,629,994 | \$519,953                      | \$71,032,391    |              |

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

In addition to the General Fund, funds reporting a deficit fund balance or retained earnings position at June 30, 1999 are (in thousands):

|  |            |
|--|------------|
| Special Revenue:                           |            |
| Petroleum Inspection                       | \$ 230,544 |
| Information Technology Investment          | 3,253      |
| Capital Projects:                          |            |
| Capital Improvement                        | 123,969    |
| Transportation Revenue Bonds               | 108,785    |
| Enterprise:                                |            |
| Home for Veterans                          | 9,289      |
| Mendota Mental Health Institute            | 14,653     |
| Winnebago Mental Health Institute          | 15,412     |
| Northern Developmental Disabilities Center | 16,708     |
| Central Developmental Disabilities Center  | 15,049     |
| Southern Developmental Disabilities Center | 21,684     |
| Institutional Farm Operations              | 15         |
| Health Insurance Risk Sharing Plan         | 2,705      |
| Duty Disability                            | 151,695    |
| Tuition Trust                              | 451        |
| Veterans Trust                             | 37,154     |
| Internal Service:                          |            |
| Services to Nonstate Governmental Units    | 694        |
| Information Technology Services            | 1,357      |
| Printing and Other Services                | 1,171      |
| State Telephone Services                   | 1,796      |
| Risk Management                            | 68,281     |
| Institutional Power Plant                  | 3,171      |

**NOTE 15. CONTRIBUTED CAPITAL**

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

|  | Enterprise         | Internal Service |
|--|--------------------|------------------|
| Environmental Improvement Fund – Environmental Protection Agency grant for State revolving fund loans to municipalities  | \$ 49,607          | \$ --            |
| Environmental Improvement Fund – Residual equity transfers in from the Capital Improvement Fund totaling \$31,000 less return of Contributed Capital to the Bond Security and Redemption Fund of \$4,000 | 27,000             | --               |
| Other changes to contributed capital   | (4,415)            | 431              |
| Subtotal   | 72,192             | 431              |
| Contributed capital, beginning of year   | 990,369            | 25,884           |
| Contributed capital, end of year   | <u>\$1,062,561</u> | <u>\$ 26,315</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, 1998, may be obtained by writing to:

Department of Employee Trust Funds  
 801 West Badger Road  
 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, 1998, the number of participating employers was:

|  |              |
|--|--------------|
| State Agencies                                     | 59           |
| Cities   | 153          |
| Counties   | 71           |
| 4 <sup>th</sup> Class Cities                       | 34           |
| Villages   | 185          |
| Towns  | 144          |
| School Districts                                   | 426          |
| Wisconsin Technical College System Board Districts | 16           |
| Cooperative Educational Service Agencies           | 12           |
| Other  | 152          |
| Total Employers                                    | <u>1,252</u> |

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 5.0% of their salary (4.7% for Executives and Elected Officials, 5.4% for Protective Occupations with Social Security, and 5.8% 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, 1996. State contributions required and made for the years ended December 31, 1998, 1997, and 1996 were as follows (in millions):

|                                   | 1998     | 1997     | 1996     |
|-----------------------------------|----------|----------|----------|
| Employer current service          | \$ 124.1 | \$ 125.0 | \$ 120.5 |
| Percent of payroll                | 5.3%     | 5.4%     | 5.6%     |
| Employer prior service            | \$ 30.6  | \$ 29.7  | \$ 28.2  |
| Percent of payroll                | 1.3%     | 1.3%     | 1.3%     |
| Employe required                  | \$ 119.9 | \$ 116.9 | \$ 111.1 |
| Percent of payroll                | 5.0%     | 5.0%     | 5.1%     |
| Benefit adjustment contrib.       | \$ 25.9  | \$ 29.3  | \$ 30.2  |
| Percent of payroll                | 1.1%     | 1.3%     | 1.4%     |
| 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 Employee Trust Funds Board has reviewed and, when appropriate, adjusted the actuarial assumptions used to determine this liability. Changes in the assumptions may affect the UAAL, and the resulting actuarial gains or losses are credited or charged to employers' unfunded liability accounts.

