

# WISCONSIN

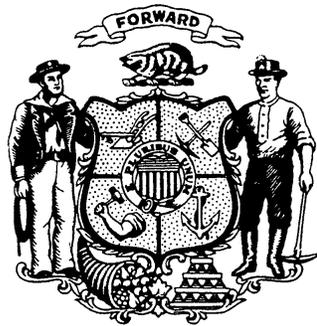
## COMPREHENSIVE ANNUAL FINANCIAL REPORT



For the fiscal year ended June 30, 1998

# STATE OF **WISCONSIN**

## COMPREHENSIVE ANNUAL FINANCIAL REPORT



For the fiscal year ended June 30, 1998

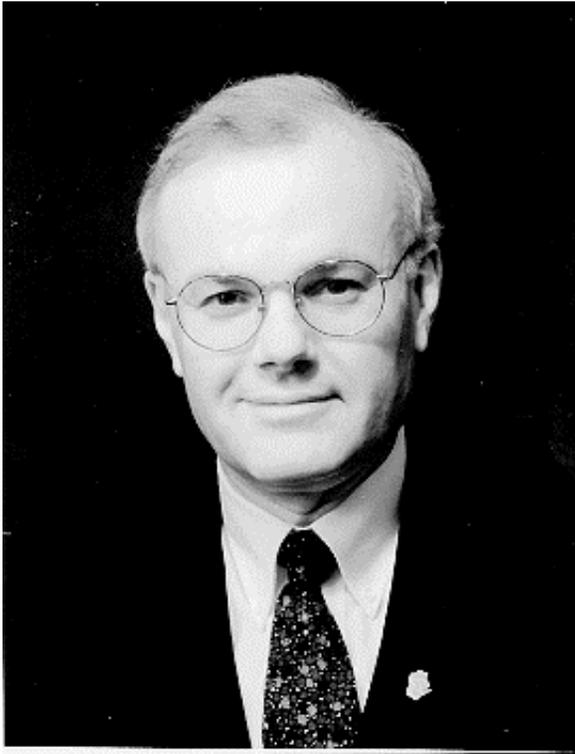
**Tommy G. Thompson, Governor**

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

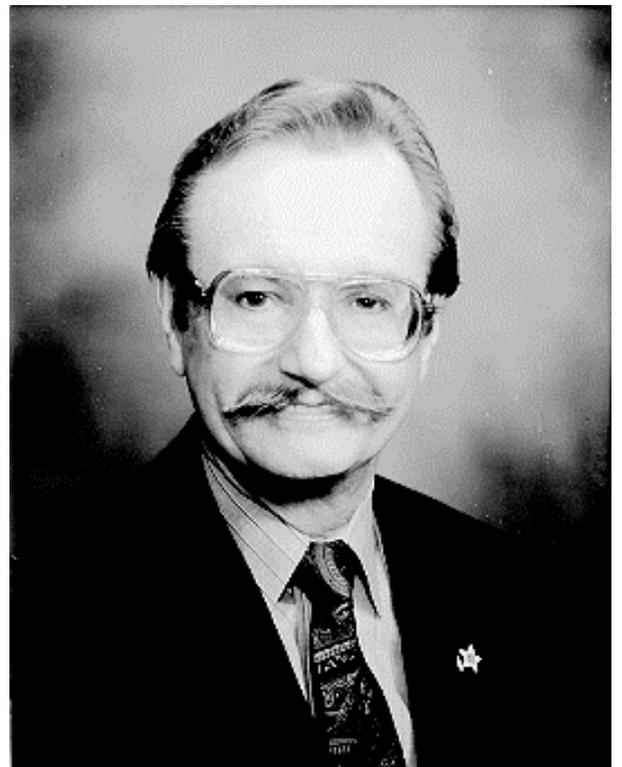
Prepared by the State Controller's Office

This document is available on the Department of Administration homepage  
on the World Wide Web: <http://www.doa.state.wi.us/debf/cafr/FY98/98cafrm.htm>

DOA-6082P (R12/98)



**Mark D. Bugher, Secretary  
Department of Administration**



**William J. Raftery, CPA  
State Controller**



**Tommy G. Thompson**  
**Governor**

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

**Table of Contents**

**Page**

**INTRODUCTORY SECTION**

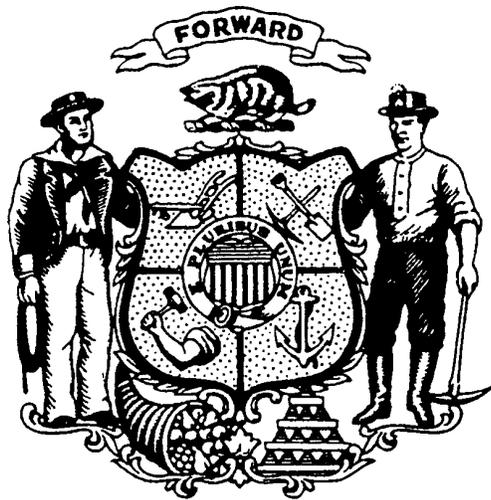
Letter of Transmittal.....	2
GFOA Certificate of Achievement.....	12
Organizational Chart.....	13
Principal State Officials.....	14

