STATE OF WISCONSIN

CONTINUING DISCLOSURE ANNUAL REPORT

FILED PURSUANT TO UNDERTAKINGS PROVIDED TO PERMIT COMPLIANCE WITH SECURITIES EXCHANGE COMMISSION RULE 15C2-12

STATE OF WISCONSIN
General Obligations
Master Lease Certificates of Participation
Transportation Revenue Obligations
Clean Water Revenue Bonds

December 26, 1997

www.doa.state.wi.us/debf/capfin/97condis.htm

STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION
101 East Wilson Street, Madison, Wisconsi

TOMMY G. THOMPSON
GOVERNOR
MARK D. BUGHER
SECRETARY

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Capital Finance Office
Post Office Box 7864
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Frank R. Hoadley
Capital Finance Director
Telephone: (608) 266-2305
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December 26, 1997

To the Municipal Bond Investment Community and Other Users of this Report:

This document constitutes the Annual Report for the fiscal year ending June 30, 1997 submitted by the State of Wisconsin (the "State") in fulfillment of undertakings it has made to permit brokers, dealers and municipal securities dealers to comply with Securities and Exchange Commission Rule 15c2-12 (b) (5) in connection with their participation in offerings of municipal securities issued by the State. This Annual Report is being submitted on this date to each nationally recognized municipal securities information repository. At this date, there is no state information depository for the State of Wisconsin.

The State continues an inclusive global approach to this report with more information than is required by the State's disclosure undertakings. This report will be incorporated by reference into Official Statements and Offering Memoranda for bonds and notes issued by the State in 1998. The format of this document will be modified from time to time to keep it useful. Feedback on format and content is appreciated. As a result of comments received on last year's Annual Report, please find attached to this letter a one-page summary of outstanding State obligations.

This Annual Report is divided into six parts. **Part I** presents the State's continuing disclosure undertakings. The State has executed a Master Agreement on Continuing Disclosure that establishes a general framework under which the State will provide continuing disclosure on different types credits issued by the State. The State has also executed four separate addenda that describe the information to be provided in an annual report about general obligations, master lease certificates of participation, transportation revenue obligations, and clean water revenue bonds, respectively.

Part II presents general information about the State, including its operations and financial results. This part includes the audited general purpose financial statements for the fiscal year ending June 30, 1997 and the State Auditor's report.

The remaining parts separately present information about different types of municipal securities issued by the State. Information is presented about general obligations in **Part III**, about master lease certificates of participation in **Part IV**, about transportation revenue obligations in **Part V**, and about clean water revenue bonds in **Part VI**. Because these parts relate to different types of municipal securities issued by the State, the context or meaning for terms used in one part may differ from that of terms used in another part.

The following is a summary of the ratings, as of December 15, 1997, assigned to the different types of municipal securities issued by the State:

Credit	Fitch IBCA, Inc.	Moody's Investors Service, Inc.	Standard & Poor's Ratings Group
General Obligations	AA+	Aa2	AA
Master Lease Certificates of Participation	AA–	A1	A+
Transportation Revenue Bonds	AA	A1	AA–
Clean Water Revenue Bonds	AA+	Aa2	AA+

Please note that the State intends to sell a series of clean water revenue bonds in January 1998. The State has applied but not yet received ratings for this pending clean water revenue bond issue.

Although this Annual Report includes the State's audited general purpose financial statements for the fiscal year ending June 30, 1997, as prepared by the State Controller, interested parties may also wish to refer to the State Controller's comprehensive annual financial report ("CAFR") for the same period. The CAFR may be obtained by contacting this office or can be located on the world wide web.

We wish to direct interested parties to the many disclosure resources for the State that are located on the world wide web. Please use the following addresses to locate these resources:

Financial Disclosure and Debt Management, including this Annual Report, the CAFR, Official Statements, Offering Memoranda, Upcoming Sale Materials and Secondary Market Continuing Disclosure Announcements	www.doa.state.wi.us/debf/scf1.htm
State of Wisconsin Information, including Wisconsin Statutes, Legislation and other general information	badger.state.wi.us

The State Building Commission has designated the Capital Finance Office as the investors relations office for the State. Persons interested in information about financial obligations issued by the State and information bearing on the credit of these obligations should seek such information through the Capital Finance Office. No other person is authorized to speak on behalf of the State on these matters. In addition, participants in the securities market are cautioned that statements made by other persons affiliated with the State–whether or not those statements are understood to be political speech–are not intended to be relied upon by participants in the securities market. The general telephone number for information is (608) 266-2305.

Sincerely,

Frank R. Hoadley
Capital Finance Director

SUMMARY OF OUTSTANDING STATE OF WISCONSIN OBLIGATIONS AS OF DECEMBER 15, 1997

	Principal Balance 12/15/96	Principal Issued 12/15/96 – 12/15/97	Principal Matured or Redeemed 12/15/96 – 12/15/97	Principal Balance 12/15/97
	GENERAL OBLIGATIONS[a]			
Total General Obligations	**$3,288,068,499**	**$362,682,000**	**$222,399,875**	**$3,428,350,624**
General Purpose Revenue (GPR)	2,393,214,317	219,993,311	165,978,186	2,447,229,443
Self-Amortizing: Veterans	554,765,000	135,000,000	$34,745,000	665,020,000
Self-Amortizing: Other	340,089,182	7,688,689	21,676,689	326,101,182
	MASTER LEASE CERTIFICATES OF PARTICIPATION			
Master Lease COPs	**$43,356,342**	**$25,540,130**	**$30,654,501**	**$38,241,971**
	TRANSPORTATION REVENUE OBLIGATIONS[a]			
Transportation Revenue Obligations	**$750,565,000**	**$157,454,000**	**$29,710,000**	**$878,309,000**
	CLEAN WATER REVENUE BONDS			
Clean Water Revenue Bonds	**$370,930,000**	**$80,000,000**	**$13,560,000**	**$437,370,000**
	OPERATING NOTES			
Operating Notes	**$150,000,000**	**$450,000,000**	**$150,000,000**	**$450,000,000**

[a] Includes commercial paper notes that have been issued during calendar year 1997. While no principal payments were made in calendar year 1997 on the outstanding commercial paper notes, the State intends to treat each issue of commercial paper notes as if it were a long-term obligation and will make annual payments on the outstanding commercial paper notes to reflect a principal amortization. The State also intends to make semi-annual interest payments on the outstanding commercial paper notes. See Table III-10 (general obligation commercial paper notes) and Table V-5 (transportation revenue commercial paper notes) for additional information on these payments.

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STATE OFFICIALS PARTICIPATING IN THE ISSUANCE AND SALE OF STATE OF WISCONSIN BONDS AND NOTES

BUILDING COMMISSION MEMBERS

Voting Members	**Term of Office Expires**
Governor Tommy G. Thompson, Chairperson	January 4, 1999
Senator Fred A. Risser, Vice-Chairperson	January 8, 2001
Senator Rodney C. Moen	January 4, 1999
Senator Tim Weeden	January 4, 1999
Representative Timothy Hoven	January 4, 1999
Representative Clifford Otte	January 4, 1999
Representative Robert Turner	January 4, 1999
Mr. Bryce Styza, Citizen Member	At the pleasure of the Governor
Nonvoting, Advisory Members	
Mr. Mark D. Bugher, Secretary Department of Administration	At the pleasure of the Governor
Mr. Adel Tabrizi, State Chief Engineer Department of Administration	——
Mr. Wilbert King, State Chief Architect Department of Administration	——
Building Commission Secretary	
Mr. Robert Brandherm (also serves as Administrator, Division of Facilities Development of the Department of Administration)	At the pleasure of the Building Commission and Secretary of Administration

OTHER PARTICIPANTS

Mr. Jack C. Voight State Treasurer	January 4, 1999
Mr. James E. Doyle State Attorney General	January 4, 1999

DEBT MANAGEMENT AND DISCLOSURE

Department of Administration
Capital Finance Office
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101 E. Wilson Street, 10th Floor
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capfin@mail.state.wi.us

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(608) 267-7399
dallil@mail.state.wi.us

Mr. David R. Erdman
Capital Finance Officer
(608) 267-0374
erdmad@mail.state.wi.us

As of the date of this Annual Report, additional information about the State of Wisconsin can be found on the internet at:
http://badger.state.wi.us/statewide.html

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PART I

STATE'S CONTINURING DISCLOSURE UNDERTAKINGS

This part of the Annual Report presents information on the undertakings the State of Wisconsin has made to permit brokers, dealers and municipal securities dealers to comply with Securities and Exchange Commission Rule 15c2-12 (b) (5) in connection with their participation in the offerings of municipal securities offered by the State.

This part of the Annual Report includes a conformed copy of the State's Master Agreement on Continuing Disclosure, which establishes a general framework under which the State will provide continuing disclosure on different credits issued by the State. Also included in this part of the Annual Report are conformed copies of the four addenda that the State has executed. These describe information to be provided in an annual report about (i) general obligations, (ii) master lease certificates of participation, (iii) transportation revenue bonds, and (iv) clean water revenue bonds, respectively.

This Annual Report includes information and defined terms for different types of municipal securities issued by the State and has been gathered from multiple sources. The context or meaning of terms used in this part of the Annual Report may differ from that of terms used in another part.

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MASTER AGREEMENT ON CONTINUING DISCLOSURE

This Master Agreement on Continuing Disclosure (the "Disclosure Agreement") is executed and delivered by the State of Wisconsin (the "Issuer"), a municipal securities issuer and a sovereign government. The Issuer covenants and agrees as follows:

SECTION 1. Definitions. The following capitalized terms shall have the following meanings:

"**Addendum Describing Annual Report**" means an addendum, substantially in the form of Exhibit A hereto, that describes the contents of an Annual Report for a particular type of obligation.

"**Annual Report**" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 4 and 5 of this Disclosure Agreement.

"**Bonds**" shall mean any issue of the Issuer's obligations to which this Disclosure Agreement applies.

"**Bondholders**" shall mean the beneficial owners from time to time of the Bonds.

"**Disclosure Agreement**" shall mean this agreement.

"**Issuer**" shall mean the municipal securities issuer described above.

"**Listed Events**" shall mean any of the events listed in Section 6 (a) of this Disclosure Agreement.

"**MSRB**" shall mean the Municipal Securities Rulemaking Board.

"**National Repository**" shall mean any nationally recognized municipal securities information repository for purposes of the Rule.

"**Participating Underwriter**" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with an offering of the Bonds.

"**Resolution**" shall mean the resolution or resolutions of the State of Wisconsin Building Commission (the agency of the Issuer responsible for issuance of the Bonds) or the trust indenture entered into by the Issuer, pursuant to which the Bonds are issued.

"**Rule**" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"**State Depository**" shall mean the public or private entity, if any, designated by the Issuer as a state depository for the purpose of the Rule.

"**Supplemental Agreement**" means an agreement, substantially in the form of Exhibit B hereto, that determines that the Disclosure Agreement shall apply to a specific issue of obligations and specifies the contents of the Annual Report.

SECTION 2. Purpose of the Disclosure Agreement. The purpose of this Disclosure Agreement is to assist Participating Underwriters in complying with the Rule in connection with the Bonds.

SECTION 3. Application of the Disclosure Agreement. This Disclosure Agreement shall apply to an issue of Bonds when the Issuer executes and delivers a Supplemental Agreement. This Disclosure Agreement may apply to more than one issue of Bonds but shall be construed as a separate agreement for each issue of Bonds. The purpose of having this Disclosure Agreement apply to more than one issue of Bonds is to let the Issuer's obligations be uniform for all issues of Bonds.

SECTION 4. Provision of Annual Reports.

(a) The Issuer shall, not later than 180 days following the close of the Issuer's fiscal year (starting with the fiscal year that ends June 30, 1996), provide to each Repository an Annual Report that is consistent with the requirements of Section 5 of this Disclosure Agreement.

(b) If the Annual Report does not include the Issuer's audited financial statements, the Issuer shall submit them to each Repository within ten business days after the statements are publicly available.

(c) If the Issuer fails to provide to each Repository an Annual Report by the date required in subsection (a), the Issuer shall send a notice to each Repository.

SECTION 5. Content of Annual Reports.

(a) The Annual Report shall be provided for each obligated person described in the Addendum Describing Annual Report, and it shall contain or incorporate by reference, the financial statements and operating data, and use the accounting principles, described in the Addendum Describing Annual Report.

(b) The Annual Report may be submitted as a single document or as a package comprising separate documents. Any or all of the items constituting the Annual Report may be incorporated by reference from other documents that have been submitted to (i) each National Repository and the State Depository, if any or (ii) the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Issuer shall clearly identify each such other document so incorporated by reference.

(c) To allow for uniformity of the contents of Annual Reports with respect to obligations that are similar in character, the Issuer may from time to time describe the contents in an Addendum Describing Annual Report and shall incorporate a description by reference in a Supplemental Agreement.

SECTION 6. Reporting of Significant Events.

(a) This Section 6 shall govern the giving of notices of the occurrence of any of the following events with respect to the Bonds, if material:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds.
7. Modifications to rights of Bondholders.

8. Bond calls.

9. Defeasances.

10. Release, substitution, or sale of property securing repayment of the Bonds.

11. Rating changes.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall promptly file a notice of such occurrence with each National Repository and the State Depository, if any (or to the MSRB and the State Depository, if any). Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to affected Bondholders if it is required pursuant to the Resolution.

(c) Similarly, if the Issuer determines that it failed to give notice as required by this section, it shall promptly file a notice of such occurrence in the same manner as described in subsection (b).

SECTION 7. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Agreement with respect to the Bonds shall terminate upon the legal defeasance, prior redemption or payment in full of all the Bonds or if the Rule shall be revoked or rescinded by the Securities and Exchange Commission or declared invalid by a final decision of a court of competent jurisdiction.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, if the following conditions are met:

(a) The amendment or waiver may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Issuer, or an obligated person, or the type of business conducted; and

(b) This Disclosure Agreement, as amended or waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not materially impair the interests of Bondholders, as determined by an opinion of nationally recognized bond counsel, a certificate from an indenture trustee for the Bonds, or an approving vote of Bondholders pursuant to the terms of the Resolution at the time of the amendment or waiver.

SECTION 9. Additional Information. The Issuer may from time to time choose to disseminate other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or include other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Resolution, and the sole remedy of a Bondholder under this Disclosure Agreement in the event of any failure of the Issuer to comply with this Disclosure Agreement shall be an action to compel performance. The Issuer reserves any defense it may have to any such action including that this Disclosure Agreement violates sovereign rights or that no funds have been appropriated for performance.

SECTION 11. Beneficiaries. The Issuer intends to be contractually bound by this Disclosure Agreement. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Participating Underwriters and Bondholders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 12. Responsible Officer. Pursuant to a resolution adopted by the State of Wisconsin Building Commission on August 9, 1995, the Capital Finance Director has been authorized to execute this Disclosure Agreement on behalf of the Issuer and the Capital Finance Office has been designated the office of the Issuer responsible for providing Annual Reports and giving notice of Listed Events, to the extent required hereunder. Any inquiries regarding this Disclosure Agreement should be directed to the Capital Finance Office, Department of Administration, Division of Executive Budget and Finance, 101 East Wilson Street, Madison, Wisconsin 53702, Phone: (608) 266-5355, Fax: (608) 266-7645.

IN WITNESS WHEREOF, the Issuer has caused this Disclosure Agreement to be executed by its duly authorized officer.

Date: September 25, 1995

STATE OF WISCONSIN
Issuer

By /s/ FRANK R. HOADLEY

Frank R. Hoadley
Capital Finance Director

EXHIBIT A

FORM OF ADDENDUM DESCRIBING ANNUAL REPORT

ADDENDUM DESCRIBING ANNUAL REPORT FOR [TYPE OF OBLIGATIONS]

This Addendum Describing Annual Report for [Type of Obligation] (the "Addendum") is delivered by the State of Wisconsin (the "Issuer") pursuant to the Master Agreement on Continuing Disclosure (the "Disclosure Agreement"), executed and delivered by the Issuer and dated ________________, 1995. This Addendum describes the content of an Annual Report prepared with respect to [type of obligation]. Capitalized terms that are not defined in this Addendum have the meanings set forth in the Disclosure Agreement.

Issuer. The Issuer is an obligated person, as is any entity described below as an Additional Obligated Person, and no other entity is an obligated person.

Additional Obligated Person(s): [None] [Each of the entity named or described by objective criteria below is an obligated person: ____]

Content of Annual Report for Issuer. *Accounting Principles.* The following accounting principles shall be used for the financial statements: ____________________ ____________________.

Financial Statements. The financial statements shall present the following information: ____.

Operating Data. In addition to the financial statements, operating data about the following matters shall be presented: ____ __________.

Content of Annual Report for Additional Obligated Person(s). *Accounting Principles.* The following accounting principles shall be used for the financial statements: _______________.

Financial Statements. The financial statements shall present the following information: ____.

Operating Data. In addition to the financial statements, operating data about the following matters shall be presented: ____.

IN WITNESS WHEREOF, the Issuer has caused this Addendum to be executed by its duly authorized officer.

Date: ____________, ____

STATE OF WISCONSIN
Issuer

By ________________________________

Name: ________________________
Title: _________________________

EXHIBIT B

FORM OF SUPPLEMENTAL AGREEMENT

SUPPLEMENTAL AGREEMENT

This Supplemental Agreement is executed and delivered by the State of Wisconsin (the "Issuer") to supplement the Master Agreement on Continuing Disclosure (the "Disclosure Agreement"), executed and delivered by the Issuer and dated _______________, 1995. Pursuant to the provisions of the Disclosure Agreement, the Issuer hereby determines that the Disclosure Agreement and the Addendum Describing Annual Report for [Type of Obligation] shall apply to the following issue of obligations:

Name of Obligations: ____

____

Date of Issue: ___________, ____

CUSIPs: __________________________

IN WITNESS WHEREOF, the Issuer has caused this Supplemental Agreement to be executed by its duly authorized officer.

Date: ____________, ____

STATE OF WISCONSIN
Issuer

By ________________________________

Name: ________________________
Title: _________________________

ADDENDUM DESCRIBING ANNUAL REPORT FOR GENERAL OBLIGATIONS

This Addendum Describing the Annual Report for General Obligations (the "Addendum") is delivered by the State of Wisconsin (the "Issuer") pursuant to the Master Agreement on Continuing Disclosure (the "Disclosure Agreement"), executed and delivered by the Issuer and dated September 25, 1995. This Addendum describes the content of an Annual Report to be prepared with respect to general obligations. Capitalized terms that are not defined in this Addendum have the meanings set forth in the Disclosure Agreement.

Issuer. The Issuer is an obligated person, as is any entity described below as an Additional Obligated Person, and no other entity is an obligated person.

Additional Obligated Person(s): None

Content of Annual Report for Issuer. *Accounting Principles.* The following accounting principles shall be used for the financial statements: Generally Accepted Accounting Principles.

Financial Statements. The financial statements shall present the following information: The General Purpose Financial Statements section of the Comprehensive Annual Financial Report.

Operating Data. In addition to the financial statements, unaudited operating data concerning the following matters shall be presented: (i) revenues received by the State, (ii) expenditures made by the State, (iii) budgets, (iv) selected financial data concerning the General Fund, (v) information concerning interfund borrowings, (vi) pertinent information on significant pending litigation, (vii) balances of outstanding State obligations, and (viii) statistical information on the State's economic condition, veterans housing loan program and Wisconsin Retirement System.

IN WITNESS WHEREOF, the Issuer has caused this Addendum to be executed by its duly authorized officer.

Date: September 25, 1995

STATE OF WISCONSIN
Issuer

By /s/ FRANK R. HOADLEY

Frank R. Hoadley
Capital Finance Director

ADDENDUM DESCRIBING ANNUAL REPORT FOR MASTER LEASE CERTIFICATES OF PARTICIPATION

This Addendum Describing the Annual Report for Master Lease Certificates of Participation (the "Addendum") is delivered by the State of Wisconsin, acting by and through its Department of Administration (the "Issuer") pursuant to the Master Agreement on Continuing Disclosure (the "Disclosure Agreement"), executed and delivered by the Issuer and dated September 25, 1995. This Addendum describes the content of an Annual Report to be prepared with respect to Master Lease Certificates of Participation. Capitalized terms that are not defined in this Addendum have the meanings set forth in the Disclosure Agreement.

Issuer. The Issuer is an obligated person in this respect: it is required to make lease payments from any source of legally available funds, subject to annual appropriation, which lease payments will be used to pay, when due, the semi-annual principal and interest due with respect to the Master Lease Certificates of Participation. No other entity is an obligated person.

Content of Annual Report for Issuer. *Accounting Principles.* The following accounting principles shall be used for the financial statements: Generally Accepted Accounting Principles.

Financial Statements. The financial statements shall present the following information: The General Purpose Financial Statements section of the Comprehensive Annual Financial Report.

Operating Data. In addition to the financial statements, unaudited operating data concerning the following matters shall be presented: (i) revenues received by the State, (ii) expenditures made by the State, (iii) budgets, (iv) selected financial data concerning the General Fund, (v) information concerning interfund borrowings, and (vi) pertinent information on significant pending litigation.

IN WITNESS WHEREOF, the Issuer has caused this Addendum to be executed by its duly authorized officer.

Date: November 7, 1996

STATE OF WISCONSIN
Issuer

By /s/ FRANK R. HOADLEY

Frank R. Hoadley
Capital Finance Director

ADDENDUM DESCRIBING ANNUAL REPORT FOR TRANSPORTATION REVENUE BONDS

This Addendum Describing the Annual Report for Transportation Revenue Bonds (the "Addendum") is delivered by the State of Wisconsin (the "Issuer") pursuant to the Master Agreement on Continuing Disclosure (the "Disclosure Agreement"), executed and delivered by the Issuer and dated September 25, 1995. This Addendum describes the content of an Annual Report to be prepared with respect to transportation revenue bonds. Capitalized terms that are not defined in this Addendum have the meanings set forth in the Disclosure Agreement.

Issuer. The Issuer is an obligated person, as is any entity described below as an Additional Obligated Person, and no other entity is an obligated person.

Additional Obligated Person(s): None

Content of Annual Report for Issuer. *Accounting Principles.* The following accounting principles shall be used for the financial statements: Generally Accepted Accounting Principles.

Financial Statements. The financial statements shall present the following information Audited financial statements of the transportation revenue bond program and supplemental information to the audited financial statement.

Operating Data. In addition to the financial statements, operating data about the following matters shall be presented:

(a) History of Section 341.25 registration fees for last 10 years

(b) Estimated Section 341.25 registration fees for next 10 years

(c) Debt service on all outstanding transportation revenue bonds and estimated revenue coverage based on estimated Section 341.25 registration fee(s) for next 10 years

(d) Demographic information for the State of Wisconsin relating to vehicle registrations

IN WITNESS WHEREOF, the Issuer has caused this Addendum to be executed by its duly authorized officer.

Date: September 25, 1995

STATE OF WISCONSIN
Issuer

By /s/ FRANK R. HOADLEY

Frank R. Hoadley
Capital Finance Director

ADDENDUM DESCRIBING ANNUAL REPORT FOR CLEAN WATER REVENUE BONDS

This Addendum Describing the Annual Report for Clean Water Revenue Bonds (the "Addendum") is delivered by the State of Wisconsin (the "Issuer") pursuant to the Master Agreement on Continuing Disclosure (the "Disclosure Agreement"), executed and delivered by the Issuer and dated September 25, 1995. This Addendum describes the content of an Annual Report to be prepared with respect to clean water revenue bonds. Capitalized terms that are not defined in this Addendum have the meanings set forth in the Disclosure Agreement.

Issuer. The Issuer is an obligated person, as is any entity described below as an Additional Obligated Person, and no other entity is an obligated person.

Additional Obligated Person(s): Each entity described by the objective criteria below is an obligated person (an "Additional Obligated Person"): Any person, including an issuer of municipal securities, who directly or indirectly at the close of the Issuer's fiscal year, is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of 20 percent or more of the cash flow servicing the then outstanding clean water revenue bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities).

Any Additional Obligated Person, other than the Issuer, will be required by the Issuer to enter into an undertaking agreement to provide each Repository, not later than 180 days following the close of that Additional Obligation Person's fiscal year, an annual report meeting the requirements outlined below under "Content of Annual Report for Additional Obligated Person".

Content of Annual Report for Issuer. *Accounting Principles* The following accounting principles shall be used for the financial statements: Generally Accepted Accounting Principles.

Financial Statements The financial statements shall present the following information:

(a) Audited financial statements of the clean water fund program and supplemental information to the audited financial statement.

Operating Data In addition to the financial statements, operating data about the following clean water fund program matters shall be presented:

(a) List of outstanding loans

(b) List of financial assistance commitments

(c) Information concerning the investments of the Loan Credit Reserve Fund

Content of Annual Report for Additional Obligated Person. *Accounting Principles.* The following accounting principles shall be used for the financial statements: Generally Accepted Accounting Principles.

Financial Statements. The financial statements shall present the following information Audited financial statements of the Additional Obligated Person.

Operating Data. In addition to the financial statements, operating data about the following matters shall be presented: None.

IN WITNESS WHEREOF, the Issuer has caused this Addendum to be executed by its duly authorized officer.

Date: February 11, 1997

STATE OF WISCONSIN
Issuer

By /s/ FRANK R. HOADLEY

Frank R. Hoadley
Capital Finance Director

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PART II

GENERAL INFORMATION ABOUT THE STATE OF WISCONSIN

This part of the Annual Report presents general information regarding the State of Wisconsin. This general information addresses State government organization and financial procedures, accounting and financial reporting, financial information, revenues, expenditures, results of 1996-97 fiscal year, State budget, general fund information, State obligations and other statistical and economical information. APPENDIX A to this part of the Annual Report includes the audited general purpose financial statements for the fiscal year ending June 30, 1997, and the State Auditor's report.

This Annual Report includes information and defined terms for different types of municipal securities issued by the State and has been gathered from multiple sources. The context or meaning of terms used in this part of the Annual Report may differ from that of terms used in another part.

STATE GOVERNMENT ORGANIZATION AND FINANCIAL PROCEDURES

The State of Wisconsin (the "State") is located in the Midwest among the northernmost tier of states. The State ranks 18th among the states in population and 26th in land area. Wisconsin attained statehood in 1848, its capital is Madison and its largest city is Milwaukee.

General Organization

The executive branch is under the direction of the Governor. He is assisted by five elected constitutional officers, 18 departments (including two headed by other constitutional officers) and 14 independent agencies. The constitutional officers are the Governor, Lieutenant Governor, Attorney General, State Treasurer, Secretary of State and Superintendent of Public Instruction, each of whom is elected to a four-year term. The Governor and Lieutenant Governor are elected on the same ballot.

The Governor is the chief executive officer of the State. The Lieutenant Governor serves as Acting Governor during the absence or incapacity of the Governor. The Attorney General heads the Department of Justice, which provides all state agencies with legal advice and counsel. The State Treasurer receives and disburses all money of the State Treasury in accordance with law. The Secretary of State keeps a record of the official acts of the Legislature and executive agencies. The Superintendent of Public Instruction heads the Department of Public Instruction, which supervises the operations of and establishes standards for schools throughout the State.

The legislative branch consists of the Legislature and its subordinate service agencies. The Legislature is bicameral, composed of the Senate and the Assembly. The 33 members of the Senate serve staggered four-year terms and the 99 Representatives of the Assembly serve identical two-year terms. Both the Senate and the Assembly operate on a committee system. The Legislature's biennial session begins in odd-numbered years on the first Tuesday after the eighth day of January. By a joint resolution, the biennial session is divided into floor periods interspersed with committee work periods. In odd-numbered years, the floor periods generally cover six months, while in even-numbered years the floor periods usually run for shorter periods. The Legislature also meets in special session when so called by the Governor, at which time it may transact only that business for which the special session is called.

The judicial branch consists of the Supreme Court, composed of seven justices who are elected statewide for staggered ten-year terms; the Court of Appeals, composed of 16 judges who are elected statewide for staggered six-year terms sitting in three-judge panels; and 69 circuit courts (the State's trial courts), each with one or more judges who are locally elected for six-year terms. The circuit courts are administered from ten administrative districts. All costs of the Supreme Court and Court of Appeals and certain costs of the circuit courts are paid by the State.

Budgeting Process and Fiscal Controls

The State Constitution requires the Legislature to enact a balanced budget. The State's fiscal year runs from July 1 through June 30 of the following year. State law establishes procedures for the budget's enactment. The Secretary of Administration, under the direction of the Governor, compiles all budget information and prepares an executive budget consisting of the planned operating expenditures and revenues of all State agencies. The Department of Revenue furnishes forecasts of tax revenues to the Department of Administration. The budget is submitted to the Legislature on or about January 31 of each odd-numbered year. The Legislature's Joint Committee on Finance reviews the executive budget and reports its findings to the full Legislature, usually in the form of a substitute budget bill. Upon concurrence by both houses of the Legislature in the appropriations and revenue measures embodied in the budget bill, the entire bill is submitted to the Governor. The Governor is empowered to sign the bill into law or to veto all or part of the bill. If the Governor vetoes any portions, those items may be reconsidered in accordance with the rules of each house and, if approved by two-thirds of the members of each house, will become law notwithstanding the Governor's veto. In the event that a budget is not in effect at the start of a fiscal year, the prior year's budget serves as the budget until such time as a new one is enacted.

A BALANCED BUDGET IS MANDATED IN ARTICLE VIII, SECTION 5 OF THE WISCONSIN CONSTITUTION. THIS SECTION REQUIRES THE LEGISLATURE TO PROVIDE AN ANNUAL TAX SUFFICIENT TO MEET THE ESTIMATED EXPENSES OF THE STATE EACH YEAR, INCLUDING DEBT SERVICE ON ALL OUTSTANDING GENERAL OBLIGATIONS. SHOULD A DEFICIENCY OCCUR IN ANY YEAR, THE LEGISLATURE MUST LEVY TAXES SUFFICIENT TO COVER BOTH THE DEFICIT AND THE ESTIMATED EXPENSES OF THE ENSUING YEAR.

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 and the State Treasurer must approve all payments. The Secretary of Administration is also responsible for audit of expenditures prior to disbursement. The Legislative Audit Bureau has postaudit responsibility.

The Department of Administration maintains separate accounts for all appropriations, showing the amounts appropriated, the amounts allotted, the amounts encumbered, the amounts expended and certain other data necessary to the financial management and control of all State accounts. The Department of Administration also maintains the general ledgers of the General Fund and all other funds of the State.

State law prohibits the enactment of legislation that would cause the estimated General Fund balance to be less than 1% of the general purpose revenue appropriations for that fiscal year. For the 1996–97 fiscal year, the statutorily required reserve was $92 million, and for the 1997–98 fiscal year, the statutorily required reserve is $98 million. The effect of the State law provision is to divide the year-ending General Fund balance into two components: the statutorily required reserve and the amount above such reserve.

Should estimated revenues prove to be less than anticipated in the budget or should expenditures for open-ended appropriations be greater than anticipated, the budget could move out of balance.

The Statutes provide that if, following the enactment of the budget, the Secretary of Administration determines that budgeted expenditures will exceed revenues by more than one-half of one percent of general purpose revenues (consisting of general taxes, miscellaneous receipts and revenues collected by state agencies which lose their identity and are available for appropriation by the Legislature), no action can be taken regarding approval of expenditure estimates. Further, the Secretary of Administration must notify the Governor, the Legislature and its Joint Committee on Finance, and the Governor must submit a bill correcting the imbalance. If the Legislature is not in session, the Governor must call a special session to take up the matter.

The Secretary of Administration also has statutory power to order reductions in the appropriations of state agencies (which represent less than one-third of the General Fund budget). The Secretary of Administration may also temporarily reallocate free balances of certain funds to other funds that have insufficient balances and, further, may prorate or defer certain payments in the event current or projected balances are insufficient to meet current obligations. In such an event, the Department of Administration may also request the issuance of operating notes by the Building Commission.

Debt Issuing Organization–State of Wisconsin Building Commission

At the inception of statehood, constitutional limitations severely restricted the issuance of direct State debt. Prior to 1969 independent nonstock, nonprofit corporations were established to issue debt on behalf of the State. Four such corporations were so employed. In April 1969, the voters of the State, by referendum, adopted an amendment to the Constitution that authorized the State to borrow money directly and simultaneously terminated the use of the corporations for financing State construction. Legislation that established specific implementation powers was subsequently passed in December 1969, whereupon the State first issued general obligation bonds. The delegation of powers under the original implementing act has been amended since 1969 to improve the debt-issuing process. Delegation of powers, limitations and procedures to be followed are set forth in Chapter 18 of the Wisconsin Statutes.

Chapter 18 provides that the Commission has supervision over all matters relating to the issuance by the State of general and revenue obligations. The Commission is composed of eight members including the Governor as chairperson, six members of the Legislature (three from each house) appointed in the same manner as standing committees in the respective houses, and one citizen member appointed by the Governor and serving at his pleasure. State law provides that the two major political parties shall be represented in the membership from each house, and that one member appointed from either house shall be a member of the Legislative State Supported Program Study and Advisory Committee. The Secretary of Administration, the head of the engineering function and the ranking architect in the Department of Administration are nonvoting advisory members. The members act without liability except for misconduct.

The Commission is assisted by the Department of Administration, which provides technical civil service staff. The Divisions of Facilities Development and Executive Budget and Finance are subdivisions of the Department of Administration. The Administrator of the Division of Facilities Development, with the concurrence of the Secretary of Administration, serves as the Secretary to the Building Commission. Employes of the Division of Executive Budget and Finance serve as the Capital Finance Director and staff responsible for managing the State's general obligation, revenue bond and operating note programs.

The Commission's office location is Administration Building, 7th Floor, 101 East Wilson Street, its mailing address is P.O. Box 7866, Madison, Wisconsin 53707-7866, and its telephone number is (608) 266-1855.

ORGANIZATION AND DESCRIPTION OF SERVICES PROVIDED BY STATE GOVERNMENT

The State provides a wide range of services to its residents and to its local government units. These services are organized for budgetary and financial reporting of the General Fund into eight functional groupings which attempt to summarize the uses to which State revenues are put. Each State agency is categorized into one of these functions. Inevitably, there are some agency activities that fit into more than one function, so that some categorization may seem arbitrary. Listed below is a description of each function, an identification of those State agencies within each function and a brief summary of the responsibilities of each State agency.

Commerce

The State's involvement in the commerce function is in the regulation of conduct of commercial transactions. The objective is to protect the public as consumers of agricultural and manufactured goods and services and as participants in financial transactions. Further, the State actively promotes economic development by working with companies seeking to expand or move to the state.

These objectives are met in several ways. One is the inspection of raw products and conditions under which they are grown or obtained. This includes conducting research in areas such as animal or plant diseases, grading of products and establishing standards for contents of processed foods.

Another way of protecting the consumer of goods and services is through the licensing of various trades and professions. Generally, these trades and professions involve practitioners whose activities affect the health of individuals, such as doctors and nurses, or on matters where it is considered important for public safety to make certain that the practitioner is competent, such as architects and engineers.

The State also protects the consumer by maintaining an orderly market in which to conduct business. This may be done by specifying methods of fair competition, by regulating the rates that public utilities may charge for their services, by setting standards for the operation of banks, savings and loan companies and credit unions to protect depositors, by regulating the sale of securities and insurance offered for sale in the State, or by approving or disapproving the establishment or discontinuance of transportation routes.

The State agencies in the field of commerce include the Department of Agriculture, Trade and Consumer Protection, which is concerned with the conditions of the growth and processing of food and with fair trade practices in general, including consumer protection. The Department of Regulation and Licensing supervises a variety of examining boards in the various trades and professions. The Department of Financial Institutions regulates securities transactions and supervises banks, credit unions and savings and loans. The Public Service Commission regulates the rates and services offered by railroads, and heat, light, power and water companies. The Department of Commerce promotes industrial development in the State, coordinates relations between the State and local governments and between the Federal Government and State and local governments. The Department of Tourism promotes the State's many attributes to visitors.

Education

The State views its responsibilities in education to encompass all levels and nearly all types of education and related activities. As a result the State provides significant financial support to primary and secondary schools and technical colleges operated at the local level and assists private higher educational institutions as well as operating the University of Wisconsin system.

There are 426 school districts in the State, which administer the elementary and secondary schools within those districts. There were approximately 879,500 students attending public elementary and secondary schools in 1996–97. The State is divided into 16 technical college districts. In the 1995–96 academic year 431,405 full- and part-time students were enrolled in the technical college system.

The elementary and secondary schools and the technical colleges are operated by district boards, but a State-level agency functions in each case to supervise the system. The Department of Public Instruction, which is headed by the State Superintendent, supervises the former; the Technical College System Board supervises the latter.

The 1971 Legislature integrated Wisconsin's publicly financed institutions of higher education into a single University of Wisconsin System. The system comprises the former University of Wisconsin and the State Universities, each with far-flung campuses. In addition to its central campuses in Madison—the largest campus in the state—and Milwaukee, the system includes the 11 other degree-granting institutions providing 4-year courses of study and 13 colleges providing 2-year courses. The system's total enrollment in 1996–97 was 149,142 students. State moneys also support the Medical College of Wisconsin, Inc.

Three other agencies are concerned with the education function of the state: the Educational Communications Board, the State Historical Society and the Arts Board. The Communications Board operates the state public radio network, the state public television network and the state educational television network. The Historical Society maintains the State historical library, museum and various historical sites. The Arts Board encourages and assists artistic and cultural activities within the State.

Environmental Resources

Two major State agencies, the Department of Transportation and the Department of Natural Resources, compose this function, which is concerned with the development, protection or modification of the land, forest, water, air and minerals of the State.

Every state must take firm steps to protect its resources from destruction or, indeed, from extinction. Municipalities and industries must be prevented from dumping untreated sewage or industrial wastes into the lakes and streams; smokestacks and automobile exhausts must be prevented from polluting the air; parks and forests must be established and maintained both to preserve unusual phenomena of nature and to provide the public with recreational and educational opportunities; private forest owners must observe scientific conservation practices so that new growth may replace cut timber; hunting and fishing limits must be set and hunters and fishermen licensed to preserve the fish and wildlife from extinctive practices; farming procedures must be such as to preserve the quality and stability of the soil.

Governmental activities for preserving and protecting our natural resources are largely the province of the Department of Natural Resources, but the Department of Agriculture, Trade and Consumer Protection and the Board of Soil and Water Conservation Districts at the University of Wisconsin are also actively involved.

Resources must not only be preserved, they must be used, both in the work and recreation of the people. They must be developed and consumed for a multitude of purposes. Timber must be used in the lumber and paper industries, land must be cultivated for crops or used for grazing, minerals must be extracted, and scenic areas must be preserved for camp sites, resorts and ski areas.

With the tremendous growth in the number of automobiles and trucks, sizable amounts of land are taken away from housing in the cities and from cultivation in the country to handle the traffic.

The freeways in the city and interstate highway in the country exercise an enormous impact on the use and development of the surrounding land. They affect where people live, where they work and where they play. Highways and city streets must be planned with great foresight not only to weigh how well they will handle the flow of traffic, but also to determine what effect they will have on people's lives.

The State has an elaborate system of highways. It consists of interstate highways financed from federal and State funds and of State highways, county trunk highways, town roads, city and village streets, and park and forest roads. Closely connected with the highway building functions of the State government and the aid granted to local units for streets and highways are the objects for which these roads are built—the motor vehicle and its occupants. While the State is concerned with the building and maintenance of an adequate number of roads of certain standards to meet the traffic demands, it is also very much concerned with the safety and convenience of the people who are using those roads. Over 4.2 million vehicles are registered each year. The Department of Transportation gives various forms of driver examination tests when driver licenses are issued or renewed.

The State must see to it that the drivers know the laws, are physically fit to drive, and have the required driving skills. It must keep track of the accident rate of drivers and remove those who prove hazardous to themselves and to others. It must collect taxes to pay for highway construction and maintenance, for the policing of the highways, and for the enforcement of driver and vehicle standards. The road building and motor vehicle regulating functions of the State are the province of the Department of Transportation, which also by virtue of its transportation function has charge of the State's aeronautical activities, the administration of funds to assist mass transit, railroad preservation and intermodal transportation planning.

Human Relations and Resources

The inhabitants of a state are its prime resource, and a state must protect their general welfare and insure peaceable relations among them. The departments that have been brought together in this category are concerned with people, their health, their living standards, their safety, and their working relationships with each other.

Public health covers the prevention and detection of disease, health education programs, assistance in hospital construction, maintenance of institutions for the care and treatment of the mentally handicapped, the setting of standards of cleanliness of public facilities and safety in construction and the maintenance of public health records.

Living standards are the concern of those who determine the amount of monetary aid and health services that are granted to needy, aged, handicapped, and minors under various social security aid programs. It is their task, within the limitations set by law, to provide minimum health and living standards for these recipients. Such health and welfare activities are primarily the work of the Department of Health and Family Services. The Board of Aging makes recommendations on programs to benefit the aged. The Department of Veterans Affairs operates additional assistance programs for military service veterans.

As a worker, the individual comes in contact with the State in many ways. Minimum wages and maximum hours are set by law. If a worker is injured on the job, State worker's compensation provides financial assistance; if a worker's job is lost, the worker is aided by unemployment compensation. If the worker is seeking a job, the State (in partnership with the Federal Government) provides an employment service to help the worker find one or to acquire the skills necessary for employment. If a worker cannot obtain a job and suspects discrimination based on race, age, gender, creed or handicap, the State will investigate the matter. The State's agent in protecting and assisting the worker is the Department of Workforce Development. The State also mediates or arbitrates labor disputes between workers and their employers, which is the task of the Employment Relations Commission.

To promote the general welfare of its citizens and insure peaceable relations among them, the State must not only protect their health and their ability to earn a living, but must also protect them from lawless elements in society by maintaining those conditions of stability and order necessary for a well-functioning society. Law enforcement is largely a local matter, but the State's Department of Corrections is responsible for segregating convicted adult and juvenile criminals in its penal institutions and rehabilitating them for eventual return to society. The Department of Justice furnishes legal services to State agencies and provides technical assistance to local law enforcement agencies.

The State also provides an armed military force to protect the populace in times of State or national emergencies, natural or man-made, and to supplement the federal armed forces in time of war. These activities come under the jurisdiction of the Department of Military Affairs.

General Executive

The administrative or staff functions which support the direct services provided to Wisconsin residents and local governments are included in this functional group. While each operating agency may conduct some staff functions, some agencies perform staff functions almost exclusively. The Department of Administration, for example, is called the "housekeeping" department of the State. Its duties include budgeting, preauditing, financial reporting, engineering and facilities management, planning, and data processing. The Department of Employment Relations supervises State personnel practices. The Ethics Board administers a code of ethics for State public officials. The Department of Revenue collects the taxes imposed by State law, distributes that part of the revenue that is to be returned to the local units of government, and calculates the equalized value of the property that has been assessed by local government. The Department of Employe Trust Funds manages the public employe retirement system.

At any time the State may have large sums of money on hand in its various funds to meet its obligations. The Office of the State Treasurer processes the receipt and disbursement of these monies. Staff functions of the Office of the Secretary of State include keeping various state records and affixing the state seal on certain records to authenticate them. The Department of Financial Institutions is responsible for chartering corporations. The State Elections Board oversees the election processes of the State, monitoring campaign expenditures and keeping election records.

Judicial

The judicial function provides for the operation of the Supreme Court, the Court of Appeals and the Circuit Courts as well as several State agencies that serve the courts, establish professional standards and conduct legal research.

Legislative

The legislative function provides for the operation of the State Legislature, its committees and service agencies.

General Appropriations

The function of general appropriations is assigned those appropriations that do not fit easily into any of the other functions. The bulk of the appropriations are for payments to local governments of taxes collected by the State, whose revenues are shared with local governments, and for other payments intended to relieve local taxes.

The major portion of this reporting area relating to State operations is the funding of any planned adjustments to employe compensation, which is budgeted centrally but transferred to and ultimately paid by each agency.

ACCOUNTING AND FINANCIAL REPORTING

Statutory Basis

The State accounts for, reports and budgets its operations as set forth in the statutes, which require that the Annual Fiscal Report (which is unaudited) be published each year on or before October 15. Except as noted in the following paragraph, under statutory accounting, receipts are recorded only at the time money or checks are deposited in the State Treasury, and disbursements are recorded only at the time a check is drawn. As a result, actions and circumstances, including discretionary decisions by certain governmental officials, can affect the timing of payments and deposits and therefore can significantly affect the amounts reported in a fiscal year

For budgeting and constitutional compliance purposes, the State's records are maintained in conformity with statutory requirements. The more important legal provisions are:

(1) In all cases the date of the contract or order determines the fiscal year in which it is charged unless it is determined that the purpose of the contract or order is to prevent lapsing of appropriations or to otherwise circumvent budgeting intent.

(2) The current year records must remain open until July 31 to permit departments to certify for payment bills applicable to the year ended June 30 and to deposit revenues applicable to such year, with the following exceptions: amounts withheld for income taxes prior to July 1 and taxes imposed on sales prior to July 1 are deemed to be accrued tax receipts as of the close of the fiscal year, provided such revenue is deposited on or before August 15.

(3) On July 31 all outstanding encumbrances entered for the previous year must be transferred to the new fiscal year and an equivalent prior year appropriation balance must also be forwarded to the current year.

(4) Revenues and expenditures are reported on a net basis. Overcollections refunded are deducted from revenues and overpayments collected are deducted from expenditures.

(5) General Fund investments are carried at the lower of cost or par with discounts, premiums and earnings recorded on an accrual basis.

Generally Accepted Accounting Principles

Beginning with the fiscal year ending June 30, 1990, the State has accounted for and reported on its operations using generally accepted accounting principles ("GAAP"). For the fiscal year ended June 30, 1997 the State has prepared a Comprehensive Annual Financial Report ("CAFR") in accordance with GAAP. The General Purpose Financial Statements section of the CAFR for the fiscal year ended June 30, 1997 has been audited and is included as APPENDIX A to this part of the Annual Report.

Financial statements prepared in accordance with GAAP differ from those prepared in accordance with the Statutes. A notable difference pertains to the general-fund balance. The undesignated balance for the fiscal year ended June 30, 1997 was a surplus of $327 million on the statutory basis. Under GAAP the balance at June 30, 1997 was a deficit of $1.472 billion. The difference results primarily because GAAP recognizes accrued liabilities that are not taken into account under the statutory basis. The single largest accrued liability for the fiscal year ended June 30, 1997 was $504 million and related to the State's payment of shared revenues to municipalities and counties. Determining this liability is difficult for several reasons including the lack of aspecific pronouncement from the Governmental Accounting Standards Board concerning accounting for state and local government shared revenues.

The State continues to use the statutory basis for both budgeting and constitutional compliance purposes. The State has not taken any steps to eliminate the GAAP deficit, and it is unlikely that it will do so in the future.

FINANCIAL INFORMATION

Revenue Structure

The State has an extremely diverse revenue-raising structure. Approximately thirty-five percent of the total revenue is derived from the various taxes levied by the State. The remainder comes from (i) the federal government, (ii) various kinds of fees, licenses, permits and service charges paid by users of specific services, privileges or facilities, (iii) investment income, and (iv) gifts, donations and contributions. Table II-1 contains the specific sources of revenue and the amounts raised from each source for each of the last five years. There can be no assurance that historical data with respect to such revenues are necessarily indicative of future receipts.

Tax Structure

The State's tax structure has a diverse underlying base consisting of income, general and special product sales and property value. Over sixty-two percent of all general-fund taxes collected by the State are returned to local units of government. The remaining funds are used for payments to individuals and organizations (sixteen percent) and state programs (twenty-one percent). A brief description of each tax yielding more than $5 million annually follows.

Individual Income Tax
The current tax brackets and rates are as follows:

Taxable Income Brackets		
Single	Married Filing Jointly[a]	Marginal Tax Rate
$0-7,500	$0-10,000	4.90%
7,501-15,000	10,001-20,000	6.55
15,001+	20,001+	6.93

[a] Brackets for married filing separately are half of married filing jointly.

Beginning calendar year 1998, the tax brackets and rates will be as follows:

Taxable Income Brackets		
Single	Married Filing Jointly[a]	Marginal Tax Rate
$0-7,500	$0-10,000	4.85%
7,501-15,000	10,001-20,000	6.48
15,001+	20,001+	6.87

[a] Brackets for married filing separately are half of married filing jointly.

The above tax brackets which begin in calendar year 1998 will be indexed to the consumer price index beginning in calendar year 1999.

Corporate Franchise and Income Taxes
Both the franchise tax measured by net income and the income tax are levied at a rate of 7.9% of corporate net income.

Table II-1

REVENUES (ALL SOURCES)[a]

1996-97 FROM 1992-93

	1996-97	1995-96	1994-95	1993-94	1992-93
State Collected Taxes					
Individual Income	$ 4,544,739,246	$ 4,157,444,344	$ 3,932,948,357	$ 3,638,710,246	$ 3,445,828,768
General Sales and Use	2,864,373,180	2,704,226,017	2,571,212,098	2,427,900,047	2,260,562,784
Corporate Franchise and Income	643,821,885	636,009,525	631,750,239	541,284,287	492,014,523
Public Utility	306,500,391	288,773,786	271,979,923	268,236,755	278,325,863
Excise	253,904,414	245,350,413	223,419,538	219,567,523	212,972,813
Inheritance and Gift	50,825,151	45,602,214	40,783,701	53,201,971	53,742,241
Insurance Companies	94,641,133	92,284,836	94,416,471	95,990,959	86,904,742
Motor Fuel	692,893,775	676,002,610	651,186,179	634,621,215	595,622,479
Forest	45,557,665	42,943,134	39,193,215	36,512,823	44,392,839
Miscellaneous	130,528,135	134,422,491	119,666,306	119,276,892	99,963,841
Subtotal	9,627,784,975	9,023,059,370	8,576,556,027	8,035,302,718	7,570,330,893
Federal Aid					
Medical Assistance	1,590,405,412	1,461,929,742	1,457,070,300	1,361,264,722	1,297,791,258
AFDC	164,787,870	188,491,658	212,576,642	236,096,288	338,804,634
Transportation	474,426,495	558,478,336	484,075,362	512,447,000	376,054,661
Education	798,317,039	739,728,615	705,186,682	656,580,271	620,772,533
Other	987,991,522	946,163,108	917,134,225	912,102,104	707,533,186
Subtotal	4,015,928,338	3,894,791,459	3,776,043,211	3,678,490,385	3,340,956,272
Fees					
University of Wisconsin System	509,412,010	460,539,331	459,980,731	454,232,963	432,655,703
Other	232,011,982	519,180,189	488,347,136	476,710,654	231,978,179
Subtotal	741,423,992	979,719,520	948,327,867	930,943,617	664,633,882
Licenses and Permits					
Vehicles and Drivers	244,748,335	249,312,483	249,461,275	250,475,479	237,786,472
Hunting and Fishing	49,494,891	49,602,129	47,357,165	50,822,937	48,929,766
Other	372,081,930	368,467,942	332,090,249	331,515,213	37,606,023
Subtotal	666,325,156	667,382,554	628,908,689	632,813,629	324,322,261
Miscellany					
Service Charges	407,520,980	439,035,773	424,749,482	406,308,823	782,624,054
Sales of Products	640,015,801	690,834,331	722,782,430	685,092,976	648,243,168
Investment Income	7,887,795,007	5,446,036,326	5,146,837,274	1,276,947,011	3,808,721,594
Gifts and Grants	258,967,175	210,638,629	176,311,213	165,759,549	192,434,750
Employe Benefit Contributions[b]	1,455,505,437	1,318,994,693	1,478,712,390	1,310,111,343	1,285,666,403
General Obligation Proceeds	290,612,226	330,950,056	324,941,338	243,711,514	300,031,476
Other Revenues[c]	749,323,693	438,067,477	493,451,382	368,652,742	517,943,464
Subtotal	11,689,740,319	8,874,557,285	8,767,785,509	4,456,583,958	7,535,664,909
Summary					
TOTAL NET REVENUE	26,741,202,780	23,439,510,188	22,697,621,303	17,734,134,307	19,435,908,217
Transfers	669,555,936	403,849,988	385,960,590	521,021,635	585,483,548
Gross Revenue	$ 27,410,758,716	$ 23,843,360,176	$ 23,083,581,893	$ 18,255,155,942	$ 20,021,391,765

[a] The amounts shown are based on statutorily required accounting and not on GAAP. The amounts are unaudited.

[b] Figures include all State and non-State employer and employe contributions. State contributions for State employes totaled $576,660,781 for 1996-97, $564,506,750 for 1995-96, $583,132,459 for 1994-95, $563,812,191 for 1993-94, and $536,795,313 for 1992-93.

[c] Approximately $175 million of the increase from fiscal year 1996-96 to fiscal year 1996-97 is from additional transactions being charged to this category as the result of: (i) reorganization of duties and programs between the Departments of Health and Family Services and Workforce Development, and (ii) changes in practices at the Department of Health and Family Services for the Community Integration Program and Community Options Program.

Source: Wisconsin Department of Administration

Public Utility Taxes

There are two methods used for taxing public utilities. An ad valorem method on property is used for pipeline companies, conservation and regulation companies, railroads and airlines. The State assesses the value of the property; then the average statewide property tax rate is applied to derive the tax. The gross receipts tax on telephone companies is 5.77% of gross revenues. On May 15, 1998, the gross revenues license fee will be replaced by an ad valorem tax on the real and tangible personal property of each telephone company. A transitional adjustment fee will be assessed in 1999 and 2000 on each cellular telecommunications utility and local exchange company. The transitional fee will be the difference between the taxpayer's monthly ad valorem utility tax payment and the amount that the taxpayer would pay during that month if subject to a gross revenues tax of 5.77%.

The gross receipts tax is 3.19% for electric cooperatives. Light, heat and power companies pay a gross receipts license fee at the rates of 0.97% of revenues from gas services and 3.19% of revenues from electric services. Each year's fee is based on revenues collected in the previous year. Revenue received from utilities are deposited to the General Fund, however, revenue from railroads and airlines are deposited in the Transportation Fund.

General Sales and Use Tax
A 5% tax is imposed on the sale or use of services and all tangible personal property unless specifically exempted. The most notable exemptions are food, prescription drugs and motor and heating fuel.

Excise Taxes
Cigarettes are taxed at the rate of 59 cents per pack of 20. Tobacco products, other than cigarettes, are taxed at the rate of 20% of the manufacturer's list price. The tax is collected from distributors and subjobbers. Wine is taxed at 25 cents or 45 cents per gallon depending on its alcohol content. Liquor is taxed at $3.25 per gallon. The wine and liquor tax is collected from wholesalers. Beer is taxed at the rate of $2 per barrel, and the tax is paid monthly by brewers.

Motor Fuel Tax
Motor fuel is taxed at the rate of 24.8 cents per gallon. Effective April 1, 1998, the motor fuel tax will be indexed using an inflation-only factor based on the Consumer Price Index. Prior to this date, the motor fuel tax was indexed using a formula that accounted for both inflation and maintenance costs. The tax is collected from the wholesaler but is specifically passed through to the user. The revenues are deposited in the segregated Transportation Fund, where they are used primarily for highway purposes.

Estate, Inheritance and Gift Taxes
The State imposes an estate tax equal to the state death tax credit provided under federal tax law. This is often referred to as the "gap" or "pick-up" tax. Prior to 1992, the State also imposed separate inheritance and gift taxes

Insurance Company Premium Tax
Wisconsin-based life insurance companies pay a tax of 2% of the premiums received less a credit equal to 50% of personal property taxes. (Small companies may choose to pay 2.5% of all income except premiums less the personal property tax credit.) Nondomestic life companies pay the 2% rate with no personal property tax credit.

Domestic casualty companies are taxed 2% on premiums received on fire insurance, while nondomestic casualty companies pay 2.375% on all forms of casualty premiums. The 2% tax levied on fire insurance premiums is redistributed to local governments as a "fire department dues" tax.

Forest Tax
The forest tax is the only State tax upon general property. It is a 2/10 mill levy on all taxable property in the State. The tax is collected by municipal treasurers and remitted to the State during property tax settlements. After its receipt in the General Fund, it is transferred to the segregated Conservation Fund.

Real Estate Transfer Fee
The real estate transfer fee is paid by the grantor of real estate at a rate of $3.50 per $1,000 of value. The value of real estate is the amount paid in the arms-length sale, or if a gift, the prevailing market value.

Tax Credits

Complementing the State's tax structure are tax credits designed to relieve certain taxes. These credits are reflected as expenditures for budgeting purposes. A brief description of the principal tax credits follows.

Homestead Tax Credit
Property tax relief is provided to low-income homeowners and renters through a homestead tax credit on state individual income taxes. The maximum household income limit is $19,154. The maximum amount of aidable property taxes is $1,450, and the amount of farm acreage on which the property tax is based is 120 acres. For renters, the amount of rent allocated as property tax is 25%, or 20% if heat is included in rent.

Earned Income Tax Credit
The earned income tax credit provides assistance to lower-income workers. The credit supplements the wages and self-employment income of such families. It offsets the impact of the social security tax and increases the incentive to work. The State is one of seven states offering an earned income credit. Four of those states, including the State, offer a refundable earned income credit.

The State's earned income tax credit is calculated as a percentage of the federal credit. The federal earned income tax credit varies by income and family size. In addition to the federal standards, the State's credit varies the percent of the federal credit by number of children: 4% or the federal credit for one child, 14% for two and 43% for three or more. The maximum State credit ranges from $86 for one child, $498 for two children and $1,529 for three or more children.

Farmland Preservation Tax Credit
The farmland preservation program provides property tax relief to farmland owners and encourages local governments to develop farmland preservation policies. The credit reduces income tax liability or is rebated if the credit exceeds income tax due. The credit formula is based on household income, the amount of property tax and the type of land use provisions protecting the farmland (either a preservation agreement or exclusive agricultural zoning). Claimants may receive a credit on up to $6,000 of property taxes. The maximum potential credit is $4,200. In 1995-96, 23,473 farmers received $28.4 million in farmland preservation tax credits, averaging $1,210. This represented a 28% average property tax reduction for these farmers.

School Levies Tax Credit
The school levies tax credit is distributed based on each municipality's share of statewide levies for school purposes and is provided to all classes of taxpayers (commercial, industrial and other types, as well as residential). For property taxes levied in December 1996, $469 million of school levy tax credits were distributed Statewide, and the credit lowered school property taxes paid by taxpayers by 18.6% of the gross school tax levy. The credits are paid to municipalities to reduce the amount due from all property taxpayers.

Lottery Property Tax Credit.
The net proceeds of the state lottery are reserved for property tax relief. No lottery tax credits were paid in 1996. An October 1996 circuit court decision declared the former lottery credit distribution unconstitutional because it was not paid to nonresidential property owners. For

property taxes levied in December 1997, a lottery credit of $253 million will be distributed on a per parcel basis, which is equal to $76 per parcel, to municipalities to reduce the amount due from taxpayers.

Tax Collection Procedure (Delinquencies)

When a taxpayer does not file a valid return when requested, the Department of Revenue estimates the amount of tax due and the taxpayer is sent an assessment of the amount owing with a due date for payment. From the time the assessment is received until the due date the taxpayer may appeal the amount stated to be owing. If at the due date no appeal has been made, the account is then considered delinquent. Other delinquencies occur when a taxpayer fails to properly pay taxes on a return filed or undercomputes the tax due. In such a case, the taxpayer is billed for the shortfall. There is no appeal process in this circumstance.

The recording and collection of State taxes which are subject to collection problems (individual and corporate income, corporate franchise, sales and use taxes) are computerized. The payment records on delinquent accounts are stored centrally with district offices linked to the computer to follow the progress.

Collection of delinquencies begins with a notice of warrant, which is prepared centrally and then sent to the delinquent taxpayer. This notice informs the taxpayer that failure to pay within 30 days will result in a warrant being filed in the county of residence. When the warrant is filed with the clerk of court, a field referral is sent out to the district office in whose area the delinquent taxpayer resides and a field representative makes contact either by phone or in person. The field representative may schedule an informal hearing with the taxpayer. The information on the file is still retained centrally but details of the file are provided to the field representative. The field representative then tries to solicit payment in full or reach an agreement for payment in installments.

It may be determined that garnishment proceedings should be undertaken. In some cases provision is made for an individual's employer to withhold additional money from the salary check. If the delinquent taxpayer has a refund forthcoming from any tax other than that for which the taxpayer has been determined delinquent, the refund is offset against the delinquent balance.

In some cases it is unknown whether the taxpayer has any assets against which garnishment proceedings may be instituted. In these cases a supplemental hearing may be called before the court commissioner in the county of residence, and it might be determined that the taxpayer's affairs should be placed in receivership. If the taxpayer is without any assets at all, proceedings may be stayed and the account periodically reviewed for up to 10 years.

An analysis of delinquency rate for the income, franchise, sales and use taxes is shown in Table II-23 of "STATISTICAL INFORMATION".

Expenditures

State expenditures are categorized under eight functional categories and the general obligation bond program and further by three distinct types of expenditures within each. The eight functional categories are previously described in this part of the Annual Report. See "ORGANIZATION AND DESCRIPTION OF SERVICES PROVIDED BY STATE GOVERNMENT". The types of expenditures are defined below.

State Operations

Direct payments by State agencies to carry out State programs for such expenses as salaries, supplies, services, debt service and permanent property.

Aids to Individuals and Organizations

Payments from a State fund made directly to or on behalf of an individual or private organization (for example, Medicaid or student financial assistance).

Local Assistance

Payments from a State fund to or on behalf of local units of government and school districts, including payments associated with State programs administered by local governments and school districts, such as aid for families with dependent children and school aids.

Table II-2 shows the amounts expended by function and type for each of the last five years.

RESULTS OF 1996-97 FISCAL YEAR

Both actual and projected financial results are described in this Annual Report on an all-funds basis and a general-fund basis. See "STATE BUDGET" in this part of the Annual Report.

The Annual Fiscal Report for the fiscal year ending June 30, 1997 was published October 15, 1997. It reports that the State ended the fiscal year on a statutory and unaudited basis with an unreserved, undesignated balance of $327 million. On an all-funds basis the total amount available was $27.993 billion consisting of (i) a beginning balance of $582 million, (ii) tax revenues of $9.628 billion and (iii) nontax revenues of $17.783 billion. Total disbursements and reserves were $27.655 billion, resulting in a balance of $338 million of which $11 million is designated for expenditure. On a general-fund basis the total amount available was $15.251 billion consisting of (i) the same beginning balance, (ii) tax revenues of $8.814 billion and (iii) nontax revenues of $5.855 billion. Total disbursements and reserves were approximately $14.913 billion, resulting in the same balance as described on an all-funds basis.

Since 1984 the State has issued operating notes each year in anticipation of cash-flow imbalances, primarily experienced in November and December. These operating notes eliminated the need to prorate or defer large local assistance payments or to reallocate balances in other State funds. During the fiscal year ending June 30, 1997, the State issued $150 million of operating notes. The operating notes were issued on July 11, 1996 and matured on June 16, 1997. Operating notes are not general obligations of the State and are not on a parity with State general obligations.

Table II-2

EXPENDITURES BY FUNCTION AND TYPE (ALL FUNDS) [a]

1996-97 FROM 1992-93

	1996-97	1995-96	1994-95	1993-94	1992-93
Commerce					
State Operations	$ 145,911,884	$ 172,663,899	$ 181,381,591	$ 169,547,039	$ 170,037,312
Aids to Individuals and Organizations	157,468,642	345,586,275	354,331,970	321,207,957	340,364,966
Local Assistance	62,755,294	52,620,000	43,629,795	30,817,241	30,046,362
Subtotal	366,135,820	570,870,174	579,343,356	521,572,237	540,448,640
Education					
State Operations	2,344,846,070	2,521,127,678	2,473,042,166	2,338,021,272	2,253,048,466
Aids to Individuals and Organizations	286,352,107	246,362,211	189,484,289	182,593,262	186,469,323
Local Assistance	3,982,781,815	3,110,348,236	2,864,657,285	2,569,340,081	2,355,854,478
Subtotal	6,613,979,992	5,877,838,125	5,527,183,740	5,089,954,615	4,795,372,267
Environmental Resources					
State Operations	1,207,567,848	1,168,542,505	1,159,663,779	1,152,013,867	1,015,194,537
Aids to Individuals and Organizations	19,948,063	26,915,579	22,244,920	18,830,360	12,358,310
Local Assistance	825,580,909	779,576,130	782,756,275	742,154,919	710,325,080
Subtotal	2,053,096,820	1,975,034,214	1,964,664,974	1,912,999,146	1,737,877,927
Human Relations and Resources					
State Operations	1,397,116,967	1,371,651,160	1,258,608,769	1,231,587,975	1,088,358,504
Aids to Individuals and Organizations	3,463,741,981	3,415,134,822	3,367,986,626	3,266,649,767	3,083,816,446
Local Assistance	669,708,105	720,706,514	692,135,323	661,800,665	628,649,785
Subtotal	5,530,567,053	5,507,492,496	5,318,730,718	5,160,038,407	4,800,824,735
General Executive					
State Operations	2,307,744,396	2,052,231,694	1,934,984,996	1,773,191,971	1,673,432,934
Aids to Individuals and Organizations	300,295,018	27,173,763	32,334,180	28,122,954	25,470,640
Local Assistance	63,969,441	26,213,441	19,924,069	15,469,064	11,994,163
Subtotal	2,672,008,855	2,105,618,898	1,987,243,245	1,816,783,989	1,710,897,737
Judicial					
State Operations	65,595,425	64,237,307	64,107,905	62,686,535	55,996,510
Local Assistance	21,362,200	18,263,107	7,691,854	11,066,928	72,000
Subtotal	86,957,625	82,500,414	71,799,759	73,753,463	56,068,510
Legislative					
State Operations	53,218,947	50,047,274	50,840,285	46,952,652	44,911,438
Subtotal	53,218,947	50,047,274	50,840,285	46,952,652	44,911,438
General					
State Operations	721,694,632	504,768,472	467,730,594	522,102,729	634,673,083
Aids to Individuals and Organizations	191,255,582	209,922,994	206,100,611	216,600,048	191,352,574
Local Assistance	1,347,118,143	1,510,746,840	1,447,264,919	1,419,981,721	1,468,179,316
Subtotal	2,260,068,357	2,225,438,306	2,121,096,124	2,158,684,498	2,294,204,973
General Obligation Bond Program					
State Operations	440,373,335	310,823,789	425,243,946	289,286,562	277,510,958
Local Assistance					47,223,826
Subtotal	440,373,335	310,823,789	425,243,946	289,286,562	324,734,784
Summary Totals					
State Operations	8,684,069,504	8,216,093,778	8,015,604,031	7,585,390,602	7,213,163,742
Aids to Individuals and Organizations	4,419,061,393	4,271,095,644	4,172,482,596	4,034,004,348	3,839,832,259
Local Assistance	6,973,275,907	6,218,474,268	5,858,059,520	5,450,630,619	5,252,345,010
GRAND TOTAL	$20,076,406,804	$18,705,663,690	$18,046,146,147	$17,070,025,569	$16,305,341,011

(a) The amounts shown are based on statutorily required accounting and not on GAAP The amounts are unaudited

Source: Wisconsin Department of Administration

STATE BUDGET

Budgets for 1997–99

For the fiscal year ending June 30, 1998, the budget on an all-funds basis projects a balance of $215.4 million. Total available revenues are estimated to be $23,686.0 billion consisting of (i) a beginning balance of $331.1 million, (ii) tax revenues of $9.223 billion and (iii) nontax revenues of $14.131 billion. Total disbursements and reserves are estimated to be $23.568 billion, consisting of net disbursements of $23.433 billion and reserves of $135.0 million. This results in an estimated balance of $117.5 million which, when combined with the statutorily required balance of $97.9 million, results in a balance at June 30, 1998 of $215.4 million. The budget is summarized in Table II-3.

The projected general-fund balance for June 30, 1998 is the same as the all-funds balance, $215.4 million. Total available revenues are estimated to be $16.098 billion consisting of (i) a beginning balance of $331.1 million, (ii) tax revenues of $9.223 billion and (iii) nontax revenues of $6.543 billion. Total disbursements and reserves are estimated to be $15.980 billion, consisting of net disbursements of $15.845 billion and reserves of $135.0 million. The budget is summarized in Table II-4.

For the fiscal year ending June 30, 1999, the budget on an all-funds basis projects a balance of $125.6 million. Total available revenues are estimated to be $24.061 billion consisting of (i) a beginning balance of $215.4 million, (ii) tax revenues of $9.643 billion and (iii) nontax revenues of $14.202 billion. Total disbursements and reserves are estimated to be $24.035 billion, consisting of net disbursements of $23.867 billion and reserves of $167.9 million. This results in an estimated balance of $26.1 million which, when combined with the statutorily required balance of $99.5 million, results in a balance at June 30, 1998 of $125.6 million. The budget is summarized in Table II-3.

The projected general-fund balance for June 30, 1999 is the same as the all-funds balance, $125.6 million. Total available revenues are estimated to be $16.253 billion consisting of (i) a beginning balance of $215.4 million, (ii) tax revenues of $9.643 billion and (iii) nontax revenues of $6.395 billion. Total disbursements and reserves are estimated to be $16.227 billion, consisting of net disbursements of $16.059 billion and reserves of $167.9 million. The budget is summarized in Table II-4.

Table II-3
STATE BUDGET–ALL FUNDS[a]

	Actual [b] 1996-97	Budget 1997-98	Budget 1998-99
RECEIPTS			
Fund Balance from Prior Year	$ 581,690,000	$ 331,145,100 [c]	$ 215,409,700
Tax Revenue			
Individual Income	4,544,739,000	4,809,892,600	4,982,402,800
General Sales and Use	2,864,373,000	3,015,000,000	3,194,250,000
Corporate Franchise and Income	643,822,000	646,300,000	664,900,000
Public Utility	306,231,000	274,005,700	269,881,700
Excise			
Cigarette/Tobacco Products	213,348,000	253,075,000	265,500,000
Liquor and Wine	31,350,000	30,500,000	30,500,000
Malt Beverage	9,207,000	9,000,000	9,000,000
Inheritance, Estate & Gift	50,825,000	45,000,000	45,000,000
Insurance Company	94,641,000	93,000,000	93,500,000
Other	869,250,000	47,200,000 [d]	88,300,000 [d]
Subtotal	9,627,786,000	9,222,973,300	9,643,234,500
Nontax Revenue			
Departmental Revenue	143,630,000	145,136,800	153,451,700
Total Federal Aids	3,478,405,000	4,319,116,400	4,302,166,300
Total Program Revenue	2,232,844,000	2,273,283,400	2,348,118,700
Total Segregated Funds	2,907,590,000	2,174,727,400	2,127,445,100
Fund Transfers In	NA	261,605,900	NA
Bond Authority	290,612,000	415,000,000	430,000,000
Employe Benefit Contributions [e]	8,729,891,000	4,542,998,211	4,840,878,164
Subtotal	17,782,972,000	14,131,868,111	14,202,059,964
Total Available	$ 27,992,448,000	$ 23,685,986,511	$ 24,060,704,164
DISBURSEMENTS AND RESERVES			
Commerce	$ 373,921,000	$ 394,897,700	$ 389,392,100
Education	6,759,147,000	7,034,886,500	7,249,503,600
Environmental Resources	2,137,281,000	2,152,642,200	2,181,851,300
Human Relations and Resources	5,689,028,000	5,884,625,800	6,060,717,800
General Executive	2,710,053,000	809,011,700	600,324,800
Judicial	86,958,000	89,292,800	89,802,300
Legislative	53,219,000	54,979,100	55,307,000
General Appropriations	2,266,799,000	2,105,305,900	2,030,983,700
General Obligation Bond Program	437,402,000	415,000,000	430,000,000
Employe Benefit Payments [e]	1,456,722,000	1,889,607,836	2,019,386,350
Reserve for Employe Benefit Payments [e]	7,273,169,000	2,653,390,375	2,821,491,814
Subtotal	29,243,699,000	23,483,639,911	23,928,760,764
Less: (Lapses)	NA	(50,195,900)	(62,136,900)
Compensation Reserves	NA	34,915,600	66,338,400
Required Statutory Balance	NA	97,934,300	99,464,900
Fund Transfers Out	NA	2,217,200	2,108,600
Federal Retiree Reserve	NA	NA	NA
Other	(1,000)	NA	NA
Change in Continuing Balance	(1,589,089,000)	NA	NA
Total Disbursements & Reserves	$ 27,654,609,000	$ 23,568,511,111	$ 24,034,535,764
Fund Balance	$ 337,839,000	$ 117,475,400	$ 26,168,400
Undesignated Balance	$ 327,145,000	$ 215,409,700	$ 125,633,300

(a) The amounts shown are based on statutorily required accounting and not on GAAP

(b) The amounts shown are unaudited and rounded to the nearest thousand

(c) There is a difference in the budgeting and accounting treatment of a $4,000,100 loan from the Local Government Property Insurance Fund to the General Fund which was outstanding as of June 30, 1997 For budgeting purposes, the loan increases the balance of the General Fund which is then reduced when the repayment is made For accounting purposes, the loan has no effect on the General Fund balance

(d) The budgets do not include taxes collected for segregated funds The largest such tax is the motor vehicle fuel tax, which collected $693 million in the 1996-97 fiscal year For the 1998-99 fiscal year the amount shown includes $40 million of revenue expected to be raised through a program that offers a tax amnesty

(e) State law separates the accounting of employe benefits from the budget. They are included for purposes of comparability to the figures presented in this table and Tables II-1 and II-2 Benefits are provided for on a fully funded basis Therefore, when contributions actually received exceed the benefits actually paid out In the event that the actual benefit payments exceed the contributions, investment earnings will be used to cover the difference before they are deposited in the Employe Benefit Fund

Source: Wisconsin Department of Administration

Table II-4
STATE BUDGET–GENERAL FUND[a]

	Actual [b] 1996-97	Budget 1997-98	Budget 1998-99
RECEIPTS			
Fund Balance from Prior Year	$ 581,690,000	$ 331,145,100 [c]	$ 215,409,700
Tax Revenue			
State Taxes Deposited to General Fund			
Individual Income	4,544,739,000	4,809,892,600	4,982,402,800
General Sales and Use	2,864,373,000	3,015,000,000	3,194,250,000
Corporate Franchise and Income	643,822,000	646,300,000	664,900,000
Public Utility	306,231,000	274,005,700	269,881,700
Excise			
Cigarette/Tobacco Products	213,348,000	253,075,000	265,500,000
Liquor and Wine	31,350,000	30,500,000	30,500,000
Malt Beverage	9,207,000	9,000,000	9,000,000
Inheritance, Estate & Gift	50,825,000	45,000,000	45,000,000
Insurance Company	94,641,000	93,000,000	93,500,000
Other	55,905,000	47,200,000	88,300,000 [d]
Subtotal	8,814,441,000	9,222,973,300	9,643,244,500
Nontax Revenue			
Departmental Revenue	143,630,000	145,136,800	153,451,700
Program Revenue-Federal	3,478,405,000	3,863,347,100	3,892,953,700
Program Revenue-Other	2,232,844,000	2,273,283,400	2,348,118,700
Fund Transfers In	NA	261,605,900	NA
Subtotal	5,854,879,000	6,543,373,200	6,394,524,100
Total Available	$ 15,251,010,000	$ 16,097,491,600	$ 16,253,178,300
DISBURSEMENTS AND RESERVES			
Commerce	$ 204,697,000	202,581,300	195,180,400
Education	6,566,192,000	6,970,112,600	7,202,088,700
Environmental Resources	237,381,000	239,628,600	239,232,900
Human Relations and Resources	5,447,424,000	5,787,806,700	5,954,107,100
General Executive	497,084,000	733,141,100	520,567,800
Judicial	86,652,000	88,648,900	89,158,400
Legislative	53,219,000	54,979,100	55,307,000
General Appropriations	1,839,755,000	1,818,246,700	1,865,582,600
Subtotal	14,932,404,000	15,895,145,000	16,121,224,900
Less: (Lapses)	NA	(50,195,900)	(62,136,900)
Compensation Reserves	NA	34,915,600	66,338,400
Required Statutory Balance	NA	97,934,300	99,464,900
Fund Transfers Out	NA	2,217,200	2,108,600
Federal Retiree Reserve	NA	NA	NA
Changes in Continuing Balance	(19,233,000)	NA	NA
Total Disbursements & Reserves	$ 14,913,171,000	$ 15,980,016,200	$ 16,226,999,900
Fund Balance	$ 337,839,000	$ 117,475,400	$ 26,178,400
Undesignated Balance	$ 327,145,000	$ 215,409,700	$ 125,643,300

[a] The amounts shown are based on statutorily required accounting and not on GAAP

[b] The amounts shown are unaudited and rounded to the nearest thousand

[c] There is a difference in the budgeting and accounting treatment of a $4,000,100 loan from the Local Government Property Insurance Fund to the General Fund which was outstanding as of June 30, 1997 For budgeting purposes, the loan increases the balance of the General Fund which is then reduced when the repayment is made For accounting purposes, the loan has no effect on the General Fund balance

[d] Includes $40 million of revenue expected to be raised through a program that offers a tax amnesty

Source: Wisconsin Department of Administration.

Potential Effect of Litigation

APPENDIX A to this part of the Annual Report includes the General Purpose Financial Statements for the fiscal year ended June 30, 1997. The notes to the General Purpose Financial Statements include a description of various legal proceedings, claims and tax refunds which may have a potential budgetary effect. The potential budgetary impact of these and other legal proceedings and claims is outlined below.

Domestic Mutual Insurance Companies–See page Part II A-80

The 1997–98 and 1998–99 budgets do not specifically provide for this payment.

Federal Pension Income–See page Part II A-80

The State is current on making the refunds. The 1997-98 budget does not specifically provide for any remaining payments.

Corporate Tax Apportionment Methodology–See page Part II A-80

The 1997–98 budget does provide for payment of these refunds.

Computer Software–See page Part II A-80

The 1997–98 budget does provide for payment of these refunds.

Special Performance Dividend—See page Part II A-80

On January 17, 1997, the State Supreme Court ruled that the Special Investment Performance Dividend (the "SIPD"), which has been paid from January 1988 to the present, is unconstitutional. The case was remanded to the Circuit Court, with directions that the Circuit Court order defendants to pay from the State treasury to the fixed annuity reserve account of the Wisconsin Retirement System an amount equal to all disbursed SIPD payments (including a $3.8 million reimbursement to the State for State funds advanced to finance the SIPD), plus interest at the "effective rate" for the fixed annuity division of the Wisconsin Retirement System on all SIPD payments from the date that the payments left the annuity reserve account. The Circuit Court has approved a settlement of the matters remanded to the Circuit Court and on September 3, 1997 entered an Order and Judgment ordering payment of $215 million from the State treasury in settlement of the lawsuit. The order directs that $210.9 million of the settlement must be paid on or before November 1, 1997 and that $4.1 million of the settlement must be paid on January 5, 1998. The 1997-98 budget provides for the $215 million settlement and the State has made the $210.9 million portion of the settlement in a timely manner.

Sales Tax on Access Services

On May 15, 1990 the Wisconsin Supreme Court declared unconstitutional a sales tax imposed by the State on access services in connection with telephone service provided between local access and transfer areas. Based on the decision, a payer of the invalidated tax may file a claim for refund. The State believes that, as of May 10, 1998, pursuant to 1991 Wisconsin Act 39, subsequently amended by 1995 Wisconsin Act 351, it will have satisfied all liabilities arising as a result of this decision. The 1997–98 budget does not provide for the payment of any additional claims.

Other

The State, its officers and employes are defendants in numerous lawsuits. It is the opinion of the Attorney General that such pending litigation will not be finally determined so as to result individually or in the aggregate in a final judgment against the State which would materially impair its financial position. Potential liability for such pending litigation does not constitute a significant impairment of the State's financial position or the payment of debt service.

Employe Relations

Of the State's approximately 36,000 civil service employes, 34,000 are employes whose wage rates, fringe benefits, hours and conditions of employment are determined by collective bargaining agreements. These employes, represented by various labor unions, are assigned to one of nineteen statewide bargaining units based on an occupational grouping. Fifteen of the bargaining units representing more than 28,000 employes are under contract. The contracts, or labor agreements, expire June 30, 1999. Three of the bargaining units are currently negotiating contracts, or labor agreements, and the employes in these bargaining units are working under an extension of the previous contract which expired on June 30, 1997. A new bargaining unit, certified to an exclusive representative on October 15, 1997, will negotiate a labor agreement during the 1997-99 biennium. The employment of non-represented civil service employes is covered by civil service statutes, rules and the non-represented compensation plan.

Each contract contains a no-strike and no-lockout provision, and State law specifies that it is illegal for a State employe "to engage in, induce, or encourage any employe to engage in a strike or a concerted refusal to work or perform their usual duties as employes". Also, the State and its agencies have established contingency plans to staff and operate the various State agencies, programs and institutions should an incident occur that could disrupt the delivery of critical State services and necessary agency functions. These plans covering various situations including strikes and work stoppages are updated annually.

The budgets provide for salary and fringe benefits in an amount that is expected to be sufficient to meet all contract obligations. By statute the contracts between the State and the individual bargaining units are two-year contracts. A contract agreement requires ratification by the members of the labor unions, approval by the Joint Committee on Employment Relations, passage by both houses of the Legislature and signature of the Governor.

State Budget Assumptions

Tax revenue projections for the 1997–99 biennial budget are based on May 1997 Department of Revenue ("DOR") estimates. The revenue projections are based on the State tax structure and on assumptions relating to basic economic factors and their historical relationships to State tax receipts. Revenue sources other than taxes are estimated in the preparation of the budget. The all-funds budget establishes estimates of these nontax revenues and presumes that an equal amount of expenditures will be made. Any variation from that expected level of revenue will result in a corresponding increase or decrease in expenditures.

The projections of total State disbursements for the budgets are based on assumptions relating to economic and demographic factors, desired levels of services, and the success of expenditure control mechanisms applied by the Secretary of Administration pursuant to statutory authority in controlling disbursements for State operations. Factors that may affect the level of disbursements in the budgets and make the projected levels difficult to maintain include uncertainties relating to the economy of the nation and the State.

Economic Assumptions

The economic forecast underlying the 1996–97 budget was based primarily on certain projections of Data Resources, Inc. ("DRI") as presented in its report of November 1996. The economic forecast underlying the 1997–99 biennial budget is based primarily on certain projections of DRI as presented in its May 1997 report and results of the economic model that incorporates the projections. See Table II-5 for a summary of the May 1997 DRI report and results of the DOR model.

Wisconsin Econometric Model

The Wisconsin Econometric Model (the "Model") is a forecasting tool used for predicting the future of the State's economy, measured primarily by income and employment. The model provides DOR with information about how the State's economy responds to changes in the national environment and plays a critical role in the revenue estimating process. The Model was designed by DRI, which continues to provide national economic forecasts, data base support and consulting services. It is maintained by DOR.

The Model provides forecasts of the major components of income and employment. It is a structural model that employs accounting identities and theoretical constructs for predictions on each economic variable. It is driven by a set of exogenous variables. These exogenous variables include forecasts of both national and State data. The forecast data are entered into the model to generate forecasts of state employment, income, tax revenue and other economic indicators.

The Model is similar to many economic models in that the economy is described by a set of mathematical equations. There are equations for employment, wages, proprietary income, transfer payments, industrial production, housing permits and taxes. The Model currently consists of 172 equations.

The equations of the Model are a mixture of definitional equations and stochastic equations. Definitional equations are used to formulate accounting relationships, e.g., total employment is the sum of employment for each industry. Stochastic equations are used to specify probability or statistical relationships in which the relation between any two economic measures cannot be defined exactly. Both types of equations rely on an extensive historical database that contains both national and State measures of the economy dating from the early 1960s.

The Model structure adopts an adaptive expectations framework in which the forecasted economic variables (e.g., the level of income and employment) in the current period depend on expectations about the economic variables. Adaptive expectations models assume that expectations about current economic phenomena are based on the historical values of the economic phenomena.

Stochastic equations within the Model are determined using regression techniques. All estimated coefficients are statistically significant and consistent with economic theory.

In order to produce forecasts with the Model, data from several outside (exogenous) sources are required. Forecasts of economic variables at the national level are required to drive the Model. National forecast data includes measures of industry output, factor costs, tax levels and rates, interest rates, inflation, etc. Currently, DRI forecasts for these national variables are used.

Other exogenous data come from both federal and State agencies. These data are principally measures of State population, milk prices and state tax rates. Once the data are entered into the Model, the system of equations is simultaneously solved for income, employment and other economic variables.

Data on U.S. economic trends are used by the Model to forecast the State economy. The State forecast data are in turn used to estimate General Purpose Revenues.

In the Model, separate equations for employment, income and taxes are estimated to acknowledge the complexity of the State's economy. Changes in population, international exchange rates, productivity and tax rates can affect each of the economic indicators differently. The Model recognizes this by estimating each economic indicator separately.

Employment is estimated at the one- and two-digit standard industrial classification levels. It is the major determinant of earnings which is the sum of wages and salaries, other labor income and proprietor's income. Personal income is the sum of earnings, property income, and transfer payments. Forecasts of personal income are determined by calculating separate forecasts of the level of each of these components. Federal, State and local tax revenue and non-tax accruals are functions of income, employment and tax rates. Disposable income is the difference between personal income and personal taxes.

Maintaining the Model is an ongoing process. The Model is calibrated to be temporally consistent either by adjusting the equations to accurately reflect current levels, or by re-estimating the system of equations.

The purpose of updating and revising the Model is to keep the Model's forecasts as reliable as possible. It is believed that if the Model can account for previous changes in income and employment, then it should be able to accurately forecast current levels of income and employment barring any large, unforeseen changes in the structure of the economy.

Table II-5

ECONOMIC FORECASTS
U.S. ECONOMIC FORECAST

	Calendar Year				
	1995	1996	1997	1998	1999
Real GDP and its Components (Amounts in Billions of Chain-Weighted 1992 Dollars)					
GDP	$6,742.8	$6,906.8	$7,156.0	$7,289.2	$7,439.9
Percent Change	2.0	2.4	3.6	1.9	2.1
Consumption	4,577.8	4,690.7	4,866.1	4,979.8	5,072.8
Percent Change	2.3	2.5	3.7	2.3	1.9
Investment (including inventory)	1,010.0	1,056.6	1,170.4	1,202.3	1,222.9
Percent Change	3.1	4.6	10.8	2.7	1.7
Nonresidential Structures	181.1	190.0	202.2	202.8	199.8
Percent Change	7.3	4.9	6.4	0.3	(1.5)
Business Equipment	534.5	578.6	635.9	689.2	721.2
Percent Change	10.4	8.3	9.9	8.4	4.7
Residential Fixed	262.7	276.8	283.6	288.4	286.7
Percent Change	(2.3)	5.3	2.5	1.7	(0.6)
Change in Inventory	32.9	13.6	52.9	29.0	24.8
Exports	775.4	825.9	889.2	942.6	1,026.8
Percent Change	8.9	6.5	7.7	6.0	8.9
Imports	883.0	939.5	1,054.7	1,135.3	1,186.7
Percent Change	8.0	6.4	12.3	7.6	4.5
Federal Government	472.3	467.1	459.0	448.2	436.8
Percent Change	(3.6)	(1.1)	(1.7)	(2.3)	(2.6)
State and Local Government	788.6	804.3	822.3	844.8	864.2
Percent Change	2.4	2.0	2.2	2.7	2.3
GDP (Current Dollars)	7,253.8	7,576.1	8,013.1	8,347.7	8,723.9
Percent Change	4.6	4.4	5.8	4.2	4.5
Employment, Unemployment, Wages and Prices					
Nonfarm Employment (millions)	117.2	119.5	122.2	124.7	126.3
Percent Change	2.7	2.0	2.2	2.0	1.3
Unemployment Rate (%)	5.6	5.4	5.1	5.2	5.4
Compensation per hour (%)	3.1	3.7	3.9	3.7	3.6
Consumer Price Index (%)	2.8	2.9	2.6	2.7	3.1
Producer Price Index (%)	3.6	2.3	0.5	0.8	1.5
GDP Price Deflator (%)	2.5	2.1	2.4	2.3	2.4
Industrial Production (% change)	3.3	2.8	4.5	2.2	2.7
Money and Interest Rates					
Money Supply (M2) (billions)	$3,641.4	$3,810.1	$4,002.4	$4,187.6	$4,394.4
Percent Change	4.0	4.6	5.0	4.6	4.9
Prime Commercial Rate	8.8	8.3	8.7	8.8	8.2
3-Month Treasury Bills (rate)	5.5	5.0	5.4	5.5	5.0
30-Year U.S. Gvt. Bonds (rate)	6.9	6.7	6.9	6.7	6.6
G.O. AAA Municipals (rate)	5.8	5.6	5.6	5.6	5.5
New Conventional Mortgages (rate)	7.9	7.8	7.8	8.0	7.9

Table II-5 – Continued

Income, Profits and Savings
(Amounts in Billions)

	Calendar Year				
	1995	1996	1997	1998	1999
Personal Income	$6,114.0	$6,449.5	$6,837.0	$7,162.3	$7,482.9
Percent Change	6.3	5.5	6.0	4.8	4.5
Personal Income ($ 1992)	$5,683.6	$5,872.4	$6,098.8	$6,231.8	$6,329.9
Percent Change	3.8	3.3	3.9	2.2	1.6
Savings Rate	4.7	4.9	4.9	4.8	4.7
Corporate Profits Before Tax	$ 604.8	$ 670.2	$ 697.1	$ 695.5	$ 733.5
Percent Change	9.1	10.8	4.0	(0.2	5.5

Source: Data Resources, Inc./McGraw-Hill, May 1997

WISCONSIN EMPLOYMENT FORECAST

	Calendar Year				
	1995	1996	1997	1998	1999
Annual Industry Detail Average (Thousands of Workers)					
Durable Goods	364.1	364.9	365.6	365.4	366.6
Percent Change	4.1	0.2	0.2	(0.1)	0.3
Nondurable Goods	237.6	236.3	236.1	238.4	239.9
Percent Change	1.5	(0.5)	(0.1	1.0	0.6
Mining	2.5	2.5	2.5	2.5	2.4
Percent Change	1.9	(0.9)	2.8	(2.8)	(3.8)
Construction	99.0	105.1	111.5	113.2	112.6
Percent Change	0.9	6.2	6.1	1.5	(0.6)
Transportation and Utilities	120.1	120.8	122.7	124.8	126.1
Percent Change	3.4	0.6	1.6	1.7	1.0
Finance, Insurance, Real Estate	136.5	138.2	141.1	143.9	147.0
Percent Change	1.1	1.3	2.1	2.0	2.2
Retail Trade	461.3	466.2	476.2	489.0	500.8
Percent Change	3.2	1.1	2.1	2.7	2.4
Wholesale Trade	126.8	129.0	132.0	135.0	136.3
Percent Change	2.3	1.7	2.4	2.2	1.0
Services	631.9	655.2	680.3	695.8	706.9
Percent Change	2.4	3.7	3.8	2.3	1.6
Government	378.7	383.3	386.7	393.1	398.8
Percent Change	3.2	1.2	0.9	1.6	1.4
Total Nonfarm	2,558.4	2,601.6	2,654.9	2,701.1	2,737.4
Percent Change	2.7	1.7	2.0	1.7	1.3

Source: Wisconsin Department of Revenue, Economic Outlook, May 1997

Table II-5 – Continued

WISCONSIN INCOME SUMMARY

	Calendar Year				
	1995	1996	1997	1998	1999
Components of Personal Income (Amounts in Billions)					
Wages and Salaries	$65.46	$69.09	$73.41	$76.71	$80.00
Other Labor Income	8.96	9.19	9.60	10.17	10.77
Farm Proprietor's Income	(0.20)	(0.03)	0.07	0.04	0.04
Nonfarm Proprietor's Income	6.61	7.01	7.33	7.46	7.71
Rental Income	2.12	2.16	2.26	2.36	2.46
Personal Dividend Income	4.17	4.52	4.89	5.24	5.55
Personal Interest Income	12.88	13.29	13.99	14.60	14.91
Transfer Payments	17.64	18.52	19.43	20.31	21.32
Residence Adjustment	1.67	1.79	1.90	1.99	2.09
Contributions to Social Insurance	5.26	5.48	5.79	6.02	6.30
Personal Income	114.04	120.06	127.09	132.86	138.55
Personal Taxes and Nontax Pmts	16.33	17.99	19.11	19.92	20.58
Disposable Personal Income	97.71	102.07	107.97	112.94	117.97
Annual Rates of Change (Percent Change)					
Wages and Salaries	5.9	5.5	6.3	4.5	4.3
Other Labor Income	5.7	2.5	4.4	6.0	5.9
Farm Proprietor's Income		84.7		(40.4)	(0.3
Nonfarm Proprietor's Income	8.1	6.1	4.6	1.8	3.2
Rental Income	3.1	1.8	4.6	4.2	4.5
Personal Dividend Income	7.7	8.5	8.2	7.2	6.0
Personal Interest Income	8.9	3.2	5.2	4.4	2.1
Transfer Payments	6.5	5.0	4.9	4.6	5.0
Residence Adjustment	5.2	7.2	6.3	4.9	4.7
Contributions to Social Insurance	6.2	4.2	5.7	4.0	4.6
Personal Income	6.1	5.3	5.8	4.5	4.3
Personal Taxes and Nontax Pmts	8.4	10.2	6.2	4.2	3.3
Disposable Personal Income	5.7	4.5	5.8	4.6	4.5
Inflation Adjusted Income Measures (1992 Dollars)					
Real Personal Income (billions)	$ 106.01	$ 109.29	$ 113.37	$ 115.60	$ 117.20
Percent Change	3.7	3.1	3.7	2.0	1.4
Real Personal Income per Capita	$20,714.0	$21,175.0	$21,787.0	$22,044.0	$22,179.0
Percent Change	2.9	2.2	2.9	1.2	0.6
Per Capita Personal Income	$22,284.0	$23,262.0	$24,423.0	$25,335.0	$26,219.0
Percent Change	5.3	4.1	5.0	3.7	3.5

Source: Wisconsin Department of Revenue, Wisconsin Economic Outlook, May 1997

Budget Format

The State prepares an all-funds budget, a general purpose revenue ("GPR") budget and subbudgets for each fund. The all-funds or total budget includes all money appropriated for the fiscal year revenues from general state tax collections, federal funds that are estimated to be received, revenues which are paid into a specific fund (such as the Transportation or Conservation Fund) for a specified program or purpose or which are credited to an appropriation to finance a specific program or agency, and finally revenues resulting from the contracting of public debt. Because it includes only estimates of federal funds to be received and expended, it is a budget that may vary during the course of the fiscal year.