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

As of June 30, 1999 and 1998, the WRS's unfunded actuarial accrued liability was \$2.1 billion and \$2.1 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 June 30, 1999, was \$650.2 million, or 31.1 percent of the total WRS unfunded liability of \$2.1 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 (DETF) 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 DETF 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 DETF 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 DETF Administrative Code, Chapter 10.12(2).

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

At June 30, 1999, the FRIT held a number of nonnegotiable short-term certificates of deposit. The fair value of these certificates of deposit was approximately \$29.4 million, all of which was uncollateralized.

At June 30, 1999, the FRIT held \$49,607.3 million of investments of which \$561.9 million are classified as cash equivalents. In addition, the FRIT held \$3,606.9 million of securities lending collateral. The following table presents investments of the FRIT at June 30, 1999, categorized in accordance with the level of risk requirements of GASB Statement No. 3 (in millions):

|  | Category           |               |              | Fair Value         |
|--|--------------------|---------------|--------------|--------------------|
|  | 1                  | 2             | 3            |                    |
| Bonds  | \$ 9,976.7         | \$ --         | \$ --        | \$ 9,976.7         |
| Stocks   | 14,590.0           | 7.2           | --           | 14,597.2           |
| Repurchase Agreements                                      | 607.4              | --            | --           | 607.4              |
| Bankers Acceptances  | 204.1              | --            | --           | 204.1              |
| Total  | <u>\$ 25,378.2</u> | <u>\$ 7.2</u> | <u>\$ --</u> | 25,385.4           |
| Options  |                    |               |              | 69.5               |
| Private Placements   |                    |               |              | 3,123.6            |
| Limited Partnerships                                       |                    |               |              | 2,264.7            |
| Pooled Equities  |                    |               |              | 13,446.9           |
| Pooled Bonds   |                    |               |              | 3,815.3            |
| Mortgages  |                    |               |              | 86.9               |
| Real Estate Owned  |                    |               |              | 503.4              |
| Financial Futures Contracts                                |                    |               |              | .7                 |
| International Cash and Cash Equivalents                    |                    |               |              | 561.9              |
| Investments Held by Broker Dealers under Securities Loans: |                    |               |              |                    |
| Bonds  |                    |               |              | 2,374.9            |
| Equities   |                    |               |              | 1,143.7            |
| Securities Lending Cash Collateral Pooled Investments      |                    |               |              | 453.7              |
|  |                    |               |              | <u>\$ 53,230.6</u> |

The following schedule provides summary information by investment classification for the FRIT at June 30, 1999 (in thousands):

| Classification                   | Interest/Coupon Rates     | Maturity Dates | Cost                 | Fair Value           |
|----------------------------------|---------------------------|----------------|----------------------|----------------------|
| Bonds                            | Variable and .90 to 19.2  | 7/99 to 1/36   | \$ 13,700,303        | \$ 13,805,364        |
| Common and Preferred Stock       | N/A                       | N/A            | 22,083,668           | 29,187,863           |
| Options                          | N/A                       | N/A            | 43,904               | 69,536               |
| Limited Partnerships Real Estate | N/A                       | N/A            | 2,047,712            | 2,264,658            |
| Mortgages                        | 8.25 to 12.25             | 7/99 to 6/22   | 79,566               | 86,938               |
| Real Estate                      | N/A                       | N/A            | 479,657              | 503,389              |
| Financial Futures Contracts      | N/A                       | N/A            | --                   | 747                  |
| Private Placements               | Variable and 5.3 to 14.75 | 7/99 to 12/31  | 2,973,529            | 3,123,538            |
| Total Investments                |                           |                | <u>\$ 41,408,339</u> | <u>\$ 49,042,033</u> |