**FINANCIAL SECTION**

Auditor's Report.....	16
General Purpose Financial Statements:	
Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units.....	18
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types And Expendable Trust Funds.....	22
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - General and Special Revenue Funds.....	24
Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances - All Proprietary Fund Types, Nonexpendable Trust Funds and Discretely Presented Component Units.....	25
Combined Statement of Cash Flows - All Proprietary Fund Types, Nonexpendable Trust Funds and Discretely Presented Component Units.....	27
Combined Statement of Changes in Net Assets - Pension Trust Fund and Investment Trust Funds.....	30
Combined Statement of Current Funds Revenues, Expenditures, and Other Changes - University of Wisconsin System.....	31
Combined Statement of Changes in Fund Balances - University of Wisconsin System.....	32
Notes to the Financial Statements Index.....	34
Notes to the Financial Statements.....	36
Combining Statements and Schedules:	
<b>Special Revenue Funds:</b>	
Combining Balance Sheet.....	104
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	108
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Special Revenue Funds.....	112
<b>Debt Service Funds:</b>	
Combining Balance Sheet.....	120
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	121
<b>Capital Projects Funds:</b>	
Combining Balance Sheet.....	124
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	125
<b>Enterprise Funds:</b>	
Combining Balance Sheet.....	130
Combining Statement of Revenues, Expenses and Changes in Retained Earnings.....	134
Combining Statement of Cash Flows.....	138
<b>Internal Service Funds:</b>	
Combining Balance Sheet.....	148
Combining Statement of Revenues, Expenses and Changes in Retained Earnings.....	150
Combining Statement of Cash Flows.....	152
<b>Trust and Agency Funds:</b>	
Combining Balance Sheet.....	159
Expendable Trust Funds:	
Combining Balance Sheet.....	160
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	162

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

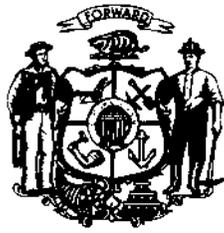
	Page
Nonexpendable Trust Fund	
Combining Balance Sheet.....	164
Combining Statement of Revenues, Expenses and Changes in Fund Balances.....	165
Combining Statement of Cash Flows.....	166
Pension Trust	
Statement of Plan Net Assets.....	167
Investment Trust	
Combining Statement of Net Assets.....	168
Combining Statement of Changes in Net Assets.....	169
Agency Funds	
Combining Balance Sheet.....	170
Combining Statement of Changes in Assets and Liabilities.....	171
<b>General Fixed Assets Account Group:</b>	
Schedule of General Fixed Assets by Function.....	174
Schedule of Changes in General Fixed Assets by Function.....	174
<b>University of Wisconsin System:</b>	
Combining Balance Sheet - University of Wisconsin System.....	176
<b>Component Units:</b>	
Combining Balance Sheet - Component Units.....	180
Combining Statement of Revenues, Expenses, and Changes in Retained Earnings - Component Units.....	181
Combining Statement of Cash Flows - Component Units.....	182
<b>STATISTICAL SECTION:</b>	
Revenues by Source and Expenditures by Function - All Governmental Fund Types.....	186
Assessed and Equalized Value of Taxable Property.....	188
State Forestation Tax.....	188
Legal Debt Margin.....	189
Ratio of Net General Obligation Bonded Debt to Assessed Value and Net General Obligation Bonded Debt Per Capita.....	190
Ratio of Annual Debt Service for General Bonded Debt to Total Governmental Expenditures.....	191
Department of Transportation Revenue Bond Coverage.....	192
Higher Education Revenue Bonds - Health Education Assistance Loans.....	192
Wisconsin Housing and Economic Development Authority Revenue Bonds - Home Ownership Revenue Bonds.....	193
Wisconsin Housing and Economic Development Authority Revenue Bonds - Housing Revenue Bonds.....	193
Wisconsin Housing and Economic Development Authority Revenue Bonds - Housing Rehabilitation and Home Improvement Revenue Bonds.....	194
Wisconsin Housing and Economic Development Authority Revenue Bonds - Business Development Revenue Bonds.....	194
Environmental Improvement Fund Bonds.....	195
Local Government Property Insurance Fund Ten-Year Claims Development Information.....	196
Health Insurance Risk Pool Eight-Year Claims Development Information.....	198
Income Continuation Insurance Risk Pool Eight-Year Claims Development Information.....	199
Duty Disability Insurance Risk Pool Eight-Year Claims Development Information.....	200
Long Term Disability Insurance Risk Pool Six-Year Claims Development Information.....	201
Bank Deposits.....	202
Unemployment Data.....	202
Personal Income.....	203
Disposable Personal Income.....	203
Kindergarten through Grade 12 Enrollment Statistics.....	204
State of Wisconsin's Largest Employers.....	205
Employment Trends in Wisconsin.....	206
Estimated Production Workers in Manufacturing - Hours and Earnings Annual Average.....	206
Estimated Employees in Wisconsin on Nonagricultural Payrolls.....	207
Total New Housing Units Authorized in Permit-Issuing Places.....	207
How Wisconsin Ranks Among the States in Agriculture.....	208
Miscellaneous Data.....	209
Acknowledgments.....	210