The GPR budget includes the money appropriated from all state-collected general taxes (such as income taxes, sales taxes, excise taxes, etc.), from revenues collected by State agencies which are deposited into the General Fund and lose their identity (departmental revenues) and from various miscellaneous receipts. A portion of these revenues is then returned to local governments in the form of shared tax payments and to school districts in the form of general equalization aid payments, which are used to meet the cost of local operations. Additionally, some of the revenues are used for aids to individuals. The remaining portion is the operating budget for State agencies conducting State-administered programs.

The financial material reported in this document is a representation of the all-funds budget. The subbudget for the General Fund is also provided. The General Fund is the principal operating fund of the State. It receives all State income that is not required by law to be deposited in other funds (including more than 90% of total State tax receipts) and many other revenues

Impact of Federal Programs

Future Federal budgets which include reductions in Federal aid would have a more immediate effect on individuals, local governments and other service providers than on the State directly. Such proposals, if enacted, would increase the likelihood that the State will be asked to increase its support of the affected parties. Implementing choices posed by the Federal budget would involve State legislative action.

Supplemental Appropriations

The State may increase appropriations from or reduce taxes below the levels established in its budget. In recent past years, including the current fiscal year, the State has adopted appropriation measures subsequent to passage of the budget act. However, it has been the State's policy that supplemental appropriations adopted by the Legislature will be within revenue projections for that fiscal period or balanced by reductions in other appropriations. Thus, spending from additional appropriations has been matched by reduced disbursements, increased revenues or a combination of both.

No legislation directly or indirectly affecting general purpose revenue (tax revenue and departmental revenue) of the General Fund may be enacted if the bill would cause the estimated General Fund balance on June 30 of the fiscal year to be less than the required statutory reserve.

General Fund History

Table II-6 presents the General Fund condition for the previous five years.

Table II-6
COMPARATIVE CONDITION OF THE GENERAL FUND
AS OF JUNE 30[a]
(Amounts in Thousands)

	1997	1996	1995	1994	1993
ASSETS					
Cash & Investment Pool Shares	$ 498,692	$ 574,513	$ 489,935	$ 186,705	$ 292,548
Imprest Funds	4,086	4,108	4,107	4,107	3,880
Investments	445	445	445	445	190
Receivables					
Accounts Receivable	816,708	684,739	763,515	714,859	400,166
Due from Other Funds	16,486	16,716	9,244	135,924	7,450
Inventory				379	
Prepayments	40,884	34,361	39,878	33,406	
TOTAL ASSETS	$ 1,377,301	$ 1,314,882	$ 1,307,124	$ 1,075,825	$ 704,234
LIABILITIES					
Accounts Payable	$ 330,589	$ 295,189	$ 333,644	$ 251,849	$ 104,219
Due to Other Funds	301,406	32,251	36,564	57,093	100
Tax and Other Deposits	62,084	40,400	59,666	44,490	22,597
Advances from Other Funds	4,000	6,000	8,000	14,226	14,226
Deferred Revenue	26,498	22,417	21,995	26,235	
TOTAL LIABILITIES	$ 724,577	$ 396,257	$ 459,869	$ 393,893	$ 141,142
FUND BALANCE					
Reserves					
Encumbrances & GPR Balances	$ 110,482	$ 160,963	$ 120,329	$ 159,128	$ 92,486
Program Revenue Balances	155,684	171,864	321,938	284,242	313,607
Contingent Fund Advances		4,108	4,107	3,685	3,459
Student Loans					
Total Reserves	$ 266,166	$ 336,935	$ 446,374	$ 447,055	$ 409,552
Unreserved Balance-Undesignated	386,558	581,690	400,881	234,877	153,540
TOTAL FUND BALANCE	$ 652,724	$ 918,625	$ 847,255	$ 681,932	$ 563,092
TOTAL LIABILITIES AND FUND BALANCE	$ 1,377,301	$ 1,314,882	$ 1,307,124	$ 1,075,825	$ 704,234

[a] The amounts shown are based on statutorily required accounting and not GAAP. The amounts are unaudited

Source: Wisconsin Department of Administration.

General Fund Cash Flow

The State has experienced and expects to continue to experience certain periods when the General Fund is in a negative cash position. The Statutes provide certain administrative remedies to deal with these periods. The Secretary of Administration may temporarily reallocate up to $400 million of available cash in other funds to the General Fund. The Secretary of Administration may set priorities for payments from the General Fund as well as prorate certain payments. The Statutes provide that all payments shall be in accordance with the following order of preference: (1) all direct and indirect payments of principal and interest on State general obligation debt have first priority and may not be prorated or reduced; (2) all direct and indirect payments of principal and interest on operating notes have second priority and may not be prorated or reduced; (3) all State employe payrolls have third priority and may be prorated or reduced; and (4) all other payments shall be paid in a priority determined by the Secretary of Administration and may be prorated or reduced.

Table II-7 presents the actual cash flow of the General Fund from July 1995 through November 1997 and the projected cash flow for December 1997 through June 1998. The amounts reported include the proceeds of the sale of operating notes in July 1995, 1996, and 1997 and the payment of impoundments for February, March, April and May of 1996, 1997, and 1998. The table should be read in conjunction with other information concerning the State budget set forth elsewhere in this part of the Annual Report, including "STATE GOVERNMENT ORGANIZATION AND FINANCIAL PROCEDURES; Budgeting Process and Fiscal Controls", "STATE BUDGET" and "STATE OBLIGATIONS; Operating Notes".

Monthly projections of cash flow are based upon the 1997–98 budget and upon historical experience as adjusted to reflect economic conditions, statutory and administrative changes and anticipated payment dates for debt service, payrolls and State aid.

Unforeseen events or variations from underlying assumptions may cause a decrease in receipts or an increase in disbursements from those projected for a given month and thus may adversely affect the projection of cash flow for the time shown. Additionally, the timing of transactions from month to month may vary from the forecast. The State updates its projection of the remaining fiscal year cash flow each month as a result of actual revenues and expenditures received, from unforeseen events, or from revised forecasts of month-to-month timing of transactions. Table II-8 presents the actual cash balances available for interfund borrowings from July 1, 1995 through December 1, 1997 and the projected balances for January 1, 1998 through June 1, 1998.

Tables II-9 and II-10 present actual revenues deposited into the General Fund and expenditures made from the General Fund for the periods of July 1, 1997 to November 30, 1997 and July 1, 1996 to November 30, 1996.

Table II-7

GENERAL FUND MONTHLY CASH POSITION
July 1, 1995 through November 30, 1997 — Actual
December 1, 1997 through June 30, 1998 — Estimated[a]
(Amounts in Thousands)

	Starting Date	Starting Balance	Receipts[b]	Disbursements[b]
1995	July	$ 451,090	$ 1,306,431	$ 1,337,712
	August	419,809	1,055,527	849,866
	September	625,470	1,362,210	1,101,358
	October	886,322	1,151,661	810,058
	November	1,227,925	1,220,032	1,622,269
	December	825,688	1,156,810	1,493,484
1996	January	489,014	1,461,087	878,316
	February	1,071,785	1,132,269	1,044,288
	March	1,159,766	1,240,173	1,888,319
	April	511,620	1,402,600	936,278
	May	977,942	1,180,704	1,029,277
	June	1,129,369	1,362,420	1,922,703
	July	569,086	1,279,815	1,434,154
	August	414,747	1,030,924	844,258
	September	601,413	1,476,166	1,011,367
	October	1,066,212	1,137,121	855,357
	November	1,347,976	1,201,689	1,691,802
	December	857,863	1,191,440	1,728,258
1997	January	321,045	1,660,082	969,951
	February	1,011,176	1,143,553	1,018,864
	March	1,135,865	1,187,307	1,888,887
	April	434,285	1,507,412	964,595
	May	977,102	1,282,737	965,508
	June	1,294,331	1,390,068	2,190,931
	July	493,468	1,583,435	1,558,759
	August	518,144	1,092,096	868,164
	September	742,076	1,518,617	1,140,770
	October	1,119,923	1,281,159	1,220,979
	November	1,180,103	1,363,754	1,575,478
	December	968,379	1,302,204	1,847,677
1998	January	422,906	1,709,205	970,606
	February	1,161,505	1,222,906	1,160,643
	March	1,223,768	1,328,728	2,152,988
	April	399,508	1,533,828	1,130,069
	May	803,267	1,338,452	1,094,176
	June	1,047,543	1,515,677	2,317,526

(a) The monthly receipt and disbursement projections for December 1, 1997 through June 30, 1998 are based on estimates provided by the Division of Executive Budget and Finance.

(b) The receipt amounts shown in July 1995–1997 include the proceeds received at closing for the respective operating notes. See "OTHER OBLIGATIONS; Operating Notes" in the Annual Report. The disbursement amounts shown for February, March, April and May 1996–1998 include impoundment payments required in connection with the operating notes.

Source: Wisconsin Department of Administration.

Table II-8

BALANCES IN FUNDS AVAILABLE FOR INTERFUND BORROWING[a]
July 1, 1995 to December 1, 1997 — Actual
January 1, 1998 to June 1, 1998 — Estimated[b]
(Amounts in Millions)

	1995	1996	1997	1998
January		$2,991.90	$3,210.23	$2,147.05[b]
February		3,428.21	3,553.70	2,110.15
March		3,852.78	3,793.12	2,141.52
April		3,808.74	3,832.30	2,165.09
May		3,402.69	3,423.07	2,117.84
June		3,145.00	3,317.76	2,055.69
July	$2,838.71	3,252.38	3,522.40	
August	3,143.94	3,511.90	3,824.91	
September	2,975.23	3,250.54	3,546.19	
October	2,902.89	3,010.27	3,456.19	
November	2,630.23	2,687.47	3,126.49	
December	2,732.65	2,072.66	3,177.39	

[a] Consists of the following funds:

Transportation	Common School
Conservation (Partial)	Normal School
Wisconsin Health Education Loan Repayment	University
Waste Management	Local Government Investment Pool
Wisconsin Election Campaign	Farms for the Future
Investment & Local Impact	Agrichemical Management
Elderly Property Tax Deferral	Historical Society Trust
Lottery	School Income Fund
Children's Trust	Benevolent
Racing	Groundwater
Work Injury Supplemental Benefit	Petroleum Storage Environmental Cleanup
Unemployment Compensation Interest Repayment	Clean Water
Uninsured Employers	Environmental
Health Insurance Risk Sharing Plan	Recycling
Local Government Property Insurance	University Trust Principal
Patients Compensation	Veterans Mortgage Loan Repayment
Mediation	State Building Trust
Agricultural College	

[b] Estimated balances for January 1, 1998 and succeeding months include $480 million (a portion of the estimated balance) for the local government pool of the available funds. The local government pool has varied from a low of $63 million on July 1, 1983 to a high of $4.426 billion on March 1, 1994. The pool is composed of funds deposited by local units of government which may be withdrawn without notice. The amounts shown are the estimated balances of funds available for interfund borrowing. Under Section 20.002(11) of the Statutes, interfund borrowing is limited to $400 million.

Source: Wisconsin Department of Administration.

Table II-9
REVENUES DEPOSITED TO THE GENERAL FUND[a]
July 1, 1997 to November 30, 1997 compared with previous year
(Unaudited)

	Actual Receipts 1996–97 FY[b]	Projected Receipts 1997–98 FY	Actual Receipts July 1, 1996 to November 30, 1996	Actual Receipts July 1, 1997 to November 30, 1997
Individual Income Tax	$ 4,544,739,246	$ 4,809,892,600	$ 1,449,013,350	$ 1,616,568,273
General Sales and Use Tax	2,864,373,180	3,015,000,000	987,764,313	1,029,858,922
Corporate Franchise and Income Tax	643,821,885	646,300,000	167,538,674	169,081,040
Public Utility Taxes	306,230,883	274,005,700	156,559,727	164,259,797
Excise Taxes	253,904,414	292,575,000	89,648,834	94,128,512
Inheritance Taxes	50,825,151	45,000,000	16,218,776	46,539,482
Miscellaneous Taxes	150,545,817	140,200,000	52,175,346	55,189,739
SUBTOTAL	8,814,440,576	9,222,973,300	2,918,919,020	3,175,625,765
Federal Receipts	3,478,405,811	3,863,347,100	1,301,696,853	1,286,476,075
Dedicated and Other Revenues[c]	2,376,474,850	2,680,026,100	1,005,531,790 [d]	1,382,273,537 [d]
TOTAL	$14,669,321,237	$15,766,346,500	$5,226,147,663	$5,844,375,377

(a) The amounts shown are based on the statutory accounting basis and not on GAAP. See "STATE GOVERNMENT ORGANIZATION AND FINANCIAL PROCEDURES; Accounting and Financial Reporting" in this part of the Annual Report.

(b) The amounts shown are the sum of all revenues for fiscal year 1996-97 based on the data used in the preparation of the Annual Fiscal Report, Budgetary Basis, for the year ending June 30, 1997.

(c) The statutory basis of accounting requires that certain transfers between General Fund appropriations be recorded as both revenues and expenditures of the General Fund. The amount of these transfers may vary greatly between fiscal years, and therefore, this category may not be comparable on a historical basis

(d) The amounts shown do not reflect receipt of $150 million principal amount in fiscal year 1996–97 and $450 million principal amount to date in fiscal year 1997–98 from the sale of operating notes

Source: Wisconsin Department of Administration.

Table II-10
GENERAL FUND EXPENDITURES BY FUNCTION[a]
July 1, 1997 to November 30, 1997 compared with previous year
(Unaudited)

	Actual Expenditures 1996–97 FY[b]	Appropriations 1997–98 FY	Actual Expenditures July 1, 1996 to November 30, 1996	Actual Expenditures July 1, 1997 to November 30, 1997
Commerce	$ 204,697,785	$ 195,180,400	$ 73,953,205	$ 79,904,216
Education	6,566,191,813	7,202,088,700	1,636,593,808	2,636,823,051
Environmental Resources	237,381,444	239,232,900	78,447,618	71,654,758
Human Relations & Resources	5,447,424,395	5,954,107,100	2,049,182,847	2,199,247,253
General Executive	497,084,469	520,567,800	184,325,903	404,128,794
Judicial	86,651,785	89,158,400	38,860,967	40,170,387
Legislative	53,218,947	55,307,000	17,805,754	18,908,396
General Appropriations	1,839,755,076	1,865,582,600	534,920,260	679,891,759
TOTAL	$ 14,932,405,714	$ 16,121,224,900	$ 4,614,090,362	$ 6,130,728,614

(a) The amounts shown are based on the statutory accounting basis and not on GAAP. See "STATE GOVERNMENT ORGANIZATION AND FINANCIAL PROCEDURES; Accounting and Financial Reporting" in this part of the Annual Report

(b) The amounts shown are the sum of all expenditures for fiscal year 1996-97 based on the data used in the preparation of the Annual Fiscal Report, Budgetary Basis, for the year ending June 30, 1997

Source: Wisconsin Department of Administration.

STATE OBLIGATIONS

General Obligations

The State, acting through the Commission, may issue general obligation bonds and notes or enter into loans that are secured by the State's full faith, credit and taxing power. Payments of debt service on State general obligations are paramount to all other obligations of the State. As of December 15, 1997, the State had approximately $3.4 billion of outstanding general obligations.

The State has never defaulted in the punctual payment of principal or interest on any general obligation indebtedness and has never attempted to prevent or delay such required payments. The State has reserved no right to reduce or modify any terms with respect to security or source of payment of general obligation bonds or notes. See Part III of this Annual Report for additional information on general obligations.

Operating Notes

The Commission may issue operating notes to fund operating expenses upon the request of the Department of Administration if the Department determines that a deficiency will occur in the funds of the State which will not permit the State to pay its operating expenses in a timely manner. The Governor and the Joint Finance Committee of the Legislature must also approve the request for issuance.

Operating notes may be issued in an amount not exceeding 10% of budgeted appropriations of general purpose and program revenues in the year in which operating notes are issued. Operating notes are not general obligations of the State and are not on parity with State general obligations.

The General Fund may be pledged for the repayment of operating notes and moneys of the General Fund may be impounded for future payment of principal and interest; however, any such repayment or impoundment must be made subsequent to the payment of the amounts due the Bond Security and Redemption Fund securing the repayment of State general obligation bonds. All payments and impoundments securing the operating notes are also subject to appropriation. Owners of the operating notes have a right to file suit against the State in accordance with procedures established in State law.

The State issued $300 million of operating notes on July 1, 1997 and $150 million of additional operating notes on November 12, 1997. These operating notes are each on parity with each other and are due June 15, 1998.

Master Lease Program

The State, acting by and through the Department of Administration, has entered into a master lease for the purpose of acquiring equipment (and in limited situations, service items) for state agencies through installment payments. The State's obligation to make lease payments is subject to annual appropriation by the Legislature. The full faith and credit of the State are not pledged to the lease payments; the State is not obligated to levy or pledge any tax to pay the lease payments. The State's obligation to make the lease payments does not constitute debt for purposes of the Constitutional debt limit, and there is no limit to the amount of such obligations that the State can incur. Although an effort is made to use the master lease program for all property acquired by the State through nonappropriation leases, it is possible that state agencies may separately incur such obligations. Certificates of participation have been privately sold which evidence an obligation to repay a revolving credit facility used to acquire equipment under the master lease. As of December 15, 1997, the principal amount of the State's obligations under the master lease program was approximately $38 million. See Part IV of this Annual Report for additional information on master lease certificates of participation.

State Revenue Obligations

Subchapter II of Chapter 18 of the Statutes, which was created in 1977, authorizes the State, acting through the Commission, 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 revenue obligations. Any such program to be undertaken must be specifically authorized by the Legislature. The resulting obligations are not general obligations of the State. Repayment is secured only by funds to be generated within the financed programs.

Revenues pledged to the repayment of revenue obligations are deposited with a trustee for the obligations. Because these revenues are pledged to the owners of revenue obligations, who have a first lien on all such monies, the owners of State general obligations have no claim to the revenues pledged for the repayment of such revenue obligations.

Five such programs have been authorized. The first is to finance loans to students in colleges, universities, and technical colleges. The student loan program is operated in conjunction with an independently funded corporation, which insures against default in repayment, and the federal guaranteed student loan program, which reimburses the corporation for insurance payments made. The Commission has issued three bond series for this program. All of the outstanding bonds were defeased on June 11, 1991.

The second program, also a student loan program, is for students enrolled in medical and dental schools in Wisconsin. This program operates with direct insurance from the federal government under its Health Educational Assistance Loan program. The Commission has issued six series of bonds for this program, with nearly $5 million outstanding as of December 15, 1997.

The third program provides funding for the veterans housing loan program. All loans under this program are to be guaranteed by the Federal Veterans Administration or insured by a private mortgage insurer. The Commission has issued two series of bonds for this program. All of the remaining outstanding bonds were redeemed on August 1, 1996.

The fourth program is to finance State highways and related transportation facilities. The obligations are secured by motor vehicle registration fees. The Commission has issued nine series of bonds and one series of commercial paper notes for this program, which were outstanding in the amount of nearly $879 million as of December 15, 1997. See Part V of this Annual Report for additional information on transportation revenue obligations.

The fifth program is the State's Clean Water Fund program. The funds from revenue obligations are primarily used to make loans to municipalities in the State for the construction or improvement of their wastewater treatment facilities and to make deposits in certain funds established for the Clean Water Fund program. The Commission has issued five series of bonds for this program, which were outstanding in the amount of $437 million as of December 15, 1997. The Commission has authorized the sale of up to $110 million of additional clean water revenue bonds. See Part VI of this Annual Report for additional information on clean water revenue bonds.

Moral Obligations

In certain situations where the State does not have a legal obligation to make a payment, the Legislature has recognized a moral obligation to make an appropriation for the payment and has expressed its expectation and aspiration that, if ever called upon to do so, it would. These situations, which are described further in this section, include payments required to be made by municipalities on loans from the Clean Water Fund, if so designated by the State, and payments to reserve funds securing certain obligations of the Wisconsin Housing and Economic Development Authority and certain obligations of a local exposition district or a local professional baseball park district.

Nonstock, Nonprofit Corporations

Four nonstock, nonprofit corporations have been used to issue debt on behalf of the State; two of the corporations still have debt outstanding. The Constitutional amendment of 1969, which authorized direct borrowing, simultaneously prohibited any further borrowing by these entities. Table III-6 in "DEBT INFORMATION" sets forth the amount of these obligations, and as required by the Constitution, the State includes them with the State's direct debt.

Independent Authorities and Exposition Districts

State law creates and grants to two independent special purpose authorities the power to issue bonds and notes: the Wisconsin Housing and Economic Development Authority ("WHEDA") (formerly the Wisconsin Housing Finance Authority) and the Wisconsin Health and Educational Facilities Authority ("WHEFA") (formerly the Wisconsin Health Facilities Authority). Neither of these entities is a department or agency of the State, and neither can issue bonds or notes that are legal obligations of the State. However, WHEDA may incur debt upon which the State has a moral obligation to appropriate moneys to make up deficiencies in WHEDA reserve funds in the event project revenues received by the Authority are inadequate to repay outstanding obligations. It has never been necessary to call on the State to fulfill its moral obligation. By law, the Commission serves as financial advisor to each of the independent authorities in the issuance of this debt.

Wisconsin Housing and Economic Development Authority

WHEDA was the first of the independent authorities to be created. Its original purpose is to act as a funding vehicle for the development of housing for low– and moderate–income families. In 1983 the powers of WHEDA were expanded to include economic development and the authority's name was changed to its present one. In 1985 WHEDA was authorized to administer the State's agricultural production loan guaranty and interest subsidy program. It may issue bonds and notes, which are to be general obligations of WHEDA (except for bonds for the housing rehabilitation loan program issued pursuant to section 234.50(2) of the Wisconsin Statutes) unless WHEDA chooses to limit the obligation. The State is expressly not liable on WHEDA debts. Repayment may be secured by capital reserve funds, which may be created for each bond issue in an amount that is appropriate for the type of projects being funded. Invasion of this reserve triggers a moral obligation pledge on the part of the State and prevents further WHEDA borrowing until the invasion is restored. As of October 31, 1997 there were $429 million of moral obligation debt outstanding. In the event a capital reserve fund is not established for a particular bond issue, the moral obligation pledge would not be applicable. WHEDA has debt authority for several specific programs. For its general programs, WHEDA has $325 million of borrowing authority, excluding debt issued to refund other debt, of which $181 million were available on October 31, 1997. WHEDA has $100 million of borrowing authority for its housing rehabilitation programs, of which $92 million were available on October 31, 1997. WHEDA also has a single-family home ownership mortgage loan program. To October 31, 1997 it has issued $3.2 billion in such bonds. WHEDA has $99 million of aggregate borrowing authority for residential facilities for the elderly and chronically disabled. To October 31, 1997 it has sold three bond issues totaling $5 million for this program. WHEDA has $217 million of borrowing authority for economic development and agriculture loans. To October 31, 1997 it has sold 113 series of bonds for economic development and agriculture totaling $71 million, which are not general obligations of WHEDA, and 56 series of bonds, totaling $92 million, which are general obligations of WHEDA.

In the one-year period ending October 31, 1997, WHEDA sold four single-family issues totaling $323 million.

WHEDA is directed by a twelve-member board: the Secretary of the Wisconsin Department of Administration, the Secretary of the Wisconsin Department of Development, two representatives to the Wisconsin Assembly and two state senators who are appointed in the same manner as the members of standing committees in their respective houses and equally represent the two major political parties, and six public members serving staggered terms, nominated by the Governor and confirmed by the Senate. Financial reports can be obtained from the Wisconsin Housing and Economic Development Authority, P.O. Box 1728, Madison, WI 53701. The phone number is (608) 266-7884.

Wisconsin Health and Educational Facilities Authority

WHEFA provides revenue bond financing for hospitals, nursing homes and other health-related and educational facilities. It may finance any qualifying capital project and may refinance any qualifying outstanding indebtedness. In 1987 legislation expanded WHEFA's power to include revenue bond financing for private colleges and universities and changed the authority's name to its present one. As of June 30, 1997 WHEFA had outstanding 201 issues totaling approximately $3.5 billion. All bonds are limited obligations of WHEFA, payable only from revenues specified in the documents pertaining to each bond financing and are not State debt. There is no capital reserve fund or moral obligation feature. An annual program and financial report to the Legislature and the Governor is required. The State Auditor is empowered to investigate WHEFA's financial affairs and prescribe methods of accounting. The governance of WHEFA is by a seven-member, staggered-term board nominated by the Governor and confirmed by the Senate. The Governor annually appoints the chairperson. Financial reports may be obtained from Wisconsin Health and Educational Facilities Authority, 18000 West Sarah Lane, Suite 140, Brookfield, WI 53045-5843. The phone number is (414) 792-0466.

Local Districts

Through legislation enacted in 1994, the Legislature has authorized the creation of local exposition districts. A district may be created by one or more units of local government. A district is authorized to issue bonds for costs related to an exposition center, and if the Secretary of Administration determines that certain conditions are met, the State may have a moral obligation to appropriate moneys to make up deficiencies in the district's reserve funds that secure up to $200 million principal amount of bonds in the event that project revenues and tax revenues received by the district are inadequate to pay debt service on the bonds. To date, one such district has been created, and it has issued $120.5 million of bonds that are subject to the moral obligation. As of November 30, 1997, the outstanding principal amount of these bonds is $120.5 million.

Through legislation enacted in 1995, local professional baseball park districts are created. A district's territory consists of each county with a population of not less than 500,000 and all contiguous counties. A district is authorized to issue bonds for costs related to a baseball park, and if the Secretary of Administration determines that certain conditions are met, the State may have a moral obligation to appropriate moneys to make up deficiencies in the district's reserve funds that secure up to $160 million principal amount of bonds in the event the project revenues and tax revenues received by the district are inadequate to pay debt service. To date, one such district has been created, and none of the obligations that it has issued are subject to the moral obligation.

Employe Pension Funds

The State's pension obligations are defined by formulas that establish monthly retirement benefits as a function of annual compensation and years of service. The State's current contributions to meet these pension obligations are established first by a yearly actuarial determination of the value of the retirement benefits that have accrued to State employes and will have to be paid out in the future. After deducting the fixed contributions of employes, the State then contributes an amount sufficient to meet the remaining value of the obligations. The actuarial method used to determine the size of the contributions is known as "Frozen Initial Liability" for prior service liability and "Entry Age Normal" for current contributions. Actuarial assumptions that have been adopted in application of this method are shown in Tables II-18, II-19 and II-20.

The Wisconsin Department of Employe Trust Funds administers the pension programs of both the State and local governments, and the State of Wisconsin Investment Board is responsible for investment of all the funds. Although the State provides pension and investment management staff for its own and local government employes, *the State has no financial obligation for payment of any local government contribution.*

A description of the Wisconsin Retirement System and an identification of the State's obligation follows. This is supplemented with additional statistical material in Tables II-11 through II-20.

The Wisconsin Retirement System covers all full-time employes of the State. The total retirement contribution consists of a member (employe) contribution and an employer contribution. Member contributions are presently set at 5% of salary for general employes including teachers; 4.7% for elected officials, judges and certain other positions in State government; 5.4% for protective occupation participants who are also covered by Social Security and 5.8% for protective occupation participants not covered by Social Security. Employer pick-up of some or all of the member's required contribution is permitted by statute. Currently the entire member contribution of 5% of each State employe's salary is assumed by the State. An additional 1.2% nonrefundable contribution is required from general employes, including teachers.

The employer contribution is actuarially determined each year by an independent actuarial firm. For calendar year 1998 employer rates have been established at 8.5% for protective participants with Social Security, 13.2% for protective participants without Social Security, 10.2% for elected officials and judges and 4.8% for general employes. In addition, the State is charged an average of 0.9% of its protective payroll, 1.0% of its elected payroll and 1.3% of its general payroll to liquidate its portion of the fund's accrued liability by June 30, 2029. The State is also charged 1.8% of its protective payroll for special duty disability coverage.

Monthly benefits upon retirement at normal retirement age (65 for general employes, 62 for elected officials and certain other state positions, and 55 for protective occupation participants) are computed on a formula basis (the formula varies by particular class of participation). Some inactive members and a small number of currently active employes may have benefits computed on some other basis when they apply for benefits.

Contributions into the Wisconsin Retirement System are invested by the State of Wisconsin Investment Board as provided by law, and are maintained in two separate funds: the Fixed Retirement Investment Trust and the Variable Retirement Investment Trust. Investments are recorded pursuant to statutes as follows:

(a) The assets of the Fixed Retirement Trust are carried by a hybrid method providing for the amortization of capital gains and losses as well as deferred items over a five-year period.

(b) The Variable Retirement Investment Trust assets are recorded at market value with all market adjustments included in current operations.

Except for certain protective occupation employes and a few other minor exceptions, employes under the Wisconsin Retirement System are also covered by Social Security.

Table II-11 provides comparative actuarial balance sheets for the most recent reporting periods. As an employer, the State's share of the unfunded accrued liability of the Wisconsin Retirement System stood at $625 million as of December 31, 1996.

Table II-11

WISCONSIN RETIREMENT SYSTEM
ACTUARIAL STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 1996 (UNAUDITED)
(Amounts in Millions)

	12/31/96	12/31/95	Increase (Decrease)
Assets and Employer Obligations:			
Net Assets			
Cash, Investments & Receivables			
Less: Payables & Suspense Items			
Fixed Division	$28,850.3	$25,820.7	$3,030.3
Variable Division	5,112.3	4,426.2	686.1
Totals	33,962.6	30,246.9	3,716.4
Obligations of Employers			
Unfunded Accrued Liability	2,134.4	2,102.7	31.7
TOTAL ASSETS	$36,097.0	$32,348.9	$3,748.1
Reserves and Surplus:			
Reserves			
Actuarial Present Value of Projected Benefits Payable to Terminated Vested Participants and Active Members:			
Member Normal Contributions	$ 9,707.9	$ 8,867.0	$ 840.9
Member Additional Contributions	157.2	155.5	1.7
Employer Contributions	12,267.2	11,120.5	1,146.7
Total Contributions	$22,132.3	$20,143.0	$1,989.3
Actuarial Present Value of Projected Benefits Payable to Current Retirees and Beneficiaries:			
Fixed Annuities	$10,977.1	$ 9,804.1	$ 1,173.0
Variable Annuities	1,976.7	1,556.0	420.7
TOTAL ANNUITIES	12,953.8	11,360.1	1,593.7
TOTAL RESERVES	$35,086.1	$31,503.1	$3,583.0
Surplus			
Fixed Annuity Reserve Surplus	$ 722.7	$ 547.6	$ 175.1
Variable Annuity Reserve Surplus	288.2	298.2	(10.0)
TOTAL SURPLUS	1,010.9	845.8	165.1
TOTAL RESERVE AND SURPLUS	$36,097.0	$32,348.9	$3,748.1

The accompanying notes are an integral part of this statement.

Source: Wisconsin Department of Employe Trust Funds.

Notes to Wisconsin Retirement System

All eligible State of Wisconsin employes participate in the Wisconsin Retirement system ("System"), a cost-sharing multiple-employer public employe retirement system (PERS). The payroll for employes covered by the system for the year ended December 31, 1996 was $2,196,683,913.

All permanent employes expected to work over 600 hours a year are eligible to participate in the System. Covered employes are required by statute to contribute 5.0% of their salary (4.7% for Executive and Elected Officials, 5.4% for Protective Occupations with Social Security, and 5.8% for Protective Occupations without Social Security), to the plan. Participants are also required to make a non-refundable Benefit Adjustment Contribution to the plan. Employers may make these contributions to the plan on behalf of the employes. Employers are required to contribute the remaining amounts necessary to pay the projected cost of future benefits. The total required contribution for the year ended December 31, 1996 was $290,012,058 which consisted of $178,919,568 or 8.1% of payroll from the employer and $111,092,490 or 5.1% of payroll from employes.

Employes who retire at or after age 65 (55 for protective occupation employes) are entitled to receive a retirement benefit. The benefit is calculated as 1.6% (2.0% for Executives, Elected Officials, and Protective Occupations with social security and 2.5% for protective occupations without social security) of final average earnings for each year of creditable service. Final Average Earnings is the average of the employe's three highest years' earnings. Employes may retire at age 55 (50 for protective occupation employes) and receive reduced benefits. Employes terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefit. Benefits are fully vested upon entry into the System for participants first employed January 1, 1990 or earlier. Creditable service in each of five years is required for vesting for those participants first employed after January 1, 1990.

The System also provides death and disability benefits for employes. Eligibility for and the amount of all benefits are determined under Chapter 40 of the State Statutes.

The System utilizes the "Entry Age Normal with Frozen Initial Liability" actuarial method in establishing employer contribution rates. Under this method, the Unfunded Accrued Actuarial Liability is affected only by the monthly amortization payments, compound interest, the added liability created by new employer units, and any added liabilities caused by changes in benefit provisions. All actuarial gains or losses arising from the difference between actual and assumed experience are reflected in the determination of the normal cost. The unfunded accrued actuarial liability is being amortized over a 40 year period beginning January 1, 1990. The unfunded liability for the State of Wisconsin as of December 31, 1996 was $625,132,800 or 29.9% of the total system unfunded liability of $2.09 billion.

Ten-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's June 30, 1996 Comprehensive Annual Financial Report.

The preceding provides a comparative actuarial balance sheet for the most recent reporting periods. The December 31, 1996 data is unaudited.

Table II-12

WISCONSIN RETIREMENT SYSTEM
FUNDING RATIO
(Amounts in Thousands)

Year	A Net Real Assets	B Unfunded Actuarial Liability	C Reserve Requirement (A+B)	D Funding Ratio (A÷C)
1987	$13,026,395	$1,398,264	$14,424,659	90.3%
1988	14,684,125	1,440,350	16,124,475	91.1
1989	17,471,693	2,014,262	19,485,955	89.7
1990	18,440,674	1,980,240	20,420,914	90.3
1991	20,849,375	2,041,706	22,891,081	91.6
1992	22,967,100	1,984,865	24,951,965	92.1
1993	25,437,200	2,042,926	27,480,126	92.6
1994	26,884,600	2,006,900	28,891,500	93.1
1995	30,059,826	2,055,718	32,115,544	93.6
1996	33,962,600	2,134,400	36,097,000	94.1

Source: Wisconsin Department of Employe Trust Funds.

Table II-13

WISCONSIN RETIREMENT SYSTEM
COVERED EMPLOYEES

1987 to 1996

Year	Active State	Active Local	Retired
1987	54,799	141,483	67,688
1988	55,663	143,791	70,017
1989	56,807	147,663	73,232
1990	59,827	153,515	77,666
1991	60,963	158,723	79,465
1992	62,422	163,340	81,508
1993	63,118	166,242	83,836
1994	64,178	169,488	86,214
1995	63,977	172,297	88,998
1996	63,886	175,749	92,198

Source: Wisconsin Department of Employe Trust Funds.

Table II-14

WISCONSIN RETIREMENT SYSTEM
REQUIRED CONTRIBUTIONS BY SOURCE[a]
(Amounts in Thousands)

Year	State Employe	State Employer	Local Employe	Local Employer	Total Employe	Total Employer
1987	$9,045	$184,844	$3,155	$419,073	$12,200	$ 603,917
1988	1,809	180,595	2,673	445,760	4,482	626,355
1989	1,225	174,942	2,631	428,092	3,865	603,034
1990	1,710	208,531	3,020	499,937	4,730	708,468
1991	3,550	221,537	5,128	535,689	8,678	757,226
1992	5,536	235,759	6,797	584,521	12,333	820,280
1993	5,789	246,913	5,223	628,321	11,012	875,234
1994	5,921	258,278	5,218	656,714	11,139	914,992
1995	6,410	270,770	4,816	683,840	11,226	954,610
1996	2,267	287,745	3,679	761,636	5,946	1,049,401

[a] Employer contributions include employer pick-up of employe contributions.

Source: Wisconsin Department of Employe Trust Funds.

Table II-15

WISCONSIN RETIREMENT SYSTEM
STATE EMPLOYER CONTRIBUTION RATES[a]

Employe Classification	Current Service	Prior Service	Total
Protective	8.5%	0.9%	9.4%
Elected	10.2%	1.0%	11.2%
General	4.8%	1.3%	6.1%

[a] Effective January 1, 1998

Source: Wisconsin Department of Employe Trust Funds.

Table II-16

WISCONSIN RETIREMENT SYSTEM
REVENUES BY TYPE
(Amounts in Thousands)

Year	Contributions: Required Employe	Contributions: Required Employer[a]	Contributions: Additional Employe	Investment Income	Supplemental	Misc.	Total
1987	$238,552	$377,565	$3,765	$1,003,925	$5,654	$ 0	$1,629,461
1988	254,035	378,985	5,138	1,549,692	(2,967)	569	2,185,452
1989	269,342	394,334	4,343	3,320,496	693	161	3,989,369
1990	287,389	425,809	4,420	981,390	640	0	1,699,648
1991	307,748	464,834	3,847	2,429,198	595	94	3,206,316
1992	329,801	502,812	4,687	2,080,630	540	0	2,918,470
1993	349,914	536,331	5,516	2,608,684	496	0	3,500,941
1994	364,864	561,265	6,060	1,654,301	444	0	2,586,934
1995	380,993	584,842	8,977	5,903,712	407	113	6,879,044
1996	393,765	661,582	13,199	5,414,556	358	160	6,483,620

[a] Employer contributions include amounts required to reduce unfunded accrued liability over a 40–year amortization period beginning in 1990.

Source: Wisconsin Department of Employe Trust Funds.

Table II-17

WISCONSIN RETIREMENT SYSTEM
BENEFIT EXPENDITURES BY TYPE[a]
(Amounts in Thousands)

Year	Separations	Death	Annuities	Supplemental[b]	Misc.	Total
1987	$27,643	$ 9,965	$ 409,800	$5,654	$ 0	$ 453,062
1988	33,983	10,728	481,543	(2,697)	570	523,857
1989	28,038	8,388	546,756	693	146	584,021
1990	32,728	9,816	677,896	640	0	721,080
1991	27,536	9,512	751,554	595	0	789,197
1992	26,041	10,155	829,546	540	0	866,282
1993	20,462	8,078	915,300	496	31,362	975,698
1994	23,966	11,339	993,771	444	31,362	1,060,882
1995	30,180	10,812	1,080,227	407	25,593	1,147,219
1996	36,883	15,359	1,254,044	358	24,586	1,331,230

[a] Amounts include payments from employe additional contributions.

[b] Supplemental benefits were granted to certain employes by the Legislature in 1974. These benefits are paid out of the State General Fund.

Source: Wisconsin Department of Employe Trust Funds.

ACTUARIAL ASSUMPTIONS

The following set forth the actuarial assumptions which will be applied in the determination of contributions levels required for the funding of the retirement system effective January 1, 1997.

Table II-18

WISCONSIN RETIREMENT SYSTEM
SEPARATION BEFORE AGE AND SERVICE RETIREMENT

Select and Ultimate Withdrawal

	% of Active Participants Terminating								
	Protective		Public Schools		University			Others	
Age &	With	Without					Executive		
Service	Soc. Sec.	Soc. Sec.	Males	Females	Males	Females	&Elected	Males	Females
0	7.0%	5.0%	14.0%	14.0%	18.0%	20.0%	N/A	14.0%	16.0%
1	5.5	2.0	11.0	12.0	17.5	20.0	N/A	10.0	12.0
2	4.0	2.0	9.0	9.0	15.0	18.0	N/A	7.0	9.0
3	4.0	1.7	8.0	8.0	15.0	15.5	N/A	6.0	7.5
4	3.5	1.7	6.0	7.0	12.5	13.0	N/A	5.0	7.0
5&over									
25	3.2	1.6	5.4	6.9	12.3	12.9	10.6%	4.8	6.9
30	2.5	1.4	3.8	5.3	11.3	11.7	9.7	3.9	5.8
35	1.8	1.1	2.2	3.1	8.1	8.1	7.9	2.9	4.1
40	1.5	1.0	1.5	1.9	5.0	5.6	6.1	2.1	3.2
45	1.4	0.9	1.2	1.5	3.1	4.4	4.8	1.6	2.7
50	0.0	0.0	1.1	1.5	1.8	3.2	3.5	1.3	2.5
55	0.0	0.0	1.1	1.3	1.6	2.8	3.0	1.1	1.5
60	0.0	0.0	1.1	1.0	1.3	2.8	3.0	1.1	0.5

Disability Rates

	% of Active Participants Becoming Disabled							
	Protective		Public Schools		University		Others	
	With	Without						
Age	Soc. Sec.	Soc. Sec.	Males	Females	Males	Females	Males	Females
20	0.04%	0.07%	0.02%	0.02%	0.02%	0.03%	0.04%	0.03%
25	0.05	0.07	0.02	0.02	0.02	0.03	0.04	0.03
30	0.06	0.08	0.03	0.02	0.02	0.03	0.05	0.04
35	0.08	0.09	0.03	0.03	0.03	0.07	0.06	0.05
40	0.11	0.12	0.04	0.04	0.04	0.11	0.10	0.09
45	0.17	0.18	0.07	0.07	0.06	0.14	0.17	0.14
50	0.56	0.53	0.17	0.13	0.11	0.20	0.33	0.24
55	0.84	0.82	0.33	0.26	0.22	0.39	0.67	0.43
60	0.93	0.94	0.52	0.46	0.40	0.55	1.11	0.71

Source: Wisconsin Department of Employe Trust Funds.

Table II-19

WISCONSIN RETIREMENT SYSTEM
RETIREMENT PATTERNS

Rates of Retirement for Those Eligible to Retire
(Normal Retirement Pattern)

	% Retiring Next Year								
	General		Public Schools		University		Protective		
							With	Without	Executive
Age	Males	Females	Males	Females	Males	Females	Soc. Sec.	Soc. Sec.	& Elected
50							6%	5.5%	
51							6	5.5	
52							6	5.5	
53							31	33	
54							30	32	
55							30	30	
56							30	30	
57	9%	12%	14%	19%	16%	12%	30	30	8%
58	14	12	15	19	16	12	30	30	8
59	16	12	17	23	13	12	30	30	10
60	16	12	19	23	15	12	30	30	11
61	19	12	15	16	10	12	30	30	13
62	34	25	41	30	25	30	50	50	20
63	34	25	41	20	25	20	30	30	20
64	34	25	41	20	13	20	30	30	20
65	58	53	60	52	40	39	50	50	37
66	52	47	50	45	40	39	50	50	37
67	40	37	42	37	35	37	50	50	32
68	40	37	43	37	35	37	50	50	32
69	46	45	51	40	35	37	50	50	38
70	48	46	59	40	50	50	100	100	46
71	48	46	59	40	50	50	100	100	46
72	100	100	100	100	100	100	100	100	100

Source: Wisconsin Department of Employe Trust Funds.

Table II-20

WISCONSIN RETIREMENT SYSTEM OTHER ASSUMPTIONS

Mortality Rates

Active & Retired Life Mortality Rates

Sample Attained Ages	Future Life Expectancy (years) Males	Females
40	38.7	45.1
45	34.0	40.3
50	29.4	35.4
55	25.0	30.7
60	20.9	26.1
65	16.9	21.6
70	13.4	17.3
75	10.4	13.4
80	7.8	10.1
85	5.8	7.3

Salary Scale

% Increases in Salaries Next Year

	Merit					Total			
Age	Other	Teachers	Protective	Executive & Elected	Base (Economy)	Other	Teachers	Protective	Executive & Elected
20		8.0%	6.0%	7.3%	5.3%	12.6%	13.6%	11.3%	12.6%
25	4.2	4.3	5.0	4.2	5.3	9.5	9.6	10.3	9.5
30	2.0	3.1	2.4	2.0	5.3	7.3	8.4	7.7	7.3
35	1.4	2.7	1.3	1.4	5.3	6.7	8.0	6.6	6.7
40	1.0	2.1	0.8	1.0	5.3	6.3	7.4	6.1	6.3
45	0.4	1.6	0.7	0.4	5.3	5.7	6.9	6.0	5.7
50	0.3	1.0	0.4	0.3	5.3	5.6	6.3	5.7	5.6
55	0.3	0.7	0.2	0.3	5.3	5.6	6.0	5.5	5.6
60	0.3	0.4	–	0.3	5.3	5.6	5.7	5.3	5.6
65	–	–	–	–	5.3	5.3	5.3	5.3	5.3

Future Annual Investment Return

The future annual invested return is assumed to be 8.0%.
For benefit calculation purposes an assumed benefit rate of 5% is used.

Source: Wisconsin Department of Employe Trust Funds.

STATE OF WISCONSIN INVESTMENT BOARD

The State of Wisconsin Investment Board ("SWIB") invests the assets of the State Investment Fund, the Wisconsin Retirement System, and several smaller trust funds established by the State. Overall policy direction for SWIB is established by an independent, nine-member Board of Trustees (the "Trustees"). The Trustees establish long-term investment polices, set guidelines for each investment portfolio, and monitor investment performance.

The State Investment Fund consists of cash balances of the General Fund, State agencies and departments and Wisconsin Retirement System reserves. Pursuant to Statutes, these participants' cash balances are placed in the State Investment Fund. In addition, the State Investment Fund also includes investment deposits from elective participants consisting of over 1,100 municipalities and other public entities which are accounted for in a subset of the State Investment Fund called the Local Government Investment Pool (the "LGIP"). The LGIP portion of the State Investment Fund is additionally secured as to credit risk.

The objectives of the State Investment Fund are to provide (in order of priority) safety of principal, liquidity, and a reasonable rate of return. This fund includes the cash balances from retirement trust funds while they are pending longer-term investment by other investment divisions. This fund also acts as the State's cash management fund and provides the State's General Fund with liquidity for operating expenses. The State Investment Fund is strategically managed as a mutual fund with a longer average life than a money market fund. This strategy is made possible by the mandatory investment of State funds for which the cash flow requirements can be determined significantly in advance. Because of the role played by the State Investment Fund, the cash balances available for investment vary daily as cash is accumulated or withdrawn from various funds.

With regard to investments of the State Investment Fund, State law establishes parameters and the Trustees establish and monitor policies covering (i) types of assets and the amount that can be acquired, (ii) delegation of powers to purchase and sell and specific guidelines for various types of investments, (iii) emergency powers in the event the Trustees cannot meet, and (iv) guidelines pertaining to use of derivatives, financial futures, and related options. The policies seek to achieve safety of principal and liquidity by attention to quality standards, maturity, and marketability. The policies seek to enhance return through portfolio management that considers probable changes in interest rates.

SWIB's executive director is appointed by the Trustees. The executive director is responsible for oversight of staff activities and developing and recommending policies for adoption by the Trustees. The investment directors, portfolio managers, and analysts are all responsible for daily investment decisions in their markets. Their activities are monitored by SWIB's chief investment officer, who is appointed by the executive director with participation of the Trustees. SWIB has a staff of approximately 100 positions.

Of the nine members of the Trustees, one is the Secretary of Administration. Two members are participants in the Wisconsin Retirement System. One of these is a teacher who is appointed by the Teacher Retirement Board. The other represents non-teacher participants and is appointed by the Wisconsin Retirement Board. Six members, called public members, are appointed by the Governor. Of these public members, four are required to have at least ten years of investment experience and one is required to be a non-elected government official from a smaller LGIP participant, with at least ten years of financial experience. All appointed members serve six-year terms. The Trustees regularly meet on a monthly basis.

Table II-21 presents unaudited statistical information for the State Investment Fund. A copy of SWIB's annual report may be obtained by submitting a written request to the State of Wisconsin Investment Board, P.O. Box 7842, Madison, WI 53707-7842.

Table II-21

STATE INVESTMENT FUND
AS OF SEPTEMBER 30, 1997 (UNAUDITED)
Market Versus Amortized Cost Valuation Report

	Estimated Book Value	Estimated Market Value	Percentage of Portfolio at Market
Corporate Commercial Paper	$1,480,455,732	$1,480,547,054	25.8%
Certificates of Deposit	230,643,024	230,643,024	4.0
U.S. Government Repurchase Agreements	1,350,075,000	1,350,075,000	23.5
U.S. Government Agencies	2,005,061,776	2,004,953,853	34.9
U.S. Government Treasuries	192,979,774	201,259,462	3.5
Asset-Backed Securities	59,821,671	59,686,304	1.0
Mortgage-Backed Securities	6,503,462	6,503,462	0.1
Yankee/Euro Holdings (Fully Hedged)	471,188,313	471,206,869	8.2
Swaps	0	(69,498,005)	(1.2)
Accrued Gross Income	7,790,180	7,790,180	0.1
	$5,804,518,933	$5,743,167,504	100.0%

Average Maturity for the Last Six Months

Reporting Date	Average Maturity (Days)	Reporting Date	Average Maturity (Days)
9/30/1997	51	6/30/1997	42
8/31/1997	32	5/31/1997	32
7/31/1997	40	4/30/1997	43

Summary of Investment Fund Participants

	Par Amount (Amounts in Thousands)	Percent of Portfolio
Mandatory Participants		
State of Wisconsin:		
General Fund	$1,119,923	20.0%
Transportation Fund	129,380	2.3
Natural Resources Fund	65,188	1.2
Bond Security and Redemption Fund	4,169	0.1
Lottery Fund	173,686	3.1
Patients Compensation	16,362	0.3
Veterans Mortgage Loan Repayment	132,332	2.4
Capital Improvement Fund	77,755	1.4
Others	479,904	8.6
State of Wisconsin Retirement System:		
Fixed Retirement Investment Trust	96,612	1.7
Variable Retirement Investment Trust	15,801	0.3
Combined Stock Fund	782,761	14.0
Elective Participants		
Local Government Investment Pool	2,495,266	44.6
	$ 5,589,139	100.0%

NOTE: The difference between the total of participants share ($5,589,139,000) and the book value ($5,804,518,933) is the result of check float (checks written and posted at the Department of Administration that have not cleared the bank) and a timing delay in posting bank receipts at the department which have already been invested by SWIB.

Source: State of Wisconsin Investment Board

STATISTICAL INFORMATION

The following tables include population, income and employment information pertaining to the State's economic condition.

Table II-22

STATE ASSESSMENT (EQUALIZED VALUE) OF TAXABLE PROPERTY 1988 TO 1997

Calendar Year	Value of Taxable Property	Rate of Increase (Decrease)
1988	$126,587,557,530	—
1989	133,206,184,580	5.2%
1990	141,370,307,160	6.1
1991	150,927,756,160	6.8
1992	159,927,756,190	5.7
1993	171,677,163,530	7.6
1994	184,994,866,100	7.8
1995	201,538,109,000	8.9
1996	216,943,757,600	7.6
1997	233,074,233,400	7.4

Source: Wisconsin Department of Administration.

Table II-23

DELINQUENCY RATE: INCOME, FRANCHISE, GIFT, SALES AND USE TAXES 1992-93 TO 1996-97

Fiscal Year	Total Revenues Expected (Amounts in Thousands)	Delinquent Balance (Amounts in Thousands)	Delinquent Balance as a Percent of Total Revenues Expected
1992-93	$6,269,304	$414,355	6.61%
1993-94	6,624,041	429,460	6.48
1994-95	7,139,198	460,108	6.44
1995-96	7,535,003	497,220	6.60
1996-97	8,059,345	503,470	6.25

Source: Wisconsin Department of Revenue.

Table II-24

POPULATION TREND[a]

	Wisconsin Total (Amounts in Thousands)	Rank	% Change Wisconsin	% Change U.S.	Population Per Sq. Mile Wisconsin	Population Per Sq. Mile U.S.
1910	2,334	13	12.8	21.0	42.2	26.0
1920	2,632	13	12.8	15.0	47.6	29.9
1930	2,939	13	11.7	16.2	53.7	34.7
1940	3,138	13	6.8	7.3	57.3	37.2
1950	3,435	14	9.5	14.5	62.8	42.6
1960	3,952	15	15.1	18.5	72.6	50.6
1970	4,418	16	11.8	13.3	81.1	57.5
1980	4,706	16	6.5	11.4	86.5	64.0
1981	4,725	16	0.4	1.3	86.9	64.9
1982	4,727	16	0.1	1.0	86.9	65.5
1983	4,720	16	-0.1	1.0	86.8	66.2
1984	4,734	16	0.3	0.9	87.1	66.8
1985	4,746	17	0.3	1.0	87.3	67.5
1986	4,754	17	0.2	1.0	87.5	68.1
1987	4,776	17	0.5	1.0	87.9	68.8
1988	4,823	17	1.0	1.0	88.8	69.4
1989	4,857	17	0.7	1.0	89.4	70.1
1990	4,892	16	0.7	0.8	90.1	70.3
1991	4,948	17	1.1	1.2	91.1	71.3
1992	4,996	18	1.0	1.1	92.0	72.1
1993	5,045	18	1.0	1.1	92.9	72.9
1994	5,085	18	0.8	1.0	93.6	73.6
1995	5,122	18	0.7	1.0	94.3	74.3
1996	5,160	18	0.7	0.9	95.0	75.0

[a] 1981-1989 and 1991-1996 are July 1st estimates, U.S. Bureau of the Census

Source: Decennial census and land area statistics—1990 Census of Population and Housing, U.S. Bureau of the Census.

Table II-25

POPULATION CHARACTERISTICS
(April 1990)

	Wisconsin	U.S.
% Urban	65.7	75.2
% Rural/nonfarm	30.3	23.2
% Rural/farm	4.0	1.6
% Foreign-born	2.5	7.9
Dependency Ratio [a]	1.52	1.62

Years of School Completed
(as % of population age 25 and over)

	Wisconsin	U.S.
Grade School - 8 years	90.5	89.6
High School - 4 years	78.6	75.2
Bachelor's Degree	17.7	20.3

[a] Population age 18-64 years of age divided by population less than 18 years of age and population 65 years of age and older.

Source: General Population Characteristics and General Social and Economic Characteristics, 1990 Census of Population and Housing, U.S. Bureau of the Census.

Table II-26

POPULATION BY AGE GROUP
July 1, 1996

	Wisconsin	U.S.
Under 5	6.5%	7.3%
5-17	19.5	18.8
18-44	40.5	40.9
45-64	20.2	20.2
65 +	13.3	12.8
Total	100.0	100.0

Source: U.S. Bureau of the Census; World Wide Web Site.

Table II-27

ESTIMATED PERSONAL INCOME

Year	Wisconsin Total (Amounts in Millions)	Per Capita Wisconsin	Per Capita U.S.	Percentage Wis. to U.S.
1987	$ 71,955	$15,060	$15,990	94.2%
1988	76,327	15,828	17,062	92.8
1989	81,800	16,843	18,172	92.7
1990	86,870	17,721	19,191	92.3
1991	90,625	18,315	19,689	93.0
1992	97,168	19,449	20,631	94.3
1993	101,931	20,203	21,365	94.6
1994	107,749	21,192	22,180	95.5
1995	114,628	22,379	23,348	95.8
1996	120,325	23,320	24,426	95.5

Source: Bureau of Economic Analysis, U.S. Department of Commerce, State Personal Income 1958–95 CD-ROM, September 1997.

Table II-28

MEDIAN INCOME FOR FOUR-PERSON FAMILY

Year	Wisconsin	U.S.	Percentage Wis. to U.S.
1986	$33,739	$34,716	97.2%
1987	36,674	36,812	99.6
1988	38,662	39,051	99.0
1989	40,557	40,763	99.5
1990	43,182	41,451	104.2
1991	42,746	43,056	99.3
1992	44,219	44,251	99.9
1993	46,363	45,161	102.7
1994	48,982	47,012	104.2
1995	50,628	49,687	101.9

Source: Prepared by U.S. Bureau of the Census for Low Income Home Energy Assistance Program of the U.S. Department of Health and Human Services.

Table II-29

DISTRIBUTION OF EARNINGS BY INDUSTRY

	Wisconsin Distribution			U.S. Distribution
	1994	1995	1996	1996
Farm	0.7%	0.3%	0.6%	1.0%
Nonfarm	99.3	99.7	99.4	99.0
Private Nonfarm	85.4	85.9	85.9	83.7
Agricultural Services, Forestry, Fisheries, etc.	0.6	0.6	0.6	0.7
Mining	0.1	0.1	0.1	0.9
Construction	6.1	6.1	6.2	5.6
Manufacturing	29.0	29.1	28.4	18.0
Transportation & Public Utilities	6.0	5.9	5.9	6.8
Trade	15.1	15.1	15.1	15.4
Finance, Insurance & Real Estate	6.3	6.6	6.7	8.3
Services	22.2	22.5	22.9	28.1
Government	13.9	13.7	13.5	15.2
Total Earnings by Industry	100.0	100.0	100.0	100.0
Total Earnings by Industry (Amount in Millions)	$76,372	$80,148	$84,118	$4,548,138

Source: Bureau of Economic Analysis, U.S. Department of Commerce, State Personal Income 1958-96 CD-ROM, September 1997.

Table II-30
ESTIMATED EMPLOYEES IN WISCONSIN ON NONAGRICULTURAL PAYROLLS[a] 1996 ANNUAL AVERAGE

	Wisconsin		U.S.	
	(Amounts in Thousands)	%	(Amounts in Thousands)	%
Mining	2.5	0.1	570	0.5
Contract Construction	105.3	4.0	5,407	4.5
Manufacturing	601.2	23.1	18,282	15.3
Transportation & Public Utilities	120.7	4.6	6,312	5.3
Wholesale Trade	128.0	5.0	6,587	5.5
Retail Trade	466.2	17.9	21,597	18.1
Finance, Insurance & Real Estate	138.3	5.3	6,977	5.8
Miscellaneous Services	655.4	25.2	34,359	28.7
Government	383.2	14.7	19,461	16.2
Total	2,601.6	100.0	119,554	100.0

[a] Not seasonally adjusted.

Note: This table excludes Agriculture, Forestry and Fisheries employes. (In 1990, this group accounted for 4.6% of all employed persons in Wisconsin and 2.7% in total U.S.)

Source: Wisconsin Department of Workforce Development.

Table II-31

GENERAL STATISTICS OF MANUFACTURING[a]

	1994	1993	1992	1987
New Capital Expenditures (millions)	$ 3,319.4	$ 2,760.4	$ 2,951.2	$ 2,027.4
Number of Employees (thousands)	576.2	551.2	546.0	514.0
Total Payroll (millions)	18,100.8	$16,667.7	$16,087.3	$12,763.4
Number of Production Workers (thousands)	395.6	375.0	369.4	349.9
Value Added by Manufacturer (millions)	$ 48,324.8	$44,874.0	$41,704.9	$31,653.0
Value of Shipments (millions)	$101,905.1	$94,356.9	$88,560.2	$69,595.8

[a] Data for 1987 and 1992 are from the census of manufacturers. Data for 1993 and 1994 are based on a representative sample of establishments canvassed annually and may differ from the results of a complete canvass of all establishments.

Source: U.S. Bureau of the Census.

Table II-32

ESTIMATED PRODUCTION WORKERS IN MANUFACTURING: HOURS AND EARNINGS ANNUAL AVERAGE

	Wisconsin			United States		
	1980	1996	% Change	1980	1996	% Change
Weekly Earnings	$323.10	$554.51	71.6	$288.62	$531.65	84.2
Weekly Hours	40.2	42.2	5.0	39.7	41.6	4.8
Hourly Earnings	$ 8.03	$ 13.14	63.6	$ 7.27	$ 12.78	75.8
Number of All Manufacturer Workers (Amounts in thousands)	558	601	7.7	20,285	18,282	(9.9)

Source: Wisconsin Department of Workforce Development.

Table II-33

TOTAL NEW HOUSING UNITS AUTHORIZED IN PERMIT–ISSUING PLACES

		% Change	
Year	**Wisconsin**	**Wisconsin**	**U.S.**
1987	24,064	10.3	(13.3)
1988	24,122	0.2	(5.2)
1989	26,914	11.6	(8.1)
1990	27,282	1.4	(17.0)
1991	25,122	(7.9)	(14.6)
1992	30,995	23.4	15.4
1993	32,114	3.6	9.5
1994	34,619	7.8	14.4
1995	32,403	(6.4)	(2.8)
1996	33,296	2.8	7.0

Source: U.S. Bureau of the Census, World Wide Web Site.

Table II-34

UNEMPLOYMENT RATE COMPARISON[a]
BY MONTH 1992 to 1997
BY QUARTER 1988 to 1991

	1997		1996		1995		1994		1993		1992	
	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.
January	4.3	5.9	4.4	6.3	4.5	6.2	5.5	6.8	5.0	7.9	6.1	8.0
February	4.4	5.7	4.6	6.0	4.6	5.9	5.9	7.1	5.1	7.7	6.3	8.1
March	4.2	5.5	4.3	5.8	4.5	5.7	5.6	7.3	5.5	7.3	5.8	7.7
April	3.7	4.8	3.9	5.4	4.0	5.6	5.0	6.2	5.2	6.8	4.9	7.1
May	3.3	4.7	3.4	5.4	3.6	5.5	4.5	5.9	4.8	6.7	4.9	7.2
June	3.8	5.2	3.7	5.5	3.8	5.8	5.0	6.2	5.2	7.1	5.3	7.8
July	3.7	5.0	3.4	5.6	3.4	5.9	4.6	6.2	4.6	6.9	5.1	7.6
August	3.2	4.8	3.1	5.1	3.2	5.6	4.4	5.9	4.4	6.5	4.7	7.3
September	3.1	4.7	2.8	5.0	3.1	5.4	4.1	5.6	4.0	6.4	5.1	7.2
October	2.8	4.4	2.8	4.9	3.2	5.2	4.0	5.4	4.0	6.3	4.5	6.8
November			2.9	5.0	3.4	5.3	4.1	5.3	4.2	6.1	3.9	7.0
December			3.0	5.0	3.2	5.2	4.1	5.1	4.2	6.0	4.3	7.0
Annual Average			3.5	5.4	3.7	5.6	4.7	6.1	4.7	6.8	5.1	7.4

1991 Quarters	Wis.	U.S.
I	6.4	7.1
II	5.6	6.7
III	4.7	6.5
IV	4.9	6.6
Annual Average	5.4	6.7

1989 Quarters	Wis.	U.S.
I	5.1	5.6
II	4.5	5.2
III	3.9	5.2
IV	4.1	5.1
Annual Average	4.4	5.3

1990 Quarters	Wis.	U.S.
I	5.2	5.7
II	4.3	5.2
III	3.8	5.5
IV	4.2	5.7
Annual Average	4.4	5.5

1988 Quarters	Wis.	U.S.
I	5.9	6.1
II	4.0	5.4
III	3.6	5.4
IV	3.6	5.1
Annual Average	4.3	5.5

[a] Figures show the percentage of labor force that is unemployed and are not seasonally adjusted.

Source: Wisconsin Department of Workforce Development and U.S. Bureau of Labor Standards.

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APPENDIX A

GENERAL PURPOSE FINANCIAL STATEMENTS

The following material is a reprint of the "General Purpose Financial Statements" section of the audited Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 1997. The entire CAFR is available from the State Controller's Office, Department of Administration, P.O. Box 7864, Madison, WI 53707-7864. The entire CAFR is also available on the Internet at:

http://www.doa.state.wi.us/debf/cafr/FY97/97cafrm.htm

General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1997

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STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION
101 East Wilson Street, Madison, Wisconsin

TOMMY G. THOMPSON
GOVERNOR
MARK D. BUGHER
SECRETARY

Mailing address:
Post Office Box 7844
Madison, WI 53707-7844

December 19, 1997

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

We are pleased to submit the General Purpose Financial Statements of the State of Wisconsin for the fiscal year ended June 30, 1997.

These General Purpose Financial Statements are part of the audited Comprehensive Annual Financial Report. They provide a summary overview by fund type and account group, together with notes to the financial statements. These statements, which present financial information in conformity with generally accepted accounting principles, will benefit users requiring summary information about our State's finances.

The General Purpose Financial Statements, as well as the Comprehensive Annual Financial Report, are on file at the office of the State Controller. Additional copies are available upon request. A copy of the Comprehensive Annual Financial Report is also available on the Department of Administration homepage on the World Wide Web: http://www.doa.state.wi.us.

Sincerely,

Mark D. Bugher
Secretary

William J. Raftery, CPA
State Controller

State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

DALE CATTANACH
STATE AUDITOR
SUITE 402
131 WEST WILSON STREET
MADISON, WISCONSIN 53703
(608) 266-2818
FAX (608) 267-0410

INDEPENDENT AUDITOR'S REPORT

Honorable Members of the Legislature The Honorable Tommy G. Thompson, Governor

We have audited the accompanying general purpose financial statements of the State of Wisconsin as of and for the year ended June 30, 1997, as listed in the table of contents, and the Statement of Plan Net Assets for the Pension Trust Fund. These general purpose financial statements and the Statement of Plan Net Assets are the responsibility of the State of Wisconsin's management. Our responsibility is to express an opinion on these general purpose financial statements and the Statement of Plan Net Assets based on our audit. We did not audit the financial statements of the Clean Water Fund and the Health Insurance Risk Sharing Plan, which represent 32 percent of the assets and 5 percent of the operating revenues of the enterprise funds, nor did we audit the financial statements of the Wisconsin Department of Transportation Revenue Bond Program and Commercial Paper Program, which represent 90 percent of the assets and 25 percent of the revenues and operating transfers of the debt service funds, 83 percent of the assets of the capital projects funds, and 19 percent of the liabilities of the general long-term debt account group. In addition, we did not audit the financial statements of the Wisconsin Housing and Economic Development Authority, the Wisconsin Health Care Liability Insurance Plan, and the University of Wisconsin Hospitals and Clinics Authority, which represent 100 percent of the financial activity of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely upon the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements and the Statement of Plan Net Assets are free of material misstatement. The financial statements of the Health Insurance Risk Sharing Plan, Wisconsin Department of Transportation Revenue Bond Program and Commercial Paper Program, Wisconsin Health Care Liability Insurance Plan, and University of Wisconsin Hospitals and Clinics Authority were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements and the Statement of Plan Net Assets. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the general purpose financial statements and the Statement of Plan Net Assets. 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, and the Statement of Plan Net Assets for the Pension Trust Fund, present fairly, in all material respects, the financial position of the State of Wisconsin as of June 30, 1997, and the results of its operations, the cash flows of its proprietary fund types, nonexpendable trust funds, and discretely presented component units, the changes in plan net assets for the Pension Trust Fund, and the changes in fund balances of the University of Wisconsin System, for the year then ended in conformity with generally accepted accounting principles.

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

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

LEGISLATIVE AUDIT BUREAU

December 19, 1997

by Dale Cattanach

Dale Cattanach
State Auditor

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

(In Thousands)

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

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

(Continued)

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

(Continued)

	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
Liabilities, Equity and Other Credits						
Liabilities:						
Accounts Payable and Other Accrued Liabilities	$ 426,399	$ 276,100	$ -	$ 15,436	$ 294,586	$ 18,404
Due to Other Funds	591,335	55,147	167	16,486	25,101	7,034
Due to Component Units	863	-	-	-	-	-
Due to Primary Government	-	-	-	-	-	-
Interfund Loans Payable	-	4,488	-	15,726	32,564	35,799
Due to Other Governments	1,334,700	70,434	-	404	18	212
Tax Refunds Payable	518.078	4,110	-	-	-	-
Tax and Other Deposits	67,671	8,918	-	2	8,870	-
Deferred Revenue	426,396	15,312	-	4	42,438	823
Interest Payable	-	-	22,551	571	6,720	1,200
Advances from Other Funds	4,000	3,958	-	-	-	3,160
Short Term Notes Payable	-	4,599	-	216,493	267	1,107
Securities Lending Collateral Liability	-	-	-	-	-	-
Future Benefits and Loss Liabilities	-	-	-	-	727,939	77,544
Capital Leases	-	-	-	-	158	14,174
Capital Leases - Primary Government	-	-	-	-	-	-
Compensated Absences	-	-	-	-	5,411	1,697
Employer Pension Costs	-	-	-	-	-	-
General Obligation Bonds Payable	-	-	820	-	577,354	96,362
Revenue Bonds and Notes Payable	-	-	29,710	-	437,281	-
Other Bonds Payable	-	-	-	-	-	-
Claims, Judgments and Commitments	-	-	-	-	-	-
Installment Contracts Payable	-	-	-	-	398	432
Total Liabilities	3,369,441	443,067	53,248	265,121	2,159,106	257.949
Equity and Other Credits:						
Contributed Capital	-	-	-	-	866,250	23,045
Investment in General Fixed Assets	-	-	-	-	-	-
Retained Earnings:						
Reserved	-	-	-	-	63,541	-
Unreserved	-	-	-	-	128,060	7,358
Fund Balances:						
Reserved	298,974	423,719	-	107,387	-	-
Unreserved:						
Designated	-	-	-	-	-	-
Undesignated	(1,771,729)	19,307	4,295	(209,347)	-	-
Total Equity and Other Credits	(1,472,755)	443,026	4,295	(101,960)	1,057,851	30,403
Total Liabilities, Equity and Other Credits	$ 1,896,686	$ 886,093	$ 57,544	$ 163,160	$ 3,216,956	$ 288,353

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

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

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Funds For the Fiscal Year Ended June 30, 1997

(In Thousands)

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

(Continued)

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Funds For the Fiscal Year Ended June 30, 1997

(Continued)

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

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

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - General and Budgeted Special Revenue Funds
For the Fiscal Year Ended June 30, 1997

(In Thousands)

	General Fund			Budgeted Special Revenue Funds		
	Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
Revenues:						
Taxes	$ 8,661,580	$ 8,814,441	$ 152,861	$ 813.344	$ 813,344	$ -
Departmental	5,933,045	5,854,881	(78,164)	1,338,888	1,338,888	-
Total Revenues	14,594,625	14,669,321	74,696	2.152,233	2.152.233	-
Expenditures:						
Current:						
Commerce	250,016	201,423	48,593	131.586	114.716	16,870
Education	6,786,848	6,554,863	231,986	19,620	11,980	7,640
Environmental Resources	249,988	238,410	11,579	2,015,384	1,730,523	284,861
Human Relations and Resources	5,696,413	5,478,021	218,392	20,585	10,292	10,293
General Executive	560,398	493,487	66,911	9,949	5,241	4,708
Judicial	87,718	86,749	969	744	306	438
Legislative	54,055	53,277	778	-	-	-
General	1,867,397	1,839,755	27,642	18,360	17,087	1,273
Total Expenditures	15,552,834	14,945,984	606,850	2,216,228	1,890,145	326,083
Excess of Revenues Over (Under) Expenditures	$ (958,209)	(276,663)	$ 681,546	$ (63,995)	262,088	$ 326,083
Fund Balances, Beginning of Year		918.625			381.174	
Residual Equity Transfers		10,762			(5,038)	
Fund Balances, End of Year		652,725			638,223	
Less Encumbrances Outstanding at June 30, 1997		(255,472)			(610,083)	
Fund Balances, End of Year Budgetary Basis		$ 397,252			$ 28,140	

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

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

(In Thousands)

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

(Continued)

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

(Continued)

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

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

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

(In Thousands)

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

* The **Wisconsin Housing and Economic Development Authority** and the **Wisconsin Health Care Liability Insurance Plan** prepare the statement of cash flows using the direct method of reporting cash flows, as presented on Page 13 and 14 of the CAFR The **University of Wisconsin Hospitals and Clinics Authority** prepares this statement using the indirect method, as presented on Page 15

(Continued)

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

(Continued)

	Proprietary Fund Types		Fiduciary Fund Type	Totals - Primary Government	
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)	Component Units *
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations:					
Operating Income (Loss)	$ 120,132	$ (366)	$ 16,957	$ 136,723	$ (75,396)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation	9.118	22.605	-	31.724	648
Amortization	974	-	-	974	3.008
Provision for Uncollectible Accounts	(26)	-	-	(26)	561
Operating Income (Investment Income) Classified as Investing Activity	(101.827)	-	(1.070)	(102.897)	(10.874)
Operating Expense (Interest Expense) Classified as Noncapital Financing Activity	48.147	-	-	48.147	132.123
Miscellaneous Nonoperating Income (Expense)	2.062	308	-	2.370	-
Changes in Assets and Liabilities:					
Decrease (Increase) in Receivables	(28.705)	39	(3)	(28.669)	(125,793)
Decrease (Increase) in Due from Other Funds	(11.646)	(13,133)	(30)	(24,809)	-
Decrease (Increase) in Due from Component Units	(1)	(196)	-	(198)	-
Decrease (Increase) in Due from Other Governments	(12)	1	-	(11)	-
Decrease (Increase) in Inventories	2,112	(1.108)	-	1.004	-
Decrease (Increase) in Prepaid Items	(1.685)	(1.719)	-	(3.404)	-
Decrease (Increase) in Deferred Charges	50	-	-	50	-
Decrease (Increase) in Other Assets	839	-	-	839	(16)
Increase (Decrease) in Accounts Payable and Other Accrued Liabilities	(6.920)	750	(20)	(6.189)	17.578
Increase (Decrease) in Compensated Absences	173	33	-	206	-
Increase (Decrease) in Due to Other Funds	174	3.674	(52)	3.795	-
Increase (Decrease) in Due to Primary Government	-	-	-	-	1
Increase (Decrease) in Due to Other Governments	(8)	(99)	-	(107)	-
Increase (Decrease) in Tax and Other Deposits	545	-	-	545	-
Increase (Decrease) in Deferred Revenue	(5.527)	(502)	-	(6,029)	(1.152)
Increase (Decrease) in Interest Payable	293	-	-	293	-
Increase (Decrease) in Future Benefits and Loss Liabilities	82,393	7,624	-	90,017	(3,513)
Total Adjustments	(9,476)	18,276	(1,176)	7,624	12,571
Net Cash Provided by Operating Activities	$ 110,656	$ 17,910	$ 15,781	$ 144,347	$ (62,825)
Noncash Investing, Capital and Financing Activities:					
Capital Leases (Initial Year):					
Fair Market Value	$ -	$ 2.657	$ -	$ 2.657	$ -
Current Year Cash Receipts (Payments)	-	73	-	73	-
Contributions/Transfer In (Out) of Noncash Assets and Liabilities from/to Other Funds	7.211	114	-	7.325	-
Lottery Prize Annuity Investment Assumption	15.923	-	-	15.923	-
Lottery Prize Annuity Investment Liability	(15.923)	-	-	(15.923)	-
Other	431	-	-	431	-
Reconciliation of Fiduciary Fund Type Cash and Cash Equivalents to the Combined Balance Sheet:					
Nonexpendable Trust Fund			$ 119.232		
Fiduciary Funds. Other Than Nonexpendable Trust			6.543.572		
Total Fiduciary Fund Type Cash and Cash Equivalents. End of Year			$ 6,662,803		

* The **Wisconsin Housing and Economic Development Authority** and the **Wisconsin Health Care Liability Insurance Plan** prepare the statement of cash flows using the direct method of reporting cash flows. as presented on Page 13 and 14 of the CAFR The **University of Wisconsin Hospitals and Clinics Authority** prepares this statement using the indirect method. as presented on Page 15

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

(Continued)

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

* The **University of Wisconsin Hospitals and Clinics Authority** prepares the statement of cash flows using the indirect method of reporting cash flows, as presented on this page. The **Wisconsin Housing and Economic Development Authority** and the **Wisconsin Health Care Liability Insurance Plan** prepare this statement using the direct method, as presented on Pages 13 and 14 of the CAFR

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

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

(In Thousands)

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

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

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

(In Thousands)

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

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

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

(In Thousands)

	Current Funds Unrestricted	Current Funds Restricted	Loan Funds	Endowment and Similar Funds	Plant Funds
Revenues and Other Additions:					
Unrestricted Current Funds Revenues	$ 1,027,164	$ -	$ -	$ -	$ -
Grants and Contracts	-	347,798	-	-	-
Restricted Gifts Received	-	257.957	742	199	-
Investment Income - Restricted	-	460	344	-	975
Endowment Income - Restricted	-	7,155	268	-	-
Federal Reimbursement of Loan Cancellations	-	-	396	-	-
Delinquent Loan and Collection Penalty	-	-	560	-	-
U.S. Government Advances	-	-	79,589	-	-
Interest Accrued on Loans Outstanding	-	-	3,607	-	-
Gain on Sale of Securities	-	-	-	12,637	-
Proceeds from the Sale of Notes and Bonds	-	-	-	-	61,399
Retirement of Indebtedness	-	-	-	-	58,721
Additions to Land, Buildings and Improvements	-	-	-	-	83,575
Equipment and Library Acquisitions (Net of Disposals)	-	-	-	-	43,929
Gifts-in-Kind	-	-	-	-	4,835
Other Additions	-	4,039	491	-	2,336
Total Revenues and Other Additions	1,027,164	617,408	85,996	12,836	255.770
Expenditures and Other Deductions:					
Current Funds Expenditures	1,758,907	513,483	-	-	-
Indirect Costs Recovered	-	67,916	-	-	-
Loan Cancellations and Write-offs	-	-	1,347	-	-
Federal Direct Loans Granted	-	-	78,068	-	-
Administrative Allowances-Perkins Loans	-	-	703	-	-
Administrative Expenses	-	-	926	-	-
Notes and Bonds Issued	-	-	-	-	61,399
Expended for Plant Facilities	-	-	-	-	104,220
Disposal of Plant Facilities	-	-	-	-	2,475
Retirement of Indebtedness	-	-	-	-	58,721
Interest on Indebtedness	-	-	-	-	44,119
Other Deductions	6	(59)	834	2	2,547
Total Expenditures and Other Deductions	1,758,913	581,340	81,877	2	273,481

(Continued)

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

(Continued)

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

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

Notes To The Financial Statements

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

B. Financial Reporting Entity

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

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

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

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

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

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

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

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

Blended Component Units

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

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

Discrete Component Units

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

Wisconsin Housing and Economic Development Authority - The Wisconsin Housing and Economic Development Authority (Authority) was established by the Wisconsin Legislature in 1972 to help meet the housing needs of Wisconsin's low and moderate income citizens The State has significantly expanded the scope of services of the Authority by adding programs which include financing for farmers and for economic development projects. While the Authority receives no State tax dollars for its bond-supported programs and the State is not liable on bonds the Authority issues, the State has the ability to significantly influence operations of the Authority through legislation. The State appoints the Authority's Board and has the ability to impose its will on the Authority.

Wisconsin Health Care Liability Insurance Plan - The Wisconsin Health Care Liability Insurance Plan (Plan) was established by rule of the Commissioner of Insurance of the State of Wisconsin to provide health care liability insurance and liability coverage normally incidental to health care liability insurance to eligible health care providers in the State Eight out of 13 members of the Board of Directors are appointed by the Governor, and the State has the ability to impose its will upon the Plan. The Plan reports on a fiscal year ended December 31.

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

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

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

Related Organizations

These related organizations are excluded from the reporting entity because the State's accountability does not extend beyond appointing a voting majority of the organization's board members Financial statements are available from the respective organizations

Wisconsin Health and Educational Facilities Authority - a public body politic and corporate that provides financing for capital expenditures and refinancing of indebtedness for Wisconsin health care and educational institutions.

Bradley Center Sports and Entertainment Corporation - a public body politic and corporate that operates the Bradley Center.

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

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

C. Fund Structure

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

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

Governmental Fund Types

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

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

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

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

Proprietary Fund Types

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

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

Fiduciary Fund Types

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

Account Groups

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

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

University Funds

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

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

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

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

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

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

D. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus All governmental funds and expendable trust funds are accounted for using the current financial resources measurement focus With this measurement focus, only current assets and current liabilities generally are included on the balance sheet Operating statements of these funds present increases, i e , revenues and other financing sources, and decreases, i e , expenditures and other financing uses, in net available financial resources.

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

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

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

- Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments of principal and interest to be made early in the following year.

- Employes' vested annual leave, compensatory time, personal holiday hours, Saturday/legal hours and sick leave are recorded as expenditures when utilized Accumulated annual leave, compensatory time, personal holiday hours and Saturday/legal time and the long-term portion of accumulated sick leave unpaid at June 30, 1997 have been reported in the General Long-term Debt Account Group. (See Note 1-P to the financial statements.)

- Inventories are reported as expenditures when purchased. (See Note 1-I to the financial statements.)

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

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

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

Component Units

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

E. Budgets

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

The final budget is primarily a general purpose revenue and expenditure budget General purpose revenues consist of general taxes and miscellaneous receipts which are paid into the General Fund. lose their identity, and are then available for appropriation by the Legislature The remaining revenues consist of program revenues, which are credited by law to an appropriation to finance a specified program or State agency, and segregated revenues which are also paid into separate identifiable funds.

While State departments and agencies are required to submit estimates of expected revenues for program revenue and segregated revenue categories, these estimates are not formally incorporated into the adopted budget except for revenues of the Lottery Fund. As a result, legally budgeted revenues for these categories are not available and, consequently, actual amounts are reported in the budget column in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Budgetary Basis)

Expenditure budgeting differs for the various types of appropriations For most appropriations, budgeted expenditures equal the amount from the adopted budget plus any subsequent legislative or administrative revisions. However, for continuing program revenue and segregated revenue appropriations, the amounts in the adopted budget are only an estimate of probable expenditures for the year. State statutes limit actual expenditures to the amount of available revenues. Consequently, for these types of appropriations, reported budgeted expenditures equal the amount of revenues received during the year plus any balances carried forward from the previous year. While State statutes prohibit spending beyond budgetary authority. a provision is made to include the value of accounts receivable, inventories and work in process in identifying the available revenues. The State also utilizes nonbudget accounts for which no budget is established but expenditures may be incurred As a result, actual expenditures may exceed budgeted amounts in certain categories

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

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Budgetary Basis) reports expenditures by function for the General Fund and all budgetary special revenue funds (The Employe Trust Funds Administration and the Environmental Local Assistance funds are extracted from other statutory fund types and are not considered special revenue funds under budgetary reporting.) While budgetary control for the reported funds is maintained at the appropriation level as specified by the Legislature in Chapter 20 of the Wisconsin Statutes, this level of detail is impractical for inclusion in the Comprehensive Annual Financial Report. Accordingly, a supplementary report is available upon request which provides budgetary comparisons at the legal level of control.

The Capital Projects funds and Debt Service funds are not included in the Combined Statement of Revenues. Expenditures, and Changes in Fund Balances - Budget and Actual (Budgetary Basis) A comprehensive budget is not approved for the Capital Projects funds Debt service expenditures reported in the Debt Service funds are budgeted through appropriations in the General Fund and the Special Revenue funds The Operating Transfers In of $212 2 million reported in the Bond Security and Redemption Fund of the Debt Service funds primarily represent the appropriations from these other funds

The legal level of budgetary control for Wisconsin is at the function, agency, program, appropriation-level Expenditure control is monitored through the use of allotments. Allotments are required for all appropriations and are utilized to establish spending limits. The State Controller's Office reviews all expenditures to ensure compliance with these spending guidelines. Initial allotments are prepared by the Division of Executive Budget and Finance with input from State agencies. Supplemental appropriations require the approval of the Joint Finance Committee of the Legislature Routine adjustments. such as pay plan supplements and rent increases, are distributed by the Division of Executive Budget and Finance from non-agency specific appropriations authorized by the Legislature. Various supplemental appropriations were approved during the year and have been incorporated into the budget figures

Appropriation unexpended balances lapse at year end or forward to the subsequent fiscal year depending on the type of appropriation involved:

- *Continuing* - unexpended balances automatically forward to ensuing years until fully depleted or repealed by subsequent action of the Legislature
- *Annual*:
  - *General Purpose Revenue* - unencumbered balances lapse at year end
  - *Program Revenue* - unexpended balances may be forwarded to the next fiscal year.
- *Biennial* - unexpended balances or deficits automatically forward to the second year At the end of the second year all unencumbered general purpose revenue balances lapse.
- *Sum sufficient* - moneys are appropriated and expended in the amounts necessary to accomplish the purpose specified

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

F. Cash and Cash Equivalents

Cash balances of most funds are deposited with the State Treasurer where the available balances beyond immediate needs are pooled in the State Investment Fund for short-term investment purposes. Balances pooled are restricted to legally stipulated investments valued at amortized cost Cash balances not controlled by the State Treasurer may be invested where permitted by statute.

Cash and cash equivalents, reported on the balance sheet and statement of cash flows, include bank accounts, petty cash, cash in transit, short-term investments with an original maturity of three months or less such as certificates of deposit, money market certificates and repurchase agreements and individual funds' shares in the State Investment Fund

G. Investments

Primary Government

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

Investments are generally stated at lower of cost or market, or amortized cost, depending on the fund type, except for the Pension Trust Fund whose investments are reported at fair value, in accordance with Wis Stat Sec 25 17(14), and the State's Deferred Compensation Plan whose investments are reported at market Monthly, the investments of the Pension Trust Fund are adjusted to fair value, with unrealized gains and losses reflected in the Statement of Changes in Plan Net Assets

Component Units

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

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

H. Interfund Assets/Liabilities

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. The balance sheet classifies these receivables and payables as "Due from Other Funds" or "Due to Other Funds." Short-term interfund loans are classified as "Interfund Loans Receivable" or "Interfund Loans Payable " Long-term interfund loans are classified as "Advances to Other Funds" and "Advances from Other Funds."

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

I. Inventories and Prepaid Items

Inventories of governmental and proprietary funds are valued at cost, which approximates market, using the first-in/first-out or weighted-average method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed

Inventories of the University of Wisconsin System held by central stores are valued at average cost, fuels are valued using the first-in/first-out method, and other inventories held by individual institutional cost centers are valued using a variety of cost flow assumptions that, for each type of inventory, are consistently applied from year to year.

In addition to inventories reported in the accompanying financial statements. the State had food commodities inventories valued at $1 2 million at June 30. 1997

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

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

J. Fixed Assets

General fixed assets are recorded as expenditures in the governmental funds and capitalized in the General Fixed Assets Account Group and are valued at cost or estimated historical cost if historical cost is not practicably determinable Donated fixed assets are recorded at their fair value at the time received. Of the $1,542 6 million total fixed assets at June 30, 1997, 59 percent were valued using historical cost and 41 percent were valued using estimated historical cost Public domain (infrastructure) fixed assets such as highways, bridges and rights of way are not capitalized. In addition, interest is not capitalized on constructed general fixed assets General fixed assets are not depreciated

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

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

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

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

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

K. Mortgage and Other Loans

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

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

L. Deferred Charges

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

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

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

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

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

M. Deferred Revenue

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met Deferred revenues arise when resources are received by the State before it has a legal claim to them, as when grant moneys are received prior to the incurrence of qualifying expenditures In subsequent periods, when both revenue recognition criteria are met, or when the State has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized Revenues are also deferred in governmental funds and expendable trust funds for amounts that are not yet available to pay current reporting period liabilities.

The majority of the $566 5 million deferred revenues presented in the accompanying financial statements consists of $426 4 million reported within the General Fund This amount includes $304 6 million relating to tax revenues received in advance of the year in which earned

Deferred revenues of the University of Wisconsin System consist of payments received but not earned at June 30, 1997, primarily for summer session tuition, tuition and room deposits for the next fall term, and advance ticket sales for upcoming intercollegiate athletic events.

N. Fund Equity Reserves

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

O. Local Assistance Aids

Municipal and County Shared Revenue Program

Through the Municipal and County Shared Revenue Program, the State distributes general revenues collected from general State tax sources to municipal and county governments to be used for providing local government services State statutes require that payment to local governments be made during July and November

At June 30, 1997, the State was liable to various local governments for unpaid shared revenue aid. To measure the amount of the program allocable to the State's fiscal year, the amount is prorated over portions of recipient local governments' calendar fiscal years which are within the State's fiscal year. The result is that a liability of $504 3 million representing one-half of the total appropriated amount is reported at June 30, 1997 as Due To Other Governments

State Property Tax Credit Program

At June 30, 1997, the State was liable to various taxing jurisdictions for property tax credits paid through the State Property Tax Credit Program Under the program, payments to local taxing jurisdictions provide property tax relief directly to taxpayers in the form of State credits on individual property tax bills. State statutes require that payment to local taxing jurisdictions be made during July. Although the property tax credit is calculated on the property tax levy for school purposes, the State's July payment is paid to an administering municipality who treats the payment the same as other tax collections and distributes the collections to the various tax levying jurisdictions (e g , cities; towns; villages; school districts; technical colleges).

The school portion of the property tax credit liability represents the amount of the July payment earned over the school districts' previous fiscal year ended 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, 1997

The general government portion of the property tax credit liability represents the amount of the July payment prorated over the portion of the local governments' calendar year which is within the State's fiscal year. The result is that 50 percent of the July payment based on the general government taxing jurisdictions' levy is reported as a liability at June 30, 1997.

The aggregated State Property Tax Credit Program liability of $360 2 million is reported in the General Fund as Due to Other Governments.

P. Compensated Absences

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

Annual Leave

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

The State's compensated absence liability at June 30 consists of accumulated unpaid annual leave, compensatory time, personal holiday hours, and Saturday/legal hours earned and vested during January through June The liability is reported in the General Long-term Debt Account Group for all governmental fund types and similar trust funds These unpaid amounts will be paid from expendable resources provided for in the budget of future years In the proprietary fund types and similar trust funds, component units. and the University of Wisconsin System, the obligation is reported as a fund liability

Sick Leave

Full-time employes earn sick leave at a rate of four hours per pay period Unused sick leave is accumulated from year to year without limit until termination or retirement Accumulated sick leave is not paid However. at employe retirement the accumulated sick leave may be converted to pay for the retiree's health insurance premiums The State accumulates resources to pay for the expected health insurance premiums of retired employes That portion of the total health insurance obligation for which the State has already accumulated resources is presented in the Accumulated Sick Leave Fund. an expendable trust fund, while the remaining portion is reported in the General Long-term Debt Account Group

Q. Restricted and Limited Use Assets

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

R. Self-Insurance

Consistent with the requirements of GASB Statement No 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* the State's risk management activities are reported in an internal service fund, and the claims liabilities associated with that fund are reported therein

The State's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed Instead, State management believes it is more economical to manage its own risks internally The Risk Management Fund, an internal service fund, is used to pay for losses incurred by any State agency and for administrative costs incurred to manage a state-wide risk management program These losses include damage to property owned by the agencies, personal injury or property damage liabilities incurred by a State officer, agent or employe, and worker's compensation costs for State employes A limited amount of insurance is purchased to limit the exposure to catastrophic losses Annually, a charge is allocated to each agency for its proportionate share of the estimated cost attributable to the program per Wis Stat Sec 16 865(8)

S. Forestation State Tax

The State levies an annual tax of two-tenths of one mill for each dollar of the assessed valuation of the property in the State, as described in Wis Stat. Sec 70 58 This tax is levied for the purpose of acquiring, preserving and developing the forests of the state; for forest crop law and county forest law administration and aid payments; and for the acquisition, purchase and development of forests The proceeds of the tax are paid to the Conservation Fund

This tax is levied to each county on or before the fourth Monday in August of each year on assessed valuation as of January 1 of that year The tax is due and payable January 31 or on the due dates established through an installment option permitted under Wis Stat Sec 74 12

T. Total Columns - Memorandum Only

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

NOTE 2. BUDGETARY-GAAP REPORTING RECONCILIATION

The accompanying Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - General and Special Revenue Funds presents comparisons of the legally adopted budget (more fully described in Note 1-E to the financial statements) with actual data on a budgetary basis Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of basis, timing, perspective and entity differences in the fund balance as of June 30, 1997 is presented below (in thousands):

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

NOTE 3. DEPOSITS AND INVESTMENTS

The State maintains a short-term investment "pool", the State Investment Fund, for the State, its agencies and departments, and certain other public institutions which elect to participate The investment "pool" is managed by the State of Wisconsin Investment Board (the Board) which is further authorized to carry out investment activities for certain enterprise, trust and agency funds. A small number of State agencies and the University of Wisconsin System also carry out investment activities separate from the Board Disclosures of the State's investment activities are presented in the following categories: State Investment Fund, other funds managed by the Board, other State agencies and funds, the University of Wisconsin System, and component units

A. Deposits

Primary Government

Deposits include cash and cash equivalents on deposit in banks or other financial institutions, and nonnegotiable certificates of deposit. The majority of the State's deposits are under the control of the State Treasurer The State Treasurer maintains multiple accounts with an agreement with the bank that allows an overdraft in one account if the overdraft is offset by balances in other accounts.