Significant financial data for the FRIT for the year ended June 30, 1999 is presented below (in thousands):

| Fixed Retirement Investment Trust<br>Condensed Statement of Net Assets<br>As of June 30, 1999 |                      | Fixed Retirement Investment Trust<br>Condensed Statement of Changes in Net Assets<br>For the Year Ended June 30, 1999 |                      |
|---|----------------------|---|----------------------|
| Assets:   |                      | Additions:  |                      |
| Cash and Cash Equivalents   | \$ 1,883,125         | Net Appreciation (Depreciation ) in<br>Fair Value of Investments  | \$ 2,858,607         |
| Securities Lending Collateral   | 3,606,926            | Interest  | 1,179,826            |
| Prepaid Items   | 1,010                | Dividends   | 379,646              |
| Due from Other Funds  | 41                   | Real Estate Income  | 49,524               |
| Investment Receivables  | 906,203              | Securities Lending Income   | 201,070              |
| Investments, at Fair Value  | 49,042,034           | Other   | 66,949               |
| Total Assets  | <u>\$ 55,439,338</u> | Total Additions   | <u>4,735,622</u>     |
| Liabilities:  |                      | Deductions:   |                      |
| Securities Lending Collateral Liability   | \$ 3,606,926         | Investment Expense  | 61,337               |
| Investment Payables   | 313,443              | Securities Lending Rebates and Fees   | 185,330              |
| Total Liabilities   | <u>3,920,368</u>     | Net Withdrawals by Pool Participants  | 321,787              |
| Net Assets Held in Trust of:  |                      | Total Deductions  | <u>568,454</u>       |
| Internal Investment Pool Participants   | 51,400,025           | Net Increase (Decrease)   | 4,167,168            |
| Milwaukee Retirement Systems  | 118,945              | Net Assets Held in Trust for Pool Participants  |                      |
| Total   | <u>\$ 51,518,970</u> | Beginning of Year   | 47,351,802           |
|   |                      | End of Year   | <u>\$ 51,518,970</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 employes in accordance with Chapter 40 of the Wisconsin Statutes.

Post retirement life insurance is provided to employes retiring before age 65 if they (1) have 20 years of creditable service, and (2) are eligible for a retirement annuity. This coverage is at the employe's expense (employe must pay the full premium) until age 65 when reduced coverage is provided at no cost. Employes retiring at or after age 65 are immediately eligible for reduced coverage at no cost. Beginning in the month in which an insured annuitant reaches age 65, premiums are no longer collected and coverage is continued for life. Approximately 11,666 State annuitants currently qualify for coverage without premium. Post retirement life insurance is fully insured by an independent insurance carrier. Premiums are prefunded with employer paid premiums during the employe's active career. The amount of premiums is determined by the insurer. The accrued liability and assets specifically related to post employment benefits could not be determined.

In accordance with Chapter 40, Wisconsin Statutes, the State also provides that employes retiring and beginning an immediate annuity are eligible for conversion of unused sick leave to post retirement health insurance. At the time of eligibility for an immediate annuity or employe's death, that employe's accumulated unused sick leave balance may be converted at the employe's current rate of pay to credits for the payment of health insurance premiums for the employe or the employe's surviving dependents. The program also provides partial matching of sick leave accumulation depending on years of service and employment category. Health insurance premiums are paid on the employe, or employe's dependents behalf, until the sick leave conversion credits are exhausted. At that time, the employe has the option to continue coverage by paying the total cost of the premiums. Approximately 7,752 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, 4.8 percent assumed annual salary growth, and an average sick leave accumulation of 6.0 days per year for non-University employes and 7.2 days per year for University employes. The assets and reserves of the sick leave conversion program are accounted for as an expendable trust fund. The accrued liability for the post retirement health insurance benefits at December 31, 1998, determined through an actuarial valuation performed on that date, was \$816.0 million. The program's assets on that date were \$434.0 million. The unfunded liability was \$382.0 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 \$3.2 million and \$69.2 million, respectively, during the calendar year ended December 31, 1998.