---

# **INTRODUCTORY SECTION**

---



TOMMY G. THOMPSON  
GOVERNOR  
MARK D. BUGHER  
SECRETARY

December 18, 1998

The Honorable Tommy G. Thompson  
The Honorable Members of the Legislature  
Citizens of the State of Wisconsin

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the State of Wisconsin for the fiscal year ended June 30, 1998. This report is prepared by the Department of Administration, Division of Executive Budget and Finance, State Controller's Office, which is responsible for both the accuracy of the data and the completeness and fairness of its presentation, including disclosures. We believe that the information presented is accurate in all material respects and reported in a manner designed to show the financial position and operating results of the State.

This report has been prepared in accordance with generally accepted accounting principles (GAAP) for governments as promulgated by the Governmental Accounting Standards Board (GASB). To report the State's financial activity, the State's budgetary funds are grouped into the fund types required by GAAP. The State's 51 budgetary funds are expanded and have been displayed into the 92 individual GAAP funds, the University of Wisconsin System, and three discrete component units. The major change has been to reclassify certain activities from the budgetary General Fund and present them in proprietary and fiduciary fund types more appropriate for the financial reporting of transactions related to commercial and trust activities. Note I-C to the financial statements includes a more detailed discussion of the generic GAAP fund types.

Wisconsin's 1998 Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section, which provides information on the general contents of the report, contains this letter of transmittal, a list of State officials and an organizational chart of State government. The Financial Section is composed of the auditor's report, the general purpose financial statements and the combining financial statements. The Statistical Section provides various financial, economic and demographic data about the State, generally on a multi-year basis.

The financial statements present information on the financial position and operations of State government as a single comprehensive reporting entity. The various agencies, departments, boards, commissions and accounts of the State that constitute the State reporting entity are included in this report in accordance with criteria established by the GASB. The reporting entity consists of all the funds and account groups of the primary government (the State of Wisconsin), as well as its component units which are legally separate organizations for which the State is financially accountable. Discretely presented component units include the Wisconsin Housing and Economic Development Authority, the Wisconsin Health Care Liability Insurance Plan, and the University of Wisconsin Hospitals and Clinics Authority. Blended component units, which are legally separate from the State, but are so intertwined with the State that they are, in substance, the same as the State, include the Wisconsin Public Broadcasting Foundation, Inc. In addition, the University of Wisconsin System continues to be included in this report presented in conformity with applicable generally accepted accounting principles.



The State provides a full range of services which include education, health and social services, transportation, law, justice, public safety, recreation and resources development, public improvements and general administrative services. The costs associated with these services are presented within the financial statements in detail and summary form.

## **ECONOMIC CONDITION AND OUTLOOK**

Wisconsin's economy remains vibrant. A strong 1997 has been followed by an equally strong 1998.

- Unemployment remained at full employment levels in 1997, averaging 3.7 percent. In 1998, unemployment has averaged 3.2 percent through October. This is the lowest average rate since 1966. Wisconsin's October 1998 rate of 2.9 percent is far below the national average of 4.6 percent.
- Manufacturing jobs rose 1.4 percent in 1997 to 609,400. In August of 1998, total manufacturing employment reached an all-time high of 630,500.
- Construction employment increased to 108,600 in 1997, 4.1 percent higher than 1996. Construction employment reached a record 125,100 in August 1998.
- Total non-farm employment in 1997 also set a new record at 2,652,500. In 1998, total non-farm employment should set another record of 2,711,400.
- Personal income increased 5.1 percent in 1997 and is expected to increase by 4.4 percent in 1998.
- The State's exports set yet another record in 1997, reaching \$9.8 billion, an increase of 16.4 percent.

Wisconsin's economy has consistently outperformed the nation's in recent years.

- Since 1987, Wisconsin's unemployment rate has been below the national rate.
- The Bureau of Economic Analysis projects Wisconsin's real growth will exceed the national average through the year 2005.
- The State's population growth has been among the highest for Midwest states as people relocate to Wisconsin. Since 1990, the State's population has grown by 5.9 percent.
- Over the past four years, Wisconsin's per capita personal income grew by 20.5 percent, slightly ahead of the national average of 19.2 percent.
- At 92.0 percent of population, Wisconsin has the second highest health insurance coverage rate in the country.
- Wisconsin also has the fourth lowest poverty rate.
- Wisconsin's median household income, \$41,215, is the eighth highest in the country, 13 percent above the national average.

Looking ahead, continued gains in employment will be slower than the national average. Employers are facing labor shortages. Further, exports of capital goods should slow with the slowdown in emerging markets. Total manufacturing is expected to decline slightly.

Wisconsin's personal income growth will be affected by the slowdown in employment growth. Total personal income will grow by 4.4 percent to reach \$130.6 billion in 1998 and by 4.2 percent to \$136.0 billion in 1999. Personal income per capita continues to increase, but will do so at a slower rate than in 1997.