The State's insured deposits are covered by the Federal Deposit Insurance Corporation (FDIC) and an appropriation for losses on public deposits. The State, as required by Wis Stat Sec 34 08, is to make payments to public depositors for proofs of loss up to $400 thousand per depositor above the amount of federal insurance. Payments are made, until the funds available in the appropriation are exhausted, in the order in which satisfactory proofs of loss are received by the State's Commissioner of Banking.

At June 30, 1997, the carrying amount of the primary government deposits was $(59.4) million and the bank balance was $118 2 million. Of the bank amount,

- $7 1 million was covered by federal depository insurance, the State Public Deposit Guarantee Fund or collateralized with securities held by the State or its agent in the State's name,
- $2.0 million was collateralized with securities held by the pledging institution's trust department or agent in the entity's name, and
- $109 1 million was uncollateralized and uninsured

The State's unemployment compensation program had $1,559 0 million on deposit with the U.S Treasury This amount is presented as Cash and Cash Equivalents and is not included in the carrying amount of deposits nor is it categorized according to risk because it is neither a deposit with a financial institution nor an investment.

Petty cash and contingent accounts authorized under Wis Stat. Sec 20 920, which are held by agencies and reported as "Cash and Cash Equivalents in the amount of $403 thousand, are not included in the carrying amount nor bank balance of deposits in this note because these are neither deposits nor investments

Component Units

At June 30, 1997, the carrying amount of the component units' deposits was $55.9 million and the bank balance was $56 3 million of which $0.7 million was covered by federal depository insurance, the State Public Deposit Guarantee Fund or collateralized with securities held by the State or its agent in the State's name and $55 6 million was uncollateralized and uninsured

B. Investments

Primary Government

State Investment Fund

This fund functions as the State's cash management fund by "pooling" the idle cash balances of all State funds and other public institutions In the State's Comprehensive Annual Financial Report, the State Investment Fund is not reported as a separate fund; rather, each State fund's share in the "pool" is reported on the balance sheet as "Cash and Cash Equivalents." In addition, receivables of the State Investment Fund, totaling $8 9 million at June 30, 1997, are allocated among State funds and are presented as "Cash and Cash Equivalents." This amount is not included in the categorization of investments of the State Investment Fund Shares of the fund belonging to other participating public institutions are presented in the Local Government Pooled Investment Fund, an agency fund.

Wis. Stat Secs. 25 17(3)(b), (ba) and (bd) enumerate the various types of securities in which the State Investment Fund can invest, which include direct obligations of the United States and Canada, securities guaranteed by the United States, securities of federally chartered corporations such as the African Development Bank, unsecured notes of financial and industrial issuers, Yankee/Euro dollar issues, certificates of deposit issued by banks in the United States and solvent financial institutions in this State, and bankers acceptances. Other prudent investments may be approved by the State of Wisconsin Investment Board's Board of Trustees. The Board of Trustees has given standing authority to the Board to invest in resale agreements, financial futures contracts, options and interest rate swaps.

Derivative Financial Instruments

As of June 30, 1997, the State of Wisconsin Investment Board utilized various derivative financial instruments, including interest rate swap agreements, options, structured bonds with interest rate and redemption value altering components, and interest only strips, for the purpose of increasing yield in the fund Derivative transactions involve, to varying degrees, market and credit risk

Interest Rate Swap Agreements - As of June 30, 1997, the fund held a variety of types of interest rate swap agreements Each swap transaction involves the exchange of interest rate payment obligations without the exchange of underlying principal amounts The notional amounts used to express the volume of these transactions do not represent the amounts subject to risk, but represent the amount on which both parties calculate interest rate obligations The settlement of the interest rate exchange occurs at predetermined dates, with the net difference between the interest paid and interest received reflected as bond interest Entering into interest rate swap agreements subjects the fund to the possibility of financial loss in the event of adverse changes in market rates or nonperformance by the counterparty to the swap agreement Credit risks arising from derivative transactions are mitigated by selecting creditworthy counterparties

The fund holds two bonds with swap agreements attached These bonds had an estimated fair value of $49 4 million and a carrying value of $50 0 million In addition, the fund held two interest rate swap agreements, with notional amounts aggregating $45 0 million, that were not attached to a bond The market value of the two swap agreements totaled $ 8 million at June 30, 1997

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

The State of Wisconsin Investment Board entered into agreements with two counterparties which resulted in the counterparties' assumption of all future market risk associated with ten swap agreements and two structured bonds At the time of the agreement the counterparties assigned a market value to these investments of negative $95 3 million Within this restructuring, one swap agreement requires periodic payments over a period of ten years, while the other agreement requires periodic payment of the loss over a period of five years Interest costs associated with the periodic payment of the loss over time is estimated to be $24 8 million Future period earnings will be charged as payments are made

As of June 30, 1997, the market value of the restructured investments was negative $65 7 million while the amortized deferred loss was negative $65 3 million

Structured Bonds – The fund held no structured bonds as of June 30, 1997 However, during the fiscal year, the fund held highgrade securities with a $181 8 million carrying value which were sold at a gain of $4 0 million

Interest Only and Principal Only Strips – There were no interest only and principal only strips held on June 30, 1997 However, during the fiscal year, the fund held one mortgage backed security which was comprised of 18 separate interest only strips and one principal only strip This security, which had a carrying value of $4 2 million, was sold at a loss of $ 9 million

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

Deposits

The State Investment Fund holds certificates of deposit at various Wisconsin banks as part of the Wisconsin Certificate of Deposit Program implemented in July 1987 As of June 30, 1997, the carrying value of these certificates of deposit was $198 9 million

Approximately $198 9 million are Category 1 risk level deposits which are insured by the FDIC, the Wisconsin State Deposit Guarantee Fund and Financial Securities Assurance Corporation insurance

Investments

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

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

- Category 1 are those investments which are insured or registered, or securities which are held by the State Investment Fund in this fund's name or its agent in the name of this Fund
- Category 2 are those investments which are uninsured and unregistered, with the securities held by the counterparty's trust department or agent in the State Investment Fund's name
- Category 3 are those investments which are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or agent, but not in the State Investment Fund's name

At June 30, 1997, the State Investment Fund's investments are as follows (in millions):

	Category 1	Category 2	Category 3	Carrying Amount	Fair Value
U.S. government and agency holdings	$ 2,937 0	--	--	$ 2,937 0	$ 2.942 2
Securities purchased under resale agreements	1,024.7	--	--	1,024 7	1,024 7
Commercial paper and nonsecured corporate notes and bonds	1,616.0	--	--	1,616 0	1,625 0
Asset backed securities	395 5	--	--	395.5	397 7
Mortgage backed securities	64 2	--	--	64.2	64 0
Restructured notes	35 0	--	--	35.0	18 2
Yankee/Euro dollar issue	292.1	--	--	292.1	292.7
	$ 6,364.5	--	--	6.364 5	6,364 5
Interest rate swaps				--	(55 2)
Certificates of deposit				198.9	198.9
				$ 6,563.4	$ 6,508.2

Market value information represents actual bid prices or the quoted yield equivalent at the end of the year for securities of comparable maturity, quality and type as obtained from one or more major market makers for such securities Investments not having quoted market prices have been valued using pricing methods deemed acceptable by industry standards. In addition, securities with a par value of $12 7 million have been valued at par, which management believes approximates market value.

Other Funds Managed by the Board

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

Pension Trust Fund – This trust is a pooled fund consisting of retirement contributions made by and on behalf of participants in the Wisconsin Retirement System (WRS) (see Note 16 to the financial statements). At June 30, 1997, the Pension Trust Fund held $43,444 0 million of investments consisting of bonds, stocks, limited partnerships, real estate, mortgages and other investments valued at fair value in accordance with Wis. Stat Sec 25 17(14) Further, the Pension Trust Fund held $354.4 million of investments. which are reported as cash and cash equivalents.

In addition, $2,678 6 million of securities lending transactions were held at June 30, 1997. These transactions are categorized consistent with GASB Statement No 28, *Accounting and Financial Reporting for Securities Lending Transactions*

Local Government Property Insurance, State Life Insurance, and Patients Compensation Funds - At June 30, 1997, investments of the funds were $ 4 million for the Local Government Property Insurance Fund, $53 0 million for the State Life Insurance Fund, and $361 8 million for the Patients Compensation Fund, consisting of bonds and mortgages which are valued at amortized cost

Historical Society Nonexpendable Trust Fund - At June 30. 1997. investments of $7 0 million consisted of bonds valued at the lower of cost or market value and stocks valued at cost

The following table presents investments of these funds at June 30, 1997, categorized in accordance with the requirements of GASB Statement No 3

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

	Category 1	Category 2	Category 3	Carrying Amount	Fair Value
Bonds	$ 8,338 8	$ --	$ --	$ 8,338 8	$ 8,346 1
Stocks	18,362 8	7 3	--	18,370 1	18,370 9
Repurchase Agreements	783 7	--	--	783 7	783 7
Bankers Acceptances	478 8	--	--	478 8	478 8
Other	0.1	--	--	0.1	0.1
	$ 27,964.2	$ 7.3	$ --	27,971 5	27,979 6
Options				50 4	50 4
Private Placements				2,754 8	2,756 2
Limited Partnerships				1,702 6	1,702 6
Pooled Equity Funds				9,212 3	9,212 3
Pooled Bond Funds				1,277 9	1,277 9
Mortgages				135 8	135 8
Real Estate				468 6	468 6
International				354 4	354 4
Investments Held by Broker Dealers Under Securities Loans:					
Bonds				1,546 8	1,546 8
Equities				1,024 1	1,024 1
Securities Lending Cash Collateral Pooled Investments				400.0	400.0
				$ 46,899.2	$ 46,908.7

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

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

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

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

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

Derivative Financial Instruments in the Pension Trust Fund

As of June 30, 1997, the State of Wisconsin Investment Board utilized various derivative financial instruments, including forward contracts, options, and swap agreements, in the pension trust fund All financial derivative instruments are reported at fair value, regardless of whether the instruments are held for trading or nontrading purposes The instruments are marked to market monthly, with valuation changes recognized in income

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

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

Hedge related foreign currency commitments at June 30, 1997 include (in millions):

Forward Contracts	Contract Amount	Fair Value
Assets	$ 2.378 9	$ 2.374 5
Liabilities	2,381 9	2,367 5

As of June 30, 1997, two foreign currency call options were also held to provide the pension trust fund enhanced earnings in the event of certain foreign currency fluctuations. There is no market risk associated with owning these instruments beyond the initial cost of their purchase

Yield enhancing foreign currency commitments (in millions):

Options	Premiums Received (Paid)	Fair Value
Calls	$ (20 2)	$ 36 0

Other Options - Other options also are held for trading purposes These option contracts give the purchaser of the contract the right to buy (call) or sell (put) the equity security or index underlying the contract at an agreed upon price (strike price) during or at the conclusion of a specified period of time The seller (writer) of the contract is subject to market risk, while the purchaser is subject to credit risk and market risk to the extent of the premium paid

The following schedule summarizes the other options held at June 30, 1997 (in millions):

Other Options	Premiums Received (Paid)	Fair Value
Purchased Put - Equity	$ (12 7)	$ 1 4
Purchased Calls - Equity	(20 7)	13 1

Interest Rate Swaps - As of June 30, 1997, no interest rate swaps were held Swap transactions involve the exchange of interest rate or index rate payment obligations without the exchange of underlying principal amounts The notional amounts used to express the volume of these transactions do not represent the amounts subject to risk, but represent the amount on which both parties calculate payment obligations The settlement of payments occurs at predetermined dates with the net difference between the amount received and the amount paid reflected as bond interest Entering into interest rate swap agreements subjects the investor to the possibility of financial loss in the event of adverse market changes or nonperformance by the counterparty to the swap agreement. Credit risks arising from derivative transactions are mitigated by selecting creditworthy counterparties.

Other State Agencies and Funds

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

Public Service Commission - Investments at June 30, 1997, of $5.4 million consisted of money market funds which are reported in the General Fund

Lottery Fund - Investments are all in the form of U S Treasury zero coupon bonds. At June 30, 1997 investments of $241 1 which meet Category 1 risk criteria.

Transportation Revenue Bond Funds - At June 30, 1997, the Transportation Revenue Bond Capital Projects Fund and the Transportation Revenue Bond Debt Service Fund had investments totaling $186 3 million These investments meet Category 1 risk criteria.

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

Clean Water Fund - The fund's aggregate investments at June 30, 1997, were $183 9 million, of which $90 3 million are reported as cash equivalents consisting of a repurchase agreement which is a Category 2 level of risk Investments of $93 6 million consist of government and agency holdings and satisfy Category 1 risk criteria.

The Wisconsin Public Broadcasting Foundation Fund - The fund's investments at June 30, 1997 were $3.8 million, consisting of $1 0 million of money market funds and $ 3 million of mutual funds. In addition, the fund held $2.5 million of government holding, which meet the Category 1 risk criteria.

Health Insurance Risk Sharing Plan - At June 30, 1997, investments of $5 0 million consisted of government and agency holdings meeting Category 1 risk criteria

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

At June 30, 1997, the State has approximately $223 7 million of investments which it holds for banks and insurance companies These assets are held for the period of time specified by statute and then returned to their owner The assets are presented in the *Bank and Insurance Company Deposits Fund* as "Other Assets" All investments meet risk Category 1

Unclaimed property, usually in the form of stocks, bank accounts, insurance proceeds, utility deposits and uncashed checks, are transferred periodically to the *Unclaimed Property Program Fund* The securities, presented as "Other Assets" on the financial statements, include $6 1 million of various investments which meet risk Category 1 and $1 5 million of mutual funds which meet risk Category 1

The State's Section 457 *Deferred Compensation Plan Fund* investments, totaling $667 2 million at June 30, 1997, are in the form of equity securities, insured savings accounts and investment contracts with insurance companies

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

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

	Category 1	Category 2	Category 3	Carrying Amount	Fair Value
Government and agency holdings	$ 654 6	$ --	$ 1	$ 654 7	$ 655 0
Municipal bonds	43 3	--	--	43 3	43 3
Commercial paper and nonsecured corporate notes and bonds	6 1	--	--	6 1	6 1
Repurchase agreements	51 5	90 3	--	141 8	141 8
Negotiable certificates of deposit	2.7	--	--	2.7	2.7
	$ 758.2	$ 90.3	$ .1	848 6	848 9
Mutual Funds				1 8	1 8
Money market funds				6 3	6 3
Deferred compensation investments				667.2	667.2
				$ 1,523.9	$ 1,524.2

University of Wisconsin System

The University of Wisconsin System investments of $196 7 million, with a fair value of $ 252 0 million, consist primarily of assets of endowment funds having a book value of $188 1 million, while current funds and loan funds have an aggregate book value of $8 6 million. Investments, which are Category 1 Risk level, of these funds at June 30, 1997, were comprised of the following:

	Carrying	Fair
Common and preferred stock	50 8%	61 5%
Bonds, notes and debentures	49.2	38.5
Total investments	100.0%	100.0%

Component Units

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

The Authority's investments in mortgage-backed securities had a cost of approximately $59 2 million and a fair value (carrying amount) of approximately $47 9 million as of June 30, 1997 The Authority currently intends to hold such mortgage-backed securities until maturity or until they can be sold in more favorable market conditions These securities are based on cash flows from principal and interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees which may result from a decline in interest rates

The Authority's aggregate investments at June 30, 1997, were $545 6 million of which $161 4 million are reported as cash equivalents consisting of repurchase agreements, commercial paper, money market funds, and short-term investment agreements The Authority's investments except for uncollateralized investment agreements of $27 5 million are a Category 1 level of risk

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

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

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

Wisconsin Health Care Liability Insurance Plan - The investments of the Wisconsin Health Care Liability Insurance Plan at December 31, 1996 were $161 8 million, of which $5 2 million are reported as cash equivalents. All investments meet the Category 2 risk level

University of Wisconsin Hospitals and Clinics Authority – The University of Wisconsin Hospitals and Clinics Authority (the Hospital) aggregate investments of $130 1 million consist of $112 2 million of restricted and limited use investments and $17 9 million of unrestricted investments All investments, excluding the guaranteed investment contracts, are Category 2 level of risk.

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

The guaranteed investment contracts, which are held with a financial institution in accordance with provisions of a bond indenture, matures in December. 2000 and guarantees a rate of return of 1 88 percent above the interest expense on the Hospitals Series 1997 Bonds. The guaranteed investment contract is recorded at original cost plus accrued earnings

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

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

	Category			Carrying	Fair
	1	2	3	Amount	Value
Bonds	$ 123 0	$ 158 3	$ --	$ 281 3	$ 281 3
Stocks	--	31 8	--	31 8	31 8
Negotiable certificates of deposit	4 8	--		4 8	4 8
Uncollateralized investment agreements		--	27 5	27 5	27 5
Mortgage-backed securities	47 9	49 2	--	97 1	97 1
Collateralized investment contracts	181.1	--		181.1	181.1
	$ 356.8	$ 239.3	$ 27.5	623 6	623 5
Money market funds				159 5	159 6
Guaranteed investment contracts				46 4	46 4
International equities				8.0	8.0
				$ 837.5	$ 837.5

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

Other Funds Managed by the Board	$ 46,899 2
Other State Agencies and Funds	1,523 9
University of Wisconsin System	196 7
Component Units	837.5
Total Investments	$ 49,457.3

C. Lottery Investments and Related Future Price Obligations

Investments of the State Lottery Fund totaling $241 1 million are held to finance grand prizes payable over a 20-year or 25-year period The investments in prize annuities are debt obligations of the U S government and backed by its full faith and credit as to both principal and interest Liabilities related to the future prize obligations are presented at their present value and included as Accounts Payable and Other Accrued Liabilities The following is a schedule of future prize obligations (in thousands):

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

NOTE 4. FIXED ASSETS

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

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

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

	Allotments	Expended to June 30, 1997	Encumbrances Outstanding	Unencumbered Allotment Balance
Phase I Youth Dormitory	$ 12,550	$ 9,151	$ 1,842	$ 1,557
Waupun Housing/Freezer/Locks	14,634	11,993	1,712	928
Youthful Offender Institution	25,275	17,953	4,219	3.103
Secured Juvenile School	11,500	10,683	178	639
Rail Acquisition/Development	14,500	8,383	--	6,117
Camp Williams Support Facility	14,103	13,898	36	168
Other projects with allotments totaling less than $10 million		47,813		
Total construction in progress		$ 119,875		

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

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

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

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

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

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

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

*** Due to the inclusion of accretion amounts on original issue discounts of the State's zero coupon bonds and underwriter discounts on new general obligation bond issues sold during Fiscal Year 1997, the amount presented for "Additions" to general obligation bonds payable differs from the amount presented for "Proceeds from Sale of Bonds" on the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances, which is reported net of the discussed items.

NOTE 6. BONDS, NOTES AND OTHER FINANCING AGREEMENTS PAYABLE

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

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

A. General Obligation Bonds

Primary Government

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

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

Repayment of the bonds is made from the Bond Security and Redemption Fund, which receives transfers from various departmental general purpose revenue, program revenue, and segregated revenue appropriations to pay principal and interest as it becomes due. The bonds payable amount shown in the Debt Service Fund represents the liability to be paid from resources accumulated to provide debt service payments early in Fiscal Year 1998.

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

General obligation bonds issued and outstanding as of June 30, 1997 were as follows (in thousands):

Fiscal Year Issued	Series	Dates	Interest Rates	Maturity Through	Amount Issued	Amount Outstanding
1977	1976 Series C and 1977 Series B	11/76; 5/77	5.0	5/02	$ 168,000	$ 12,000
1979	1978 Series C	11/78	5.1	11/03	77,300	6,320
1986	1986 Series A	5/86	7.25 to 7.5	1/15	38,185	12,690
1988	Refunding Issue	5/88	6.7 to 6.8	5/98	447,455	43,148
1989	1988 Series A and 1989 Series A	7/88; 1/89	7.25 to 7.7	1/03	35,000	4,440
1990	1989 Series D, E and 1990 Series A through D	8/89; 10/89 1/90; 3/90; 5/90	6.4 to 7.6	1/20	341,889	65,134
1991	1990 Series E through G, 1991 Series A through C and Series I	8/90; 10/90; 12/90 4/91; 5/91; 6/91	5.85 to 7.6	1/21	528,291	207,437
1992	1991 Series D; 1992 Series A and B, and Refunding Issue	9/91; 3/92 6/92; 3/92	5.1 to 6.7	1/22	794,975	498,260
1993	1992 C and 2 1993 1, 2 and A	10/92; 11/92 1/93; 3/93; 5/93	3.8 to 6.5	5/15	721,175	576,565
1994	1993 Refunding Issues 3, 4, 5, 6; 1994 Refunding Issues 1 and 2; and 1994 Series A and B	7/93; 12/93; 12/93; 10/93; 3/94; 1/94; 6/94	3.5 to 6.2	5/24	929,825	817,434
1995	1994 Series 3 and C; 1995 Series A, B, and 1	9/94; 9/94 1/95; 2/95; 2/95	4.75 to 7.0	5/25	331,715	216,995
1996	1995 Series 2 and C; 1996 Series 1, A and B; and Note 995B	10/95; 9/95; 2/96; 1/96; 5/96 and 7/95	4.0 to 7.3	11/26	448,536	436,083
1997	1996 C and D; 1997 1 and A	9/96; 10/96; 3/97; 3/97	4.75 to 6.0	5/28	190,230	190,230
Total					5,052,576	3,086,736
Proprietary Fund (Discounts)/Premiums						(2,781)
Total General Obligation Bonds and Notes, net of discounts					$ 5,052,576	$ 3,083,955

As of June 30, 1997, general obligation debt service requirements for principal and interest in future years are as follows (in thousands):

Fiscal Year Ended June 30	Principal	Interest	Total
1998	$ 217,186	$ 164,153	$ 381,339
1999	218.155	152,230	370,385
2000	220,259	141,549	361,808
2001	216.457	131,839	348,296
2002	211,555	120,631	332,186
Thereafter	2,060,306	782,981	2,843,287
Total	3,143,918	1.493.383	4,637,301
Proprietary Fund (Discounts)/Premiums	(2.781)		(2,781)
Unamortized zero coupon and CAB discounts	(57,182)		(57,182)
Total, net of discounts	$3,083,955	$ 1,493,383	$4,577,338

Zero Coupon Bonds

The general obligation bonds of 1990, Series D (Higher Education Series), are zero coupon bonds recorded in the amount of $37 0 million which is the accreted value at June 30, 1997 The bonds mature on May 1 through the year 2010

The Refunding General Obligation Bonds of 1988 included capital appreciation bonds (CAB's) The bonds are recorded in the amount of $36 4 million which is the accreted value at June 30, 1997 The bonds mature on May 1 through the year 1998 Funding for these bonds will be provided as they mature

The general obligation bonds of 1991, Series B, are zero coupon bonds recorded in the amount of $65 3 million The bonds mature on May 1 through the year 2011

B. Revenue Bonds

Primary Government

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

Transportation Revenue Bonds

Transportation Revenue Bonds are issued to finance part of the costs of certain transportation facilities and major highway projects Chapter 18, Subchapter II of the Wisconsin Statutes as amended, Wis Stat Sec 84 59 and a general bond resolution and series resolutions authorize the issuance of these bonds

The Department of Transportation is authorized to issue a total of $1,348 0 million Series A revenue bonds Presently, there are nine issues of Transportation Revenue Bonds totaling $750 6 million Debt service payments are secured by driver and vehicle registration fees and also a reserve fund, which will be used in the event that a deficiency exists in the redemption fund

The Transportation Revenue Bonds issued and outstanding as of June 30, 1997 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
1996A	5/96	5 0 to 6 0	7/16	$ 115,000	$ 115.000
1995A	9/95	4 5 to 6 3	7/15	105.000	101,815
1994A	7/94	4 5 to 7 5	7/14	100,000	93,880
1993A	9/93	3 7 to 5 0	7/12	116,450	112,340
1992A&B	7/92	4 4 to 5 8	7/22	299.150	288,045
1991A	10/91	5 6 to 6 2	7/02	42,085	26,125
1989A	4/89	7 25	7/98	14,715	4.105
1988A	4/88	6 7	7/97	15,300	2,125
1986A	6/86	7 4	7/97	83,575	7,130
Total				$ 891,275	$ 750,565

As of June 30, 1997, debt service requirements for principal and interest for the Transportation Revenue Bonds are as follows (in thousands):

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

Wisconsin Education Revenue Bonds

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

Health Education Assistance Loan Program

At June 30, 1997, there was one issue of Health Education Assistance Loan program bonds outstanding totaling $5 3 million These bonds are secured by student loan repayments and interest income.

The Health Education Assistance Loan program bonds issued and outstanding as of June 30, 1997 were as follows (in thousands):

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

The provisions of the 1994 Series A bond issue requires interest and principal payments are to be made to the bond holder on the first working day of the month until maturity in December 2004. The interest portion of each monthly payment is based on the Treasury Bill rate plus 0 25% for each day in the month The principal amount paid each month varies depending on the amount of student loans receivable that is collected and working cash flow for each month Therefore, bond amortization varies through final maturity in the year 2004.

Clean Water Fund

The Clean Water Fund provides loans and grants to local municipalities to finance wastewater treatment planning and construction The Fund is authorized to issue up to $1,298 0 million in Clean Water Revenue Bonds. At June 30, 1997, there were five issues of Clean Water Revenue Bonds outstanding totaling $437.4 million. These bonds are secured by payments on program loans and earnings of investments.

Bonds issued and outstanding for the Clean Water Fund as of June 30, 1997 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
1997-1	2/97	4 5 to 6.0	6/17	$ 80,000	$ 80,000
1995-1	7/95	4 0 to 6 25	6/15	80,000	78,750
1993-1	9/93	3 9 to 5 3	6/13	84,345	79,395
1993-2	9/93	3 9 to 6 13	6/08	81,950	79,120
1991-1	4/91	5 9 to 6 9	6/11	225,000	120,105
				551,295	437,370
Unamortized Premium					3,033
Less: Unamortized discount and charge					(8,428)
Total, net of discount, charge and premium				$ 551,295	$ 431,975

As of June 30, 1997, debt service requirements for principal and interest for the Clean Water Fund were as follows (in thousands):

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

Component Units

Wisconsin Housing and Economic Development Authority

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

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

Authority's Revenue Bonds and Notes

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

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

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

(Continued)

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

Authority's Special Obligation Bonds

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

Special obligation bonds at June 30, 1997 consist of the following (in thousands):

Series/ Issue	Date	Rates	Maturity Through	Outstanding
Housing Revenue Bonds:				
1994	1/94	7 4 to 9 25	2024	$ 11,198
Home Ownership Revenue Bonds:				
1993 A	6/92	4 8 to 6 5	2025	82,350
1994 C&D	8/94	5 0 to 6 65	2025	46,210
1994 E&F	12/94	5 75 to 7 55	2026	26,200
				154,760
Home Ownership Revenue Bonds (Taxable):				
1993 B	4/93	6 45 to 7 4	2017	18,339
Home Improvement Revenue Bonds:				
1988 A	11/88	7 2 to 7 75	2006	4,375
1990 A&B	4/90	7 3 to 7 9	2006	1,130
1992 A&B	5/92	5 8 to 7 0	2010	2,635
				8,140
Total Special Obligation Bonds				$ 192,437

As of June 30, 1997, debt service requirements for principal and interest of the Authority's revenue bonds and special obligation bonds were as follows (in thousands):

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

Under a Business Development Program and a Beginning Farmer Program, revenue bonds are issued which do not constitute indebtedness of the Authority within the meaning of any provision or limitation of the Constitution or Statutes of the State of Wisconsin They do not constitute or give rise to a pecuniary liability of the Authority or a charge against its general credit They are payable solely out of the revenues derived pursuant to the loan agreement, or in the event of default of the loan agreement, out of any revenues derived from the sale, releasing or other disposition of the mortgaged property Therefore, the bonds are not reflected in the financial statements As of June 30, 1997, the Authority had issued 112 series of such bonds in an aggregate principal amount of $70 4 million for economic projects in Wisconsin

University of Wisconsin Hospitals and Clinics Authority

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

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

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

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

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

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

C. University of Wisconsin System

Bonds payable included in the University of Wisconsin System's Plant Funds at June 30, 1997 consist of general obligation bonds of $709.8 million; Wisconsin University Building Corporation bonds with an outstanding balance of $0.3 million maturing in the years 1997 - 1999 and the Wisconsin State College Building Corporation bonds recorded in the amount of $1.1 million maturing in 2001.

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

On June 30, 1997, future principal payments on bonds payable of these corporations were as follows (in thousands):

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

D. Refundings and Early Extinguishments

Refunding Provisions of GASB Statement No. 23

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

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

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

Current Year Refundings/General Obligation Bonds

In March 1997, the State issued $23 6 million of general obligation refunding bonds (1997 Series 1), the proceeds of which were deposited in an escrow account to provide for future debt service requirements on $23 3 million of various general obligation bonds outstanding at the time of the refunding As a result, the bonds are considered defeased and the associated liability removed from the financial statements The refunding resulted in decrease in total debt service payments by $4 0 million and an economic gain of $3 0 million

Prior Year Refundings/General Obligation Bonds

In October 1995, the State issued $42 9 million of general obligation bonds (1995 Series 2), the proceeds of which were deposited in the Bond Security and Redemption Fund to be used for a replacement refunding (no change in cash flows nor an economic gain or loss resulted), whereby the bond proceeds replace a portion of the moneys available to redeem certain of the State's outstanding general obligation bonds previously issued for the purpose of veterans housing loans, including (in millions):

1976C Series	$ 8
1978C Series	1 0
1985B Series	40 8
19935 Series	1
19936 Series	2

In February 1996, the State issued $104 8 million of general obligation refunding bonds (1996 Series 1), the proceeds of which were deposited in an escrow account to provide for future debt service requirements on $189 3 million of the 1995A general obligation bonds outstanding at the time of the refunding As a result, the bonds are considered defeased and the associated liability removed from the financial statements On June 30, 1997, $189 3 million was outstanding

In February 1995, the State issued $15 7 million of general obligation bonds (1995 Series 1) for the purpose of replacement refunding certain outstanding general obligation bond principal amounts due May, 1995 The bonds had previously been issued for the purpose of veterans housing loans This refunding allowed moneys available in the amount of $15 7 million to be used to originate veterans housing loans

In September 1994, the State issued $10 4 million of general obligation refunding bonds (1994 Series 3), the proceeds of which were deposited in an escrow account to provide for the future debt service requirements on the 1983 Series A general obligation bonds outstanding at the time of the refunding As a result, the bonds are considered defeased and the associated liability removed from the financial statements On June 30, 1997, the outstanding principal was $10 4 million

In March 1994, the State issued $106 6 million of general obligation refunding bonds (1994 Series 1) and $58 5 million of general obligation refunding bonds (1994 Series 2) the proceeds of which were deposited in an escrow account to provide for the future debt service requirements on $136 3 million of various general obligation bonds As a result of the refunding, the bonds are considered defeased and the associated liability removed from the financial statements On June 30, 1997, the outstanding principal on these defeased bonds was $13 5 million

In October 1993, the State issued $20 0 million of general obligation refunding bonds (1993 Series 6), the proceeds of which were used for a replacement refunding, whereby the proceeds replace a portion of moneys that are available to be used to redeem certain general obligation 1985 Series B that were used for the purpose of veterans housing loans Pursuant to a special redemption provision, the State redeemed certain 1985 Series B bonds allowing moneys on hand and attributable to those bonds to be used to originate veterans housing loans

In December 1993, the State issued $135.3 million of general obligation refunding bonds (1993 Series 5), the proceeds of which were deposited in an escrow account to provide for the future debt service requirements on $133.7 million of various general obligation bonds. As a result of the refunding, the bonds are considered defeased and the associated liability removed from the financial statements. On June 30, 1997, the outstanding principal on these defeased bonds was $98.0 million.

In December 1993, the State issued $77.6 million of general obligation refunding bonds (1993 Series 4), the proceeds of which were deposited in an escrow account to provide for the future debt service requirements on $76.0 million of various general obligation bonds outstanding at the time of the refunding. As a result of the refunding, the bonds are considered defeased and the associated liability removed from the financial statements. On June 30, 1997, the outstanding principal on these defeased bonds was $10.2 million

In August 1993, the State issued $302.0 million of general obligation refunding bonds (1993 Series 3), the proceeds of which were deposited in an escrow account to provide for the future debt service requirements on $271.9 million of various general obligation bonds outstanding at the time of the refunding. As a result of the refunding, the bonds are considered defeased and the associated liability removed from the financial statements. On June 30, 1997, the outstanding principal on these defeased bonds was $94.2 million

In March 1993, the State issued $137.5 million of 1993-2 general obligation refunding bonds, the proceeds of which were deposited in an escrow fund to provide for the future debt service requirements on $126.0 million of various general obligation bonds outstanding at the time of the refunding. As a result of the refunding, the bonds are considered defeased and the associated liability removed from the financial statements. On June 30, 1997, the outstanding principal on these defeased bonds was $49.2 million

In January 1993, the State issued $280.1 million of 1993-1 general obligation refunding bonds, the proceeds of which were used for refunding $259.9 of various general obligation bonds outstanding at the time of the refunding. As a result, these bonds are considered to be defeased and the liability removed from the financial statements. On June 30, 1997, the outstanding principal on these defeased bonds was $165.9 million

On March 1, 1992, the State issued $448.9 million in general obligation refunding bonds with an average interest rate of 6.16 percent to advance refund certain general obligation bonds. The net proceeds of $440.0 million were used to purchase state and local securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments. As a result, these bonds are considered to be defeased and the liability removed from the financial statements. On June 30, 1997, the outstanding principal on these defeased bonds was $143.6 million

At June 30, 1997, approximately $1,722.1 million of general obligation bonds, defeased in prior years, are not included as a liability in the accompanying financial statements.

Prior Year Refundings/Revenue Bonds

Primary Government

Clean Water Fund Revenue Bonds

In September 1993, the Clean Water Fund defeased a portion of the 1991 Series I Revenue Obligation Bonds by placing proceeds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds has been removed from the Fund's balance sheet as of the date of the defeasance. On June 30, 1997, $73.8 million of the bonds are considered defeased

Transportation Revenue Bonds

In Fiscal Year 1994, $114.7 million of the 1993 Series A Transportation Revenue Bond proceeds were applied to the partial refunding of previously issued Transportation Revenue Bonds, 1986 Series A, 1988 Series A, 1989 Series A, 1991 Series A, and the 1992 Series B. In order to provide for the refunding, a portion of the proceeds of the 1993 Series A Bonds along with associated assets transferred from the refunded bonds were used to acquire direct obligations of the United States and certain other government securities to pay the principal, interest and redemption price on the refunded bonds at redemption or maturity. Accordingly, these bonds are considered to be defeased and are not included in the accompanying financial statements. On June 30, 1997, $105.2 million of the bonds are considered defeased.

In Fiscal Year 1993, $136.6 million of the 1992 Series A Transportation Revenue Bond proceeds were applied to the partial refunding of previously issued Transportation Revenue Bonds, 1986 Series A, 1988 Series A, 1989 Series A, and the 1991 Series A. A portion of the proceeds of the 1992 Series A Bonds along with associated assets transferred from the refunded bonds were used to acquire direct obligations of the United States and certain other government securities to pay the principal, interest and redemption price on the refunded bonds at redemption or maturity. Accordingly, the above bonds are considered to be defeased and are not included in the accompanying financial statements. As of June 30, 1997, the remaining outstanding defeased principal is $126.8 million.

In prior years, a portion of the 1986 Series A bond issue was used to defease the 1984 revenue bond issue of $65.0 million. The securities were deposited in an irrevocable trust with a trustee to provide for all future debt service payments on the Series A 1984 Transportation Revenue Bonds. Accordingly, the liability relating to the defeased bonds and the related trust accounts are not included in the financial statements. On June 30, 1997, $26.0 million of principal is outstanding.

At June 30, 1997, the amount of outstanding defeased Transportation Revenue Bond debt is $258.0 million.

Wisconsin Education Revenue Bonds

Guaranteed Student Loan Program

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

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

Component Units

Wisconsin Housing and Economic Development Authority

The Authority defeased Insured Mortgage Revenue Bonds payable aggregating $48.4 million and sold the related Insured Mortgage Loan portfolio on March 1, 1990. As of June 30, 1997, the remaining outstanding defeased debt was $38.8 million.

Early Extinguishments

Component Units

Wisconsin Housing and Economic Development Authority

During 1997, the Wisconsin Housing and Economic Development Authority (the Authority) redeemed early various outstanding bonds according to the redemption provisions in the bond resolutions. These redemptions resulted in extraordinary losses due to the write-off of remaining unamortized deferred debt financing costs and, in certain instances, the payment of an early redemption premium. A summary of these early redemptions follows (in thousands):

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

E. Short-Term Financing

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

General Obligation Commercial Paper Notes

In April 1997, the State authorized $99.0 million and issued $92.0 million of General Obligation Commercial Paper Notes, 1997 Series A, for the acquisition, construction, development, extension, enlargement, or improvement of land, waters, property, highway, buildings, equipment or facilities. Periodically, additional commercial paper notes are issued to pay for maturing commercial paper notes and accrued interest on the maturing notes. The State intends to make annual May 1 payments on the outstanding commercial paper notes that reflect principal amortization of the notes. The State also intends to make semi-annual May 1 and November 1 payments on the outstanding commercial paper notes that will be equal to the interest accrued and accruing for that period. At June 30, 1997, the amount of commercial paper notes outstanding was $93.0 million which had interest rates ranging from 3 55 percent to 4 15 percent and maturities ranging from July 7, 1997 to November 14, 1997

Transportation Revenue Commercial Paper Notes

In May 1997, the State authorized $189 0 million and issued $154 8 million of transportation revenue commercial paper notes, 1997 Series A, to pay the costs of major highway projects and certain State transportation facilities Periodically, additional commercial paper notes are issued to pay for maturing commercial paper notes and accrued interest on the maturing notes The State intends to make annual July 1 payments on the commercial paper notes that reflect principal amortization of the notes The State also intends to make semi-annual January 1 and July 1 payments on the commercial paper notes that will be equal to (i) the amounts determined by the State. as set forth in the Supplemental Resolution, for the semi-annual periods ending on July 1, 1999, and (ii) the interest accrued and accruing for that applicable semi-annual period commencing July 1, 1999. At June 30. 1997. the amount of commercial paper notes outstanding was $154 9 million which had interest rates ranging from 3 65 percent to 3 80 percent and maturities ranging from July 8, 1997 to September 12, 1997

F. Certificates of Participation

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

- Master Lease Certificates of Participation of 1996, Series B, in the amount of $28 7 million This series of Master Lease certificates had interest rates ranging from 4.25 percent to 4.90 percent and matures semi-annually through September 1, 2003

- Master Lease Certificate of participation of 1996, Series A, in the amount of $11 8 million This Master Lease certificate evidences the State's obligation to repay, but solely from sources specified, revolving loans under a Revolving Credit Agreement, dated July 1, 1996 between Firstar Trust Company, Milwaukee, Wisconsin (Trustee) and the Bank of America Illinois This Master Lease certificate shall bear interest at the rates provided for in the Revolving Credit Agreement and matures on March 1, 2006

The Second Amended and Restated Master Lease 1992-1 provides that certain lease schedules to the facility can be terminated if the State deposits with the Trustee an amount that is equal to the outstanding amount of the lease schedule, or in amounts that are sufficient to purchase investments that mature on dates and in amounts to make the lease payments when due. At June 30, 1997, the State has deposited with the Trustee amounts, that when invested, will terminate lease schedules having an aggregate outstanding amount of $4 2 million As a result of terminating these lease schedules, the associated liability is removed from the financial statements

G. Arbitrage Rebate

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

H. Moral Obligation Debt

Through legislation enacted in 1994, the State authorized the creation of local exposition districts These districts are authorized to issue bonds for costs related to an exposition center, and if the State determines that certain conditions are satisfied, the State may have a moral obligation to appropriate moneys to make up deficiencies in the districts reserve funds that secure up to $200 million principal amount of bonds To date, one such district has been created, and it has issued $120 5 million of bonds that are subject to the moral obligation

I. Credit Agreements

Primary Government

The State has, as part of the working bank contract, a letter of credit agreement with the Firstar Bank of Milwaukee, Milwaukee, Wisconsin under which the Bank has agreed to provide to the State an open line of credit in the amount of $50.0 million. The agreement provides for advances in anticipation of bond issuance proceeds As of June 30, 1997, $50.0 million was unused and available

In addition, during Fiscal Year 1997, the State entered into a credit agreement with two banks to provide a line of credit for liquidity support for up to $300.0 million of general obligation commercial paper notes The line of credit expires in April, 1998, but is subject to annual renewal as provided for in the credit agreement The cost of this line of credit is 0 04 percent

Also, during Fiscal Year 1997, the State entered into a credit agreement with three banks to provide a stand-by letter of credit for credit and liquidity support for its transportation revenue commercial paper program The stand-by letter of credit is available to secure up to $200 0 million of transportation revenue commercial paper and interest thereon. No advances were drawn during the fiscal year ended June 30, 1997 This stand-by letter of credit expires in May, 1998, but is subject to annual renewal as provided for in the credit agreement. The cost of this stand-by letter of credit is 0 08 percent on unutilized amounts and 0 145 percent on utilized amounts

Component Units

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

NOTE 7. LEASE COMMITMENTS

The State leases office buildings, space, and equipment under a variety of agreements that vary in lease term, many of which are subject to appropriation from the State Legislature to continue the lease commitment If such funding, i e , through legislative appropriation, is judged to be assured. and the likelihood of cancellation through exercise of the fiscal funding clause is remote, leases are considered noncancelable and reported in the General Long-term Debt Account Group or appropriate proprietary fund or university fund types

A. Capital Leases

Primary Government

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

Assets acquired through capital leases are valued at the lower of fair market value or the present value of minimum lease payments at the inception of the lease The following is an analysis of General Fixed Assets and proprietary fund type assets leased under capital leases as of June 30, 1997 (in thousands):

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

The following is an analysis of the gross minimum lease payments along with the present value of the minimum lease payments as of June 30, 1997 for capital leases (in thousands):

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

Master Lease Program

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

Balance Due	Blended Interest Rate	Average Life (Weighted Term)
$36.344,030	4 947%	1 589 Yrs

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

Component Unit

Under the terms of a lease agreement, the University of Wisconsin Hospitals and Clinics Authority (the Hospital) leases facilities which were occupied by the Hospital as of June, 1996 (see Note 1B to the financial statements) The initial term of the lease is 30 years to be renewed annually with automatic extensions of one additional year on each July 1 until action is taken to stop the extensions Included in the consideration for the lease is an amount equal to the debt service during the term of the lease agreement on all outstanding bonds issued by the State for the purpose of financing the acquisition, construction or improvement of the leased facilities Interest rates on the related bonds range from 4 2 percent to 7 4 percent, with final maturities due beginning in April 1998 through April 2016 Scheduled principal and interest payments through April 2016 are $57 6 million

In addition, scheduled principal and interest payments through December 2000 are $1 5 million for equipment acquired under a capital lease agreement

B. Operating Leases

Operating leases, those leases not recorded as capital leases as required by FASB Statement No 13, are not recorded in the balance sheet These leases contain various renewal options, the effect of which are reflected in the minimum lease payments only if it is considered that the option will be exercised Certain other operating leases contain escalation clauses and contingent rentals which are not included in the calculation of the future minimum lease payments The State has adopted the operating lease scheduled rent increase provisions of FASB Statement No 13 prospectively Operating lease expenditures/expenses are recognized as incurred or paid

Governmental and proprietary fund rental expenditures/expenses under operating leases for Fiscal Year 1997 were $29 7 million Of this amount, $28 9 million relates to minimum rental payments stipulated in lease agreements, $0 8 million relates to contingent rentals, and $107 thousand subrental payments The University of Wisconsin System operating lease expenditures totaled $2 6 million for Fiscal Year 1997

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

Fiscal Year	Governmental and Proprietary Funds	University of Wisconsin System	Component Units
1998	$ 28,112	$ 4,097	$ 2,144
1999	20,808	2,971	1,217
2000	13,889	2,037	675
2001	8,667	1,275	373
2002	7,426	1,130	144
Thereafter	11,491	7,022	10
Minimum lease payments	$ 90,393	$ 18,531	$ 4,564

NOTE 8. INSTALLMENT PURCHASES

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

The following is an analysis of the gross minimum installment payments along with the present value of the minimum installment payments as of June 30, 1997 for installment purchases (in thousands):

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

NOTE 9. SEGMENT INFORMATION AND CONDENSED FINANCIAL DATA

Primary Government

The State maintains 25 enterprise funds which are intended to be self-supporting through user fees charged to the public. Financial statement information as of and for the year ended June 30, 1997 is presented below (in thousands):

	Home for Veterans (1)	Mental Health Institutes (2)	Developmental Disabilities Centers (3)	Lottery (4)	Health Insurance Risk Sharing Plan (5)	Local Government Property Insurance (6)
Operating revenues:						
Total revenues	$ 33,588	$ 33,986	$ 115,093	$431,146	$ 37,929	$ 8,955
Revenues from sales/services provided to other GAAP funds	--	--	--	--	--	--
Depreciation, depletion and amortization expense	2,130	1,483	2,919	616	2	11
Operating income or loss	(1,777)	(36,401)	(3,057)	132.333	(324)	1,426
Operating grants. entitlements, and shared revenues	9	16	18	--	--	--
Operating interfund transfers:						
In	25	34,710	433	--	--	--
Out	1,047	152	3,336	13,389	--	--
Extraordinary gain (loss)	--	--	--	--	--	--
Net income (loss)	(2,431)	53	(5.221)	92,186	15	1,425
Current capital:						
Contributions	192	4,422	631	--	--	--
Transfers In	--	155	--	--	--	--
Transfers Out	--	--	--	--	--	--
Property, plant and equipment:						
Additions	560	4,850	1,726	528	--	--
Deletions	1,857	--	108	64	--	--
Net working capital (current assets less current liabilities)	3,612	(8.322)	(5,203)	144,349	7,299	18,075
Total assets	32,556	55,912	66,602	411.707	13,727	25,520
Bonds and other material long-term liabilities outstanding:						
Amounts payable solely from operating revenues	--	--	--	224,513	7,298	3,243
Amounts potentially payable from other sources	--	--	--	--	--	--
Total equity	29,560	28,796	37,888	138,404	6	19,175

Description of Programs

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

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

(10) Funding for clean water projects.

(11) Issuance and administration of veteran's first mortgage loans

(12) Bond proceeds used to provide veteran's loans to finance residential housing

(13) Health education loans provided to full-time medical and dental students and eligible residents.

(14) Other funds include: State Fair Park - State Fair Exposition Center revenues and operations; Institutional Farm Operations - Funds associated with employing inmates in agricultural activities; Institutional Canteen Operations - Sale of goods for the use of institutionalized patients and inmates; Tuition Trust – Taxpayers' investment to cover future tuition expenses; Veterans Trust- Various programs for veterans, including loans and grants; Wisconsin Public Broadcasting Foundation - Raises funds for the Wisconsin Educational Communications Board.

Component Units

Significant financial data for the State's three component units for the year ended December 31, 1996 or June 30, 1997 is presented below (in thousands):

	Wisconsin Housing and Economic Development Authority	Wisconsin Health Care Liability Insurance Plan	University of Wisconsin Hospitals and Clinics Authority	Total
Condensed Balance Sheet				
Assets:				
Current Assets	$ 399,147	$ 169,158	$ 111,548	$ 679,853
Due From Primary Government	--	--	863	863
Long-term Receivables	1,743,543	--	--	1.743,543
Deferred Charges	16,324	--	--	16,324
Fixed Assets	19,732	--	102,261	121,993
Other Assets	273,170	--	132,574	405,744
Total Assets	$ 2,451,916	$ 169,158	$ 347,246	$ 2,968,320
Liabilities:				
Current Liabilities	$ 201,347	$ 13,274	$ 37,688	$ 252,309
Due to Primary Government	--	10	14,979	14,989
Future Benefits and Loss Liability	--	135,147	--	135,147
Other Liabilities	--	--	40,750	40.750
Bonds and Notes Payable	2,037,611	--	50,000	2,087,611
Total Liabilities	2,238,958	148,431	143,417	2,530,806
Equity:				
Retained Earnings	212,958	20,727	203,829	437,514
Total Equity	212,958	20,727	203,829	437,514
Total Liabilities and Equity	$ 2,451,916	$ 169,158	$ 347,246	$ 2,968,320
Condensed Statement of Revenues, Expenses and Changes in Retained Earnings				
Operating Revenues	$ 140,698	$ 14,596	$ 312,275	$ 467,569
Operating Expenses:				
Depreciation	648	--	17,040	17,688
Other	212,992	17,051	289,359	519,402
Operating Income (Loss)	(72,942)	(2,455)	5,876	(69.521)
Other Nonoperating Revenues (Expenses)	95,093	--	9,546	104,639
Net Income Before Extraordinary Item	22,151	(2,455)	15,422	35,118
Extraordinary Item	(35)	--	--	(35)
Net Income	22,116	(2,455)	15,422	35,083
Retained Earnings-Beginning of Year	190,842	23,181	188,408	402,431
Retained Earnings-End of Year	$ 212,958	$ 20,727	$ 203,830	$ 437,514

NOTE 10. INTERFUND ASSETS/LIABILITIES

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

A. Due from/to Other Funds:

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

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

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

(Continued)

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

(Continued)

Fund	Due from Other Funds	Due to Other Funds
Expendable Trust:		
Petroleum Violation	66	77
Unclaimed Property Program		10
Accumulated Sick Leave	48,134	
Special Death Benefits	217	
Employe Reimbursement Accounts	249	
Life Insurance	27	17
Common School Income		506
Unemployment Insurance Reserve	290	334
Children's Trust	3	
Nonexpendable:		
Common School	40	
Historical Society	3	57
State Housing Authority Reserve		16
Pension:		
Wisconsin Retirement System	242,808	115,833
Agency:		
Milwaukee Retirement Systems	20.868	2
Inmate and Resident	466	106
University of Wisconsin System	52,020	55,732
Total	$867,961	$867,961

B. Due to/from Component Units

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

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

C. Interfund Loans Receivable/Payable

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

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

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

(Continued)

Fund	Interfund Loans Receivable	Interfund Loans Payable
Expendable Trust:		
Deferred Compensation Plan	--	38
Total	$ 88,615	$ 88,615

D. Advances to/from Other Funds

Advances to/from Other Funds represent long-term loans to one fund from another fund. Advances at June 30, 1997 by individual fund were as follows (in thousands):

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

NOTE 11. INTERFUND TRANSFERS

A. Residual Equity Transfers

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

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

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

B. Operating Transfers

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

Fund	Operating Transfers In	Operating Transfers Out
General	$ 36,931	$ 1,586,429
Special Revenue:		
Transportation	20	20,105
Conservation	12,260	1,152
Wisconsin Elections Campaign	307	--
Employe Trust Funds Administration	--	180
Petroleum Inspection	8	1,809
Environmental	1,809	--
Recycling	404	7,034
Information Technology Investment	--	3,727
Property Tax Relief	257,756	--
Debt Service:		
Bond Security and Redemption	212,158	5,250
Transportation Revenue Bonds	790	--
Capital Projects:		
Building Trust	936	11
Capital Improvement	16,035	1,625
Transportation Revenue Bonds	--	790
Enterprise:		
State Fair Park	37	250
Home for Veterans	25	1,047
Mendota Mental Health Institute	19,489	79
Winnebago Mental Health Institute	15,221	73
Central Developmental Disabilities Center	432	935
Northern Developmental Disabilities Center	1	1,348
Southern Developmental Disabilities Center	--	1,054
Institutional Farm Operations	840	6
Institutional Canteen Operations	274	138
Lottery	--	13,389
State Life Insurance	--	829
Clean Water	16	--
Veterans Mortgage Loan Repayment	468	--
Wisconsin Public Broadcasting Foundation	--	4,292

(Continued)

Fund	Operating Transfers In	Operating Transfers Out
Internal Service:		
Services to Nonstate Governmental Units	148	--
Materials and Services to State Agencies	316	--
Printing and Other Services	250	--
State Telephone System	335	386
Financial Services	--	356
Facilities Operations and Maintenance	5,456	2,195
Information Technology Services	211	335
Institutional Power Plants	--	80
Central Warehouse	--	7
Badger State Industries	--	32
Expendable Trust:		
Petroleum Violation	--	1,630
Unclaimed Property Program	--	12,000
Nonexpendable Trust:		
Common School	12,000	--
Historical Society	--	73
Pension Trust:		
Wisconsin Retirement System	206,613	--
University of Wisconsin System	873,575	6,475
Total	$1,675,121	$ 1,675,121

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

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

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust
Fund Balances/Retained Earnings June 30, 1996 as previously reported	$ (918.513)	$ 284.136	$ 7.009	$ 88.336	$ 75.376	$ 7.007	$ 40,268.265
Inclusion of University of Wisconsin Hospitals and Clinics Authority in reporting entity as a component unit	--	--	--	--	--	--	--
Restatement of Pension Trust Fund's fund balance for Implementation of GASB Statement No 27 *Accounting for Pensions by State and Local Governmental Employers*	--	--	--	--	--	--	2.055,718
Restatement of the Wisconsin Housing and Economic Development Authority's retained earnings for implementation of GASB Statement No 31 *Accounting and Financial Reporting for Certain Investments* and *for External Investment Pools*	--	--	--	--	--	--	--
Restatement of Deferred Compensation Fund's fund balance for implementation of GASB Statement No 32 *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*	--	--	--	--	--	--	521.984
Restatement of State Life Insurance Fund's retained earnings for implementation of FASB Statement No. 120 *Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts*	--	--	--	--	(6.431)	--	--
Reclassifications of GAAP fund structure:							
State Nursery Operations	--	1.406	--	--	(514)	--	--
Wisconsin Natural Resources Magazine	--	99	--	--	(90)	--	--
Terminal Charges	(206)	--	--	--	--	435	--
Other Trusts	67	--	--	--	268	--	(335)
Restatement of Transportation Fund's fund balance based on further analysis of activity	--	14.472	--	--	--	--	--
Change in fixed assets capitalization dollar threshold from $1000 to $5000	--	--	--	--	(4.062)	(263)	--
Other adjustments of assets and liabilities as of June 30. 1996	(1,186)	--	3,569	5	1,606	(16)	--
Fund balances/retained earnings. July 1. 1996 as restated	$ (919,838)	$ 300,114	$ 10,579	$ 88,341	$ 66,152	$ 7,163	$ 42,845,632
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 1996	$ 3,307	$ 14,514	$ 3.569	$ 0	$ 783	$ (826)	$ 149.423

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

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

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

NOTE 13. FUND EQUITY

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

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types			
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust	University of Wisconsin System	Component Units	Total
Contributed Capital	$ --	$ --	$ --	$ --	$ 866,250	$23,045	$ --	$ --	$ --	$ 889,295
Retained Earnings:										
Reserved for:										
Future Benefits	--	--	--	--	7,047	--	--	--	3,620	10.667
Market Value Adjustments	--	--	--	--	56,494	--	--	--	--	56,494
Bonds	--	--	--	--	--	--	--	--	127.865	127,865
Donors for Operations	--	--	--	--	--	--	--	--	1,559	1,559
Unreserved	--	--	--	--	128,060	7,358	--	--	304,470	439,888
Fund Balances:										
Reserved for:										
Encumbrances	146,444	397,253	--	107,387	--	--	9,049	131,005	--	791,138
Inventory	12,270	16,612	--	--	--	--	--	43,325	--	72,207
Prepaid Items	140,260	9,853	--	--	--	--	2,625	13,756	--	166,494
Employe Benefits	--	--	--	--	--	--	37,419,529	--	--	37,419,529
Market Value Adjustments	--	--	--	--	--	--	10.364,582	--	--	10.364,582
Unemployment Compensation	--	--	--	--	--	--	1,666,068	--	--	1.666.068
Auxiliary Operations	--	--	--	--	--	--	--	78,976	--	78,976
Restricted Funds	--	--	--	--	--	--	--	15,322	--	15,322
Loan Funds	--	--	--	--	--	--	--	161.356	--	161,356
Endowment and Similar Funds	--	--	--	--	--	--	--	192,405	--	192,405
Plant Funds	--	--	--	--	--	--	--	2,586,184	--	2,586,184
Unreserved:										
Designated for University Contingent Fund	--	--	--	--	--	--	--	3.611	--	3,611
Undesignated	(1,771,729)	19,307	4,295	(209,347)	--	--	1,087,391	40,834	--	(829,249)
Total Fund Equity	$(1,472,755)	$443,026	$4,295	$(101,960)	$1,057,851	$30,403	$50,549,243	$3,266,775	$437,514	$54,214,392

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

A. Deficit Fund Balances/Retained Earnings:

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

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

B. Excess of Expenditures over Appropriations:

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

NOTE 15. CONTRIBUTED CAPITAL

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

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

NOTE 16. RETIREMENT PLAN

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

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

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

Plan Description

The WRS, governed by Chapter 40 of the Wisconsin Statutes, is a cost-sharing multiple-employer defined benefit pension plan It provides coverage to all eligible State of Wisconsin, local government and other public employes Any employe of a participating employer who is expected to work at least 600 hours per year for at least one year must be covered by the WRS As of December 31, 1996, the number of participating employers was:

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

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

Final average earnings is the average of the participant's three highest years' earnings Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required The formula factor is 2 0 percent for executives. elected officials and protective occupations with social security; 2 5 percent for protective occupations without social security; and 1 6 percent for all others

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

Accounting Policies and Plan Asset Matters

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

All assets of the WRS are invested by the State of Wisconsin Investment Board The retirement fund assets consist of shares in the variable retirement investment trust and the fixed retirement investment trust The variable retirement investment trust consists primarily of equity securities The fixed retirement investment trust is a balanced investment fund made up of fixed income securities and an investment in the variable retirement investment trust Shares in the fixed retirement investment trust and the variable retirement investment trust are purchased as funds are made available from retirement contributions and investment income, and sold as funds are needed for benefit payments and other expenses

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

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

State Contributions Required and Contributions Made

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

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

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

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

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

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

Employer Pension Costs

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

NOTE 17. OTHER POSTEMPLOYMENT BENEFITS

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

Post retirement life insurance is provided to employes retiring before age 65 if they (1) have 20 years of creditable service, and (2) are eligible for a retirement annuity. This coverage is at the employe's expense (employe must pay the full premium) until age 65 when reduced coverage is provided at no cost. Employes retiring at or after age 65 are immediately eligible for reduced coverage at no cost. Beginning in the month in which an insured annuitant reaches age 65, premiums are no longer collected and coverage is continued for life. Approximately 11,100 State annuitants currently qualify for coverage without premium. Post retirement life insurance is fully insured by an independent insurance carrier. Premiums are prefunded with employer paid premiums during the employe's active career. The amount of premiums is determined by the insurer. The accrued liability for the post retirement life insurance benefits at December 31, 1996, determined through an actuarial valuation performed as of that date, was $208.6 million. The program's assets on that date were $208.2 million. The unfunded liability was $0.4 million.

In accordance with Chapter 40, Wisconsin Statutes, the State also provides that employes retiring and beginning an immediate annuity are eligible for conversion of unused sick leave to post retirement health insurance. At the time of eligibility for an immediate annuity or employe's death, that employe's accumulated unused sick leave balance may be converted at the employe's current rate of pay to credits for the payment of health insurance premiums for the employe or the employe's surviving dependents. The program also provides partial matching of sick leave accumulation depending on years of service and employment category. Health insurance premiums are paid on the employe, or employe's dependents behalf, until the sick leave conversion credits are exhausted. At that time, the employe has the option to continue coverage by paying the total cost of the premiums. Approximately 6,900 annuitants are currently receiving health insurance coverage through sick leave conversion credits. Accumulated sick leave conversion is prefunded based on an actuarially determined percentage of payroll. The actuarial valuation is based on the entry age actuarial cost method.

Significant actuarial assumptions include an 8 percent assumed interest rate, 5.3 percent assumed annual salary growth, and an average sick leave accumulation of 5.7 days per year for non-University employes and 7.3 days per year for University employes. The assets and reserves of the sick leave conversion program are accounted for as an expendable trust fund. The accrued liability for the post retirement health insurance benefits at December 31, 1996, determined through an actuarial valuation performed on that date, was $910.9 million. The program's assets on that date were $283.3 million. The unfunded liability was $627.6 million.

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

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

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

The Department of Employe Trust Funds operates four public entity risk pools: group health insurance, group income continuation insurance, protective occupation duty disability insurance and long term disability insurance The information provided in this note applies to the period ending December 31, 1996

A. Description of Funds

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

The Income Continuation Insurance Fund offers disability wage continuation insurance for current employes of the State government and of participating local public employers All public employers in the State are eligible to participate. Seventy-five local employers plus the State currently participate. The State and local government portions of the fund are accounted for separately and have separate contribution rates, benefits, and actuarial valuations. As a result of favorable investment experience and actuarial gains, the State Income Continuation Insurance program accumulated sufficient assets to allow the suspension of premiums in April 1988. Premium collection resumed in August 1996. The plan is self-insured.

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

The Long Term Disability Insurance Fund offers long term disability benefits to participants in the Wisconsin Retirement System (WRS). The long term disability benefits provided by this program are an alternative coverage to that currently provided by the WRS. All new WRS participants on or after October 15, 1992, are eligible only for the long term disability insurance coverage, while participating employes active prior to October 1, 1992, may elect coverage through WRS or the long term disability insurance program.

B. Accounting Policies for Risk Pools

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

Valuation of Investments - Assets of the Health Insurance Fund are invested in the State Investment Fund Investments are valued at amortized cost, which approximates market value

Assets of the Income Continuation Insurance, Duty Disability and Long Term Disability Insurance funds are invested in the fixed retirement investment trust Investments are valued at current market.

Unpaid Claims Liabilities - Claims liabilities are based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The estimate includes the effects of inflation and other societal and economic factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. Unpaid claims liability is presented at face value and is not discounted for health insurance. It is discounted using interest rates of 8 percent for income continuation and long-term disability insurance, and 5 percent for duty disability insurance. The unpaid claims liability for health insurance was calculated by the State. The liabilities for income continuation, long-term disability, and duty disability insurance were determined by actuarial methods. Face values are not available.

In developing the Duty Disability unpaid claims liabilities and the corresponding contribution rates necessary to fund the liabilities, the actuarial assumption for mortality was changed from healthy life twelve years older to a three year set forward with mortality multipliers of 98 percent for males and 97 percent for females. As a result of this change, the December 31, 1996 estimated incurred liability increased by $19.1 million The Fund's accounting deficit is being amortized over a twenty-seven year period beginning January 1, 1997

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

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

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

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

C. Unpaid Claims Liabilities

As discussed in Section B of this Note, each fund establishes a liability for both reported and unreported insured events, which is an estimate of future payments of losses The following represents changes in those aggregate liabilities for the nonreinsured portion of each fund during Calendar Year 1996 (in millions):

	Health Insurance		Income Continuation Insurance		Duty Disability		Long-term Disability Insurance	
	1995	1996	1995	1996	1995	1996	1995	1996
Unpaid claims at beginning of the calendar year	$11.1	$12.3	$39.5	$41.0	$135.5	$145.6	$4.3	$ 8.4
Incurred claims:								
Provision for insured events of the current calendar year	65 8	54 9	19 4	18 7	4.8	15 5	5 4	4.5
Changes in provision for insured events of prior calendar years	0.6	(1.1)	(10.9)	(9.5)	18.1	39.8	(0.6)	(0.7)
Total incurred claims	66.4	53.8	8.5	9.2	22.9	55.3	4.8	3.8
Payments:								
Claims and claim adjustment expenses attributable to insured events of the current year	53.6	46.1	2 7	2 4	0.0	0 1	0 1	0.1
Claims and claim adjustment expenses attributable to insured events of prior calendar years	11.6	10.9	4.3	5.3	12.8	13.4	0.6	1.3
Total Payments	65.2	57.0	7.0	7.7	12.8	13.5	0.7	1.4
Total unpaid claims expenses at end of the calendar year	$12.3	$ 9.1	$41.0	$42.5	$145.6	$187.4	$8.4	$10.8

D. Trend Information

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

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

NOTE 19. SELF-INSURANCE

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

State Property Damage

Property damages to State-owned properties are covered by the State self-funded property program up to $2 5 million in an annual aggregate Insurance is purchased for losses in excess of this amount The excess limits were written to $200 million during Fiscal Year 1997

The liabilities for State property damage are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated The estimate for future benefits and loss liabilities is based on the reserves on open claims and paid claims Losses incurred but not reported are expected to be immaterial Claims incurred but not paid as of June 30, 1997 are estimated to total $4 4 million This amount, less $2 3 million of which the State will be reimbursed through excess insurance coverage, is reported as future benefits and loss liabilities.

Property Damages and Bodily Injuries to Third Parties

The State is self-funded for third party liability to a level of $2 million per occurrence and purchases insurance in excess of this self-funded retention The policy limit during Fiscal Year 1997 was $50 million

The liabilities for property damages and injuries to third parties are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated The estimate for future benefits and loss liabilities for the prior fiscal year was the reserves on open claims The estimate for future benefits and loss liabilities is calculated by an actuary based on the reserves on open claims and prior experience No liability is reported for environmental impairment liability claims incurred but not reported because prior experience is insufficient to make a reasonable estimate Because actual claims liabilities depend upon complex factors such as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount Claims incurred but not paid as of June 30, 1997 are estimated to total $36 0 million

Worker's Compensation

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

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

For the prior fiscal year, the estimate for future benefits and loss liabilities was determined by developing the prior paid claims to the ultimate expected costs by using insurance industry loss development factors The worker's compensation liability has been determined by an actuary using paid claims and current claims reserves Liabilities include an amount for claims that have been incurred but not reported Because actual claims liabilities are affected by external factors, the process used in computing claims liabilities does not necessarily result in an exact amount Claims incurred but not paid as of June 30, 1997 are estimated to total $37 2 million

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

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

Annuity Contracts

The Risk Management Fund purchased annuity contracts in various claimants' names to satisfy claim liabilities The likelihood that the fund will be required to make future payments on those claims is remote and, therefore, the fund is considered to have satisfied its primary liability to the claimants Accordingly, the annuity contracts are not reported in, and the related liabilities are removed from, the fund's balance sheet The aggregate outstanding amount of liabilities removed from the financial statements at June 30, 1997 is $ 2 2 million

NOTE 20. INSURANCE FUNDS

A. Local Government Property Insurance Fund

Created by the Legislature in 1911, the purpose of the Local Government Property Insurance Fund is to provide property insurance coverage to tax-supported local government units such as counties, towns, villages, cities, school districts and library boards. Property insured includes government buildings, schools, libraries and motor vehicles. Coverage is available on an optional basis. As of June 30, 1997, the Local Government Property Insurance Fund insured 1,099 local governmental units. The total amount of insurance in force as of June 30, 1997 was $19.4 billion.

Valuation of Cash Equivalents and Investments - All investments of the Local Government Property Insurance Fund are managed by the State of Wisconsin Investment Board, as discussed in Note 3-B to the financial statements. At June 30, 1997, the fund had $16.7 million of shares in the State Investment Fund which are considered cash equivalents and $ 3 million of high grade, long-term, fixed income obligations. Fixed income obligations are valued at amortized cost.

Premium - Unearned premium reported as deferred revenue represents the daily pro rata portion of premium written which is applicable to the unexpired terms of the insurance policies in force. Policies are generally written for annual terms.

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

Policy Acquisition Costs - Since the Local Government Property Insurance Fund has no marketing staff and incurs no sales commissions, acquisition costs are minimal and charged to operations as incurred.

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

Reinsurance - The Local Government Property Insurance Fund uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the fund as direct insurer of the risks reinsured. The fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. As of June 30, 1997 the fund had $200 million of per occurrence excess of loss reinsurance in force with a $500 thousand combined single limit retention for each occurrence, and an annual aggregate reinsurance contract with a $6 million annual aggregate retention plus a per claim retention of $10 thousand once the aggregate is met, as respects occurrences for the term of the agreement. Premium ceded to reinsurers during the fiscal year amounted to $1.9 million on a written basis and $1.7 million on an earned basis. The amount deducted from the unpaid claim liability as of June 30, 1997 for reinsurance was $1.0 million.

Unpaid Claims Liabilities

As discussed above, the Local Government Property Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities for the fund during the past two fiscal years (in thousands):

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

Trend Information

Historical trend information showing revenue and claims development information is presented in the Office of the Commissioner of Insurance June 30, 1997 financial statements Copies of these statements may be requested from:

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

B. State Life Insurance Fund

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

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

The costs of policy issuance and underwriting, all of which vary with, and are primarily related to, the production of new business, have been deferred These deferred acquisition costs are being amortized over a thirty year period. This period approximates the aggregate premium paying period The amortization is in proportion to the ratio of the annual premium revenue to the total premium revenue anticipated Such anticipated premium revenue was estimated using similar assumptions to those used for computing liabilities for future policy benefits

Deferred Acquisition Cost Assumptions

Issue Years	Interest Rate	Lapse Rate	Mortality
1913-1966	3 0%	2 0%	None
1967-1976	3 0	2 0	None
1977-1985	4 0	2 0	None
1986-1994	5 0	2 0	None
1995+	4 0	2 0	None

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

Future benefits and loss liabilities have been computed by the net level premium method based upon estimated future investment yield, mortality and withdrawals The composition of liabilities and the more material assumptions pertinent thereto are presented below (in thousands):

Issue Year	Ordinary Life Insurance in Force	Amount of Policy Liability
1913-1966	$ 17,058	$ 9,516
1967-1976	46,673	13,928
1977-1985	93,194	16,763
1986-1994	58,483	3,673
1995+	14,062	623
	$ 229,470	$ 44,503

Bases of Assumptions

Issue Year	Interest Rate	Mortality
1913-1966	3 0%	American Experience. ALB*
1967-1976	3 0	1958 CSO, ALB, Unisex
1977-1985	4 0	1958 CSO, ALB, Female Setback 3 years
1986-1994	5 0	1980 CSO, ALB. Aggregate
1995+	4 0	1980 CSO, ALB, Aggregate

* Age Last Birthday

All of the State Life Insurance Fund's ordinary life insurance in force is participating This fund is required by statute to maintain surplus at a level between 7 percent and 10 percent of statutory admitted assets as far as practicably possible. All excess surplus is to be returned to the policyholders in the form of policyholder dividends Policyholder dividends are declared each year in order to achieve the required level of surplus

The statutory assets at December 31, 1996 were $63 9 million and the statutory capital and surplus were $6 2 million, and the capital and surplus at June 30, 1997 was $7 5 million

C. Patients Compensation Fund

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

The Future Benefits and Loss Liability Account includes individual case estimates for reported losses and estimates for incurred but not reported losses based upon the projected ultimate losses Individual case estimates of the liability for reported losses and net losses paid from inception of the Patients Compensation Fund are deducted from the projected ultimate loss liabilities to determine the liability for incurred but not reported losses as of June 30, 1997 as follows (in thousands):

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

The Future Benefits and Loss Liability Account also includes a provision for the estimated future payment of the costs to settle claims These ultimate loss adjustment expenses as of June 30, 1997 are estimated at four percent of the projected ultimate loss liabilities The loss reserves are actuarially determined The loss adjustment expenses paid from the inception of the Patients Compensation Fund are deducted from the projected ultimate loss adjustment expenses provision to determine the liability for loss adjustment expenses as of June 30, 1997 as follows (in thousands):

Projected ultimate loss adjustment expense liability	$	38.121
Less: Loss adjustment expense paid from inception		(16,894)
Liability for loss adjustment expense	$	21,227

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

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

D. Health Insurance Risk Sharing Plan

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

The financial statements of the Health Insurance Risk Sharing Plan Fund are prepared in conformity with accounting practices prescribed or permitted by the regulatory agency, the State's Office of the Commissioner of Insurance Premiums are recognized as revenues ratably over the terms of the policies Unearned premiums are computed on the pro rata basis Policy acquisition costs are expensed as incurred Assessments made to participating insurers are recognized as earned as loss claims and administrative expenses are incurred At June 30, the excess of claims and administrative expenses incurred are calculated and compared to premium revenues earned The excess of claims and administrative expenses incurred over premium and investment revenues determines the amount of assessments needed to fund the plan Under Wisconsin statutes, each participating insurer shall share in the operating and administrative expenses of the plan Any deficit incurred by the plan shall be recouped by assessments apportioned among participating insurers based on a formula defined in the statutes

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

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

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

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

E. Wisconsin Health Care Liability Insurance Plan

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

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

Since the inception of the Plan in 1975, the health care liability coverage limits have increased from $200 thousand per occurrence and $600 thousand annual aggregate to the current limits of $400 thousand per occurrence and $1 0 million annual aggregate effective July 1, 1988 A general liability coverage is also available to participating health care providers with limits of $1.0 million per occurrence and $3 0 million annual aggregate effective July 1, 1990 The Plan is not covered under any reinsurance contracts

In the event that sufficient funds are not available for the sound financial operation of the Plan, all members shall, on a temporary basis, contribute to the financial needs of the Plan Members shall participate in the contributions in the proportion of their respective premiums to the aggregate premiums written by all members of the Plan Such assessments shall be recouped by rate increases applied prospectively There were no assessments for the year ended December 31, 1996

The future benefits and loss liability includes amounts determined from individual reported losses (case reserves) and an amount, based on past experience, for losses incurred but not reported Such liabilities are necessarily based on estimates and, while management believes that the amounts are adequate, the ultimate liability will differ from the amounts provided The methods for making such estimates and for establishing the resulting liability are annually reviewed, and any adjustments are reflected in income currently Specific account balances as of December 31, 1995 and December 31, 1996, are as follows (in thousands):

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

NOTE 21. LITIGATION, CONTINGENCIES AND COMMITMENTS

A. Litigation and Contingencies

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

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

The State accrues liabilities related to legal proceedings, if a loss is probable and reasonably estimable. Such losses, totaling $5.4 million on June 30, 1997 and reported in the General Long-term Debt Account Group, are discussed below:

Litigation – Domestic Mutual Insurance Companies This case involves the question of whether Heritage Mutual Insurance Company and all other domestic mutual insurance companies are statutorily entitled to reduce the amount of their previously required add backs of federally exempt interest and dividend income solely as a result of the newly-enacted fifteen percent federal reduction in the deduction for losses incurred under the Tax Reform Act of 1986 The Court of Appeals ruled against the State in February, 1997 A liability of $2.0 million is reported in the General Long-term Debt Account Group at June 30. 1997

Other Litigation - The Department of Health and Family Services, formerly the Department of Health and Social Services. is involved in other various legal proceedings where the ultimate disposition is estimated at $1.0 million which is reported in the General Long-term Debt Account Group.

Other Claims - Work Injury Supplemental Benefits - The Work Injury Supplemental Benefit Fund, administered by the Department of Workforce Development, formerly the Department of Industry, Labor and Human Relations, provides compensatory payments to survivors of fatally injured employes or disabled employes with work-related injuries The liability for annuities to be paid to the above individuals totaled $2.5 million at June 30, 1997, and is reported in the General Long-term Debt Account Group.

Tax Refunds Reported in the General Fund

Federal Pension Income - Due to an adverse decision in Hogan et al v. Wisconsin Department of Revenue, settlement has been reached with approximately 3,200 military retirees and 14,000 federal civilian retirees for refunds of State income taxes, with interest. for the period 1984 through 1988 Hogan relied on the United States Supreme Court ruling in *Davis v. Michigan Department of the Treasury* that state governments may not discriminate against federal retirees in the taxation of their retirement benefits based on the source of such payments The Wisconsin Department of Revenue estimated that the amount to be paid by the State totaled $77.4 million as of June 30, 1993 Payments of $10.1 million, $28.4 million. $26.2 million and $3.0 million were made in Fiscal Year 1994, Fiscal Year 1995. Fiscal Year 1996, and Fiscal Year 1997. respectively. Subsequent payments will be made in Fiscal Year 1998 The liability of $9.0 million as of June 30. 1997 is reported in the General Fund as Tax Refunds Payable

Corporate Tax Apportionment Methodology - Due to a Wisconsin Tax Appeals Commission (the Commission) ruling in NCR Corporation v. Wisconsin Department of Revenue, settlement has been reached for refunds of State corporate income taxes, with interest The Commission ruled that the method used by the State for apportioning taxable income to Wisconsin by multi-state corporations was unconstitutional The Wisconsin Department of Revenue estimated that the amount to be paid by the State totals $7.7 million, which is reported in the General Fund as Tax Refunds Payable and a reduction in tax revenue.

Computer Software - This is a sales tax case, brought on by *Manpower International against the Wisconsin Department of Revenue*, with the issue being whether or not computer software is tangible personal property, subjecting it to the State's sales and use tax Both the Wisconsin Tax Appeals Commission and the Circuit Court ruled that it was not tangible personal property The Court of Appeals. District IV affirmed the ruling in August, 1996. The Supreme Court denied review in December, 1996 The Wisconsin Department of Revenue estimated that the amount to be paid by the State is $11.6 million, which is reported in the General Fund as Tax Refunds Payable and a reduction in tax revenue

Special Performance Dividend Reported in the General Fund

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

In prior years the actuarial calculation of the estimated cost of the settlement had been reported in the General Long-term Debt Account Group However, because of Order and Judgment entered by the Circuit Court, the $215.0 million is reported as a liability in the General Fund In Fiscal Year 1997, an operating transfer out and a corresponding operating transfer in of $206 6 million are reported in the General Fund and the WRS, respectively

Other Claims, Judgments, and Contingencies

The State is also named as a party in other legal proceedings where the ultimate disposition and consequence are not presently determinable However, the ultimate dispositions and consequences of any single legal proceeding or all legal proceedings collectively should not have a material adverse effect on the State's financial position, except as noted below

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

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

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

Currently, the State has petitioned the U S Supreme Court to review by writ of certiorari Although at this time it is premature to estimate the potential impact of an unfavorable decision, a preliminary estimate indicates that the liability to the State could be approximately $4 3 million for all funds, $1 3 million for the Risk Management Fund and $3 0 million for the General Fund and other funds Due to the uncertainty in predicting the outcome and the amount of the settlement, a liability has not been recorded as of June 30, 1997

Wisconsin Central Ltd v Wisconsin Department of Revenue, et al (1989-1993); Wisconsin Central Ltd., and Fox Valley & Western Ltd v Wisconsin Department of Revenue (1994) and Wisconsin Central Ltd and Fox Valley & Western Ltd v Wisconsin Department of Revenue (1995) - These are court actions in which 14 railroads are challenging the Wisconsin Department of Revenue's assessment of taxes for the 1989 through 1993 tax years The Wisconsin Department of Revenue issued assessments on previously untaxed personal property of railroads based on a 1994 U S Supreme Court decision favorable to states under the Federal Railroad Revitalization and Regulatory Reform Act (4-R Act) The railroads allege that the reassessment violates State and Federal statutory and constitutional provisions In addition, the railroads are challenging a portion of their 1994 and 1995 assessments under the 4-R Act

The State has prevailed in the federal court actions, both of which were sustained on appeal The State has prevailed on a number of preliminary issues in the State court actions If the State were not to prevail, a preliminary estimate indicates that refunds of approximately $14 0 million would have to be paid to the claimants Due to the uncertainty in predicting the outcome, a liability has not been recorded as of June 30, 1997

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

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

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

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

Environmental Clean-up Actions - The State is involved in environmental clean-up of property owned by the State that has the potential to cause soil and groundwater contamination One hundred forty-eight sites have soil and/or groundwater contamination associated with underground storage tank releases with an estimated remediation cost of $7 7 million The cost of remediation has not been determined for approximately 96 storage tanks installed prior to the enactment of the new underground storage tank regulations which remain in service The estimated cost of removing the tanks is $1 6 million

The State is also involved in environmental remediations on 17 properties that do not involve releases from underground storage tanks, with an estimated cost of $3 4 million

B. Commitments

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

In addition to the amount of encumbrances outstanding at June 30. 1997 reported as Fund Balance - Reserved for Encumbrances. additional obligations at June 30. 1997 representing multi-year. long-term commitments included (in thousands):

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

The Clean Water Fund was established to administer the Clean Water Fund Loan Program Loans are made to local units of government for wastewater treatment projects for terms of up to 20 years These loans are made at a number of prescribed interest rates based on environmental priority The loans contractually are revenue obligations or general obligations of the local governmental unit Additionally, various statutory provisions exist which provide further security for payment The fund has made financial assistance commitments of $134 0 million as of June 30, 1997 These loan commitments are expected to be met through additional federal grants and proceeds from issuance of revenue obligations

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

Also, Wisconsin Statutes require that the Clean Water Fund provide financial hardship assistance for those communities that qualify under Wis Stat Sec 144 241(13) This assistance may come in the form of reduced interest rates or grants (not to exceed 90 percent of project costs). At fiscal year ended June 30. 1997, the Clean Water Fund committed to award $6 3 million of hardship grants

The Wisconsin Housing and Economic Development Authority's mission was expanded since its creation to include administration of the Agricultural and Business Programs These programs administer funds that are legislatively appropriated to subsidize interest and provide guarantees of principal balances of qualifying loans At June 30, 1997, outstanding loan guarantees totaled $36 2 million

The *Patients Compensation Fund* may be required to purchase an annuity as a result of a claim settlement Under specific annuity arrangements, the fund may have ultimate responsibility for annuity payments if the annuity company and the reassignment company default on annuity payments One of the fund's annuity providers has defaulted on $65 thousand in annuity payments, which the fund subsequently paid The total estimated replacement value of the fund's annuities as of June 30, 1997 was $112 6 million The fund reserves the right to pursue collection from State guarantee funds

State Public Deposit Guarantee - As required by Wis Stat Sec 34 08, the State is to make payments to public depositors for proofs of loss (e g , loss resulting from a bank failure) up to $400 thousand per depositor above the amount of federal insurance This statutory requirement guarantees that the State will make payments in favor of the public depositor that has submitted a proof of loss Payments would be made in the order in which satisfactory proofs of loss are received by the State's Commissioner of Banking, until the designated appropriation is exhausted At June 30. 1997, the appropriation available totaled $22 9 million Losses become fixed as of the date of the loss A public depositor experiencing a loss must assign its interest in the deposit, to the extent of the amount paid, to the Commissioner of Banking Any recovery made by the Commissioner of Banking under the assignment is to be repaid to the appropriation The possibility of a material loss resulting from payments to and recovery from public depositors is remote

NOTE 22. SUBSEQUENT EVENTS

Bonds and Notes

Primary Government

Short-term Debt

Operating Notes – On July 1, 1997 the state issued $300 0 million of operating notes, and on November 12, 1997, the State issued an additional $150 0 million of operating notes The proceeds of the notes were to be used within six months to fund local assistance payments to the State's municipalities and school districts, and finance day-to-day operations in anticipation of revenues received later in the fiscal year The notes were issued because of an imbalance between the timing of payments disbursed and receipts collected The imbalance exists because receipts are received in the second half of the fiscal year, primarily January, March and April The notes will be paid at maturity on June 15, 1998

On June 25, 1997, the State of Wisconsin Building Commission resolved to sell $82 7 million of General Obligation Commercial Paper Notes to acquire, construct, develop, extend, enlarge, or improve land, waters, property, highways, buildings, equipment, or facilities In July 1997, the State sold $25 0 million of the amounts so authorized The Notes will mature no later than 270 days from the date of issuance

Long-term Debt

State of Wisconsin General Obligation Bonds - In July 1997, the State issued $101 0 million of 1997 Series B general obligation bonds to provide proceeds to be used for the acquisition, construction, development, extension, enlargement, or improvement of land, water, property, highways, buildings, equipment or facilities for public purposes Interest is payable on May 1 and November 1, commencing on May 1, 1998, with the bonds maturing on May 1 of the years 1999 through 2018

In September 1997, the State issued $45 0 million of the 1997 Series D general obligation bonds to provide proceeds to be used for making veterans housing loans Interest is payable on May 1 and November 1, commencing on May 1, 1998 with the bonds maturing on May 1 of the years 1999 through 2012 In addition, term bonds mature on November 1, 2017 and 2028

In September 1997, the State issued $45 0 million of 1997 Series C general obligation bonds to provide proceeds to be used for making veterans housing loans Interest is payable on May 1 and November 1 commencing on May 1, 1998 The bonds mature on November 1 of the years 2000 through 2013 In addition, term bonds mature on November 1, 2017, 2023, and 2026

In October 1997, the State issued $5 0 million of general obligation bonds to provide proceeds to be used by the Clean Water Fund in its loan credit reserve account for the Fund's revenue bond program

Component Unit

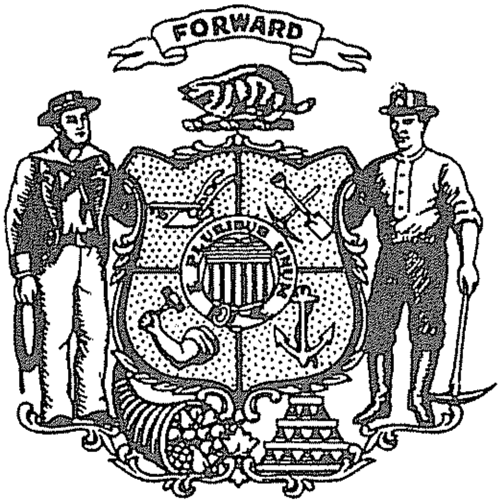
Wisconsin Housing and Economic Development Authority – In 1997 the Authority redeemed early $28 5 million of Home Ownership Revenue Bonds and Business Development Revenue Bonds as follows:

Home Ownership Revenue Bonds:
- July redemptions: $4 5 million – includes $2 7 million taxable Home Ownership Revenue Bonds
- September redemptions: $23 0 million – includes $150 0 thousand taxable Home Ownership Revenue Bonds

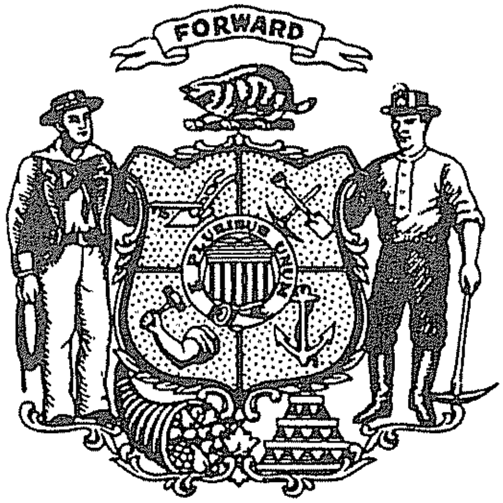
Business Development Revenue Bonds:

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

Further, in December 1997, the Authority issued an additional $75 0 million of Home Ownership Revenue Bonds Series G, H and I


FORWARD

Statement of Plan Net Assets
Pension Trust Fund


FORWARD
PLURIBUS UNUM

Statement of Plan Net Assets - Pension Trust Fund
June 30, 1997

(In Thousands)

	Wisconsin Retirement System
Assets	
Cash and Cash Equivalents	$ 1,819,270
Securities Lending Collateral	2,678,622
Prepaid Items	423
Receivables (net of estimated uncollectible accounts):	
Prior Service Contributions Receivable	2,090,431
Benefits Overpayment Receivable	1,117
Due from Other Funds	242,808
Due from Other Governments	90,950
Interest and Dividends Receivable	243,995
Investment Sales Receivable	307,992
Other Receivables	5,005
Total Receivables	2,982,297
Investments:	
Bonds	9,742,806
Private Placements	2,735,648
Stocks	28,607,995
Options	50,388
Limited Partnerships	1,702,559
Mortgages	135,843
Real Estate	468,552
Other Investments	167
Total Investments	43,443,960
Total Assets	50,924,572
Liabilities	
Accounts Payable	14,868
Securities Lending Collateral Liability	2,678,622
Annuities Payable	102,837
Advance Contributions	437
Due to Other Funds	115,833
Due to Other Governments	219
Tax and Other Deposits	33
Investment Payable	302,163
Total Liabilities	3,215,012
Fund Balance	
Fund Balance Reserved for Pension Benefits	$ 47,709,559

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PART III

GENERAL OBLIGATIONS

This part of the Annual Report includes information regarding general obligations issued by the State of Wisconsin. Chapter 18 of the Wisconsin Statutes provides that the State of Wisconsin Building Commission (the "Commission") has supervision over all matters relating to the issuance by the State of general obligations. Employes of the Division of Executive Budget and Finance serve as the Capital Finance Director and staff responsible for managing the State's general obligation and operating note programs.

The law firm of Foley & Lardner provides bond counsel services to the State for issuance of general obligations. The State has issued general obligations in the form of bonds, notes and commercial paper notes. The State has rarely employed a financial advisor for the issuance of general obligations, except for advance refunding issues. There are different registrars and paying agents for general obligations issued in certificated form. The State Treasurer is the registrar and paying agent for general obligations issued in book-entry-only form.

This Annual Report includes information and defined terms for different types of municipal securities issued by the State and has been gathered from multiple sources. The context or meaning of terms used in this part of the Annual Report may differ from that of terms used in another part.

SECURITY PROVISIONS FOR GENERAL OBLIGATIONS

Security

The State Constitution contains the following provision in Article VIII, Section 7(2)(f) about general obligations, which are public debt for purposes of the State Constitution and Statutes:

> *"The full faith, credit and taxing power of the state are pledged to the payment of all public debt created on behalf of the state pursuant to this section and the legislature shall provide by appropriation for the payment of the interest upon and installments of principal of all such public debt as the same falls due, but, in any event, suit may be brought against the state to compel such payment."*

In addition, statutory provisions establish additional protections and provide for the repayment of all general obligations. The more significant provisions are summarized below:

> *Section 18.12* restates the constitutional full-faith-and-credit pledge and states that there is irrevocably appropriated, as a first charge upon all revenues of the State, an amount sufficient for the payment of principal, interest and premium on all general obligations when due.
>
> *Section 20.866* irrevocably appropriates, as a first charge upon all revenues of the State, an amount sufficient to pay debt service on general obligation bonds.
>
> *Section 18.09* creates a Bond Security and Redemption Fund, which shall receive the funds appropriated to repay principal, interest and premium on general obligation bonds when due.
>
> *Section 18.08* provides that the Capital Improvement Fund shall receive the funds appropriated to repay principal and interest on general obligation notes and loans.
>
> *Section 18.14,* among other things, provides that the validity of general obligations shall not be affected by any defect in their contracting, that all instruments evidencing general obligations are valid and incontestable, and that any legislative, judicial or administrative

determination that proceeds of general obligations may not be spent shall not affect their validity.

Through the foregoing provisions, taken together, the Legislature has placed as security for the payment of all debt service on general obligations, a first claim on all revenues of the State. Further, these revenues are irrevocably appropriated, so that no subsequent legislative action is required to release the funds.

The State has never defaulted in the punctual payment of principal or interest on any general obligation bond or note and has never attempted to prevent or delay such required payments. The State has reserved no right to reduce or modify any terms with respect to security or source of payment of its general obligation bonds or notes.