## 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, 1998.

### A. Description of Funds

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

The Income Continuation Insurance Fund offers disability wage continuation insurance for current employes of the State government and of participating local public employers. All public employers in the State are eligible to participate. Ninety-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 employes. Four hundred thirty-two local employers plus the State currently participate. The plan is self-insured and risk is shared between the State and local portions of the plan.

The Long-term Disability Insurance Fund offers long-term disability benefits to participants in the Wisconsin Retirement System (WRS). The long-term disability benefits provided by this program are an alternative coverage to that currently provided by the WRS. All new WRS participants on or after October 15, 1992, are eligible only for the long-term disability insurance coverage, while participating employes active prior to October 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 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-three year period beginning January 1, 2000. 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 1998 (in millions):

|  | Health Insurance |         | Income Continuation Insurance |        | Duty Disability |         | Long-term Disability Insurance |         |
|--|------------------|---------|-------------------------------|--------|-----------------|---------|--------------------------------|---------|
|  | 1997             | 1998    | 1997                          | 1998   | 1997            | 1998    | 1997                           | 1998    |
| Unpaid claims at beginning of the calendar year  | \$ 9.1           | \$8.9   | \$42.5                        | \$44.2 | \$187.4         | \$197.0 | \$10.8                         | \$ 14.6 |
| Incurred claims:   |                  |         |                               |        |                 |         |                                |         |
| Provision for insured events of the current calendar year  | 55.5             | 58.5    | 19.1                          | 19.2   | 14.1            | 16.9    | 4.5                            | 7.7     |
| Changes in provision for insured events of prior calendar years                                  | (0.5)            | (0.2)   | (9.8)                         | (11.5) | 9.3             | 16.9    | 1.2                            | (0.6)   |
| Total incurred claims  | 55.0             | 58.3    | 9.3                           | 7.7    | 23.4            | 33.8    | 5.7                            | 8.3     |
| Payments:  |                  |         |                               |        |                 |         |                                |         |
| Claims and claim adjustment expenses attributable to insured events of the current calendar year | 45.8             | 42.4    | 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              | 8.2     | 5.1                           | 5.3    | 14.4            | 15.4    | 2.0                            | 2.9     |
| Total Payments   | 55.2             | 50.6    | 7.6                           | 7.7    | 14.4            | 15.5    | 2.0                            | 3.0     |
| Total unpaid claims expenses at end of the calendar year   | \$ 8.9           | \$ 16.6 | \$44.2                        | \$44.2 | \$197.0         | \$215.3 | \$14.6                         | \$19.9  |

**D. Trend Information**

Historical trend information showing revenue and claims development information is presented in the Department of Employee Trust Funds December 31, 1998 audited financial statements. Copies of these statements may be requested from:

The Department of Employee Trust Funds  
 801 West Badger Road  
 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 1999.

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, 1999 are estimated to total \$1.8 million. This amount, less \$.6 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 1999 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 either incurred or incurred but not reported because existing case law makes it unlikely the State would be held liable for material amounts. Because actual claims liabilities depend upon complex factors such as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims incurred but not paid as of June 30, 1999 are estimated to total \$39.2 million.

**Worker's Compensation**

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

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

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, 1999 are estimated to total \$40.0 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):

|  | 1999             | 1998             |
|--|------------------|------------------|
| Beginning of fiscal year liability           | \$ 78,654        | \$ 77,544        |
| Current year claims and changes in estimates | 20,745           | 20,365           |
| Claim payments                               | (18,870)         | (19,255)         |
| Balance at fiscal year-end                   | <u>\$ 80,529</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, 1999 is \$ 2.9 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, 1999, the Local Government Property Insurance Fund insured 1,127 local governmental units. The total amount of insurance in force as of June 30, 1999 was \$22.8 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, 1999, the fund had \$5.6 million of shares in the State Investment Fund which are considered cash equivalents and \$16.0 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, 1999.