## MAJOR INITIATIVES

**Economic Development.** In 1998, the State continued its efforts to expand existing businesses and attract new businesses to Wisconsin. The major tools used in these efforts are the Wisconsin Development Fund and the Enterprise Development Program. The State awarded \$9,593,889 during Fiscal Year 1998 from the Wisconsin Development Fund, primarily through the major economic development program and customized labor training grants. The Enterprise Development Zone program has awarded more than \$72.4 million in tax credits, and is expected to create over 11,500 new jobs, retain more than 18,850 jobs, and generate private investments of over \$1.3 billion. In addition, the State offers a variety of programs that target minority business development and community based economic development. In Fiscal Year 1998, the State unveiled a Rapid Response Program to provide fast-track assistance to economically distressed areas. The program provides \$2.5 million to support loans for renovation, construction and equipment purchases to foster economic development and for grants to capitalize local revolving loan funds. The State also increased its efforts to expand business and economic opportunities to rural areas, providing over \$1.5 million through the Dairy 2020 and Rural Economic Development programs.

In 1998, the State expended \$7.7 million to market Wisconsin as a national and international tourism destination, assisting a tourism industry that pumps over \$6.7 billion into Wisconsin's economy and directly or indirectly supports more than 200,000 jobs. Through an Internet home page, the department is providing statewide tourism information and enabling local governments and local tourism organizations to showcase local and regional attractions.

**Transportation.** The State continued to make significant investments in transportation infrastructure through expansion in highway capacity and reconstruction of existing highways and bridges. In 1998, more than 891 miles of State Trunk Highway (STH) and local highways were improved and 275 deficient STH bridges were rehabilitated or replaced. In all, more than \$594 million in construction projects on STH and local road systems was contracted through the Wisconsin Department of Transportation.

Wisconsin also distributes State transportation user fee revenues to local governments for transportation infrastructure improvements and transit operating assistance. In 1998, \$387.8 million was transferred to local governments for these purposes.

In honor and recognition of Wisconsin's sesquicentennial year of 1998, the Department of Transportation, in cooperation with Wisconsin's Sesquicentennial Commission, began issuing a limited-edition commemorative license plate in January 1997. Developed by a Department of Transportation employee and portraying the natural heritage of the Badger State, proceeds from sale of the plate will be used to support a variety of events during Wisconsin's 150<sup>th</sup> anniversary. Through November 1998, over 435,000 sesquicentennial license plates had been issued.

**Environment.** Created in 1989, Wisconsin's Warren Knowles-Gaylord Nelson Stewardship Program underscores the State's role as a national leader in environmental preservation and enhancement. The program is authorized to expend \$250 million through the sale of general obligation bonds and the use of federal grant moneys for various resource development and land protection activities. Through August 31, 1998, the Stewardship program had committed \$208 million in a variety of categories, including acquisition of State park lands, protection of urban rivers and assistance for local parks.

Wisconsin's Environmental Improvement Fund Program provides financial assistance to municipalities for the planning, design and construction of pollution abatement facilities -- primarily for wastewater treatment. Most communities applying for assistance receive subsidized loans, although some are eligible for partial grants through a hardship component of the program. Funding is provided from a State-matched federal capitalization grant authorized through the Water Quality Act, and through State revenue and general obligation bonds. In Fiscal Year 1998, the Environmental Improvement Fund made awards to

municipalities amounting to \$94.6 million, bringing the total amount of loans and grants awarded by the program to \$1.1 billion since its inception in 1991.

The Petroleum Environmental Cleanup Fund Award Program (PECFA) assists owners of leaking petroleum storage tanks with environmental remediation costs and has provided \$541.3 million for cleanups at 5,655 locations since 1988. In response to concerns regarding site closure methodologies and claim payment backlogs, the Governor directed the Departments of Administration, Natural Resources and Commerce to engage in a comprehensive redesign of the site review, cleanup and closure process. Several preliminary steps have been taken to ensure consistent application of site investigation requirements and to reconcile site databases. Fundamental changes are under development aimed at dramatically reducing the number of sites requiring cleanup while protecting the environment and public health.

The 1997-99 biennial budget created a \$5 million per year financial assistance program for redevelopment of underutilized land ("brownfields"). In 1998, 26 applicants received funding. These projects are expected to restore 321 acres of abandoned or under-used environmentally contaminated sites into clean, viable properties, result in an increase of over \$70 million in taxable property values and lead to the creation of 2,000 new jobs.

**Human Resources** Fiscal Year 1998 was the first year of implementation for Wisconsin's welfare reform program called Wisconsin Works or W-2, which officially began on September 1, 1997. This program, the culmination of welfare reform efforts that began ten years ago, replaced welfare checks with the opportunity to earn a living. The welfare caseload has continued its steep decline from over 71,000 in June of 1995 to just over 55,000 in June of 1996 to just over 38,000 in June of 1997 to just under 16,000 cases in June of 1998. The caseload declined from June 1997 to June 1998 by 57.9 percent.

**Education** Educational technology was at the forefront of major education initiatives in Fiscal Year 1998. As part of the 1997-99 biennial budget, the Governor and Legislature created the TEACH program, which authorized \$95 million in technology grants and loans in Fiscal Year 1998 for school districts, the University of Wisconsin System, the Wisconsin Technical College System and public libraries. Funding is used to wire schools for Internet and distance education access, subsidize monthly access costs, purchase hardware and software and provide staff training.