In the event of default, recourse is guaranteed by constitutional provision allowing suit to be brought against the State to compel payment. Section 18.13 of the Statutes makes additional provision to expedite the bringing of suit. Further, in the event of a final judgment against the State, payment will be made as specifically provided, together with interest at a rate of 10% per annum until the date of payment.

Section 18.10(10) of the Statutes provides that interest ceases to accrue on the date that a general obligation becomes due for payment when payment is made or duly provided for. On that date the general obligation is no longer outstanding. If the holder of any general obligation, including any interest and premium thereon, fails to present that general obligation for payment, the unpaid unclaimed moneys shall be administered pursuant to the unclaimed property statutory provisions.

Flow of Funds to Pay Debt Service on General Obligations

All funds necessary for timely payment of principal and interest coming due on general obligation bonds ("Debt Service") are deposited in the Bond Security and Redemption Fund at least 15 days in advance of the due date, except when an impoundment payment required in connection with operating notes is payable within the 45 days preceding the due date for payment of Debt Service, then Debt Service payments will be deposited in the Bond Security and Redemption Fund at least 45 days in advance of the due date. The sources of the revenue used to make these payments are as follows:

Purpose	Sources of Revenues
University of Wisconsin; academic facilities Natural resources; municipal clean drinking water grants Clean water fund program Safe drinking water loan program Natural resources; nonpoint source grants Natural resources; nonpoint source compliance Natural resources; environmental repair Natural resources; pollution abatement and sewage collection facilities, ORAP funding Natural resources; pollution abatement and sewage collection facilities Natural resources; pollution abatement and sewage collection facilities; combined sewer overflow Natural resources; recreation projects Natural resources; local parks land acquisition and development Natural resources; recreation development Natural resources; land acquisition Natural resources; Wisconsin natural areas heritage program	There is an unlimited appropriation from the State's General Fund for the timely payment of principal and interest.

Purpose	Sources of Revenues
Natural resources; general fund supported administrative facilities Natural resources; ice age trail Natural resources; dam maintenance, repair, modification, abandonment and removal Natural resources; Warren Knowles–Gaylord Nelson stewardship program Transportation; rail passenger route development Corrections; correctional facilities Corrections; juvenile correctional facilities Health and family services; mental health and secure treatment facilities Agriculture; soil and water Administration; Black Point Estate Building commission; housing state departments and agencies Building commission; 1 West Wilson street parking ramp Building commission; project contingencies Building commission; capital equipment acquisition Medical College of Wisconsin, Inc.; basic science education facility Technology for educational achievement in Wisconsin board; school district educational technology infrastructure loans Technology for educational achievement in Wisconsin board; public library educational technology infrastructure loans Educational communications board; educational communications facilities Historical society; historic records Historical society; historic sites Historical society; museum facility Public instruction; state schools and library facilities Military affairs; armories and military facilities Veterans affairs; veterans facilities State fair park board; board facilities State fair park board; housing facilities	
Natural resources; environmental segregated fund supported administrative facilities	There is an unlimited appropriation from the Environmental Fund. Should this fund be insufficient, there is a backup appropriation from the State's General Fund in an unlimited amount of funds needed for timely payment of principal and interest.
Natural resources; segregated revenue supported facilities Natural resources; segregated revenue supported land acquisition Natural resources; segregated revenue supported dam maintenance, repair, modification, abandonment and removal	There is an unlimited appropriation from the Conservation Fund. Should this fund be insufficient, there is a backup appropriation from the State's General Fund in an unlimited amount of funds needed for timely payment of principal and interest.
Transportation; administrative facilities Transportation; accelerated bridge improvements Transportation; accelerated highway improvements Transportation; connecting highway improvements Transportation; federally aided highway facilities Transportation; highway projects Transportation; harbor improvements Transportation; rail acquisitions and improvements	There is an unlimited appropriation from the Transportation Fund. Should this fund be insufficient, there is a backup appropriation from the State's General Fund in an unlimited amount of funds needed for timely payment of principal and interest

Purpose	Sources of Revenues
University of Wisconsin; self-amortizing facilities	There is an unlimited appropriation and first claim on all revenues generated from the enterprise operations of the entire University system. Should these revenues be insufficient, there is a backup appropriation from the State's General Fund to advance an unlimited amount of funds needed for timely payment of principal and interest
Corrections; self-amortizing facilities and equipment	There is an unlimited appropriation and first claim on all revenues generated from the prison industries operation. Should these revenues be insufficient, there is a backup appropriation from the State's General Fund to advance an unlimited amount of funds needed for timely payment of principal and interest.
Historical society; self-amortizing facilities	There is an unlimited appropriation and first claim on all revenues generated from admissions, sales and other receipts by each historic site. Should these revenues be insufficient, there is a backup appropriation from the State's General Fund to advance an unlimited amount of funds needed for timely payment of principal and interest
Veterans affairs; self-amortizing mortgage loans	There is an unlimited appropriation and first claim on all revenues received from monthly mortgage payments. Should these revenues be insufficient, there is a backup appropriation from the State's General Fund to advance an unlimited amount of funds needed for timely payment of principal and interest.
Veterans affairs; self-amortizing housing facilities	There is an unlimited appropriation on all revenues received for providing housing services at the Wisconsin Veterans Home at King. Should these revenues be insufficient, there is a backup appropriation from the State's General Fund to advance an unlimited amount of funds needed for timely payment of principal and interest
State fair park board; self-amortizing facilities	There is an unlimited appropriation and first claim on all revenues generated in the operation of the Wisconsin State Fair. Should these revenues be insufficient, there is a backup appropriation from the State's General Fund to advance an unlimited amount of funds needed for timely payment of principal and interest.
Building commission; refunding corporation self-amortizing debt Building commission; refunding tax supported general obligation debt Building commission; refunding self-amortizing general obligation debt	There is an unlimited appropriation from the Capital Improvement Fund for the timely payment of principal and interest. Should these revenues be insufficient, there is a backup appropriation from the State's General Fund in an unlimited amount of funds for timely payment of principal and interest.

Funds for the payment of debt service on general obligation notes are deposited in a separate and distinct account created in the Capital Improvement Fund for the repayment of notes. Proceeds of issues of general obligations may also be used to retire notes. Section 18.08(4) of the Statutes specifically provides that if, at any time, there are not on hand in the Capital Improvement Fund sufficient moneys for the payment of principal and interest on general obligation notes, the Department of Administration shall transfer to the Capital Improvement Fund from an irrevocable and unlimited appropriation as a first charge upon all revenues of the State, the amount necessary to make the payment of principal and interest on general obligation notes when due.

The State's General Fund thus stands behind the payment of debt service on all general obligation bonds and notes regardless of the internal fund flows established for budgetary control purposes. Should the General Fund have insufficient resources to pay debt service, there is a single irrevocable and unlimited appropriation from all revenues of the State for timely payment on all general obligations. It is this appropriation, which pledges all revenues of the State for payment of Debt Service due from any program using general obligation bond and note proceeds on a parity with any other such program, that enables the State to issue a general obligation bond or note which is undifferentiated by the purpose for which proceeds are used.

Purposes of General Obligations

The purposes for which State general obligations may be issued are set forth in the Wisconsin Constitution, which provides the basis for the State's general obligation borrowing program. It permits three types of borrowing. The first is to acquire, construct, develop, extend, enlarge or improve land, waters, property, highways, railways, buildings, equipment or facilities for public purposes. The second is to make funds available for veterans housing loans. The third is to fund or refund any outstanding State general obligations. Subject to constitutional limitations about purposes and amounts, procedures governing the use of this borrowing authority are to be established by the Legislature. There is no constitutional requirement that the issuance of general obligations receive the direct approval of the electorate.

Limitations on Issuance of General Obligations

All general obligations issued by the State fall within a debt limitation set forth in the Constitution and Statutes. The limitation is derived as the lesser of two formulas. There is an annual limit of three-quarters of one percent, and a cumulative limit of five percent, of the aggregate value of all taxable property in the State.

Currently, the annual limit is $1,748,056,751 and the cumulative debt limit is $11,653,711,670 (of which the amount available is $8,185,264,352). The lesser amount is $1,748,056,751. See Table III-4 in "DEBT INFORMATION". A refunding bond issue is not taken into account for purposes of the annual debt limit, and a refunded bond issue is not taken into account for purposes of the cumulative debt limit. Interest scheduled to accrue on any obligation that is not payable during the current fiscal year is treated as debt and taken into account for purposes of the debt limitations.

Authorization of General Obligations

Within prescribed limitations, the State Constitution assigns to the Legislature, acting by vote of a majority of the members elected to each of the two houses, all matters relating to the issuance of general obligations. The quorum in such votes is 60% of the membership. Among these assigned powers is the authority to establish the purposes (uses) and fix the amounts for which general obligations may be issued.

To date, the Legislature has authorized the issuance of general obligations for 67 distinct purposes and has limited the amount of general obligations that may be issued for each purpose. In practice, as a part of the budget, these amounts are adjusted to accommodate newly budgeted activity. The Legislature has delegated to the Commission responsibility to establish the form and terms of the issuance and sale of these general obligations.

Table III-1

STATE OF WISCONSIN
GENERAL OBLIGATION ISSUANCE STATUS REPORT
December 15, 1997

Program Purpose	Legislative Authorization	General Obligations Issued to Date	Interest Earnings[a]	Remaining Authority
University of Wisconsin; academic facilities	$ 762,124,100	$ 686,512,229	$ 11,089,834	$ 64,522,037
University of Wisconsin; self-amortizing facilities	438,248,600	241,317,621	864,294	196,066,685
Natural resources; municipal clean drinking water grants	9,800,000	9,514,342	141,809	143,849
Clean water fund program	552,743,200	290,935,573	15,282	261,792,345
Safe drinking water loan program	12,130,000			12,130,000
Natural resources; nonpoint source grants	34,363,600	19,375,658	132,570	14,855,372
Natural resources; nonpoint source compliance	2,000,000			2,000,000
Natural resources; environmental repair	43,000,000	15,380,000	152,836	27,467,164
Natural resources; environmental segregated fund supported administrative facilities	145,000			145,000
Natural resources; segregated revenue supported dam maintenance, repair, modification, abandonment and removal	6,350,000	555,000		5,795,000
Natural resources; pollution abatement and sewage collection facilities, ORAP funding	146,850,000	145,010,325	50,000	1,789,675
Natural resources; pollution abatement and sewage collection facilities	902,449,800	871,325,888	18,510,235	12,613,677
Natural resources; pollution abatement and sewage collection facilities; combined sewer overflow	200,600,000	193,689,242	6,287,401	623,357
Natural resources; recreation projects	56,055,000	56,053,036	1,006	958
Natural resources; local parks land acquisition and development	2,490,000	2,439,349	42,259	8,392
Natural resources; recreation development	23,061,500	22,668,166	141,227	252,107
Natural resources; land acquisition	45,608,600	45,115,269	491,670	1,661
Natural resources; Wisconsin natural areas heritage program	2,500,000	2,442,545	17,174	40,281

Table III-1 – Continued

STATE OF WISCONSIN
GENERAL OBLIGATION ISSUANCE STATUS REPORT
December 15, 1997

Program Purpose	Legislative Authorization	General Obligations Issued to Date	Interest Earnings[a]	Remaining Authority
Natural resources; segregated revenue supported facilities	18,746,600	10,314,722	48,443	8,383,435
Natural resources; general fund supported administrative facilities	8,295,800	5,411,075	17,958	2,866,767
Natural resources; ice age trail	750,000			750,000
Natural resources; dam maintenance, repair, modification, abandonment and removal	5,500,000	5,345,000	49,401	105,599
Natural resources; segregated revenue supported land acquisition	2,500,000	2,498,446		1,554
Natural resources; Warren Knowles - Gaylord Nelson stewardship program	231,000,000	121,485,000	1,446,521	108,068,479
Transportation; administrative facilities	8,890,400	8,759,479	33,943	96,978
Transportation; accelerated bridge improvements	46,849,800	46,849,800		
Transportation; rail passenger route development	50,000,000			50,000,000
Transportation; accelerated highway improvements	185,000,000	185,000,000		
Transportation; connecting highway improvements	15,000,000	15,000,000		
Transportation; federally aided highway facilities	10,000,000	10,000,000		
Transportation; highway projects	41,000,000	41,000,000		
Transportation; harbor improvements	15,000,000	10,980,000	232,606	3,787,394
Transportation; rail acquisitions and improvements	19,000,000	9,940,000		9,060,000
Corrections; correctional facilities	594,680,500	450,011,762	8,263,362	136,405,376

Table III-1 – Continued

STATE OF WISCONSIN
GENERAL OBLIGATION ISSUANCE STATUS REPORT
December 15, 1997

Program Purpose	Legislative Authorization	General Obligations Issued to Date	Interest Earnings[a]	Remaining Authority
Corrections; self-amortizing facilities and equipment	7,337,000	700,000	81	6,636.919
Corrections; juvenile correctional facilities	26,441,500	22,123,556	98,438	4,219,506
Health and family services; mental health and secure treatment facilities	88,712,500	86,000,268	680,486	2,031,746
Agriculture; soil and water	3,000,000			3,000,000
Administration; Black Point Estate	1,600,000			1,600,000
Building commission; previous lease rental authority	143,071,600	143,068,654		2,946
Building commission; refunding corporation self-amortizing debt	1,940,000			1,940,000
Building commission; refunding tax-supported general obligation debt	1,740,000,000	1,700,210,460 [b]		39,789,540
Building commission; refunding self-amortizing general obligation debt	180,000,000	175,804,003 [b]		4,195,997
Building commission; housing state departments and agencies	259,727,600	205,074,121	1,227,071	53,426,408
Building commission; 1 West Wilson street parking ramp	15,100,000	13,500,000	294,479	1,305,521
Building commission; project contingencies	28,233,200	10,090,000	49,419	18,093,781
Building commission; capital equipment acquisition	84,312,100	54,699,191	728,337	28,884,572
Building commission; discount sale of debt	65,000,000	50,518,484		14,481,516
Building commission; discount sale of debt (higher education bonds)	100,000,000	99,988,833 [b]		11,167
Building commission; other public purposes	919,466,000	585,872,152	4,255,952	329,337,896
Medical College of Wisconsin, Inc ; basic science education facility	10,000,000	8,000,000		2,000,000

Table III-1 – Continued

STATE OF WISCONSIN
GENERAL OBLIGATION ISSUANCE STATUS REPORT
December 15, 1997

Program Purpose	Legislative Authorization	General Obligations Issued to Date	Interest Earnings[a]	Remaining Authority
Technology for educational achievement in Wisconsin board; school district educational technology infrastructure loans	50,000,000			50,000,000
Technology for educational achievement in Wisconsin board; public library educational technology infrastructure loans	5,000,000			5,000,000
Educational communications board; educational educational communications facilities	8,354,100	6,894,539	36,946	1,422,615
Historical society; self-amortizing facilities	3,073,600	1,029,156	3,896	2,040,548
Historical society; historic records	400,000			400,000
Historical society; historic sites	1,939,000	1,825,756		113,244
Historical society; museum facility	4,384,400	4,281,000		103,400
Public instruction; state schools and library facilities	7,367,700	7,289,197	32,508	45,995
Military affairs; armories and military facilities	19,590,200	15,937,527	192,543	3,460,130
Veterans affairs; veterans facilities	10,090,100	7,818,065	50,556	2,221,479
Veterans affairs; self-amortizing mortgage loans	1,807,500,000	1,609,136,295	4,301,347	194,062,358
Veterans affairs; refunding bonds	665,000,000	610,594,245		54,405,755
Veterans affairs; self-amortizing housing facilities	2,031,900			2,031,900
State fair park board; board facilities	2,000,000			2,000,000
State fair park board; housing facilities	11,000,000	9,185,000		1,815,000
State fair park board; self-amortizing facilities	27,850,000	19,828,800	6,046	8,015,154
Total	$10,792,255,000	$8,974,398,829	$59,987,936	$1,757,868,235

[a] Interest earnings reduce issuance authority by the same amount

[b] Interest scheduled to accrue on any obligation that is not payable during the current fiscal year is treated as debt and taken into account for purposes of the statutory authority to issue debt

Source: Wisconsin Department of Administration.

DEBT INFORMATION

The following tables provide data pertaining to the State's outstanding general obligation debt.

Table III-2
OUTSTANDING GENERAL OBLIGATIONS BY ISSUE
(As of December 15, 1997)

Financing	Date of Financing	Maturity	Amount of Issuance	Amount Outstanding
Long-Term General Obligations				
1970- Series A	3/1/70	1971-90	$ 50,510,000	$ -0-
Series B	3/1/70	1971-2000	8,075,000	-0-
Series C	6/1/70	1971-90	39,000,000	-0-
Series D	6/1/70	1971-2001	30,025,000	-0-
Series E	9/15/70	1971-1990	70,000,000	-0-
1971- Series A	1/15/71	1972-91	35,000,000	-0-
Series B	3/15/71	1972-91	19,500,000	-0-
Series C	6/15/71	1972-91	32,800,000	-0-
Series D	9/15/71	1972-91	30,000,000	-0-
Series E	9/15/71	1972-2001	5,020,000	-0-
1972- Series A	1/15/72	1973-92	40,000,000	-0-
Series B	4/15/72	1973-92	61,500,000	-0-
Series C	7/15/72	1973-92	43,000,000	-0-
Series D	10/15/72	1973-92	35,000,000	-0-
1973- Series A	1/15/73	1974-93	37,500,000	-0-
Series B	4/15/73	1974-93	30,000,000	-0-
Series C	4/15/73	1974-2003	6,505,000	-0-
1974- Series A	2/15/74	1975-94	59,600,000	-0-
1975- Series A	3/1/75	1976-95	75,000,000	-0-
Series B	8/15/75	1976-95	18,200,000	-0-
Series D	8/15/75	1976-2000	50,000,000	-0-
Series E	12/1/75	1976-2000	96,400,000	-0-
Series F	12/1/75	1976-2005	5,500,000	-0-
1976- Series A	3/15/76	1977-2001	147,600,000	-0-
Series B	7/1/76	1977-2006	119,900,000	-0-
Series C	11/1/76	1978-2001	40,000,000	2,400,000
1977- Series A	2/15/77	1978-2007	74,000,000	-0-
Series B	5/15/77	1978-2002	128,000,000	8,800,000
Series C	10/1/77	1978-2002	39,000,000	-0-
1978- Series A	2/1/78	1979-2003	118,000,000	-0-
Series B	6/1/78	1979-2003	94,500,000	-0-
Series C	11/1/78	1979-2003	77,300,000	5,120,000
1979- Series A	2/1/79	1980-2004	84,800,000	-0-
Series B	5/15/79	1980-2004	86,800,000	-0-
Series C	10/15/79	1980-2004	90,000,000	-0-
1980- Series A	1/1/80	1981-2005	46,500,000	-0-
Series B	6/15/80	1981-2000	40,000,000	-0-
Note Issue IX	6/15/80	1981-2010	2,000,000	-0-
1981- Series A	6/15/81	1982-2001	75,000,000	-0-
Series B	12/1/81	1982-2001	65,000,000	-0-
1982- Series A	6/15/82	1983-2002	60,000,000	-0-
Series B	9/15/82	1987-2007	30,000,000	-0-
Series C	12/15/82	1983-2007	160,000,000	-0-
1983- Series A	5/1/83	1987-2008	20,000,000	-0-
Series B	5/1/83	1984-2003	90,000,000	-0-
Series C	12/1/83	1984-2008	100,300,000	-0-
1984- Series A	4/1/84	1989-2011	50,000,000	-0-

Table III-2 – Continued
OUTSTANDING GENERAL OBLIGATIONS BY ISSUE
(As of December 15, 1997)

Financing	Date of Financing	Maturity	Amount of Issuance	Amount Outstanding
Series B	4/1/84	1985-2004	110,000,000	-0-
Daily Demand Note	9/27/84	1985-1989	75,600,000	-0-
1985- Series A	4/1/85	1986-2015	150,000,000	-0-
Series B	4/1/85			
Serial Bonds		1996-2001	60,010,000	-0-
Term Bonds		2003	40,815,000	-0-
Term Bonds		2009	140,130,000	-0-
Term Bonds		2016	50,000,000	-0-
1986- Series A	5/15/86			
Serial Bonds		1995-2002	13,145,000	10,540,000
Term Bonds		2006	13,025,000	-0-
Term Bonds		2015	12,015,000	2,150,000
Series B	4/1/86	1987-2006	247,800,000	-0-
1987- Notes Series A	11/5/87	1989	46,480,000	-0-
1988- Notes Series A	3/10/88	1989	26,895,000	-0-
Refunding	5/1/88			
Serial Bonds		1991-2005	389,505,000	28,555,000 [(a)]
Term Bonds		2015	2,405,000	-0-
Capital Appreciation Bonds		1994-2004	55,545,000	15,000,000 [(a)]
Bonds Series A	7/1/88			
Serial Bonds		1989-2003	2,825,000	1,565,000
Term Bonds		2008	1,200,000	-0-
Term Bonds		2018	7,925,000	-0-
Accelerated Term Bonds		2008	3,050,000	-0-
Notes Series B	8/16/88	1989	61,280,000	-0-
Bonds Series B	12/1/88	1990-2009	143,980,000	-0- [(a)]
1989- Bonds Series A	1/1/89			
Serial Bonds		1990-2004	4,150,000	2,650,000
Term Bonds		2009	775,000	-0-
Term Bonds		2019	11,175,000	-0-
Accelerated Term Bonds		2009	3,900,000	-0-
Bonds Series B	3/1/89	1990-2009	43,755,000	-0-
Bonds Series C	5/1/89	1990-2009	71,415,000	-0-
Bonds Series D	8/1/89			
Serial Bonds		1990-2004	4,150,000	2,775,000
Term Bonds		2009	725,000	725,000
Term Bonds		2019	11,350,000	11,350,000
Accelerated Term Bonds		2009	3,775,000	-0-
Bonds Series E	10/1/89	1991-2010	63,365,000	2,805,000 [(a)]
1990- Bonds Series A	1/1/90	1991-2010	134,495,000	6,335,000 [(a)]
Bonds Series B	3/1/90			
Serial Bonds		1991-2004	3,575,000	2,500,000
Accelerated Term Bonds		2010	3,975,000	-0-
Term Bonds		2020	12,450,000	-0-
Bonds Series C	5/1/90	1991-2010	38,170,000	1,405,000 [(a)]
Bonds Series D	5/24/90	1996-2010	65,859,000	57,071,000
Bonds Series E	8/1/90	1991-2010	76,810,000	2,630,000 [(a)]

(a) Pursuant to a refunding escrow agreement the principal and interest on all or a portion of the bonds will be paid as it comes due and those bonds will be called for redemption prior to maturity. The principal amount of bonds for which payment is provided is treated as not outstanding for purposes of this table

Table III-2 – Continued
OUTSTANDING GENERAL OBLIGATIONS BY ISSUE
(As of December 15, 1997)

Financing	Date of Financing	Maturity	Amount of Issuance	Amount Outstanding
Bonds Series F	10/1/90			
Serial Bonds		1991-2005	3,775,000	2,675,000
Accelerated Term Bonds		2010	3,800,000	-0-
Term Bonds		2020	12,425,000	-0-
Bonds Series G	12/1/90	1992-2011	128,765,000	19,435,000 [a]
1991- Bonds Series A	4/1/91			
Serial Bonds		1992-2006	5,775,000	4,125,000
Accelerated Term Bonds		2011	5,825,000	-0-
Term Bonds		2021	18,400,000	18,400,000
Bonds CWF Series 1	Various	1993-2011	55,000,000	47,668,313
Bonds Series B	5/15/91	1996-2011	117,136,000	102,483,000
Bonds Series C	6/1/191	1992-2011	60,580,000	7,465,000 [a]
Bonds Series D	9/1/91	1993-2012	97,000,000	18,775,000 [a]
1992- Bonds Series A	3/1/92	1993-2012	219,040,000	53,775,000 [a]
Refunding Bonds	3/1/92	1994-2015	448,935,000	416,795,000
Bonds Series B	6/1/92			
Serial Bonds		1993-2008	7,780,000	2,240,000
Accelerated Term Bonds		2012	4,000,000	-0-
Term Bonds		2022	18,220,000	6,605,000
Loan Series B	10/2/92	1995	5,330,000	-0-
Refunding Bonds Series 2	10/15/92	1994-2015	5,975,000	5,340,000
Bonds Series C	11/1/92	1994-2013	173,285,000	65,065,000 [a]
1993- Refunding Bonds Series 1	1/1/93	1994-2009	280,060,000	254,925,000
Bonds CWF Series A	1/15/93	1993-2011	5,000,000	4,371,938
Refunding Bonds Series 2	3/1/93	1993-2011	137,530,000	134,880,000
Bonds Series A	2/1/93	1994-2013	124,325,000	100,870,000
Refunding Bonds Series 3	8/1/93	1995-2012	302,050,000	293,660,000
Refunding Bonds Series 6	10/15/93			
Serial Bonds		1994-2006	5,510,000	4,080,000
Term Bonds		2010	2,125,000	2,125,000
Term Bonds		2013	2,150,000	2,150,000
Term Bonds		2016	10,215,000	10,215,000
Refunding Bonds Series 4	12/1/93	1994-2006	77,575,000	49,935,000
Refunding Bonds Series 5	12/1/93			
Serial Bonds		1994-2006	113,550,000	112,905,000
Term Bonds		2010	14,770,000	14,770,000
Term Bonds		2013	1,190,000	1,190,000
Term Bonds		2016	1,405,000	1,405,000
Term Bonds		2023	4,340,000	4,340,000
1994- Bonds CWF Series 1	1/25/94	1994-2013	15,000,000	14,145,498
Bonds Series A	1/1/94	1995-2014	119,810,000	104,670,000
Refunding Bonds Series 1	3/1/94	1995-2002	106,610,000	56,390,000
Refunding Bonds Series 2	3/1/94			
Serial Bonds		1999-2009	52,050,000	52,050,000
Term Bonds		2014	1,700,000	1,700,000
Term Bonds		2014	4,775,000	4,775,000
Bonds Series B	6/1/94	1995-2014	110,000,000	93,819,460
Refunding Bonds Series 3	9/15/94	1995-2008	10,400,000	8,000,000

(a) Pursuant to a refunding escrow agreement the principal and interest on all or a portion of the bonds will be paid as it comes due and those bonds will be called for redemption prior to maturity. The principal amount of bonds for which payment is provided is treated as not outstanding for purposes of this table

Table III-2 – Continued
OUTSTANDING GENERAL OBLIGATIONS BY ISSUE
(As of December 15, 1997)

Financing	Date of Financing	Maturity	Amount of Issuance	Amount Outstanding
Bonds Series C	9/15/94			
Serial Bonds		1998-2013	17,135,000	15,710,000
Term Bonds		2016	5,135,000	5,060,000
Term Bonds		2020	8,535,000	8,405,000
Term Bonds		2023	14,195,000	13,980,000
Bonds CWF Series 1	1/17/95	1994-2013	4,935,573	4,715,166
1995- Bonds Series A	1/15/95	1996-2015	231,315,000	120,840,000 [(a)]
Refunding Bonds, Series 1	2/15/95			
Serial Bonds		1999-2000	4,350,000	4,350,000
Serial Bonds		2004	860,000	860,000
Serial Bonds		2007-2015	10,525,000	10,525,000
Bonds Series B	2/15/95			
Term Bonds		2016	4,215,000	4,215,000
Term Bonds		2020	7,920,000	7,920,000
Term Bonds		2025	17,130,000	17,130,000
Note, Series B	7/6/95	2005	361,623	308,130
Bonds CWF Series 1	8/23/95	1996-2015	5,000,000	4,469,582
Bonds Series C	6/15/95	1997-2016	97,480,000	92,535,000
Refunding Bonds Series 2	10/15/95			
Serial Bonds		1997-2000	5,780,000	4,680,000
Serial Bonds		2004-2005	2,715,000	2,715,000
Serial Bonds		2007-2015	34,355,000	34,355,000
1996- Bonds Series A	1/15/96	1997-2016	158,080,000	152,630,000
Refunding Bonds, Series 1	2/15/96	1996-2015	104,765,000	102,760,000
Bonds Series B	5/15/96			
Serial Bonds		1998-1999	4,215,000	4,215,000
Serial Bonds		2007-2014	16,550,000	16,550,000
Term Bonds		2021	10,305,000	10,305,000
Term Bonds		2026	13,930,000	13,930,000
Bonds Series C	9/1/96	1998-2017	115,230,000	115,230,000
Bonds CWF Series A	8/29/96	2001-2011	5,000,000	4,683,144
Bonds Series D	10/15/96			
Serial Bonds		2007-2009	8,550,000	8,550,000
Term Bonds		2014	3,700,000	3,700,000
Term Bonds		2020	6,405,000	6,405,000
Term Bonds		2027	11,345,000	11,345,000
1997- Bonds CWF Series A			10,000,000	9,998,396
Bonds Series A	3/15/97			
Serial Bonds		2006-2015	17,880,000	17,880,000
Serial Bonds		2017	5,760,000	5,760,000
Bonds Series 1	3/15/97			
Term Bonds		2021	8,065,000	8,065,000
Term Bonds		2028	13,295,000	13,295,000
Bonds Series B	7/15/97	1999-2018	101,010,000	101,010,000

(a) Pursuant to a refunding escrow agreement the principal and interest on all or a portion of the bonds will be paid as it comes due and those bonds will be called for redemption prior to maturity The principal amount of bonds for which payment is provided is treated as not outstanding for purposes of this table.

Table III-2 – Continued
OUTSTANDING GENERAL OBLIGATIONS BY ISSUE
(As of December 15, 1997)

Financing	Date of Financing	Maturity	Amount of Issuance	Amount Outstanding
Bonds Series C	9/15/97			
Serial Bonds		2000-2001	520,000	520,000
Serial Bonds		2003-2013	22,755,000	22,755,000
Term Bonds		2017	7,850,000	7,850,000
Term Bonds		2023	10,580,000	10,580,000
Term Bonds		2026	3,295,000	3,295,000
Bonds Series D (Taxable)	9/15/1997			
Serial Bonds		1999-2012	13,385,000	13,385,000
Term Bonds		2017	6,760,000	6,760,000
Term Bonds		2028	24,855,000	24,855,000
Total Long-Term General Obligations			$8,993,547,196	$3,311,678,626
Short-Term General Obligations				
1997- Commercial Paper Series A	4/3/97		$ 99,270,000	$ 91,709,000 (b)
Commercial Paper Series B	7/15/97		82,670,000	24,963,000 (b)
Total Short-Term General Obligations			$ 181,940,000	$ 116,672,000
TOTAL GENERAL OBLIGATIONS			$9,175,487,196	$3,428,350,626

(b) The Amount of Issuance includes the maximum amount of commercial paper notes authorized to be issued. The Amount Outstanding includes the original principal amount issued and (i) the interest paid on matured commercial paper notes, less (ii) any payments made by the State on May 1 and November 1 equal to the interest accrued and accruing for that period.

Table III-3

PER CAPITA STATE GENERAL OBLIGATION DEBT
1987 TO 1996

Year Ending December 31	Outstanding Indebtedness(a) (Amounts in Thousands)	Debt Per Capita	Debt Per Capita as % of Per Capita Income
1987	$2,351,368	$492.33	3.27%
1988	2,403,070	498.25	3.15
1989	2,566,496	528.41	3.14
1990	2,781,071	568.49	3.20
1991	3,126,391	631.85	3.45
1992	3,065,122	613.52	3.15
1993	3,104,055	615.27	3.05
1994	3,244,079	637.97	3.01
1995	3,305,471	645.35	2.88
1996	3,468,447	672.18	2.88

(a) Includes obligations of nonstock, nonprofit building corporations

Sources: Legislative Audit Bureau
Tables II-24 and II-27 in Part II of the Annual Report.

Table III-4

LIMITATION ON AGGREGATE PUBLIC DEBT
DERIVATION OF AMOUNT
FOR 1997

The aggregate debt contracted in 1997 shall not exceed the lesser of (a) or (b):

(a)	3/4 of 1% x $233,074,233,400		$1,748,056,751
(b)	5% x $233,074,233,400	$11,653,711,670	
	Deduct: Net Indebtedness 1/1/97	(3,468,447,318)	
			$8,185,264,352

The amount of $233,074,233,400 shown above is the aggregate full market value of all taxable property in the State for the year 1997 as certified by the Department of Revenue.

The amount of $3,468,447,318 shown above is the net indebtedness as of January 1, 1997 as certified by the Legislative Audit Bureau.

The lesser of (a) or (b) is $1,748,056,751. Aggregate debt contracted in the calendar year shall not exceed this amount.

Source: Wisconsin Department of Administration.

Table III-5

ANNUAL DEBT LIMIT COMPARED
TO ACTUAL BORROWING
1987 TO 1996

Calendar Year	Annual Debt Limitation	Actual Borrowing	Borrowing as Percentage of Limitation
1987	$ 914,127,417	$ 46,480,000	5.1%
1988	949,406,681	247,155,000	26.0
1989	999,046,384	218,535,000	21.9
1990	1,060,277,304	484,099,000	45.7
1991	1,131,958,171	359,716,000	31.8
1992	1,196,902,524	427,655,000	35.7
1993	1,287,578,726	129,325,000	10.0
1994	1,387,461,496	289,810,000	20.9
1995	1,511,535,818	368,322,196	24.4
1996	1,627,078,182	353,295,000	21.7

Source: Wisconsin Department of Administration.

Table III-6

DEBT STATEMENT
December 15, 1997

	Tax-Supported Debt		Revenue-Supported Debt[a]		
	General Fund	Segregated Funds[b]	Veterans Housing	Other[c]	Total
GENERAL OBLIGATIONS					
Outstanding Indebtedness...	$2,449,510,537	$43,121,080	$655,020,000	$280,699,010	$3,428,350,627
NONSTOCK, NONPROFIT CORPORATIONS[d]					
Wisconsin University Building Corp				$ 260,806	$ 260,806
Wisconsin State Colleges Building Corp.				1,275,000	1,275,000
Outstanding Indebtedness..				$ 1,535,806	$ 1,535,806
Total Outstanding Indebtedness................	$2,449,510,537	$43,121,080	$655,020,000	$282,234,816	$3,429,886,433

(a) Revenue Supported Debt represents general obligation debt of the State and indebtedness of its nonstock, nonprofit corporations issued to fund particular programs and facilities with the initial expectation that revenues and other proceeds derived from the operation of the programs and facilities will amortize the allocable debt without recourse to the General Fund

(b) Includes the Transportation Fund and certain administrative facilities for the Department of Natural Resources.

(c) Includes university dormitories, food service, intercollegiate athletic facilities, certain facilities on the State Fair grounds and capital equipment acquisition.

(d) See "STATE OBLIGATIONS; Nonstock, Nonprofit Corporations" in this part of the Annual Report for a description of the nonstock, nonprofit corporations

Source: Wisconsin Department of Administration.

Table III-7

COMPARISON OF OUTSTANDING INDEBTEDNESS TO EQUALIZED VALUATION OF PROPERTY 1987 TO 1996

Calendar Year	Value of Taxable Property (Amounts in Thousands)	Outstanding Indebtedness[a] (Amounts in Thousands)	Debt as Percentage of Equalized Value
1987	$121,883,656	$2,351,368	1.93%
1988	126,587,558	2,403,070	1.90
1989	133,206,185	2,566,496	1.93
1990	141,370,307	2,781,071	1.97
1991	150,927,756	3,126,391	2.07
1992	159,587,003	3,065,122	1.92
1993	171,677,164	3,104,055	1.81
1994	184,994,866	3,244,079	1.75
1995	201,538,109	3,305,471	1.64
1996	216,943,758	3,468,447	1.60

[a] Including obligations of nonstock, nonprofit building corporations as of December 31.

Sources: Wisconsin Department of Revenue.
Wisconsin Legislative Audit Bureau.

Table III-8

DEBT SERVICE PAYMENT HISTORY: AMOUNT PAID ON GENERAL OBLIGATIONS

Fiscal Year	Principal	Interest	Total Debt Service
To June 30, 1986	$1,149,785,000	$1,104,960,605	$2,254,745,605
1986-87	159,920,000	161,142,905	321,062,905
1987-88	170,105,000	157,666,783	327,771,783
1988-89	168,560,000	140,461,544	309,021,544
1989-90	169,615,000	147,115,426	316,730,426
1990-91	185,050,000	161,025,824	346,075,824
1991-92	157,985,000	100,545,026	258,530,026
1992-93	131,634,000	138,331,828	269,965,828
1993-94	151,416,138	153,491,249	304,907,387
1994-95	188,718,292	159,985,783	348,704,075
1995-96	199,622,231	159,090,781	358,713,012
1996-97	205,112,886	167,659,261	372,772,147
7/1/97-12/15/97	27,426,834	80,096,944	107,523,778
Totals	$3,064,950,381	$2,831,573,959	$5,896,524,340

Source: Wisconsin Department of Administration.

Table III-9
DEBT SERVICE MATURITY SCHEDULE:
AMOUNT DUE ANNUALLY ON GENERAL OBLIGATION BONDS
ISSUED TO DECEMBER 15, 1997 [a]

Fiscal Year (Ending June 30)	Principal	Interest	Total Debt Service
1998[b]	$ 188,937,731	$ 89,127,696	$ 278,065,427
1999	223,666,528	162,998,716	386,665,244
2000	226,598,845	152,056,225	378,655,070
2001	223,304,844	142,055,795	365,360,639
2002	218,566,013	130,522,745	349,088,758
2003	210,311,008	118,788,030	329,099,038
2004	195,205,303	107,904,944	303,110,247
2005	190,088,336	97,282,440	287,370,776
2006	185,724,321	86,307,804	272,032,125
2007	180,318,704	76,723,423	257,042,127
2008	174,689,393	67,417,645	242,107,038
2009	173,772,381	58,149,949	231,922,330
2010	156,206,838	49,409,975	205,616,813
2011	142,116,391	41,664,545	183,780,936
2012	115,680,212	34,540,777	150,220,989
2013	96,904,146	28,908,273	125,812,419
2014	76,563,373	23,947,230	100,510,603
2015	64,237,661	19,791,474	84,029,135
2016	46,131,065	16,246,072	62,377,137
2017	40,260,532	13,602,431	53,862,963
2018	25,395,000	11,371,568	36,766,568
2019	19,250,000	9,821,151	29,071,151
2020	19,170,000	8,574,761	27,744,761
2021	19,145,000	7,358,983	26,503,983
2022	18,600,000	6,136,641	24,736,641
2023	19,190,000	4,953,266	24,143,266
2024	19,495,000	3,750,486	23,245,486
2025	14,200,000	2,532,356	16,732,356
2026	9,725,000	1,607,284	11,332,284
2027	11,935,000	985,985	12,920,985
2028	3,160,000	347,175	3,507,175
2029	3,130,000	113,463	3,243,463
TOTALS	$3,311,678,625	$1,574,999,308	$4,886,677,934

[a] This maturity schedule does not include interest and principal payments on outstanding general obligation commercial paper.

[b] For the fiscal year ending June 30, 1998, the table includes debt service amounts for the period December 16, 1997 through June 30, 1998

Source: Wisconsin Department of Administration.

Table III-10
AMORTIZATION SCHEDULE:
AMOUNT DUE ANNUALLY ON GENERAL OBLIGATION COMMERCIAL PAPER
ISSUED TO DECEMBER 15, 1997 [a]

Fiscal Year (Ending June 30)	Principal
1998	$ 4,150,000
1999	7,510,000
2000	7,775,000
2001	8,095,000
2002	8,440,000
2003	8,315,000
2004	8,080,000
2005	8,455,000
2006	8,850,000
2007	9,285,000
2008	7,520,000
2009	6,925,000
2010	7,280,000
2011	7,660,000
2012	8,065,000
2013	8,500,000
2014	8,955,000
2015	9,445,000
2016	9,970,000
2017	10,515,000
2018	5,135,000
TOTALS	$168,925,000

[a] The State intends to treat each issue of general obligation commercial paper as if it were a long-term bond issue by making annual payments on May 1. Each annual payment reflects a principal amortization. The Program Resolution does not permit the State to have any commercial paper outstanding for more than 10 years after its issuance date. The State also intends to make a payment on each May 1 and November 1 on all outstanding general obligation commercial paper in an amount equal to the interest accrued and accruing for that period.

Source: Wisconsin Department of Administration.

Table III-11

SOURCE OF DEBT SERVICE PAYMENTS ON GENERAL OBLIGATIONS ISSUED AS OF JUNE 30, 1997

	1996-97	%	1995-96	%	1994-95	%
Tax-Supported Debt						
General Fund	$285,144,741	76.3	$273,694,885	77.7	$260,563,556	81.2
Segregated Funds	8,281,595	2.2	9,720,739	2.8	11,530,380	3.6
Subtotal	293,426,336	78.5	283,415,624	80.4	272,093,936	84.7
Self-Amortizing Debt						
Veterans	49,677,302	13.3	42,703,489	12.1	25,829,527	8.0
University of Wisconsin	17,256,324	4.6	14,656,650	4.2	13,159,851	4.1
State Fair Park	1,405,901	0.4	1,165,114	0.3	1,071,533	0.3
Historical	94,591	0.0	96,096	0.0	89,408	0.0
Housing State Departments	12,002,489	3.2	10,429,917	3.0	8,857,662	2.8
Subtotal	80,436,607	21.5	69,048,266	19.6	49,008,025	15.2
Total Debt Service	$373,862,943	100.0	$352,463,890	100.0	$321,101,961	100.0

Source: Wisconsin Department of Administration.

REVENUE-SUPPORTED GENERAL OBLIGATION DEBT

General

Although all general obligation bonds and notes issued by the State are supported by its full faith, credit and taxing power, a portion of the indebtedness of the State is issued with the expectation that Debt Service payments will not impose a direct burden on the State's taxpayers and its general revenue sources. Similarly, a portion of the indebtedness issued by nonstock, nonprofit corporations on behalf of the State prior to 1970 and backed by lease-rental obligations of various State agencies was issued with the expectation that the rental obligations of the State would not be discharged from General Fund revenues. See "STATE GOVERNMENT ORGANIZATION AND FINANCIAL PROCEDURES; Debt Issuing Organization—State of Wisconsin Building Commission" and "STATE OBLIGATIONS; Nonstock, Nonprofit Corporations" in Part II of this Annual Report for a description of this latter type of revenue-supported debt.

Beneficiaries and users of revenue-supported programs and facilities pay fees and other amounts that are estimated upon issuance of the related debt to be at least sufficient to pay or reimburse to the General Fund an amount equal to the amount to be paid out for Debt Service and other costs related to the operation of the programs and facilities.

The programs and facilities financed by indebtedness designated as revenue supported in Table III-6 all have user charges that historically have been sufficient to pay or reimburse the General Fund for all Debt Service or rental obligations incurred by State agencies for these programs and facilities. These programs and facilities support Debt Service payments on nearly $936 million of State general obligations and nearly $2 million of corporation indebtedness outstanding on December 15, 1997. Revenue-supported debt service payments were nearly 22% of the total Debt Service cost for the fiscal year ending June 30, 1997. See Table III-11 in "DEBT INFORMATION".

Veterans Housing Loan Program

General

The veterans housing loan program, operated by the Wisconsin Department of Veterans Affairs ("DVA"), is the largest revenue-supported program of the State. Lending activities under the program began in 1974. Except for four revenue bond issues (which are not backed by the full faith and credit or taxing power of the State), the program has been funded by State tax-exempt general obligation bond issues ("Tax-Exempt Veterans Mortgage Bonds") and State taxable general obligation bond issues ("Taxable Veterans Mortgage Bonds"), which are collectively referred to as "Veterans Mortgage Bonds". Approximately $655 million in aggregate principal amount of the Veterans Mortgage Bonds were outstanding on December 15, 1997. All revenue bonds issued for the program have been redeemed. Tables III-13 through III-22 of this part of the Annual Report include unaudited financial and statistical information and related notes that may be helpful in describing the operation of the Veterans Housing Loan Program.

Program Description and Operations

Veterans who wish to purchase, build, or purchase and rehabilitate homes that satisfy certain cost or value limitations in relation to the veteran's income may apply for a veterans housing loan. The loan may be for the purchase of an existing home, for a construction loan, for refinancing the balance due on a construction period loan, bridge loan or other financing with a term of 24 months or less, or for a combined purchase and rehabilitation loan of up to 95% of the home's value for a term not exceeding 30 years. A loan application is reviewed first by a local lending institution and then by DVA. If the application is approved, the local lending institution originates the loan as agent for DVA and acts as loan servicer thereafter. There are numerous other standards required to be satisfied as part of underwriting, including a shelter-cost ratio of generally less than 25% of income. This ratio may go up to as much as 33% under certain favorable credit circumstances or must be reduced if certain credit risks are present. The originator of the housing loan may charge the borrower an origination fee of one point (approximately two points in the case of construction loans and three points on the rehabilitation portion of purchase-rehabilitation loans).

In addition to primary housing loans, DVA has the home improvement loan program ("HILP") that will be funded with proceeds of the Taxable Veterans Mortgage Bonds. This program has a maximum loan amount of $15,000 and is processed through County Veterans Service Officers rather than lending institutions. HILP loans in excess of $3,000 are secured by either a first or second mortgage on the improved property with a maximum loan term of 15 years and a minimum equity position after considering the HILP loan of 10%. HILP loans under $3,000 may be secured by a guarantor or first or second mortgage with a maximum loan term of 15 years. HILP loans require the same basic underwriting standards as the primary loan program, but do not include loan-servicing charges.

It has been the policy of DVA to set the interest rate charged to the borrower at a rate calculated to be sufficient to pay the Debt Service on the Tax-Exempt Veterans Mortgage Bonds, the cost of program administration and, if deemed necessary, a loan loss reserve (which since 1985 has been charged to fund the Insurance Reserve Account described below). The State provided a subsidy from excess proceeds of eligible mortgage pools so that mortgage rates for loans (including HILP loans) funded by the first series of Taxable Veterans Mortgage Bonds, issued in October 1997, are the same as mortgages loan rates for loans funded by Tax-Exempt Veterans Mortgage Bonds. The State has not determined if such a subsidy will be available for loans funded with future issues of Taxable Veterans Mortgage Bonds. Tax-Exempt Veterans Mortgage Bonds issued prior to 1985 assumed a certain level of prepayments in estimating program cash flow. No prepayments have been assumed in scheduling principal payments for Veterans Mortgage Bonds issued since 1985. Based on September 30, 1997 balances and existing DVA assumptions, the cash flow of the mortgages is sufficient to meet future debt service payments even if no mortgages are prepaid. Program loans are assumable only by other qualifying veteran borrowers.

After deducting a servicing charge (.375% per annum), the participating lender deposits the veteran's monthly loan repayments and any prepayments into the Veterans Mortgage Loan Repayment Fund (the "Fund"), a segregated statutory fund. An irrevocable appropriation is provided by law as a first charge on assets of the Fund in a sum sufficient to provide for the repayment of principal of, premium, if any, and interest on State general obligation debt issued to fund the program.

Program loans financed with Veterans Mortgage Bonds are not required to be insured or guaranteed (casualty insurance coverage is, however, required). Instead, the default risk with respect to such loans is borne by the program. The ability of DVA to dispose of defaulted properties and realize the amount of the outstanding principal balances of the related loans has varied in recent years depending upon the location of such properties within the State and their physical condition upon foreclosure. Although DVA expects that it will continue to experience liquidation losses, it expects that such losses will not require recourse to the State's General Fund, but rather will be covered by the Insurance Reserve Account within the Fund. As of October 31, 1997, of the 15,954 outstanding veterans housing loans financed by the program there were 140 loans of an aggregate principal amount of approximately $4.0million for which payments were 60 days or longer past due. The Insurance Reserve requirement (4% of outstanding loans) is currently satisfied in full. See Table III-18 for more complete data concerning delinquencies.

Special Redemption for Veterans Mortgage Bonds

Tax-Exempt Veterans Mortgage Bonds

Certain Tax-Exempt Veterans Mortgage Bonds are subject to special redemption prior to maturity, at the option of the Commission, on any date, in whole or in part, at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, from (i) unexpended proceeds of the Tax-Exempt Veterans Mortgage Bonds, (ii) payments on veterans housing loans, or interest or income on investments in certain accounts, including money available from the Insurance Reserve Account, in excess of amounts required to meet scheduled debt service on Tax-Exempt Veterans Mortgage Bonds, and costs associated with the qualified-portion of the veterans housing loan program, and (iii) prepayments of veterans housing loans funded from or attributed to any series of Tax-Exempt Veterans Mortgage Bonds. In the event of a partial redemption, the Commission shall direct the maturities of the Tax-Exempt Veterans Mortgage Bonds and the amounts thereof so to be redeemed. Table III-21 includes a listing of the Tax-Exempt Veterans Mortgage Bonds subject to special redemption.

Prepayments of mortgages originated with or attributed to any series of Taxable Veterans Mortgage Bonds shall not be used for special redemption of Tax-Exempt Veterans Mortgage Bonds, and prepayments of mortgages originated with or attributed to any series of Tax-Exempt Veterans Mortgage Bonds shall not be used for special redemption of Taxable Veterans Mortgage Bonds.

The State had outstanding as of November 30, 1997, approximately $610 million of Tax-Exempt Veterans Mortgage Bonds. Of this amount, approximately $583 million were subject to special redemption from certain loan prepayments or excess revenues, as provided for in the resolution authorizing the particular series of Tax-Exempt Veterans Mortgage Bonds. The State has historically received, and expects to continue to receive, prepayments of veterans housing loans. The State may use, and has from time to time used, veterans housing loan prepayments to make new veterans housing loans. If the State determines that it is not feasible to make new veterans housing loans, the State intends to use such prepayments to purchase or redeem the Tax-Exempt Veterans Mortgage Bonds as determined by the Commission. Table III-22 includes a summary of prepayments on veterans housing loans.

Prior to 1996, it was generally the State's policy, subject to federal tax requirements and the redemption provisions of each particular series of Tax-Exempt Veterans Mortgage Bonds, to redeem Tax-Exempt Veterans Mortgage Bonds in order of the highest interest rate maturities. The State has modified this policy and intends generally to call maturities of Tax-Exempt Veterans Mortgage Bonds based on the highest proxy price at the time the call decision is evaluated. In establishing this proxy price, the State intends (i) to determine a hypothetical yield to maturity for each maturity of Tax-Exempt Veterans Mortgage Bonds being evaluated, using published market indices, (ii) to adjust these indices to reflect the historical price relationship of the indices to comparable Tax-Exempt Veterans Mortgage Bonds and any maturity difference between the indices and the maturity of Tax-Exempt Veterans Mortgage Bonds being evaluated, and (iii) to convert each hypothetical yield to the proxy price. Each such special redemption shall be made at a redemption price equal to the principal amount thereof to be redeemed, plus accrued interest to the redemption date.

The Commission most recently exercised its option of special redemption, from veterans home loan prepayments, on May 1, 1997. At that time, the Commission made the special redemption shown in Table III-12.

Table II-12
May 1, 1997 Special Redemption
Tax-Exempt Veterans Mortgage Bonds

Bond Issue	Maturity Date	Coupon	Redemption Amount
1986 Series A	January 1, 2015	7.50%	$9,865,000
1990 Series B	January 1, 2020	7.60	4,265,000
1992 Series B	January 1, 2012	6.00	125,000

Taxable Veterans Mortgage Bonds

As of December 15, 1997, the State has issued only one series of Taxable Veterans Mortgage Bonds. This series of Taxable Veterans Mortgage Bonds is subject to special redemption prior to maturity, at the option of the Commission, on September 15, 1999 and any date thereafter, in whole or in part at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, from unexpended proceeds of this series of Taxable Veterans Mortgage Bonds. In the event of a partial redemption, the Commission shall direct the maturities of this series of Taxable Veterans Mortgage Bonds and the amounts thereof so to be redeemed; however, the Commission intends to apply amounts from this source to make a strip call of this series of Taxable Veterans Mortgage Bonds (that is, pro rata redemption on all applicable outstanding maturities, subject to rounding) to reflect approximately the intended use of the unexpended proceeds for either 15-year loans for the HILP or 30-year loans for housing loans.

In addition, this series of Taxable Veterans Mortgage Bonds is subject to special redemption prior to maturity, at the option of the Commission, on any date, in whole or in part, at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, from (i) prepayments of veterans housing loans, or interest or income on investments in certain accounts, funded from or attributed to this series of Taxable Veterans Mortgage Bonds, and (ii) payments from the Insurance Reserve Account. In the event of a partial redemption, the Commission shall direct the maturities of this Series of Taxable Veterans Mortgage Bonds and the amounts thereof so to be redeemed; however, in the event the State receives amounts from the foregoing sources, the Commission intends to apply these amounts to make a strip call of this Series of Taxable Veterans Mortgage Bonds (that is, pro rata redemption on all applicable outstanding maturities, subject to rounding) to reflect approximately the prepayment or payment attributed to 15-year loans for the HILP or 30-year loans for housing loans.

Prepayments of mortgages originated with or attributed to any other future series of Taxable Veterans Mortgage Bonds shall not be used for special redemption of this first series of Taxable Veterans Mortgage Bonds, and prepayments of mortgages originated with or attributed to this series of Taxable Veterans Mortgage Bonds shall not be used for special redemption of any other future series of Taxable Veterans Mortgage Bonds.

Prepayments of mortgages originated with or attributed to any series of Tax-Exempt Veterans Mortgage Bonds shall not be used for special redemption of Taxable Veterans Mortgage Bonds, and prepayments of mortgages originated with or attributed to any series of Taxable Veterans Mortgage Bonds shall not be used for special redemption of Tax-Exempt Veteran Mortgage Bonds.

Financial and Statistical Information

The following unaudited financial and statistical information and related notes may be helpful in describing the operation of the Veterans Housing Loan Program. Since bonds issued to fund this program are general obligations of the State of Wisconsin, the bondholders have no special pledge or lien on revenues derived from this program.

Table III-13
VETERANS HOUSING LOAN PROGRAM

BALANCE SHEET
AS OF JUNE 30
(Amounts in Thousands)

	1997	1996	1995	1994	1993
ASSETS					
Cash and Cash Equivalents	$ 135,832	$ 125,556	$ 135,069	$ 144,570	$ 157,568
Investments					
Veterans Loans	580,499	540,959	528,219	472,298	535,052
Other Receivables	3,628	3,449	3,264	2,916	3,727
Due From Other Funds	130	223	234	901	370
Prepaid Items	44	43	57	22	22
Deferred Charges	4,065	3,731	3,789	1,829	
Fixed Assets (net of accumulated depreciation)	94	101	83	68	55
Other Assets	85	130	194	165	352
Total Assets	$ 724,378	$ 674,191	$ 670,909	$ 622,770	$ 697,146
Liabilities and Fund Equity					
Liabilities:					
Accounts Payable and Other Accrued Liabilities	$ 10,042	$ 10,742	$ 11,652	$ 10,018	$ 1,223
Due to Other Funds	128	149	102	541	167
Due to Other Governments	6	3	26	12	64
Tax and Other Deposits	1	1	2	1	2
Deferred Revenue	1,165	1,338	1,511	1,953	1,895
Interest Payable	4,526	3,537	3,445	3,023	15,418
Compensated Absences	178	177	155	132	65
General Obligation Bonds Payable	564,962	524,597	526,919	485,632	546,559
Total Liabilities	$ 581,008	$ 540,543	$ 543,810	$ 501,312	$ 565,393
Fund Equity:					
Retained Earnings:					
Unreserved	$ 143,370	$ 133,648	$ 127,099	$ 121,458	$ 131,753
Total Fund Equity	$ 143,370	$ 133,648	$ 127,099	$ 121,458	$ 131,753
Total Liabilities and Fund Equity	$ 724,378	$ 674,191	$ 670,909	$ 622,770	$ 697,146

Source: Wisconsin Department of Veterans Affairs.

Table III-14
VETERANS HOUSING LOAN PROGRAM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
AS OF JUNE 30
(Amounts in Thousands)

	1997	1996	1995	1994	1993
Operating Revenues:					
Investment and Interest Income	$ 39,846	$ 37,263	$ 35,203	$ 36,234	$ 50,598
Other Income					
Total Operating Revenues	$ 39,846	$ 37,263	$ 35,203	$ 36,234	$ 50,598
Operating Expenses:					
Personal Services	$ 3,002	$ 3,087	$ 2,907	$ 2,734	$ 2,670
Supplies and Services	773	638	633	584	683
Depreciation	36	36	30	28	27
Interest Expense	30,458	32,064	31,679	31,998	43,462
Other Expenses	2,586	2,757	2,329	2,227	2,487
Total Operating Expenses	$ 36,856	$ 38,582	$ 37,577	$ 37,571	$ 49,329
Operating Income (Loss)	$ 2,990	($ 1,319)	($ 2,374)	($ 1,337)	$ 1,269
Nonoperating Revenues (Expenses):					
Investment and Interest Income	$ 6,018	$ 6,381	$ 7,039	$ 5,889	$ 6,276
Other Expenses	(45)	(36)	(69)	(48)	(76)
Total Nonoperating Revenue (Expense)	5,973	6,345	6,970	5,841	6,200
Income (Loss) Before Operating Transfers	8,963	5,026	4,596	4,504	7,469
Operating Transfers In	468	747	1,468	698	1,285
Operating Transfers Out				(10,172)	
Net Income before Extraordinary Items and Cumulative Effect of a Change in Accounting Principals	9,431	5,345	6,064	(4,970)	8,754
Extraordinary Items:					
Gain (Loss) from Extinguishment of Debt	(56)	104	(424)	2,850	
Net Income	$ 9,375	$ 5,449	$ 5,640	($ 2,120)	$ 8,754
Retained Earnings, Beginning of Year	$133,648	$127,099	$121,458	$131,753	$122,184
Prior Period Adjustments				11,825	815
Residual Equity Transfers Out				(20,000)	
Retained Earnings, End of Year	$143,370	$133,648	$127,099	$121,458	$131,753

Source: Wisconsin Department of Veterans Affairs.

Table III-15
VETERANS HOUSING LOAN PROGRAM
MORTGAGE PRINCIPAL RECEIPTS NET OF BOND PRINCIPAL PAYMENTS
(Amounts in Thousands)

Principal repayments and payments on mortgage loans are deposited into the Veterans Mortgage Loan Repayment Fund, where they are invested until used for payment of bond debt service

	Fiscal Year 1996-97	Fiscal Year 1995-96	Fiscal Year 1994-95	Fiscal Year 1993-94	Fiscal Year 1992-93
Beginning Balance (July 1)	(207,430)	(219,886)	($240,016)	($239,596)	($237,164)
ADD: Mortgage Principal Payments	56,170	59,155	54,286	103,239	81,788
LESS: Bond Principal Payments	10,256	46,699	34,155	103,659	84,220
Ending Balance (June 30)	(161,516)	(207,430)	($219,886)	($240,016)	($239,596)

Table III-16
VETERANS HOUSING LOAN PROGRAM
STATEMENT OF CASH FLOWS
AS OF JUNE 30
(Amounts in Thousands)

	1997	1996	1995	1994	1993
Cash Flows from Operating Activities:					
Cash Payments to Suppliers for Goods and Services	($ 374)	($ 734)	($ 587)	($ 643)	($ 740)
Cash Payments to Employes for Services	(2.978)	(3.030)	(3,271)	(699)	(2.724)
Cash Payments for Loans Originated	(97,067)	(72.972)	(109,286)	(33.438)	(18.357)
Investment and Interest Income	39.765	37,212	35.238	36.974	41,593
Collection of Loans	56.170	59,155	54,286	103.239	81,788
Other Operating Revenues (Expenses)	(2,521)	(2,653)	(2,311)	(1,437)	(171)
Net Cash Provided (Used) by Operating Activities	($ 7,005)	$ 16,977	($ 25,932)	$103,996	$101,389
Cash Flows from Noncapital Financing Activities:					
Proceeds from Issuance of Long-Term Debt	$ 50.520	$ 44,437	$ 73,052	$ 43.657	$ 0
Retirement of Long-Term Debt	(10.256)	(46,699)	(34.155)	(103.659)	(84.220)
Interest Payments	(29,395)	(31.941)	(30.859)	(33.055)	(42.959)
Operating Transfers In	468	747	1.468	428	
Operating Transfers Out				(10.172)	
Residual Equity Transfers Out				(20,000)	
Net Cash Provided (Used) by Noncapital Financing Activities	$ 11,337	($ 33,884)	$ 9,506	($122,801)	($127,179)
Cash Flows from Capital and Related Financing Activities:					
Payments for Purchase of Fixed Assets	($ 29)	($ 54)	($ 45)	($ 49)	$ 200
Net Cash Provided (Used) by Capital and Related Financing Activities	($ 29)	($ 54)	($ 45)	($ 49)	$ 200
Cash Flows from Investing Activities:					
Proceeds from Sale and Maturities of Investment Securities					$ 733
Interest and Dividends Receipts	5,973	6,345	6,970	5,858	7,073
Net Cash Provided (Used) by Investing Activities	$ 5,973	$ 6.345	$ 6,970	$ 5.858	$ 7.806
Net Increase (Decrease) in Cash and Cash Equivalents	$ 10,276	($ 10,616)	($ 9,501)	($ 12,996)	($ 17,784)
Cash and Cash Equivalents. Beginning of Year	125,556	136,171	144,570	157,568	175,351
Cash and Cash Equivalents. End of Year	$135,832	$125,555	$135,069	$144,572	$157,567
Operating Income (Loss)	$ 2,990	($ 1,319)	($ 2,374)	($ 1,337)	$ 1,269
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation	$ 36	$ 36	$ 30	$ 28	$ 27
Amortization				252	138
Provision for Uncollectible Accounts	8	3	11	(15)	(5.890)
Operating Expense (Interest Expense) Classified as Noncapital Financing Act	30.458	32,064	31.679	31.998	45.439
Changes In Assets and Liabilities:					
Decrease (Increase) in Receivables	(39.728)	(12.927)	(56.280)	63.261	63,854
Decrease (Increase) in Due From Other Funds				362	(320)
Decrease (Increase) in Investments					
Decrease (Increase) in Prepaid Items	(1)	13	(35)		(1)
Decrease (Increase) in Deferred Charges	58	101	8		
Decrease (Increase) in Other Assets	45	64	(29)	234	150
Decrease (Increase) in Accounts Payable and Other Accrued Liabilities	(699)	(910)	1.634	8,780	(314)
Decrease (Increase) in Compensated Absences	1	22	23	53	(9)
Decrease (Increase) in Due to Other Funds	(22)	48	(439)	374	(1.114)
Decrease (Increase) in Due to Other Governments	3	(23)	14	(52)	39
Decrease (Increase) in Tax and Other Deposits				(1)	
Decrease (Increase) in Deferred Revenues	(173)	(173)	(173)	59	(94)
Decrease (Increase) in Interest Payable					(1,783)
Total Adjustments	($ 9,995)	$ 18,297	($ 23,558)	$105,333	$100,122
Net Cash Provided by Operating Activities	($ 7,005)	$ 16,977	($ 25,932)	$103,996	$101,391

Source: Wisconsin Department of Veterans Affairs.

Table III-17
VETERANS HOUSING LOAN PROGRAM
BONDS ISSUED AND RELATED RATES OF INTEREST
(On Bonds Issued to December 15, 1997)

Bonds Dated	Amount of Issue	Interest Rate Paid by the State	Interest Rate Charged to Veterans[a]
9/01/74 [b]	$ 37,615,000	7.62%	8.43%
5/01/75 [b]	24,330,000	6.91	7.85
8/15/75	50,000,000 [c]	5.99	7.00
12/01/75	50,000,000 [d]	5.65	6.75
3/15/76	100,000,000 [c]	5.48	7.00
7/01/76	100,000,000 [d]	5.26	7.00
11/01/76	40,000,000	4.85	6.35
2/15/77	40,000,000 [c]	4.74	6.23
5/15/77	110,000,000	4.61	6.11
10/01/77	36,000,000 [c]	4.54	6.03
2/01/78	100,000,000 [c]	4.94	6.44
6/01/78	80,000,000 [d]	5.08	6.58
11/01/78	49,000,000	5.04	6.25
2/01/79	75,000,000 [c]	5.68	6.88
5/15/79	70,000,000 [d]	5.51	6.70
10/15/79	70,000,000 [c]	5.71	6.91
1/01/80	30,000,000 [d]	6.27	7.31
9/15/82	30,000,000 [c]	9.11	10.20
5/01/83	20,000,000 [e]	8.13	9.20
12/01/83	30,000,000	8.72	9.90
4/01/84	50,000,000 [c]	9.12	10.30
4/01/85	290,955,000 [f]	9.49	10.60
5/22/86	38,185,500	7.78	8.55
7/01/88	15,000,000	7.87	8.55
1/01/89	20,000,000	7.98	8.55
8/01/89	20,000,000	7.22	7.85
3/01/90	20,000,000	7.60	8.25
10/01/90	20,000,000	7.62	8.25
4/01/91	30,000,000	7.36	8.10
6/01/92	30,000,000	6.56	7.40
10/15/93	20,000,000	5.40	5.25[g]
9/15/94	45,000,000	6.62	7.25
2/15/95	29,625,000	6.46	7.45
10/15/95	42,850,000	5.58	6.55
5/15/96	45,000,000	6.07	7.00
10/15/96	30,000,000	5.93	6.90
3/15/1997	45,000,000	5.97	6.90
9/15/1997	45,000,000	5.41	6.40
9/15/1997	45,000,000	7.30	6.40[h]

[a] Includes an add-on to cover lender's fees, DVA administrative costs and reserve for self-insurance.

[b] Bonds issued by the Wisconsin Housing and Economic Development Authority. All others are State general obligations

[c] Refunded between February 1, 1994 and April 15, 1994 by General Obligation Refunding Bonds of 1993, Series 5. Interest rates on loans remain unchanged.

[d] Refunded between May 15, 1994 and July 1, 1994 by General Obligation Refunding Bonds of 1994, Series 2. Interest rates on loans remain unchanged.

[e] Refunded November 1, 1994 by General Obligation Refunding Bonds of 1994, Series 3. Interest rates on loans remain unchanged.

[f] Of this total amount, $18,551,000 were used to fund mortgage loans.

[g] A subsidy resulting from refunding savings is being used to cover the difference between the Debt Service on the bonds and cash flow from the mortgages. In addition, the subsidy covers the lender's fees, DVA administrative costs and a reserve for self-insurance.

[h] This is a Taxable Veterans Mortgage Bond. The State used a subsidy from excess proceeds of eligible mortgage pools so that the resulting mortgage rates are the same as the mortgage rates for loans funded with Tax-Exempt Veterans Mortgage Bonds issued on the same date

Source: Wisconsin Department of Administration.

Table III-18
VETERANS HOUSING LOAN PROGRAM
60+ DAY LOAN DELINQUENCIES

	Month Ending	Principal Amount Outstanding	Number of Loans Outstanding	60+ Day Delinquent Loans	Percent of Loans Outstanding
1994	January	$462,952,414	18,040	227	1.26%
	February	458,099,345	17,906	236	1.32
	March	452,363,035	17,732	212	1.20
	April	449,584,366	17,614	234	1.33
	May	449,734,214	17,541	205	1.17
	June	452,040,592	17,489	227	1.30
	July	458,245,991	17,493	210	1.20
	August	466,310,378	17,515	232	1.32
	September	472,261,007	17,514	225	1.28
	October	474,971,606	17,471	220	1.26
	November	482,123,736	17,516	196	1.12
	December	484,137,457	17,481	204	1.17
1995	January	489,595,902	17,509	197	1.13
	February	490,726,186	17,492	198	1.13
	March	493,801,439	17,471	165	0.94
	April	496,568,057	17,450	193	1.11
	May	499,520,436	17,427	188	1.07
	June	504,175,347	17,390	177	1.02
	July	508,081,670	17,347	192	1.11
	August	508,968,509	17,275	187	1.08
	September	510,381,666	17,228	201	1.17
	October	511,241,469	17,166	183	1.07
	November	513,949,975	17,129	210	1.23
	December	514,205,581	17,075	201	1.18
1996	January	516,759,032	17,039	210	1.23
	February	515,973,158	16,967	210	1.24
	March	514,179,132	16,874	189	1.12
	April	512,091,370	16,753	174	1.04
	May	515,135,128	16,691	160	0.96
	June	518,464,350	16,636	178	1.07
	July	521,776,451	16,570	157	0.95
	August	526,834,282	16,551	160	0.97
	September	536,335,861	16,594	180	1.08
	October	540,434,442	16,556	169	1.02
	November	545,574,566	16,534	166	1.00
	December	545,778,074	16,483	181	1.10
1997	January	548,471,386	16,454	169	1.03
	February	549,783,460	16,412	163	0.99
	March	548,669,843	16,327	146	0.89
	April	548,571,557	16,244	153	0.94
	May	551,560,397	16,195	149	0.92
	June	555,130,634	16,151	139	0.86
	July	560,303,147	16,135	153	0.95
	August	562,979,629	16,096	168	1.04
	September	564,772,521	16,024	153	0.95
	October	564,982,487	15,954	140	0.88

Source: Wisconsin Department of Veterans Affairs.

Table III-19

DEBT SERVICE SCHEDULE ON STATE GENERAL OBLIGATIONS ISSUED TO FUND VETERANS HOUSING LOANS

(December 15, 1997)

Fiscal Year (Ending June 30)	Principal	Interest	Total Debt Service
1998[a]	$ 16,880,000	$ 19,313,849	$ 36,193,849
1999	25,080,000	36,243,560	61,323,560
2000	26,745,000	34,941,096	61,686,096
2001	30,690,000	33,415,669	64,105,669
2002	32,075,000	31,818,446	63,893,446
2003	30,130,000	30,136,394	60,266,394
2004	28,985,000	28,621,574	57,606,574
2005	29,930,000	27,109,316	57,039,316
2006	29,800,000	25,603,403	55,403,403
2007	27,845,000	24,112,386	51,957,386
2008	24,235,000	22,655,626	46,890,626
2009	22,575,000	21,314,360	43,889,360
2010	19,700,000	20,098,569	39,798,569
2011	18,830,000	19,054,519	37,884,519
2012	17,525,000	18,011,571	35,536,571
2013	18,585,000	16,956,438	35,541,438
2014	18,870,000	15,829,873	34,699,873
2015	18,715,000	14,686,931	33,401,931
2016	17,190,000	13,529,565	30,719,565
2017	24,415,000	12,405,316	36,820,316
2018	19,220,000	11,062,818	30,282,818
2019	19,250,000	9,821,151	29,071,151
2020	19,170,000	8,574,761	27,744,761
2021	19,145,000	7,358,983	26,503,983
2022	18,600,000	6,136,641	24,736,641
2023	19,190,000	4,953,266	24,143,266
2024	19,495,000	3,750,486	23,245,486
2025	14,200,000	2,532,356	16,732,356
2026	9,725,000	1,607,284	11,332,284
2027	11,935,000	985,985	12,920,985
2028	3,160,000	347,175	3,507,175
2028	3,130,000	113,463	3,243,463
TOTALS	$655,020,000	$523,102,829	$1,178,122,829

[a] For the fiscal year ending June 30, 1998, the table includes debt service amounts for the period December 16, 1997 through June 30, 1998.

Source: Wisconsin Department of Administration.

Table III-20
TOTAL LOANS BY COUNTY
GENERAL OBLIGATION BOND FUNDS
THROUGH OCTOBER 1997

County	Number of Loans	% of Total Loans	County	Number of Loans	% of Total Loans
Adams	133	0.27%	Marinette	297	0.61%
Ashland	89	0.18	Marquette	15	0.03
Barron	410	0.84	Menominee	65	0.13
Bayfield	91	0.19	Milwaukee	8,919	18.21
Brown	2,673	5.46	Monroe	394	0.80
Buffalo	94	0.19	Oconto	288	0.59
Burnett	73	0.15	Oneida	328	0.67
Calumet	299	0.61	Outagamie	1,923	3.93
Chippewa	447	0.91	Ozaukee	491	1.00
Clark	184	0.38	Pepin	47	0.10
Columbia	429	0.88	Pierce	326	0.67
Crawford	107	0.22	Polk	188	0.38
Dane	3,737	7.63	Portage	670	1.37
Dodge	727	1.48	Price	131	0.27
Door	230	0.47	Racine	2,006	4.10
Douglas	503	1.03	Richland	102	0.21
Dunn	273	0.56	Rock	1,991	4.07
Eau Claire	1,119	2.29	Rusk	159	0.32
Florence	8	0.02	St. Croix	527	1.08
Fond du Lac	1,088	2.22	Sauk	467	0.95
Forest	28	0.06	Sawyer	57	0.12
Grant	342	0.70	Shawano	265	0.54
Green	296	0.60	Sheboygan	1,196	2.44
Green Lake	134	0.27	Taylor	100	0.20
Iowa	187	0.38	Trempeleau	199	0.41
Iron	34	0.07	Vernon	138	0.28
Jackson	191	0.39	Vilas	112	0.23
Jefferson	673	1.37	Walworth	580	1.18
Juneau	163	0.33	Washburn	113	0.23
Kenosha	1,289	2.63	Washington	930	1.90
Kewaunee	126	0.26	Waukesha	2,421	4.94
LaCrosse	1,154	2.36	Waupaca	416	0.85
Lafayette	119	0.24	Waushara	141	0.29
Langlade	117	0.24	Winnebago	1,906	3.89
Lincoln	195	0.40	Wood	1,013	2.07
Manitowoc	1,080	2.21	Total	48,967	100.00%
Marathon	1,204	2.46			

Source: Wisconsin Department of Veterans Affairs.

Table III-21
TAX-EXEMPT VETERANS MORTGAGE BONDS
SUBJECT TO SPECIAL REDEMPTION

Series	Dated Date	Maturities	Original Par Amount January	Original Par Amount July	Par Amount Outstanding[a] January	Par Amount Outstanding[a] July	Coupon
1985 Series B	04/01/85	1996	$ 3,550,000				8.65%
		1997	8,110,000				8.80
		1998	8,365,000				8.90
		1999	10,415,000				9.05
		2000	12,700,000				9.15
		2001	16,870,000				9.25
		2009	140,130,000				9.50
		2016	50,000,000				9.00
1986 Series A	05/15/86	1995	460,000				6.90
		1996	1,055,000				7.00
		1997	1,090,000				7.25
		1998	1,360,000		$ 1,360,000		7.25
		1999	1,655,000		1,655,000		7.25
		2000	2,200,000		2,200,000		7.50
		2001	2,420,000		2,420,000		7.50
		2002	2,905,000		2,905,000		7.50
		2006	13,025,000				7.50
		2015	12,015,000		2,150,000		7.50
1988 Series A	07/01/88	1994	75,000	$ 75,000			6.40
		1995	75,000	75,000			6.60
		1996	75,000	100,000			6.80
		1997	100,000	100,000			7.00
		1998	100,000	100,000	100,000	$ 100,000	7.10
		1999	100,000	125,000	100,000	125,000	7.20
		2000	125,000	125,000	125,000	120,000	7.30
		2001	125,000	125,000	125,000	125,000	7.40
		2002	150,000	150,000	150,000	150,000	7.50
		2003	150,000	200,000	150,000	195,000	7.60
		2008		1,200,000			7.85
		2008		3,050,000 [b]			7.00
		2018		7,925,000			8.10
1989 Series A	01/01/89	1994	100,000	100,000			7.00
		1995	100,000	100,000			7.10
		1996	100,000	125,000			7.20
		1997	125,000	125,000			7.25
		1998	125,000	150,000	125,000	150,000	7.35
		1999	150,000	175,000	150,000	175,000	7.40
		2000	175,000	200,000	175,000	200,000	7.50
		2001	200,000	225,000	200,000	225,000	7.60
		2002	225,000	250,000	225,000	250,000	7.65
		2003	250,000	250,000	250,000	250,000	7.70
		2004	275,000		275,000		7.70
		2009	775,000				7.80
		2009	3,900,000 [b]				7.80
		2019	11,175,000				7.90
1989 Series D	08/01/89	1994	100,000	100,000			6.50
		1995	100,000	100,000			6.60
		1996	100,000	100,000			6.70
		1997	125,000	125,000			6.75
		1998	125,000	125,000	125,000	125,000	6.80
		1999	150,000	150,000	150,000	150,000	6.85
		2000	175,000	175,000	175,000	175,000	6.90
		2001	200,000	200,000	200,000	200,000	6.95

Table III-21 — Continued
TAX-EXEMPT VETERANS MORTGAGE BONDS SUBJECT TO SPECIAL REDEMPTION

Series	Dated Date	Maturities	Original Par Amount		Par Amount Outstanding[a]		Coupon
			January	July	January	July	
1989 Series D (continued)		2002	225,000	225,000	225,000	225,000	7.00
		2003	250,000	250,000	250,000	250,000	7.05
		2004	250,000	275,000	250,000	275,000	7.10
		2009		725,000		725,000	7.15
		2009		3,775,000 [b]			6.75
		2019		11,350,000		11,350,000	7.20
1990 Series B	03/01/90	1994	75,000	75,000			6.40
		1995	75,000	75,000			6.50
		1996	75,000	100,000			6.60
		1997	100,000	100,000			6.70
		1998	100,000	100,000	100,000	100,000	6.80
		1999	125,000	125,000	125,000	125,000	6.90
		2000	125,000	150,000	125,000	150,000	7.00
		2001	175,000	175,000	175,000	175,000	7.10
		2002	175,000	175,000	175,000	175,000	7.10
		2003	200,000	200,000	200,000	200,000	7.20
		2004	225,000	225,000	225,000	225,000	7.25
		2005	225,000		225,000		7.30
		2010	3,975,000 [b]				7.25
		2020	12,450,000				7.60
1990 Series F	10/01/90	1994	75,000	75,000			6.45
		1995	100,000	100,000			6.55
		1996	100,000	100,000			6.65
		1997	100,000	125,000			6.75
		1998	125,000	125,000	125,000	125,000	6.85
		1999	125,000	125,000	125,000	125,000	6.95
		2000	150,000	150,000	150,000	150,000	7.05
		2001	150,000	175,000	150,000	175,000	7.15
		2002	175,000	150,000	175,000	150,000	7.20
		2003	200,000	200,000	200,000	200,000	7.25
		2004	200,000	225,000	200,000	225,000	7.30
		2005	225,000	175,000	225,000	175,000	7.35
		2010		3,800,000 [b]			7.30
		2020		12,425,000			7.60
1991 Series A	04/01/91	1994	150,000	150,000			5.70
		1995	150,000	150,000			5.90
		1996	150,000	150,000			6.10
		1997	150,000	175,000			6.20
		1998	175,000	175,000	175,000	175,000	6.30
		1999	175,000	175,000	175,000	175,000	6.40
		2000	200,000	200,000	200,000	200,000	6.50
		2001	225,000	250,000	225,000	250,000	6.60
		2002	250,000	250,000	250,000	250,000	6.75
		2003	250,000	300,000	250,000	300,000	6.90
		2004	275,000	300,000	275,000	300,000	7.00
		2005	325,000	325,000	325,000	325,000	7.10
		2006	275,000		275,000		7.10
		2011	5,825,000 [b]				6.75
		2021	18,400,000		18,400,000		7.50
1992 Series B	06/01/92	1994	175,000	175,000			5.60
		1995	175,000	180,000			5.60
		1996	180,000	185,000			5.60
		1997	190,000	200,000			5.60
		1998	200,000	200,000	75,000	70,000	5.60
		1999	210,000	215,000	80,000	75,000	5.75

Table III-21 — Continued
TAX-EXEMPT VETERANS MORTGAGE BONDS
SUBJECT TO SPECIAL REDEMPTION

Series	Dated Date	Maturities	Original Par Amount January	Original Par Amount July	Par Amount Outstanding[a] January	Par Amount Outstanding[a] July	Coupon
1992 Series B		2000	230,000	230,000	85,000	85,000	5.90
(continued)		2001	250,000	255,000	90,000	90,000	6.00
		2002	270,000	280,000	100,000	100,000	6.10
		2003	290,000	295,000	105,000	110,000	6.20
		2004	315,000	330,000	110,000	120,000	6.30
		2005	340,000	355,000	125,000	130,000	6.40
		2006	365,000	370,000	130,000	135,000	6.40
		2007	370,000	400,000	135,000	145,000	6.50
		2008	400,000		145,000		6.50
		2012	4,000,000 [b]				6.00
		2022	18,220,000		6,605,000		6.60

Series	Dated Date	Maturities	Original Par Amount May	Original Par Amount November	Par Amount Outstanding[a] May	Par Amount Outstanding[a] November	Coupon
1993 Series 6	10/15/93	1994	210,000	165,000			2.70/2.80
		1995	170,000	170,000			3.30
		1996	175,000	175,000			3.65
		1997	180,000	185,000			3.85
		1998	185,000	195,000	185,000	195,000	4.00
		1999	195,000	195,000	195,000	195,000	4.10
		2000	205,000	210,000	205,000	210,000	4.20
		2001	210,000	220,000	210,000	220,000	4.30
		2002	220,000	230,000	220,000	230,000	4.45
		2003	230,000	240,000	230,000	240,000	4.55
		2004	240,000	250,000	240,000	250,000	4.65
		2005	255,000	260,000	255,000	260,000	4.75
		2006	270,000	270,000	270,000	270,000	4.85
		2010	2,125,000		2,125,000		5.15
		2013	2,150,000		2,150,000		5.25
		2016	10,215,000		10,215,000		5.30
1993 Series 5	12/01/93	1994		95,000			2.50
		1995	90,000	85,000			3.20
		1996	90,000	95,000			3.60
		1997	95,000	95,000			3.80
		1998	95,000	100,000	95,000	100,000	4.00
		1999	105,000	105,000	105,000	105,000	4.10
		2000	105,000	6,805,000	105,000	6,805,000	4.20
		2001	3,605,000	9,135,000	3,605,000	9,135,000	4.35
		2002	5,650,000	10,885,000	5,650,000	10,885,000	4.45
		2003	8,425,000	9,555,000	8,425,000	9,555,000	4.55
		2004	7,160,000	11,000,000	7,160,000	11,000,000	4.65
		2005	8,875,000	10,275,000	8,875,000	10,275,000	4.75
		2006	9,000,000	12,025,000	9,000,000	12,025,000	4.85
		2010		14,770,000		14,770,000	5.20
		2013		1,190,000		1,190,000	5.30
		2016		1,405,000		1,405,000	5.35
		2023		4,340,000		4,340,000	5.40
1994 Series 2	03/01/94	1999	10,565,000		10,565,000		4.85
		2000	9,070,000		9,070,000		5.00
		2001	8,680,000		8,680,000		5.10
		2002	6,390,000		6,390,000		5.20
		2003	4,810,000		4,810,000		5.30
		2004	3,715,000		3,715,000		5.40
		2005	2,540,000		2,540,000		5.50
		2006	2,050,000		2,050,000		5.60
		2007	1,760,000		1,760,000		5.70
		2008	1,580,000		1,580,000		5.80
		2009	890,000		890,000		5.85
		2014	1,700,000		1,700,000		6.10
		2024	4,775,000		4,775,000		6.20

Table III-21 — Continued
TAX-EXEMPT VETERANS MORTGAGE BONDS
SUBJECT TO SPECIAL REDEMPTION

Series	Dated Date	Maturities	Original Par Amount May	Original Par Amount November	Par Amount Outstanding[a] May	Par Amount Outstanding[a] November	Coupon
1994 Series 3	09/15/94	1995	800,000				3.90
		1996	800,000				4.30
		1997	800,000				4.55
		1998	800,000		800,000		4.75
		1999	800,000		800,000		4.90
		2000	800,000		800,000		5.00
		2001	800,000		800,000		5.10
		2002	800,000		800,000		5.20
		2003	800,000		800,000		5.30
		2004	800,000		800,000		5.40
		2005	800,000		800,000		5.50
		2006	600,000		600,000		5.60
		2007	600,000		600,000		5.70
		2008	400,000		400,000		5.80
1994 Series C	09/15/94	1996	575,000				5.50
		1997	610,000				5.50
		1998	635,000		625,000		5.50
		1999	670,000		660,000		5.50
		2000	700,000		690,000		5.50
		2001	740,000		730,000		5.50
		2002	780,000		770,000		5.60
		2003	825,000		815,000		5.70
		2004	870,000		855,000		5.80
		2005	915,000		900,000		5.90
		2006	980,000		965,000		6.00
		2007	1,040,000		1,025,000		6.10
		2008	1,105,000		1,090,000		6.20
		2009	1,175,000		1,155,000		6.30
		2010	1,255,000		1,235,000		6.30
		2011	1,335,000		1,315,000		6.40
		2012	1,415,000		1,395,000		6.40
		2013	1,510,000		1,485,000		6.50
		2016	5,135,000		5,060,000		6.60
		2020	8,535,000		8,405,000		6.60
		2025	14,195,000		13,980,000		6.65
1995 Series 1	2/15/95	1999	1,110,000		1,110,000		5.25
		2000	3,240,000		3,240,000		5.30
		2004	860,000		860,000		5.55
		2008	1,300,000		1,300,000		5.80
		2009	1,380,000		1,380,000		5.80
		2010	1,465,000		1,465,000		6.00
		2011	1,560,000		1,560,000		6.00
		2012	1,660,000		1,660,000		6.00
		2013	1,765,000		1,765,000		6.00
		2014	1,395,000		1,395,000		6.10
1995 Series B	2/15/95	2016	4,215,000		4,215,000		6.40
		2020	7,920,000		7,920,000		6.50
		2025	17,130,000		17,130,000		6.50
1995 Series 2	10/15/95	1997		1,100,000			4.00
		1998		1,685,000		1,685,000	4.15
		1999		1,395,000		1,395,000	4.25
		2000		1,600,000		1,600,000	4.35
		2004		730,000		730,000	4.85
		2005		1,985,000		1,985,000	4.95
		2007		1,975,000		1,975,000	5.20
		2008		3,245,000		3,245,000	5.25
		2009		3,450,000		3,450,000	5.40
		2010		3,660,000		3,660,000	5.40
		2011		3,895,000		3,895,000	5.50
		2012		4,130,000		4,130,000	5.60
		2013		4,390,000		4,390,000	5.70
		2014		4,660,000		4,660,000	5.75
		2015		4,950,000		4,950,000	5.75

Table III-21 — Continued
TAX-EXEMPT VETERANS MORTGAGE BONDS
SUBJECT TO SPECIAL REDEMPTION

Series	Dated Date	Maturities	Original Par Amount May	Original Par Amount November	Par Amount Outstanding[a] May	Par Amount Outstanding[a] November	Coupon
1996 Series B	5/15/96	1998		2,060,000		2,060,000	4.40
		1999		2,155,000		2,155,000	4.70
		2007		6,730,000		6,730,000	5.50
		2008		5,430,000		5,430,000	5.60
		2009		3,255,000		3,255,000	5.70
		2010		200,000		200,000	5.80
		2011		210,000		210,000	5.90
		2012		230,000		230,000	6.00
		2013		240,000		240,000	6.00
		2014		255,000		255,000	6.00
		2021		10,305,000		10,305,000	6.10
		2026		13,930,000		13,930,000	6.20
1996 Series D	10/15/96	2007	4,500,000		4,500,000		5.25
		2008	2,250,000		2,250,000		5.30
		2009	1,800,000		1,800,000		5.40
		2014	3,700,000		3,700,000		5.75
		2020	6,405,000		6,405,000		5.80
		2027	11,345,000		11,345,000		6.00
1997 Series A	3/15/97	2021	8,065,000		8,065,000		6.00
		2028	13,295,000		13,295,000		6.00
1997 Series I	3/15/97	2006	1,000,000		1,000,000		5.20
		2007	2,385,000		2,385,000		5.25
		2008	1,015,000		1,015,000		5.25
		2009	725,000		725,000		5.35
		2010	1,290,000		1,290,000		5.50
		2011	3,165,000		3,165,000		5.50
		2012	2,330,000		2,330,000		5.50
		2013	1,910,000		1,910,000		5.55
		2014	1,990,000		1,990,000		5.60
		2015	2,070,000		2,070,000		5.65
		2017	5,760,000		5,760,000		5.75
1997 Series C	9/15/97	2000		250,000		250,000	4.25
		2001		270,000		270,000	4.30
		2003		1,445,000		1,445,000	4.50
		2004		1,645,000		1,645,000	4.50
		2005		1,390,000		1,390,000	4.50
		2006		1,480,000		1,480,000	4.60
		2007		1,935,000		1,935,000	4.75
		2008		2,035,000		2,035,000	4.80
		2009		2,445,000		2,445,000	5.00
		2010		2,765,000		2,765,000	5.00
		2011		2,655,000		2,655,000	5.00
		2012		2,600,000		2,600,000	5.10
		2013		2,360,000		2,360,000	5.20
		2017		7,850,000		7,850,000	5.40
		2023		10,580,000		10,580,000	5.50
		2026		3,295,000		3,295,000	5.50

[a] As of December 15, 1997.

[b] Accelerated Redemption Term Bond.

Source: Wisconsin Department of Administration

Table III-22

SUMMARY OF PREPAYMENTS ON VETERANS HOUSING LOANS

Mortgage Pool	Interest Rate Charged to Veterans	Prepayments July 1994-July 1997					
		July-December 1994	January-June 1995	July-December 1995	January-June 1996	July-December 1996	January-July 1997
1975 Series D	7.00%	$ 136,431	$ 286,037	$ 367,234	$ 345,447	$ 221,172	$ 154,436
1975 Series E	6.75	254,570	434,064	245,766	351,724	199,264	358,859
1976 Series A	7.00	678,884	635,740	545,972	687,683	680,445	563,489
1976 Series B	7.00	597,983	788,808	560,318	514,761	668,582	712,435
1976 Series C	6.35	337,184	242,129	253,176	245,267	273,310	140,428
1977 Series A	6.23	179,566	189,148	277,711	289,782	354,715	310,802
1977 Series B	6.11	855,493	1,077,667	797,031	952,596	863,606	849,873
1977 Series C	6.03	346,185	261,512	370,158	307,585	216,011	204,123
1978 Series A	6.44	1,009,377	965,115	758,099	772,863	916,243	872,280
1978 Series B	6.58	1,082,228	664,820	564,578	885,364	796,458	675,890
1978 Series C	6.25	493,544	510,999	480,062	449,647	446,219	355,161
1979 Series A	6.88	798,570	958,196	735,468	649,636	707,844	574,790
1979 Series B	6.70	1,022,337	747,993	705,763	802,298	1,000,789	743,597
1979 Series C	6.91	1,055,657	1,021,204	496,146	996,467	813,309	831,561
1980 Series D	7.31	249,527	663,740	436,219	253,869	304,974	402,091
1982 Series B	10.20	362,936	231,772	237,984	362,008	162,654	188,713
1983 Series A	9.20	196,448	421,509	248,377	322,863	129,287	147,933
1983 Series C	9.90	385,033	354,153	299,388	476,456	314,513	292,781
1984 Series A	10.30	551,639	656,634	555,636	834,788	861,757	546,892
1985 Series B	10.60	210,975	320,816	58,902	239,859	219,936	174,434
1986 Series A	8.55	789,706	552,049	625,861	1,067,002	523,936	962,402
1988 Series A	8.55	286,011	200,370	224,347	432,037	103,792	362,788
1989 Series A	8.55	589,461	621,630	293,160	595,560	622,167	689,723
1989 Series D	7.85	579,109	449,771	492,865	352,851	768,327	307,640
1990 Series B	8.25	595,927	287,041	406,606	858,800	404,402	342,355
1990 Series F	8.25	959,041	298,711	505,603	714,794	421,383	607,738
1991 Series A	8.10	855,632	736,050	452,956	880,732	856,555	504,331
1992 Series B	7.40	276,247	238,581	244,494	540,482	412,038	347,601
1993 Series 6	5.25	147,347	288,803	147,116	42,377	490,426	488,886
1994 Series C	7.25	77,042	162,562	565,401	433,513	866,128	992,721
1994 Series 1	6.00	N/A	200,027	199,553	238,892	267,153	369,559
1995 Series B	7.45	N/A	1,083	33,350	490,009	183,151	1,143,359
1995 Series 1	7.45	N/A	0	11,232	271,433	213,497	98,258
1995 Series 2	6.55	N/A	N/A	150	9,099	130,558	213,419
1996 Series B	7.00	N/A	N/A	N/A	0	27,907	338,198
1996 Series D	6.90	N/A	N/A	N/A	N/A	0	19,483
	Totals	$15,960,089	$15,468,733	$13,196,683	$17,668,544	$16,442,511	$16,889,028

Source: Wisconsin Department of Veterans Affairs.