*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, 1999 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. Reinsurance loss and adjusting expense recoveries earned for the year amounted to \$5.5 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):



|   | 1999            | 1998            |
|---|-----------------|-----------------|
| Unpaid claims and claim adjustment expenses at beginning of the year                    | \$11,049        | \$4,298         |
| Less: Reinsurance recoverable   | (6,682)         | (1,055)         |
| Net unpaid loss liability at beginning of year  | <u>4,367</u>    | <u>3,243</u>    |
| Incurred claims and claim adjustment expenses:  |                 |                 |
| Provision for insured events of the current year  | 8,528           | 8,050           |
| Increase (decrease) in provision for insured events of prior years                      | <u>(135)</u>    | <u>(1,036)</u>  |
| Total incurred claims and claim adjustment expenses                                     | <u>8,393</u>    | <u>7,014</u>    |
| Payments:   |                 |                 |
| Claims and claim adjustment expenses attributable to insured events of the current year | 4,505           | 4,561           |
| Claims and claim adjustment expenses attributable to insured events prior years         | <u>3,811</u>    | <u>1,334</u>    |
| Total payments  | <u>8,316</u>    | <u>5,895</u>    |
| Net unpaid claims and claim adjustment expenses at end of year                          | 4,444           | 4,362           |
| Reinsurance recoverable   | <u>6,431</u>    | <u>6,687</u>    |
| Total unpaid claims and claim adjustment expenses                                       | <u>\$10,875</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, 1999 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 amortized over a forty year period, considered representative of the life of the contract. The amortization is in proportion to the ratio of annual in-force business to the amount of business issued. Such anticipated in-force business was estimated using similar assumptions to those used for computing liabilities for future policy benefits.

**Deferred Acquisition Cost Assumptions**

| Issue Years | Interest Rate | Lapse Rate | Mortality |
|-------------|---------------|------------|-----------|
| 1913-1966   | 3.0%          | 2.0%       | None      |
| 1967-1976   | 3.0           | 2.0        | None      |
| 1977-1985   | 4.0           | 2.0        | None      |
| 1986-1994   | 5.0           | 2.0        | None      |
| 1995+       | 4.0           | 2.0        | None      |

Amortization for the year ended June 30, 1999 amounted to \$59 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<br>Year | Ordinary Life<br>Insurance<br>in Force | Amount of<br>Policy<br>Liability |
|---------------|--|----------------------------------|
| 1913-1966     | \$ 16,047                              | \$ 9,411                         |
| 1967-1976     | 43,852                                 | 14,551                           |
| 1977-1985     | 89,836                                 | 17,875                           |
| 1986-1994     | 57,555                                 | 4,475                            |
| 1995+         | 21,061                                 | 1,136                            |
|               | <u>\$ 228,351</u>                      | <u>\$ 47,448</u>                 |

**Bases of Assumptions**

| Issue<br>Year | Interest<br>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<br>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, 1998 were \$67.4 million and the statutory capital and surplus were \$7.0 million, and the capital and surplus at June 30, 1999 was \$9.7 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. Risk of loss is retained by the fund.

The Future Benefits and Loss Liability Account includes individual case estimates for reported losses and estimates for incurred but not reported losses based upon the projected ultimate losses. 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, 1999 as follows (in thousands):

|  |                   |
|--|-------------------|
| Projected ultimate loss liability              | \$ 1,085,591      |
| Less: Net loss paid from inception             | (423,320)         |
| Less: Liability for reported losses            | <u>(28,252)</u>   |
| Liability for incurred but not reported losses | <u>\$ 634,019</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, 1999 are estimated at 5.0 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, 1999 as follows (in thousands):

|  |                  |
|--|------------------|
| Projected ultimate loss adjustment expense liability | \$ 54,280        |
| Less: Loss adjustment expense paid from inception    | <u>(23,433)</u>  |
| Liability for loss adjustment expense                | <u>\$ 30,847</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 liability for reported losses, liability for incurred but not reported losses, and liability for loss adjustment expense is maintained on a present value basis with the difference from full value being reported as a contra account to the loss reserve liabilities. The loss reserve liabilities are discounted only to the extent that they are matched by cash and invested assets. If all loss liabilities are discounted, the discounted loss liability would be as follows as of June 30, 1999 (in thousands):

|  |                   |
|--|-------------------|
| Estimated unpaid loss liabilities        | \$ 662,272        |
| Estimated unpaid loss adjustment expense | 30,847            |
| Total estimated loss liabilities         | 693,119           |
| Less: Amount representing interest       | 205,163           |
| Discounted loss liabilities              | <u>\$ 487,956</u> |