Regarding public elementary and secondary education, the State continued its commitment, initiated in Fiscal Year 1997, to fund two-thirds of partial school costs (costs paid either by local property taxes or state aids and credits). State aids and tax credits applied to 1997-98 school year costs totaled \$4.3 billion. In addition, the State, for the first time, created comprehensive model academic standards for grades 4, 8 and 10 in language arts, mathematics, science and social studies. This will allow school districts to evaluate their curricula and student performance against a common set of expectations. Funding was also provided to begin development of a high school graduation test, which students will be required to pass in order to graduate beginning in the 2001-2002 school year.

In addition, the 1997-99 biennial budget provided new educational opportunities for students through the creation of the Open Enrollment and Postsecondary Enrollment Options Programs. Open Enrollment will allow students to enroll in any school district in the State, on a space available basis, regardless of their school district of residence beginning in the 1998-99 school year. Students in good standing would be able to complete their last one or two years of high school at a Wisconsin Technical College System campus under the Postsecondary Enrollment Options Program.

Two important changes affecting Milwaukee Public Schools also occurred in Fiscal Year 1998. First, the 1997-99 biennial budget authorized the City of Milwaukee, the University of Wisconsin and the Milwaukee Area Technical College to establish their own charter school(s) in Milwaukee beginning in the 1998-99 school year. Charter schools are public schools that operate under a contract with the chartering entity,

which provides charter schools with significant flexibility in complying with State statutes and rules. Second, the State Supreme Court ruled in June 1998 that the expansion of the Milwaukee Parental Choice Program to sectarian schools was constitutional. This ruling will allow up to 15,000 children from economically disadvantaged Milwaukee families to attend private sectarian or non-sectarian schools in Milwaukee at no cost.

Two other major initiatives affected higher education in Fiscal Year 1998. First, the Board of Regents of the University of Wisconsin System was provided with additional flexibility to manage the System. This flexibility will give the Regents more control over tuition revenues and more authority to set the salaries of faculty and administrators to address competitive factors. Second, the Wisconsin Higher Education Grant (WHEG) for University of Wisconsin students was increased by 15.5 percent in Fiscal Year 1998. The WHEG program for Wisconsin Technical College System students received a 4 percent increase, while the Tuition Grant program for private college students was increased 7 percent.

## **FINANCIAL INFORMATION**

### **Internal Controls**

The State's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and that evaluation of costs and benefits requires estimates and judgments by management.

### **Budgetary Controls**

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

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

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

### **General Government Functions**

The following schedules present a summary of revenues (and proceeds from sale of bonds) and expenditures for the governmental fund types (i.e., the General Fund, special revenue funds, capital projects funds, and debt service funds) for Fiscal Years 1998 and 1997. These revenues, proceeds from sale of bonds, and expenditures are reported on the modified accrual basis of accounting in accordance with GAAP (in thousands):

<b>Revenues and Bond Proceeds (by Source) (in thousands)</b>	<b>1998 Amount</b>	<b>Percent of Total</b>	<b>1997 Amount</b>	<b>Change 1997/1998</b>
Taxes	\$ 10,218,307	67.4%	\$ 9,662,514	\$ 555,793
Intergovernmental (e.g., federal assistance)	3,704,247	24.4	3,587,981	116,266
Licenses and Permits	631,870	4.2	584,825	47,045
Charges for Goods and Services	193,964	1.3	282,612	(88,648)
Investment Income	85,647	0.6	70,150	15,497
Gifts and Donations	5,461		3,177	2,284
Other Revenues	149,400	1.0	86,453	62,947
Total Revenues	14,988,896		14,277,712	711,184
Proceeds from Sale of Bonds	160,470	1.1	80,535	79,935
Total Revenues and Bond Proceeds	\$ 15,149,366	100.0%	\$ 14,358,247	\$ 791,119

Revenues of governmental fund types totaled \$15.0 billion for the Fiscal Year 1998, increasing \$711.2 million or approximately 5.0 percent over the previous year. Due to continued strong growth, State tax revenue for Fiscal Year 1998 totaled \$10.2 billion, an increase of approximately \$555.8 million which represents a 5.8 percent increase over the previous year. Major increases in tax revenues occurred in individual income, general sales and use, and excise taxes. Intergovernmental revenues consisting primarily of federal assistance increased \$116.3 million over Fiscal Year 1997, while revenues from all other sources, excluding proceeds from sale of bonds, increased \$39.1 million, a 3.8 percent increase from the previous year.