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PART IV

MASTER LEASE CERTIFICATES OF PARTICIPATION

This part of the Annual Report includes information about master lease certificates of participation issued under the State of Wisconsin Master Lease Program (the "Program") pursuant to the authority granted in Chapter 16 of the Wisconsin Statutes. Master lease certificates of participation (the "Certificates") are issued under and secured by a Master Indenture, dated as of July 1, 1996 (the "Master Indenture"), among the State of Wisconsin (the "State"), acting by and through the Department of Administration (the "Department"), Firstar Bank Milwaukee, N.A. (the "Lessor") and Firstar Trust Company, Milwaukee, Wisconsin (the "Trustee" and "Paying Agent").

The Certificates evidence a proportionate interest of the owners thereof in certain lease payments to be made by the State, acting by and through the Department, for the rental of certain equipment and service items purchased pursuant to the Second Amended and Restated Master Lease #1992-1, dated as of July 1, 1996 (the "Master Lease"), between the Lessor and the State, acting by and through the Department.

The full faith and credit of the State are not pledged to the payment of the Certificates; the State is not obligated to levy or pledge any tax to pay the Lease Payments. The Certificates do not constitute debt of the State or any of its subdivisions.

The law firm of Foley & Lardner provides bond counsel services to the State for issuance of the Certificates. The firm of Public Financial Management provides financial advisory services to the State for the Program.

This Annual Report includes information and defined terms for different types of municipal securities issued by the State and has been gathered from multiple sources. The context or meaning of terms used in this part of the Annual Report may differ from that of terms used in another part.

THE MASTER LEASE PROGRAM

General

The State, acting by and through the Department, created the Program in September 1992 for the purpose of acquiring equipment for state agencies through installment payments. Legislation signed into law in July 1994 expanded this purpose to acquire, in limited circumstances, prepaid service items. The Program is available for all State agencies, which includes 18 State departments and any office, department, agency, institution of higher education, association, society or other body of the State which is entitled to expend moneys appropriated by law, including the legislature and the courts. Through the period ending December 15, 1997, 16 of the 18 State departments have used the Program for acquiring approximately $127 million of equipment or service items.

Program Structure

The structure of the Program consists of the Master Lease and the Master Indenture. The Master Lease contains general terms and conditions applicable to both the Program and Lease Schedules entered into at various times by the Lessor and the Lessee and added to the Master Lease. See "SUMMARY OF THE MASTER LEASE". The Master Indenture establishes a trust which consists of certain Lease Schedules, Lease Payments, Leased Items and other property and rights related to those Lease Schedules, including the security interest granted in the Master Lease (the "Trust"). The Trust serves as a common pool of collateral, ratably securing all present and future Certificates. See "SUMMARY OF THE MASTER INDENTURE". Supplemental Indentures are periodically authorized and executed pursuant to the terms of the Master Indenture for the purpose of creating one or more series of Certificates to evidence proportionate interests in certain Lease Payments to be made by the State, acting by and through the Department.

Program Operations

The Program has been structured to place within the Department centralized control of day-to-day operations. Functions related to Program administration, review of requests to use the Program, and day-to-day Program operations occur in the Capital Finance Office; functions related to reviewing requests to use the Program and biennial budget preparation occur in the State Budget Office; and functions related to collecting Lease Payments due under the Master Lease occur in the State Controller's Office. Each of these offices is within the Department's Division of Executive Budget and Finance.

State agencies submit a written request to the Capital Finance Office stating their intent to utilize the Program for acquiring an equipment or service item. This written request is reviewed and approved by the Capital Finance Office, State Budget Office and the Secretary of the Department. Requests which include information technology items are also reviewed by the Department's Division of Technology Management. This review process includes a determination by the Capital Finance Office that lease financing is the best alternative for a particular circumstance, and a determination by the State Budget Office that current resources are available to make the Lease Payments due in the current fiscal year. Upon receiving approval to use the Program, the agency completes procurement of the equipment or service item on behalf of the Lessor and pursuant to State procurement requirements.

Upon installation and acceptance of the equipment or service item (certified to the Program by the agency's completion of the Master Lease Program Notice of Equipment Acceptance form), the agency forwards all related outstanding invoices to the Department for payment. Parallel to making payment to the equipment or service vendor, a Lease Schedule is prepared by the Department and executed by the Department (as Lessee), Lessor and State agency. This Lease Schedule is then added to the Master Lease. The Lease Schedule includes an agreement between the Department and the State agency that identifies the budgetary appropriation from which the related Lease Payments will be made.

The Program includes a two-phase financing structure. See "SECURITY FOR CERTIFICATES; Two-Phase Financing Structure". Payments to the equipment or service vendors are made with proceeds from the revolving credit facility, which provides acquisition financing for the Program.

Lease Payments due under the Master Lease are collected by the State Controller's Office. Scheduled Lease Payments are automatically withdrawn from the appropriations identified by the agency and approved during the review process and electronically wired to the Trustee.

State Appropriation Process

Lease Payments due under the Master Lease are not included in the State budget as a separate budget line item; rather, Lease Payments are included with other expenditures in one or more of an agency's existing budget lines. State law establishes procedures for the budget's enactment. The Secretary of the Department, under the direction of the Governor and with assistance from the State Budget Office, compiles all budget information and prepares an executive budget consisting of the planned operating expenditures and revenues of all State agencies. The State Budget Office review and approval of requests to use the Program helps assist in preparation of a biennial budget so that Lease Payments will not be mistakenly omitted.

The executive budget is submitted to the Legislature on or about January 31 of each odd-numbered year. The Legislature's Joint Committee on Finance reviews the executive budget and reports its findings to the full Legislature, usually in the form of a substitute budget bill. Upon concurrence by both houses of the Legislature in the appropriations and revenue measures embodied in the budget bill, the entire bill is submitted to the Governor. The Governor is empowered to sign the bill into law or to veto all or part of the bill. If the Governor vetoes any portions, those items may be reconsidered in accordance with the rules of each house and, if approved by two-thirds of the members of each house, will become law notwithstanding the Governor's veto.

State law provides that in the event that a budget is not in effect at the start of a fiscal year, the prior year's budget serves as the budget until such time as a new one is enacted.

The Department maintains separate accounts for all appropriations, showing the amounts appropriated, the amounts allotted, the amounts encumbered, the amounts expended and certain other data necessary to the financial management and control of all State accounts. The Department also maintains the general ledgers of the General Fund and all other funds of the State.

Should estimated revenues prove to be less than anticipated in the budget or should expenditures for open-ended appropriations be greater than anticipated, the budget could move out of balance. The Wisconsin Statutes provide that if, following the enactment of the budget, the Secretary of the Department determines that budgeted expenditures will exceed revenues by more than one-half of one percent of general purpose revenues (consisting of general taxes, miscellaneous receipts and revenues collected by state agencies which lose their identity and are available for appropriation by the Legislature), no action can be taken regarding approval of expenditure estimates. Further, the Secretary of the Department must notify the Governor, the Legislature and its Joint Committee on Finance, and the Governor must submit a bill correcting the imbalance. If the Legislature is not in session, the Governor must call a special session to take up the matter.

SECURITY FOR CERTIFICATES

General

The Certificates represent a proportionate interest in certain Lease Payments made by the State under the Master Lease. The State is required under the Master Lease to make Lease Payments from any source of legally available funds, subject to annual appropriation, and the scheduled Lease Payments are sufficient to pay when due, the semiannual principal and interest payments on the Certificates. ***The obligation of the State to make Lease Payments does not constitute an obligation for which the State is obligated to levy or pledge any form of taxation or for which the State has levied or pledged any form of taxation. The obligation of the State to make Lease Payments does not constitute debt of the State or any of its political subdivisions.*** See "RISK FACTORS; Event of Nonappropriation".

Cross-Collateralization

Pursuant to the Master Indenture, the Lessor has and will continue to assign to the Trustee for the benefit of all Certificate holders all of its right, title and interest in and to the funds and accounts outlined in the Master Indenture, the Lease Schedules specified from time to time in one or more Supplemental Indentures, and all Lease Payments, Leased Items and other property and rights related to those Lease Schedules, including the security interest granted in the Master Lease, all of which serve as collateral to the Certificates. The Trust will serve as a common pool of collateral, ratably securing all present and future certificates of participation; all Leased Items are cross-collateralized regardless of their funding source or the time at which they are financed by the Program. An Event of Default or Nonappropriation under any Certificate constitutes an Event of Default or Nonappropriation under all outstanding Certificates so that any remedial action affects all Certificates equally. Once a Lease Schedule is fully paid, the applicable Leased Item no longer serves as collateral. See "SUMMARY OF THE MASTER INDENTURE" for other provisions of the Master Indenture.

In the opinion of Bond Counsel, the transfer of Lease Schedules by the Lessor to the Trustee constitutes a true sale and not a secured transaction. The State's obligation to make Lease Payments does not depend upon any service provided by the Lessor, and thus the transfer of Lease Schedules would be unaffected by any insolvency of the Lessor.

Reserve Fund

The Master Indenture allows for the funding of a reserve fund for a specific series of Certificates. As of December 15, 1997, no reserve funds apply to the outstanding Certificates. In the event that the Department establishes a reserve fund under the Master Indenture, the amounts in the reserve fund will only be available to the series of Certificates for which the reserve fund was authorized.

Essential Use

A certification is made for each Leased Item that it will be used to perform a governmental function, some of which functions may be deemed "essential" government functions. Examples of Leased Items currently existing in the Trust include the State's accounting system, expansion of the State's central mainframe computer, information technology items that provide automated services for the State, and equipment used by inmates in the State's prison system to manufacture, process and transport various products and goods.

Centralized Control and Review

The Program structure allows the Department's Division of Executive Budget and Finance to administer many Program activities. Program functions related to administration, review and day-to-day operations occur in the Capital Finance Office; Program functions related to review and biennial budget preparation occur in the State Budget Office; and Program functions related to collection of Lease Payments occur in the State Controller's Office.

Two-Phase Financing Structure

The Program implements a two-phase financing structure. In the first phase, all Leased Items are initially financed with proceeds from the revolving credit facility. The revolving credit facility is a line of credit, and the State, acting on behalf of the Trustee, requests draws from the revolving credit facility only for amounts equal to invoices presented to the Program for payment. A Certificate has been issued to the current provider of this revolving credit facility, Bank of America Illinois, evidencing the State's repayment of balances under the facility. The State pays interest on funds provided by the facility based on a variable, taxable interest rate. Use of this line-of-credit approach eliminates any nonorigination risk for the second phase since an obligation is created only after the Leased Item has been installed and accepted and an invoice has been presented to the Program for payment.

In the second phase, the State at various times, acting on behalf of the Trustee, sells additional Certificates to refinance the revolving credit facility with proceeds of a fixed-rate, and most often tax-exempt, financing. All sources of financing for the Program are completed under the Master Indenture. See "SECURITY FOR CERTIFICATES; Cross-Collateralization".

Appropriation Process

The central control of the Program provides the State Budget Office with knowledge of all past, current and pending scheduled Lease Payments due under the Master Lease. Lease Payments due under the Master Lease are not included in the State budget as a separate budget line item; rather, Lease Payments due under the Master Lease are included with other expenditures in one or more of an agency's existing budget lines. The Secretary of the Department, under the direction of the Governor and with assistance from the State Budget Office, compiles all budget information and prepares an executive budget consisting of the planned operating expenditures and revenues of all State agencies.

State law establishes procedures for establishing and enacting a State budget. State law also provides that in the event a budget is not in effect at the start of a fiscal year, the prior year's budget serves as the budget until such time a new budget is enacted.

The Secretary of the Department has statutory power to order reductions in the appropriations of state agencies (which represent less than one-third of the General Fund budget). See Part II of this Annual Report for additional information on the State budget process.

Priority of Claims

The Master Lease includes representations that, if an emergency arises that requires the Department to draw vouchers for payment which will be in excess of available moneys, the Secretary of the Department will establish a priority schedule for payments which shall give a high priority to Lease Payments due under the Master Lease, but not higher than the priority given to payments on outstanding general obligation bonds. See "STATE BUDGET; General Fund Cash Flow" in Part II of this Annual Report.

Event of Default

An Event of Default can occur under the Master Lease and Master Indenture (i) if the Department fails to pay any scheduled Lease Payment or other amount due under the Master Lease at the specified time and such failure continues for a period of five days, (ii) if the

Department fails to observe or perform any covenant, condition or agreement with respect to any Leased Item or the Master Indenture for a period of 30 days after written notice of such failure, (iii) if the Lessor makes a reasonable determination that any representation or warranty made by the Department in the Master Lease was untrue in any material respect, or (iv) if any other event designated as an Event of Default under any Supplemental Indenture occurs. See "SUMMARY OF THE MASTER LEASE" and "SUMMARY OF THE MASTER INDENTURE" for additional information on events of default and remedies available under the Master Lease and Master Indenture.

RISK FACTORS

Event of Nonappropriation

The State's obligation to make Lease Payments is subject to appropriation of the necessary funds by the Wisconsin Legislature. No assurance is given that sufficient funds will be appropriated or otherwise will be available to make the Lease Payments. A failure by the State to make a Lease Payment with respect to any Leased Item would cause a termination of the Master Lease with respect to all Leased Items. The State's obligation to make Lease Payments is not a general obligation of the State, and moreover, it does not involve the Building Commission. Rather, the Master Lease is a contract entered into by the Department pursuant to separate statutory authority.

The Master Lease does not include a nonsubstitution clause. If an Event of Nonappropriation should occur, the State is allowed to acquire and use a similar equipment or service item for the same function as the equipment or service item for which no appropriation was made.

While it is possible that failure to make the Lease Payments would thereafter hinder the State's access to the capital markets, it should not be assumed that the Legislature would find that possible consequence a compelling reason to make the appropriations needed for Lease Payments. See "SUMMARY OF THE MASTER LEASE" and "SUMMARY OF THE MASTER INDENTURE" for additional information on an Event of Nonappropriation and remedies available under the Master Lease and Master Indenture.

Essential Use of Leased Items

Although the State has made certain representations that the Leased Items each serve a governmental function, some of which functions may be deemed "essential" government functions, it should be assumed that the State could function without any of the Leased Items.

Security Interest in Leased Items

Although the State has provided a security interest in the Leased Items to the Trustee (for the benefit of the owners of the Certificates), the Certificates are not offered on the basis of the collateral value of the Leased Items or value of any other pledged asset. The Lease Term is not permitted to exceed the useful life of the Leased Item; however, it should not be assumed that the value of the Leased Item at any time will exceed the portion of the remaining Lease Payments that will be applied to principal or that the existence of such an excess would motivate the State to continue making Lease Payments. Typically it is difficult to realize the full value of collateral through sale of the collateral, and some of the Leased Items, such as service items or intangible property, may be particularly difficult to sell. Records that evidence the security interest are kept by the Department, separate and apart from the records kept by the Secretary of State with respect to security interests in most other property.

Tax Exemption

After termination of the Master Lease, there is no assurance that subsequent payments made by the Trustee with respect to the Certificates and designated as interest will be excluded from gross income for federal income tax purposes.

Applicability of Securities Law

After termination of the Master Lease, the transfer of a Certificate may be subject to compliance with the registration provisions of applicable federal and state securities laws. Accordingly, there is no assurance that liquidity of the Certificates will not be impaired following termination of the Master Lease.

Table IV-1

OUTSTANDING MASTER LEASE CERTIFICATES OF PARTICIPATION BY ISSUE

(As of December 15, 1997)

Financing	Date of Financing	Maturity	Amount of Issuance	Amount Outstanding
1996- Master Lease COPs Series A (Revolving Credit Agreement)	7/1/96	1999	$ 50,000,000	$ 19,113,518 [a]
Master Lease COPs Series B	11/8/96	3/1/97-9/1/03	38,260,000	20,655,000 [b]
Total Master Lease COPs				$ 39,768,518

[a] The Master Lease Certificate of Participation of 1996, Series A evidences the State's repayment of a revolving line of credit which the State utilizes for acquisition funding for the Program. See "SECURITY FOR CERTIFICATES; Two-Phase Financing Structure". The Amount Outstanding for this Certificate includes interest that has accrued on this revolving line of credit since the last interest payment on the Certificates.

[b] The Master Lease provides that certain lease schedules 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. The principal amount of Certificates for which payment is provided is treated as not outstanding for purposes of this table.

Table IV-2
OUTSTANDING MASTER LEASE SCHEDULES
(As of December 15, 1997)

Master Lease Schedule Number	Origination Date	Maturity Date	Agency	Equipment	Amount Financed	Principal Balance
93-02	1/29/93	1-Mar-99	DOA	Accounting System	$ 2,565,372 86	$ 734,211 51
93-08	5/27/93	1-Sep-99	DOA	Accounting System	2,188,179 89	790,942 98
93-09	5/27/93	1-Sep-98	LEGISLATURE	ext 2000 Bill Drafting	337,810 00	72,161 58
93-13	7/28/93	1-Sep-99	DOA	Accounting System Costs	654,527 06	240,892.54
93-17	8/16/93	1-Sep-98	LEGISLATURE	Text 2000 Bill Drafting	656,211 00	146,324 29
93-18	8/16/93	1-Sep-98	UW	Lab Information Management	173,749 51	34,650 48
93-19	9/15/93	1-Mar-99	UW	Used IBM Computer Mainframe	372,000 00	71,104 48
93-20	9/15/93	1-Sep-98	LEGISLATURE	Text 2000 Bill Drafting	577,339 57	129,713 70
93-23	11/30/93	1-Mar-99	LEGISLATURE	Text 2000 Bill Drafting	927,069 90	296,127 56
93-28	12/28/93	1-Mar-99	UW	Graphics Image Recorder/Printer	396,707 00	107,659 55
94-01	2/25/94	1-Mar-99	LEGISLATURE	Text 2000 Bill Drafting	751,723 60	250,706 27
94-03	4/6/94	1-Mar-98	UW	Computer Hardware	150,000 00	17,016 07
94-06	6/30/94	1-Sep-99	DOFI	Micro Fiche Reader	57,634 00	6,769 18
94-07	5/3/94	1-Mar-98	DOJ	Automated Fingerprint ID System	3,617,655 00	398,780 28
94-10	5/10/94	1-Mar-99	DOA	Xerox Printer	245,600 00	85,426 81
94-12	5/16/94	1-Mar-99	DOA	Escon Fiber Backbone	710,591 00	248,615 72
94-16	5/20/94	1-Sep-99	LEGISLATURE	Text 2000 Bill Drafting	948,157 05	401,727 94
94-19	6/30/94	1-Sep-98	DATCP	Computer Server	43,523 40	11,571 01
94-20	6/30/94	1-Sep-99	UW	Lab Information Management	42,635 00	18,257 84
94-24	7/28/94	1-Sep-99	UW	Mainframe Computer	326,062 91	141,757 64
94-25	7/28/94	1-Mar-99	DOC	Bulk Milk Trk/License Plate Tooling	77,959 80	28,163 54
94-26	8/10/94	1-Sep-98	UW	Duplicating Equipment	133,570 00	36,508 05
94-30	8/31/94	1-Sep-00	DOA	Accounting System Costs	4,342,320 19	2,414,370 98
94-31	8/31/94	1-Sep-99	LEGISLATURE	Text 2000 Bill Drafting	1,013,423 30	450,483 83
94-32	9/14/94	1-Sep-98	DOC	Semi-Tractor Truck	56,804 00	15,846 79
94-36	9/14/94	1-Sep-99	UW	Furniture for Regent St Building	300,803 41	133,946 03
94-40	10/14/94	1-Sep-01	DOC	John Deere Combine	93,898 95	60,273 83
94-41	10/14/94	1-Mar-99	DOA	Escon Director Ports	65,520 00	24,793 86
94-44	10/31/94	1-Sep-98	DPI	Personal Computers/Hardware	129,004 69	37,175 81
94-45	10/31/94	1-Sep-99	UW	Furniture for Regent Street Building	39,804 31	18,138 87
94-46	11/23/94	1-Sep-99	UW	Gas Chromatograph/MS System	76,145 24	35,184 15
94-48	11/23/94	1-Sep-99	LEGISLATURE	Text 2000 Bill Drafting	387,919 00	179,906 29
95-05	1/30/95	1-Mar-00	UW	Lab Info Mgmt System (LIMS)	96,397 00	51,951 46
95-07	2/13/95	1-Mar-98	DWD	Computer/Voice Hardware	158,033 00	28,616 44
95-09	2/27/95	1-Mar-99	DOC	License Plate Tooling	37,418 20	15,352 82
95-10	2/27/95	1-Sep-99	LEGISLATURE	Text 2000 Bill Drafting	360,728 85	175,754 06
95-11	2/27/95	1-Sep-99	UW	Furniture for Regent Street Building	3,813 53	1,851 29
95-14	3/29/95	1-Sep-99	UW	Furniture for Regent Street Building	438,329 80	217,304 33
95-20	4/24/95	1-Sep-99	LEGISLATURE	Text 2000 Bill Drafting	503,480 88	253,075 04
95-21	5/18/95	1-Mar-00	DOT	Systems Furniture for Eau Claire Dist	202,453 98	115,076 38
95-24	6/2/95	1-Mar-98	DNR	Expand Computer Training Facility	193,418 96	38,582 88
95-25	6/16/95	1-Mar-98	DWD	Operator Workstations - Call Centers	752,371 00	154,871 00
95-29	6/27/95	1-Mar-98	DNR	Expand Computer Training Facility	29,518 75	6,035 77
95-30	7/14/95	1-Mar-98	DWD	Systems Furniture/Chairs (Call Centers)	353,091 13	73,493 77
95-32	7/14/95	1-Mar-00	UW	Maintenance Equipment	97,928 00	57,208 82
95-33	7/25/95	1-Mar-00	UW	Chromatography System (Biotech Cnt)	60,000 00	35,262 54
95-35	7/25/95	1-Sep-98	DOA	DASD	910,000 00	320,622 90
95-37	7/27/95	1-Sep-99	UW	Lab Management Information Sytem	7,000 00	3,703 42
95-38	8/28/95	1-Sep-99	DER	Local Arean Network Equipment	71,431 60	38,493 14
95-39	9/15/95	1-Mar-00	UW	Mainframe Mini-Computer	140,260 04	74,574 20
95-40	8/28/95	1-Sep-99	LEGISLATURE	Text 2000 Bill Drafting	389,225 08	210,520 20
95-41	8/28/95	1-Sep-98	DOR	Delinquent Tax Collection System	158,637 17	57,291 77
95-42	9/19/95	1-Sep-02	DOA	Distance Education Network-WONDER	1,985,260 00	1,035,375 76
95-44	9/22/95	1-Sep-98	DOA	High-Speed Tape Drives	221,086 00	81,609 88
95-45	10/2/95	1-Sep-00	DOA	Front-End Processors	373,664 06	245,755 00
95-46	10/2/95	1-Sep-99	LEGISLATURE	Text 2000 Bill Drafting	96,202 00	52,977 89
95-47	10/20/95	1-Sep-99	DOC	GMC Truck	46,820 00	26,081 79
95-48	10/20/95	1-Sep-98	DWD	Computer Hardware and Routers	86,906 52	32,870 46
95-49	11/7/95	1-Sep-99	DER	Local Arean Network Equipment	118,555 61	66,758 36
95-50	11/14/95	1-Sep-00	DOT	Office Furniture (Truax Center)	170,331 26	114,240 30
95-51	11/30/95	1-Sep-98	DOA	Mainframe Printer Attachments	82,935 00	32,337 66
95-52	11/30/95	1-Sep-98	DNR	Software Licences (Network)	87,898 00	34,499 69
95-53	11/30/95	1-Sep-98	DWD	Systems Furniture-Call Centers	285,047 39	112,009 17
95-54	11/30/95	1-Sep-98	DWD	Computer Printers	42,174 00	16,553 17

Table IV-2 – Continued

OUTSTANDING MASTER LEASE SCHEDULES

(As of December 15, 1997)

Master Lease Schedule Number	Origination Date	Maturity Date	Agency	Equipment	Amount Financed	Principal Balance
95-55	12/12/95	1-Sep-98	DOR	Delinquent Tax Collection System	169,275 25	67,182 13
95-56	12/12/95	1-Sep-98	DOA	DASD	62,650 00	24,881 87
95-57	12/28/95	1-Sep-98	DWD	Computer Hardware (PCs)	701,562 00	242,190 54
95-58	12/28/95	1-Sep-98	DOA	Mainframe Printer/Attachments	514,177 00	207,803 61
96-02	1/11/96	1-Sep-99	LEGISLATURE	Text 2000 Bill Drafting	41,754 00	24,575 83
96-03	1/11/96	1-Sep-02	DOC	Dairy Processing Equipment	164,140 00	131,956 26
96-05	1/22/96	1-Mar-00	UW	IT Hardware/Software-Admin Sprt Sys	962,816 00	534,804 98
96-06	1/25/96	1-Mar-99	UW	Computer Hardware	81,107 80	42,128 93
96-07	2/2/96	1-Mar-99	DOA	High-Speed Tape Drives	144,000 00	75,344 42
96-08	2/7/96	1-Mar-99	DOA	Direct Access Storage Devices	761,848 00	400,744 71
96-09	2/7/96	1-Mar-01	UW	Duplo Booklet Making System	53,010 00	38,945 43
96-16	3/26/96	1-Mar-00	LEGISLATURE	Text 2000 Bill Drafting	67,251 00	45,456 20
96-17	4/10/96	1-Mar-01	DOT	Systems Furniture-LaCrosse	254,892 90	193,706 27
96-21	4/10/96	1-Mar-99	DWD	Systems/Office Furniture	187,933 07	104,346 73
96-23	4/19/96	1-Mar-01	DOA	Mail Inserter (Mailstar 300)	277,808 00	212,104 96
96-24	4/19/96	1-Mar-99	DOA	IT Hard/Software (EIS/VenderNet)	59,980 50	33,520 04
96-26	4/19/96	1-Mar-03	DOC	Textile Cutting Machine/CADD	49,600 00	41,917 77
96-27	4/29/96	1-Mar-00	LEGISLATURE	PCs/Computer Software/IT Migration	2,309,606 00	1,601,105 20
96-29	4/26/96	1-Mar-01	DOA	High-Speed Tape Drives	135,000 00	103,455 95
96-30	4/26/96	1-Mar-03	DOT	Database Re-design	146,821 55	70,646 73
96-31	4/26/96	1-Mar-99	DOA	Computer Aided Software Eng (CASE)	1,200,000 00	676,853 36
96-32	5/20/96	1-Mar-99	DOR	IT Equipment - Delinquent Tax Collection	163,115 97	94,013 33
96-33	6/4/96	1-Mar-99	UW	Computer Hardware	157,586 25	92,068 96
96-35	5/20/96	1-Mar-03	DOT	Database Re-design Costs	121,662 64	89,047 54
96-38	6/4/96	1-Mar-99	UW	4-Wheel Drive Trucks (4)	83,120 40	48,469 13
96-39	6/4/96	1-Mar-00	LEGISLATURE	PCs/Computer Software/IT Migration	221,183 35	156,804 56
96-40	6/4/96	1-Mar-03	DOC	Dairy Processing Equipment	74,700 00	64,399 72
96-41	6/4/96	1-Mar-99	DHFS	Computer Hardware (LAN)	132,223 50	77,250 89
96-42	6/14/96	1-Mar-01	UW	Refractive (Eye) Laser	472,500 00	371,852 10
96-43	6/14/96	1-Mar-03	DOC	Textile Cutting Machine/CADD	31,245 00	26,907 76
96-44	6/14/96	1-Mar-01	DOC	Semi-Tractor Truck	59,945 00	46,938 97
96-45	6/27/96	1-Mar-99	DOR	IT Equipment - Scanning	95,201 55	56,791 99
96-46	6/27/96	1-Mar-99	DOR	Computer Hardware (LAN)	84,422 10	50,361 57
96-47	6/27/96	1-Mar-03	DOT	Database Re-design	236,615 97	204,684 23
96-48	6/27/96	1-Mar-00	LEGISLATURE	PCs/Computer Software/IT Migration	209,580 86	150,583 86
96-49	6/27/96	1-Mar-03	DOC	Textile Cutting Machine/CADD	97,715 00	84,528 19
96-50	6/27/96	1-Mar-00	UW	Voice Mail System	131,750 00	94,662 38
96-51	6/27/96	1-Mar-99	DWD	Office Furntiure/IT Software	73,508 99	43,851 41
96-52	7/29/96	1-Mar-03	DOC	Sewing Machines	112,621 50	96,993 85
96-53	7/29/96	1-Sep-99	DNR	Network Communications Equipment	164,845 94	113,224 67
96-54	7/29/96	1-Sep-99	DNR	AlphaServers	87,384 67	60,020 49
96-55	8/1/96	1-Mar-99	DOA	Computer Hardware/Software (EIS)	25,458 00	15,170 51
96-56	8/1/96	1-Mar-03	DOT	Database Redesign Costs	129,291 31	111,430 76
96-57	8/1/96	1-Sep-99	DWD	Personal Computers/Printers	124,922 23	85,775 85
96-58	8/1/96	1-Sep-99	DWD	Systems Furniture	52,500 16	36,048 39
96-59	8/1/96	1-Mar-00	LEGISLATURE	PCs/Computer Software/IT Migration	494,296 62	354,835 59
96-60	8/1/96	1-Sep-02	UW	NEWCS Dist Educ Network	158,391 85	134,337 14
96-61	8/15/96	1-Mar-03	DOA	Infrastructure for DOT MDT Project	531,916 34	465,771 57
96-62	8/15/96	1-Sep-99	DPI	Computer Workstations	115,684 46	79,251 06
96-63	9/3/96	1-Mar-00	LEGISLATURE	PCs/Computer Software/IT Migration	57,832 00	42,369 01
96-64	9/3/96	1-Sep-03	DOT	Database Redesign Costs	221,176 04	194,918 94
96-65	9/3/96	1-Mar-03	DOC	Textile Cutting Maching/CADD	17,688 00	15,411 50
96-66	9/16/96	1-Sep-99	DWD	Interactive Voice Response Units	162,814 00	111,259 59
96-67	9/16/96	1-Mar-99	DOR	LAN Equipment-WI-Z	140,790 00	38,598 64
96-68	9/16/96	1-Mar-99	DOR	LAN Equipment-Audit Bur	39,457 06	24,255 27
96-70	9/16/96	1-Mar-00	LEGISLATURE	PCs/Computer Software/IT Migration	103,087 25	75,524 00
96-71	10/1/96	1-Mar-03	DOC	Garment Cutting Machine/CADD	5,657 00	4,928 93
96-73	10/1/96	1-Sep-03	DOT	Database Redesign Costs	168,597 60	148,582 40
96-74	10/1/96	1-Mar-00	LEGISLATURE	PCs/Computer Software/IT Migration	126,891 83	92,963 76
96-75	10/1/96	1-Sep-03	DOA	Infrastructure for DOT MDT Project	163,543 44	144,128 25
96-76	10/1/96	1-Sep-99	DNR	AlphaServers	70,514 09	48,186 08
96-77	10/22/96	1-Sep-99	DWD	50 Personal Computers/Network Cards	184,250 00	132,218 92
96-78	10/22/96	1-Mar-99	DOA	IT Infrastructure Equipment/SASI	187,045 86	93,848 68
96-79	10/22/96	1-Sep-99	UW	96 Personal Computers	215,503 00	154,646 26

Table IV-2 – Continued

OUTSTANDING MASTER LEASE SCHEDULES

(As of December 15, 1997)

Master Lease Schedule Number	Origination Date	Maturity Date	Agency	Equipment	Amount Financed	Principal Balance
96-80	11/1/96	1-Mar-00	LEGISLATURE	PCs/Computer Software/IT Migration	159.055 86	122.240 37
96-82	11/1/96	1-Mar-03	DOA	Infrastructure for DOT MDT Project	499.255 33	448.910 57
96-83	11/1/96	1-Sep-00	DOA	VideoConferencing Equipment	93.564 35	75.029 25
96-84	11/15/96	1-Mar-99	DOA	IT Infrasrucutre Equipment/SASI	374.977 11	187.001 53
96-86	11/27/96	1-Mar-00	LEGISLATURE	PCs/Computer Software/IT Migration	91.239 77	71.515 31
96-87	11/27/96	1-Sep-00	UW	Golf Course Maintenance Equipment	89.185 00	72.730 93
96-88	12/13/96	1-Sep-99	DOA	EPSON Directors/Connectors	129.400 00	97.273 84
96-89	12/13/96	1-Sep-99	DWD	PCs/Printers - Job Service Bur	329.889 25	247.987 63
96-92	12/23/96	1-Mar-99	DOA	IT Infrastructure - SASI	149.677 70	73.892 58
96-93	12/23/96	1-Sep-03	DOA	Infrastructure for DOT MDT Project	20.974 47	12.286 97
96-94	12/23/96	1-Sep-03	DOC	1/2-Pint Filler/Sealer Machine	94.000 00	85.988 17
96-95	12/23/96	1-Sep-99	DOR	Sale Tax Scanning Equipement	226.284 00	171.722 35
96-96	12/23/96	1-Mar-00	LEGISLATURE	PCs/Computer Software/IT Migration	245.732 00	196.551 69
97-02	1/14/97	1-Sep-99	DOR	IVR Units - Milwaukee Office (ITIF)	44.639 00	22.083 60
97-03	1/14/97	1-Sep-99	DOA	DASD	703.600 00	544.889 26
97-04	1/14/97	1-Mar-00	UW	Octel Voice Mail Network (final)	210.800 00	171.468 81
97-05	1/14/97	1-Sep-99	DHFS	Computer Terminals/Infrastructure	90.661 00	70.210 65
97-06	1/28/97	1-Mar-02	DOA	Automated Tape Drive System	1.065.019 00	957.961 55
97-07	1/28/97	1-Mar-00	DOA	Front-End Processors	141.585 00	116.588 29
97-08	1/28/97	1-Sep-03	DOA	Infrastructure for DOT MDT Project	442.274 97	409.575 51
97-09	1/28/97	1-Mar-01	DOA	Video Conferencing Equipment	48.038 50	41.832 16
97-11	1/28/97	1-Mar-00	LEGISLATURE	PCs/Computer Software/IT Migration	81.674 00	67.254 53
97-12	1/28/97	1-Mar-00	COURT	Information Technology Equipment	142.942 24	63.115 61
97-13	1/28/97	1-Mar-00	DWD	Personal Computers	171.654 00	141.348 63
97-14	1/28/97	1-Mar-99	DOA	IT Equipment -SASI	108.249 05	82.880 71
97-15	2/19/97	1-Mar-00	LEGISLATURE	PCs/Computer Software/IT Migration	124.917 75	104.626 03
97-16	2/19/97	1-Sep-03	DOA	Infrastructure for DOT MDT Project	74.258 75	69.257 00
97-17	2/19/97	1-Mar-00	DNR	Computer Equipment-Training Facility	88.540 57	74.157 98
97-18	2/19/97	1-Mar-99	DNR	IT Equipment-Service Centers	212.480 58	43.428 98
97-19	2/19/97	1-Mar-98	DNR	Personal Computers	87.927 14	9.895 73
97-21	3/13/97	1-Sep-99	UW	Personal Computers	113.553 00	62.044 29
97-22	3/13/97	1-Mar-00	DNR	IT Training Facility	67.145 76	57.370 46
97-23	3/13/97	1-Sep-03	DOA	Infrastructure for DOT MDT Project	208.874 27	196.412 23
97-25	3/13/97	1-Mar-00	LEGISLATURE	PCs/Computer Software/IT Migration	133.674 80	114.213 98
97-26	3/27/97	1-Sep-99	DHFS	IT Infrastructure	66.702 00	55.640 42
97-27	3/27/97	1-Mar-00	DOR	Sales Tax Scanning Equipment	454.729 80	215.452 51
97-29	3/27/97	1-Mar-04	DVA	Fire Engine	63.853 13	60.642 68
97-30	3/27/97	1-Mar-00	LEGISLATURE	PCs/Computer Software/IT Migration	54.861 50	47.435 07
97-31	4/16/97	1-Mar-00	DWD	Systems Furniture-GEF 1	101.976 25	89.634 77
97-32	4/16/97	1-Mar-04	DOA	Infrastructure for DOT MDT Project	155.614 00	148.691 17
97-33	4/16/97	1-Mar-99	DNR	IT Infrastructure-Service Centers (ITIF)	168.017 83	126.962 68
97-36	4/25/97	1-Mar-02	UW	University Information System	155.225 00	145.466 25
97-37	4/25/97	1-Mar-04	DVA	Fire Engine	85.143 87	81.592 87
97-38	4/25/97	1-Mar-00	LEGISLATURE	PCs/Computer Software/IT Migration	109.961 00	97.422 38
97-40	4/25/97	1-Mar-04	DOA	Infrastructure for DOT MDT Project	274.825 00	263.363 19
97-41	4/25/97	1-Mar-00	DNR	Training Facility IT Equipment	11.346 40	10.052 59
97-42	5/14/97	1-Mar-00	STATE FAIR	IT Equipment/Upgrades	76.121 86	68.599 88
97-43	5/16/97	1-Mar-04	UW	Xylox Seating System-Kohl Center	100.000 00	96.488 10
97-45	5/14/97	1-Mar-00	PSC	IT Upgrades-Network	52.011 55	46.872 04
97-46	5/14/97	1-Mar-01	DOA	VideoConferencing Equip	97.881 28	90.978 20
97-48	5/29/97	1-Mar-99	DHFS	IT Equipment/Connect Region to LAN	360.968 65	137.322 26
97-49	5/29/97	1-Mar-99	DOA	IT Equipment - SASI	55.991 16	42.001 10
97-50	5/29/97	1-Mar-00	DNR	SWEEP Anti-Virus Software/License	94.962 50	86.761 76
97-51	5/29/97	1-Mar-01	LEGISLATURE	IT Migration Plan	128.074 45	120.211 80
97-52	5/29/97	1-Mar-01	DOA	VideoConfernce Equip	45.914 90	43.096 13
97-53	6/13/97	1-Mar-02	UW	Image Scanning System	64.765 00	38.166 91
97-54	6/13/97	1-Mar-00	STATE FAIR	IT Equipment/Upgrade	16.093 64	14.896 98
97-55	6/13/97	1-Mar-01	LEGISLATURE	PCs/Computer Software/IT Migration	111.156 00	105.302 61
97-56	6/13/97	1-Mar-02	UW	Tractor - Ashland Rsch Station	35.845 00	34.404 45
97-57	6/27/97	1-Mar-99	DOR	GEF III IT Infrastructure	112.543 39	14.973 64
97-58	6/27/97	1-Mar-01	UW	Tractor/Skidloader	83.611 00	76.973 84
97-59	6/27/97	1-Mar-99	DOC	Program Scheduling System (ITIF)	30.419 00	14.758 53
97-60	6/27/97	1-Mar-99	DNR	Service Center IT Equip (ITIF)	218.590 26	108.292 85
97-61	6/27/97	1-Mar-99	DNR	Senior Mgmt PC Rollout (ITIF)	184.393 00	84.653 42

Table IV-2 – Continued

OUTSTANDING MASTER LEASE SCHEDULES

(As of December 15, 1997)

Master Lease Schedule Number	Origination Date	Maturity Date	Agency	Equipment	Amount Financed	Principal Balance
97-62	7/10/97	1-Mar-04	DVA	Fire Engine	100,924 72	99,155 49
97-63	6/27/97	1-Mar-00	DNR	Dual AlphaServer 1000A Computer	57,760 70	54,181 00
97-64	6/27/97	1-Mar-04	DOT	Motor Vehicle/Driver Record Dbase	299,896 64	293,343 00
97-65	6/27/97	1-Mar-00	UW	Personal Computers	162,390 00	134,681 06
97-66	6/30/97	1-Mar-04	UW	Xylox Seating System-Kohl Center	250,000 00	244,784 87
97-67	7/10/97	1-Mar-99	COMMERCE	IT Infrastrucutre (ITIF)	252,267 86	63,961 46
97-68	7/10/97	1-Mar-00	DWD	IVR- Call Center	113,358 00	107,676 27
97-69	7/10/97	1-Mar-01	LEGISLATURE	IT Migration Phase I and II	127,090 75	122,613 66
97-70	7/10/97	1-Mar-04	UW	Xylox Seating System - Kohl Center	733,000 00	720,150 37
97-71	7/10/97	1-Mar-04	DOA	Infrastructure for DOT MDT Project	57,222 11	56,218 99
97-72	7/10/97	1-Mar-00	PSC	IT Infrastructure Equipment	34,468 00	32,740 40
97-73	7/10/97	1-Mar-99	DHFS	IT Infrastructure Equipment	13,058 00	9,726 68
97-74	7/25/97	1-Mar-99	COMMERCE	IT Infrastructure (ITIF)	63,212 82	46,964 58
97-75	7/25/97	1-Mar-00	DHFS	IT/Telecommunications Infrastructure	445,925 80	429,872 85
97-76	7/25/97	1-Mar-02	UW	University Information System	138,169 97	135,531 83
97-77	7/25/97	1-Mar-99	DOC	IT Infrastructure (ITIF)	309,583 06	98,132 39
97-78	7/25/97	1-Mar-04	DOT	Database Redesign Costs	269,717 25	266,353 83
97-79	7/25/97	1-Mar-00	DWD	PCs and System Furniture	379,057 17	301,766 32
97-80	7/25/97	1-Mar-01	LEGISLATURE	IT Migration Phase I and II	96,331 46	93,904 85
97-81	7/25/97	1-Mar-01	UW	Postcript Imagesetter	99,105 00	72,238 28
97-82	8/15/97	1-Sep-98	DOA	Channel Connectors	74,988 00	74,988 00
97-83	8/15/97	1-Sep-01	UW	Tractors	96,112 00	96,112 00
97-84	8/15/97	1-Mar-00	DWD	Personal Computers	68,239 00	68,239 00
97-85	8/15/97	1-Mar-00	DOR	Sales/Stadium Tax Scanning Equipment	29,547 49	29,547 49
97-86	8/15/97	1-Sep-01	DOA	Video Conference Equipment	54,405 35	54,405 35
97-87	9/3/97	1-Sep-02	UW	University Information System	143,761 00	143,761 00
97-88	9/3/97	1-Sep-02	UW	University Information System	173,803 17	173,803 17
97-89	9/3/97	1-Mar-04	DOA	Infrastructure for DOT MDT Project	62,488 00	62,488 00
97-90	9/3/97	1-Mar-99	DNR	Information Technology Infrastrucutre	56,937 78	56,937 78
97-91	9/16/97	1-Sep-00	DOA	DASD; DASD Directors	1,469,370 00	1,469,370 00
97-92	9/16/97	1-Sep-03	DOC	Dump-Truck	67,598 00	67,598 00
97-93	6/16/97	1-Mar-99	DOC	IT Infrastructure	80,396 81	80,396 81
97-94	9/16/97	1-Sep-00	DHFS	IT Infrastructure-Milw County	85,190 02	85,190 02
97-95	9/16/97	1-Mar-99	DHFS	IT Infrastructure	112,589 00	112,589 00
97-96	9/16/97	1-Mar-00	DWD	Laptop Computers-Audit Bur	151,628 00	151,628 00
97-97	9/16/97	1-Sep-01	UW	Tractor/Ag Equipment	46,875 00	46,875 00
97-98	9/30/97	1-Mar-99	DOFI	IT Infrastructure	41,268 50	41,268 50
97-99	9/30/97	1-Sep-02	UW	University Information System	85,959 96	85,959 96
97-100	10/16/97	1-Sep-00	DHFS	IT Infrastructure-Milw County	523,438 15	523,438 15
97-101	10/16/97	1-Mar-99	DOC	IT Infrastructure (ITIF)	106,962 00	106,962 00
97-102	10/16/97	1-Sep-01	UW	Tractors/Ag Equipment	49,318 00	49,318 00
97-103	10/16/97	1-Sep-02	UW	University Information System	74,776 04	74,776 04
97-104	10/31/97	1-Sep-02	COMMERCE	Office Furniture and Equipment	134,616 47	134,616 47
97-105	10/31/97	1-Sep-00	DOR	IT Equipment-Delinquent Tax System	237,455 23	237,455 23
97-106	10/31/97	1-Sep-00	DOJ	Systems Furniture-Eau Claire Adjud Cnt	84,331 95	84,331 95
97-107	10/31/97	1-Mar-01	LEGISLATURE	PCs/Computer Software/IT Migration	416,670 75	416,670 75
97-108	11/14/97	1-Sep-02	UW	University Information System	80,872 70	80,872 70
97-109	11/14/97	1-Sep-04	SWIB	Port Mgmt & Operations Software	1,000,000 00	1,000,000 00
97-110	11/14/97	1-Sep-00	DOR	IT Infrastructure-Various Locations	113,642 99	113,642 99
97-111	11/14/97	1-Sep-02	COMMERCE	Office Furniture and Equipment	110,726 24	110,726 24
97-112	12/8/97	1-Mar-01	LEGISLATURE	PCs/Computer Software/IT Migration	79,081 75	79,081 75
97-113	12/8/97	1-Sep-02	COMMERCE	Office Furniture and Equipment	141,359 54	141,359 54
97-114	12/8/97	1-Mar-99	COMMERCE	IT Infrastructure (ITIF)	31,196 20	31,196.20
					TOTALS:	$ 38,241,970.97

SUMMARY OF THE MASTER LEASE

The following is a summary of certain provisions of the Master Lease. This summary does not purport to be complete, and reference is made to the full text of the Master Lease for a complete recital of its terms.

Definitions

Unless the context requires otherwise, for purposes of this summary, the following terms shall have the definitions stated:

"**Contractor**" means (i) each manufacturer or vendor from or with whom the Lessee (a) has ordered or will order Equipment Items or (b) has contracted or will contract for the manufacture, delivery and installation of Equipment Items, or (ii) each service provider from or with whom the Lessee has ordered or will order Service Items.

"**Costs of Leased Items**" means the amounts payable by the Lessor to a Contractor for Service Items or Equipment Items, or to the Lessee as reimbursement, for acquisition and any related installation of any Equipment Items, including progress payments and capitalizable administrative and management costs, taxes, inspection and report costs, permit fees, interest prior to the date the Equipment Items is placed in service, or any other capitalizable costs, fees and charges as may be necessary or incident to such acquisition or installation.

"**Equipment Items**" means one or more items of tangible personal property (or as specifically approved for lease by the Lessee's counsel, intangible property) designated from time to time by the Lessee and described in a Lease Schedule, which property is or will be leased in accordance with the Master Lease.

"**Fiscal Year**" means the 12-month fiscal period of the Lessee which commences on July 1 of each year and ends on June 30 of the succeeding year.

"**Lease Schedule**" means any individual schedule of Leased Items executed by the Lessor and the Lessee under the Master Lease, substantially in the form specified in the Master Lease, and any attachments or riders thereto.

"**Lease Schedule Term**" means with respect to any Lease Item, the period from the date from which rent accrues until the final payment date, as set forth on the related Lease Schedule.

"**Lease Term**" means the period during which the Master Lease shall be in effect, as specified in the Master Lease.

"**Leased Items**" means Equipment Items and Service Items.

"**Lessee**" means the State of Wisconsin acting by and through its Department of Administration or any successor department or agency.

"**Lessor**" means Firstar Bank Milwaukee, N.A., its corporate successor or transferee and, except where the context requires otherwise, any assignee thereof under an assignment consented to in writing by the Lessee.

"**Nonappropriation**" means the determination by the Lessee that the Wisconsin State Legislature has failed to appropriate necessary funds for the continued performance of the obligations of the Lessee under the Master Lease.

"**Purchase Price**" means, with respect to any Leased Item, the amount so designated and set forth in the related Lease Schedule as the price for termination of the Lease Schedule with respect to such

Leased Item as of any date on which payment of such price is permitted, or the price for purchase under the Master Lease.

"**Rent**" means, with respect to any Leased Item, the amount payable to the Lessor on each Payment Date during the Term of the Master Lease, as shown in the related Lease Schedule.

"**Service Items**" means Services designated from time to time by the Lessee and described in a Lease Schedule, which services are or will be provided to the Lessee in accordance with the Master Lease.

"**Specifications**" means the bid specifications and/or purchase order pursuant to which a Leased Item has been ordered from a Contractor, as amended from time to time.

"**State**" means the State of Wisconsin.

"**State or Federal Law**" means any law of the State or of any political subdivision of the State; any law of the United States; and any rule or regulation of any of the foregoing.

"**Trustee**" means Firstar Trust Company, Milwaukee, Wisconsin, and its successors and assigns.

Acquisition, Delivery and Lease of Equipment

The State of Wisconsin, acting by and through the State of Wisconsin Department of Administration, as lessee, and Firstar Bank Milwaukee, N.A., as lessor, have entered into a Master Lease under which the Lessee shall provide written notice to the Lessor which shall identify (i) Leased Items it desires to order for lease thereunder; (ii) the anticipated Lease Schedule Term of such Leased Items; and (iii) the anticipated date or dates on which the Costs of Leased Items shall be due and payable; and shall confirm to the Lessor the Lessee's expectation that as of such anticipated date or dates sufficient moneys will be available to pay such costs, as arranged solely by the Lessee. The Lessee (or the Lessor at the Lessee's request) shall order such Leased Items from one or more Contractors selected by the Lessee.

The Lessee shall have sole responsibility for selecting the Leased Items; preparing agreements necessary to order the Leased Items; reviewing and approving any purchase agreements, service contracts, licenses, warranties and the like pertaining to the acquisition, delivery, installation, use and maintenance of the Leased Items; arranging for the delivery, installation, testing, servicing and maintenance of the Leased Items; providing any documents as may be reasonably requested by any lender or trustee making funds available to the Lessor under the Master Lease for the purpose of acquiring the Leased Items to obtain a security interest or lien on the Leased Items and related Lease Schedule.

Upon delivery and any required installation of any Equipment Item, the Lessee shall inspect such Equipment Item and if it meets the Lessee's Specifications, the Lessee, before the end of the acceptance period agreed to by the Contractor, shall provide to the Lessor a completed and executed Certificate of Acceptance in the form specified in the Master Lease. At the time the Equipment Item is accepted, the Lessee shall take all actions necessary (and the Lessor shall assist as requested) to perfect a security interest therein in favor of the Lessor or any party to which such security interest is assigned with the Lessee's consent. Before the commencement of service for a Service Item, the Lessee shall provide to the Lessor a completed and executed Certificate of Acceptance in the form specified in the Master Lease. Any Leased Items thus acquired shall become subject in all respects to the Master Lease, and upon acceptance above the obligation to pay Rent shall commence with respect to the Leased Items.

The Lessor leases each Leased Item to the Lessee, and the Lessee leases each Leased Item from the Lessor, upon the terms, conditions and limitations set forth in the Master Lease. The Lessor covenants not to interfere during the Lease Term with the Lessee's quiet use and enjoyment of the Leased Item, and the Lessee shall during the Lease Term peaceably and quietly have and hold and enjoy the Leased Item, without suit, trouble or hindrance from the Lessor, except as expressly set forth in the Master Lease.

Lease Term and Lease Termination

The Master Lease shall be in effect for a term which shall commence on its date of execution and shall end on the date that all Rents and other amounts payable in respect of all Leased Items have been paid, unless extended by the Lessor and the Lessee, or unless earlier terminated as provided in the Master Lease. With respect to any Leased Item, the obligation to pay Rent shall commence (a) on the date of execution of the related Lease Schedule and Certificate of Acceptance in the forms specified in the Master Lease or (b) if the alternative acquisition procedure described in the Master Lease is used, on the date that sufficient moneys are received in the fund from which Costs of Leased Items shall be paid, and in either event shall terminate on the date set forth in the related Lease Schedule or as provided in the Master Lease.

Subject to appropriation, the Lessee presently intends to continue the Master Lease in effect for the entire Lease Term and to pay all Rent relating to the Leased Items. The Lessee agrees that there shall be included in the appropriate budget requests prepared under Section 16.42 of the Wisconsin Statutes for each Fiscal Year all Rent coming due in such Fiscal Year with respect to all Leased Items. In the event an emergency arises that requires the Lessee to draw vouchers for payments that will be in excess of available moneys and the Secretary of Administration establishes a priority schedule for payments under Section 16.53(10) of the Wisconsin Statutes, the Secretary shall give a high priority to payment of Rent.

In accordance with Section 16.75(3) of the Wisconsin Statutes, the continuance of the Master Lease beyond the limits of funds already available to the State is contingent upon appropriation of the necessary funds. In the Event of Nonappropriation for any Fiscal Year, the Lessee shall have the right to terminate the Master Lease in the manner and subject to the terms specified in the Master Lease. Termination shall affect all Leased Items that are subject to the Master Lease. The Lessee shall effect such termination as of the last day of a Fiscal Year by providing to the Lessor (i) a written notice of termination and (ii) to the extent funds are available or have been appropriated, payment of any Rent or other amount which is then due or will be due by the end of such Fiscal Year. The Lessee shall endeavor to give the Lessor advance notice of termination at the time the Lessee has reasonable certainty of any Nonappropriation and resulting termination. In the event of termination of the Master Lease based on nonappropriation, upon the Lessor's written request, the Lessee shall deliver possession of all Leased Items to the Lessor in accordance with the Master Lease and shall convey to the Lessor, or release, its interest in all Leased Items within thirty days after termination of the Master Lease.

Upon termination of the Master Lease in accordance with the above paragraph, the Lessee shall not be responsible for the payment of any Rent scheduled to come due in any succeeding Fiscal Year; provided, however, that if, after being requested by the Lessor to do so, the Lessee has not delivered possession of all Leased Items to the Lessor in accordance with the Master Lease and conveyed to the Lessor or released its interest in all Leased Items in accordance with the Master Lease, the termination shall nevertheless be effective, but in the event the Lessee fails to take such action (that is, the Lessee retains possession or an interest in any Leased Item), the Lessee shall be responsible for damages in an amount equal to Rent thereafter coming due for such Leased Item attributable to the number of days after such termination during which the Lessee fails to take such action.

With respect to any Leased Item, the respective Lease Schedule shall terminate upon the occurrence of the first of the following events: (a) payment of all Rent and other amounts required to be paid under such Lease Schedule; or (b) exercise by the Lessee of its option to terminate such Lease Schedule by payment of the applicable Purchase Price pursuant to the Master Lease. The Master Lease shall terminate (which shall affect all Leased Items) upon the occurrence of the first of the following events: (c) termination for Nonappropriation in accordance with the Master Lease; or (d) default by the Lessee and the Lessor's election to terminate the Master Lease.

Insurance Requirements; Loss or Damage to Equipment Items

The Lessee shall provide insurance coverage against the following risks, through its self-funded liability and property programs, for which sum-sufficient appropriations are made under Sections 20.865 (1) (dm), (f), and (fm) of the Wisconsin Statutes:

(i) damage to or destruction of Equipment Items, in an amount sufficient to pay a claim equal to the full replacement cost of such Equipment Items;

(ii) liability for injuries to or death of any person or damage to or loss of property arising out of or in any way relating to the condition or the operation of the Equipment Items or arising out of or in any way relating to Service Items; and

(iii) the employer's costs for employee's worker's compensation under Chapter 102 of the Wisconsin Statutes covering all employees on, in, near, or about any of the Equipment Items.

The Lessee assumes all risks and liabilities for loss or damage to any Equipment Items and for injury to or death of any person or damage to any other property arising from use of the Equipment Items or arising with respect to Service Items, whether such injury or death is with respect to agents or employees of the Lessee, or third parties, and whether such property damage relates to the Lessee's property or to the property of others, to the extent such loss, damage, injury, death or damage to other property is caused by acts committed by an officer or employee of the State while acting within the scope of employment or any agent of the State while acting within the scope of the agency.

If after delivery of any Equipment Items to the Lessee all or any item of such Equipment is lost, stolen, destroyed or damaged beyond repair, the Lessee shall as soon as practicable after such event: (a) replace the same at the Lessee's sole cost and expense with Equipment Items that the Lessee has not previously owned of at least equal value to that of the Equipment Items immediately prior to the loss or other event; whereupon, subject to the Lessor's reasonable written approval, the replacement equipment shall be substituted for such Equipment Items through endorsement on the appropriate Lease Schedule; or (b) pay the applicable Purchase Price with respect to such Equipment Items.

On payment of the Purchase Price with respect to any Leased Item, the Master Lease shall terminate with respect to such Leased Item and the Lessee thereupon shall become entitled to such Leased Item, **WITHOUT RECOURSE, AS IS, WHERE IS, WITHOUT WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WARRANTIES OF MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OR FITNESS FOR THE USE CONTEMPLATED BY THE LESSEE OR ANY OTHER WARRANTIES WHATSOEVER** except for any warranty provided by the Contractor and except that such Leased Item may be subject to any lien or encumbrance created by or arising through the Lessor unless the Lessee has obtained the written consent of any lender or Trustee holding a security interest in or lien against such Leased Item releasing such security interest or lien.

Other Obligations

The Lessee shall exercise due care in the installation, use, operation and maintenance of the Equipment Items, and shall not install, use, operate or maintain the Equipment Items improperly, carelessly, in violation of any State or Federal Law, or for a purpose or in a manner contrary to that contemplated by the Master Lease.

The Lessee shall, at its own expense, maintain, preserve and keep all Equipment Items in good repair, working order and condition, and shall from time to time make all repairs or replacements necessary to keep Equipment Items in such condition. The Lessor shall have no responsibility for any of these repairs or replacements.

Except as expressly limited by the Master Lease, the Lessee shall pay all charges of any kind which are at any time lawfully assessed or levied against or with respect to Equipment Items, the related Rents or any part thereof, or which become due during the Lease Term, whether assessed against the Lessee or the Lessor. If requested, the Lessor hereby agrees to provide reasonable assistance to the Lessee in contesting any charge that may be assessed against the Lessor.

Rights in Equipment; Security Interest

Legal title to and ownership of all Equipment Items and any and all repairs, replacements, substitutions and modifications shall be in the Lessee, and the Lessee shall take all actions necessary to vest such title and ownership in the Lessee. Upon termination of the Master Lease pursuant to the Master Lease and upon the Lessor's written request, the Lessee shall transfer to the Lessor its entire interest in all Equipment Items and the Lessee shall have no further interest therein.

The Lessee hereby grants to the Lessor a continuing, first priority purchase-money security interest in and to each Equipment Item, the Rents and other proceeds of Leased Items, and all replacements, substitutions, modifications and repairs thereof made pursuant to the Master Lease, and spare parts, software licenses or right under warranties with respect thereto, in order to secure the Lessee's payment of all Rent due during the Lease Term and the performance of all other obligations under the Master Lease.

The Leased Items and Contractors providing such Leased Items shall be selected solely by the Lessee. The Lessor shall have no responsibility in connection with such selection of the Leased Items or the Contractors for the Leased Items, the determination of suitability of Leased Items for the use intended by the Lessee, acceptance by a Contractor or its representative of any order or agreement regarding the Leased Items, or any delay or failure by the Contractor or its representative to manufacture, deliver, install or test the Leased Items so ordered, or the enforcement of any remedies, warranties, or licenses with respect to the Leased Items, or for any errors, omissions or insufficiency in any purchase order, purchase agreement, license, warranty or other agreement respecting acquisition of the Leased Items.

The Lessor shall have no obligation to install, erect, test, inspect, service or maintain the Equipment Items (or provide Substitute Equipment Items) under any circumstances, but such actions when reasonably required shall be the obligation of the Contractor or the Lessee.

The Lessor makes no warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness of the Leased Items for any particular purpose or fitness for the use contemplated by the Lessee, or any other representation or warranty with respect to the Leased Items except as contained in the Master Lease. The Lessor is not affiliated with any manufacturer, vendor or service provider of any Leased Items, and the Lessor makes no representation or warranty as to conformity of Leased Items with applicable state or federal laws, safety of the Leased Items, title to the Leased Items or the availability, sufficiency or assignability of any licenses, warranties or third party agreements regarding the Leased Items. The Leased Items are leased "as is" and "where is." In no event shall the Lessor be liable for any incidental, special or consequential damages in connection with or arising out of the Master Lease or the Leased Items, or use of the Leased Items by the Lessee or any other party except the Lessor.

Assignment, Mortgaging and Selling

Without the prior written consent of the Lessee, the Lessor shall not assign its obligations under the Master Lease or its interest in the Leased Items or grant a security interest in or lien upon the Leased Items or enter into any financing for the Leased Items, and no purported assignment, security interest, lien or financing thereof or therefor shall be effective without such consent.

Option to Terminate Equipment Lease Schedule

If so permitted by the source of funding for the Lease Schedule, the Lessee shall have the option to terminate any Lease Schedule, but only if the Lessee is not in default under the Master Lease, and then only in the manner provided in the Master Lease. The Lessee shall give notice to the Lessor of its intention to exercise its option to terminate any Lease Schedule in the manner required by the source of funding for the Lease Schedule and shall deposit with the Lessor on the date of exercise an amount equal to the applicable Purchase Price, which shall either be (a) an amount equal to the outstanding principal amount of the Lease Schedule, interest to the date of redemption of the source of funding and any redemption premium, or (b) if permitted by the Lessor or the Lessor's assignee, an amount sufficient to purchase investments maturing on such dates and in such amounts to pay the Rent when due (or until the source of funding may be redeemed).

Events of Default and Remedies

Each of the following shall be an "Event of Default" under the Master Lease: (a) failure by the Lessee acting on its behalf to pay any Rent or other amount required to be paid under the Master Lease at the specified time and the continuation of such failure for a period of five business days; (b) failure by the Lessee to observe or perform any covenant, condition or agreement on its part to be observed or performed with respect to any Leased Item, other than a failure to make payment referred to in clause (a) above, for a period of thirty days after written notice specifying such failure and requesting that it be remedied has been given to the Lessee by the lessor, unless the Lessor and any Trustee shall agree in writing to an extension of such time prior to its expiration; provided, however, that if the failure stated in the notice cannot be corrected within the applicable period, the Lessor will not unreasonably withhold its consent to an extension of such time if corrective action has been instituted by the Lessee within the applicable period and is being diligently pursued; (c) the reasonable determination by the Lessor that any representation or warranty by the Lessee in the Master Lease was untrue in any material respect upon execution of the Master Lease or any Lease Schedule or (d) an "event of default" shall have occurred and be continuing under the Indenture.

The provisions regarding Events of Default and remedies in the Master Lease are subject to the following limitation: If by reason of force majeure the Lessee is unable to carry out its obligations in whole or in part under the Master Lease with respect to any Leased Item (other than its obligation to pay Rent, which shall be paid when due notwithstanding the provisions of this paragraph), the Lessee shall not be deemed in default during the period of such inability. As used here, the term "force majeure" shall mean, without limitation, the following acts of God, strikes, lockouts or other labor disturbances; acts of public enemies; orders or restraints of any kind of the United States or the State or any of their departments, agencies or officials, or any civil or military authority; insurrections; riots; landslides; earthquakes; fires; storms; droughts; floods; explosions; breakage or accident to property; or any other cause not reasonably within the control of the Lessee and not resulting from its negligence. The Lessee agrees, however, if possible, to remedy with all reasonable dispatch the cause or causes preventing it from carrying out its obligations under the Master Lease; provided that the settlement of strikes, lockouts or other labor disturbances shall be entirely within the discretion of the Lessee and the Lessee shall not be required to enter into a settlement if in its judgment it would be unfavorable to the Lessee to do so.

Whenever any Event of Default described above shall have occurred and be continuing, the Lessor shall have the right, at its option and without any further demand or notice, to take one or more of the following steps:

(a) The Lessor, with or without terminating the Master Lease, may declare all Rent any other amounts due or to become due during the Fiscal Year in which the default occurs to be immediately due and payable, whereupon such amounts shall be due and payable.

(b) The Lessor, with or without terminating the Master Lease, may give the Lessee written notice requiring the Lessee to deliver all of the Leased Items to the Lessor, whereupon the Lessee shall return the Leased Items in the manner provided in the Master Lease; or in the event the Lessee fails to make return within thirty days after receipt of such notice, the Lessor may exercise all its legal rights that exist under the Master Lease as provided under Section 775.01 of the Wisconsin Statutes to take possession and to receive damages resulting from the Lessee's failure to voluntarily return the Leased Items. If the Leased Items or any portion of it has been destroyed or damaged beyond repair, the Lessee shall pay the applicable Purchase Price of the Leased Items as set forth in the related Lease Schedule less credit for any Net Proceeds payable to the Lessor with respect to such Leased Items. Notwithstanding the fact that the Lessor has taken possession of the Leased Items, the Lessee shall continue to be responsible for Rent payable with respect to such Leased Items during the Fiscal Year in which the possession by the Lessor occurs. If and when the Event of Default is cured, and provided the Master Lease has not been terminated with respect to such Leased Items, the Lessor shall return the Leased Items to the Lessee at the Lessee's expense.

(c) If in any Fiscal Year the Lessor terminates the Master Lease and takes possession of Leased Items, the Lessor shall attempt to sell such Leased Items in a commercially reasonable manner at public or private sale in accordance with applicable State law for a period of 60 days, after which such obligation shall terminate. The Lessee shall permit the Lessor to store any Leased Items at its then existing location for up to 90 days without charge to the Lessor. The Lessor shall apply the proceeds of such sale to the extent available to the following items in the following order: (i) all expenses incurred in securing possession of the Leased Items; (ii) all expenses incurred in completing the sale; (iii) any amounts payable to any party having a security interest in or lien against the Leased Items; (iv) the applicable Purchase Price for the Leased Items; and (v) the balance of any rent or other amounts due with respect to such Leased Items for such Fiscal Year. Any proceeds of sale remaining after the requirements of Clauses (i), (ii), (iii), (iv) and (v) have been fulfilled shall be paid to the Lessee.

(d) The Lessor may use any other remedy available at law or in equity with respect to such Event of Default, including those requiring the Lessee to perform any of its obligations under the Master Lease or to pay any moneys due and payable to the Lessor under the Master Lease.

Upon the termination of the Master Lease prior to payment of all related Rent or other amounts due under the Master Lease and upon the Lessor's written request, the Lessee shall return the Leased Items to the lessor in the condition, repair, appearance and working order required by the Lease by delivering or shipping (freight prepaid) the Leased Items as the Lessor shall specify at the Lessee's cost and expense to a site within the State that the Lessor has designated. The Lessor may exercise all its legal rights that exist under the Master Lease as provided under Section 775.01 of the Wisconsin Statutes to take possession of the Leased Items and to receive damages resulting from the Lessee's failure to voluntarily return the Leased Items, or pursue any remedy described above.

SUMMARY OF THE MASTER INDENTURE

The following is a summary of certain provisions of the Master Indenture. This summary does not purport to be complete and reference is made to the full text of the Master Indenture for a complete recital of its terms.

Definitions

Unless the context requires otherwise, for purposes of this summary the following terms shall have the definitions stated:

"**Certificate Holder**" or "**Owner of the Certificate**" means the registered owner of any Certificate.

"**Certificates**" means any series of Master Lease certificates of Participation issued and any Certificates issued in replacement or exchange therefor pursuant to the Master Indenture.

"**Event of Default**" means any of the events of default referred to in the Master Indenture.

"**Event of Nonappropriation**" means the occurrence of any Nonappropriation as that term is defined in the Master Lease.

"**Funds and Accounts**" means the funds and accounts created by the Master Indenture.

"**Interim Rent**" means, with respect to any Leased Items, a prorated amount of the interest component of Rent payable under each Lease Schedule for initial use occurring before the first payment date for Rent to become due under such Lease Schedule, which amount shall be due and payable on such payment date.

"**Lease Payments**" means Rent, Interim Rent, additional rent and any other amount payable under a Lease Schedule.

"**Lease Schedule**" means any individual schedule of Leased Items executed by the Lessor and the Lessee under the Master Lease, as amended from time to time, which is identified in, and acquired by the Trustee together with the related Certificates of Acceptance pursuant to a Supplemental Indenture.

"**Lessee**" means the State of Wisconsin acting by and through the State of Wisconsin Department of Administration, or any successor department or agency.

"**Lessor**" means Firstar Bank Milwaukee, N.A., its successors and assigns, including the Trustee as assignee under the Master Indenture.

"**Qualified Investments**" means:

(a) obligations of, or obligations guaranteed as to interest by, the United States or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States;

(b) Federal Housing Administration debentures;

(c) Federal Home Loan Mortgage Corporation participation certificates;

(d) Farm Credit System consolidated systemwide bonds and notes;

(e) Federal Home Loan Banks consolidated debt obligations;

(f) Federal National Mortgage Association senior debt obligations and mortgage backed issues;

(g) Student Loan Marketing Association senior debt obligations and letter-of-credit-backed issues;

(h) Resolution Funding Corporation debt obligations;

(i) unsecured certificates of deposit, time deposits and banker's acceptances (having maturities of not more than 365 days) of any bank, the short-term obligations of which are rated the highest classification (without regard to any suffix or numerical order) by each of the Rating Agencies;

(j) certificates of deposit or time deposits constituting direct obligations of any bank, the full amount of which is insured by the Federal Deposit Insurance Corporation;

(k) debt obligations, including pre-refunded municipals, rated in either of the two highest classifications (without regard to any suffix or numerical order) by each of the Rating Agencies;

(l) commercial paper rated the highest classification (without regard to any suffix or numerical order) by each of the Rating Agencies;

(m) securities issued by those investment companies registered under the Investment Company Act of 1940 commonly known as "money market funds" rated in the highest classification by each of the Rating Agencies that invest solely in securities which are otherwise Qualified Investments;

(n) investments made through repurchase agreements with any transferor with debt or commercial paper rated in the highest classification (without regard to any suffix or numerical order) by each of the Rating Agencies provided that each repurchase agreement (i) is acceptable in form and substance to the Lessee and the Trustee, (ii) provides for the registration of title to certificated Government Obligations in the name of the Trustee or any agent of the Trustee and the physical transfer of certificated Government Obligations to the Trustee or to a custodial account in the name of the Trustee at a Federal Reserve Bank and for the registration of title to "book entry" Government Obligations in the name of the Trustee, (iii) provides that the Government Obligations acquired pursuant to such repurchase agreement shall be valued at least monthly at the lower of the then current fair market value or the repurchase price in the applicable repurchase agreement (except that the Lease Payment Reserve Fund shall always be valued at the then current fair market value), and (iv) is with any state or national bank or foreign bank with a United States branch or agency with short-term obligations rated in the highest classification (without regard to any suffix or numerical order) by each of the Rating Agencies;

(o) any stripped securities rated in the highest classification by each of the Rating Agencies, including, but not limited to, U.S. Treasury STRIPS and REFCORP STRIPS; and

(p) any security which matures or which may be tendered for purchase at the option of the holder within not more than seven years of the date on which it is acquired, if that security has a rating from each of the Rating Agencies which is equal to or higher than the rating assigned to the Certificates by the Rating Agencies and the rating is in either of the two highest classifications (without regard to any suffix or numerical order) of each of the Rating Agencies.

"**Rating Agencies**" means those rating agencies requested by the State to assign a credit rating to the Certificates or Master Lease program.

"**Registrar and Paying Agent**" means the Trustee or any other registrar and paying agent for the Certificates that is mutually acceptable to the State and the Trustee.

"**Rent**" means, with respect to any Leased Item, the amount payable to the Lessor on each payment date during the term of the Master Lease, as shown in the related Lease Schedule.

"**Supplemental Indenture**" means an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Indenture for the purpose of creating one or more series of Certificates issued thereunder or amending or supplementing the terms thereof.

"**Trust**" means the trust created under the Master Indenture, the estate of which consists of all right, title, and interest conveyed by the Lessor to the Funds and Accounts, the Lease Schedules and all Lease Payments, and other property and rights related to those Lease Schedules, including the security interest granted in the Master Lease.

"**Trustee**" means Firstar Trust Company, Milwaukee, Wisconsin, and its successors and assigns.

General

The State, acting by and through the Department of Administration, as Lessee, Firstar Bank Milwaukee, N.A., as Lessor, and Firstar Trust Company, as Trustee, have entered into a Master Indenture which establishes a trust consisting of the Lease Schedules of equipment and service items acquired by the State under the Master Lease program. Pursuant to the Master Indenture, the Lessor shall unconditionally and irrevocably sell, transfer and assign to the Trustee without recourse (but also without limitation on its obligations under the Master Lease) all of its right, title and interest in and to the Funds and Accounts, the Lease Schedules specified from time to time in one or more Supplemental Indentures, and all Lease Payments, Leased Items and other property and rights related to those Lease Schedules, including the security interest granted in the Master Lease. The Trustee declares that it holds and will hold all right, title, and interest conveyed by the Lessor in and to the Funds and Accounts, the Lease Schedules and all Lease Payments, Leased Items and other property and rights related to those Lease Schedules, including the security interest granted in the Master Lease, upon the trusts and terms set forth in the Master Indenture.

Funds and Accounts; Payments to be Deposited

The Master Indenture creates the following Funds and Accounts to be held and administered by the Trustee for each series of Certificates: a Project Fund (within which is a Project Account and an Earnings Account), a Lease Payment Fund (within which is an Interest Account and Payment Account), an Administrative Expense Payment Fund and an Insurance Fund.

All payments of Rent and other amounts due in connection with the Lease Schedules and the Leased Items (net of credits provided for in the Master Indenture) shall be made to the Trustee for application as shown in Figure IV-1.

The Trustee shall apply the proceeds from issuance of the Certificates, net of the underwriters' discount, as follows:

To the extent specified in the Supplemental Indenture creating such series of Certificates, there shall be deposited in the Principal Account and the Interest Account of the Certificate Payment Fund an amount to be used for the partial or complete redemption of one or more series of outstanding Certificates, and the Leased Items related with the redeemed Certificates shall hereafter relate to the newly issued Certificates (and new Lease Schedules shall be provided pursuant to the Master Lease).

With regard to the existing Leased Items specified in the Supplemental Indenture creating such series of Certificates, there shall be paid to the Lessor the unreimbursed Costs of Leased Items subject, however, to receipt of the information specified in the Master Indenture relating to such Leased Items.

Payment or reimbursement shall be made of the Cost of Issuance Amount or other expenses relating to the Certificates, including: (i) the initial acceptance fees for the Trustee; (ii) the fees and expenses of counsel to the Trustee, counsel to the Lessee, including Bond Counsel, and counsel to the Lessor; (iii) the fees payable to the Rating Agencies; (iv) costs of printing the Certificates and the related offering documents; and (v) other costs reasonably related to the issuance of the Certificates.

There shall be deposited into the Project Account of the Project Fund the amount, if any, specified in the corresponding Supplemental Indenture; provided, however, that no money shall be deposited in the Project Account of the Project Fund that is not immediately disbursed for the purchase of Lease Schedules unless (i) the Trustee has been provided with an opinion from nationally recognized bond counsel to the effect that such deposit will not adversely affect the exclusion of interest on the Certificates from gross income for federal income tax purposes (the deposit shall constitute all or a portion of the Acquisition Amount specified in the corresponding Supplemental Indenture, and shall be applied to the extent available in accordance with the procedures in the Master Indenture and Master Lease), and (ii) prior notification of such deposit has been given to each of the Rating Agencies. The balance of the proceeds, if any, shall be deposited in the Lease Payment Fund.

Earnings on the Project Account of the Project Fund shall be transferred as received to the Earnings Account of the Project Fund. Moneys in such Earnings Account shall be transferred and used for payment of amounts due or coming due within thirty (30) days, in the following order: first, to the Interest Account of the Lease Payment Fund for retransfer to the Interest Account of the Certificate Payment Fund; and second, to the Administrative Expense Payment Fund.

To the extent moneys in the Earnings Account of the Project Fund exceed amounts payable under the above, the excess shall be deposited in the Project Account of the Project Fund.

At least ten (10) days before the date when any payment is to be made from the Project Account of the Project Fund for the purpose of acquiring additional Leased Items under one or more Leases, the Lessee shall file with the Trustee a requisition (i) stating the name and address of the payee, the amount to be paid, and the specific Leased Item or Leased Items as to which payment is to be made, and (ii) certifying that, following such payment, no more than one hundred percent (100%) of the Purchase Price of additional Leased Items will have been financed with proceeds of the Certificates.

Subject to the requirement that the Trustee shall not invest or reinvest moneys in any Fund or Account in a manner that would cause any of the Certificates to become "arbitrage bonds", the Acquisition Amount or other moneys available in the Project Account of the Project Fund shall be disbursed on a first-in, first-out basis to pay any amount requisitioned by, or upon the order of, the Lessee for the acquisition of additional Leased Items, upon receipt by the Trustee of copies of the following: (i) a fully completed Lease Schedule (in the form set forth in the Master Lease) executed by the Lessee and the Lessor; (ii) a fully completed Certificate of Acceptance (in the form set forth in the Master Lease) executed by the Lessee; (iii) the bill(s) of sale for the Leased Items; (iv) the opinion of counsel to Lessee (in the form set forth in the Master Lease); and (v) depending upon whether the Lessee has casualty insurance covering the Leased Items for which disbursement is requested or participates in a self-insurance program, documentary evidence that the Leased Items are covered under such insurance or program and that the Trustee has been named as additional insured and loss payee and will receive advance notice of cancellation or nonrenewal of such insurance or participation in such program.

Except as provided in the Master Indenture, any moneys remaining in the Project Account of the Project Fund on the Disbursement Period Expiration Date shall, on such date, be transferred by the Trustee to the Principal Account of the Lease Payment Fund, to be applied as a credit against the Lease payments next required to be paid by the Lessee.

Upon any Event of Nonappropriation or upon an Event of Default under the Lease Schedule requiring the surrender of Leased Items, or upon any other termination of a Lease Schedule other than pursuant to the payment of all Rent or the exercise by the Lessee of its option to pay the Purchase Price, the Trustee shall immediately transfer all amounts on deposit in the Project Account of the Project Fund to the Principal Account of the Lease Payment Fund.

On any day in which Certificates are to be paid or redeemed, the Trustee shall transfer the aggregate amount on deposit in the Principal Account of the Lease Payment Fund for deposit into the Principal Account of the Certificate Payment Fund. On the date Certificates are to be redeemed in accordance with the Master Indenture as a result of deposit of moneys into the Principal Account of the Lease Payment Fund, the Trustee shall then transfer the moneys deposited for deposit into the Principal Account of the Certificate Payment Fund. On the date that Certificates are to be redeemed due to the termination of a Lease Schedule as a result of an Event of Nonappropriation, and if funds have been transferred to the Lease Payment Fund, the Trustee shall transfer all amounts on deposit in such Principal Account for deposit into the Principal Account of the Certificate Payment Fund. On the next succeeding Interest Payment Date after the date of transfer of moneys to the Principal Account of the Lease Payment Fund, the Trustee shall deposit such moneys into the Principal Account of the Certificate Payment Fund.

On each Interest Payment Date with respect to Certificates, the Trustee shall transfer from the Interest Account of the Lease Payment Fund (and, if necessary, from the Earnings Account of the Project Fund) for deposit into the Interest Account of the Certificate Payment Fund, an amount equal to the interest then due on the Certificates.

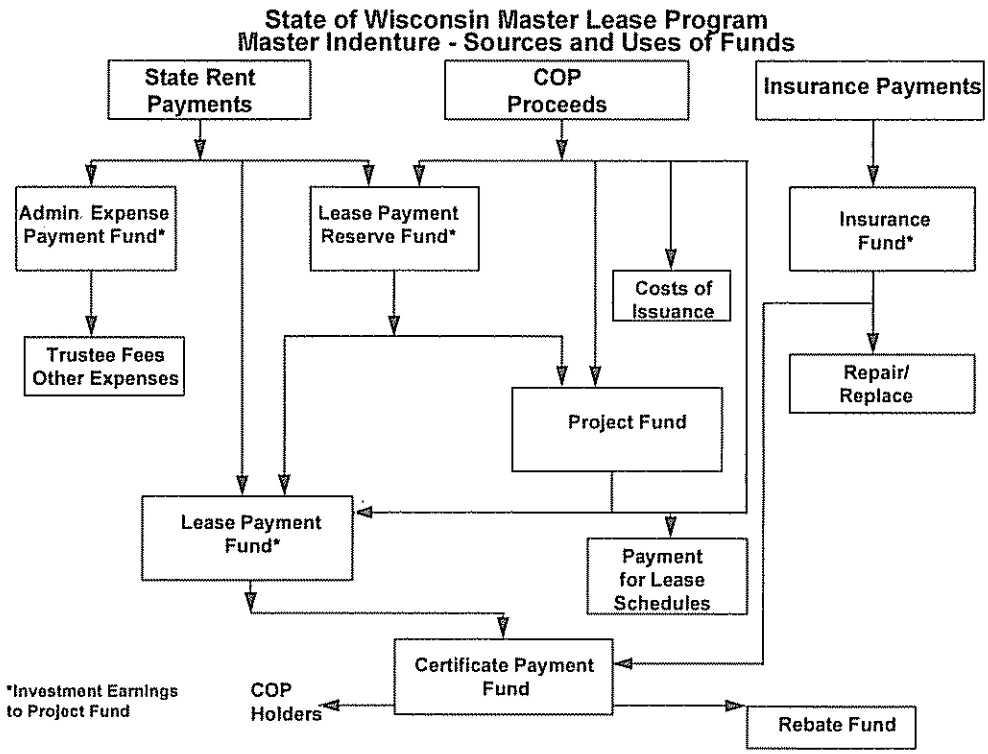
Except as provided in the Master Indenture, the Trustee shall pay to the Lessee any amount remaining in any Fund or Account after full payment (or redemption) of all Certificates outstanding and payment of any fees, expenses or costs owing with respect to the Certificates or the Lease Schedules.

Except as provided in the Master Indenture, moneys held in the Funds and Accounts shall be promptly and continuously invested in Qualified Investments to the full extent practicable. Investments shall be made by the Trustee so as to mature on or prior to the date or dates that moneys therefrom are expected to be used for the purposes for which they are held. The Trustee may trade with itself in the purchase and sale of securities for such investment. If the Trustee materially complies with the investment standards and the standard of conduct set forth in the Master Indenture, any investment losses shall be borne by the Fund in which the moneys were deposited for investment. The Trustee shall sell and reduce to cash a sufficient amount of investments in a Fund or Account whenever the cash balance thereof, together with anticipated transfers, is insufficient to satisfy any amounts payable within thirty (30) days from that Fund or Account.

The Trustee shall not invest or reinvest moneys in any Fund or Account in a manner that would cause any of the Certificates to become "arbitrage bonds" within the meaning of Section 148 of the Code or otherwise adversely affect the exclusion of interest on the Certificates from gross income for federal income tax purposes. With the assistance of Bond Counsel, the Trustee shall prepare and file such forms and notices as may be required to maintain such exclusion from gross income.

The following diagram depicts the sources and uses of the various funds:

Figure IV-1



Trust Funds

Except as provided in the Master Indenture, all properties and rights received by, and moneys and investments held by, the Trustee under the provisions of the Master Indenture shall be held in trust for the benefit of the Certificate Holders and the Lessee and shall not otherwise be subject to lien or attachment of any creditor of the Lessor, the Lessee or any Certificate Holder. The Trustee shall provide the Lessee on a basis not less frequently than quarterly with an accounting of all amounts received and disbursed and all investments made.

The Trustee shall invest moneys it may hold under the Master Indenture in Qualified Investments to be selected at the direction of the Lessee giving consideration, however, to the times at which moneys are required to be disbursed under the Master Indenture and, in that connection, may place moneys in demand or time deposits with any bank or trust company authorized to accept deposits of public funds. In making or disposing of an investment, the Trustee may act for its own account or other accounts as seller, purchaser or agent. All Qualified Investments shall be valued at the lower of cost or market. The Trustee shall not be liable for any loss resulting from an investment in a time or demand deposit in accordance with the provisions of the Master Indenture.

Servicing of Leases

Should the Lessor fail to do so, the Trustee hereby agrees to service the Lease Schedules in accordance with their terms and the terms of the Master Indenture.

Should the Lessor fail to do so, the Trustee shall enforce, and take all reasonable steps, actions and proceedings that it deems necessary for (a) the enforcement of, all of the terms, covenants and conditions of the Lease Schedules, including the prompt payment of all Lease Payments and other amounts due thereunder, and (b) the amendment of the Lease Schedules as required under the Master Lease, and in each case in accordance with their terms and terms of the Master Indenture.

Events of Default and Remedies

The following shall constitute Events of Default under the Master Indenture:

(a) any Event of Nonappropriation or Event of Default under the Master Lease or any Lease Schedule;

(b) failure by the Lessor or the Lessee to observe or perform any covenant, condition or agreement that it is required to observe or perform under the Master Indenture, other than an event specified in (a) above, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the defaulting party by any other party hereto or by Certificate Holders that own not less than five percent (5%) in aggregate principal amount of Certificates then outstanding; provided, however, if the failure cannot be corrected within the applicable period, such other parties and Certificate Holders shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the defaulting party within the applicable period and diligently pursued until the default is corrected; and

(c) any additional event designated as an "Event of Default" under any Supplemental Indenture.

The remedies available in case of an Event of Nonappropriation or an Event of Default under the Master Lease shall be as specified in the Master Lease and shall be exercisable by the Trustee as assignee of the Lessor pursuant to the Master Indenture. Whenever an Event of Nonappropriation or an Event of Default under the Master Lease shall have occurred and be continuing, the Trustee shall cause the Certificates of all Series to be redeemed pursuant to the Master Indenture, pro rata, to the extent money is available in the Lease Payment Fund; provided, that such limitation shall not affect the Trustee's ability to exercise remedies under the Master Lease, with the amounts received upon the exercise of such remedies then to be applied to the Lease Payment Fund. In addition, whenever an Event of Nonappropriation or an Event of Default shall have occurred and be continuing, the Trustee may proceed, and upon written request of Certificate Holders owning not less than a majority in aggregate principal amount of Certificates then outstanding shall proceed, to take any of the remedial steps available under the Master Lease (including acceleration, if applicable) or whatever action at law or in equity may be necessary or appropriate to enforce its rights as assignee under the Master Indenture. No remedy provided in the Master Indenture is intended to be exclusive, and every remedy shall be cumulative. No delay or omission in exercising any remedy shall be construed as a waiver, and any remedy may be exercised as often as is deemed necessary or appropriate. To entitle the Trustee to exercise any remedy reserved to it, no notice shall be necessary except as required in the Master Indenture or by law. If any party to the Master Indenture defaults under any of its provisions and any nondefaulting party employs attorneys or incurs other expenses for the collection of money or the enforcement, performance or observance of any obligation or agreement on the part of the defaulting party, the latter agrees that it will on demand pay to the nondefaulting party the reasonable fees of such attorneys and other expenses so incurred. In the event of a waiver of the breach of any provision in the Master Indenture, such waiver shall not be deemed to waive the breach of any other provision. All payments received by the Trustee with respect to the Trust Estate upon an Event of Default, whether from the sale of Leased Items, damages or otherwise, shall be applied by the Trustee, first, to its reasonable fees and expenses and, second, to the Lease Payment Fund.

In the event that no action is taken to eliminate an Event of Default, Certificate Holders owning a majority in aggregate principal amount of the Certificates then outstanding may institute any suit, action or other proceeding at law or in equity for the protection or enforcement of any right under the Master Lease or the Master Indenture, but only if such Certificate Holders have first requested in writing that action be taken, have given a reasonable opportunity for such suit, action or other proceeding to be instituted, and have offered reasonable indemnity against the costs, expenses and liabilities to be incurred thereby.

Limitation of Liability

Except for the payment of Lease Payments and other amounts when due under the Leases and the performance of other covenants and agreements of the State contained in the Master Lease or the Master Indenture, the Lessee shall have no obligation or liability to any of the other parties or to the Certificate Holders with respect to the Master Indenture or the terms, execution, delivery or transfer of the Certificates, or the application of any payments it has made in accordance with the Lease Schedules.

Neither the Lessee nor the Lessor shall have any obligation or liability to any of the other parties or to the Certificate Holders with respect to the performance by the Trustee of any duty imposed upon it under the Master Indenture.

The Trustee shall have no obligation or responsibility for providing information to the Certificate Holders concerning the investment character of the Certificates, for the sufficiency or collection of any Lease Payments or other amounts due from any party, or for the actions or representations of any other party to the Master Indenture. Except for performance of its covenants and agreements in the Master Indenture, the Trustee shall have no obligation or liability to any of the other parties or the Certificate Holders under any of the Master Indenture or the Master Lease, or with respect to the failure of any other party to perform any covenant or agreement thereunder.

Amendment

The parties may agree from time to time to the amendment of the Master Indenture, the Master Lease or any Lease Schedule (the "Operative Documents"), or enter into a Supplemental Indenture, without the consent of any Certificate Holder, in order to provide for the issuance of a series of Certificates, to cure any ambiguity or to correct or supplement any provision in any of the Operative Documents that may be inconsistent with any provision in any other Operative Document, or to add any other provision with respect to matters or questions arising under any Operative Document if it is not inconsistent with the provisions of any Operative Document; provided, however, that such action shall not, as evidenced by an opinion of counsel, adversely affect in any material respect the interests of any Certificate Holder.

Any of the Operative Documents may also be amended from time to time with the consent of Certificate Holders owning not less than 51% of the aggregate outstanding principal amount of Certificates of any series affected thereby for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Operative Documents, or of modifying in any manner the rights of the owners of not less than 51% of the aggregate outstanding principal amount of Certificates; provided, however, that no amendment shall (a) increase or reduce the amount of, or delay the timing of, or otherwise adversely affect, collections of payments under any Lease Schedule or required to be made on any Certificate, (b) release any Lease Schedule or all or substantially all collateral securing a Lease Schedule, or (c) reduce the aforesaid percentage required for consent to any amendment, without the consent of the Certificate Holders owning all Certificates.

Promptly after the execution of any amendment or consent, the Trustee shall furnish written notification of the substance of such amendment or consent to each Certificate Holder.

It shall not be necessary for a consent of Certificate Holders required under these provisions to approve the particular form of any proposed amendment or consent, but it shall be sufficient if such consent shall approve the substance thereof. The manner of obtaining consents of Certificate Holders shall be subject to such reasonable requirements as the Trustee may prescribe.

Upon entering into any amendment to an Operative Document pursuant to this provision, the Trustee shall give written notice thereof to each of the Rating Agencies.

Limitation on Rights of Certificate Holders

The death or incapacity of any Certificate Holder shall not operate to terminate the Master Indenture or the Trust, nor entitle such Certificate Holder's legal representative or heirs to claim an accounting or to take any action or commence any proceeding in any court for a partition or winding up of the Trust, nor otherwise affect the rights, obligations and liabilities of the parties to the Master Indenture.

No Certificate Holder shall have any right to vote (except as provided in the Master Indenture) or in any manner otherwise control the operation and management of the Trust, or the obligations of the parties to any of the Operative Documents nor shall anything set forth in the Master Indenture, or contained in the terms of the Certificates, be construed so as to constitute the Certificate Holders from time to time as partners or members of an association; nor shall any Certificate Holder be under any liability to any third person by reason of any action taken by the parties to the Master Indenture pursuant to any provision of the Master Indenture.

No Certificate Holder shall have any right by virtue of any provision of the Master Indenture to institute any suit, action or proceeding at law or in equity under or with respect to the Master Indenture, unless (i) such Certificate Holder has previously given to the Trustee a written notice of an Event of Default and of the continuance thereof, as provided in the Master Indenture, and (ii) the holders of not less than 25% of the aggregate outstanding principal amount of Certificates have made written request of the Trustee to institute such action, suit or proceeding in its own name as Trustee under the Master Indenture and shall have offered to the Trustee such reasonable indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby, and (iii) the Trustee, for 30 days after its receipt of such notice, request and offer of indemnity, shall have neglected or refused to institute any such action, suit or proceeding; it being understood and intended, and being expressly covenanted by each Certificate Holder with every other Certificate Holder and the Trustee, that no one or more owners of Certificates shall have any right in any manner whatever by virtue of any provision of the Master Indenture to affect, disturb or prejudice the rights of the holders of any other Certificates, or to obtain or seek to obtain priority over or preference as against any other Certificate Holder, or to enforce any right under the Master Indenture, except in the manner provided in the Master Indenture and for the equal, ratable and common benefit of all Certificate Holders. For the protection and enforcement of the provisions under this heading "Limitations on Rights of Certificate Holders", each Certificate Holder and the Trustee shall be entitled to such relief as can be given either at law or in equity.

PART V

TRANSPORTATION REVENUE OBLIGATIONS

This part of the Annual Report includes information about transportation revenue obligations issued by the State of Wisconsin. Certain capitalized terms are defined in the "GLOSSARY" to this part of the Annual Report. Chapter 18 of the Wisconsin Statutes provides that the State of Wisconsin Building Commission (the "Commission") has supervision over allmatters relating to the issuance by the State of revenue obligations. Employes of the Division of Executive Budget and Finance serve as the Capital Finance Director and staff responsible for managing the State's revenue bond programs.