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 1980 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 generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board. Premiums are recognized as revenues over the terms of the insurance policies, and a liability for unearned premiums is established to reflect premiums received applicable to subsequent accounting periods. Participating insurers are assessed every six months, and revenue is recognized in the period covered by the assessments.

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):

|                            | 1999            | 1998             |
|----------------------------|-----------------|------------------|
| Balance, beginning of year | \$ 10,461       | \$ 7,298         |
| Incurred related to:       |                 |                  |
| Current year               | 35,891          | 41,682           |
| Prior years                | (4,488)         | (768)            |
| Total Incurred             | <u>31,403</u>   | <u>40,914</u>    |
| Paid related to:           |                 |                  |
| Current year               | 26,435          | 31,304           |
| Prior years                | 5,973           | 6,447            |
| Total Paid                 | <u>32,408</u>   | <u>37,751</u>    |
| Balance, end of year       | <u>\$ 9,456</u> | <u>\$ 10,461</u> |

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, 1998. 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, 1998.

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, 1997 and December 31, 1998, are as follows (in thousands):

|                        | 1998       | 1997       |
|------------------------|------------|------------|
| Balance at January 1   | \$ 126,084 | \$ 135,147 |
| Incurred related to:   |            |            |
| Current year           | 6,510      | 7,354      |
| Prior years            | (14,671)   | (12,252)   |
| Total Incurred         | (8,161)    | (4,898)    |
| Paid related to:       |            |            |
| Current year           | 122        | 122        |
| Prior years            | 2,025      | 4,043      |
| Total paid             | 2,147      | 4,165      |
| Balance at December 31 | \$ 115,776 | \$ 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 \$2.3 million on June 30, 1999 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 \$1.8 million at June 30, 1999, 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 has estimated that the amount to be paid by the State is \$11.5 million, which is reported in the General Fund as Tax Refunds Payable.

#### 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 million. Due to the uncertainty in predicting the outcome and the amount of the settlement, a liability has not been recorded as of June 30, 1999.

*Wisconsin Central Ltd. v. Wisconsin Department of Revenue, et al* - This is a court action 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, 1999.

*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. The Supreme Court reversed the Court of Appeals. The taxpayers maintain that the decision is not applicable to 1993 and 1994. The State maintains the principles of the decision are applicable to the subsequent years.

Due to the uncertainty in predicting the outcome, a liability has not been recorded as of June 30, 1999.

*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 matter is before the Circuit Court awaiting decision. 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. Thirty-one sites have soil and/or groundwater contamination associated with underground storage tank releases with an estimated remediation cost of \$1.6 million. The cost of remediation has not been determined for approximately 15 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 \$0.2 million.

The State is also involved in environmental remediations on 15 properties that do not involve releases from underground storage tanks, with an estimated cost of \$3.5 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, 1999 reported as Fund Balance - Reserved for Encumbrances, additional obligations at June 30, 1999 representing multi-year, long-term commitments included (in thousands):

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|   |            |
|---|------------|
| Transportation Fund   | \$ 184,668 |
| Transportation Revenue Bonds Capital<br>Projects Fund   | 18,674     |
| General Fund – Department of Commerce<br>programs, including economic and community<br>development programs | 2,297      |