<b>Expenditures (by Function) (in thousands)</b>	<b>1998 Amount</b>	<b>Percent of Total</b>	<b>1997 Amount</b>	<b>Change 1997/1998</b>
Current:				
Commerce	\$ 181,559	1.3%	\$ 183,581	\$ (2,022)
Education	4,397,970	30.6	4,125,946	272,024
Transportation	1,468,365	10.2	1,418,262	50,103
Environmental Resources	552,423	3.9	588,714	(36,291)
Human Relations and Resources	5,116,259	35.6	4,906,367	209,892
General Executive	308,736	2.2	325,433	(16,697)
Judicial	91,450	0.6	87,525	3,925
Legislative	55,144	0.4	53,277	1,867
Tax Relief and Other				
General Expenditures	725,316	5.0	694,871	30,445
Intergovernmental (Shared Revenue)	1,008,572	7.0	1,008,590	(18)
Capital Outlay	143,467	1.1	170,693	(27,226)
Debt Service	295,848	2.1	285,157	10,691
Total	\$ 14,345,109	100.0%	\$ 13,848,416	\$ 496,693

Governmental expenditures totaled \$14.3 billion for the fiscal year ended June 30, 1998. This represents a \$496.7 million or a 3.6 percent increase over the previous year. Education expenditures had the largest increase of \$272.0 million, while Environmental Resources expenditures had the largest decrease of \$36.3 million.

Education expenditures increased approximately 6.6 percent due in part to an increase in State assistance to Wisconsin's 426 school districts and 17 public library systems.

The 6.2 percent decrease in Environmental Resource expenditures primarily represents program payment timing differences and should not be considered a downward trend in spending.

### General Fund Balance

The General Fund balance on June 30, 1998 was \$(1,274.4) million. The fund balances appearing in the CAFR include accounts receivable for revenues accrued but cash not received, and accounts payable on expenditures which are recorded but for which cash has not yet been disbursed.

A reconciliation between the budgetary basis fund balance and the CAFR fund balance at June 30, 1998 follows (in thousands):

Fund Balance June 30, 1998 (budgetary basis – budgetary fund structure)	\$ 589,032
To eliminate outstanding year-end encumbrances from expenditures	304,796
To reclassify activities reported in another GAAP fund type	<u>(218,674)</u>
Fund balance June 30, 1998 (budgetary basis (net of encumbrances) – GAAP fund structure)	675,154
Adjustments:	
To adjust expenditures for the municipal and county shared revenue program	(504,309)
To adjust expenditures for state property tax credit program	(357,955)
To accrue/defer revenue for tax-related items and other tax credit/aid programs (net)	(987,641)
To adjust revenues and expenditures for other items (net)	<u>(99,655)</u>
Fund balance June 30, 1998 (GAAP basis - as reported in CAFR)	<u><u><u>\$(1,274,406)</u></u></u>

As discussed previously, the State's 51 budgetary funds are expanded and have been displayed into 92 individual GAAP funds, the University of Wisconsin System, and three discrete component units. Accordingly, the reporting of the University of Wisconsin System in separate funds and the reclassification of certain activities from the budgetary General Fund to fiduciary and proprietary fund types resulted in the reduction of the budgetary fund balance at June 30, 1998 of \$218.7 million, as noted above.

Another variation between GAAP and statutory reporting results from the revised definition of budgetary expenditures. Budgetary expenditures include \$304.8 million of outstanding year-end encumbrances. These encumbrances are not reflected in the GAAP based expenditures and consequently do not impact GAAP fund balance.

In applying GAAP based expenditure and liability recognition and measurement criteria, two of the largest single accruals relate to deferred Municipal and County Shared Revenue Program payments and deferred State Property Tax Credit Program payments. Since the early 1980's, funding of these programs has been deferred to the State fiscal year following their accrual, resulting in liabilities for these programs totaling \$864.6 million and \$862.3 million at June 30, 1997 and 1998, respectively.

Accruals and deferrals of various tax-related items and other tax credit/aid programs also significantly contribute to the budgetary basis and GAAP basis fund difference. Net accruals/deferrals for these items resulted in an additional liability of \$736.2 million and \$987.6 million on June 30, 1997 and 1998, respectively.

The remaining difference between the General Fund budgetary balance and the GAAP basis balance, as listed above, represents accruals/deferrals for such items as Medicaid claims (additional liabilities of \$82.3 million and \$78.1 million at June 30, 1997 and 1998, respectively) and other numerous, miscellaneous adjustments to assets and liabilities.

The increase between Wisconsin's GAAP balance at June 30, 1997 (as reported in the 1997 CAFR) of \$(1,472.8) million and the GAAP balance at June 30, 1998 of \$(1,274.4) million amounted to \$198.3 million. The budgetary surplus increased \$241.1 million (from a budgetary fund balance of \$397.2 million at June 30, 1997 to \$589.0 million at June 30, 1998 and a net change in outstanding encumbrances of \$49.3 million). Other factors impacting the change included: a decrease in the amount of activity reclassified as individual fund types totaling \$24.4 million; an increase in the net liability relating to individual income taxes of \$232.7 million; a decrease in liabilities of \$215.0 million due to the settlement of the special performance dividend pension-related lawsuit last year; and an increase in other accruals/deferrals totaling \$49.5 million.