Transportation revenue obligations are issued pursuant to the State of Wisconsin Transportation Facilities and Highway Projects Revenue Obligations General Resolution, dated June 26, 1986 (the "General Resolution"). The State has issued transportation revenue obligations in the form of bonds and commercial paper notes. Bank One Wisconsin Trust Company, National Association, Milwaukee, Wisconsin serves as Trustee for the transportation revenue bond program (the "Trustee") as well as registrar and paying agent. The law firm of Quarles & Brady provides bond counsel services to the State for issuance of transportation revenue obligations. The State has rarely employed a financial advisor for the issuance of transportation revenue obligations, except for advance refunding issues.

This Annual Report includes information and defined terms for different types of municipal securities issued by the State and has been gathered from multiple sources. The context or meaning of terms used in this part of the Annual Report may differ from that of terms used in another part.

SECURITY

Sources of Payment

The Bonds, as defined in the "GLOSSARY", are revenue obligations of the State payable solely from the Redemption Fund created by the General Resolution. The Bonds (not including the Commercial Paper Notes) are secured by a first lien pledge of Program Income, the Funds created by the General Resolution and any other income of the Program pledged to the payment of interest, principal, and Redemption Price on the Bonds. All Bonds (not including the Commercial Paper Notes) previously authorized under the General Resolution are issued on parity with each other.

The Commercial Paper Notes are also Bonds pursuant to the General Resolution, and are defined in the "GLOSSARY" as the 1997 Commercial Paper Notes and any other obligation to be issued on parity with the 1997 Commercial Paper Notes. The Commercial Paper Notes are revenue obligations of the State payable from Program Income deposited into the Subordinated Debt Service Fund created by the General Resolution. The pledge of such Program Income to payment of the Commercial Paper Notes is subordinate to the pledge of Program Income to payment of Bonds (not including the Commercial Paper Notes) presently outstanding or hereafter incurred.

Program Income is defined by the General Resolution to be moneys derived from Vehicle Registration Fees authorized under Section 341.25 of the Wisconsin Statutes. All moneys derived under Section 341.25 of the Statutes or any other moneys that the State is authorized to pledge shall be collected by the Trustee or the Department as agent of the Trustee and deposited outside the State Treasury in an account with the Trustee defined as the Redemption Fund.

Program Income is defined to include all the interest earned or gain realized from the investment of the Redemption Fund. Moneys derived from the Registration Fees are described below.

In accordance with and pursuant to the Revenue Obligations Act, the Act and the General Resolution, Program Income received or to be received by the Trustee in the Redemption Fund is deemed to be revenue of the Trustee and is pledged (i) to pay interest on all Outstanding Bonds, (ii) to pay the principal or Redemption Price of all Outstanding Bonds as the same become due, (iii) to maintain the Debt Service Reserve Requirement in the Reserve Fund, (iv) to pay Program Expenses, and (v) to pay principal and interest on the Commercial Paper Notes. The pledge is effective upon the issuance of the Bonds and remains effective until all Bonds and Commercial Paper Notes issued under the General Resolution are fully paid in accordance with their terms. All Program Income which is in excess of the amounts necessary to meet the requirements of (i) through (v) above is transferred to the State for deposit in the Transportation Fund and becomes free of the lien of the pledge. The Department uses moneys in the Transportation Fund for any authorized purpose. See "SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION".

The Bonds are revenue obligations of the State payable solely out of the Redemption Fund and each Bond contains on its face a statement to that effect. The State is not generally liable on the Bonds, and the Bonds are not a debt of the State for any purpose whatsoever. All Bonds (not including the Commercial Paper Notes) previously authorized under the General Resolution are issued on parity with each other. The Commercial Paper Notes are revenue obligations of the State payable solely out of the Subordinated Debt Service Fund. The State is not generally liable on the Commercial Paper Notes, and the Commercial Paper Notes are not a debt of the State for any purpose whatsoever.

The State pledges and agrees with the Bondholders and holders of Commercial Paper Notes that the State will not limit or alter its powers to fulfill the terms of any agreements (made in the General Resolution, in the Bonds or in the Commercial Paper Notes) with the Bondholders and holders of Commercial Paper Notes, or in any way impair the rights and remedies of the Bondholders and holders of Commercial Paper Notes until the Bonds and Commercial Paper Notes, together with interest, including interest on any unpaid installments of interest thereon, Redemption Price and all costs and expenses in connection with any action or proceeding by or on behalf of the Bondholders and holders of Commercial Paper Notes, are fully met and discharged.

Registration Fees

Registration Fees, as enumerated under Section 341.25, are highway user fees collected by the Department of Transportation from owners of most motor vehicles. Table V-1 summarizes the major Registration Fees authorized under Section 341.25. For summary purposes the revenues generated by the Registration Fees can be divided into four broad categories: (i) approximately 38% of total revenues are generated from automobiles, (ii) approximately 33% of total revenues are generated from large trucks (over 8,000 pounds gross weight), (iii) approximately 26% of total revenues are generated from small trucks, and (iv) approximately 3% of total revenues are generated by miscellaneous vehicles.

Table V-1

Section 341.25 Registration Fees

Vehicle	Annual Fee
Automobile	$45
Trucks	Weight-based fee ranging from $48.50 to $1,969.50.
Bus	Fee equal to the fee for a truck of the same weight.
Trailer 12,000 lbs. and under	Fee equal to one-half of the fee for a truck of the same weight.
Trailer over 12,000 lbs.	Fee equal to the fee for a truck of the same weight.
Motor Homes	Weight-based fee ranging from $48.50 to $119.50.
Mobile Homes and Camping Trailers	$15
Motorcycle/Moped	$23 biennial fee.

Source: Wisconsin Department of Transportation

Table V-1 includes the new Registration Fees as provided for in the 1997-99 biennial budget. The Registration Fee increases authorized in this budget, effective December 1, 1997, include (i) a $5 increase in the automobile fee, (ii) an increase in truck registration fees ranging from $3.50 to $119.50, (iii) an increase in mobile home registration fees ranging from $3.50 to $8.50, and (iv) a $3 increase in the biennial motorcycle/moped fee (which is effective May 1, 1998).

Section 341.25 registration fee revenues for the past ten years are summarized in Table V-2.

Table V-2

Section 341.25 Registration Fee Revenues
1988 to 1997

Fiscal Year (June 30)	Non-IRP Fees (Amounts in Millions)	Pledged IRP Fees[a] (Amounts in Millions)	Total (Amounts in Millions)	% Change
1988	$119.2	N.A.	$119.2	—
1989	123.5	N.A.	123.5	3.6%
1990	126.0	$33.0	159.0	28.7
1991	126.3	31.4	157.7	-0.8
1992	173.6	34.1	207.7	31.7
1993	192.7	36.0	228.7	10.1
1994	198.5	37.1	235.6	3.0
1995	203.7	42.3	246.0	4.4
1996	205.4	43.3	248.7	1.1
1997	207.4	46.8	254.2	2.2

[a] Prior to Fiscal Year 1990, fees collected under the International Registration Plan ("IRP") were not a component of Section 341.25 revenues.

Source: Wisconsin Department of Transportation

In previous biennial budgets, the Legislature authorized a number of actions that have had an impact on the Registration Fees over the past ten years. Two of these actions served to increase the level of Registration Fees, and the third action affected the timing of the collection of a portion of the Registration Fees.

First, the 1991–93 biennial budget increased the Registration Fees for most motor vehicles, effective September 1, 1991. Registration Fee increases authorized in that budget include: (i) a $15 increase in the automobile fee, (ii) an increase in truck registration fees ranging from $15 to $150, (iii) a $15 increase in the motor home fee and (iv) a $6 increase in the biennial motorcycle/moped fee.

Second, the 1989–91 biennial budget increased Program Income by including interstate truck registration revenues collected through the International Registration Plan ("IRP") under the statutory pledge of revenues. Wisconsin is one of 48 states and three Canadian provinces that participate in the IRP, which is a multi-state compact for the collecting and sharing of large truck registration fees. Under the IRP, the registration fees on trucks involved in multi-state commercial activity are split between the participating states on the basis of proportionate mileage. Starting in Fiscal Year 1990, IRP revenues have been a component of the Program Income and have served to increase the level of pledged Registration Fees.

Third, the 1989–91 biennial budget converted the registration fee for motorcycles and mopeds from an annual to a biennial fee, in order to obtain certain processing efficiencies. As a result, starting in Fiscal Year 1990, a two-year motorcycle/moped registration fee is now collected in even-numbered fiscal years.

As indicated in Table V-2, Section 341.25 revenues have historically increased (only once in the past ten years was there a minor reduction from one year to the next). When reviewing past Section 341.25 registration fee revenues, it is useful to divide total collections into two categories: (i) non-IRP revenues and (ii) IRP revenues.

Table V-2 reflects the steady rate of growth that has occurred in non-IRP Section 341.25 revenues over the past ten years. The smallest rate of increase (0.2%) in these revenues occurred in Fiscal Year 1991. However, this figure was influenced by the implementation of biennial motorcycle registration during Fiscal Year 1990. If Fiscal Years 1990 and 1991 revenues are adjusted to eliminate the impact of the biennial motorcycle/moped fee, the rate of growth in Fiscal Year 1991 revenues would have totaled 1.9%, which is consistent with past collection trends. Thus, while the biennial fee influences the timing of the collection of a portion of the revenues (the growth rate in the even-numbered Fiscal Years has been and is expected to be greater than in odd-numbered Fiscal Years), the overall rate of growth in non-IRP Section 341.25 revenues has remained very steady. In Fiscal Years 1992 and 1993 the percentage changes reflect increases in Registration Fees required in the 1991–93 biennial budget. The increases were in effect for nine months of Fiscal Year 1992 with the remainder occurring in Fiscal Year 1993.

IRP Registration Fee collections have been included in the pledge of Section 341.25 revenues only since Fiscal Year 1990. On the basis of the Department's experience with the IRP, it is anticipated that this revenue source will be somewhat more volatile than the other portion of Section 341.25 revenues. For example, over the last ten years, collections under the IRP have ranged from a low of $38.4 million to a high of $46.8 million. This volatility is a function of three different factors. First, IRP revenues are directly tied to the level of interstate trucking, which is directly associated with the condition of the national economy. Second, in recent years, the membership in the IRP has been expanding, which has resulted in shifts between states in the allocation of registration fees because of associated changes in proportional mileage. Federal law stated that by October 1, 1996, all of the contiguous 48 states must be IRP members. Because all 48 states are now members, this factor will no longer contribute to volatility in the future. Third, under the IRP, each state serves as the collection agent for the fees required to be paid by trucking firms based in that state and the base state is responsible for forwarding proportional fees to all other states. As a result, administrative issues in other participating states may cause delays in forwarding other states' shares of IRP fees.

Registration Fees are collected throughout the fiscal year. In order to smooth out the Department's vehicle registration workload, the Department has staggered vehicle registrations throughout the year. As a result, in Fiscal Year 1997, the flow of quarterly collections of annual Registration Fee revenues ranged from a low of 22.6% to a high of 27.8%. The recent and any future adjustment of Registration Fees may change the monthly distribution of Registration Fees collected.

Future Registration Fee revenues depend on the size of the vehicle fleet in subsequent years and the level of fees imposed on the various vehicle types. The methodology for registration fee revenue projections consists of two components. Projections through the year 2001 are based on an econometric model developed by the Department, which relates the size of the vehicle fleet to anticipated changes in certain key economic variables. This econometric model is also used in the state budget process for the purpose of estimating overall state transportation revenues. Projections for years beyond 2001 are based on judgments that combine historical projections and information from the model.

The Department's model has two distinct components: (i) anticipated changes in the size of the State's automobile fleet and (ii) anticipated changes in the size of the State's truck fleet. The Department's econometric model relates the size of the automobile fleet to the disposable income in the State, the relative price of new autos, the level of unemployment, the size of the driving age population, historical rates of vehicle scrappage, and a measure of consumer confidence. The model relates the size of the truck fleet to the personal income in the State, industrial outlook, vehicle price, vehicle scrappage rates, and the level of unemployment. The long-range economic data used in the model are based on the projections published by Data Resources, Inc.

Projected Section 341.25 Registration Fee revenues for the next ten years are summarized in Table V-3.

Table V-3

Projected Section 341.25 Registration Fee Revenues 1998 to 2007

Fiscal Year	Revenues[a] (Amounts in Millions)	% Change
1998	$278.8	—
1999	294.6	5.7%
2000	310.7	5.5
2001	318.6	2.5
2002	333.9	4.8
2003	336.5	0.8
2004	351.4	4.4
2005	354.9	1.0
2006	371.1	4.6
2007	375.3	1.1

[a] Includes both IRP and non-IRP Section 341.25 revenues.

Source: Wisconsin Department of Transportation

Table V-3 reflects the increased Registration Fees provided for in the 1997-99 biennial budget. In addition, Table V-3 also reflects a $10 fee for late registrations that is also provided for in the 1997-99 biennial budget and is effective October 1, 1998.

The Department will monitor Registration Fee revenue as it relates to scheduled debt service payments on the Bonds and payments on the Commercial Paper Notes and recommend appropriate adjustments in Registration Fee schedules to the Governor and the Legislature. The State has covenanted in the General Resolution that as long as Bonds and Commercial Paper Notes are Outstanding it will charge and cause to be deposited with the Trustee sufficient Program Income, including Registration Fees, to pay principal and interest on such Bonds, as the same become due, to maintain the Reserve Fund at the Debt Service Reserve Requirement, to pay Program Expenses and to make payments into the Subordinated Debt Service Fund to pay principal and interest on the Commercial Paper Notes.

Forecasted Debt Service Coverage

Table V-4 shows the forecasted coverage of annual debt service on the Outstanding Bonds, based on the Department's estimated Registration Fees for 1998–2007. There can be no assurance that the estimated Registration Fees will be realized in the amounts shown. Table V-5 shows the amortization schedule of outstanding Commercial Paper Notes if the Commercial Paper Notes remain outstanding until 2018.

Table V-4
Debt Service on Outstanding Transportation Revenue Bonds
and Estimated Revenue Coverage

Year Ending (July 1)	Total Debt Service[a]	Estimated Revenue[b] (Millions)	Estimated Coverage Ratio[c]
1998	$69,163,282.50	$ 278.8	4.0
1999	66,446,445.00	294.6	4.4
2000	66,438,292.50	310.7	4.7
2001	66,399,297.50	318.6	4.8
2002	66,432,715.00	333.9	5.0
2003	66,398,537.50	336.5	5.1
2004	70,390,385.00	351.4	5.0
2005	70,249,147.50	354.9	5.1
2006	70,254,262.50	371.1	5.3
2007	59,243,417.50	375.3	6.3
2008	59,317,420.00		
2009	54,448,757.50		
2010	42,243,277.50		
2011	42,325,360.00		
2012	42,413,300.00		
2013	42,970,405.00		
2014	43,078,760.00		
2015	34,612,000.00		
2016	25,711,625.00		
2017	16,085,075.00		
2018	16,088,500.00		
2019	16,091,450.00		
2020	16,087,000.00		
2021	16,083,500.00		
2022	16,088,750.00		

[a] The following debt service schedule does not include interest and principal payments on outstanding transportation revenue commercial paper notes

[b] Excludes interest earnings

[c] Assumes that no additional bonds will be issued and continuation of current registration fees. No revenue estimates made beyond 2007.

Source: Wisconsin Departments of Administration and Transportation.

Table V-5

**AMORTIZATION SCHEDULE:
AMOUNT DUE ANNUALLY ON TRANSPORTATION REVENUE COMMERCIAL PAPER
ISSUED TO DECEMBER 15, 1997[a]**

Fiscal Year (Ending June 30)	Principal
1999	4,645,000
2000	4,835,000
2001	5,060,000
2002	5,295,000
2003	5,550,000
2004	5,825,000
2005	6,110,000
2006	6,425,000
2007	6,760,000
2008	7,120,000
2009	7,500,000
2010	7,905,000
2011	8,345,000
2012	8,810,000
2013	9,310,000
2014	9,840,000
2015	10,410,000
2016	11,010,000
2017	11,655,000
2018	12,340,000
TOTALS	$154,750,000

[a] The State intends to treat each issue of transportation revenue commercial paper as if it were a long-term bond issue by making annual payments on July 1 Each annual payment reflects a principal amortization The State also intends to make payments on January 1 and July 1 on all outstanding transportation revenue commercial paper notes in amounts set forth in the Supplemental Resolution authorizing the particular issue of commercial paper notes

Source: Wisconsin Department of Administration.

Registration Fee Collection Procedures

Pursuant to an agreement between the Department and the Trustee, the Department is the agent of the Trustee with respect to the collection of Registration Fees. The Registration Fees are collected in six ways: by mail to a lock-box system operated by Firstar Bank Milwaukee, N.A. (the "Bank"), over the counter in field registration stations, by mail to the Department's Central office in Madison (the "Central Office"), via telephone charge card renewal system, at vehicle emission testing stations, and by State auto and light truck dealers. Regardless of the method of collection, all Registration Fees are initially deposited with the Trustee for deposit in the Redemption Fund.

The principal method of collecting non-IRP Registration Fees is registration renewals by mail, which are sent directly to the Bank operating the lock-box system as agent for the Trustee. Under this lock-box system the renewals are mailed to the Bank by the vehicle owner. The renewal includes a check payable to "Registration Fee Trust" and an enclosure with relevant registration information on it. The Bank is to deposit its receipts of Registration Fees daily with the Trustee for deposit in the Redemption Fund.

Over-the-counter collections take place in 29 field registration stations throughout the State. These offices collect Registration Fees on behalf of the Trustee, as well as driver license fees, title fees, lien fees, salesman's license fees, permit fees, disabled identification card fees, and various other Department charges. The Department's financial system is a transaction-based computer system with the field stations linked to the Department's Central Office by terminal. All transactions are summarized daily and reported to the Central Office. The stations deposit their collections in an account in the Trustee's name for deposit in the Redemption Fund.

Collections at the Central Office differ from field-office collections in that it is primarily IRP payments and mail applications that are processed. IRP payments consist of checks submitted by individual truck operators, as well as checks generated by other states transmitting IRP payments to the State. Mail applications handled through the Central Office are primarily associated with the registration of vehicles that involve the transfer of ownership. All checks and cash collected through the Central Office are delivered to the Trustee for deposit in the Redemption Fund.

Telephone charge card renewal is a system available to motorists who prefer to charge their vehicle registration renewals. Under this system, motorists can renew their registrations through a touch-tone phone. The Department has contracted with a vendor to handle the voice response equipment and transmission of data. The vendor transfers all monies collected daily, from these transactions, through a wire transfer to the Trustee for deposit in the Redemption Fund.

Two collection methods are in early implementation stages and expect to be fully operational in the next two or three years. The Department has a contract with a vehicle emission contractor to collect Registration Fees at emission testing stations. After a successful emission test, a registrant may chose to renew their registrations at a testing station. Under this method, the emission testing station is treated like a field registration station with direct connection to the Central Office's terminal. A service fee approximately equal to the field registration station fee is charged to the registrant

The Department also has a series of contracts with car and light truck dealers to process vehicle title and registration and transmit such information electronically to the Department. The contracts between the Department and vendors provide an electronic interface between the Department and the dealer's data processing systems. The dealer collects registration and other fees and transmits to the Department via electronic funds transfer all collected fees. A service fee is charged to registrants to use this option.

Reserve Fund

The General Resolution creates a Reserve Fund and provides that it shall be used to make up any deficiency in the Redemption Fund for the payment of principal of and interest on all of the Outstanding Bonds. Each Series Resolution must set forth the Debt Service Reserve Requirement, if any, for that Series. The Debt Service Reserve Requirements for all of the Outstanding Bonds are combined to determine the aggregate Debt Service Reserve Requirement. If all of the Bonds of a Series cease to be Outstanding, then the aggregate Debt Service Reserve Requirement may be reduced by the Debt Service Reserve Requirement attributable to that Series.

Currently, the Reserve Fund has been funded in an amount at least equal to the maximum annual interest due on the Outstanding Bonds. No representation is made as to the Debt Service Reserve Requirement that may be established upon the issuance of additional Series of Bonds. If there is a deficiency in the Reserve Fund, the Trustee shall, after setting aside in the Principal and Interest Account the applicable amounts required to be deposited therein, deposit Program Income into the Reserve Fund in an amount sufficient to remedy such deficiency.

The General Resolution provides that in lieu of a deposit to the Reserve Fund of an amount equal to the Debt Service Reserve Requirement, the State may provide for a letter of credit, municipal bond insurance policy, surety bond or other type of agreement or arrangement with an entity having, at the time of entering into such agreement or arrangement, a credit rating equal to or greater than the Bonds which provides for the availability, at the times required pursuant to the provisions of any Series Resolution, of an amount at least equal to such Debt Service Requirement and such method of funding shall be deemed to satisfy all provisions of the Series Resolution with respect to the Debt Service Reserve Requirement and the amount required to be on deposit in the Reserve Fund with respect to such Series of Bonds.

Surety Bond

On May 27, 1993 and in conjunction with the issuance of the 1993 Series A Transportation Revenue Bonds, the State began funding the Debt Service Reserve Requirement with an irrevocable surety bond from AMBAC Assurance Corporation ("AMBAC Assurance"). Subsequently, each time that Bonds have been issued, the Debt Service Reserve Requirement for the then Outstanding Bonds has been recalculated and the previous Surety Bond has been exchanged for a new Surety Bond. Currently, the Surety Bond is in an amount of $40,475,000, which is equal to the aggregate Debt Service Reserve Requirement for all Outstanding Bonds (the "Surety Bond Coverage"). The premium for the Surety Bond is paid in full. The Surety Bond is noncancelable until it expires on the earlier of July 1, 2022 or when all Outstanding Bonds issued, now or in the future, under the General Resolution are paid in full. Surety Bond Coverage is not reduced by principal payments or defeasance of Outstanding Bonds.

The Surety Bond provides that upon the later of (i) one (1) day after receipt by AMBAC Assurance of a demand for payment executed by the Trustee certifying that provision for the payment of principal of or interest on the Bonds when due has not been made or (ii) the interest payment date specified in the Demand for Payment submitted to AMBAC Assurance, AMBAC Assurance will promptly deposit funds with the Trustee sufficient to enable the Trustee to make such payments due on the Bonds, but in no event exceeding the Surety Bond Coverage.

Pursuant to the terms of the Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by AMBAC Assurance under the terms of the Surety Bond and the State is required to reimburse AMBAC Assurance for any draws under the Surety Bond with interest at a market rate. Upon such reimbursement, the Surety Bond is reinstated to the extent of each principal reimbursement up to but not exceeding the Surety Bond Coverage. The reimbursement obligation of the State is subordinate to the State's obligations with respect to the Bonds.

In the event the amount on deposit, or credited to the Reserve Fund, exceeds the amount of the Surety Bond, any draw on the Surety Bond shall be made only after all the funds in the Reserve Fund have been expended. In the event that the amount on deposit in, or credited to, the Reserve Fund, in addition to the amount available under the Surety Bond, includes amounts available under a letter of credit, insurance policy, surety bond or other such additional funding instrument, draws on the Surety Bond and the additional funding instrument shall be made on a pro rata basis to fund the insufficiency.

The Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Trustee.

AMBAC Assurance

AMBAC Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately $2,813,000,000 (unaudited) and statutory capital of approximately $605,000,000 (unaudited) as of September 30, 1997. Statutory capital consists of AMBAC Assurance policyholders' surplus and statutory contingency reserve. Moody's Investors Service, Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. and Fitch Investors Service, L.P. have each assigned a triple-A claims-paying ability rating to AMBAC Assurance.

Copies of AMBAC Assurance financial statements prepared in accordance with statutory accounting standards are available from AMBAC Assurance. The address of AMBAC Indemnity's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York, 10004 and (212) 668-0340.

AMBAC Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by AMBAC Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by AMBAC Assurance under policy provisions substantially identical to those contained in its municipal bond insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer.

AMBAC Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Annual Report other than the information supplied by AMBAC Assurance and presented under the headings *"Surety Bond"* and *"AMBAC Assurance"*.

Program Income Covenant

In the General Resolution, the State has covenanted that it will charge and cause to be deposited with the Trustee sufficient Program Income to (i) pay all principal of and interest on the Bonds as the same become due, (ii) maintain the Reserve Fund at its requirement, (iii) pay Program Expenses, (iv) make required deposits into the Subordinated Debt Service Fund and (v) maintain the applicable requirements of such other funds and accounts specified under the General Resolution. See "SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION".

Program Expense Fund

The General Resolution provides that on the first day of each January, April, July and October, after setting aside in the Principal and Interest Account in the Redemption Fund the amount of principal of and interest on Outstanding Bonds accruing during each such quarterly period, the Trustee is to deposit in the Program Expense Fund Program Income equal to the amount of Program Expenses accruing during such quarterly period as set forth in the Department's annual budget for Program Expenses for such year. The General Resolution defines Program Expenses as the reasonable and proper costs and expenses of the Department for the operation and maintenance of the Program, including, without limitation, the administrative expenses allocable to the Program and the fees and the expenses of the Trustee and the Registrar for the Bonds and dealers, letter of credit provider and issuing and paying agent for the Commercial Paper Notes.

Additional Bonds

The General Resolution authorizes the issuance of additional Bonds for the purpose of paying the costs of Projects and to refund Outstanding Bonds. Additional Bonds may be issued only if

Program Income for any 12 consecutive calendar months of the preceding 18 calendar months was at least equal to 1.75 times the maximum aggregate Principal and Interest Requirement in any Bond Year for all Outstanding Bonds. The General Resolution defines Outstanding Bonds, as of any particular date, as all Bonds theretofore and thereupon being delivered except (i) any Bond canceled by the Trustee, or proven to the satisfaction of the Trustee to have been canceled by the Registrar, (ii) any Bond deemed to have been defeased pursuant to the General Resolution and (iii) any Bond in lieu of or in substitution for which another Bond shall have been delivered pursuant to the requirements of the General Resolution or any Series Resolution. In addition, upon the issuance of such additional Bonds the amount on deposit in the Reserve Fund must at least equal the Debt Service Reserve Requirement. See "SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION; Additional Bonds".

For purposes of establishing the requisite ratios set forth above, the amount of the Interest Requirement shall be determined by utilizing (i) the fixed interest rates applicable to the specified time periods in the case of a fixed interest rate Series of Bonds and (ii) the maximum interest rate permitted by the Series Resolution for the time period specified in the case of a variable interest rate Series of Bonds.

TRANSPORTATION PROJECTS COMMISSION

In 1983, the Transportation Projects Commission ("TPC") was created under Section 13.489 of the Wisconsin Statutes to define, review and recommend major highway projects to the Governor and the Legislature. The recommendations of the TPC are reviewed and acted upon by the Governor and the Legislature during the course of the State's biennial budget process. The TPC consists of the Governor, three citizen members appointed by the Governor to serve at his or her pleasure and five senators and five representatives to the assembly appointed as are the members of standing committees in their respective houses. Of the members from each house, three are chosen from the majority party and two chosen from the minority party. The Secretary of Transportation serves as a nonvoting member and the Governor serves as chairperson.

The Department assists the TPC in the performance of its duties by making studies and cost estimates for proposed projects under consideration by the TPC. The Department reports to the TPC by September 15 of each even-numbered year concerning its recommendation for adjustments in the major highway projects program. The TPC reports its recommendations to the Governor or Governor-elect and the Legislature, no later than December 15 of each even-numbered year. The TPC may recommend approval, approval with modifications or disapproval of any project, except that the TPC may not recommend the approval, with or without modifications of any project unless: (i) the TPC determines that construction will be commenced on all currently enumerated projects and on the project(s) recommended for approval within six years after the first July 1 after the date on which the TPC recommends approval of the project(s), and (ii) the report recommending approval of the project(s) is accompanied by a financial proposal that, if implemented, would provide funding in an amount sufficient to ensure that construction will commence on all currently enumerated projects and on the recommended project(s) within those six years. In determining the commencement date, the TPC shall assume the current year funding will be adjusted annually for inflation. The projects recommended by TPC are included in the Governor's recommendations in the next biennial budget submission. Legislative action is then required to statutorily enumerate the projects. The Department may not construct a major highway project without such statutory authorization.

THE WISCONSIN DEPARTMENT OF TRANSPORTATION

General

The origin of the Department dates from 1911 when the State Legislature created a State Highway Commission which had authority over and supervised all highway developments funded by the State and providing the first State appropriations for highway construction and maintenance. Initially, such appropriation and designated fee income were held in the State's General Fund. In 1945, the Legislature segregated these sums in a Highway Fund.

The Department, through legislative and executive action, has evolved into an all-modes cabinet level transportation agency. Chapter 75, Laws of 1967, brought together into a new Department of Transportation, the Aeronautics Commission, the State Highway Commission and the Motor Vehicle Department. Chapter 29, Laws of 1977, abolished the State Highway Commission, transferring the Commission's authority to the Secretary of the Department. The Secretary is appointed by the Governor and confirmed by the Senate. Effective with the 1979–81 biennial budget, the Governor's Office of Highway Safety was incorporated into the Department.

The Department's principal administrative offices are located at 4802 Sheboygan Avenue in Madison, Wisconsin. In addition, the Department has approximately 151 field offices located throughout the State.

Management and Staff

The executive functions of the Department are directed and supervised by the Secretary who is assisted by the Deputy Secretary.

CHARLES H. THOMPSON was appointed Secretary of Transportation in January 1992. Prior to his appointment, Mr. Thompson served for five years on the Wisconsin Public Service Commission, the last four as its Chairman. Before his service with the State, Mr. Thompson served as a teacher and principal in the Wisconsin Dells Area public schools, as well as being the owner and operator of several small businesses in the State. Mr. Thompson holds a Bachelor of Arts degree in secondary education from the University of Wisconsin-Eau Claire, and he has completed his graduate work in school administration at the University of Colorado–Boulder and the University of Wisconsin–Superior.

TERRENCE D. MULCAHY was appointed Deputy Secretary of the Department in November, 1992. Mr. Mulcahy began his WisDOT career in 1956 and has served in a number of engineering and management positions in highway planning, design and maintenance; the Major Highway Project Commission; consultant services office; statewide planning for air, water, and rail modes; and as executive assistant to the administrator of the Division of Motor Vehicles. A Major General in the United States Army Reserves, Mr. Mulcahy served as the ranking Army Reserve General Officer deployed into the war zone during the 1990–91 Persian Gulf War, where he commanded a 6,000-person Engineer Command. Mr. Mulcahy holds a Bachelor of Science degree in civil engineering from the University of Wisconsin, and a Master of Science degree in Public Administration from Shippensburg University in Pennsylvania.

As of November 1, 1997 the Department had more than 3,900 employes, including 600 civil engineers. Of the Department's employes, approximately 80% are represented employes whose wage rates, fringe benefits, hours and conditions of employment are determined by collective bargaining agreements. These employes are assigned on the basis of occupational groupings to one of twelve Statewide bargaining units. By statute the contracts between the State and the individual bargaining units are two-year contracts and coincide with the State's fiscal biennium.

A contract agreement requires ratification by the members of the labor organization as well as approval of both houses of the Legislature and the Governor.

Contracts covering the period of July 1, 1997 to June 30, 1999 for the represented employes are in effect for all of the Department's represented employes, except for employes in the Professional Employes Council for whose contracts from prior to July 1, 1997 have been extended by mutual agreement. Each contract contains a no-strike or no-lockout provision, and State Law specifies that it is illegal for a State employe "to engage in, induce, or encourage any employe to engage in a strike or a concerted refusal to work or perform their usual duties as employes."

Organization

The powers and duties of the Department are specified in the State statutes. Under the direction of the Secretary, these responsibilities are carried out by six Divisions within the Department and are summarized as follows:

1. Division of Transportation Investment Management—The division provides the planning, data collection and policy development necessary to guide the use of state and federal transportation dollars.
2. Division of Transportation Infrastructure Development—The division develops the policies, standards and procedures used to plan, design, and construct and operate the state's transportation system.
3. Division of Transportation Districts—The division develops and promotes an understanding of the transportation needs of the respective regions, represents those needs to the Department, takes part in policy and budget development activities within the Department, works with local governments and planning agencies to define needs and delivers, operates and maintains highway facilities administered by the Department.
4. Division of Motor Vehicles—The division provides vehicle registration and licensing services; driver examination and licensing; dealer regulation and licensing; services to motor carrier operators; and consumer protection services.
5. Division of State Patrol—The division is responsible for enforcing the State traffic and motor carrier laws, assisting motorists and inspecting certain vehicles for safety.
6. Division of Business Management—The division provides personnel management, accounting, general operations and data processing services for all Departmental divisions.

The Department is involved with various forms of transportation facilities in the State, including air, highway, rail, mass transit and water transportation for both people and goods. It uses both its own revenues and federal aid to fund this involvement. Table V-6 presents a summary of the facilities and their users for the latest available year.

Table V-6

**Wisconsin Transportation
Facilities and Users**

Mode	Facilities	Users
Streets and Highways	111,500 miles state and local	4.3 million vehicles 3.7 million drivers
Air	100 airports (eligible for state and federal aid)	4,667 active airplanes 11,904 pilots 24 scheduled airlines
Rail	4,000 (estimated) route miles	10 railroads plus Amtrak service
Bus	63 urban transit systems	
Water	12 Great Lakes ports 3 Mississippi River ports	

Source: Wisconsin Department of Transportation

Highway and Facilities Functions

The highway jurisdiction of the Department extends over a system ofapproximately 11,800 miles of roads, including more than 740 miles of interstate highways and over 5,000 bridges. In 1996 travel on the State trunk highway system was estimated to be 31.1 billion vehicle miles of travel and is expected by the Department to increase to 40.9 billion vehicle miles of travel by the year 2010. The Department's goal is to provide for and promote adequate, safe and efficient transportation for citizens of the State, business and industry.

The Department has many responsibilities concerning the development anduse of highways and streets. The following is a list of its major areas of responsibility:

1. To plan, design, construct and maintain the State trunk highway system.
2. To administer vehicle registration and licensing, driver examination and improvement, and dealer regulation and licensing program and collect fees, including Registration Fees, for such functions.
3. To grant aid and to advise and assist towns, villages, cities and counties in regard to construction and maintenance of roads and bridges under their jurisdiction. The transportation aid system in Wisconsin is generallypredicated on the principle of sharing State collected transportation revenues with local governments.
4. To administer all matters pertaining to the expenditure of State and federal funds for the improvement of State and local highways.
5. To promote the safe, efficient and legal movement of persons and property on State highways through enforcement of State statutes applicable to highway safety and motor carrier regulation.

The Department's transportation facilities consist of seven State Patrol headquarters, the State Patrol Academy, 51 communication towers and building locations, eight highway district offices and 128 driver examining and registration counter stations, as well as the Central Office, together with a number of support facilities such as a radio shop, materials lab and a fleet service facility.

Projects

Under current State law, the Department may commence construction on a major highway project only if the project has been enumerated for construction in the Statutes. A major highway project is defined as a project which has a total cost of more than $5,000,000 and which involves one or more of the following: (i) constructing a new highway 2.5 miles or more in length, (ii) relocating 2.5 miles or more of an existing highway, (iii) adding one or more lanes, 5 miles or more to an existing highway or (iv) improving 10 miles or more of existing multi-lane divided highway to freeway standards.

Once a major highway project has been enumerated in the Statutes, the project is scheduled for construction by the Department. All state highway improvement projects, including authorized major highway projects, are scheduled in the Department's six-year highway improvement program. This six-year program, which is updated on a biennial basis, serves as the basic tool that translates the Department's long-term improvement plans into annual construction programs.

The Department and the State are currently authorized by statute to use Bond proceeds for right-of-way acquisition and construction of seventy-five major highway projects and certain transportation administrative facilities. Of the seventy-five enumerated major highway projects, the Department has completed construction on forty-three projects.

The following is a brief summary of major highway projects and transportation administrative facilities. Projects expected to be constructed in whole or in part by the proceeds of the Bonds and Commercial Paper Notes are as follows:

Lake Arterial (Segment between Layton Avenue to Carferry Drive in Milwaukee County).
This project is on a new location. It would extend from the southerly terminus of I-794 at Carferry Drive southerly on or adjacent to the Chicago and North Western right-of-way, to the intersection with Layton Avenue, a total distance of 3.1 miles.

US Highway 151 (Columbus to US Highway 41 in Columbia, Dodge and Fond du Lac Counties).
This corridor project will improve the existing USH to a four-lane expressway. The project begins at STH 73 south of Columbus and extends to USH 41 at Fond du Lac, a distance of 45.2 miles.

State Trunk Highway 29 (Green Bay to Chippewa Falls in Brown, Shawano, Marathon, Clark and Chippewa Counties).
This corridor project will improve the existing highway to a four-lane express highway, a distance of 140.2 miles.

US Highway 10 (Marshfield to Appleton in Outagamie, Waupaca, Portage and Wood Counties).
This corridor project will improve USH 10 to a four-lane expressway between Marshfield in Wood County and Appleton in Outagamie County, a distance of 95 miles.

State Trunk Highway 54 (Wisconsin Rapids to Plover in Wood and Portage Counties).
This project will improve STH 54 between Wisconsin Rapids and Plover to a four-lane expressway, a distance of 14.8 miles.

US Highway 53 (Trego to Hawthorne in Douglas and Washburn Counties).
This project will improve existing USH 53 between Trego and Hawthorne to a four-lane expressway, a distance of 41.2 miles.

State Trunk Highway 36 (Burlington to STH 100 in Racine, Waukesha and Milwaukee Counties).
This project will upgrade the existing highway to a four-lane expressway between Burlington in Racine County and STH 100 in Milwaukee County, a distance of 19 miles.

US Highway 51 (Tomahawk Bypass in Lincoln County).
This project will improve the existing USH 51 bypass of Tomahawk between CTH S and USH 8 to a four-lane freeway, a distance of 9.3 miles.

US Highway 12 (Whitewater Bypass in Jefferson and Walworth Counties).
This project will construct a two-lane bypass of Whitewater between USH 12 approximately 1.5 miles northwest of Whitewater to USH 12, 1.0 mile east of CTH P, a distance of 6.6 miles.

State Trunk Highway 31 (Between STH 11 and STH 142 in Racine and Kenosha Counties).
This project will improve existing STH 31 to a six-lane urban divided highway, a distance of 6 miles.

State Trunk Highway 29 (Chippewa Falls to I 94 in Chippewa and Dunn Counties).
This project constructs a high quality four-lane facility from Chippewa Falls to I 94, including a bypass of Chippewa Falls, a distance of 22 miles.

State Trunk Highway 35 (CTH U to I 94 in St. Croix County).
This project will upgrade existing STH 35 to a four-lane expressway between CTH U and I 94, a distance of 6.8 miles.

State Trunk Highway 76 (CTH CA to USH 41 in Outagamie County).
This project will construct a new highway between CTH CA and the intersection of USH 41 and CTH OO, a distance of 2.6 miles.

State Trunk Highway 50 (Slades Corners to USH 12 in Kenosha and Walworth Counties).
This project will improve existing STH 50 to a four-lane expressway between Slades Corners and USH 12, a distance of 7.7 miles.

State Trunk Highway 57 (STH 54 to CTH A in Brown and Kewaunee Counties).
This project will improve existing STH 57 between STH 54 in Brown County to CTH A in Kewaunee County to a four-lane expressway, a distance of 11.2 miles.

State Trunk Highway 110 (USH 41 to STH 116 in Winnebago County).
This project will construct a four-lane expressway between USH 41 to STH 116, a distance of 7.4 miles.

US Highway 41 (STH 145 to USH 41/141 Interchange in Washington, Dodge, Fond du Lac, Winnebago, Outagamie, Brown and Oconto Counties).
This corridor project will upgrade USH 41 to a freeway between STH 145 in Washington County and the USH 41/141 interchange in Oconto County, a distance of 84.2 miles.

State Trunk Highway 11 (Janesville Bypass and Beloit Bypass in Rock County).
This project will construct a two-lane bypass of Janesville, adistance of 6.1 miles and a two-lane bypass of Beloit, a distance of 2.5 miles.

US Highway 12 (USH 12/14 Interchange to State Trunk Highway 60 in Dane and Sauk Counties).
This project will upgrade existing USH 12 to a four-lane divided expressway between the USH 12/14 interchange area in Middleton and STH 60, a distance of 18.2 miles.

State Trunk Highway 13 (USH 10 to Lincoln Avenue, Marshfield in Wood and Marathon Counties).
This project will construct a new four-lane divided urban arterial between USH 10 and Lincoln Avenue in Marshfield, a distance of 5.0 miles.

State Trunk Highway 64 (Houlton to New Richmond in St. Croix County).
This project will upgrade existing STH 64 to a four-lane expressway between STH 64 northeast of Houlton and STH 65 east of New Richmond, a distance of 14.3 miles.

US Highway 151 (Fond du Lac Bypass in Fond du Lac County).
This project will construct a new two-lane bypass of Fond du Lac, a distance of 11 miles.

State Trunk Highway 57 (I 43 to State Trunk Highway 57 in Ozaukee and Sheboygan Counties).
This project will improve the existing highway to a four-lane expressway, between I 43 and 0.5 mile north of the southern Sheboygan County line, a distance of 10.5 miles.

US Highway 151 (USH 151 to STH 23 in Lafayette and Iowa Counties).
This project will extend approximately 18.2 miles between USH 151 west of Belmont and STH 23 south of Dodgeville, designated as the Belmont to Dodgeville project.

State Trunk Highway 16 and State Trunk Highway 16/67 (STH 16 to STH 16/67 in Jefferson and Waukesha Counties).
This project will extend approximately 7.4 miles from the junction of STH 16 with the Rock River to the STH 16/67 interchange east of Oconomowoc, designated as the Oconomowoc bypass.

US Highway 53 (USH 53/STH 93 to USH 53/STH 124 in Eau Claire and Chippewa Counties).
This project will extend approximately 7.5 miles between USH 53 south of the USH 53/STH 93 interchange in Eau Claire and the USH 53/STH 124 interchange south of Chippewa Falls, designated as the Eau Claire freeway.

State Trunk Highway 11 (Burlington Bypass in Walworth and Racine Counties)
This project, extending approximately 7.6 miles from west of Burlington to STH 36/83 east of Burnlington, will construct a part four-lane and part two-lane bypass with access control around Burlington, including a railroad grade separation

US Highway 12 (Ski Hi Road to I90/94 in Sauk County)
This project will improve USH 12 to a four-lane expressway freeway from the junction of USH 12 and I90/94 to approximately 0.8 miles south of Ski Hi Road in Sauk County, a distance of 11.6 miles.

US Highway 53 (LaCrosse River Valley in LaCrosse County)
This project, extending approximately 6.2 miles between I90 and USH 14/61 in the City of LaCrosse, will increase north-south capacity through the City of LaCrosse by adding new roadway links, widening existing roadways and implementing measures such as one-way street pairs to improve the traffic flow in the downtown area. The roadway improvements also include measures to enhance bus transit and bicycle transportation

State Trunk Highway 57 (Dyckesville to STH 42 in Kewaunee and Door Counties)
This project will improve STH 57 to a four-lane divided expressway with managed access from the junction of STH 57 with CTH A to STH 42, a distance of 17.3 miles, completing a four-lane route between Green Bay and Sturgeon Bay.

US Highway 141 (STH 22 to STH 64 in Marinette and Oconto Counties)
This project will improve USH 141 to a four-lane divided expressway between Lemere Road and 6th Road, a distance of 15.4 miles

US Highway 151 (Dickeyville to Belmont in Grant and Lafayette Counties)
This project will improve USH 151 to a four-lane divided expressway with managed access between the junction of USH 151 and CTH HH south of Dickeyville to west of Belmont, a distance of 18 miles.

The following administrative facilities projects are expected to be financed in whole or in part from proceeds of Prior Bonds and additional Bonds and from Commercial Paper Notes:

Driver's License Stations.
The Department plans to construct an addition to and renovate the service station in Beaver Dam. The Department also plans to expand the State Patrol District 2 Headquarters in Waukesha to include a Division of Motor Vehicles Express Office.

State Patrol Facilities.
The District 2 Headquarters at Waukesha will be remodeled and expanded, including allowing space for the Division of Motor Vehicles Express Office. Two new communication towers will be constructed: one at Eden in Fond du Lac County, including a building expansion, and one at Lapham Peak Tower by the Education Communications Board and shared by the departments.

Madison Hill Farms Building.
A project is authorized to upgrade telecommunications infrastructure and wiring in the Hill Farms State Transportation building.

Highways Facilities.
Three projects are authorized: one to renovate the sign shop at Transportation District Two in Waukesha. Another is for the renovation of the headquarters building for Transportation District Three in Green Bay. The final project is the purchase and remodeling of a building in Wisconsin Rapids.

The table below summarizes cost information for the major highway projects and administrative facilities projects described above. Cost data for the major highway projects represents the estimated cost, in 1996 dollars, to finish the uncompleted portion of the project. The cost estimates for the administrative facilities projects represent the total cost to complete the construction.

Major Highway Projects Expected to be Constructed in Whole or in Part from Bond and Commercial Paper Note Proceeds

		Estimated Cost of Completion (Amounts in Millions)	Anticipated Year of Completion
Lake Arterial	Milwaukee Co.	$ 17 8	2001
USH 151	Columbus to USH 41 in Columbia, Dodge and Fond du Lac Co.	56.4	2004
STH 29	Green Bay to Chippewa Falls in Brown, Shawano, Marathon, Clark and Chippewa Co.	118.8	2000
STH 29	Chippewa Falls to I 94, including Chippewa Falls Bypass in Chippewa and Dunn Co.	115.6	2003
USH 10	Appleton to Marshfield, in Outagamie, Waupaca, Portage and Wood Co.	261.1	2015
STH 54	Wisconsin Rapids to Plover in Wood and Portage Co.	12 1	1999
USH 53	Trego to Hawthorne in Douglas and Washburn Co.	11 2	1999
STH 36	Burlington to STH 100 in Racine, Waukesha and Milwaukee Co.	10 8	1998
USH 51	Tomahawk Bypass in Lincoln Co.	12 9	2001
USH 12	Whitewater Bypass in Jefferson and Walworth Co.	11.1	2002
STH 31	STH 11 to STH 142 in Racine and Kenosha Co.	26 9	2001
STH 35	CTH U to I 94 in St. Croix Co.	11.3	1999
STH 76	CTH CA to USH 41 in Outagamie Co.	5.4	1998
STH 50	Slades Corners to USH 12 in Kenosha and Walworth Co.	26 3	2001

		Estimated Cost of Completion (Amounts in Millions)	Anticipated Year of Completion
STH 57	STH 54 to CTH A in Brown and Kewaunee Co	28 5	2004
STH 110	USH 41 to STH 116 in Winnebago Co	18.6	2002
USH 141	Abrams to STH 22 in Oconto Co	24.7	2003
USH 41	STH 145 to the USH 41/141 Interchange in Washington, Dodge, Fond du Lac, Winnebago, Outagamie, Brown and Oconto Counties	74.4	2003
STH 11	Janesville Bypass & Beloit Bypass in Rock Co	17.5	2004
USH 12	USH 12/14 Interchange to STH 60 in Dane & Sauk Co	59 8	2004
STH 13	USH 10 to Lincoln Ave., Marshfield in Wood & Marathon Co	27 1	2003
STH 64	Houlton to New Richmond in St. Croix Co	70.9	2006
USH 151	Fond du Lac Bypass in Fond du Lac Co	43 2	2006
STH 57	I 43 to STH 57 in Ozaukee & Sheboygan Co	14.1	2003
USH 151	Belmont to Dodgeville in Lafayette & Iowa Co	62.6	2007
STH 16	Oconomowoc bypass in Jefferson & Waukesha Co	40 2	2007
USH 53	Eau Claire freeway in Eau Claire & Chippewa Co	84.9	2008
STH 11	Burlington Bypass in Racine & Walworth Co	76.0	2011
USH 12	Ski Hi Road to I90/94 in Sauk Co	60.0	2014
USH 53	LaCrosse River Valley in LaCrosse Co	64.7	2010
STH 57	Dyckesville to STH 42 in Door & Kewaunee Co	53 8	2014
USH 141	STH 22 to STH 64 in Marinette & Oconto Co	42.8	2013
USH 151	Dickeyville to Belmont in Grant & Lafayette Co	66.0	2010
	Total Cost of Completion	$1,627.5	

Administrative Facilities Projects Expected to be Financed in Whole or in Part from Bond Proceeds

	Estimated Cost of Completion (Amount in Millions)	Anticipated Year of Completion
DMV Beaver Dam Service Center	$0 1	1999
DSP Fond du Lac County Radio Tower and Building	0 3	1999
DSP Waukesha Headquarters Expansion	2.0	1999
Waukesha Sign Shop Renovation	0.3	1999
Green Bay District Headquarters Renovation	0.8	1999
Advanced Learning Systems Building Purchase	1.6	1999
DOA - Hill Farms Telecommunications Cabling	1.2	1998
ECB - Lapham Peak Tower Relocation	0.2	1999
DMV Sheboygan Service Center Parking Lot	0.2	1998
DSP EVOC Overlay	0.1	1998
DMV Service Centers	0.3	1998
DSP Rib Mountain Radio Tower	0.1	1999
Eau Claire & Spooner Sign Shops	0 3	1998
DSP Meteor Radio Tower	0 2	1999
DSP Ashridge Radio Tower	0.2	1999

	Estimated Cost of Completion (Amount in Millions)	Anticipated Year of Completion
DSP Marinette Radio Tower	0.2	1999
West Allis District Facility	0.2	1998
La Crosse District Facility	0.2	1999
Total Cost of Completion	$8.5	

The Department currently has statutory authority to issue a total of $1.348 billion of Bonds excluding revenue bonds issued to refund outstanding revenue bonds or issued to fund previously issued commercial paper notes, to finance such Projects, bond reserves and costs of issuance. In order to finance the costs of completion of all major highway Projects, the Department may use moneys from the following sources: (i) existing and future Legislative authorization for the issuance of Bonds, (ii) Federal aid and (iii) moneys in the Transportation Fund which may be appropriated in the future for such purposes.

Highway Projects are evaluated and recommended to the Transportation Projects Commission by the Department based on the following established criteria: (i) severity and extent of deficiencies relating to surface and structural condition, safety geometrics and capacity, (ii) a benefit/cost analysis, (iii) total cost, (iv) environmental, social and economic impact of the project, (v) community impact, including effect on traffic service, congestion and safety, (vi) system continuity, (vii) local, regional and State plans, (viii) availability of funding, and (ix) public and political visibility, interest and local support.

The Department is responsible for managing the State highway program. In this capacity, the Department schedules all projects, completes environmental reviews, designs the projects, acquires right-of-way, determines the mix of fund sources for individual projects, lets and awards all contracts, supervises construction activities, and performs final inspections on all projects. These activities are either performed directly by the Division of Highways or by consultants working at the direction of Departmental staff.

The Department's transportation facilities building program is managed in conjunction with the Department of Administration and the Building Commission. In order to receive statutory authority to acquire and construct a transportation facility project, the Department sends a request for purchasing, improving or constructing facilities to the Department of Administration which analyzes the request in terms of need, cost estimates and consistency with Commission guidelines on such features as safety, structural soundness and energy impact. Its decision is forwarded to the Legislature. The Legislature determines whether such transportation facilities are to be financed from Bond proceeds, the proceeds of State general obligation debt or from the Transportation Fund and makes necessary statutory appropriations and authorizations.

The Legislature may in the future identify additional major highway and transportation facilities Projects and authorize the State and the Department to use Bond proceeds to finance the acquisition and construction of such additional Projects. The Department expects that it will periodically need Bond proceeds to improve the State's system of highways and transportation facilities.

Department Highway and Financing Plans

In 1988, the Department completed major studies of future travel and economic development needs. Out of these studies came the "Corridors 2020" plan for a network of superior quality highways to foster economic development and to meet the State's mobility needs into the 21st Century. With subsequent revisions, this Corridors 2020 plan will consist of approximately 3,650 miles and is composed of two elements:

- A 1,550-mile backbone network of highways to interconnect major cities and regions of Wisconsin and to tie them to national and world markets. While 1,220 miles of this system are already in place, work on 330 miles still remains.
- A 2,100-mile system of two- and four-lane connectors directly linking other significant economic and tourism centers to the backbone system. The plan calls for upgrading 840 miles of 2-lane connectors to four lanes. Of the 840 miles, 153 are now complete.

The Department currently has enumerated all but one backbone route and the enumerated projects are expected to be completed by 2007.

The Corridors 2020 plan was subsequently endorsed by the Governor, the Transportation Projects Commission and the Legislature. The 1989–91 biennial budget provided additional Departmental staff and resources to accelerate development work on these projects. The 1991–93 biennial budget provided full budgetary and statutory authority for the Department to proceed with the plan. Specifically, the 1991–93 budget included the following provisions: (i) the authorized level for the major projects program was increased to $118 million annually (1988 dollars), and (ii) the highway corridors included in the plan were enumerated in the statutes as authorized major highway projects.

The specific 1991–93 transportation budget provisions recommended by the Governor were announced as a part of a larger package of transportation initiatives, called "Mobility 2000." This proposal outlined a strategic, long-term and diverse package of transportation programs and policies. The time frame covered by the Governor's Mobility 2000 initiative was the six-year period 1992 through 1997. The first four years of this period were included in the 1991–93 and 1993–95 Biennial budgets, and the remaining two years indicate the Governor's planned program levels for subsequent budgets.

On November 17, 1994, the WisDOT formally adopted a comprehensive, long-range intermodal transportation plan called Translinks 21. This plan, which is required by and fully complies with federal Intermodal Surface Transportation Efficiency Act requirements, is proposed to guide transportation policies, programs and investments through the year 2020.

Translinks 21 outlines a blueprint to invest $39 billion in transportation over 25 years – or about $8.9 billion over current spending levels extended. It provides the investments needed to maintain and improve highways as the backbone of the transportation system, while also making investments in alternatives to ensure mobility for people who cannot drive, or elderly and disabled persons, and for businesses.

In the first biennium since completion of Translinks, the Legislature increased bonding authority by $132.8 million for major highway projects. Additionally, the 1995–97 transportation budget directed WisDOT to accelerate completion of the major segment of a highway (State Highway 29 from Green Bay to Chippewa Falls by the year 2000) which is a backbone highway in the plan. The 1997–99 transportation budget increases bonding authority for major highway projects by $214.2 million. Six major Corridors 2020 projects were enumerated; 5 projects were for connectors totaling 58 miles and one project was a backbone route of 18 miles.

In terms of financing plans, the State has followed the policy since the mid–1980s that the major highway projects program should be financed through a combination of transportation revenue obligations and State and federal funds. The Department's long-term financing plans are premised on the continuation of this policy. It also should be noted that in the highway improvement program, transportation revenue bonds are used as a funding source only for major highway projects. The remaining nonmajor portion of the program is financed entirely from State, federal and local moneys.

Department Finances

In addition to Bond financing, the funds used to build the State highway system generally come from two sources: the State Transportation Fund and the Federal Highway Trust Fund. The money in these funds comes primarily from the users of highways. The largest portion of this money is generated through the State and federal motor fuel taxes. Currently, the State has a use tax on motor fuel of 24.8 cents per gallon.

Effective April 1, 1998 and as a result of the 1997-99 biennial budget, the State motor fuel tax will be indexed using only an inflation-only factor based on the Consumer Price Index. Since April 1985, the State motor fuel tax was adjusted annually by the use of a two-factor index, which combined a Consumer Price Index-based inflation factor with a consumption factor to produce the overall percentage adjustment to the fuel tax. The reason for this two-factor indexing was to correct the two principal transportation finance problems; (i) declining fuel consumption, and (ii) inflationary pressures on transportation costs. Motor fuel consumption is expected to increase in the foreseeable future which, absent a change in methodology for calculating the motor fuel tax rate, would limit motor fuel tax revenues. Changing the indexing formula to an inflation-only calculation increases the ability of the Department to generate sufficient revenues to cover the increasing transportation infrastructure costs. Since its inception, the indexing formula has increased the State's fuel tax rate by 5.8 cents through twelve annual adjustments in thirteen years.

As a result of legislation enacted in early 1992, the indexing adjustment scheduled for April 1, 1992 did not occur. Instead, the fuel tax rate was retained at the previous year's rate of 22.2 cents per gallon. This one-year suspension of indexing occurred because the State was scheduled to receive a considerable amount of previously unanticipated federal aid in Fiscal Year 1992, which made it possible to reduce State revenues in that year. In order to avoid any permanent reduction in the State revenue base for transportation programs, the legislation provided that the indexing calculation on April 1, 1993 automatically adjust the fuel tax rate by an amount sufficient to cover both the adjustment that would have been made in 1992 (0.9 cents) plus the standard formula indexing adjustment for 1993 (0.1 cents).

State transportation revenues in the Transportation Fund in the 1997–99 biennium will provide approximately 67% of the Department's total budget. State transportation revenues are generated by the motor fuel tax, registration fees, license fees and motor carrier fees. The Department estimates that in the 1997–99 biennium 65% of its State transportation revenues will come from motor fuel taxes, 27% from registration fees (including Registration Fees deposited with the Trustee and pledged for repayment of the Bonds and Commercial Paper Notes) and 8% from other fees and taxes.

Such revenues, including Registration Fees in excess of amounts required by the General Resolution to be held by the Trustee are deposited in the Transportation Fund and are used for any authorized purpose. See "SECURITY FOR THE BONDS". These moneys are not pledged to or available for the payment of debt service on the Bonds and Commercial Paper Notes.

Registration Fees held by the Trustee in the Funds and Accounts created by the General Resolution are not available for the payment of the costs of any of the Department's other functions and programs except for the Program.

The federal Intermodal Surface Transportation Efficiency Act substantially restructured federal transportation programs. Under this act, and depending on federal appropriation levels, it is anticipated that the federal aid level in the 1997–99 biennium will total $818.5 million. Under the provisions of the State budget, the Department is authorized to expend any federal funds received.

State transportation revenues are allocated to various transportation programs by the Legislature as a part of the biennial State budget. In the 1997–99 biennium, approximately 23% of these funds went to system improvements (20.4% to preserve existing highways and bridges and 2.6% to major projects) while 12.3% went to system maintenance. The remainder passed directly to local units of government (42.2%), paid debt service (7.4%) and paid Departmental operations (15.2%).

Before 1987 the Department utilized State general obligation proceeds for the construction of State highways. The Department uses monies from the Transportation Fund to make its share of debt service payments on these general obligation bonds. As of December 15, 1997, the outstanding amount of general obligation bonds issued for this purpose was $17.5 million. In addition, there is also statutory authority for the Department to utilize State general obligation bond proceeds for other purposes as outlined below:

Purpose	Legislative Authorization (Amounts in Millions)	General Obligations Issued to Date (Amounts in Millions)
Harbor Improvement	$15.0	$11.0
Freight Rail	19.0	10.4
Passenger Rail	50.0	0.0

Debt service on general obligations issued for harbor improvement and freight rail is paid by the Transportation Fund. Registration Fees can be used to pay debt service on such State general obligation debt only after their deposit in the Transportation Fund, free and clear of the lien and pledge of the General Resolution.

Table V-7

OUTSTANDING TRANSPORTATION REVENUE OBLIGATIONS BY ISSUE

(As of December 15, 1997)

Financing	Date of Financing	Maturity	Amount of Issuance	Amount Outstanding
Long-Term Transportation Revenue Bonds				
1984, Series A	4/15/84	1985-2004	$ 65,000,000	0 [a]
1986, Series A	6/15/86	1987-2007	139,055,000	0 [a]
1988, Series A	4/15/88	1989-2008	51,475,000	0 [a]
1989, Series A	4/15/89			
Serial Bonds		1990-2004	31,165,000	$ 2,125,000 [a]
Term Bonds		2009	20,135,000	0 [a]
1991, Series A	10/1/91	1992-2011	105,660,000	22,385,000 [a]
1992, Series A	7/1/92			
Serial Bonds		1999-2006	96,945,000	96,945,000
Term Bonds		2009	22,260,000	22,260,000
Term Bonds		2012	3,520,000	3,520,000
Term Bonds		2022	16,880,000	16,880,000
1992, Series B	7/1/92			
Serial Bonds		1993-2006	55,155,000	40,530,000
Term Bonds		2009	18,395,000	0 [a]
Term Bonds		2012	21,770,000	0 [a]
Term Bonds		2022	104,390,000	104,390,000
1993, Series A	9/1/93	1994-2012	116,450,000	111,210,000
1994, Series A	7/1/94			
Serial Bonds		1995-2012	84,320,000	74,950,000
Term Bonds		2014	15,680,000	15,680,000
1995, Series A	9/1/95	1996-2015	105,000,000	98,505,000
1996, Series A	5/15/96	1997-2016	115,000,000	111,475,000
Total Long-Term Transportation Revenue Bonds			$1,188,255,000	$720,855,000
Short-Term Transportation Revenue Commercial Paper Notes				
1997, Commercial Paper Notes, Series A	5/7/97		$ 188,600,000	$157,766,000 [b]
Total Transportation Revenue Obligations			$1,376,855,000	$878,621,000

(a) Pursuant to a refunding escrow agreement the principal and interest on all or a portion of the bonds will be paid as it comes due and those bonds will be called for redemption prior to maturity The principal amount of bonds for which payment is provided is treated as not outstanding for purposes of this table.

(b) The Amount of Issuance includes the maximum amount of commercial paper notes authorized to be issued The Amount Outstanding includes the original principal amount issued ($154,750,000) and the interest paid on matured commercial paper notes ($3,016,000)

SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION

The General Resolution contains various covenants and security provisions, certain of which are summarized below. In general, this Section does not summarize any provisions of the Series

Resolutions. Reference should be made to the General Resolution for a full and complete statement of its provisions.

Resolution to Constitute Contract

The provisions of the General Resolution shall be a part of the contract of the State with the holders of Bonds and Commercial Paper Notes and shall be deemed to be and shall constitute a contract among the State, the Trustee and the holders from time to time of the Bonds and Commercial Paper Notes and shall be for the equal benefit, protection and security of the holders of any and all of such Bonds and Commercial Paper Notes.

Provisions for Issuance of Bonds

The General Resolution authorizes Bonds of a Series (which is defined to include any revenue obligation authorized under the General Resolution and issued pursuant to a Series Resolution, including Commercial Paper Notes) to be issued from time to time in accordance with the terms of the General Resolution without limitation as to amount except as provided by law. Bonds shall be issued pursuant to authorization by a Series Resolution containing the provisions specified by the General Resolution. Following issuance of the initial Series of Bonds, the Commission must determine that the additional obligations test set forth in the General Resolution is met prior to adopting any Series Resolution for other than refunding purposes. The Bonds of a Series may be authenticated and delivered only upon receipt by the Trustee of, among other things:

(1) a Bond Counsel's opinion to the effect, among other things, that the Bonds of such Series have been duly and validly authorized and issued in accordance with the Constitution and statutes of the State and in accordance with the General Resolution; and,

(2) the proceeds of the Bonds of such Series to be deposited with the Trustee pursuant to the General Resolution.

Additional Bonds

Following the initial issuance of Bonds, the State will not create or permit the creation of, or issue any obligations or create any indebtedness which shall be secured by a superior or equal charge and lien on the Program Income, except that additional Series of Bonds may be issued from time to time subsequent to the issuance of the initial Series of Bonds on a parity with the Bonds of such initial Series of Bonds and secured by an equal charge and lien on the Program Income. However, no additional Series of Bonds shall be issued subsequent to the initial Series of Bonds unless:

(1) the principal amount of the additional Bonds together with the principal amount of the Outstanding Bonds will not exceed in aggregate principal amount any limitation thereon imposed by law;

(2) except in the case of refunding Bonds, there shall be filed with the Trustee a Certificate of an Authorized Officer of the Commission and the Department stating that Program Income, including interest earnings on amounts deposited in the Funds or Accounts held by the Trustee and available for debt service, for any twelve (12) consecutive calendar months of the preceding eighteen (18) calendar months, was equal to at least 1.75 times the maximum aggregate Principal Requirement and Interest Requirement for any Fiscal Year for all Outstanding Bonds (the General Resolution defines Outstanding Bonds to include the Bonds being issued upon the delivery of such Certificate);

(3) upon the issuance and delivery of the additional Bonds, the amount credited to the Reserve Fund shall be at least equal to the Debt Service Reserve Requirement immediately after issuance; and,

(4) all requirements with respect to adoption of Series Resolutions have been complied with.

Refunding Bonds

The State may issue refunding Bonds of one or more Series to refund any Outstanding Bonds of one or more Series whether by payment at maturity or by redemption. Refunding Bonds shall be issued pursuant to and in accordance with the provisions of a Series Resolution authorizing such refunding Bonds.

Application of Bond Proceeds

The proceeds of sale of a Series of Bonds shall be deposited as follows:

(1) to the Principal and Interest Account of the Redemption Fund, the amount of any accrued interest on the Series of Bonds to their date of delivery;

(2) to the Principal and Interest Account of the Redemption Fund, the amount of any premium determined by the applicable Series Resolution;

(3) to the Principal and Interest Account of the Redemption Fund, the proceeds of any Series of refunding Bonds to the extent provided in the applicable Series Resolution;

(4) to the Reserve Fund, the amount specified in the Series Resolution as necessary to establish or increase the amount set aside therein to the Debt Service Reserve Requirement;

(5) to any other Fund or Account to the extent permitted by the Revenue Obligations Act provided for by Series Resolution; and

(6) to the Program Capital Fund, the balance of the proceeds of any Series of Bonds, which shall be allocated:

(a) to the Capitalized Interest Account, the amount of capitalized interest, if any, determined by the applicable Series Resolution to be deposited; and

(b) to the Program Account, the balance of the proceeds of any Series of Bonds.

Establishment of Funds

All Program Income and other moneys or securities held by the Trustee pursuant to the General Resolution are revenues of the Trustee and are revenues outside of the State Treasury which shall be held in trust and applied only in accordance with the provisions of the General Resolution. The General Resolution establishes and creates the following trust funds which are to be held by the Trustee:

(1) Program Capital Fund, which consists of a Capitalized Interest Account and a Program Account;

(2) Redemption Fund, which consists of a Principal and Interest Account and a Program Income Account;

(3) Reserve Fund; and

(4) Program Expense Fund.

The General Resolution authorizes the creation of other Funds and Accounts for a particular Series of Bonds by the applicable Series Resolution.

Capitalized Interest Account

Amounts in the Capitalized Interest Account, if any, shall be transferred to the Principal and Interest Account of the Redemption Fund to be used for payment of capitalized interest on the Bonds in accordance with the schedule set forth in a Series Resolution or in a Certificate of an Authorized Officer of the Building Commission delivered to the Trustee. Amounts in the

Capitalized Interest Account shall also be transferred to the Principal and Interest Account of the Redemption Fund for redemption of Bonds (i) upon receipt by the Trustee of a Certificate of an Authorized Officer of the Building Commission stating that such redemption is necessary for compliance with the covenants contained in the General Resolution concerning tax exemption of the interest on certain of the Bonds; and (ii) in accordance with the provisions of the terms of a Series Resolution with respect to the Series of Bonds authorized by such Series Resolution.

Program Account

Amounts in the Program Account shall be used solely for the following purposes:

(1) paying the Costs of Issuance;

(2) financing Projects in accordance with the Act and the General Resolution; and

(3) transfers to the Principal and Interest Account of the Redemption Fund to pay interest on the principal of or Redemption Price of Outstanding Bonds (i) upon receipt by the Trustee of a Certificate of an Authorized Officer of the Building Commission stating that such redemption is necessary for compliance with the covenants contained in the General Resolution concerning tax exemption of the interest on certain of the Bonds, (ii) in accordance with the provisions of the terms of a Series Resolution and (iii) upon receipt by the Trustee of a Certificate of an Authorized Officer of the Building Commission stating that there are no further Projects to be funded from the Program Account.

Redemption Fund

There shall be deposited into the Principal and Interest Account of the Redemption Fund from the proceeds of the sale of the Bonds, immediately upon receipt thereof, an amount equal to the accrued interest and any premium paid upon the sale of the Bonds and the proceeds of any Series of refunding Bonds. All Program Income shall be deposited promptly with the Trustee (or with national banking associations, state banks or trust companies acting as agents of the Trustee for transfer daily to the Trustee) and such amounts shall be deposited in the Program Income Account of the Redemption Fund. There shall also be deposited in the Program Income Account of the Redemption Fund any other amounts required or permitted to be deposited therein pursuant to the General Resolution.

The amounts deposited in the Principal and Interest Account of the Redemption Fund from the proceeds of a Series of Bonds representing accrued interest and any premium shall be set aside and applied to the payment of interest on the next succeeding Interest Payment Date and any additional Interest Payment Dates specified in the Series Resolution or a Certificate of an Authorized Officer of the Building Commission.

The amounts deposited in the Principal and Interest Account of the Redemption Fund from the proceeds of a Series of refunding Bonds shall be applied to the payment or redemption of Bonds as provided in the Series Resolution.

Commencing on the date of issuance of the Bonds and continuing each succeeding business day until the amounts required in (1) through (5) of this paragraph are deposited and thereafter on each Redemption Fund Deposit Day (the first day of January, April, July and October), and continuing each succeeding business day until the amounts required in (1) through (5) of this paragraph are deposited, the Trustee shall immediately transfer aside from the amounts deposited in the Program Income Account, in the following order of priority:

(1) to the Principal and Interest Account, after giving effect to:

(a) amounts to be available from accrued interest and in the Capitalized Interest Account, and

(b) any balance in the Principal and Interest Account on each Redemption Fund Deposit Day, and

(c) amounts transferred from the Reserve Fund, and

(d) amounts transferred from the Program Expense Fund, an amount equal to the Interest Requirement with respect to Outstanding Bonds, and

(2) to the Principal and Interest Account, after giving effect to any balance in the Principal and Interest Account in excess of the Interest Requirement an amount equal to the Principal Requirement on the Outstanding Bonds, and

(3) to the Reserve Fund, an amount equal to any deficiency in the Reserve Fund, and

(4) to the Program Expense Fund created in Section 514 of the General Resolution, an amount equal to any unfunded portion of the Program Expenses payable over the next three (3) months according to Section 711, and

(5) to the Subordinated Debt Service Fund created by a Series Resolution pursuant to Section 517 of the General Resolution, an amount equal to the Subordinated Debt Service Fund Requirement.

Immediately upon meeting the requirements set forth above, amounts in the Program Income Account of the Redemption Fund, including any interest earned thereon, in excess of the amounts required to be set aside above, shall be paid by the Trustee to the State Treasury for deposit into the Transportation Fund free and clear of the lien of the General Resolution in accordance with the Revenue Obligations Act and the Act.

To the extent not otherwise provided for in the Series Resolution applicable to any Series of Bonds, on the first day of each Fiscal Year and prior to any of the transfers by the Trustee that day specified above, all amounts in the Principal and Interest Account shall be paid by the Trustee to the State Treasury for deposit into the Transportation Fund free and clear of the lien of the General Resolution in accordance with the Revenue Obligations Act and the Act.

Payment of Bonds

The Trustee is required to pay to the Registrar and Paying Agent for the Bonds on or before each Interest Payment Date, (i) the amount equal to interest due on the Outstanding Bonds on such date, (ii) the amount equal to the principal amount of Outstanding Bonds maturing on such date and (iii) the amount equal to the Redemption Price of any Outstanding Bonds to be redeemed on such date, and in each such case, such amounts shall be applied by such Registrar and Paying Agent to such payments.

There shall be deposited in the Principal and Interest Account of the Redemption Fund any amounts which are required to be deposited therein pursuant to the General Resolution, a Series Resolution and any other amounts available therefor and determined by the State to be deposited therein for the purpose of redeeming Bonds. Subject to the provisions of the respective Series of Bonds and to the provisions of the respective resolutions authorizing the issuance thereof and authorizing the issuance of refunding Bonds, all amounts deposited in the Principal and Interest Account of the Redemption Fund in accordance with the provisions described in this paragraph shall be set aside and applied to the payment, purchase or redemption of Bonds.

Purchase of Bonds

Except as may be otherwise provided in connection with the issuance of refunding Bonds, at any time prior to the forty-fifth (45th) day upon which Bonds are to be paid or redeemed from the amounts described in the preceding paragraph, the Trustee may upon receipt of written instructions signed by an Authorized Officer of the Building Commission apply such amounts to the purchase of any of the Bonds which may be paid or redeemed by application of amounts on deposit in the Principal and Interest Account of the Redemption Fund. The Trustee shall purchase Bonds at such times, for such prices, in such amounts and in such manner as the Building Commission shall direct. The purchase price paid by the Trustee (excluding accrued interest but including any brokerage and other charges) for any Bond purchased shall not exceed the principal amount of such Bond or the Redemption Price of such Bond on the next Redemption Date for such Bonds.

Program Expense Fund

On the first day of January, April, July and October, the Trustee shall immediately transfer amounts on deposit in the Program Income Account to the Program Expense Fund for the purpose of paying Program Expenses for the succeeding three (3) months as set forth in the annual budget prepared by the Department, but only upon a Certificate of an Authorized Officer of the Department stating that the amounts are required and have been or will be expended for purposes for and to which the Program Expense Fund may be used and applied.

Reserve Fund

If on any Interest Payment Date, Principal Installment Date or Redemption Date for the Bonds, the amount in the Principal and Interest Account of the Redemption Fund shall be less than the amount required for the payment of interest, principal or Redemption Price on Outstanding Bonds on such date, the Trustee shall apply assets in the Reserve Fund to the extent necessary to make good the deficiency.

In the event there is a deficiency in the Reserve Fund, it shall be made up from the Redemption Fund after both the Interest Requirement and the Principal Requirement with respect to Outstanding Bonds have been met. Monies flow to the Redemption Fund commencing on the date of issuance of a Series of Bonds or on a Redemption Fund Deposit Day, whichever is earlier.

On the first day of each Fiscal Year, income and earnings from Investment Obligations in the Reserve Fund shall be transferred to the Principal and Interest Account to the extent such transfer will not reduce the amount in the Reserve Fund below an amount equal to the Debt Service Reserve Requirement.

Investments and Deposits

Subject to instructions from time to time received from an Authorized Officer of the Building Commission and to the provisions of the General Resolution, moneys in any Fund or Account shall be continuously invested and reinvested or deposited and redeposited by the Trustee in the highest yield Investment Obligations that may be reasonably known to the Trustee to the extent the same are authorized by the applicable Series Resolution and at the time legal for investment of funds under the Act, the Revenue Obligations Act and other applicable law. Investments shall be made with a view toward maximizing yield (with proper preservation of principal) and minimizing the instances of uninvested funds.

Investment Obligations purchased as an investment of moneys in any Fund or Account held by the Trustee under the provisions of the General Resolution shall be deemed at all times to be part of such Fund or Account but the income or interest earned and gains realized from Investment Obligations held by the Reserve Fund and Program Expense Fund in excess of the requirements of said Funds shall be transferred to the Principal and Interest Account on the first day of each Fiscal Year.

The Trustee shall sell at the best price obtainable, or present for redemption or exchange, any Investment Obligations purchased by it pursuant to the General Resolution whenever it shall be necessary in order to provide moneys to meet any payments or transfers from the Fund or Account for which such investment was made.

In computing the amount in the Reserve Fund, obligations purchased as an investment of moneys therein shall be valued at par if purchased at par value or at amortized value if purchased at other than par value. Valuation shall be made on the twentieth (20th) day of each March, June, September and December and as otherwise required under the General Resolution and on any particular date shall not include the amount of interest then earned or accrued to such date on any deposit or investment.

The Trustee shall invest and reinvest the moneys in any Fund or Account in available Investment Obligations so that the maturity date or date of redemption at the option of the holder thereof shall coincide as nearly as practicable with the times at which monies are needed to be so expended.

Investment Obligations means any of the investments described under "GLOSSARY".

Powers as to Bonds and Pledge

The State covenants that it is duly authorized pursuant to law to authorize and issue the Bonds and to adopt the General Resolution and to pledge the Program Income purported to be pledged by the General Resolution in the manner and to the extent provided in the General Resolution.

Payment Covenant

The State covenants that it will duly and punctually pay or cause to be paid, but solely from sources as provided in the General Resolution, the principal and Redemption Price of every Bond and the interest thereon, on the dates and at the places and in the manner stated in the Bonds according to the true intent and meaning thereof.

Tax Covenants

The State and the Trustee shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on the Bonds shall, for the purposes of federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation.

The State and the Trustee shall not permit at any time or times any of the proceeds of the Bonds or any other funds of the State to be used directly or indirectly to acquire any securities or obligations, the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in Section 148 of the Code.

The State and the Trustee shall not permit at any time or times any proceeds of any Bonds or any other funds of the State to be used, directly or indirectly, in a manner which would result in the exclusion of any Bond from the treatment afforded by Section 103 of the Code, as from time to time amended, by reason of the classification of such Bond as a "private activity bond" within the meaning of Section 141 of the Code.

The State reserves the right to elect to issue Bonds, the interest on which is not exempt from federal income taxation, if such election is made prior to the issuance of such Bonds, and the covenants as to tax exemption shall not apply to such Bonds.

Funds and Reports

The Department covenants that it will keep, or cause to be kept and maintained proper books of account relating to the Program and within one hundred twenty (120) days after the end of each Fiscal Year shall cause such books of account to be audited by an Accountant. A copy of each audit report, annual balance sheet and income and expense statement showing in reasonable detail the financial condition of the Program (including a schedule of monthly Program Income) as of the close of each Fiscal Year, and summarizing in reasonable detail the income and expenses for such year, including the transaction relating to the Funds, shall be filed promptly with the Trustee and shall be available for inspection by any Bondholder.

Budgets

The Department must file an annual budget broken down on a quarterly basis covering the fiscal operations of the Program for the succeeding Fiscal Year not later than the first day of each Fiscal Year with the Trustee. Such budget need not be the budget prepared by the Department for the Department's budgeting purposes. The annual budget shall at least set forth for such Fiscal Year the estimated Program Income, the debt service due and payable or estimated to become due and payable during such Fiscal Year and estimated Program Expenses. The Department may at any time file with the Trustee an amended annual budget for the remainder of the then current Fiscal Year in the manner provided for the filing of the annual budget. Copies of the annual budget as then amended and in effect shall be made available by the Trustee during normal business hours in the Trustee's office for inspection by any Bondholder.

The Program

The State covenants from time to time, with all practical dispatch and in a sound and economical manner consistent in all respects with the Act, the Revenue Obligations Act, the provisions of the General Resolution and sound banking practices and principles, (i) to use and apply the proceeds of the Bonds, to the extent not reasonably or otherwise required for other purposes of the Program, to finance Projects, pursuant to the Act, the Revenue Obligations Act and the General Resolution and (ii) to do all such acts and things as shall be necessary to charge and cause to be deposited with the Trustee Program Income sufficient to pay interest and principal and redemption premium on all Outstanding Bonds, to maintain the Debt Service Reserve Requirement in the Reserve Fund, to maintain any Credit Support and Liquidity Fund Requirement provided for in a Series Resolution, to pay Program Expenses, and to maintain any Subordinated Debt Service Fund Requirement provided for in a Series Resolution.

Power of Amendment

The Building Commission may, from time to time and without the consent and concurrence of any holder of any Bond, adopt a Supplemental Resolution modifying or amending the General Resolution if the modification or amendment does not adversely affect the holders of the Outstanding Bonds.

Any modification of or amendment to the General Resolution which does affect the rights and obligations of the State and of the holders of the Bonds, in any particular, may be made by a Supplemental Resolution with the written consent given as provided in the General Resolution, (i) of the holders of at least two-thirds in principal amount of the Outstanding Bonds at the time such consent is given, (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the holders of at least two-thirds in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given and (iii) in case the modification or amendment changes the terms of any Sinking Fund Installment, of the holders of at least two-thirds in principal amount of the Bonds of the particular Series and maturity entitled to such Sinking Fund Installment and Outstanding at the time such consent is given. If any such modification or amendment will not take effect so long as any Bonds of any specified maturity remain Outstanding, however, the consent of the holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under the General Resolution or Series Resolution. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest without the consent of the holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds, the consent of the holders of which is required to effect any such modification or amendment.

Events of Default

It is an Event of Default if (i) payment of any installment of interest on the Outstanding Bonds shall not be made after the same shall become due, (ii) payment of the principal of, Redemption Price or any Sinking Fund Installment on any Bond when and as the same shall become due and payable, whether at maturity or upon call for redemption or otherwise, shall not be made when and as the same shall become due or (iii) the State shall fail or refuse to comply with the provisions of the General Resolution including replenishment of the Reserve Fund, or shall default in the performance or observance of any of the covenants, agreements or conditions on its part contained in the General Resolution or in any Supplemental or Series Resolution or the Bonds, and such failure, refusal or default shall continue for a period of thirty (30) days after written notice thereof by the Trustee or the holders of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds.

Remedies

Upon the happening and continuance of any Event of Default specified in clauses (i) and (ii) under Events of Default above, the Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in clause (iii) under Events of Default above, the Trustee may proceed and, upon the written request of the holders of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds, shall proceed, in its own name, subject to the General Resolution, to protect and enforce the rights of the Bondholders by such of the following remedies as the Trustee, being advised by counsel shall deem most effectual to protect and enforce such rights: (a) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Bondholders, including the right to require the State to charge and cause to be deposited with the Trustee sufficient Program Income and to require the State to carry out the covenants and agreements with Bondholders and to perform its duties under the Act, the Revenue Obligations Act and the General Resolution; (b) by bringing suit upon the Bonds, by action or suit in equity, to require the State to account as if it were the trustee of an express trust for the holders of the Bonds; (d) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the holders of the Bonds; (e) by declaring all Bonds due and payable, and if all defaults shall be cured, then, with written consent of the holders of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds, by annulling such declaration and its consequences; or (f) in the event that all Bonds are declared due and payable, by selling Investment Obligations.

Before declaring the principal of Bonds due and payable upon an Event of Default, the Trustee shall first give thirty (30) days' notice in writing to the Governor and Attorney General of the State.

Priority of Bonds After Default

In the event that upon the happening and continuance of an Event of Default, the Funds or Accounts held by the Trustee, Registrar and Paying Agent are insufficient for the payment of interest, principal or Redemption Price then due on the Bonds, such Funds or Accounts (other than portions of Funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and any other monies received or collected by the Trustee acting pursuant to the Act, the Revenue Obligations Act and the General Resolution, after making provisions for the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the holders of the Bonds and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or the Registrar and Paying Agent in the performance of their respective duties under the General Resolution, are to be applied as follows:

(1) If the principal of all of the Bonds has not become or been declared due and payable:

FIRST: To the payment to the persons entitled thereto of all installments of interest then due in the order or maturity of such installments, and, if the amount available is not sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference.

SECOND: To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amounts available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(2) If the principal of all of the Bonds has become or been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

Limitation on Rights of Bondholders

No individual Bondholder shall have any right to initiate legal proceedings to enforce rights under the General Resolution unless such holder shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such proceeding is to be taken, and unless the holders of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds have made written request of the Trustee after the right to exercise such right of action has occurred, and shall have afforded the Trustee a reasonable opportunity either to exercise the powers granted to it under the General Resolution or to institute such proceedings in its name and unless, also, there has been offered to the Trustee reasonable security and indemnity against costs, expenses and liabilities and the Trustee has refused or neglected to comply with such request within a reasonable time. No provision in the General Resolution on defaults and remedies affects or impairs the right of any Bondholder to enforce the payment of the principal of and interest on his Bonds, or the obligation of the State to pay the same from the source, at the time and place specified in said Bond.

Compensation of Fiduciaries

Each Fiduciary is entitled to such fees and reimbursement as shall be established in an agreement between the Commission and such Fiduciary by the Trustee from the Program Expense Fund (except that the agreement for Registrar shall be between the State Treasurer and the Registrar).

Each Fiduciary shall have a lien for such fees and reimbursement on any and all Funds at any time held by it under the General Resolution.

Removal of Trustee

The Trustee is required to be removed if so requested by the holders of a majority in principal amount of the Outstanding Bonds excluding any Bonds held by or for the account of the State. The State may remove the Trustee at any time, except during the existence of an Event of Default, for such cause as the State may determine in its sole discretion. In either such event, a successor is required to be appointed.

Defeasance

If the State shall pay or cause to be paid to the holders of the Bonds, the principal and interest and Redemption Price to become due thereon, at the times and in the manner stipulated therein and in the General Resolution, then the pledge of Program Income and other monies, securities and funds thereby pledged and all other rights granted thereby shall be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which monies have been set aside and shall be held in trust by Fiduciaries (through deposit by the State of funds for such payment or redemption or otherwise) shall, at the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in the above paragraph. Any Bonds shall, prior to maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect so expressed if (i) in case any of the Bonds to be redeemed on any date prior to their maturity, the State has given to the Trustee in form satisfactory to it, irrevocable instructions to publish, as provided in the General Resolution, notice of redemption on said date of such Bonds, (ii) there has been deposited with the Trustee either monies in an amount which are sufficient, or Investment Obligations which are direct obligations of or obligations guaranteed by the United States of America or other obligations, the payment of which is provided for by an irrevocable escrow deposit invested in direct obligations of the United States of America, the principal of and the interest on which when due will provide monies which, together with the monies, if any, deposited with the Trustee at the same time, will be sufficient to pay when due the principal or Redemption Price and interest due and to become due on said Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be, and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the State has given the Trustee, in form satisfactory to it, irrevocable instructions to publish, as soon as practicable, at least once in an Authorized Newspaper a notice to the holders of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid and stating such maturity or Redemption Date upon which monies are to be available for the payment of the principal of and Redemption Price on said Bonds. Neither the Investment Obligations nor the monies so deposited with the Trustee nor principal or interest payments on any such Investment Obligations shall be withdrawn or used for any purpose other than (and shall be held in trust for) the payment of the principal of, Redemption Price and interest on said Bonds, but any cash received from such principal or interest payments on such Investment Obligations deposited with the Trustee, if not then needed for such purpose may, to the extent practicable and legally permitted, be reinvested in Investment Obligations maturing at times and in amounts sufficient to pay when due the principal of, Redemption Price and interest to become due on said Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestments may be paid over to the State, as received by the Trustee, free and clear of any trust, lien or pledge.

GLOSSARY

This Glossary includes definitions from the General Resolution and the Series Resolutions. The following definitions apply to capitalized terms used in this Annual Report.

"**Accountant**" means such reputable and experienced independent certified public accountant or firm of independent certified public accountants of nationally recognized standing as may be selected by the Department and be satisfactory to the Trustee which may be the accountant or firm of accountants who regularly audit the books and accounts of the Department.

"**Act**" means Section 84.59 of the Statutes.

"**Authorized Newspaper**" means either The Wall Street Journal or The Bond Buyer, or such other financial newspaper or financial journal of general circulation, printed in the English language and customarily published (except in the case of legal holidays) at least once a day for at least five days in each calendar week, in the Borough of Manhattan, City and State of New York.

"**Authorized Officer**" when used with reference to the Department means the Secretary or other person designated from time to time by the Secretary, and when used with reference to the Commission, means the Chairperson of the Commission or other person designated from time to time by the Chairperson of the Commission and, in the case of any act to be performed or duty to be discharged, any other member, staff, officer or employee of the foregoing Department or Commission then authorized to perform such act or discharge such duty.

"**Bond**" or "**Bonds**" means any bond or any other evidence of revenue obligation authorized under the General Resolution and issued pursuant to a Series Resolution.

"**Bond Counsel's Opinion**" means an opinion executed by the Attorney General of Wisconsin or an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by the State.

"**Bondholder**" and the term "**Holder**" or "**holder**" means the registered owner of any Outstanding Bond or Bonds, if registered to a particular person or persons, or the holder of any Outstanding Bond or Bonds in bearer form or registered as to principal only, or his duly authorized attorney in fact, representative or assigns.

"**1984 Bonds**" means the State of Wisconsin Transportation Revenue Bonds, 1984 Series A, issued on May 15, 1984.

"**1986 Bonds**" means the State of Wisconsin Transportation Revenue Bonds, 1986 Series A, issued on July 17, 1986.

"**1988 Bonds**" means the State of Wisconsin Transportation Revenue Bonds, 1988 Series A issued on April 12, 1988.

"**1989 Bonds**" means the State of Wisconsin Transportation Revenue Bonds,1989, Series A, issued on April 19, 1989.

"**1991 Bonds**" means the State of Wisconsin Transportation Revenue Bonds,1991, Series A, issued on October 3, 1991.

"**1992 Series A Bonds**" means the State of Wisconsin Transportation Revenue Bonds, 1992 Series A, issued on August 20, 1992.

"**1992 Series B Bonds**" means the State of Wisconsin Transportation Revenue Bonds, 1992 Series B, issued on August 20, 1992.

"**1993 Bonds**" means the State of Wisconsin Transportation Revenue Bonds, 1993 Series A, issued on September 29, 1993.

"**1994 Bonds**" means the State of Wisconsin Transportation Revenue Bonds, 1994 Series A, issued on July 13, 1994.

"**1995 Bonds**" means the State of Wisconsin Transportation Revenue Bonds, 1995 Series A, issued on September 28, 1995.

"**1996 Bonds**" means the State of Wisconsin Transportation Revenue Bonds, 1996 Series A, issued on June 13, 1996.

"**1997 Commercial Paper Notes**" means the State of Wisconsin Transportation Revenue Commercial Paper Notes of 1997, Series A.

"**Capitalized Interest Account**" shall mean the account established by Section 402 of the General Resolution.

"**Certificate**" means (i) a signed document either attesting to or acknowledging the circumstances, representations or other matters therein stated or set forth or setting forth matters to be determined pursuant to the General Resolution, or (ii) the report of an Accountant as to audit or other procedures called for by the General Resolution.

"**Commercial Paper Notes**" means the 1997 Commercial Paper Notes and any other bond or evidence of revenue obligation authorized under the General Resolution and issued pursuant to a Series Resolution on parity with the current and future commercial paper notes.

"**Commission**" means the State of Wisconsin Building Commission established and existing pursuant to Section 13.48 of the Statutes and any successor thereto to whom the powers and duties granted to or imposed by the General Resolution shall be given by law.

"**Costs of Issuance**" means all items of expense, directly or indirectly payable or reimbursable by or to the State which are related to the authorization, sale, credit support, liquidity or issuance of Bonds.

"**Credit Support and Liquidity Fund**" means an account established pursuant to Section 511 of the General Resolution.

"**Credit Support and Liquidity Fund Requirement**" means as of any date of calculation, an amount equal to the aggregate Credit Support and Liquidity Fund Requirements for each Series of Outstanding Bonds as specified with respect to each such Series in the applicable Series Resolution.

"**Debt Service Requirement**" means as of any particular date of calculation, the aggregate Interest Requirement and Principal Requirement for Outstanding Bonds as specified in each Series Resolution authorizing the issuance of a Series of Bonds.

"**Debt Service Reserve Requirement**" means, as of any particular date of computation, an amount equal to the aggregate of the amounts specified in each Series Resolution authorizing the issuance of a Series of Bonds (any of which are Outstanding on the date of computation) as the amount to be the Debt Service Reserve Requirement, provided that, with respect to any Series of Bonds, in lieu of a deposit to the Reserve Fund of an amount equal to the applicable Series Debt Service Reserve Requirement, the State may provide for a letter of credit, municipal bond insurance policy, surety bond or other type of agreement or arrangement with an entity having, at the time of entering into such agreement or arrangement, a credit rating equal to or greater than the Bonds which provides for the availability, at the times required pursuant to the provisions of any Series Resolution, of an amount at least equal to such Series Debt Service Reserve Requirement and such method of funding shall be deemed to satisfy all provisions of the Series Resolution with respect to the Debt Service Reserve Requirement and the amount required to be on deposit in the Reserve Fund with respect to such Series of Bonds.

"**Department**" means the State of Wisconsin Department of Transportation established and existing pursuant to Section 15.46 of the Statutes and any successor thereto to which the powers and duties granted to or imposed by the General Resolution shall be given by law.

"**Fiduciary**" means the Trustee, the Registrar and any Paying Agent, or any or all of them as may be appropriate.

"**Fiscal Year**" means the fiscal year of the State as established from time to time.

"**Fund**" means one or more, as the case may be, of the funds or accounts created and established pursuant to the General Resolution.

"**General Resolution**" means the General Resolution as the same may from time to time be amended, modified or supplemented by a Supplemental Resolution.

"**Interest Payment Dates**" means any date on which is due the payment of interest on any Series of Bonds as specified in each Series Resolution authorizing the issuance of the Series of Bonds.

"**Interest Requirement**" means as of any particular date of calculation, the amount equal to any unpaid interest then due, plus an amount to the interest accruing or payable during the period between the date of calculation and the next Redemption Fund Deposit Day with respect to each Series of Outstanding Bonds.