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*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 \$137.2 million as of June 30, 1999. 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, 1999, future commitments for hardship grants totaled \$19.6 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, 1999, outstanding loan guarantees totaled \$40.7 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 \$600 thousand in annuity payments. The total estimated replacement value of the fund's annuities as of June 30, 1999 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, 1999, the appropriation available totaled \$25.3 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. SUBSEQUENT EVENTS

### Bonds and Notes

#### Primary Government

##### Short-term Debt

In September and October 1999, the State issued two series of notes in its General Obligation Extendible Commercial Note Program. The \$125.0 million of aggregate principal will be used for the acquisition, construction, development, extension, enlargement, or improvement of land, waters, property, highways, buildings, equipment or facilities. The State intends to make annual payments, due on May 1, on the notes which reflect principal amortization of those notes. The State further intends to make quarterly deposits with the US Bank Trust National Association, the issuing and paying agent for the notes, to pay accrued interest due on the maturing notes.

##### Long-term Debt

*State of Wisconsin General Obligation Bonds* – In October 1999, the State issued \$100.0 million of 1999 Series C general obligation bonds to be used for the acquisition, construction, development, extension, enlargement, or improvement of land, waters, property, highways, buildings, equipment or facilities for public purposes. Interest is payable on May 1 and November 1 commencing on May 1, 2000, with the bonds maturing on May 1 of the years 2001 through 2020.

In November 1999, the State issued \$65.0 million of 1999 Series D general obligation bonds to be used for veterans housing loans. Interest is payable on May 1 and November 1, commencing on May 1, 2000, with the bonds maturing on November 1 of the years 2001 through 2030.

*Revenue Bonds* – In August 1999, the Environmental Improvement Fund issued \$80.0 million of Series 1 Clean Water Fund Revenue Bonds, the proceeds of which will be used primarily to make loans to municipalities for construction or improvement of their waste water treatment facilities.

#### Component Unit

*Wisconsin Housing and Economic Development Authority* – In July 1999, the Authority issued \$155.0 million of Home Ownership Revenue Bonds, 1999 Series F, G, H and I, to refund certain previously issued revenue bonds and to purchase new mortgage loans.

The Authority issued \$41.4 million of Housing Revenue Bonds, 1999 Series A and B. Proceeds will be used to purchase new mortgage loans and refund previously issued bonds.

In addition the Authority had the following (in thousands):

|                             | 1999<br>Redemptions | Call<br>Premiums |
|-----------------------------|---------------------|------------------|
| Housing Revenue Bond        |                     |                  |
| Resolutions:                |                     |                  |
| 1986 A&B                    | \$ 2,405            | \$ --            |
| 1988 A&B                    | 4,990               | 100              |
| 1989 A,B,C                  | 13,135              | 394              |
| Home Ownership              |                     |                  |
| Revenue Bond Resolutions:   |                     |                  |
| 1987                        | 28,440              | --               |
| 1988                        | 115,583             | 1,364            |
| All Other                   | 12,295              | 15               |
| Single Family Drawdown      |                     |                  |
| Revenue Bonds               | 28,000              | --               |
| State of Wisconsin Programs | 1,995               | --               |
| Total                       | <u>\$ 206,843</u>   | <u>\$ 1,873</u>  |



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## **Required Supplementary Information**

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## YEAR 2000 Disclosures

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 include WiSMART (the State's accounting system), which has been recently updated for year 2000 and testing for year 2000 compliance has been completed successfully. The Department of Revenue, the agency responsible for collection of State taxes, has completed implementation of 100% of its remediated critical applications.

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.

As of November 1999, the following information is available from this reporting:

- 98% of the most critical applications have completed all above four stages.
- All of the most critical applications have had year 2000 modifications made, or modifications are in progress, although testing and implementation of some modifications is not completed yet.

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. Risk assessments have been completed in all eleven agencies scheduled for review.

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 consolidated agencies' contingency plans and provided an enterprise contingency plan for the State that will allow for better coordination with local governments and the private sector. The DOA coordinated a successful statewide test of rollover plans in October 1999.

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 has completed the implementation of fully remediated software for 100% of its most critical applications. 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.