The Annual Fiscal Report, the State's financial report based on budgetary accounting, has a different focus on the General Fund. Budgetary accounting is concerned primarily with the General Purpose Revenue portion of the General Fund, which shows an ending undesignated fund balance of \$552.3 million. This balance is derived by eliminating the program revenue activity from the total General Fund balance and reducing the remainder for any designations. Consequently, at June 30, 1998 the ending General Fund balance of \$589.0 million is increased by \$19.1 million to reflect the elimination of program revenue activity and decreased for fund balance designations of \$55.8 million to arrive at the ending undesignated budgetary fund balance of \$552.3 million.

### **Proprietary Operations**

The State has various proprietary funds (i.e., enterprise and internal service funds) that account for ongoing activities and organizations that are similar to those found in the private sector.

Enterprise funds are established to account for services provided to the public for which the revenues derived by the activity will support the services provided. The enterprise fund with the largest operating revenues is the Lottery Fund. The Lottery Fund's activities are used to provide property tax relief to taxpayers. Operating revenues of this fund totaled \$418.7 million in 1998.

Internal service funds are established to account for the financing of goods or services provided to State agencies, or to other governments, on a cost-reimbursement basis. The internal service fund with the largest operating revenues is the Information Technology Services Fund. This fund was established to account for computing services provided to other State agencies and the purchase and installation of data and word processing equipment. Operating revenues of this fund totaled \$40.3 million in 1998.

### **Pension Trust Funds**

The Wisconsin Retirement System (WRS), consisting of the fixed retirement investment trust, the variable retirement investment trust, and the police and firefighters trust is administered by the Department of Employee Trust Funds. The WRS provides coverage to all eligible employees of the State of Wisconsin and other participating local units of government.

The most current actuarial valuations of the pension plan indicated that the WRS was funded at 94.7 percent of liabilities for the 437,533 participants of the WRS. The State's contribution represents 28.1 percent of total contributions required of all participating entities.

## **Debt Administration**

The State of Wisconsin Building Commission, an agency of the State, is empowered by law to consider, act upon, authorize, issue and sell all debt obligations of the State. The total general obligation debt outstanding for the State as of June 30, 1998 was \$3.3 billion.

During Fiscal Year 1998, \$257.2 million of these general obligation bonds were issued to provide for the acquisition or improvement of land, water, property, highways, buildings, equipment, or facilities for public purposes. In addition, \$154.6 million of general obligation bonds were issued for veterans housing loans.

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

At June 30, 1998, State of Wisconsin bonds had a rating of Aa2 from Moody's Investors Services, a rating of AA from Standard and Poor's Corporation, and AA+ from Fitch Investors Service, L.P.

Chapter 18 of the Wisconsin Statutes authorizes the State to issue revenue obligations. These obligations, which are not debt of the State, are secured by a pledge of revenues or property derived from the operations of a program funded by the issuance of the obligations. Revenue bonds totaled \$3.4 billion outstanding at fiscal year-end. These bonds include: \$720.9 million in Transportation Revenue Bonds issued to finance certain transportation facilities and major highway projects; \$3.5 million of Wisconsin Education Revenue Bonds for the Health Education Assistance Loan Program; \$2.1 billion of Wisconsin Housing and Economic Development Authority Revenue Bonds; \$50.0 million for the University of Wisconsin Hospitals and Clinics Authority; and \$509.0 million of Environmental Improvement Fund bonds.

Other bonds presented in the balance sheet include \$.8 million of Wisconsin Building Corporation Bonds issued to provide funds for the acquisition and construction of certain buildings and facilities for public purposes. Revenues pledged to the repayment of these bonds are derived through lease-rental agreements between State agencies and the corporations.

## **Cash Management**

The State of Wisconsin Investment Board is responsible for investing in cash resources of the State. On a daily basis, excess cash from all funds is pooled and invested through a variety of investment vehicles. Interest income earned on these investments is allocated to the various funds based on their average daily cash balances. The total amount of investments in the State Investment Fund at June 30, 1998 was \$5.9 billion.

The State's General Fund cash flow requirements are greatest in the earlier part of the fiscal year. To meet these cash flow needs, the State sold \$350.0 million in short-term general obligation operating notes for Fiscal Year 1999. The final payment on these notes will be made on June 15, 1999.

## **Risk Management**

The State's risk management program, encompassing all State agencies, began in 1974 within the Department of Administration. Statutory responsibilities and authority include, but are not limited to:

- Protecting the State's assets from catastrophic loss;
- Emphasizing loss reduction;
- Identifying and evaluating exposures to loss;
- Recommending changes in procedures and programs to eliminate or reduce existing exposures;
- Arranging appropriate insurance for the transfer of risk of loss; and
- Approving all insurance purchases.

Currently, the State is essentially self-insured, through its risk management program, against major losses to which it is exposed. The Risk Management Fund, an internal service fund, services most claims for risk of loss, including damage to State owned property, liability for property damages and injuries to third parties, and worker's compensation. Additional disclosures on the State's risk management activities are provided in Note 20.

## **OTHER INFORMATION**

### **Independent Audit**

In compliance with Wis. Stat. Sec. 13.94 (1)(c), the State Legislative Audit Bureau has performed an examination of the State's general purpose financial statements. The examination was made in accordance with generally accepted auditing standards. Their report is contained in the Financial Section which follows.