"**Investment Obligations**" means and includes any of the following obligations to the extent the same are at the time legal for investment of funds of the State under the Act, the Revenue Obligations Act, or under other applicable law:

1. direct obligations of or obligations guaranteed by the United States of America;
2. obligations the payment of principal and interest on which, by act of Congress or in the opinion of the Attorney General of the United States in office at the time such obligations were issued, are unconditionally guaranteed by the United States of America;
3. bonds, debentures, notes, participation certificates or other similar evidences of indebtedness issued by any of the following: Federal Land Banks, Federal Home Loan Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, the Federal Financing Bank, the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Export Import Bank of the United States, Student Loan Marketing Association, Farmer's Home Administration, Government National Mortgage Association, Small Business Administration, or any other agency or corporation which has been or may hereafter be created by or pursuant to an Act of Congress of the United States as an agency or instrumentality thereof or sponsored thereby (including but not limited to the fully guaranteed portion of an obligation partially guaranteed by any of the foregoing, if the State's ownership of such portion is acknowledged in writing by an officer of the guaranteeing agency or instrumentality);
4. Public Housing Bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America or temporary notes, preliminary loan notes or project notes issued by public agencies or municipalities,

in each case, fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

5. obligations of any state within the United States or of any political subdivision of any state, provided that at the time of purchase such obligations are rated in either of the two highest rating categories by a nationally recognized bond rating agency;

6. bankers acceptances drawn on and accepted by banks (including the Trustee and Paying Agent) and certificates of deposit by banks (including the Trustee and Paying Agent), with a combined capital and surplus aggregating at least $100,000,000 and securities of which are currently rated within the two highest rating categories assigned by a nationally recognized rating agency, or the international branches or banking subsidiaries thereof;

7. interest-bearing time deposits, or certificates of deposit of a bank (including the Trustee and Paying Agent) or trust company, continuously secured and collateralized by obligations of the type described in paragraphs (1), (2), (3) and (4) hereof, having a market value at least equal at all times to the amount of such deposit or certificate, to the extent such deposit or certificate is not insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, or any successors thereto;

8. commercial paper given the highest rating by Standard & Poor's Corporation and Moody's Investors Service at the time of such investments;

9. investment agreements with banks or bank holding companies the senior long-term debt securities of which are rated within the two highest categories by a nationally recognized rating agency and which have a capital and surplus of at least $100,000,000;

10. repurchase agreements, with banks or other financial institutions (including the Trustee and Paying Agent) ("**Repurchasers**") provided that each such repurchase agreement (a) is in a commercially reasonable form and is for a commercially reasonable period, and (b) result in transfer to the Trustee of legal and equitable title to, or the granting to the Trustee of a prior perfected security interest in, identified obligations referred to in paragraphs (1), (2), (3) and (4) above which are free and clear of any claims by third parties and are segregated in a custodial or trust account held either by the Trustee or by a third party (other than the Repurchaser) as the agency solely of, or in trust solely for the benefit of the Trustee, provided that obligations acquired pursuant to such repurchase agreements shall be valued at the lower of the then current market value of such obligations or the repurchase prices thereof set forth in the applicable repurchase agreement, such investments shall be made so as to mature on or prior to the date or dates that the Trustee anticipates that moneys therefrom be required;

11. shares of beneficial interests in an investment fund or trust substantially all of whose assets consist of those identified obligations referred to in paragraphs (1) and (2) above; and

12. any short term government fund whose assets consist of those identified obligations referred to in paragraphs (1), (2), (3), (4) and (10) above.

"**Outstanding**", when used with reference to Bonds and as of any particular date, describes all Bonds that have been delivered and are expected to be delivered except (a) any Bond cancelled by the Trustee, or proven to the satisfaction of the Trustee to have been cancelled by the Registrar, at or before said date, (b) any Bond deemed to have been paid in accordance with the provisions of Section 1201 of the General Resolution, and (c) any Bond in lieu of or in substitution for which another Bond shall have been delivered pursuant to the requirements of the General Resolution or any Series Resolution.

"**Paying Agent**" for the payment of the principal of, Redemption Price and interest on the Bonds of a particular Series means the Treasurer or any bank or trust company designated as paying agent for the Bonds, and its successor or successors hereafter appointed in the manner provided in the General Resolution.

"**Principal and Interest Account**" means the account established by Section 502 of the General Resolution.

"**Principal Installment**" means (a) the principal amount of Outstanding Bonds which mature on a single future date, and (b) the amount of any Sinking Fund Installment required to be paid on a single future date.

"**Principal Installment Dates**" means any dates designated in a Series Resolution as a day a Principal Installment is to be paid.

"**Principal Office**", when used with respect to a Fiduciary, means the principal, or corporate trust, or head, or principal trust office of such Fiduciary situated in the city in which such Fiduciary is described as being located.

"**Principal Requirement**" means, as of any particular date of calculation, the amount of money equal to any unpaid Principal Installment then due with respect to each Series of Outstanding Bonds and the amount of the next succeeding Principal Installment divided by the number of Redemption Fund Deposit Days prior to the next Principal Installment Date with respect to each Series of Outstanding Bonds.

"**Program**" means the State of Wisconsin Transportation Facilities and Highway Projects Revenue Obligations Program financed under the Act, the Revenue Obligations Act and the General Resolution in accordance with any other enactment of the State which may hereafter specify an extension, expansion, addition or improvement of and for said Program pursuant to the Act, the Revenue Obligations Act and the General Resolution but not financed under the provisions of any other bond resolution or indenture of trust.

"**Program Account**" means the account so designated by Section 402 of the General Resolution.

"**Program Capital Fund**" means the Fund which is established and created by Section 402 of the General Resolution and pursuant to Section 18.57 of the Revenue Obligations Act.

"**Program Expense Fund**" means the Fund which is established and created by Section 514 of the General Resolution.

"**Program Expenses**" means the reasonable and proper costs and expenses of the Department for the operation and maintenance of the Program, including, without limitation, the administrative expenses allocable to the Program and the fees and expenses of the Trustee and the Paying Agents and Registrars of the Bonds.

"**Program Income**" means moneys derived under Section 341.25 of the Statutes or any other moneys that the State is authorized to pledge, which is to be deposited by the Department under Section 18.56(5) and (9)(j) of the Revenue Obligations Act in a separate and distinct fund outside of the State Treasury in an account maintained by the Trustee as the Redemption Fund and all interest earned or gain realized from the investment of amounts in said fund.

"**Program Income Account**" means the account established by Section 502 of the General Resolution.

"**Projects**" means the projects authorized under the Act and funded with proceeds of Bonds authorized by one or more Series Resolutions.

"**Record Date**" means with respect to any Series of Bonds, the Record Date established for such Series of Bonds under each Series Resolution pursuant to which such Series is issued (which, with respect to the 1996 Series A Bonds, means the fifteenth day of the month preceding an Interest Payment Date on the Bonds).

"**Redemption Date**" means the date upon which Bonds are to be called for redemption.

"**Redemption Fund**" means the Fund which is established and created by Section 502 of the General Resolution pursuant to Section 18.56(5) of the Revenue Obligations Act.

"**Redemption Fund Deposit Day**" means January 1, April 1, July 1 and October 1 of each Fiscal Year.

"**Redemption Price**" when used with respect to a Bond or portion thereof, means the principal amount of such Bond or portion plus the applicable premium, if any, payable upon redemption thereof in the manner contemplated in accordance with its terms pursuant to the General Resolution and to the Series Resolution.

"**Registrar**" means, with respect to Bonds of a particular Series, the Treasurer or any person with whom he has contracted with for the performance of any of his functions under Section 18.10(5) and (7) of the Statutes.

"**Reserve Fund**" means the Fund which is established and created by Section 508 of the General Resolution pursuant to Section 18.56(4) of the Revenue Obligations Act.

"**Revenue Obligations Act**" means Subchapter II of Chapter 18 of the Statutes.

"**Secretary**" means the Secretary of the Department or any other officer, board, body, commission or agency succeeding to the powers, duties and functions thereof.

"**Serial Bonds**" means the Bonds so designated in a Series Resolution.

"**Series**", when used with respect to less than all of the Bonds, means and refers to all of the Bonds delivered on original issuance in a simultaneous transaction, regardless of variations in maturity, interest rate or other provisions, and any Bond thereafter delivered in lieu of or substitution for any of such Bonds pursuant to the General Resolution or a Series Resolution.

"**Series Resolution**" means any resolution adopted by the Commission pursuant to and in accordance with the terms of Article II of the General Resolution, providing for the issuance of a particular Series of Bonds.

"**Sinking Fund Installment**" means the amount of money unconditionally required by or pursuant to a Series Resolution to be paid toward the retirement of any particular Term Bonds prior to their respective stated maturities.

"**State**" means the State of Wisconsin, including the Commission, or Department, as the case may be, acting on behalf of the State pursuant to the Act or the Revenue Obligations Act, or any body, agency or instrumentality of the State which shall hereafter succeed to the powers, duties and functions of any of the foregoing.

"**Statutes**" means the Wisconsin Statutes.

"**Subordinated Debt Service Fund**" means an account established pursuant to Section 517 of the General Resolution.

"**Subordinated Debt Service Fund Requirement**" means, as of any date of calculation, an amount equal to the aggregate Subordinated Debt Service Fund Requirements for each Subordinated Indebtedness Series of Outstanding Bonds as specified with respect to each such Series in the applicable Series Resolution.

"**Subordinated Indebtedness**" means a Series of Bonds issued pursuant to Section 714 of the General Resolution.

"**Supplemental Resolution**" means any resolution adopted by the Commission pursuant to and in accordance with the terms of Article VIII of the General Resolution amending or supplementing the provisions of the General Resolution as originally adopted or as amended or supplemented prior to the amending or supplementing effected by the particular Supplemental Resolution.

"**Term Bonds**" means the Bonds so designated in a Series Resolution.

"**Transportation Fund**" means the fund established in Section 25.40 of the Statutes.

"**Treasurer**" means the State Treasurer or any other officer, board, body, commission or agency succeeding to any of the powers, duties and functions thereof.

"**Trustee**" means the trustee appointed by or pursuant to Section 1101 of the General Resolution, and its successor or successors and any other corporation or association which may at any time be substituted in its place pursuant to the General Resolution.

APPENDIX A

AUDITED FINANCIAL STATEMENTS

The following material for the year ended June 30, 1997, includes, for the Transportation Revenue Bond Program, the Report of Independent Certified Public Accountants, dated October 8, 1997, pages 5 through 25 and supplemental information pertaining to Program Revenues, and for the Transportation Commercial Paper Program, the Report of Independent Certified Public Accountants, dated October 8, 1997, and pages 4 through 10.

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REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

Grant Thornton

GRANT THORNTON LLP Accountants and Management Consultants

The U.S. Member Firm of Grant Thornton International

Wisconsin Department of Transportation
Revenue Bond Program
Madison, Wisconsin

We have audited the statements of assets and liabilities of the 1986 Series A, 1988 Series A, 1989 Series A, 1991 Series A, 1992 Series A, 1992 Series B, 1993 Series A, 1994 Series A, 1995 Series A and 1996 Series A bonds of the Wisconsin Department of Transportation Revenue Bond Program (the Program) as of June 30, 1997 and 1996, and the related statements of revenue and expenses and cumulative excess of revenue over expenses for the years then ended and changes in fund assets for the periods then ended, as discussed in note A6. These financial statements are the responsibility of the Program's directors. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors of the Program, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities of the 1986 Series A, 1988 Series A, 1989 Series A, 1991 Series A, 1992 Series A, 1992 Series B, 1993 Series A, 1994 Series A, 1995 Series A and 1996 Series A bonds of the Wisconsin Department of Transportation Revenue Bond Program as of June 30, 1997 and 1996, and the revenue and expenses for the years then ended and changes in fund assets for the periods then ended, in conformity with generally accepted accounting principles.

/s/ GRANT THORNTON LLP
Madison, Wisconsin
October 8, 1997

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WISCONSIN DEPARTMENT OF TRANSPORTATION REVENUE BOND PROGRAM
1986 SERIES A, 1988 SERIES A, 1989 SERIES A, 1991 SERIES A, 1992 SERIES A,
1992 SERIES B, 1993 SERIES A, 1994 SERIES A, 1995 SERIES A AND 1996 SERIES A
STATEMENTS OF ASSETS AND LIABILITIES
June 30,

ASSETS	1997	1996
FUND ASSETS		
Program Capital Fund (note C)		
Repurchase agreements (note A2)	$ -	$ 74,689,835
Accrued interest receivable	-	5,089
	-	74,694,924
Bond Redemption Fund (note C)		
Amounts receivable on maturity of securities	-	28,810,000
Repurchase agreements (note A2)	51,498,127	16,573,913
Accrued interest receivable	7,888	891,800
	51,506,015	46,275,713
Debt Service Reserve Fund (note C)	-	-
Program Expense Fund		
Repurchase agreements (note A2)	51,768	45,419
Accrued interest receivable	226	192
	51,994	45,611
General Rebate Fund		
Repurchase agreements (note A2)	-	1,899,401
Accrued interest receivable	-	8,149
	-	1,907,550
Total fund assets	51,558,009	122,923,798
DEFERRED DEBT COSTS, less accumulated amortization of $2,818,393 in 1997 and $2,492,606 in 1996 (note A5)	13,227,875	13,462,984
NET PROJECT COSTS INCURRED (note A3)	816,549,337	740,814,124
	$881,335,221	$877,200,906

The accompanying notes are an integral part of these statements.

LIABILITIES	1997	1996
LIABILITIES		
Accrued interest payable	$ 20,060,477	$ 19,513,402
Accounts payable	7,720	63,491
Bonds payable (note B)		
Due within one year	29,710,000	25,385,000
Due after one year	720,855,000	750,565,000
	750,565,000	775,950,000
Total liabilities	770,633,197	795,526,893
COMMITMENTS (note E)	-	-
FUND BALANCE		
Cumulative excess of revenue over expenses	158,307,679	129,279,668
Transfer of assets from State of Wisconsin Transportation Revenue Bonds, 1984 Series A (note B)	3,531,381	3,531,381
Transfer of bond proceeds to State of Wisconsin Transportation Revenue Bonds, 1984 Series A, Escrow Funds (note B)	(51,137,036)	(51,137,036)
	110,702,024	81,674,013
	$881,335,221	$877,200,906

WISCONSIN DEPARTMENT OF TRANSPORTATION REVENUE BOND PROGRAM
1986 SERIES A, 1988 SERIES A, 1989 SERIES A, 1991 SERIES A, 1992 SERIES A,
1992 SERIES B, 1993 SERIES A, 1994 SERIES A, 1995 SERIES A AND 1996 SERIES A

STATEMENTS OF REVENUE AND EXPENSES AND
CUMULATIVE EXCESS OF REVENUE OVER EXPENSES
Year ended June 30,

	1997	1996
Revenue		
Registration fees	$ 68,521,829	$ 58,414,087
Investment (note A2)	2,967,436	1,944,473
	71,489,265	60,358,560
Expenses		
Interest	40,923,721	33,451,403
Administrative	80,491	37,283
Amortization of deferred debt costs (note A5)	325,787	456,571
Premium on Surety Bonds	-	166,688
Arbitrage expense	1,131,255	-
	42,461,254	34,111,945
EXCESS OF REVENUE OVER EXPENSES	29,028,011	26,246,615
Cumulative excess of revenue over expenses at beginning of year	129,279,668	103,033,053
Cumulative excess of revenue over expenses at end of year	$158,307,679	$129,279,668

The accompanying notes are an integral part of these statements.

WISCONSIN DEPARTMENT OF TRANSPORTATION REVENUE BOND PROGRAM
1986 SERIES A, 1988 SERIES A, 1989 SERIES A, 1991 SERIES A, 1992 SERIES A,
1992 SERIES B, 1993 SERIES A, 1994 SERIES A, 1995 SERIES A AND 1996 SERIES A

STATEMENTS OF CHANGES IN FUND ASSETS - 1986 SERIES A

Years ended June 30, 1997 and 1996

	Bond Redemption Fund
Fund assets at July 1, 1995	$ 8,186,011
Receipts	
Registration fees	8,110,486
Investment income	266,915
Interest reimbursement from Escrow Fund	4,362,674
Disbursements	
Interest payments	(5,667,405)
Bond payments	(7,330,000)
Transfers	
Transfer of assets from 1988 Series A Program Expense Fund	1,630
Fund assets at June 30, 1996	7,930,311
Receipts	
Registration fees	7,436,686
Investment income	260,084
Interest reimbursement from Escrow Fund	2,181,337
Disbursements	
Interest payments	(2,969,238)
Bond payments	(7,230,000)
Transfers	
Transfer of assets from 1988 Series A Program Expense Fund	2,063
Fund assets at June 30, 1997	$ 7,611,243

The accompanying notes are an integral part of these statements.

WISCONSIN DEPARTMENT OF TRANSPORTATION REVENUE BOND PROGRAM
1986 SERIES A, 1988 SERIES A, 1989 SERIES A, 1991 SERIES A, 1992 SERIES A,
1992 SERIES B, 1993 SERIES A, 1994 SERIES A, 1995 SERIES A AND 1996 SERIES A

STATEMENTS OF CHANGES IN FUND ASSETS - 1988 SERIES A

Years ended June 30, 1997 and 1996

	Total	Bond Redemption Fund	Program Expense Fund
Fund assets at July 1, 1995	$ 2,113,603	$ 2,092,877	$ 20,726
Receipts			
Registration fees	2,249,940	2,189,940	60,000
Investment income	71,748	69,593	2,155
Interest reimbursement from Escrow Fund	2,649,600	2,649,600	-
Disbursements			
Interest payments	(2,980,838)	(2,980,838)	-
Bond payments	(1,875,000)	(1,875,000)	-
Administrative expenses	(35,640)	-	(35,640)
Transfers			
Transfer of assets from 1989 Series A Bond Redemption Fund	38,249	38,249	-
Transfer of assets in excess of Program Expense Fund requirements to 1986 Series A Bond Redemption Fund	(1,630)	-	(1,630)
Fund assets at June 30, 1996	2,230,032	2,184,421	45,611
Receipts			
Registration fees	2,302,319	2,210,319	92,000
Investment income	75,313	71,770	3,543
Interest reimbursement from Escrow Fund	1,324,700	1,324,700	-
Disbursements			
Interest payments	(1,532,075)	(1,532,075)	-
Bond payments	(2,000,000)	(2,000,000)	-
Administrative expenses	(87,097)	-	(87,097)
Transfers			
Transfer of assets in excess of Program Expense Fund requirements to 1986 Series A Bond Redemption Fund	(2,063)	-	(2,063)
Fund assets at June 30, 1997	$ 2,311,129	$ 2,259,135	$ 51,994

The accompanying notes are an integral part of these statements.

WISCONSIN DEPARTMENT OF TRANSPORTATION REVENUE BOND PROGRAM
1986 SERIES A, 1988 SERIES A, 1989 SERIES A, 1991 SERIES A, 1992 SERIES A,
1992 SERIES B, 1993 SERIES A, 1994 SERIES A, 1995 SERIES A AND 1996 SERIES A

STATEMENTS OF CHANGES IN FUND ASSETS - 1989 SERIES A

Years ended June 30, 1997 and 1996

	Bond Redemption Fund
Fund assets at July 1, 1995	$ 2,020,097
Receipts	
Registration fees	2,272,846
Investment income	67,807
Interest reimbursement from Escrow Fund	2,633,580
Disbursements	
Interest payments	(3,127,938)
Bond payments	(1,720,000)
Transfers	
Transfer of assets to 1988 Series A Bond Redemption Fund	(38,249)
Fund assets at June 30, 1996	2,108,143
Receipts	
Registration fees	2,223,729
Investment income	70,219
Interest reimbursement from Escrow Fund	2,633,581
Disbursements	
Interest payments	(2,999,137)
Bond payments	(1,845,000)
Fund assets at June 30, 1997	$ 2,191,535

The accompanying notes are an integral part of these statements.

WISCONSIN DEPARTMENT OF TRANSPORTATION REVENUE BOND PROGRAM
1986 SERIES A, 1988 SERIES A, 1989 SERIES A, 1991 SERIES A, 1992 SERIES A,
1992 SERIES B, 1993 SERIES A, 1994 SERIES A, 1995 SERIES A AND 1996 SERIES A

STATEMENTS OF CHANGES IN FUND ASSETS - 1991 SERIES A

Years ended June 30, 1997 and 1996

	Bond Redemption Fund
Fund assets at July 1, 1995	$ 4,356,549
Receipts	
Registration fees	5,180,324
Investment income	147,017
Interest reimbursement from Escrow Fund	4,147,445
Disbursements	
Interest payments	(5,979,690)
Bond payments	(3,350,000)
Fund assets at June 30, 1996	4,501,645
Receipts	
Registration fees	5,172,175
Investment income	151,387
Interest reimbursement from Escrow Fund	4,147,445
Disbursements	
Interest payments	(5,793,702)
Bond payments	(3,535,000)
Fund assets at June 30, 1997	$ 4,643,950

The accompanying notes are an integral part of these statements.

WISCONSIN DEPARTMENT OF TRANSPORTATION REVENUE BOND PROGRAM
1986 SERIES A, 1988 SERIES A, 1989 SERIES A, 1991 SERIES A, 1992 SERIES A,
1992 SERIES B, 1993 SERIES A, 1994 SERIES A, 1995 SERIES A AND 1996 SERIES A

STATEMENTS OF CHANGES IN FUND ASSETS - 1992 SERIES A

Years ended June 30, 1997 and 1996

	Bond Redemption Fund
Fund assets at July 1, 1995	$ 3,940,156
Receipts	
Registration fees	7,371,840
Investment income	145,682
Disbursements	
Interest payments	(7,599,600)
Fund assets at June 30, 1996	3,858,078
Receipts	
Registration fees	6,705,785
Investment income	155,564
Disbursements	
Interest payments	(7,599,600)
Transfers	
Transfer of assets from 1992 Series B General Rebate Account	787,644
Fund assets at June 30, 1997	$ 3,907,471

The accompanying notes are an integral part of these statements.

WISCONSIN DEPARTMENT OF TRANSPORTATION REVENUE BOND PROGRAM
1986 SERIES A, 1988 SERIES A, 1989 SERIES A, 1991 SERIES A, 1992 SERIES A, 1992 SERIES B, 1993 SERIES A, 1994 SERIES A, 1995 SERIES A AND 1996 SERIES A

STATEMENTS OF CHANGES IN FUND ASSETS - 1992 SERIES B

Years ended June 30, 1997 and 1996

	Total	Bond Redemption Fund	General Rebate Fund
Fund assets at July 1, 1995	$ 9,232,367	$ 7,425,678	$ 1,806,689
Receipts			
Registration fees	11,370,801	11,370,801	-
Investment income	361,869	261,008	100,861
Interest reimbursement from Escrow Fund	2,318,685	2,318,685	-
Disbursements			
Interest payments	(10,532,315)	(10,532,315)	-
Bond payments	(3,250,000)	(3,250,000)	-
Fund assets at June 30, 1996	9,501,407	7,593,857	1,907,550
Receipts			
Registration fees	11,335,707	11,335,707	-
Investment income	279,976	268,627	11,349
Interest reimbursement from Escrow Fund	2,318,685	2,318,685	-
Disbursements			
Interest payments	(10,398,025)	(10,398,025)	-
Bond payments	(3,380,000)	(3,380,000)	-
Arbitrage payments	(1,131,255)	-	(1,131,255)
Transfers			
Transfer of assets to 1992 Series A Bond Redemption Fund	(787,644)	-	(787,644)
Fund assets at June 30, 1997	$ 7,738,851	$ 7,738,851	$ -

The accompanying notes are an integral part of these statement.

WISCONSIN DEPARTMENT OF TRANSPORTATION REVENUE BOND PROGRAM
1986 SERIES A, 1988 SERIES A, 1989 SERIES A, 1991 SERIES A, 1992 SERIES A,
1992 SERIES B, 1993 SERIES A, 1994 SERIES A, 1995 SERIES A AND 1996 SERIES A

STATEMENTS OF CHANGES IN FUND ASSETS - 1993 SERIES A

Years ended June 30, 1997 and 1996

	Bond Redemption Fund
Fund assets at July 1, 1995	$ 3,655,028
Receipts	
Registration fees	6,148,845
Investment income	130,849
Disbursements	
Interest payments	(5,147,090)
Bond payments	(1,060,000)
Fund assets at June 30, 1996	3,727,632
Receipts	
Registration fees	6,124,787
Investment income	134,542
Disbursements	
Interest payments	(5,110,968)
Bond payments	(1,095,000)
Fund assets at June 30, 1997	$ 3,780,993

The accompanying notes are an integral part to these statements

WISCONSIN DEPARTMENT OF TRANSPORTATION REVENUE BOND PROGRAM
1986 SERIES A, 1988 SERIES A, 1989 SERIES A, 1991 SERIES A, 1992 SERIES A,
1992 SERIES B, 1993 SERIES A, 1994 SERIES A, 1995 SERIES A AND 1996 SERIES A
STATEMENTS OF CHANGES IN FUND ASSETS - 1994 SERIES A
Years ended June 30, 1997 and 1996

	Bond Redemption Fund
Fund assets at July 1, 1995	$ 5,765,644
Receipts	
Registration fees	8,314,711
Investment income	197,330
Disbursements	
Interest payments	(5,386,448)
Bond payments	(3,005,000)
Fund assets at June 30, 1996	5,886,237
Receipts	
Registration fees	8,279,980
Investment income	201,670
Disbursements	
Interest payments	(5,248,748)
Bond payments	(3,115,000)
Fund assets at June 30, 1997	$ 6,004,139

The accompanying notes are an integral of these statements.

WISCONSIN DEPARTMENT OF TRANSPORTATION REVENUE BOND PROGRAM
1986 SERIES A, 1988 SERIES A, 1989 SERIES A, 1991 SERIES A, 1992 SERIES A,
1992 SERIES B, 1993 SERIES A, 1994 SERIES A, 1995 SERIES A AND 1996 SERIES A

STATEMENTS OF CHANGES IN FUND ASSETS - 1995 SERIES A

For the period from September 1, 1995 (delivery date of bonds)
through June 30, 1996 and for the year ended June 30, 1997

	Total	Program Capital Fund	Bond Redemption Fund	Debt Service Reserve Fund
Fund assets at September 1, 1995	$ -	$ -	$ -	$ -
Receipts				
Proceeds from bond issue	104,966,490	104,966,490	-	-
Accrued interest from bond issue	419,992	419,992	-	-
Registration fees	7,394,294	-	7,394,294	-
Investment income	358,699	177,488	181,211	-
Disbursements				
Bond issue costs	(129,947)	(129,947)	-	-
Project costs	(104,954,064)	(104,954,064)	-	-
Premium on Surety Bonds	(59,938)	-	-	(59,938)
Transfers				
Transfer of accrued interest from bond issue from Program Capital Fund to Bond Redemption Fund	-	(419,992)	419,992	-
Transfer of assets from Program Capital Fund to Debt Service Reserve Fund for premium on Surety Bonds	-	(59,938)	-	59,938
Fund assets at June 30, 1996	7,995,526	29	7,995,497	-
Receipts				
Registration fees	8,571,372	-	8,571,372	-
Investment income	206,596	-	206,596	-
Disbursements				
Interest payments	(7,386,895)	-	(7,386,895)	-
Bond payments	(3,185,000)	-	(3,185,000)	-
Miscellaneous project costs	(29)	(29)	-	-
Fund assets at June 30, 1997	$ 6,201,570	$ -	$ 6,201,570	$ -

The accompanying notes are an integral part of these statements

WISCONSIN DEPARTMENT OF TRANSPORTATION REVENUE BOND PROGRAM
1986 SERIES A, 1988 SERIES A, 1989 SERIES A, 1991 SERIES A, 1992 SERIES A,
1992 SERIES B, 1993 SERIES A, 1994 SERIES A, 1995 SERIES A AND 1996 SERIES A

STATEMENTS OF CHANGES IN FUND ASSETS - 1996 SERIES A
For the period from May 15, 1996 (delivery date of bonds)
through June 30, 1996 and for the year ended June 30, 1997

	Total	Program Capital Fund	Bond Redemption Fund	Debt Service Reserve Fund
Fund assets at May 15, 1996	$ -	$ -	$ -	$ -
Receipts				
Proceeds from bond issue	114,606,342	114,606,342	-	-
Accrued interest from bond issue	488,638	488,638	-	-
Investment income	196,557	195,303	1,254	-
Disbursements				
Project costs	(40,000,000)	(40,000,000)	-	-
Premium on Surety Bonds	(106,750)	-	-	(106,750)
Transfers				
Transfer of accrued interest from bond issue from Program Capital Fund to Bond Redemption Fund	-	(488,638)	488,638	-
Transfer of assets from Program Capital Fund to Debt Service Reserve Fund for premium on Surety Bonds	-	(106,750)	-	106,750
Fund assets at June 30, 1996	75,184,787	74,694,895	489,892	-
Receipts				
Registration fees	10,369,289	-	10,369,289	-
Investment income	1,432,085	1,180,132	251,953	-
Disbursements				
Project costs	(75,735,213)	(75,735,213)	-	-
Interest payments	(3,944,006)	-	(3,944,006)	-
Bond issue costs	(139,814)	(139,814)	-	-
Fund assets at June 30, 1997	$ 7,167,128	$ -	$ 7,167,128	$ -

The accompanying notes are an integral part of these statements.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The Wisconsin Department of Transportation Revenue Bond Program originated in April, 1984 pursuant to the adoption of the General Resolution by the State of Wisconsin Building Commission. The purpose of the Program is to provide financing for the construction, maintenance and repair of certain major highway projects and administrative facilities.

In preparing financial statements in conformity with generally accepted accounting principles, the Program's directors are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

A summary of the Program's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. General Accounting Policy

The Wisconsin Department of Transportation (Department) has entered into trust agreements with Bank One Wisconsin Trust Company, Milwaukee, Wisconsin, relating to the creation and administration of the State of Wisconsin Transportation Revenue Bonds, 1986 Series A, 1988 Series A, 1989 Series A, 1991 Series A, 1992 Series A, 1992 Series B, 1993 Series A, 1994 Series A, 1995 Series A and 1996 Series A. Among other provisions, the trust agreements, in conjunction with the General Resolution, specify those funds to be created and maintained, the timing and flow of monies through the funds, the formula for computing the Debt Service Reserve requirements and the procedure to be followed for the redemption of the bonds.

2. Repurchase Agreements and Investment Revenue

Repurchase agreements for each separate fund are stated at cost which approximates market value. Investment revenue is recognized when earned and includes gains and losses on sales or maturities of securities.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - Continued

3. Net Project Costs

Project costs are recorded at cost, net of gifts and grants. An annual provision for depreciation is not reflected in the accompanying financial statements since it would not serve the Program's purpose to repay bonds outstanding from registration fees and other revenue and is not required to be recorded by the trust agreements.

4. Revenue and Expenses

All revenue and expenses are recorded on the accrual basis. Purchased interest receivable is recorded as an asset of the respective funds until the related interest is received at which time it is offset against interest revenue.

5. Deferred Debt Costs

Bond issue costs and administrative costs are being amortized on a straight-line basis over the remaining terms of the bonds. The original issue discount is being amortized on an effective interest method.

6. Reporting Periods

The reporting periods covered by this report are as follows:

Bonds	1997	1996
1986 Series A	Year ended June 30, 1997	Year ended June 30, 1996
1988 Series A	Year ended June 30, 1997	Year ended June 30, 1996
1989 Series A	Year ended June 30, 1997	Year ended June 30, 1996
1991 Series A	Year ended June 30, 1997	Year ended June 30, 1996
1992 Series A	Year ended June 30, 1997	Year ended June 30, 1996
1992 Series B	Year ended June 30, 1997	Year ended June 30, 1996
1993 Series A	Year ended June 30, 1997	Year ended June 30, 1996
1994 Series A	Year ended June 30, 1997	Year ended June 30, 1996
1995 Series A	Year ended June 30, 1997	September 1, 1995 (delivery date of bonds) through June 30, 1996
1996 Series A	Year ended June 30, 1997	May 15, 1996 (delivery date of bonds) through June 30, 1996

NOTE B - BONDS PAYABLE

Transportation Revenue Bonds, 1986 Series A (1986 bonds) consist of bonds dated June 15, 1986 with amounts outstanding totaling $7,130,000 at June 30, 1997. Bonds outstanding bear interest payable semiannually at 7.4%. The principal balance is payable July 1, 1997.

Transportation Revenue Bonds, 1988 Series A (1988 bonds) consist of bonds dated April 15, 1988 with amounts outstanding totaling $2,125,000 at June 30, 1997. Bonds outstanding bear interest payable semiannually at 6.7%. The principal balance is payable July 1, 1997.

Transportation Revenue Bonds, 1989 Series A (1989 bonds) consist of bonds dated April 15, 1989 with amounts outstanding totaling $4,105,000 at June 30, 1997. Bonds outstanding bear interest payable semiannually at 7.25%. Principal is payable in varying amounts annually through 1998.

Transportation Revenue Bonds, 1991 Series A (1991 bonds) consist of bonds dated October 1, 1991 with amounts outstanding totaling $26,125,000 at June 30, 1997. Bonds outstanding bear interest payable semiannually at rates ranging from 5.6% to 6.2%. Principal is payable in varying amounts annually through 2002.

Transportation Revenue Bonds, 1992 Series A and B (1992 bonds) consist of bonds dated July 1, 1992 with amounts outstanding totaling $288,045,000 at June 30, 1997. Bonds outstanding bear interest payable semiannually at rates ranging from 4.4% to 5.8%. Principal is payable in varying amounts annually through 2022.

Transportation Revenue Bonds, 1993 Series A (1993 bonds) consist of bonds dated September 1, 1993 with amounts outstanding totaling $112,340,000 at June 30, 1997. Bonds outstanding bear interest payable semiannually at rates ranging from 3.7% to 5%. Principal is payable in varying amounts annually through 2012.

NOTE B - BONDS PAYABLE - Continued

Transportation Revenue Bonds, 1994 Series A (1994 bonds) consist of bonds dated July 1, 1994 with amounts outstanding totaling $93,880,000 at June 30, 1997. Bonds outstanding bear interest payable semiannually at rates ranging from 4.5% to 7.5%. Principal is payable in varying amounts annually through 2014.

Transportation Revenue Bonds, 1995 Series A (1995 bonds) consist of bonds dated September 1, 1995 with amounts outstanding totaling $101,815,000 at June 30, 1997. Bonds outstanding bear interest payable semiannually at rates ranging from 4.45% to 6.25%. Principal is payable in varying amounts annually through 2015.

Transportation Revenue Bonds, 1996 Series A (1996 bonds) consist of bonds dated May 15, 1996 with amounts outstanding totaling $115,000,000 at June 30, 1997. Bonds outstanding bear interest payable semiannually at rates ranging from 5% to 6%. Principal is payable in varying amounts annually through 2016.

The bonds are issued pursuant to Subchapter II of Chapter 18 of the Wisconsin Statutes as amended, Section 84.59 of the Wisconsin Statutes and a general bond resolution and series resolutions adopted by the State of Wisconsin Building Commission. The bonds are revenue obligations of the State of Wisconsin (State), payable solely from the Bond Redemption Funds created by the General Resolution.

The bonds are collateralized by a first lien pledge of income derived from vehicle registration fees (Program Income) under Section 341.25 of the Wisconsin Statutes, as collected by the Trustee. The State has covenanted in the General Resolution that it will charge registration fees sufficient to pay principal and interest on the bonds, as they become due, to pay program expenses and to maintain the Debt Service Reserve requirement.

The State is not generally liable on the bonds nor are the projects financed by the bonds pledged as collateral.

NOTE B - BONDS PAYABLE - Continued

Program Income in excess of the amount needed to service the Bond Redemption and Debt Service Reserve requirements is to be transferred to the Department free of the first lien pledge of the General Resolution.

Upon delivery of the 1986 bonds, bond sale proceeds of $51,137,036 were applied to the refunding of the State of Wisconsin Transportation Revenue Bonds, 1984 Series A. Such proceeds of the bonds, together with other available monies from the 1984 Series A bond funds, were deposited with a trustee bank in a separate Escrow Fund. These funds will be 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 1984 Series A bonds at redemption or maturity.

Upon delivery of the 1992 Series A bonds, bond sale proceeds of $136,590,673 were applied to the partial refunding of the State of Wisconsin Transportation Revenue Bonds, 1986 Series A, 1988 Series A, 1989 Series A and 1991 Series A. Such proceeds of the bonds, together with 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 $126,775,000 at June 30, 1997.

Upon delivery of the 1993 Series A bonds, bond sale proceeds of $114,667,228 were applied to the partial refunding of the State of Wisconsin Transportation Revenue Bonds, 1986 Series A, 1988 Series A, 1989 Series A, 1991 Series A and 1992 Series B. Such proceeds of the bonds, together with 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 $105,205,000 at June 30, 1997.

NOTE B - BONDS PAYABLE - Continued

Additional series of bonds may be issued on a parity with the current bond series outstanding and collateralized by an equal charge and lien on the Program Income. However, no additional series may be issued unless, among other things, Program Income, including interest, for 12 consecutive months within the preceding 18-month period is at least 1.75 times the maximum aggregate principal and interest requirement in any bond year for all outstanding bonds.

Future maturities of bonds payable as of June 30, 1997 are as follows:

Year ending June 30,	
1998	$ 29,710,000
1999	30,750,000
2000	29,490,000
2001	30,920,000
2002	32,425,000
Later years	597,270,000
	$750,565,000

NOTE C - DEBT SERVICE RESERVE FUND REQUIREMENT

The General Resolution creates a Debt Service Reserve Fund requirement which is funded from bond proceeds and other available monies, and is intended to be used to provide for any deficiency in the Bond Redemption Fund for the payment of principal and interest. Series resolutions authorizing the issuance of additional bonds will set forth the Debt Service Reserve requirements for each issue which will be aggregated to determine the Debt Service Reserve Fund requirement for all outstanding bonds. The General Resolution provides that monies in the Debt Service Reserve Fund are to be provided for any deficiency in the Principal and Interest Account in the Bond Redemption Fund. If there is a deficiency in the Debt Service Reserve Fund, the Trustee shall, after setting aside the principal and interest amount in the Bond Redemption Fund, the principal of and interest on outstanding bonds accruing in such year and an amount in the Program Expense Fund equal to the Department's budgeted program expenses for that year, deposit Program Income into the Debt Service Reserve Fund in an amount sufficient to remedy such deficiency.

NOTE C - DEBT SERVICE RESERVE FUND REQUIREMENT - Continued

The Debt Service Reserve Fund requirement for each of the bond series is an amount equal to the maximum interest due, except for the 1992 Series A and 1993 Series A bonds issues which have no Debt Service Reserve Fund requirements. The Debt Service Reserve Fund requirements and the Bond Redemption Fund balances, with securities stated at cost which approximates market value, are as follows at June 30, 1997:

	Debt Service Reserve Fund requirement	Bond Redemption Fund balance
1986 Series A	$ 9,984,022	$ 7,611,243
1988 Series A	3,592,000	2,259,135
1989 Series A	2,751,000	2,191,535
1991 Series A	3,643,000	4,643,950
1992 Series A	-	3,907,471
1992 Series B	8,921,978	7,738,851
1993 Series A	-	3,780,993
1994 Series A	2,058,000	6,004,139
1995 Series A	3,425,000	6,201,570
1996 Series A	6,100,000	7,167,128
	$40,475,000	$51,506,015

During the period from May, 1993 to June, 1997, the Department has acquired Surety Bonds in amounts sufficient to meet the Debt Service Reserve requirements for each series of bonds outstanding.

NOTE D - ARBITRAGE PAYMENTS

During August, 1996, arbitrage calculations were performed for the 1988 Series A and 1989 Series A bonds in accordance with their respective resolutions. The payments required in August, 1996 totaled $903,600 for the 1988 bonds and $227,655 for the 1989 bonds. These payments were made from the General Rebate Fund established under the 1992 Series B bonds. The balance remaining in the General Rebate Fund was then transferred to the 1992 Series A Bond Redemption Fund.

NOTE E - COMMITMENTS

The Department and the State are currently authorized by State Statutes to use bond proceeds for right-of-way acquisition and construction of projects comprising 69 major highway projects (41 completed prior to the issuance of the bonds) and certain transportation facilities. The Department has statutory authority (as amended) to issue a total of $1,083,000,000 of bonds (including those issued under the 1986 Series A, the 1988 Series A, the 1989 Series A, the 1991 Series A, the 1992 Series B, the 1993 Series A, the 1994 Series A, the 1995 Series A and the 1996 Series A), in order to partially finance the costs of the authorized projects, in addition to proceeds from State general obligation debt, federal aid and other money in the Transportation Fund.

SUPPLEMENTARY INFORMATION

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON SUPPLEMENTARY INFORMATION

Wisconsin Department of Transportation
Revenue Bond Program
Madison, Wisconsin

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the 1986 Series A, 1988 Series A, 1989 Series A, 1991 Series A, 1992 Series A, 1992 Series B, 1993 Series A, 1994 Series A, 1995 Series A and 1996 Series A bonds of the Wisconsin Department of Transportation Revenue Bond Program for the periods ended June 30, 1997 and 1996. The supplementary information presented hereinafter is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ GRANT THORNTON LLP
Madison, Wisconsin
October 8, 1997

WISCONSIN DEPARTMENT OF TRANSPORTATION REVENUE BOND PROGRAM
1986 SERIES A, 1988 SERIES A, 1989 SERIES A, 1991 SERIES A, 1992 SERIES A, 1992 SERIES B, 1993 SERIES A, 1994 SERIES A, 1995 SERIES A AND 1996 SERIES A

SCHEDULE OF TOTAL PROGRAM REVENUE

For the years ended June 30, 1997 and 1996

	Section 341.25 Registration Fees		Interest earnings on Section 341.25 Registration Fees	Total program revenue
	Non-IRP	IRP		
July, 1995	$ 13,512,534	$ 3,453,051	$ 10,113	$ 16,975,698
August, 1995	15,757,861	595,378	16,403	16,369,642
September, 1995	18,288,495	1,112,361	155	19,401,011
October, 1995	15,414,230	1,529,953	249	16,944,432
November, 1995	13,725,660	3,822,270	5,280	17,553,210
December, 1995	22,411,555	5,031,687	3,900	27,447,142
January, 1996	18,692,313	4,299,954	431,980	23,424,247
February, 1996	13,904,776	4,408,905	6,237	18,319,918
March, 1996	18,593,483	3,546,027	250	22,139,760
April, 1996	18,653,104	4,441,355	225	23,094,684
May, 1996	18,197,148	2,101,028	3,717	20,301,893
June, 1996	18,243,295	8,957,453	167,100	27,367,848
Total for the year ended June 30, 1996	$205,394,454	$43,299,422	$ 645,609	$249,339,485
July, 1996	$ 16,514,105	$ 3,883,946	$ 905,609	$ 21,303,660
August, 1996	17,661,974	1,540,006	8,319	19,210,299
September, 1996	16,917,692	901,032	419	17,819,143
October, 1996	15,232,817	2,584,504	368	17,817,689
November, 1996	12,983,578	3,597,759	4,257	16,585,594
December, 1996	22,585,100	8,376,521	1,327,863	32,289,484
January, 1997	20,150,162	4,586,846	4,071	24,741,079
February, 1997	12,822,955	2,092,294	10,057	14,925,306
March, 1997	18,757,610	2,409,767	331	21,167,708
April, 1997	19,212,408	7,056,356	215	26,268,979
May, 1997	16,432,634	6,647,235	165	23,080,034
June, 1997	18,134,653	3,138,321	1,107,942	22,380,916
Total for the year ended June 30, 1997	$207,405,688	$46,814,587	$3,369,616	$257,589,891

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Grant Thornton
GRANT THORNTON LLP Accountants and Management Consultants
The U.S. Member Firm of Grant Thornton International

Wisconsin Department of Transportation
Commercial Paper Program
Madison, Wisconsin

We have audited the statement of assets and liabilities of the 1997 Series A Commercial Paper Notes of the Wisconsin Department of Transportation Commercial Paper Program (the Program) as of June 30, 1997, and the related statements of revenue and expenses and cumulative excess of revenue over expenses and changes in fund assets for the period from April 23, 1997 through June 30, 1997. These financial statements are the responsibility of the Program's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Program's directors, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities of the 1997 Series A Commercial Paper Notes of the Wisconsin Department of Transportation Commercial Paper Program as of June 30, 1997, and its revenue and expenses and changes in fund assets for the period from April 23, 1997 through June 30, 1997, in conformity with generally accepted accounting principles.

/s/ GRANT THORNTON LLP
Madison, Wisconsin
October 8, 1997

WISCONSIN DEPARTMENT OF TRANSPORTATION COMMERCIAL PAPER PROGRAM, TRANSPORTATION REVENUE COMMERCIAL PAPER NOTES OF 1997, SERIES A

STATEMENT OF ASSETS AND LIABILITIES

June 30, 1997

ASSETS

FUND ASSETS	
Program Capital Fund	
U. S. Government securities	$134,793,170
Accrued interest receivable	1,123,331
Total fund assets	135,916,501
NET PROJECT COSTS INCURRED	37,521,306
	$173,437,807

LIABILITIES

LIABILITIES	
Accrued interest payable	$ 570,827
Accounts payable	17,679,423
Notes payable	154,886,000
Total liabilities	173,136,250
COMMITMENTS	-
FUND BALANCE	
Cumulative excess of revenue over expenses	301,557
	$173,437,807

The accompanying notes are an integral part of this statement.

WISCONSIN DEPARTMENT OF TRANSPORTATION COMMERCIAL PAPER PROGRAM, TRANSPORTATION REVENUE COMMERCIAL PAPER NOTES OF 1997, SERIES A

STATEMENT OF REVENUE AND EXPENSES AND CUMULATIVE EXCESS OF REVENUE OVER EXPENSES

For the period from April 23, 1997 through June 30, 1997

Investment revenue	$1,169,051
Expenses	
Interest	706,827
Administrative	160,667
	867,494
EXCESS OF REVENUE OVER EXPENSES	301,557
Cumulative excess of revenue over expenses at April 23, 1997	-
Cumulative excess of revenue over expenses at June 30, 1997	$ 301,557

The accompanying notes are an integral part of this statement.

WISCONSIN DEPARTMENT OF TRANSPORTATION COMMERCIAL PAPER PROGRAM, TRANSPORTATION REVENUE COMMERCIAL PAPER NOTES OF 1997, SERIES A

STATEMENT OF CHANGES IN FUND ASSETS

For the period from April 23, 1997 through June 30, 1997

	Program Capital Fund
Fund assets at April 23, 1997	$ -
Receipts	
Proceeds from notes issued	154,750,000
Investment income	1,169,051
	155,919,051
Disbursements	
Project costs	20,000,000
Administrative expenses	2,550
	20,002,550
Fund assets at June 30, 1997	$135,916,501

The accompanying notes are an integral part of this statement.

WISCONSIN DEPARTMENT OF TRANSPORTATION COMMERCIAL PAPER PROGRAM, TRANSPORTATION REVENUE COMMERCIAL PAPER NOTES OF 1997, SERIES A

NOTES TO FINANCIAL STATEMENTS

June 30, 1997

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The Transportation Revenue Commercial Paper Note Program (the Program) originated on April 23, 1997 pursuant to the adoption of the Program Resolution by the State of Wisconsin Building Commission. The purpose of the Program is to provide financing for the construction, maintenance and repair of certain major highway projects and transportation facilities and to pay interest due on maturing notes.

In preparing financial statements in conformity with generally accepted accounting principles, the Program's directors are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

A summary of the Program's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. General Accounting Policy

The Wisconsin Department of Transportation (Department) has entered into trust agreements with Bank One Wisconsin Trust Company, Milwaukee, Wisconsin, relating to the creation and administration of the Transportation Revenue Commercial Paper Notes of 1997, Series A. Among other provisions, the trust agreements, in conjunction with the General Resolution, specify those funds to be created and maintained, the timing and flow of monies through the funds, the formula for computing the Debt Service Reserve requirements and the procedure to be followed for the redemption of and paying interest on the notes.

2. U. S. Government Securities and Investment Revenue

U. S. Government securities are stated at aggregate cost which approximates market value. Investment revenue is recognized when earned and includes gains and losses on sales or maturities of securities.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - Continued

3. Net Project Costs

Project costs are recorded at cost, net of gifts and grants. An annual provision for depreciation is not reflected in the accompanying financial statements since it would not serve the Program's purpose to repay bonds outstanding from registration fees and other revenue and is not required to be recorded by the trust agreements.

4. Revenue and Expenses

All revenue and expenses are recorded on the accrual basis. Purchased interest receivable is recorded as an asset of the respective funds until the related interest is received at which time it is offset against interest revenue.

5. Costs of Notes

Issue costs and administrative expenses related to the notes are being expensed as incurred.

NOTE B - NOTES PAYABLE

Transportation Revenue Commercial Paper Notes of 1997, Series A (1997 notes) consist of interest-bearing obligations which are issued in initial denominations of $100,000 and additional increments of $1,000 above $100,000. There are notes payable of $154,886,000 at June 30, 1997.

The notes are issued pursuant to Subchapter II of Chapter 18 of the Wisconsin Statutes as amended, Section 84.59 of the Wisconsin Statutes and a program resolution and series resolutions adopted by the State of Wisconsin Building Commission. The notes are revenue obligations of the State of Wisconsin (State), payable solely from the Subordinated Debt Service Fund.

NOTE B - NOTES PAYABLE - Continued

The notes are collateralized by a pledge of income derived from vehicle registration fees (Program Income) under Section 341.25 of the Wisconsin Statutes, as collected by the Trustee. The notes are subordinate to the pledge of Program Income to payment of the State Transportation Revenue Bonds outstanding.

The State expects to pay the principal of and interest on the notes with the proceeds of additional notes until the State provides permanent financing through the issuance of long-term transportation revenue bonds for the projects which are being initially financed by the notes.

In order to assure the timely payment of principal and interest on the notes, the State obtained a credit agreement (the "liquidity facility agreement") on May 7, 1997 which provides a commitment for the issuance of an irrevocable letter of credit in the stated amount up to $188,600,000. The stated termination date of the commitment and letter of credit is currently May 6, 1998, subject to extension as provided in the credit agreement.

The notes will mature no later than 270 days from the date of issuance provided that a liquidity facility agreement is in effect. No notes may be issued with a maturity date after the stated expiration of the liquidity facility agreement or after the stated date of a substitute liquidity facility agreement. The principal of and interest on the notes will be paid at maturity and are not callable prior to maturity. Each note bears interest from its date of issuance, at the rate determined on the date of issuance (which may not exceed 12% per annum).

The State is not generally liable on the notes nor are the projects financed by the notes pledged as collateral.

NOTE C - SUBORDINATED DEBT SERVICE FUND

The General Resolution creates a Subordinated Debt Service Reserve Fund which is intended to be used to provide for the payment of principal and interest of the notes from Program Income deposited into this fund. The pledge of such Program Income to payment of the notes is subordinate to the pledge of Program Income to payment of outstanding State Transportation Revenue Bonds.

NOTE D - COMMITMENTS

The Department and the State are currently authorized by State Statutes to use note proceeds for right-of-way acquisition and construction of projects comprising major highway projects and certain transportation facilities. The Department has statutory authority (as amended) to issue notes totaling $200,000,000 (including those issued under the 1997, Series A), in order to partially finance the costs of the authorized projects, in addition to proceeds from State general obligation debt, federal aid and other money in the Transportation Fund. The State expects to amend the program resolution to increase the authorized aggregate outstanding amount of the Transportation Revenue Commercial Paper Notes to approximately $325,000,000.

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PART VI

CLEAN WATER REVENUE BONDS

This part of the Annual Report includes information about clean water revenue bonds issued by the State of Wisconsin. Certain capitalized terms are defined in the "GLOSSARY" to this part of the Annual Report. Chapter 18 of the Wisconsin Statutes provides that the State of Wisconsin Building Commission (the "Commission") has supervision over all matters relating to the issuance by the State of revenue bonds. Employes of the Division of Executive Budget and Finance serve as the Capital Finance Director and staff responsible for managing the State's revenue bond programs.

Clean water revenue bonds (the "Bonds") are issued pursuant to the Clean Water Revenue Bond General Resolution, dated March 7, 1991 (the "Program Resolution"). Firstar Trust Company, Milwaukee, Wisconsin serves as Trustee for the Clean Water Fund Program (the "Trustee") as well as registrar and paying agent. The law firm of Michael Best & Friedrich, LLP provides bond counsel services to the State for issuance of clean water revenue bonds. The State employs First Albany Corporation as financial advisor for the issuance of clean water revenue bonds.

This Annual Report includes information and defined terms for different types of municipal securities issued by the State and has been gathered from multiple sources. The context or meaning of terms used in this part of the Annual Report may differ from that of terms used in another part.

ENVIRONMENTAL IMPROVEMENT FUND

The 1997-99 biennial budget created a trust fund called the Environmental Improvement Fund which replaced and expanded the previous trust fund entitled the clean water fund. The Environmental Improvement Fund provides for three separate environmental financing programs. The three programs are the Clean Water Fund Program, the Safe Drinking Water Loan Program, and the Land Recycling Loan Program. The Clean Water Fund Program has been in existence since 1990, while the 1997-99 biennial budget created the Safe Drinking Water Loan Program and the Land Recycling Program. The Safe Drinking Water Loan Program will include the State's implementation of the federal Safe Drinking Water Act Amendments of 1996. The Land Recycling Loan Program is a brownfields loan program to municipalities. Under current law the State is authorized to issue revenue obligations only to fund financial assistance under the Clean Water Fund Program. Security for Bonds issued under the General Resolution is not affected by these changes in the structure. Bondholders are advised that the State believes the General Resolution allows in the future, if legislatively authorized, making Loans from Bonds for either or both the Safe Drinking Water Loan Program and the Land Recycling Loan Program.

CLEAN WATER FUND PROGRAM

Overview

The Federal Water Quality Act of 1987 (the "Water Quality Act") established a joint federal and state program commonly referred to as the State Revolving Fund ("Federal SRF") Program. Under the Federal SRF Program, the United States Environmental Protection Agency ("EPA") is authorized to make grants ("Capitalization Grants") to states to assist in providing financial assistance to municipalities within the state for governmentally-owned wastewater projects and other water pollution abatement projects. As a condition to receipt of a Capitalization Grant, a state is required to establish a perpetual Federal SRF into which the Capitalization Grant must be deposited, and to provide state matching funds equal to 20% of the Capitalization Grant (the "State Match") for deposit in the Federal SRF. Funds in a Federal SRF are permitted to be applied to provide financial assistance to municipalities for governmentally-owned wastewater projects and other water pollution abatement projects in a number of ways, provided that such assistance is not in the form of a grant.

Pursuant to the Sections 281.58 and 281.59 of the Wisconsin Statutes (the "Act"), the State has created the Clean Water Fund Program (which was subsequently placed within the Environmental Improvement Fund) for purposes of providing financial assistance to Municipalities for constructing or improving municipal wastewater facilities. Loans funded through the Federal SRF are referred to as Direct Loans and are segregated in a portfolio referred to as the Direct Loan Portfolio. The Act further represents a major commitment of the State to use State funds to assist Municipalities in improving the water quality of the State. The State has elected to supplement the funding available through the Federal SRF by using proceeds from the issuance of Bonds and State of Wisconsin general obligation bonds in order to fund additional loans outside of the Direct Loan Portfolio. Other sources of funding, such as investment earnings or money contributed from other State sources, may be used to fund loans in any of the loan portfolios.

Direct Loan Portfolio

Loans funded through the Federal SRF are referred to as Direct Loans and are segregated in a portfolio referred to as the Direct Loan Portfolio. Federal SRF funds, when available, are deposited in a separate account within the Clean Water Fund Program. Such funds are loaned to Municipalities pursuant to terms set forth in the Financial Assistance Agreements. Loans in the Direct Loan Portfolio are required to comply with EPA eligibility and reporting requirements, as well as applicable State requirements. Payments of principal of and interest on Direct Loans are either deposited in the Federal SRF to fund additional Direct Loans or are used to pay debt service on the State general obligation bonds issued to provide the State Match. No Bond proceeds will be applied to make Direct Loans, and payments of principal of and interest on Direct Loans are not pledged as security for the Bonds.

Leveraged Loan Portfolio

Loans funded with Bond proceeds are referred to as Leveraged Loans, or Loans, and are segregated in a portfolio referred to as the Leveraged Loan Portfolio. Bond proceeds, when available in the Loan Fund established by the General Resolution, are loaned to Municipalities pursuant to terms set forth in the Financial Assistance Agreements. Loans in the Leveraged Loan Portfolio must meet applicable State requirements. Principal and interest payments on Leveraged Loans (the "Leveraged Loan Repayments" or "Loan Repayments") are pledged to the Trustee to secure the Bonds. The EPA Capitalization Grants, the State Match and payments of principal of and interest on loans in the Direct Loan and Proprietary Loan Portfolios are not pledged to secure the Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR BONDS" for a further description of the Leveraged Loan Portfolio.

Proprietary Loan Portfolio

Loans funded primarily by proceeds of State of Wisconsin general obligation bonds are referred to as Proprietary Loans and are segregated in a portfolio referred to as the Proprietary Loan Portfolio. Such funds, when available, are deposited in a separate account within the Clean Water Fund Program and are loaned or granted to Municipalities pursuant to terms set forth in the Financial Assistance Agreements. Loans in the Proprietary Loan Portfolio must meet applicable State requirements. Municipal payments of principal of and interest on Proprietary Loans are deposited in the same account for further loans or grants under the Proprietary Loan Portfolio. No Bond proceeds will be applied to make Proprietary Loans, and payments of principal of and interest on Proprietary Loans are not pledged as security for the Bonds.

Interest Subsidy

In addition to lending money to directly fund project costs, the Clean Water Fund Program is authorized to subsidize the interest cost on loans made by the State Board of Commissioners of Public Lands' Trust Lands and Investments to municipalities for construction or improvement of their wastewater facilities. This subsidy is only available on loans of $750,000 or less. The Clean Water Fund Program makes payments to municipalities in March of each year to buy-down the municipalities' interest cost on their loans. As of December 15, 1997 the Clean Water Fund Program has agreements with 26 municipalities to provide an annual interest subsidy. Bond proceeds are not used for this purpose.

Plan of Finance

Under a Financial Assistance Agreement, a Municipality may receive one or more of the following: a Leveraged Loan, a Direct Loan or a Proprietary Loan. A separate accounting of the loan balances in each portfolio is maintained for each project. The receipts relating to Leveraged Loan Repayments are pledged as security for the Bonds. In any situation where an applicant qualifies for a loan through the Leveraged Loan Portfolio, the Direct Loan Portfolio or the Proprietary Loan Portfolio, the State may choose whether and to what extent the loan is made through the Leveraged Loan Portfolio. The same general loan underwriting standards are applied to all loans regardless of the portfolio to which they will be assigned.

The State expects to continue to make most of the Direct, Proprietary and Leveraged Loans to Municipalities at interest rates that are below market rates. As a consequence, Leveraged Loan Repayments are not expected to be sufficient to pay principal of, interest on, or redemption price of Bonds as they become due. The State has provided additional funds, and expects to continue to provide additional funds, some of which will be used to purchase the State's general obligation bonds for deposit in the Subsidy Fund, to provide sufficient revenues to fund the difference between debt service payments due on Bonds and revenues to be derived from Leveraged Loan Repayments. As additional security for Bonds, the State has funded and expects to continue to fund a Loan Credit Reserve Fund that will provide funds in the event of a default on a Loan payment. For further information about the Subsidy Fund and the Loan Credit Reserve Fund, see "SECURITY AND SOURCE OF PAYMENT FOR BONDS".

Financial Assistance

Direct Loans, Leveraged Loans and Proprietary Loans are each made at varying interest rates determined by project type. Currently, projects are segregated into five different project-type categories. The interest rate for each project-type is determined by statute and, except for Transition Projects, is based on the Clean Water Fund Program's cost of borrowing, as determined by reference to a particular Series of Bonds. Setting interest rates by project-type is designed to provide greater incentives for compliance with environmental requirements than for new sewer systems or correcting discharge permit violations.

1. Transition Projects–Projects that would have otherwise qualified for grants under prior EPA or State grant programs but were unable to receive grant funding because of unavailability of grant funds or failure to adhere to a schedule approved by DNR. The Act authorizes Transition Projects to receive loans that will bear interest at a statutorily designated rate of 2 ½% per annum.

2. Compliance Maintenance Projects–Projects that are necessary to maintain compliance with permit requirements or to implement new or changed effluent limits required by DNR. These projects may receive loans that bear interest at a per annum rate equal to 55% of the Clean Water Fund Program's cost of borrowing.

3. Stormwater & Nonpoint Projects–Projects pertaining to urban stormwater and nonpoint pollution sources. These projects may receive loans that bear interest at a per annum rate equal to 65% of the Clean Water Fund Program's cost of borrowing.

4. Unsewered Projects–Projects involving unsewered areas within Municipalities. These projects may receive loans that bear interest at a per annum rate equal to 70% of the Clean Water Fund Program's cost of borrowing. More than two-thirds of the initial flow must be from wastewater originating from residences in existence before October 17, 1972 in order to qualify for this type of project.

5. Industrial, Violator, & New Growth Projects–Projects that address violations of a DNR discharge permit or that provide industrial or reserve capacity or, that involve certain other capital costs attributed to industrial or commercial needs or, involve unsewered areas where residents were not in existence before October 17, 1972. These projects may receive loans that bear interest at a per annum rate equal to 100% of the Clean Water Fund Program's cost of borrowing.

In the event a Municipality proposes a project that includes more than one of the above categories, the respective portions of the project may be allocated accordingly, resulting in a loan with a blended interest rate.

In a limited number of cases, the Clean Water Fund Program may provide additional financial assistance in the form of grants or loans with interest rates lower than those indicated above for qualifying projects. Under current law, the maximum amount of financial assistance that any Municipality may receive is a grant equal to 70% of project costs and an interest-free loan for the remaining 30% of project costs. State law allows that, during each biennium, 15% of the present value of all Clean Water Fund Program subsidies may be awarded as grants or further subsidized loans. Between 1989 and September 30, 1997, $69.6 million in project costs have been funded with such grants and further subsidized loans.

The majority of Loans made from proceeds of previously issued Bonds were for Transition and Compliance Maintenance Projects. The State expects that the majority of Loans made from proceeds of current and future Bonds will be for Compliance Maintenance Projects.

Funding Levels

For the period from the commencement of the Clean Water Fund Program through June 30, 1999, the State has identified $1.335 billion of projects likely to receive funding. The Legislature has authorized $1.298 billion of revenue bonds (other than revenue bonds issued for refunding purposes) and $552.7 million of general obligations for the Clean Water Fund Program through fiscal year 1999. As of September 30, 1997, the State had made Leveraged, Direct and Proprietary Loans totaling $959.6 million (of which $844.3 million had been disbursed). Of the amounts disbursed, $426.6 million were for Leveraged Loans. The amount remaining to be disbursed, $115.3 million, will be disbursed either from the Leveraged, Direct, or Proprietary Loan Portfolios.

Management of Clean Water Fund Program

Management responsibilities for the Clean Water Fund Program are shared between two State agencies. The Department of Natural Resources ("DNR") is responsible for the environmental and programmatic management of the Clean Water Fund Program. DOA is responsible for the financial management of the Clean Water Fund Program. DNR and DOA have agreed upon the division of responsibilities and joined in a memorandum of understanding that detail their respective roles.

The Act gives DNR certain statutory responsibilities with respect to the Clean Water Fund Program. Under the Act, DNR has primary responsibility for dealing with EPA in connection with the Clean Water Fund Program. DNR additionally has substantial responsibility under the Act for developing and administering the Clean Water Fund Program. Responsibilities of DNR include: providing Municipalities with information on the Clean Water Fund Program; preparing the biennial needs lists of wastewater projects that DNR expects to commit to finance; preparing and managing environmental priority lists ranking projects in accordance with specified criteria. Other responsibilities of DNR include providing technical assistance on the environmental aspects of projects to communities; reviewing and approving projects for eligibility for financial assistance; and reviewing facility plans, design and engineering to ensure compliance with federal requirements and State laws and regulations.

Under the Act, DOA is responsible for the financial management of the Clean Water Fund Program. DOA is also responsible for managing the investments of the Environmental Improvement Fund and Clean Water Fund Program, including the portfolios of loans to Municipalities.

DOA, in cooperation with DNR, provides the funds to finance eligible projects under the Clean Water Fund Program. Joint responsibilities between DNR and DOA include issuing Notices of Financial Assistance Commitment ("Commitments") and entering into Financial Assistance Agreements with Municipalities to finance eligible wastewater projects. DOA and DNR also jointly prepare biennial finance plans, which include, without limitation, the estimated wastewater facility needs of municipalities in the State, the amount of financial assistance projected to be provided, the sources of the funding projected to be provided, and the estimated present value of subsidies for all Clean Water Fund Program financial assistance expected to be provided.

Capitalization Grants

The federal government has authorized appropriations for Capitalization Grants for federal fiscal years 1989 through 1997. As of September 30, 1997, the State has been awarded Capitalization Grants from EPA aggregating $349.0 million for federal fiscal years 1989 through 1997. The amount of federal funding available in the future may affect the amount of Leveraged Loans, Direct Loans or Proprietary Loans to be made by the Clean Water Fund Program and the amount of Bonds to be issued by the State. As of September 30, 1997, the State had issued $67.8 million in general obligation bonds for the State Match with respect to the Capitalization Grants received as of such date.

Reauthorization of the Water Quality Act of 1987 was taken up by Congress during 1995 and 1996, but no bill passed as of September 30, 1997. Budget appropriations for federal fiscal year 1997 for the SRF Program are set at $1.3 billion, which should result in receipt of approximately $36.4 million by the State.

Operating Agreement with EPA

In connection with receipt of Capitalization Grants, the State, acting through DNR, has entered into an Operating Agreement with EPA. The Operating Agreement sets forth the objectives and structure, as designed to meet the objectives, of the Clean Water Fund Program and sets forth the responsibilities of DNR and DOA. Among these responsibilities are (i) financial management, (ii) management of the environmental and project construction aspects, and (iii) preparation of an intended use plan, setting forth the projects the State expects to finance under the Clean Water Fund Program.

SECURITY AND SOURCE OF PAYMENT FOR BONDS

Revenue Obligations

Each Series of Bonds are issued on a parity with all other Bonds previously issued or to be issued from time to time under the General Resolution. The Bonds are special obligations of the State, payable solely from the revenues, receipts, funds and moneys pledged therefor under the General Resolution. The State is not obligated to pay the principal of, interest on, or redemption price of Bonds from any funds of the State other than those pledged pursuant to the General Resolution, and neither the faith and credit nor the taxing power of the State or any agency, instrumentality or political subdivision thereof is pledged to the payment of the principal of, interest on, or redemption price of Bonds.

Pledge of Revenues

Pursuant to the General Resolution, the State has pledged to the Trustee for the benefit of the Bondowners and any owner of a Parity Reimbursement Obligation for the payment of the principal of, interest on, and redemption price of Bonds in accordance with the terms and provisions of the General Resolution and the payment of any Parity Reimbursement Obligation: (a) all Pledged Receipts, which are defined in the General Resolution as follows: (i) all Leveraged Loan Repayments, including both timely and delinquent payments; (ii) Fees and Charges held or collected by the State; (iii) any moneys received by the State under Section 281.59(11)(b) of the Wisconsin Statutes (that is, State payments intercepted by DOA and taxes collected by county treasurers) upon a default under a Municipal Obligation; (iv) any moneys made available to the Leveraged Loan Portfolio pursuant to Section 281.59 (13m) of the Wisconsin Statutes (that is, the State "moral obligation" for individual Loans); (v) any moneys collected by recourse to collateral and security devices under the Municipal Obligations; and (vi) any other moneys held or received by the State or the Trustee relating to the Municipal Obligations; and (b) all funds and accounts established in connection with the issuance of Bonds including the Loan Fund, the Subsidy Fund and the Loan Credit Reserve Fund (but not including the Rebate Fund or the State Equity Fund). For a detailed description of the various funds, accounts and revenues securing the Bonds, See "SUMMARY OF CERTAIN PROVISIONS OF GENERAL RESOLUTION" for a detailed description of the various funds, accounts, and revenues securing the Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR BONDS; Statutory Powers" for further discussion of State payments to Municipalities intercepted by DOA, the taxes collected by county treasurers and the State "moral obligation" on individual Loans.

Loans

The Bond proceeds and other amounts deposited into the Loan Fund are used for the purpose of making Leveraged Loans to Municipalities. Each Loan must meet the criteria described under "LOANS; Lending Criteria" and must be evidenced by a Municipal Obligation. As of September 30, 1997, \$425.6 million of Bond proceeds have been disbursed for Loans and, \$367.2 million is the principal balance of these Loans. In addition, \$33.3 million remain in the Loan Fund.

Table VI-1 identifies the Municipalities that have entered into Financial Assistance Agreements under the Clean Water Fund Program, the amount that has been disbursed to each Municipality as of September 30, 1997, and the amount that remains to be disbursed pursuant to its Financial Assistance Agreement. Table VI-1 also provides information as to the principal balance outstanding under the Financial Assistance Agreement for each Municipality that has received a Leveraged Loan from Bond proceeds. Table VI-1 presents the Municipalities in order of the amount of their Leveraged Loans outstanding as of September 30, 1997. Municipalities which do not have Leveraged Loans are listed at the end of Table VI-1. This order will change as Leveraged Loans are disbursed and new Leveraged Loans are originated or as loans are transferred into the Leveraged Loan Portfolio, or as Loans are transferred out of the Leveraged Loan Portfolio. Table VI-1 also provides information as to each Municipality's total debt service (excluding amounts payable after the retirement of the previously issued and Outstanding Bonds) as a percentage of the total debt service on the previously issued and Outstanding Bonds. These percentages will vary after the disbursement of any remaining proceeds of previously issued and Outstanding Bonds.

Leveraged Loan Repayments are the majority of the revenues available to pay debt service on Bonds. To the extent that one Municipality's Leveraged Loan Repayments represent a greater or lesser percentage of the debt service than another Municipality's, the failure of such Municipality to make its Leveraged Loan Repayments will have a greater or lesser impact on the Clean Water Fund Program's ability to pay debt service on Bonds than the failure of such other Municipality. The State believes that the security provisions of the Financial Assistance Agreements, as well as the amounts available from the Loan Credit Reserve Fund and the Subsidy Fund, will limit the effect on Bondowners of a failure by one or more Municipalities to pay debt service on their Loans. Revenues available from amounts in the Subsidy Fund will not be directly affected by the failure of any Municipality to pay debt service on its Loan. However, a persistent failure by one or more Municipalities to pay debt service on Leveraged Loans may adversely affect the ability of the Clean Water Fund Program to pay debt service on the Bonds.

The Milwaukee Metropolitan Sewerage District ("MMSD") is currently the largest borrower in the Leveraged Loan Portfolio with $106.3 million in principal amount of loans outstanding as of September 30, 1997. Other Municipalities had Leveraged Loans in outstanding principal amounts ranging from $28.4 thousand to $32.5 million as of the same date. See "SECURITY AND SOURCE OF PAYMENT FOR BONDS; Additional Information" for a discussion regarding the information that is available on the Municipalities.

Table VI-2 presents a list of Municipalities that have not entered into a Financial Assistance Agreement, but are expected to receive loans or grants, either for the first time or for additional projects, in the near future, and the amount of their expected financial assistance.

Table VI-1
STATE OF WISCONSIN CLEAN WATER FUND PROGRAM
OUTSTANDING LOANS
September 30, 1997
(Amounts in Thousands)

Municipality	Financial Assistance Loan Amounts [a]	Total Disbursed	Leveraged Loan Balance	Direct & Proprietary Loan Balance[b]	Total Balance [c]	Loan Amount Remaining to Fund [d]	Leveraged Loans Percent of 1991, 1993, 1995 and 1997 Revenue Bond Payment[e]
Leveraged Loans							
Milwaukee MSD [f]	252.237	242.558	106.271	92.999	199,271	9,679	18.71%
Madison MSD [f]	48.231	42.075	32.488	5.960	38,448	6.156	6.40%
Fort Atkinson	14,594	14.266	11.652		11,652	328	2.37%
Stevens Point	13.560	12,979	11.416		11.416	581	2.24%
Green Bay MSD [f]	41.303	38,706	9.257	23.538	32,795	2,597	1.73%
Sussex	11.029	10.605	8,479		8.479	423	1.61%
Waupaca	8,799	8.308	7.985		7,985	491	1.60%
Sparta	10,726	10.043	7.917		7.917	683	1.55%
Green Lake SD [g]	8.674	8,388	7.563		7,563	286	1.38%
Chippewa Falls	5.335	4,758	4.758		4.758	577	0.94%
Menomonie	5,598	4.539	4.539		4,539	1,059	1.01%
Rhinelander	5.136	5.123	4.391		4.391	13	0.87%
Stoughton	5.590	4.972	4.370	204	4.575	618	0.83%
Richland Center	4.998	4,750	4.120		4.120	248	0.83%
Salem [g]	4.345	4,183	3.905		3.905	162	0.74%
Bristol	4.211	3,971	3,568		3.568	240	0.71%
Racine	4,477	3.765	3.438		3,438	712	0.66%
Antigo	4,317	3.438	3.369		3,369	878	0.67%
Black Creek	4,332	3.314	3.314		3,314	1.018	0.65%
South Milwaukee	3.410	3.410	3.158		3.158		0.61%
Merrill	4.044	4.033	3.141		3.141	11	0.61%
Neillsville	3.238	3.058	3.058		3.058	180	0.61%
Black Wolf SD #1	4.327	4.065	3,050		3.050	262	0.54%
Lodi	4.050	3,028	3.028		3.028	1.022	0.60%
Wautoma	3,234	3.211	2.980		2,980	23	0.59%
Tomahawk	3,026	2.811	2.811		2,811	215	0.55%
Bloomer	6,694	2.706	2.706		2.706	3,988	0.54%
New Glarus	3,503	3.035	2.599		2.599	468	0.51%
Reedsville	2,768	2.607	2,529		2.529	161	0.50%
Allouez [f]	3.072	2,507	2.507		2.507	564	0.49%
Weyauwega	3.285	3.108	2.470		2.470	176	0.50%
Colby	2.837	2.626	2,427		2,427	211	0.47%
Kenosha	31.513	27,840	2,287	22,232	24.519	3,673	0.45%
Amery	2.431	2,319	2,228		2.228	112	0.44%
Sheboygan	7,626	6,414	2,123	4.126	6,249	1.211	0.42%
Silver Lake SD - Waushara	2,264	2.247	2.085		2,085	17	0.41%
Monticello	2,345	2.319	2.052		2,052	26	0.32%
Chain O'Lakes SD #1	2.082	2,063	1.994		1,994	19	0.43%
Union Grove	2.192	2.149	1,990		1.990	44	0.41%
Poynette	2.288	2,064	1,985		1.985	223	0.38%
Belleville	2.563	1,973	1,973		1.973	591	0.39%
Hudson [g]	2,760	2.502	1.966		1.966	258	0.37%
Mount Horeb	3.436	3.338	1.738	890	2.628	97	0.32%
Pewaukee	8.191	3.676	1.635	2.041	3,676	4,515	0.32%
Fremont	1.867	1,549	1,549		1.549	318	0.31%
Lancaster	1.688	1.601	1,481		1.481	88	0.29%
Whitewater	1,564	1,475	1.475		1.475	89	0.29%
Menasha SD #4 [f]	1,659	1.642	1.464		1.464	17	0.28%
Trempealeau	1.559	1,481	1.434		1.434	78	0.29%
Crandon	1.537	1.380	1.380		1,380	157	0.27%
Fond du Lac	2.022	1.732	1.370		1.370	291	0.26%
Potosi/Tennyson SC	1.543	1,543	1,367		1,367		0.26%
Saukville	1.578	1.554	1.336		1,336	24	0.27%
Black River Falls	1.894	1.767	1.330		1,330	127	0.24%
Valders	1,538	1.538	1,302	114	1.416		0.25%
Manawa	1,408	1.338	1.287		1.287	70	0.26%

Table VI-1 – Continued
STATE OF WISCONSIN CLEAN WATER FUND PROGRAM
OUTSTANDING LOANS
September 30, 1997
(Amounts in Thousands)

Municipality	Financial Assistance Loan Amounts [a]	Total Disbursed	Leveraged Loan Balance	Direct & Proprietary Loan Balance[b]	Total Balance [c]	Loan Amount Remaining to Fund [d]	Leveraged Loans Percent of 1991, 1993, 1995 and 1997 Revenue Bond Payment[e]
Mount Calvary	1,430	1,393	1,258		1,258	37	0.19%
Monroe	1,580	1,527	1,250		1,250	53	0.24%
Freedom SD #1	2,748	1,233	1,233		1,233	1,515	0.24%
Mosinee	1,383	1,297	1,196		1,196	85	0.23%
Oconomowoc	5,449	1,183	1,183		1,183	4,266	0.23%
Columbus	1,235	1,215	1,167		1,167	20	0.23%
Baraboo	1,402	1,385	1,161		1,161	18	0.21%
Viroqua	1,353	1,314	1,159		1,159	39	0.22%
Bay City	1,224	1,200	1,153		1,153	24	0.24%
Wisconsin Dells - Lake Delton SC	1,486	1,476	1,144		1,144	10	0.22%
Hewitt [g]	1,467	1,298	1,129		1,129	169	0.20%
Brodhead	6,021	1,085	1,085		1,085	4,936	0.21%
Argyle	1,467	1,380	1,072		1,072	87	0.19%
Edgerton	1,829	1,048	1,048		1,048	781	0.21%
Wolf TPC	1,274	1,274	1,024		1,024		0.20%
Wrightstown SD #1 [g]	1,081	1,036	955		955	45	0.19%
Kewaunee	1,017	1,017	937		937		0.18%
Lake Nebagamon [g]	1,539	935	935		935	604	0.19%
Galesville	1,143	1,111	909		909	32	0.18%
River Falls	1,009	918	882		882	91	0.17%
Silver Lake SD - Washington	1,063	1,063	859		859		0.14%
Marshall	6,559	848	848		848	5,712	0.17%
Redgranite	997	997	841		841		0.13%
Spring Green	950	868	838		838	82	0.16%
Newburg	1,549	787	787		787	762	0.15%
Janesville	879	835	759		759	44	0.15%
Neenah SD #2	1,057	1,057	747		747		0.11%
Blue Mounds	1,152	744	744		744	408	0.15%
Mercer SD #1	787	787	738		738		0.17%
Cudahy [f]	886	839	721		721	47	0.14%
Montfort	779	740	713		713	39	0.14%
Plymouth	4,586	4,308	674	3,151	3,825	278	0.14%
Beaver Dam	819	798	655		655	21	0.13%
Abbotsford	722	660	637		637	62	0.13%
Iron River SD #1	717	669	629		629	48	0.12%
Laona SD #1	746	746	596		596		0.11%
Sunset Point SD	686	655	568		568	31	0.12%
Hartford-Town	742	742	556		556		0.08%
Two Rivers	733	603	528		528	130	0.10%
New Lisbon	866	614	515		515	252	0.10%
Boscobel	639	590	500		500	49	0.10%
Watertown	1,141	481	481		481	660	0.09%
De Pere	916	853	470		470	63	0.08%
Almond	530	504	447		447	27	0.09%
Prentice	544	447	430		430	97	0.08%
New Richmond	496	445	427		427	52	0.08%
Prescott	5,349	4,904	424	4,113	4,537	444	0.08%
Pulaski	483	483	424		424		0.08%
North Freedom	498	473	421		421	25	0.08%
Brazeau SD #1	793	417	417		417	377	0.08%
Slinger	480	480	412		412		0.08%
Iowa County [f]	486	486	401		401		0.08%
Goodman SD #1	463	463	391		391		0.06%
Random Lake	464	441	388		388	23	0.07%
Belmont	458	416	387		387	42	0.07%
Coleman	507	449	351		351	58	0.07%
Prairie du Chien	4,106	4,050	345	3,308	3,653	55	0.07%

Table VI-1 – Continued
STATE OF WISCONSIN CLEAN WATER FUND PROGRAM
OUTSTANDING LOANS
September 30, 1997
(Amounts in Thousands)

Municipality	Financial Assistance Loan Amounts [a]	Total Disbursed	Leveraged Loan Balance	Direct & Proprietary Loan Balance[b]	Total Balance [c]	Loan Amount Remaining to Fund [d]	Leveraged Loans Percent of 1991, 1993, 1995 and 1997 Revenue Bond Payment[e]
Cassville	442	401	343		343	41	0.07%
Ellsworth	373	331	318		318	42	0.06%
Wheeler	360	331	295		295	29	0.06%
Hustisford	446	395	252	54	306	50	0.05%
Osceola	298	262	252		252	36	0.05%
Grand Chute - Manasha West SC	11,835	11,227	244	9,704	9,949	608	0.05%
Blue River	281	270	229		229	11	0.04%
Plum City	249	249	223		223		0.04%
Baldwin	262	224	215		215	38	0.04%
Highland	825	207	207		207	618	0.04%
Gays Mills	180	173	173		173	7	0.03%
Village of Rockland [g]	967	164	164		164	803	0.03%
Little Elkhart Lake RD	217	217	163		163		0.02%
Webster	204	194	150		150	10	0.03%
Brokaw	197	190	144		144	7	0.03%
Prairie du Sac	205	132	132		132	74	0.03%
Linden	165	153	130		130	12	0.03%
Spring Valley	120	100	96		96	20	0.02%
Potosi [f]	220	92	92		92	128	0.02%
Bowler	115	107	80		80	8	0.01%
Fontana	861	74	74		74	787	0.01%
Royal Scot SD	510	510	61		61		0.01%
Roberts	81	63	60		60	19	0.01%
Sextonville SD	589	55	55		55	535	0.01%
Walworth	332	28	28		28	304	0.01%
SUBTOTAL	697,624	624,664	367,228	172,436	539,664	72,960	69.49%
Direct and Proprietary Loans							
Waukesha	42,072	39,968		33,213	33,213	2,104	
Brookfield- Fox River WPCC	23,195	10,006		10,006	10,006	13,190	
Oshkosh	21,383	18,605		18,170	18,170	2,777	
Walworth County MSD [f]	19,994	18,877		17,318	17,318	1,117	
Burlington	18,488	17,855		13,831	13,831	633	
Appleton	16,474	13,989		11,813	11,813	2,485	
Wisconsin Rapids	11,670	11,348		9,213	9,213	322	
Ashland	9,013	8,855		6,459	6,459	157	
Pewaukee SD #3- Fox River WPCC	8,049	3,255		3,255	3,255	4,794	
Bohners Lake SD #1 [g]	8,007	4,156		3,863	3,863	3,851	
Oregon	6,785	6,445		6,210	6,210	339	
Brookfield SD #4- Fox River WPCC	5,750	2,169		2,169	2,169	3,580	
Algoma	5,547	5,432		4,319	4,319	115	
Oconto	3,844	3,725		3,434	3,434	119	
Lannon	3,824	3,326		3,203	3,203	498	
Cleveland	3,610	3,452		3,317	3,317	158	
Eagle River	3,563	3,352		3,218	3,218	211	
Dyckesville SD	3,127	2,971		1,776	1,776	156	
Lisbon SD #1	2,849	2,706		2,066	2,066	142	
Island View SD [g]	2,764	1,769		1,769	1,769	996	
Orihula SD	2,522	2,299		2,237	2,237	223	
Kiel	2,470	308		308	308	2,162	
Nekoosa [f]	2,435	2,314		2,226	2,226	122	
Denmark	2,241	2,223		1,910	1,910	18	

Table VI-1 – Continued
STATE OF WISCONSIN CLEAN WATER FUND PROGRAM
OUTSTANDING LOANS
September 30, 1997
(Amounts in Thousands)

Municipality	Financial Assistance Loan Amounts (a)	Total Disbursed	Leveraged Loan Balance	Direct & Proprietary Loan Balance(b)	Total Balance (c)	Loan Amount Remaining to Fund (d)	Leveraged Loans Percent of 1991, 1993, 1995 and 1997 Revenue Bond Payment(e)
Butte des Morts Consolidated SD #1	2,144	2,144		1,404	1,404		
Hilbert	1,955	1,955		1,812	1,812		
Lomira	1,932	1,784		1,647	1,647	148	
Hartford	1,754	1,666		1,286	1,286	88	
Crivitz	1,725	1,725		1,404	1,404		
Wausaukee	1,662	1,662		1,479	1,479		
South Wayne	1,388	659		635	635	729	
Pensaukee SD #1 (g)	1,279	1,279		1,279	1,279		
Oneida Tribe of Indians	1,210	1,210		892	892		
Hatfield SD #1	1,135	1,135		958	958		
Pleasant Springs SD #1 (f)	1,029	923		859	859	106	
Cloverleaf Lakes SD #1	1,022	977		930	930	45	
Omro SD #1	992	992		942	942		
Bayshore SD	947	899				47	
Menomonee Falls-Fox River WPCC	887	431		431	431	456	
Valley Ridge CWC	749	749		578	578		
Little Suamico SD #1	728	688		577	577	40	
Onion River SC/ Adell	721	721		545	545		
Norway SD #1	680	672		300	300	8	
North Hudson	641	620		205	205	21	
Nelson	640	640		608	608		
Oliver	588	565		549	549	23	
Fairchild	575	325		325	325	250	
Adell	566	566		427	427		
Calumet SD #1	505	505		452	452		
Bear Creek	432	387		373	373	44	
Elk Mound (f)	419	418		323	323	1	
Ithaca SD #1	412	412		412	412		
Gordon SD #1	395	395		311	311		
Blue Spring Lake MD	380	361				19	
Avoca	359	336		323	323	23	
Eastman	323	323		243	243		
Morrison SD #1	294	294		178	178		
Onion River SC/Hingham	227	227		175	175		
Rockland SD #1	222	222		156	156		
Ogema SD #1	190	181		149	149	10	
Green Valley SD #1	188	183		176	176	5	
Niagara (f)	181	181		136	136		
Consolidated S D. #1 Town of Friendship	155	155		117	117		
Wauzeka	128	104		100	100	24	
Ironton	107	107		68	68		
Boaz	106	106		79	79		
Caroline SD	83	83		62	62		
Washington (f)	60	60					
Westboro SD #1	51	51		51	51		
Oakdale	45	45		32	32		
Germantown SD	34	34		26	26		
Winneconne	25	24				1	
Aurora SD #1	15	15		8	8		
SUBTOTAL	261,955	219,597		189,326	189,326	42,358	
TOTAL	959,580	844,262	367,228	361,762	728,991	115,318	69.49%

Table VI-2
STATE OF WISCONSIN CLEAN WATER FUND PROGRAM
LOANS AND GRANTS EXPECTED TO BE FUNDED
September 30, 1997
(Amounts in Thousands)

Municipality	Expected to Fund [h]
City of Adams	$470.368 00
City of Beloit	3.056.250 00
City of De Pere	1,102,590.00
City of Hartford	21.666.022 00
City of Tomah	14.873.006 00
Hub-Rock Town Sanitary District No 1	1.990,986 00
Lake Como Beach Sanitary District	16,301.300 00
Morrisonville Sanitary District #1	896.732 00
Pell Lake Sanitary District #1	18.758,411 00
Village of Kennan	298,000 00
Village of Milltown	273.520 00
Village of Pepin	484,757 00
Village of Rosholt	662.272 00
Village of Wheeler	400.000 00
TOTAL FUTURE LOANS & GRANTS	$81.234.214 00

(a) The amounts of financial assistance depicts only loans. Grants awarded in the aggregate amount of $67,806,434 are not included.

(b) The totals of the Direct and Proprietary Portfolios are $340,520,273 and $21,241,922, respectively.

(c) The principal balance may be less than the total amount disbursed due to repayment of loans.

(d) The total of loan amounts remaining to fund (Table VI-1) and Future Loans and Grants equals $196,552,000. These amounts are expected to be provided from Bonds, and the Direct Loan and the Proprietary Loan Portfolios.

(e) Total loan repayments of outstanding Leveraged Loans (excluding amounts payable after the retirement of the previously issued and Outstanding Bonds) are shown as a percentage of total 1991 Series 1 Bonds, 1993 Series 1 and 2 Bonds, 1995 Series 1 Bonds and 1997 Series 1 Bonds, less those Bonds that are defeased. Loans with amortization periods of shorter duration than the Bonds will reflect a lower comparative percentage of the Bonds' debt service. Other revenues expected to be available for payment of the Bonds consists of Subsidy Fund transfers and repayments on Loans to be originated in the future from the remaining undisbursed 1997 Series 1 Bond proceeds.

(f) The Municipal Obligation for loans made to these communities are evidenced solely by general obligations.

(g) These Municipal Obligations for loans made to these communities are evidenced by a combination of revenue bonds and general obligation bonds or notes.

(h) These Municipalities have received a notice of financial assistance commitment, have submitted an application or are on the hardship funding list.

Note: Totals and subtotals may not add due to rounding.

Subsidy Fund

Loans are made pursuant to the Clean Water Fund Program to certain Municipalities at interest rates below the Clean Water Fund Program's cost of borrowing. To supplement revenues produced by Leveraged Loan Repayments, the General Resolution creates a Subsidy Fund, a Subsidy Fund Requirement and a Subsidy Fund Transfer Amount.

The Subsidy Fund Requirement is that amount which, when invested as permitted in the General Resolution, is projected by an Authorized Officer to result in an amount being available during each period commencing after an interest payment date and ending on the next interest payment date (a "Period") which is at least equal to the amount by which Aggregate Debt Service payable during the Period exceeds the sum of (i) scheduled disbursements from the Capitalized Interest Account and (ii) Leveraged Loan Repayments scheduled to be received during the Period from sources other than transfers of Loan capitalized interest from the Loan Fund. In making the projections set forth above, the State may treat undisbursed amounts in the Loan Fund as if (a) such undisbursed amounts are invested at an appropriate rate of interest to the final maturity of Bonds and (b) such undisbursed amounts and the earnings thereon are transferred from time to time to the Revenue Fund to pay debt service, and for purposes of calculating the Subsidy Fund Requirement, such amounts may be treated as if they were Leveraged Loan Repayments made pursuant to clause (ii) above; provided that prior to each Loan disbursement the State recalculates the Subsidy Fund Requirement assuming for purposes of calculation that the disbursement has been made (and the amount is repayable in accordance with the applicable Municipal Obligations), and if such calculation fails to confirm that following the disbursement the Subsidy Fund Requirement is met, the State refrains from making a requisition for the disbursement.

The Subsidy Fund Transfer Amount is that amount equal to the amount by which Aggregate Debt Service payable during a Period exceeds the sum of (a) Leveraged Loan Repayments scheduled to be received and delinquent Leveraged Loan Repayments actually received during the Period, (b) earnings on the Loan Credit Reserve Fund deposited in the Revenue Fund during the Period, (c) any moneys on deposit in the Revenue Fund, the Interest Account of the Debt Service Fund, or the Principal Account of the Debt Service Fund at the beginning of the Period, (d) any amounts in the Loan Fund transferred to the Revenue Fund during the Period as directed in a certificate of an Authorized Officer, and (e) amounts scheduled to be transferred from the Capitalized Interest Account to the Interest Account during such Period. On the business day preceding each interest payment date, the Trustee shall transfer the Subsidy Fund Transfer Amount from the Subsidy Fund to the Debt Service Fund.

Whenever the money in the Debt Service Fund and money available in the Loan Credit Reserve Fund are insufficient to pay the principal of and interest on Bonds, the Trustee shall transfer amounts from the Subsidy Fund to the Debt Service Fund to the extent necessary to cure the deficiency.

The General Resolution permits the issuance of a Series of Bonds only if, upon such issuance, an Authorized Officer certifies to the Trustee that upon delivery of such Bonds there will be in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement. In addition, except in the case of a default in payment of the Bonds, the General Resolution permits disbursements from the Loan Fund only upon receipt of a certificate from an Authorized Officer stating that after taking into account the disbursement there is on deposit in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement.

As of September 30, 1997, the Subsidy Fund held $86.6 million, which were invested in general obligations issued by the State. This amount equaled the amount required as of that date.