### **Award**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a "Certificate of Achievement for Excellence in Financial Reporting" to the State of Wisconsin for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 1997. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

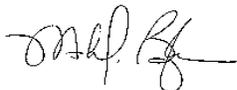
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal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

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

## **ACKNOWLEDGMENTS**

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

Sincerely,



Mark D. Bugher  
Secretary



William J. Raftery, CPA  
State Controller

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of  
Wisconsin

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

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

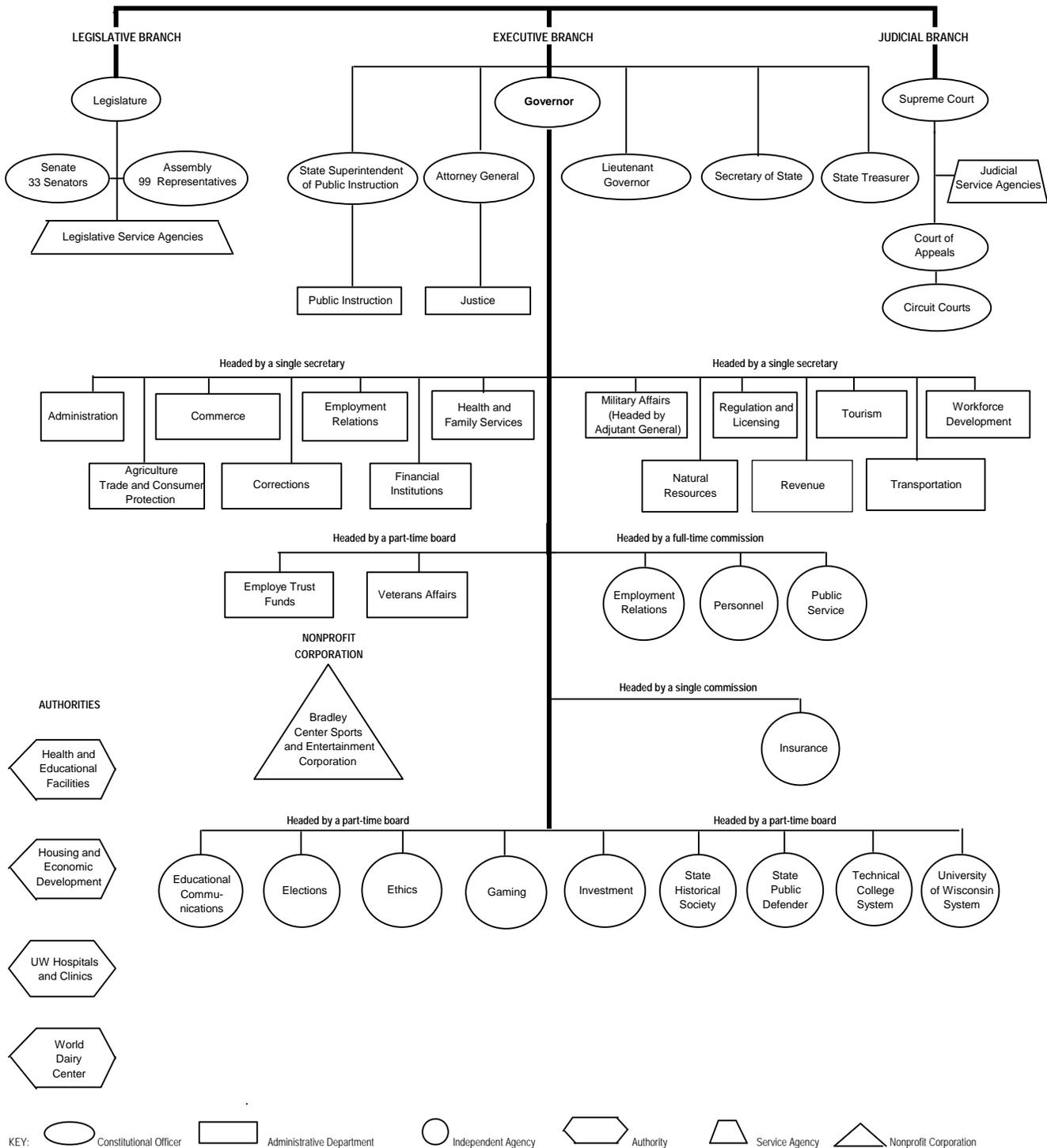


*Douglas R. Ellaworth*  
President

*Jeffrey L. Esler*  
Executive Director

# Organizational Chart

WISCONSIN STATE GOVERNMENT ORGANIZATION  
January 1997



# Principal State Officials

---

## EXECUTIVE

Tommy G. Thompson  
*Governor*

Scott McCallum  
*Lieutenant Governor*

Douglas J. LaFollette  
*Secretary of State*

Jack C. Voight  
*State Treasurer*

James E. Doyle  
*Attorney General*

John T. Benson  
*State Superintendent of Public Instruction*

## LEGISLATIVE

Brian Rude (beginning April 21, 1998)  
Fred Risser (through April 20, 1998)  
*President of the State Senate*

Scott Jensen  
*Speaker of the Assembly*

## JUDICIAL

Shirley S. Abrahamson  
*Chief Justice of the Supreme Court*