Loan Credit Reserve Fund

As additional security for Bonds there has been established a Loan Credit Reserve Fund which will, upon the issuance of any Series of Bonds, be funded in an amount at least equal to the Loan Credit Reserve Fund Requirement. The Loan Credit Reserve Fund Requirement means and is calculated as follows:

(a) Upon the issuance of the first Series of Bonds or disbursements of funds for Loans from the Loan Fund, an Authorized Officer delivered to the Trustee a schedule of credit quality categories and loan credit reserve fund requirements for each Rating Agency (a "Schedule") approved by such Rating Agency. Each Schedule sets forth the percentage of the annual debt service attributable to each Loan disbursement from the Loan Fund to be deposited in the Loan Credit Reserve Fund with respect to each Loan disbursement. A Schedule may be amended from time to time upon the presentation to the Trustee of a certificate of an Authorized Officer, supported by a certificate from the Rating Agency to which such Schedule applies, confirming that such amendment to the Schedule will not adversely affect the then-outstanding rating assigned to Bonds by such Rating Agency. See "LOAN CREDIT RESERVE FUND SCHEDULES" for a description of the Schedules currently in effect.

(b) The amount required in the Schedules for each disbursement from the Loan Fund (and if the Schedules provide for different amounts, then the higher amount) is the "Contribution Amount".

(c) The Loan Credit Reserve Fund Requirement shall be, as of any date of calculation, the total Contribution Amount derived from each Schedule (and if the Schedules provide for a different total Contribution Amount, then the higher total Contribution Amount) that would be required were all disbursements from the Loan Fund outstanding to be disbursed on that date, based on the then-current Schedules.

The Trustee may not disburse moneys from the Loan Fund unless, prior to such disbursement, there is deposited in the Loan Credit Reserve Fund concurrently with the disbursement an amount equal to the Contribution Amount, provided, however, that if the amount on deposit would be in excess of the Loan Credit Reserve Fund Requirement, the Contribution Amount may be reduced in an amount equal to such excess. If upon the issuance of a Series of Bonds, there is on deposit in the Loan Credit Reserve Fund an amount in excess of the Loan Credit Reserve Fund Requirement (such excess being the "Funded Amount"), any Contribution Amount required to be deposited into the Loan Credit Reserve Fund upon a disbursement from the Loan Fund shall be deemed to be made from such Funded Amount until the Funded Amount is exhausted. Any Funded Amount shall be available until issuance of a subsequent Series of Bonds, whereupon a new Funded Amount is calculated. The Loan Credit Reserve Fund Requirement is calculated based on disbursements from the Loan Fund. Upon issuance of an additional Series of Bonds, additions to the Loan Credit Reserve Fund Requirement will be zero prior to any additional Loan disbursement. Failure to make deposits in the Loan Credit Reserve Fund (including deemed deposits from the Funded Amount) would consequently preclude making any subsequent disbursements from the Loan Fund.

Whenever moneys in the Debt Service Fund are insufficient to pay the principal of or interest on Bonds, the Trustee will apply amounts from the Loan Credit Reserve Fund to the extent necessary to cure the deficiency. Except in the event of the issuance of additional Bonds, the State is not required to replenish the Loan Credit Reserve Fund following creation of a deficiency therein, except from surpluses in the Subsidy Fund being transferred to the State Equity Fund.

Whenever moneys and securities in the Loan Credit Reserve Fund (excluding earnings required to be transferred to the Revenue Fund) shall exceed the Loan Credit Reserve Fund Requirement, the Trustee is required, at the written direction of an Authorized Officer, subject to certain conditions, to transfer all or any portion of such surplus from the Federal SRF Account to any account within the Clean Water Fund Program or from the Non-SRF Account to the Revenue Fund. Any withdrawal of surpluses from the Loan Credit Reserve Fund shall reduce the Funded Amount by an amount equal to the amount of such withdrawal.

As of September 30, 1997, the Loan Credit Reserve Fund balance was $44.7 million. This amount exceeded the Loan Credit Reserve Fund Requirement as of that date, which was $36.4 million.

As of September 30, 1997, the Loan Credit Reserve Fund was invested as follows: (a) $24 million were invested in an investment agreement with AIG Matched Funding Corp. ("AIGMFC") with the payment obligations of AIGMFC guaranteed by American International Group, Inc., which policy does not guarantee or otherwise provide for payment of amounts due in the event of non-payment by the State; (b) $6.3 million were invested in an investment agreement with MBIA Investment Management Corp. ("IMC") with the payment obligations of IMC guaranteed by the MBIA Insurance Corporation, which policy does not guarantee or otherwise provide for payment of amounts due in the event of non-payment by the State; (c) $7.6 million were invested in a collateralized investment repurchase agreement with Bayerische Landesbank Girozentrale ("Bayerische"), with the collateral held by Norwest Bank Minnesota, National Association as custodian; and (d) $6.9 million were invested in direct obligations of the United States under a forward delivery agreement with First Union National Bank of North Carolina ("First Union"). The investment agreement with AIGMFC, the investment agreement with IMC, the investment repurchase agreement with Bayerische and the forward delivery agreement with First Union each provide for liquidation of the investments if and when required by the terms of the General Resolution.

If one or more Municipalities fail to make their Leveraged Loan Repayments, and the amount of the delinquent payments is in excess of the amount available from the Loan Credit Reserve Fund, this may adversely affect the ability of the Clean Water Fund Program to make timely payments of the principal of, interest on, or redemption price of Bonds.

Statutory Powers

The Act includes several provisions that may provide additional security for payment of the principal of, interest on, or redemption price of Bonds.

State Aid Intercept

The Act confers an "intercept power" upon DOA. If a Municipal Obligation to the State is in default, DOA, which is the paying agent for State moneys payable to Wisconsin municipalities, is required to place on file a certified statement of all amounts due under the loan. Thereafter, DOA is authorized to collect all amounts due under the loan by deducting those amounts from any State payments due the Municipality. The State has covenanted in the General Resolution to exercise this intercept power to the extent State payments are available. Certain Municipalities, including town sanitary districts, public inland lake protection rehabilitation districts, metropolitan sewage districts and intergovernmental cooperation commissions do not receive such State payments. The amount of money realized by the Clean Water Fund Program from the exercise of the intercept power will depend on the level of State payments to the Municipality in relation to the size of the loan. The level of State payments to Municipalities may vary in the future. Although State payments can be intercepted by the State for certain other purposes, current administrative rules require DOA to exercise the Clean Water Fund Program intercept as a first charge against State payments due a particular Municipality.

Collection Through County Treasurers

If a Municipal Obligation to the State is in default, the Act gives DOA the authority, after placing on file the certified statement of amounts due under a loan, to add the amount due on the loan as a special charge to the amount of taxes levied upon the county in which the defaulting Municipality is located. In turn, the county treasurer is required to apportion the amount of such special charges to "any town, city or village," and the special charges are then collected with the annual property tax. The word "town" in a statute may be construed as including cities, villages, wards and districts, although metropolitan sewerage districts and town sanitary districts are not specifically mentioned. The enforceability of this procedure for collection of special charges has not been tested in court. Accordingly, no assurance can be given as to the enforceability of this procedure.

State Moral Obligation

At the time a loan is made, the Commission may by resolution designate the loan as one to which the State "moral obligation" applies. If such "moral obligation" applies, the Act provides that, if at any time the payments received or expected to be received from a Municipality on any loan are insufficient to pay when due the principal of and interest on such loan, DOA shall certify the amount of such insufficiency to the Secretary of Administration, the Governor and the Joint Committee on Finance. Thereupon the Joint Committee on Finance is required to introduce a bill appropriating the amount so requested for the purpose of payment of the Municipal Obligation secured thereby. Recognizing its "moral obligation" to do so, the Legislature has expressed its expectation and aspiration that, if ever called upon to do so, it would make the appropriation. The "moral obligation" applies to individual loans and not to Bonds. In addition, the loans to which a moral obligation applies must be specifically designated by the Commission at the time the loan is made. No loan currently financed or expected to be financed from proceeds of the Bonds is expected to be designated as a moral obligation Loan. In the opinion of Bond Counsel, the provisions of the Act relating to the State's moral obligation do not violate the constitution of the State or any other law of the State, but such provisions do not constitute a legally enforceable obligation or create a debt on behalf of the State.

State Financial Participation

The State has funded and intends to continue to fund all or a substantial portion of the Subsidy Fund through the issuance of State general obligation bonds. Such State general obligation bonds will be sold to the Clean Water Fund Program for deposit in the Subsidy Fund as and when required to meet the Subsidy Fund Requirement. The State general obligation bonds are issued such that the principal and interest will be due and payable on such bonds at the times and in the amounts as are required to satisfy the Subsidy Fund Requirement. The State has authorized the issuance of additional general obligation bonds in an amount expected to exceed the Subsidy Fund Requirement necessary to disburse all Bond proceeds. However, failure of the State to fund the Subsidy Fund at the Subsidy Fund Requirement will preclude the disbursement of Bond proceeds from the Loan Fund (except to pay interest on Bonds) and preclude the issuance of additional Bonds. Such a failure could adversely affect the ability of the Clean Water Fund Program to make timely payments of the principal or redemption price of or interest on Bonds.

Although the State has no present intent to cause this to happen, State general obligation bonds may also be sold to the Clean Water Fund Program for deposit in the Loan Credit Reserve Fund to meet the Loan Credit Reserve Fund Requirement.

Additional Information

There is one entity that, as of September 30, 1997, is expected to be the source of 20 percent or more of the gross cash flow servicing the Bonds. This entity is the State, which has issued its general obligation bonds that are currently held in the Subsidy Fund, which is expected to provide approximately 23 percent of the gross cash flow servicing the Bonds.

The ability of this entity to make timely payments on its obligations is an important consideration in evaluating the security of the Bonds. Information about the State, including its financial statements, is included in Part II of this Annual Report.

Information about Municipalities, other than the amounts of their loans and annual repayments, is not made part of this Annual Report, however, financial statements are required to be provided to the Clean Water Fund Program by any Municipality which has received a Direct, Proprietary or Leveraged Loan.

A copy of any financial statements provided to the Clean Water Fund Program by any Municipality, is available upon submitting a request through DOA, Clean Water Fund Program Office, Box 7864, Madison, Wisconsin 53707-7864, phone (608) 267-1836.

Additional Bonds

The General Resolution permits the issuance of additional Bonds, without limitation as to amount (except for any statutory limitations on the aggregate authorized amount of revenue bonds, currently $1.298 billion, other than revenue bonds issued for refunding purposes) to provide funds for Clean Water Fund Program purposes, including making Loans. As a condition to the issuance of additional Bonds, the General Resolution requires that there will be delivered to the Trustee a certificate of an Authorized Officer that, upon the issuance of such Bonds, there will be in the Loan Credit Reserve Fund an amount at least equal to the Loan Credit Reserve Fund Requirement and that there will be in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement.

Any additional Bonds issued under the General Resolution will be on a parity with any other Bonds previously issued, and will be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the State set forth in the General Resolution (except for funds pledged to defease any specific Bonds).

Disposition of Loans

DOA may sell, assign, transfer or otherwise dispose of any loan and the Municipal Obligations evidencing such loan (free and clear of the pledge of the General Resolution or subject to the lien of the General Resolution, at the discretion of the State) and at such price as the Commission shall determine, provided that prior to any such sale, assignment, transfer or disposition the State files with the Trustee a certificate of an Authorized Officer to the effect that, immediately following such sale, assignment, transfer or disposition, there will be on deposit in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement and there will be on deposit in the Loan Credit Reserve Fund an amount at least equal to the Loan Credit Reserve Fund Requirement.

The State may sell, assign, transfer or otherwise dispose of any loan and the Municipal Obligation evidencing such loan (but not free and clear of the General Resolution), at such price as the Commission shall determine provided that prior to such sale, assignment, transfer or disposition the State files with the Trustee a certificate of an Authorized Officer to the effect that, immediately following such sale, assignment, transfer or disposition and the deposit of the proceeds thereof in the applicable account, there will be on deposit in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement and there will be on deposit in the Loan Credit Reserve Fund an amount at least equal to the Loan Credit Reserve Fund Requirement.

The State may sell, assign, transfer or otherwise dispose of any loan and the Municipal Obligation evidencing such loan (but not free and clear of the General Resolution) and deposit the proceeds thereof in the applicable account if such Loan and such Municipal Obligation is delinquent in payments of principal or interest and if, in the reasonable opinion of the State, as evidenced by a certificate of an Authorized Officer, the proceeds of such sale, assignment, transfer or disposition are not less than the fair market value of such delinquent Loan or Municipal Obligation.

The State may consent to prepayment of any Loan and the Municipal Obligation evidencing such Loan provided that, prior to such prepayment, the State files with the Trustee a certificate of an Authorized Officer to the effect that, immediately following such prepayment and deposit of the proceeds thereof to the applicable fund or account, the Subsidy Fund Requirement has not been increased.

LOAN CREDIT RESERVE FUND SCHEDULES

Introduction

The General Resolution establishes the amount and timing of funds and securities required to be deposited or on deposit in the Loan Credit Reserve Fund, based on Schedules reviewed by no less than two Rating Agencies. The State, with the consent of a Rating Agency, may from time to time change the Schedule previously approved by such Rating Agency so long as the change does not adversely affect the then-current rating on the Bonds. To the extent the amount of the deposit or amount on deposit required by the Schedule approved by one Rating Agency differs from the amount required by the Schedule approved by another Rating Agency, the larger amount is required. As of September 30, 1997 the amount held in the Loan Credit Reserve Fund was $44.7 million, and the amount required on such date was $36.4 million.

Current Schedules

The Outstanding Bonds are currently rated AA+ by Fitch IBCA, Inc. ("Fitch"), Aa2 by Moody's Investors Service, Inc. ("Moody's") and AA+ by Standard & Poor's Ratings Group ("S&P"). Each of the following Schedules has been approved by the respective Rating Agency indicated. The State has applied to each of the rating agencies for a rating on an upcoming issue of Bonds, and as of December 15, 1997, the State has not yet received a rating from any of the rating agencies.

Moody's Investors Service, Inc.

As part of the Schedule submitted to Moody's, the State has indicated that it will maintain the Loan Credit Reserve Requirement at a level that corresponds to certain Loan portfolio credit characteristics. The amount required to be deposited or on deposit in the Loan Credit Reserve Fund is the product of the average annual debt service of the outstanding, disbursed Loans times a factor of 120%, and is based on an evaluation of the Loans shown in Table VI-1. A different factor may be applied if Loan portfolio credit characteristics change.

Standard & Poor's Ratings Group

Based on certain credit characteristics, each Loan will be assigned one of five categories, which are explained below. The amount required to be deposited or on deposit in the Loan Credit Reserve Fund with respect to a particular disbursement from the Loan Fund is the product of the maximum annual debt service payment on the Loan attributable to the disbursement times the factor assigned to that particular category.

The following chart shows the current factor assigned to each of the five categories by S&P. Following the chart is an explanation of the characteristics of each category.

Category	Factor
Higher Investment Grade Rating	0%
Medium Investment Grade Rating	40
Lower Investment Grade Rating	64
Not Rated; Greater State Aids	40
Not Rated; Lesser State Aids	140

Loans are categorized based on two characteristics: (1) the rating given to the Municipal Obligation (or its lack of a rating) and (2) the anticipated amount of annual State payments that can potentially be intercepted by DOA. The intercept power is described under "SECURITY AND SOURCE OF PAYMENT FOR BONDS; State Aid Intercept". If the Municipal Obligation is not rated by S&P, the State may request permission from S&P to assign the Municipal Obligation to a particular category.

The anticipated amount of annual State payments that can potentially be intercepted by DOA is determined by DOA based on the minimum of the five most recent years for which data are available of one source of State payments to the Municipality–State shared revenue.

Higher Investment Grade Rating. A Loan is assigned to this category if the Municipal Obligation is rated by S&P in either of the two highest rating categories (AAA;AA).

Medium Investment Grade Rating. A Loan is assigned to this category if the Municipal Obligation is rated by S&P in the third highest rating category (A). S&P may also permit a Loan to be assigned to this category, regardless of whether or not the Municipal Obligation is rated, in the event the State designates the Loan as one to which the State moral obligation applies. The State moral obligation is described under "SECURITY AND SOURCE OF PAYMENT FOR BONDS; State Moral Obligation".

Lower Investment Grade Rating. A Loan is assigned to this category if the Municipal Obligation is rated by S&P in the minimum investment grade rating category (BBB).

Not Rated; Greater State Aids. A Loan is assigned to this category if the Municipal Obligation (i) either is not rated or is rated below investment grade and (ii) the anticipated amount of annual State payments that can potentially be intercepted by the State equals or exceeds twice the average annual debt service payments on the entire amount of the Loan, whether or not the entire amount has been disbursed.

Not Rated; Lesser State Aids. A Loan is assigned to this category if the Municipal Obligation (i) either is not rated or is rated below investment grade and (ii) the anticipated amount of annual State payments that can potentially be intercepted by the State is less than twice the average annual debt service payments on the entire amount of the Loan, whether or not the entire amount has been disbursed.

The State recognizes that the rating maintained by S&P is based in part upon the level of funds available in the Loan Credit Reserve Fund. The State asserts that it expects to maintain the Loan Credit Reserve Fund at approximately the same proportional levels as it has since inception of the

Clean Water Fund Program, and the State recognizes that the rating maintained by S&P may be based on the maintenance of amounts greater than the amounts required under this Loan Credit Reserve Fund Schedule. The State agrees to maintain the Loan Credit Reserve Fund investments as either rated or ratable in the same rating category as the Bonds. The State further agrees that, if practicable, it will provide S&P with at least 30 days notice of significant changes in either the credit quality or amounts maintained in the Loan Credit Reserve Fund.

The State agrees that if the rating on or ratability of an investment in the Loan Credit Reserve Fund is based on either a credit enhancement policy or financial guarantee that the State will notify S&P not less than 30 days prior to the expiration of such policy and to indicate what action, if any, is expected to be taken with respect to the credit quality of the investment.

Fitch IBCA, Inc.

While the rating of Fitch is based on expected Loan Credit Reserve Fund levels, it is not conditioned on a specific Loan Credit Reserve Fund Schedule; therefore no Schedule applicable to Fitch is provided.

Ratings on Municipal Obligations

Any explanation of the significance of a rating with respect to a Municipal Obligation may only be obtained from the Rating Agency furnishing the rating. There is no assurance that the rating given to a Municipal Obligation will be maintained for any period of time; a rating may be lowered or withdrawn entirely by the Rating Agency if in its judgment circumstances warrant.

MUNICIPALITIES

Pursuant to the Act, the Clean Water Fund Program is authorized to provide financial assistance in the form of loans to any Municipality. A Municipality may be any city, town, village, county, town sanitary district, public inland lake protection and rehabilitation district, metropolitan sewerage district or federally recognized American Indian tribe or band in the State. Due to the diversity of the types of potential recipients of financial assistance, the manner in which the Municipalities raise revenues and issue and secure debt will vary.

Loans may be made to any Municipality, which is defined in the Act as any city, town, village, county, town sanitary district, public inland lake protection and lake rehabilitation district, metropolitan sewage district or federally recognized American Indian tribe or band in the State.

Prospective municipal borrowers fall into three general categories: (i) general purpose Municipalities, such as counties, cities, villages, towns and Indian tribes and bands; (ii) special purpose Municipalities, such as town sanitary districts, public inland lake protection rehabilitation districts and metropolitan sewage districts; and (iii) Intergovernmental Cooperation Commissions, which are special purpose intergovernmental bodies formed by agreements authorized under State law between two or more Municipalities.

General purpose Municipalities may borrow for a variety of public purposes, including the construction or improvement of wastewater facilities. Such general purpose Municipalities may incur long-term obligations in the form of general obligation debt secured by property tax levies, revenue obligations secured by user fees and special assessments, and installment lease contracts.

Special purpose Municipalities may borrow for the purpose for which they are created, primarily wastewater facilities. Debt may be incurred by special purpose Municipalities in generally the same forms as may be incurred by general purpose Municipalities. Town utility districts may be utilized by towns to allocate tax levies, but the town is the actual borrower; and any general obligation issued by a town utility district is secured by the full faith and credit of the entire town.

Intergovernmental Cooperation Commissions differ from general purpose Municipalities and special purpose Municipalities in that joint utility systems do not have general taxing powers and typically depend upon their contracting members to collect revenues via user fees or tax levies from individual users of wastewater facilities. Loans in this case will be made to the individual Municipalities that the Intergovernmental Cooperation Commission is composed of.

Constitutional and Statutory Requirements

Municipal powers are derived in some instances from the State Constitution and from a variety of sources within the Wisconsin Statutes. To the extent not inconsistent with the State Constitution and State law, Municipalities may adopt and amend local laws and ordinances relating to their property, affairs or government.

In general, the State Constitution and State law limit the power of Municipalities to issue Municipal Obligations and to otherwise contract indebtedness. As a condition for making a Loan, the State will require an opinion of counsel to the effect that (subject to certain exceptions for bankruptcy, insolvency and similar laws affecting creditors' rights or remedies and equitable principles) the Financial Assistance Agreement and the Municipal Obligation evidencing the Loan constitute legal, valid and binding obligations of the Municipality enforceable against the Municipality in accordance with their respective terms.

Limitations on Indebtedness

Generally, the aggregate general obligation debt that may be incurred by a Municipality may not exceed 5% of the equalized value of all real estate in the Municipality. Municipalities are not limited as to the amount of revenue obligations that they may incur. However, as described under LOANS; Lending Criteria", the Act requires that a Municipality must comply with a number of requirements, including but not limited to establishing a dedicated source of revenue for the repayment of financial assistance and developing and adopting a system of equitable user charges.

Revenues

Revenues of counties, cities, villages and towns are principally derived from property taxes, state and federal aids and fees and charges. Counties may levy a sales tax of up to a 0.5% rate. See "Collection of Real Property Taxes and Assessments" below for a discussion of real property taxes and special assessments.

Counties, cities, villages and towns receive financial assistance from the State ("State Aid"). The State is not constitutionally obligated to maintain or continue State Aid. Accordingly, no assurance can be given that present State Aid levels will be maintained in the future. The payment of State Aid by the State is subject to appropriations being made by the State Legislature. As discussed in more detail under "SECURITY AND SOURCE OF PAYMENT FOR BONDS; Statutory Powers", DOA may intercept State Aid payable to certain types of Municipalities if such a Municipality defaults on a Loan.

Certain Municipalities receive financial assistance from the federal government and have in the past received directly or indirectly significant federal aid for the construction of sewer and water improvements. However, other than as discussed under "CLEAN WATER FUND PROGRAM; Overview", significant federal aid is not expected to be available to Municipalities for the purpose of repaying Loans.

A Municipal Obligation to the State may take several forms, see "LOANS; Lending Criteria".

Collection of Real Property Taxes and Assessments

Real property taxes, special assessments and special charges are collected by the county treasurer and remitted to the proper taxing authority. Special assessments may be levied generally by a taxing authority as an assessment against property to compensate for all or part of the costs of a public work or improvement which benefits the property. The right to levy special assessments may be made under the taxing power of the Municipality or the police power of the Municipality. The clearest difference between the two types of special assessments are that under the taxing power, the amount of the special assessment may not exceed the benefit conferred on the property, while under the police power, the amount of the special assessment need only be determined upon a reasonable basis as determined by the governing body of the Municipality. Costs of any work or improvements that may be reflected in whole or in part by special assessments may include the direct and indirect costs thereof and the anticipated interest on a Municipal Obligation issued in anticipation of the collection of the assessments. Special assessments are collected by county treasurers along with general property taxes.

Although general property taxes may be paid in installments in the year following the levy thereof (so long as all installments are paid no later than July 31), special assessments and special charges that are included in the tax roll must be paid in full on or before January 31, and even though a person elects to pay general property taxes in installments, if any special assessment or special charge entered on the tax roll is delinquent because it is not paid by January 31, the entire annual amount of real property taxes on that parcel that is unpaid becomes delinquent as of February 1. If the county treasurer receives a payment that is not sufficient to pay all general property taxes, special assessment and special charges, the county treasurer applies the payments to the amounts due, including interest and penalties, in the following order: (i) special charges, (ii) special assessments, (iii) special taxes, and (iv) general property taxes.

The county treasurer settles with the appropriate taxation district on January 15 of each year for all payments received through the previous December 31, and on February 15 for all payments received through January 31, including all special assessments and special charges received.

Counties are authorized, but not required, to settle in full with all taxing jurisdictions for special assessments and special charges, and if so directed by the County Board, August 15 would be the date upon which the Municipality would receive the cash in settlement of unpaid special assessments and special charges.

As discussed under "SECURITY AND SOURCE OF PAYMENT FOR BONDS; Statutory Powers", if a Municipality is in default of payment on its Municipal Obligation, the State may, pursuant to the Act, add a special charge to the amount of State taxes levied upon the county. The enforceability of such a procedure has not been tested in court. Therefore, no assurance can be given as to the enforceability of this procedure.

A Municipality issuing a general obligation to the State must levy sufficient taxes, upon the adoption of the resolution authorizing the Municipal Obligation, to pay debt service on the Municipal Obligation, which tax levy will be collected along with other real estate taxes as discussed above. A Municipality may abate such levy, however, to the extent it deposits amounts in its statutorily required debt service fund before the date it carries the levy unto the tax roll. A Municipality issuing a revenue obligation may rely entirely upon user charges to pay the Municipal Obligation or, alternately, may in addition levy special assessments upon property within the boundaries of the Municipality in an amount sufficient to pay all or part of the Municipal Obligation.

LOANS

Requirements Under the Act

The Act sets forth certain requirements for eligibility of a Municipality to receive financial assistance from the Clean Water Fund Program. Each Municipality must be one of the types of governments specified by the Act. The Act further requires that the Municipality comply with a number of other requirements, including, but not limited to, establishing a dedicated source of revenue for the repayment of the financial assistance, complying with the requirements of the Water Quality Act, developing a program of water conservation as required by DNR, and developing and adopting a system of equitable user charges. While the Act permits financial assistance to take forms other than loans, such as guaranteeing or purchasing insurance for Municipal Obligations, awarding grants to certain hardship Municipalities, or subsidizing the interest cost on certain other loans, the State currently makes financial assistance available from the Clean Water Fund Program by making loans to Municipalities at interest rates which are at or below market rates as specified in the Act. For a summary of permissible interest rates, see "CLEAN WATER FUND PROGRAM; Financial Assistance". Although the requirements set forth in the Act and the application process developed by DOA and DNR apply to all loans made under the Clean Water Fund Program, only repayments from Leveraged Loans are pledged to secure the Bonds, and hence the following discussion focuses on Loans.

DNR is responsible for establishing eligibility criteria for determining which applicants and which projects are eligible to receive financial assistance. Among the criteria DNR considers are water quality and public health. A Municipality is eligible for financial assistance from the Clean Water Fund Program for a wastewater project that corrects a DNR discharge violation.

Loan Application Process

DOA and DNR have developed an application form for Municipalities to apply for financial assistance from the Clean Water Fund Program. The application form requires the Municipality to provide technical information regarding the proposed project and the existing wastewater system, a project schedule, financial information relating to the project, and financial and other information relating to the Municipality. The application is reviewed by DNR for items pertaining to technical, administrative and environmental matters, including project eligibility and determination of the interest rate category for which the project is eligible. The application is reviewed by DOA to determine, among other things: (i) the financial capability of the applicant to repay its Loan; (ii) the financial terms and conditions of the Loan; (iii) the security that will be required to be pledged by the Municipality for the Loan; and (iv) such other special financial conditions as DOA may require. No Loans are made if DOA determines that the Municipality is unlikely to be able to repay the Loan.

Lending Criteria

DOA, in consultation with DNR, has the statutory responsibility to establish the financial terms and conditions of Loans, including what type of Municipal Obligation is required. In establishing these terms and conditions, DOA may consider factors that it finds relevant, including the type of Municipal Obligation or the Municipality's creditworthiness. DOA must be satisfied that the Municipality has the financial capacity to assure sufficient revenues to operate and maintain the project for its useful life and to pay debt service on the Loan according to its terms.

The following is a summary of the current lending criteria of DOA. DOA may change its lending criteria from time to time.

DOA requires each Loan to be evidenced by one of three types of Municipal Obligations: (i) a revenue obligation secured by a covenant to assess user fees and a pledge of the utility's revenues, (ii) a revenue obligation secured by special assessments and other utility revenue and a pledge of the utility's revenues, or (iii) a general obligation secured by a tax levy and a pledge of all available financial resources of the Municipality. Some Loans may be evidenced by more than one type of Municipal Obligations.

Revenue Obligations

Background

When a local government issues a revenue obligation, the obligation is a limited obligation of the government. Only revenues that are specifically pledged are available to pay the principal of and interest on the revenue obligation.

Revenue Pledge Policy

So long as the following criteria can be met, DOA will accept revenue obligations from all types of Municipalities (except counties and metropolitan sewerage districts). Under the State constitution a county's issuance of revenue obligations is treated as public debt. A metropolitan sewerage district will be required to provide general obligations unless the rating from each Rating Agency on its revenue obligations is equal to or greater than the current rating on the Bonds.

Coverage Ratio

For a revenue obligation, DOA will require the Municipality to covenant to generate "net revenues" each year, that is utility revenues after deducting operating and maintenance expenses (but not deducting depreciation, debt service, tax equivalents, and capital expenditures), equal to at least 110% of the annual principal of and interest on the Loan and other obligations on a parity with or senior to the Loan ("110% Coverage"). The "net revenues" may be established by the "net revenues" from the existing utility revenues or projected "net revenues" from a newly imposed user fee rate structure. If the Municipality does not have outstanding any other obligations with a lien on pledged revenues, DOA will require the Municipality to covenant to generate "net revenues" sufficient to provide 110% Coverage. In the event the Municipality has other obligations outstanding with a lien on pledged revenues, DOA will require that the Municipality covenant to generate "net revenues" at least equal to the highest level of debt service coverage (but not less than 110% Coverage) then in effect. In the event an outstanding obligation requires a debt service reserve fund for a parity obligation or requires payment dates that do not match the Loan payment dates, or requires other conditions which prevent the Loan from being a parity obligation, DOA will accept a subordinate obligation but will normally require any additional revenue obligations (whether superior, subordinate or on a parity) to meet a coverage test equal to the highest ratio then in effect on any other obligations (including the Loan). During construction periods when the annual principal and semiannual interest payments are based on cumulative amounts drawn under the Financial Assistance Agreement, user fees may be assessed such that the level of coverage available is estimated based on debt service projections.

In the event a Municipality breaches any of the covenants described above, it would be subject to a suit for mandamus to compel performance of such covenants. However, enforcement of the covenants through a suit for mandamus would likely be subject to the delays and costs inherent in litigation.

Collection of Delinquent Sewer User Charges

The Clean Water Fund Program loan documents require that the Municipality take all actions permitted by law to certify any delinquent user fees to the County Treasurer in order that such unpaid user fees will be added as a special charge to the property tax bill of the user.

Senior Revenue Bonds

In most instances the Clean Water Fund Program loan documents limit a Municipality's ability to issue additional bonds payable out of the revenues of the wastewater system that have payment priority over the bonds sold to the Clean Water Fund Program. In some situations this provision has been modified by the Clean Water Fund Program to allow additional senior bonds if the Municipality can demonstrate to the satisfaction of DOA that, following the issuance of the senior bonds, the rating of the Municipality's senior revenue obligations will be no lower than one letter grade below the ratings on the Bonds.

Service Contract

DOA will also require the Municipality to agree to pay for the value of sewerage services provided to it and to stipulate that the value equals any unpaid debt service on the Loan or debt coverage short fall. Although such provisions are often used in revenue obligations from Wisconsin local governments, their enforceability has not been tested in court. Accordingly, no assurance can be given as to the enforceability of such a service contract. Moreover, the value of the sewerage service may be limited by law and, unless the Municipality has already appropriated money for such payment, it would be necessary for the Municipality to levy and collect a tax, which could result in some delay in payment. In addition, a levy limit applicable to counties may diminish the ability of a county to levy taxes for this purpose.

No Debt Service Reserve Fund or Mortgage

Although Wisconsin municipalities issuing revenue obligations typically establish a debt service reserve fund and often pledge a mortgage to secure the revenue obligations, the current policy of DOA does not permit a debt service reserve fund to be established and DOA will not require a mortgage on the property the Municipality uses to operate its wastewater facilities.

Special Assessment-Secured Revenue Obligations

Background

Special assessments may be levied by a Municipality to pay the costs of a public improvement. Payments to the Municipality of such special assessments may be used to repay a revenue obligation. The special assessments are paid in annual installments as established by the Municipality. Because special assessments under State law may not exceed the cost of the project, the regularly scheduled special assessment revenue alone will typically not meet the 110% Coverage test. In the event the Municipality receives prepayments of its special assessment installments, or the term of the Clean Water Fund Program loan exceeds the term of the special assessments, or the interest rate on the special assessment exceeds the interest rate on the Clean Water Fund Program loan, the Municipality may have more special assessment revenue in a year than required for debt service on its Clean Water Fund Program loan. In general, excess special assessment revenue collected by the Municipality will be applied to reduce debt incurred for the public improvement project. If special assessments are levied to secure revenue obligations, payments on the special assessments are deposited in the funds and accounts of the revenue-generating enterprise.

Collection of Delinquent Special Assessments

When it secures a revenue obligation, a special assessment constitutes a lien on the property against which it is levied on behalf of the local government that levies it. Delinquent special assessment payments are entered on the tax roll as a delinquent tax on the property against which they are levied and are subject to the same proceedings for collection, return and sale of property that apply to delinquent real estate taxes.

General Obligations

Background

When a local government issues a general obligation, its full faith and credit are pledged to secure payment when due of the principal of and interest on the obligation. State law requires the local government to levy taxes that will be collected in amounts and at times sufficient to make these payments (or to appropriate available funds for payments that are required to be made before taxes can be levied and collected). If the government fails to make a payment when due, the owner of a general obligation can bring a suit for mandamus to require the tax levy to be collected and applied to debt service. A suit for mandamus would likely be subject to the delays and costs inherent in litigation.

Tax Levy

With respect to general obligations:

(1) The amount of the general obligation may not exceed the constitutional or statutory limits. For an American Indian tribe or band, the amount of the general obligation may not exceed the amount that would be permitted if the constitutional and statutory limits were to apply to the tribe or band.

(2) The Municipality must levy taxes sufficient to pay when due the principal of and interest on the Loan.

A levy limit applicable to counties may affect the ability of a county to issue general obligations.

Intergovernmental Cooperation Commissions

Wisconsin law permits the creation of a commission by contract pursuant to an intergovernmental cooperation agreement. The Clean Water Fund Program does not make loans to such commissions. Instead, DOA will analyze each member's credit, and the Loan will be apportioned among its members according to their participation in the project.

Loan Terms

Loan Size

The size of each Loan is determined as follows:

(1) The principal amount of the Loan will not exceed 100% of the estimated project costs, plus a contingency of up to 10% where applicable, plus any allowable amount of capitalized interest on the Loan.

(2) A contingency may be allowed only if the project has not been completed.

(3) For a general obligation, capitalized interest may be permitted in an amount equal to debt service payments that are due before the tax levied in support of debt service payments will be collected.

(4) For a revenue obligation including those with a special assessment pledge, capitalized interest may be permitted to cover Loan debt service payments that will accrue until the expected date of project completion.

Final Maturity and Amortization

The final maturity on a Loan may not exceed 20 years from the date of its origination. DOA requires principal amortization on a level-debt-service basis or, in certain cases, on a level-principal basis, with principal amortization beginning not later than 12 months (except in the case of a refinancing) after the expected date of substantial completion of the Project.

Debt Service Payment Dates

Principal payments are required on May 1 and interest payments on May 1 and November 1. For Loans secured primarily by special assessments, an annual principal and interest payment may be required to match the Municipality's collection of the special assessments and deposit into its debt service fund.

Special Provisions

DOA requires that the Financial Assistance Agreement include certain provisions that apply if there is an event of default. These provisions permit the State to intercept any State aids to the Municipality, appoint a receiver to manage the Municipality's utility operations, and require the Municipality, to the extent it has taxing power, to add delinquent user charges to the tax bill of the respective property.

Levy Limit for Counties

Counties are subject to a tax rate limit. The tax levy of each county is limited, generally to the rate at which taxes were levied in 1992 or a higher rate approved by the voters at referendum. The tax rate limit excludes taxes levied for debt service on general obligations approved by the voters at a referendum or by a three-quarters vote of the county board of supervisors. Further, the tax rate limit excludes taxes levied for debt service on general obligations issued or authorized before the effective date of the legislation. As of September 30, 1997, only a small principal amount ($401,059) is outstanding from the one Loan previously made to a county, and no significant amount of additional Loans to counties are anticipated.

Commitments

Upon approval of an application by DNR and DOA, and satisfaction by DOA that the Municipality meets the financial criteria established by DOA, DNR and DOA may issue a Commitment to the Municipality to finance all or part of the project. The Commitment will include an estimated Loan repayment schedule and other terms of the financial assistance. The Commitment may contain certain conditions that the Municipality must meet to secure a Financial Assistance Agreement.

Financial Assistance Agreements

The Financial Assistance Agreement constitutes the agreement by which the Loan is made and is, in effect, a loan agreement. The Financial Assistance Agreement contains the terms and conditions of the Loan, including the final maturity, maximum principal amount, interest rate, procedures for disbursement of funds to the Municipality, agreements of the Municipality to construct the project, and covenants of the Municipality regarding proper use of Loan proceeds and compliance with Clean Water Fund Program requirements.

Certain Provisions of Financial Assistance Agreements

Prior to Loan disbursements, proceeds expected to be loaned to Municipalities are held by the Trustee in the Loan Fund. Interest earnings on proceeds held in the Loan Fund shall be for the benefit of the Clean Water Fund Program. As proceeds are disbursed from the Loan Fund pursuant to a Municipality's Financial Assistance Agreement, interest on the respective Loan shall accrue and be payable on the amount disbursed from the date of disbursement until the date such amount is repaid.

In most instances, the repayment schedule of each loan disbursed is structured to provide level annual debt service from the disbursement date until the final maturity date specified in the respective Municipality's Financial Assistance Agreement. Upon project completion, a Municipality's Loan repayment schedule under its respective Financial Assistance Agreement will reflect the principal amortization of the cumulative disbursements to the Municipality.

If the final audit of the project reveals that the eligible project costs are less than the amount disbursed to the Municipality, the Municipality agrees to reimburse the State within 60 days after DNR or DOA provides a notice of overpayment.

If the Municipality fails to make any payment when due on the Municipal Obligation or fails to observe or perform any other covenant, condition, or agreement on its part under the Financial Assistance Agreement for a period of 30 days after written notice specifying the default and requesting that it be remedied has been given to the Municipality by DNR, the State shall, to the extent permitted by law, have all remedies provided by law and the Financial Assistance Agreement.

The Financial Assistance Agreement may be modified or amended upon a written agreement between the State and the Municipality.

Loans and Municipal Obligations

Upon execution of a Financial Assistance Agreement, each Municipality is required to issue and deliver to the State a Municipal Obligation evidencing the obligation of the Municipality to repay the Loan. The Municipal Obligation will reflect the terms of the Financial Assistance Agreement. Upon execution of a Financial Assistance Agreement and issuance of a Municipal Obligation, a Municipality will be required to deliver an opinion of counsel as more fully described under "OTHER MATTERS; Certain Legal Matters".

Table VI-3

OUTSTANDING CLEAN WATER REVENUE BONDS BY ISSUE

(As of December 15, 1997)

Financing	Date of Financing	Maturity	Amount of Issuance	Amount Outstanding
1991, Series 1	3/1/91			
Serial Bonds		1994-2008	$167,555,000	$ 62,660,000 [a]
Term Bond		2011	57,445,000	57,445,000
1993, Series 1	8/15/93	1996-2013	84,345,000	79,395,000
1993, Series 2	8/15/93	1994-2008	81,950,000	79,120,000
1995, Series 1	7/1/95	1997-2015	80,000,000	78,750,000
1997, Series 1	1/15/97	1999-2017	80,000,000	80,000,000
Total Clean Water Revenue Bonds			$551,295,000	$437,370,000

(a) Pursuant to a refunding escrow agreement the principal and interest on all or a portion of the bonds will be paid as it comes due and those bonds will be called for redemption prior to maturity The principal amount of bonds for which payment is provided is treated as not outstanding for purposes of this table.

SUMMARY OF CERTAIN PROVISIONS OF GENERAL RESOLUTION

The General Resolution contains various covenants and security provisions, certain of which are summarized below. Various words or terms used in the following summary are defined in the General Resolution and reference thereto is made for full understanding of their import. See also "GLOSSARY" for definitions of certain capitalized terms.

Resolution to Constitute a Contract

In consideration of the purchase and acceptance of the Bonds by those who shall own the same from time to time, the provisions of the General Resolution shall be a part of the contract of the State with the Bondowners and shall be deemed to be and shall constitute a contract among the State, the Trustee and the owners from time to time of the Bonds, and such provisions are covenants and agreements with such Bondowners which the State under the General Resolution determines to be necessary and desirable for the security and payment thereof. The provisions, covenants and agreements set forth in the General Resolution (except for those relating to funds pledged to defease any specific Bonds) to be performed by or on behalf of the State shall be for the equal benefit, protection and security of the owners of any and all of the Bonds, all of which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof except as expressly provided in the General Resolution.

Pledge

The State pledges under the General Resolution to the Trustee for the benefit of all current and future Bondowners with respect to all Bonds and any owner of a Parity Reimbursement Obligation, the Pledged Receipts, all funds and accounts established in connection with the issuance of such Bonds (but not including the Rebate Fund or the State Equity Fund), the investments thereof and the proceeds of such investments, if any, for the payment of the principal and redemption price of and interest on the Bonds in accordance with the terms and provisions of the General Resolution and the payment of any Parity Reimbursement Obligation, subject only to the provisions of the General Resolution permitting or further limiting the application thereof for the purposes and on the terms and conditions set forth in the General Resolution. Subject to the provisions of the General Resolution providing for defeasance of Bonds, the pledge shall be valid and binding from and after the date of adoption of the General Resolution, and the Pledged Receipts and all other moneys and securities in the pledged funds and accounts established by the General Resolution shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and such lien shall be a just lien and shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the State, irrespective of whether such parties have notice thereof.

Establishment of Funds and Accounts

The following funds and accounts are established and required to be maintained pursuant to the provisions of the General Resolution:

(1) Loan Fund

(2) Revenue Fund

(3) Debt Service Fund

(a) Interest Account

(b) Principal Account

(c) Redemption Account

(d) Capitalized Interest Account

(4) Loan Credit Reserve Fund

(a) SRF Account

(b) Non-SRF Account

(5) Subsidy Fund

(6) Administrative Fund

(a) Costs of Issuance Account

(b) Expense Account

(7) State Equity Fund

(8) Rebate Fund

Each of the above funds shall be deposited with and held by a Depository and maintained by the Trustee pursuant to the provisions of the General Resolution, except for the State Equity Fund, which shall be held and maintained by the State.

Loan Fund

There shall be deposited into the Loan Fund the amount of the proceeds of the Bonds of any Series required to be deposited therein and such other State moneys as shall be specified and determined by the Series Resolution authorizing such Series of Bonds. Moneys in the Loan Fund shall be expended only for the Clean Water Fund Program subject to the provisions and restrictions of the General Resolution. Amounts in the Loan Fund shall be expended and applied by the State from time to time as follows:

(1) for financing Loans to Municipalities under the Clean Water Fund Program, including transfers of Loan capitalized interest to the Revenue Fund;

(2) as directed in a certificate of an Authorized Officer, for deposit into the Revenue Fund; and

(3) to the extent that other moneys are not available, for deposit into the Debt Service Fund.

Moneys may be withdrawn from the Loan Fund for financing a Loan upon a requisition of an Authorized Officer certifying: (i) that the aggregate amount of the requisition is equal to the sum of amounts disbursable to Municipalities pursuant to properly submitted and approved requisitions of such Municipalities; (ii) that the amount requisitioned for each Municipality does not exceed the amount available to be disbursed pursuant to that Municipality's Financial Assistance Agreement and Municipal Obligation; (iii) the identity of the Municipalities receiving disbursements from the requisition, the amount of the requisition allocable to each such Municipality, and the designation of the Municipal Obligations evidencing the applicable Loan;

(iv) that there is on deposit in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement; and (v) that the Contribution Amount has been transferred or deemed transferred to the Loan Credit Reserve Fund. Prior to the initial transfer of amounts to a Municipality with respect to a Loan, the State shall deliver to the Trustee: (i) a copy of the original executed Financial Assistance Agreement evidencing the Loan to be so made, and (ii) a copy of the original executed Municipal Obligation evidencing or securing such Loan in an aggregate principal amount equal to the maximum permissible Loan amount.

In addition, money and earnings in the Loan Fund may be transferred to the Revenue Fund, provided that the amount in the Subsidy Fund is at least equal to the Subsidy Fund Requirement.

Revenue Fund

The Trustee shall promptly deposit the following into the Revenue Fund:

(1) Transfers of Loan capitalized interest from the Loan Fund (which shall be deemed to be Loan disbursements), as directed in a certificate of an Authorized Officer;

(2) Other transfers of moneys from the Loan Fund;

(3) All Loan Repayments (excluding prepayments of Loans, which shall be deposited in the Redemption Account of the Debt Service Fund) received by the Trustee; and

(4) On the business day preceding an interest payment date, interest earned on Investment Obligations in the Loan Credit Reserve Fund (less amounts required to be transferred to the Rebate Fund).

The Revenue Fund shall be applied as follows:

(1) First, to the Interest Account of the Debt Service Fund for the payment of interest due or to become due on the next succeeding interest payment date;

(2) Second, to the Principal Account of the Debt Service Fund for the payment of principal and sinking fund installments, if any, on the next succeeding interest payment date; and

(3) Third, to the Rebate Fund so that the balance in the Fund shall equal the amount required to be deposited therein.

Debt Service Fund

The Trustee shall promptly deposit the following receipts in the Debt Service Fund:

(1) Any accrued interest received as proceeds of a Series of Bonds as set forth in the applicable Series Resolution, which shall be deposited in the Interest Account;

(2) All amounts required to be transferred from the Revenue Fund, which shall be deposited first in the Interest Account up to the amount of interest due or to become due on the next succeeding interest payment date, and then in the Principal Account up to the amount of principal or sinking fund installments due or to become due on the next succeeding interest payment date;

(3) The Subsidy Fund Transfer Amount transferred from the Subsidy Fund, which shall be deposited first in the Interest Account up to the amount of interest due or to become due on the next succeeding interest payment date, and then in the Principal Account up to the amount of principal or sinking fund installments due or to become due on the next succeeding interest payment date;

(4) All amounts required to be transferred from the Loan Fund, which shall be deposited first in the Interest Account up to the amount of interest due or to become due on the next succeeding interest payment date, and then in the Principal Account up to the amount of principal or sinking fund installments due or to become due on the next succeeding interest payment date;

(5) Any amounts directed by the State to be transferred from the Administrative Fund, which shall be deposited first in the Interest Account up to the amount of interest due or to become due on the next succeeding interest payment date, and then in the Principal Account up to the amount of principal or sinking fund installments due or to become due on the next succeeding interest payment date;

(6) Any amounts received by the Trustee for the purpose of redeeming Bonds, which shall be deposited in the Redemption Account; and

(7) Any portion of Bond proceeds designated by a Series Resolution as capitalized interest on the Bonds, which shall be deposited into the Capitalized Interest Account.

The Trustee shall transfer from the Capitalized Interest Account to the Interest Account on the business day preceding the interest payment date the amount required for the payment of capitalized interest on such Bonds due on such interest payment date.

The Trustee shall pay out of the Interest Account of the Debt Service Fund (i) on each interest payment date, the amount required for the payment of interest on Bonds due on such interest payment date and (ii) on any redemption date, the amount required for the payment of accrued interest on Bonds redeemed unless the payment of such accrued interest shall be otherwise provided for.

The Trustee shall pay out of the Principal Account on each principal payment date or sinking fund redemption date, as applicable (as set forth in a Series Resolution), the amounts required for the payment of such principal on such date or such sinking fund redemption price on such date, as applicable.

The amount accumulated in the Principal Account for each sinking fund redemption may, and if so directed by the State shall, be applied (together with amounts accumulated in the Interest Account of the Debt Service Fund with respect to interest on the Bonds subject to sinking fund redemption) by the Trustee prior to the 45th day preceding the sinking fund redemption date, or such shorter period as shall be acceptable to the Trustee, to:

(1) the purchase of Bonds of the Series and maturity of such Bonds subject to such sinking fund redemption, at prices (including any brokerage and other charges) not exceeding the redemption price payable for such Bonds pursuant to such sinking fund redemption plus unpaid interest accrued to the date of purchase, such purchases to be made as the Trustee shall determine, or

(2) the redemption of such Bonds if then redeemable by their terms, at the redemption price referred to in paragraph (1) above.

Upon any such purchase or redemption of Bonds of any Series and maturity, for which sinking fund installments shall have been established, an amount equal to the applicable redemption prices thereof shall be credited toward any one or more of such sinking fund installments, as directed by the State in an Authorized Officer's certificate, or failing such direction by the 45th day preceding such sinking fund redemption date, toward such sinking fund installments in inverse order of their due dates. The portion of any such sinking fund installment remaining after the deduction of any such amounts credited toward the same (or the original amount of any such sinking fund installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such sinking fund installment for the purpose of the calculation of principal installments due on a future date.

Whenever, after all transfers provided for above have been made, the moneys in the Debt Service Fund are insufficient to pay the interest, principal and sinking fund installments due on Bonds, the Trustee shall apply amounts from the following funds to the extent necessary to cure the deficiency in the order of priority as provided below:

(1) First, from the Loan Credit Reserve Fund;

(2) Second, from the Subsidy Fund;

(3) Third, from the Loan Fund, which transfers shall not be deemed to be a Loan disbursement subject to the requirements applicable to Loan disbursements; and

(4) Fourth, from any other fund or account (except the Rebate Fund and the State Equity Fund).

As soon as practicable after the 45th day preceding the date of any sinking fund redemption, the Trustee shall proceed to call for redemption on such redemption date Bonds of the Series and maturity for which such sinking fund redemption was established in such amount as shall be necessary to complete the retirement of the principal amount specified for such sinking fund redemption. The State may designate in an Authorized Officer's certificate the amounts, from the SRF Account and Non-SRF Account, respectively, to be applied by the Trustee for such redemption.

The Trustee shall pay out of the Redemption Account of the Debt Service Fund to Paying Agents on each redemption date (as set forth in a Series Resolution) for any such Bonds for which there has not been made sinking fund installments, the amounts required for the payment of such redemption price on the redemption date and such amounts shall be applied by the Paying Agents to such payments.

Loan Credit Reserve Fund

"Loan Credit Reserve Fund Requirement" means and is calculated as follows:

(1) Upon the issuance of the initial Series of Bonds, an Authorized Officer delivered to the Trustee, with respect to each Rating Agency, a schedule of credit quality categories and loan credit reserve fund requirements (each a "Schedule") approved by such Rating Agency. Each Schedule sets forth the percentage of the annual debt service attributable to each Loan disbursement from the Loan Fund to be deposited in the Loan Credit Reserve Fund with respect to each Loan disbursement. A Schedule may be amended from time to time upon the presentation to the Trustee of a certificate of an Authorized Officer, supported by a certificate from the Rating Agency to which such Schedule applies, confirming that such amendment to the Schedule alone will not adversely affect the then-outstanding rating assigned to the Bonds by such Rating Agency.

(2) The amount required in the Schedules for each disbursement from the Loan Fund (and if the Schedules provide for different amounts, then the higher amount) is the "Contribution Amount".

(3) The Loan Credit Reserve Fund Requirement shall be, as of any date of calculation, the total Contribution Amount derived from each Schedule (and if the Schedules provide for a different total Contribution Amount, then the higher total Contribution Amount) that would be required were all disbursements from the Loan Fund outstanding to be disbursed on that date, based on the then-current Schedules.

Whenever the moneys in the Debt Service Fund are insufficient to pay the interest, principal and sinking fund installments due on Bonds, the Trustee shall apply amounts from the Loan Credit Reserve Fund to the extent necessary to cure the deficiency as provided in the provisions of the General Resolution concerning the Debt Service Fund.

Whenever moneys and securities in the Loan Credit Reserve Fund (excluding earnings required to be transferred to the Revenue Fund) shall exceed the Loan Credit Reserve Fund Requirement, the Trustee may, at the direction of an Authorized Officer, subject to the conditions stated below, transfer all or any portion of such surplus from the SRF Account to any account within the Clean Water Fund or from the Non-SRF Account to the State Equity Fund; provided, however:

(1) If there shall be existing and continuing a default by any Municipality with respect to Loan Repayments, the transfer permitted by this provision shall not be made to the extent it would cause the balance in the Loan Credit Reserve Fund to be less than the sum of the Loan Credit Reserve Fund Requirement plus the amount of Loan Repayments then in default and not otherwise provided for.

(2) Once such defaulting Municipality has cured such default and has fully resumed its payment obligations under the Financial Assistance Agreement, such surplus amounts may be withdrawn from the Loan Credit Reserve Fund.

Subsidy Fund

The Subsidy Fund Requirement is that amount which, when invested as permitted in the General Resolution, is projected by an Authorized Officer to result in an amount being available during each period commencing after an interest payment date and ending on the next interest payment date (a "Period") which is at least equal to the amount by which Aggregate Debt Service payable during the Period exceeds the sum of (i) scheduled disbursements from the Capitalized Interest Account and (ii) Loan Repayments scheduled to be received during the Period from sources other than transfers of Loan capitalized interest from the Loan Fund pursuant to the General Resolution. In making the projections set forth above, the State may treat undisbursed amounts in the Loan Fund as if (a) such undisbursed amounts are invested at an appropriate rate of interest to the final maturity of Bonds and (b) such undisbursed amounts and the earnings thereon are transferred from time to time to the Revenue Fund to pay debt service, and for purposes of calculating the Subsidy Fund Requirement, such amounts may be treated as if they were Loan Repayments made pursuant to clause (ii) above; provided that prior to each Loan disbursement the State recalculates the Subsidy Fund Requirement assuming for purposes of calculation that the disbursement has been made (and the amount is repayable in accordance with the applicable Municipal Obligations), and if such calculation fails to confirm that following the disbursement the Subsidy Fund Requirement is met, the State refrains from making a requisition for the disbursement.

The Subsidy Fund Transfer Amount is that amount equal to the amount by which Aggregate Debt Service payable during the Period exceeds the sum of (a) Loan Repayments scheduled to be received and delinquent Loan Repayments actually received during the Period, (b) earnings on the Loan Credit Reserve Fund deposited in the Revenue Fund during the Period, (c) any moneys on deposit in the Revenue Fund, the Interest Account of the Debt Service Fund, or the Principal

Account of the Debt Service Fund at the beginning of the Period, (d) any amounts in the Loan Fund transferred to the Revenue Fund during the Period as directed in a certificate of an Authorized Officer, and (e) amounts scheduled to be transferred from the Capitalized Interest Account to the Interest Account during such Period. On the business day preceding each interest payment date, the Trustee shall transfer the Subsidy Fund Transfer Amount from the Subsidy Fund to the Debt Service Fund.

Whenever the money in the Debt Service Fund and money available in the Loan Credit Reserve Fund are insufficient to pay the interest, principal and sinking fund installments due on Bonds, the Trustee shall transfer amounts from the Subsidy Fund to the Debt Service Fund to the extent necessary to cure the deficiency.

The Trustee shall transfer any amount in the Subsidy Fund above the Subsidy Fund Requirement upon the direction of an Authorized Officer:

(1) First, to the Loan Credit Reserve Fund to replenish the Loan Credit Reserve Fund to the then-current Loan Credit Reserve Fund Requirement; and

(2) Second, to the State Equity Fund or for any Program purpose.

Notes

Whenever the Commission shall authorize the issuance of a Series of Bonds, the Commission is authorized to issue Notes (and renewals thereof) in anticipation of such Series. The principal of and interest on such Notes and renewals thereof shall be payable solely from the proceeds of such Notes or renewals thereof or from the proceeds of the sale of the Series of Bonds in anticipation of which such Notes are issued. The proceeds of such Bonds may be pledged for the payment of the principal of and interest on such Notes, and any such pledge shall have a priority over any other pledge of such proceeds created by the General Resolution. Notes shall not be secured by any fund or account established under the General Resolution.

Issuance of Additional Bonds Other Than Refunding Bonds

The State shall not create or permit the creation of or issue any obligations, other than the initial Series of Bonds or Refunding Bonds, which will be secured by a charge and lien on the Pledged Receipts and any other security pledged under the General Resolution, except that additional Series of Bonds may be issued from time to time on a parity with all other Bonds issued pursuant to the General Resolution and secured by an equal charge and lien on the Pledged Receipts and any other security pledged under the General Resolution.

No additional Series of Bonds shall be issued unless:

(1) the principal amount of the additional Bonds then to be issued, together with the principal amount of the Bonds theretofore issued, will not exceed in aggregate principal amount any limitation thereon imposed by law; and

(2) All other requirements applicable to the issuance of Bonds are met including, without limitation, the requirement that there be in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement and there be in the Loan Credit Reserve Fund an amount at least equal to the Loan Credit Reserve Fund Requirement.

The State expressly reserves the right to adopt one or more other general resolutions and reserves the right to issue bonds and notes and any other obligations so long as the same are not a charge or lien on the Pledged Receipts or payable from any fund or account (except for the State Equity Fund or the Rebate Fund) established under the General Resolution.

Refunding Bonds

The General Resolution authorizes the Commission to issue one or more Series of Refunding Bonds to refund all or any part of one or more Series of outstanding Bonds. Refunding Bonds may be issued only upon receipt by the Trustee (in addition to the other requirements applicable to the issuance of Bonds) of:

> (1) Irrevocable instructions to the Trustee to give due notice of redemption of all the Bonds which are to be redeemed prior to maturity on the redemption date specified in such instructions;
>
> (2) Irrevocable instructions to the Trustee to give due notice of redemption to the owners of the Bonds being refunded; and
>
> (3) Either (i) obligations described under "Defeasance" in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications, or (ii) any moneys, as shall be necessary to comply with the defeasance provisions of the General Resolution.

Payment of Bonds

The State shall duly and punctually pay or cause to be paid the principal or redemption price of and interest on the Bonds, but only from the Pledged Receipts and other revenues or receipts, funds or moneys pledged therefor as provided in the Act and the General Resolution, at the dates and places and in the manner provided in the Bonds according to the true intent and meaning thereof, and shall duly and punctually satisfy all sinking fund installments becoming payable with respect to any Series of Bonds.

Power to Issue Bonds and Make Pledges

The State is duly authorized pursuant to law to authorize and issue the Bonds and to adopt the General Resolution and to pledge the Pledged Receipts and other revenues, receipts, funds or moneys purported to be pledged by the General Resolution in the manner and to the extent provided in the General Resolution. The Pledged Receipts and other revenues, receipts, funds and moneys so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the General Resolution, and all action on the part of the State to that end has been duly and validly taken. The Bonds and the provisions of the General Resolution are and will be the valid and legally enforceable obligations of the State in accordance with their terms and the terms of the General Resolution. The State shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Pledged Receipts and revenues, receipts, funds or moneys pledged under the General Resolution and all the rights of the Bondowners under the General Resolution against all claims and demands of all persons whomsoever.

Agreement of the State

The State pledges and agrees with the Bondowners that the State will not limit or alter the terms of any agreements made with Bondowners or in any way impair the rights and remedies of the Bondowners until the Bonds, together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of the Bondowners, are fully met and discharged.

Federal Tax Covenant

The State shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid on the Bonds shall, for the purposes of federal income taxation, be excluded from the gross income of the recipients thereof.

The State shall not permit at any time any of the proceeds of the Bonds or other funds of the State to be used, directly or indirectly, to acquire any asset or obligation the acquisition of which would cause any Note or Bond to be an "arbitrage bond" for the purposes of Section 148 of the Internal Revenue Code of 1986, as amended.

Notwithstanding the foregoing, the State reserves the right to elect to issue Bonds the interest on which is not exempt from federal income taxation, if such election is made prior to the issuance of such Bonds, and the federal tax covenants contained in the General Resolution shall not apply to such Bonds.

Accounts and Reports

The State shall keep, or cause to be kept, proper books of record and account in which complete and correct entries shall be made of its transactions relating to all Loan Repayments, Municipal Obligations, the Fees and Charges, if any, and all funds and accounts established by the General Resolution.

The State shall annually, on or before January 1 in each year, file with the Trustee and with the Rating Agencies a copy of the audited financial statement for the preceding Fiscal Year with respect to the Leveraged Loan Program, accompanied by an Accountant's Certificate, setting forth in complete and reasonable detail: (i) its receipts and expenditures during such Fiscal Year in accordance with the categories or classifications established by the State for its operating and capital outlay purposes; (ii) its assets and liabilities at the end of such Fiscal Year, including a schedule of its Loan Repayments, Municipal Obligations, Fees and Charges, a list of Municipalities in default and the status of the funds and accounts established by the General Resolution; and (iii) a schedule of its Bond and Notes outstanding and other obligations outstanding at the end of such Fiscal Year, together with a statement of the amounts paid, redeemed and issued during such Fiscal Year. A copy of the auditor's report and financial statements for the Clean Water Fund Program as of June 30, 1997 and 1996 is set forth in APPENDIX A to this part of the Annual Report.

Clean Water Revenue Bond Program

In order to provide sufficient moneys with which to pay the principal and interest and sinking fund installments when due and payable on its Bonds, the State shall from time to time, with all practical dispatch and in a sound and economical manner consistent in all respects with the Act and the Water Quality Act as then amended and as interpreted in regulations adopted by the EPA and DNR and in effect and with the provisions of the General Resolution, use and apply the proceeds of the Bonds for the Leveraged Loan Program, to finance Loans pursuant to such Act as so amended and the General Resolution, to earn sufficient interest on its funds and accounts established within the General Resolution to generate income which when combined with moneys received with respect to the Municipal Obligations shall at least equal the principal and interest and sinking fund installments on the Bonds and shall do all such acts and things necessary to receive and collect the Loan Repayments and the interest on all funds and accounts established within the General Resolution and shall diligently enforce, and take all steps, actions and proceedings for the enforcement of all terms, covenants and conditions of the Loans for the enforcement of all terms, covenants and conditions of the Loans.

Events of Default

Each of the following events constitutes an "Event of Default":

(1) the State shall default in the payment of the principal or redemption price of any Bond when and as the same shall become due whether at maturity or upon call for redemption; or

(2) the State shall default in the payment of any installment of interest on any Bonds; or

(3) the State shall fail or refuse to comply with the provisions of the Act or shall default in the performance or observance of any other of the covenants, agreements or conditions on its part in the General Resolution, any Series Resolution, any Supplemental Resolution, or in the Bonds contained, and such failure, refusal or default shall continue for a period of 45 days after written notice thereof by the Trustee or the owners of not less than 25% in principal amount of Bonds outstanding.

Remedies

Upon the occurrence and continuance of any Event of Default specified in paragraphs (1) and (2) immediately above, the Trustee shall proceed, or upon the occurrence and continuance of any Event of Default specified in paragraph (3) immediately above, the Trustee may proceed, and upon the written request of the owners of not less than 25% in principal amount of the outstanding Bonds shall proceed, in its own name, to protect and enforce its rights and the rights of the Bondowners by such of the following remedies, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(1) by mandamus or other suit, action or proceeding at law or in equity, enforce all rights of the Bondowners, including the right to require the State to collect Loan Repayments adequate to carry out the covenants and agreements as to, and pledge of, such Loan Repayments, and other properties and to require the State to carry out any other covenant or agreement with Bondowners and to perform its duties under the Act;

(2) by bringing suit upon the Bonds;

(3) by action or suit in equity, require the State to account as if it were the trustee of any express trust for the owners of the Bonds; or

(4) by action or suit in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the owners of the Bonds.

In the enforcement of any remedy under the General Resolution, the Trustee shall be entitled to sue for, enforce payment on and receive any and all amounts then or during any default becoming, and at any time remaining, due from the State for principal, redemption price, interest or otherwise, under any provision of the General Resolution or a Series Resolution or of the Bonds, and unpaid, with interest, if any, on overdue payments at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings hereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondowners, and to recover and enforce a judgment or decree against the State for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

Program Expenses

The State covenants to pay all program expenses when due and payable, but only from the sources provided in the General Resolution.

The State covenants pay to the Fiduciaries from time to time reasonable compensation for all services rendered under the General Resolution, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys, agents and employees, incurred in and about the performance of their powers and duties under the General Resolution. The State further agrees to indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its willful misconduct, negligence or bad faith.

Defeasance

If the State shall pay or cause to be paid to the owners of all Bonds then outstanding, the principal or redemption price and interest to become due thereon, at the times and in the manner stipulated therein and in the General Resolution, then, at the option of the State, expressed in an instrument in writing signed by an Authorized Officer and delivered to the Trustee, the covenants, agreements and other obligations of the State to the Bondowners shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the State, execute and deliver to the State all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to the State all money, securities and funds held by them pursuant to the General Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

Bonds or interest installments for the payment or redemption of which moneys or securities shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by the State of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with effect expressed in the immediately preceding paragraph. All outstanding Bonds of any Series shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the immediately preceding paragraph if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the State shall have given to the Trustee in form satisfactory to the Trustee irrevocable instructions to give notice of redemption of such Bonds on said date as provided in the General Resolution, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Obligations, the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or redemption price and interest on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the State shall have given the Trustee in form satisfactory to it irrevocable instructions to publish, as soon as practicable, at least twice, at an interval of not less than seven days between publications, in Authorized Newspapers a notice to the owners of such Bonds that the deposit required by clause (ii) above has made with the Trustee and that said Bonds are deemed to have been paid and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal or redemption price on said Bonds. Neither Investment Obligations nor moneys deposited with the Trustee nor principal or interest payments on any such Investment Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or redemption price, if applicable, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Investment Obligations deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Investment Obligations maturing at times and in amounts sufficient to pay when due the principal or redemption price and interest die and to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestment shall be paid over to the State, as received by the Trustee, free and clear of any trust, lien or pledge. For the purposes of the defeasance provisions of the General Resolution, Investment Obligations shall mean and include direct general obligations of the United States of America and obligations (including obligations of any federal agency or corporation) the payment of the principal and interest on which, by act of the Congress of the United States or in the opinion of the Attorney General of the United States in office at the time such obligations were issued, are unconditionally guaranteed by the full faith and credit of the United States of America, or so long as such investments will not adversely affect the then current ratings, if any, assigned to the Bonds by each Rating Agency, any other evidences of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in this paragraph.

Anything in the General Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of any of the Bonds which remain unclaimed for six years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for six years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such Bonds became due and payable, shall, at the written request of the State, be repaid by the Fiduciary to the State, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondowners shall look only to the State for the payment of such Bonds; provided, however, that before being required to make any such payment to the State, the Fiduciary shall, at the expense of the State, cause to be published at least once in Authorized Newspapers, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall not be less than 30 days after the date of the first publication of such notice, the balance of such moneys then unclaimed will be returned to the State.

GLOSSARY

The following definitions apply to capitalized terms used in this Annual Report.

Accreted Value means, with respect to any Capital Appreciation Bond, the initial principal amount at which such Capital Appreciation Bond is sold to the initial purchaser by the State without reduction to reflect underwriter's discount, compounded from the date of delivery of such Bonds semiannually on each interest payment date prior to the date of calculation (and including such date of calculation if such date of calculation shall be an interest payment date) at the original issue yield to maturity less, with respect to Bonds with interest payable on a current basis, interest paid and payable during such period plus, if such date of calculation shall not be an interest payment date, a portion of the difference between the Accreted Value as of the immediately preceding interest payment date and the Accreted Value as of the immediately succeeding interest payment date calculated based upon an assumption that Accreted Value accrues during any semiannual period in equal daily amounts (based on a 360-day year of twelve 30-day months); provided, however, that the calculation of Accreted Value for purposes of determining whether Bondowners of the requisite amount of Outstanding Bonds have given any requisite demand, authorization, direction, notice, consent or waiver under the General Resolution shall be based upon the Accreted Value calculated as of the interest payment due immediately preceding such date of calculation (unless such date of calculation shall be an interest payment date, in which case calculated as of the date of calculation).

Act means Sections 281.58 and 281.59 of the Wisconsin Statutes, as amended.

Administrative Fund means the fund of that name established by the General Resolution.

Aggregate Debt Service for any period means, with respect to the Bonds, as of any date of calculation, the sum of the amounts of Debt Service for such period.

Authorized Newspapers means not less than two newspapers, customarily published at least once a day for at least five days (other than legal holidays) in each calendar week, printed in the English language, one of which is the newspaper published in Wisconsin and designated as the newspaper in which official notices of the State are to be published, and the other of which is a financial newspaper circulated in the Borough of Manhattan, City and State of New York.

Authorized Officer means the Capital Finance Director of the State and any other person designated in writing to the Trustee by the Capital Finance Director or by the Commission as an Authorized Officer.

Bond or **Bonds** means any bond or bonds, as the case may be, authenticated and delivered under the General Resolution pursuant to a Series Resolution.

Bond Depository means, initially, The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York or any other bond depository appointed by the Commission to act as bond depository for the Bonds in connection with a book-entry-only system of distributing Bonds.

Bondowners or **Owner of Bonds** or **Owner** (when used with reference to Bonds) or any term of similar import means the person or party in whose name the Bond is registered.

Business Day means any day other than a Saturday or Sunday or other day on which commercial banks in the city in which the principal office of the Trustee is located are not open for business, except as may be provided in a Series or Supplemental Resolution.

Capital Appreciation Bond means Bonds which provide for the addition of all or any part of accrued and unpaid interest thereon to the principal due thereon upon such terms and for such periods of time as may be determined by the applicable Series Resolution.

Capitalized Interest Account means the account of that name established within the Debt Service Fund by the General Resolution.

Clean Water Fund Program means the program established pursuant to the Act and operated and administered as part of the Environmental Improvement Fund.

Code means the Internal Revenue Code of 1986, as amended from time to time, and all regulations promulgated thereunder to the extent applicable to any Bonds, Loans or Municipal Obligations, as the case may be.

Commission means the State of Wisconsin Building Commission or any successor body having the power under the Subchapter II of Chapter 18 of the Statutes to authorize and direct the issuance of Bonds.

Commitment means a notice of financial assistance commitment entered into between DNR, DOA and a Municipality.

Contribution Amount has the meaning set forth in the definition of "Loan Credit Reserve Fund Requirement."

Costs of Issuance means, except as limited in any Series Resolution, any items of expense directly or indirectly payable by or reimbursable to the State and related to the authorization, sale and issuance of Bonds or Notes and the investment of the proceeds thereof, including, but not limited to, printing costs, costs of reproducing documents, filing and recording fees, initial fees and charges of Fiduciaries, legal fees and charges, professional consultants' fees, costs of credit ratings, premiums for insurance of the payment of Bonds or Notes or any fees and expenses payable in connection with any entity insuring the State, the Trustee or the owners of the Bonds or Notes against loss on Loans or Municipal Obligations, fees and charges for execution, transportation and safekeeping of Bonds or Notes, costs and expenses of refunding of Bonds or Notes, fees and expenses payable in connection with any Credit Facility, remarketing agreements, tender agent agreements or interest rate indexing agreements and other costs, charges and fees in connection with the original issuance of Bonds or Notes.

Costs of Issuance Account means the account of that name established within the Administrative Fund by the General Resolution.

Counsel's Opinion means an opinion signed by an attorney or firm of attorneys selected by or satisfactory to the State (who may be counsel to the State); provided, however, that for the purposes of Article II of the General Resolution (addressing authorization and issuance of Bonds) such term means an opinion signed by an attorney or firm of attorneys of recognized standing in the field of law relating to municipal bonds selected by the State and provided, further, that for the purposes of Section 8.08 of the General Resolution (addressing conditions for delivery of Municipal Obligations) such term means an opinion signed by an attorney or firm of attorneys selected by the Municipality and approved by the State.

Credit Facility means a letter of credit, revolving credit agreement, standby purchase agreement, surety bond, insurance policy, guaranty or similar obligation, arrangement or instrument issued by a bank, insurance company or other financial institution or the federal government or an agency thereof which (i) provides for payment of all or a portion of the principal of, Redemption Price of, or interest on any Series of Bonds, (ii) provides funds for the purchase of such Bonds or portions thereof, (iii) provides deposits for a fund or account under the General Resolution, or (iv) provides for or further secures payment of Loans or Municipal Obligations, provided that with respect to (iii) above, the issuer of which Credit Facility is rated, or the effect of which Credit Facility would cause bonds insured or secured thereby to be rated, in a rating category by each Rating Agency no lower than the then current rating on the Bonds (without such Credit Facility).

Debt Service for any period means, as of any date of calculation and with respect to any Series, an amount equal to the sum of (i) interest payable during such period on Bonds of such Series, (ii) that portion of the Principal Installments for such Series which are payable during such period, and (iii) any "Reimbursement Obligation" or "Parity Reimbursement Obligation" as defined in the General Resolution. Such interest and Principal Installments for such Series shall be calculated on the assumption that no Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof.

Debt Service Fund means the fund of that name established by the General Resolution.

Depository means any bank, trust company or national banking association, which may be the Trustee, selected by the Commission and approved by the Trustee as a depository of moneys and securities held under the provisions of the General Resolution and its successor or successors.

Direct Loan means loans made primarily from the proceeds of federal Capitalization Grants, the State Match, or Direct Loan Repayments, and excludes any Leveraged Loan.

DNR means the State of Wisconsin Department of Natural Resources.

DOA means the State of Wisconsin Department of Administration.

DTC means The Depository Trust Company, New York, New York.

Environmental Improvement Fund means the nonlapsible trust fund of that name created by Section 25.43 of the Statutes.

EPA means the United States Environmental Protection Agency.

Expense Account means the account of that name established within the Administrative Fund established by the General Resolution.

Fees and Charges means all fees and charges, if any, charged by the State to Municipalities pursuant to the terms and provisions of Loans or Municipal Obligations but does not include principal of and interest on such Municipal Obligations.

Fiduciary or **Fiduciaries** means the Trustee, any Paying Agent, any Depository or any or all of them, as may be appropriate.

Financial Assistance Agreement means any agreement entered into between DNR, DOA and a Municipality for financial assistance.

Fiscal Year means any 12 consecutive calendar months commencing with the second day of June and ending on the first day of the following June.

General Resolution means the Clean Water Revenue Bond General Resolution adopted by the Building Commission on March 7, 1991, as the same may be amended and supplemented from time to time.

Information Services means an institution or other service providing information with respect to called bonds, which shall include but not be limited to: Financial Information, Inc.'s "Daily Called Bond Service", 30 Montgomery Street, 20th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services' "Called Bond Service", 65 Broadway, 16th Floor, New York, New York 10006; Moody's "Municipal and Government", 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Report; and Standard and Poor's "Called Bond Record", 25 Broadway, 3rd Floor, New York, New York 10004. In accordance with then current guidelines of the Securities and Exchange Commission or other appropriate regulatory body, the State shall designate in a certificate of an Authorized Officer delivered to the Trustee such other addresses and/or such other services providing information with respect to called bonds, or no such service.

Interest Account means the account of that name established within the Debt Service Fund by the General Resolution.

Investment Obligation means any of the following which at the time are legal investments for moneys of the State:

(1) direct general obligations of the United States of America and obligations (including obligations of any federal agency or corporation) the payment of the principal and interest on which, by act of the Congress of the United States or in the opinion of the Attorney General of the United States in office at the time such obligations were issued, are unconditionally guaranteed by the full faith and credit of the United States of America, or so long as at the time of their purchase such investments will not adversely affect the then current ratings, if any, assigned to the Bonds by each Rating Agency, any other evidences of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in this clause (1);

(2) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable at the option of the obligor or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, (b) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (1) hereof which fund may be applied only to the payment of interest when due, principal of and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of and interest on the bonds and obligations of the character described in clause (1) hereof which have been deposited in such fund along with any cash on deposit in such fund is sufficient to pay interest when due, principal of and redemption premium, if any, on the bonds or other obligations described in this clause (2) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (2), as appropriate, and (d) which at the time of their purchase under the General Resolution bear the highest rating available from each Rating Agency;

(3) bonds, debentures, participation certificates (representing a timely guaranty of principal and interest), notes or similar evidences of indebtedness of any of the following: Federal Financing Bank, Federal Home Loan Bank System, Federal Farm Credit Bank, Federal National Mortgage Association (excluding "stripped" securities), Federal Home Loan Mortgage Corporation, Resolution Funding Corporation, Government National Mortgage Association, Student Loan Marketing Association or Tennessee Valley Authority;

(4) public housing bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or temporary notes, preliminary notes or project notes issued by public agencies or municipalities, in each case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America; provided, however, that any investment purchased pursuant to this clause shall be rated at the time of its purchase by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency;

(5) obligations of any state of the United States of America or of any political subdivision or public agency or instrumentality thereof, including the State, provided that at the time of their purchase under the General Resolution such obligations are rated by

each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency;

(6) direct obligations of the State or obligations guaranteed by the State that have the same rating as direct obligations of the State;

(7) prime commercial paper of a corporation incorporated under the laws of any state of the United States of America, having at the time of their purchase under the General Resolution the highest rating available from each Rating Agency;

(8) interest-bearing time deposits, certificates of deposit or other similar banking arrangements with banks (which may include any Fiduciary), provided such deposits are made with banks rated by each Rating Agency at the time the deposit is made no lower than the rating assigned to the Bonds by such Rating Agency;

(9) shares of a diversified open-end management investment company as defined in the Investment Company Act of 1940, which is a money market fund, which are rated at the time of their purchase by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency;

(10) repurchase agreements for obligations of the type specified in clauses (1) and (3) above, provided either (a) the repurchase agreement is an unconditional obligation of the counterparty and such counterparty is rated at the time of its purchase by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency or (b) the repurchase agreement is an obligation of a counterparty that is rated at the time of its purchase by each Rating Agency in an investment grade category and is collateralized by obligations which are marked to market daily and have a value equal to not less than the percentage of the amount thereby secured specified by each Rating Agency, taking into account the maturity of such obligations;

(11) any investment obligation or deposit the investment in which will not, at the time such investment is made, adversely affect the then current ratings, if any, assigned to the Bonds by each Rating Agency;

(12) any investment agreement with a bank, bank holding company, insurance company or other financial institution rated at the time such investment is made by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency or guaranteed by an entity rated by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency; and

(13) the Local Government Pooled–investment Fund of the State established under Chapter 25 of the Wisconsin Statutes.

Leveraged Loan means a Loan.

Loan means a Leveraged Loan heretofore or hereafter made by the State to a Municipality from the Loan Fund pursuant to a Financial Assistance Agreement and the Act and funded from Bond proceeds.

Loan Credit Reserve Fund means the fund of that name established by the General Resolution.

Loan Credit Reserve Fund Requirement means and is calculated as follows:

(1) Upon the issuance of the initial Series of Bonds, an Authorized Officer delivered to the Trustee, with respect to each Rating Agency, a schedule of credit quality categories and loan credit reserve fund requirements (a "Schedule") approved by such Rating

Agency. Each Schedule sets forth the percentage of the annual debt service attributable to each Loan disbursement from the Loan Fund to be deposited in the Loan Credit Reserve Fund with respect to each Loan disbursement. A Schedule may be amended from time to time upon the presentation to the Trustee of a certificate of an Authorized Officer, supported by a certificate from the Rating Agency to which such Schedule applies, confirming that such amendment to the Schedule will not adversely affect the then-outstanding rating assigned to the Bonds by such Rating Agency.

(2) The amount required in the Schedules for each Loan disbursement from the Loan Fund (and if the Schedules provide for different amounts, then the higher amount), is the "Contribution Amount".

(3) The Loan Credit Reserve Fund Requirement shall be, as of any date of calculation, the total Contribution Amount derived from each Schedule (and if the Schedules provide for a different total Contribution Amount, then the higher total Contribution Amount) that would be required were all disbursements from the Loan Fund outstanding to be disbursed on that date, based on the then-current Schedules.

Loan Fund means the fund of that name established by the General Resolution.

Loan Repayments or Leveraged Loan Repayments means any payment on a Loan pursuant to a Financial Assistance Agreement, or on the Municipal Obligations evidencing and securing the same, on account of the principal, interest and premium, if any, due on such Loan, including without limitation scheduled payments of principal and interest on such Loan or Municipal Obligation, any payment made to cure a default, prepayments of principal or interest and any additional amounts payable upon prepayment of such Loan or Municipal Obligations, and any amounts paid with respect to such Loan or Municipal Obligation on account of (i) acceleration of the due date of such Loan or such Municipal Obligation, (ii) the sale or other disposition of such Loan or the Municipal Obligations and other collateral securing such Loan, (iii) the receipt of proceeds of any insurance or guaranty of such Loan or Municipal Obligations or any Credit Facility applicable to such Loan or Municipal Obligations, and (iv) the exercise of any right or remedy granted to the State and available under law or the applicable Financial Assistance Agreement upon default on such Loan or Municipal Obligations but specifically excluding Fees and Charges.

MMSD means the Milwaukee Metropolitan Sewerage District.

Municipal Obligations means the bonds, notes or other evidence of debt issued by any Municipality and authorized by law and which have heretofore been or will hereafter be acquired by the State as evidence of indebtedness of a Loan, Direct Loan or Proprietary Loan to the Municipality pursuant to the Act.

Municipality means a political subdivision of the State constituting a "municipality" within the meaning of the Act, duly organized and existing under the laws of the State and any successor entity or a Federally recognized American Indian tribe or band in the State.

Non-SRF Account means account of that name established within the Loan Credit Reserve Fund.

Notes means any bond anticipation notes issued by the State pursuant to the Act.

NRMSIR means nationally recognized municipal securities information repository.

Outstanding, when used with reference to Bonds, other than Bonds referred to in Section 10.05 of the General Resolution (Bonds owned or held by or for the account of the State), means, as of any date, Bonds theretofore or then being delivered under the provisions of the General

Resolution, except: (i) any bonds cancelled by the Trustee or any Paying Agent at or prior to such date, (ii) any Bonds for the payment or redemption of which moneys equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held by the Trustee or the Paying Agents in Trust (whether at or prior to the maturity or redemption date), provided that if such Bonds are to be redeemed, irrevocable notice of such redemption shall have been given as provided in the General Resolution or provision satisfactory to the Trustee shall have been made for the giving of such notice, (iii) any Bonds in lieu of or in substitution for which other Bonds shall have been delivered pursuant to the General Resolution, and (iv) Bonds deemed to have been paid as provided in Article 12 of the General Resolution (defeasance). In determining whether Bondowners of the requisite amount of Outstanding Bonds have given any requisite demand, authorization, direction, notice, consent or waiver under the General Resolution, the principal amount of a Capital Appreciation Bond that shall be deemed Outstanding for such purposes shall be the Accreted Value thereof.

Parity Reimbursement Obligation means the obligation of the State described in the General Resolution to directly reimburse the issuer of a Credit Facility for amounts paid by such issuer thereunder, whether or not such obligation to so reimburse is evidenced by a promissory note or other similar instrument, which obligation shall be secured on a parity with the lien created by the General Resolution.

Paying Agent for the Bonds of any Series means the bank, trust company or national banking association, which may be the Trustee, and its successor or successors, appointed pursuant to the provisions of the General Resolution and a Series Resolution or any other resolution of the Commission adopted prior to authentication and delivery of the Series of Bonds for which such Paying Agent or Paying Agents shall be so appointed.

Pledged Receipts means (i) all Loan Repayments, including both timely and delinquent payments, (ii) Fees and Charges held or collected by the State, (iii) any moneys received by the State under Section 281.59(11)(b) of the Wisconsin Statutes (that is, state payments intercepted by DOA, and taxes collected by county treasurers) upon a default under a Municipal Obligation, (iv) any moneys made available to the Clean Water Fund Program pursuant to Section 281.59(13m) of the Wisconsin Statutes (that is, the State moral obligation for individual Loans), (v) any moneys collected by recourse to collateral and security devices under the Municipal Obligations, and (vi) any other moneys held or received by the State or the Trustee relating to the Municipal Obligations.

Principal Account means the account of that name established within the Debt Service Fund by the General Resolution.

Principal Installment means, as of any date of calculation and with respect to any Series of Bonds Outstanding, (i) the principal amount or Accreted Value of Bonds of such Series due on any payment date for which no Sinking Fund Installments have been established, or (ii) the Sinking Fund Installment due on a date for Bonds of such Series, or (iii) if such dates coincide, the sum of such principal amount or Accreted Value of Bonds and of such Sinking Fund Installment(s) due on such future date; in each case in the amounts and on the dates as provided in the Series Resolution authorizing such Series of Bonds; provided, however, that Principal Installments shall not include the principal of Notes.

Project means any municipal project for the design, acquisition, construction, improvement, repair, reconstruction, renovation or expansion of any municipal wastewater collection or treatment system or water supply system that is eligible for financing by the State pursuant to the Act.

Proprietary Loan means financial assistance made primarily from the proceeds of State general obligation bonds or repayment of Proprietary Loans, and excludes any Direct Loan or Loan.

Rating Agency means a credit rating agency which is nationally recognized for skill and expertise in rating the credit of obligations similar to the Bonds and which has assigned and currently maintains a rating on any Outstanding Bonds at the request of the State (which request may be withdrawn by the State so long as following such withdrawal of request, the Bonds are rated by at least two Rating Agencies), and any successor to any such agency by merger, consolidation or otherwise.

Rebate Fund means the fund of that name established by the General Resolution.

Record Date means, unless otherwise determined by a Series Resolution for a Series of Bonds, the close of business on the 15th day preceding a payment date or, if such day shall not be a business day, the immediately preceding business day.

Redemption Account means the account of that name established within the Debt Service Fund by the General Resolution.

Redemption Price, when used with respect to a Bond other than a Capital Appreciation Bond, or a portion thereof to be redeemed, means the principal amount of such Bond or such portion thereof plus the applicable premium, if any, payable upon redemption thereof, plus interest to the redemption date, pursuant to the General Resolution and the applicable Series Resolution, but, when used with respect to a Capital Appreciation Bond, "Redemption Price" means the Accreted Value on the date of redemption of such Bond or portion thereof plus the applicable premium, if any.

Refunding Bonds means all Bonds constituting the whole or a part of a Series of Bonds delivered on original issuance to refund other Bonds.

Reimbursement Obligation means the obligation of the State described in the General Resolution to directly reimburse the issuer of a Credit Facility for amounts paid by the issuer of the Credit Facility thereunder, whether or not such obligation to so reimburse is evidenced by a promissory note or other similar instrument.

Revenue Fund means the fund of that name established by the General Resolution.

Series of Bonds or Bonds of a Series or words of similar meaning means the series of Bonds authorized by a Series Resolution.

Series Resolution means a resolution of the Building Commission authorizing the issuance of a Series of Bonds in accordance with the terms and provisions of the General Resolution.

Sinking Fund Installment means, as of any particular date of calculation, (i) the amount required by the General Resolution and a Series Resolution to be deposited by the State for the retirement of Bonds which are stated to mature subsequent to such date or (ii) the amount required by the General Resolution and a Series Resolution to be deposited by the State on a date for the payment of Bonds at maturity on a subsequent date.

SRF Account means the account of that name established within the Loan Credit Reserve Fund by the General Resolution.

State means the State of Wisconsin.

State Equity Fund means the fund of that name established by the General Resolution.

Subsidy Fund means the fund of that name established by the General Resolution.

Subsidy Fund Requirement means that amount which, when invested as permitted in the General Resolution, is projected by an Authorized Officer to result in an amount being available during each period commencing immediately following the dated date of the initial Series of Bonds and thereafter an interest payment date and ending on the next interest payment date (a "Period") which is at least equal to the amount by which Aggregate Debt Service payable during the period exceeds the sum of (i) scheduled disbursements from the Capitalized Interest Account and (ii) Loan Repayments scheduled to be received during the Period from sources other than transfers of Loan capitalized interest from the Loan Fund. In making the projections set forth above, the State may treat undisbursed amounts in the Loan Fund as if (a) such undisbursed amounts are invested at an appropriate rate of interest to the final maturity of Bonds and (b) such undisbursed amounts and the earnings thereon are transferred from time to time to the Revenue Fund to pay debt service, and for purposes of calculating the Subsidy Fund Requirement, such amounts may be treated as if they were Loan Repayments made pursuant to clause (ii) above; provided that prior to each Loan disbursement the State recalculates the Subsidy Fund Requirement assuming for purposes of calculation that the disbursement has been made (and the amount is repayable in accordance with the applicable Municipal Obligations), and if such calculation fails to confirm that following the disbursement the Subsidy Fund Requirement is met, the State refrains from making a requisition for the disbursement.

Subsidy Fund Transfer Amount means that amount equal to the amount by which Aggregate Debt Service payable during the Period (as such term is used in the definition of Subsidy Fund Requirement) exceeds the sum of (i) Loan Repayments scheduled to be received and delinquent Loan Repayments actually received during the Period, (ii) earnings on the Loan Credit Reserve Fund deposited in the Revenue Fund during the Period, (iii) any moneys on deposit in the Revenue Fund, the Interest Account of the Debt Service Fund, or the Principal Account of the Debt Service Fund at the beginning of the Period, (iv) any amounts in the Loan Fund transferred to the Revenue Fund during the Period as directed in a certificate of an Authorized Officer, and (v) amounts scheduled to be transferred from the Capitalized Interest Account to the Interest Account during such Period.

Supplemental Resolution means a resolution supplemental to or amendatory of the General Resolution, adopted by the Commission in accordance with the General Resolution.

Trustee means Firstar Trust Company, Milwaukee, Wisconsin, and its successor or successors and any other bank, trust company or national banking association at any time substituted in its place pursuant to the General Resolution.

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APPENDIX A

AUDITED FINANCIAL STATEMENTS

The following are the auditor's report and financial statements for the Clean Water Fund Program as of June 30, 1997 and 1996.

STATE OF WISCONSIN

CLEAN WATER FUND PROGRAM

FINANCIAL STATEMENTS

AS OF JUNE 30, 1997 AND 1996

TOGETHER WITH REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Secretary of the Department of Administration
and the Secretary of the Department of Natural Resources
of the State of Wisconsin:

We have audited the accompanying balance sheets of the State of Wisconsin Clean Water Fund Program (an enterprise fund of the State of Wisconsin) as of June 30, 1997 and 1996, and the related statements of revenues and expenses, changes in fund equity and cash flows for the years then ended. These financial statements and the supplementary information referred to below are the responsibility of management. Our responsibility is to express an opinion on these financial statements and supplementary information based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Wisconsin Clean Water Fund Program as of June 30, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. This information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ ARTHUR ANDERSEN LLP
ARTHUR ANDERSEN LLP

Milwaukee, Wisconsin,
September 26, 1997.

STATE OF WISCONSIN

CLEAN WATER FUND PROGRAM

BALANCE SHEETS

AS OF JUNE 30, 1997 AND 1996

ASSETS	1997	1996
CASH AND CASH EQUIVALENTS	$178,998,665	$137,275,276
UNITED STATES TREASURY NOTE	6,991,853	-
INVESTMENTS, State of Wisconsin General Obligation Clean Water Bonds	86,638,873	79,595,005
RECEIVABLES:		
Loans to Wisconsin municipalities	697,194,310	606,071,121
Due from State of Wisconsin	38,700	126,455
Due from other governmental entities	3,687,079	5,879,393
Accrued investment income	1,767,260	1,520,865
RESTRICTED ASSETS	34,605,879	29,471,991
DEFERRED DEBT EXPENSE	3,013,744	2,532,574
OTHER ASSETS	80,022	140,619
Total assets	$1,013,016,385	$862,613,299
LIABILITIES AND FUND EQUITY		
REVENUE OBLIGATION BONDS, net (including deferred charge)	$431,974,004	$364,631,898
ACCRUED INTEREST ON BONDS	2,051,018	1,758,402
DUE TO OTHER FUNDS	594,364	614,526
ACCRUED EXPENSES	175,041	210,049
Total liabilities	434,794,427	367,214,875
FUND EQUITY:		
Contributed capital	598,235,516	517,555,314
Retained (deficit)	(20,013,558)	(22,156,890)
Total fund equity	578,221,958	495,398,424
Total liabilities and fund equity	$1,013,016,385	$862,613,299

The accompanying notes to financial statements are an integral part of these statements.

STATE OF WISCONSIN

CLEAN WATER FUND PROGRAM

STATEMENTS OF REVENUES AND EXPENSES

FOR THE YEARS ENDED JUNE 30, 1997 AND 1996

	1997	1996
OPERATING REVENUES:		
Loan interest	$20,952,692	$18,321,599
OPERATING EXPENSES:		
Interest	23,573,310	23,024,545
Salaries and benefits	2,670,405	2,941,193
Contractual services and other	585,872	575,767
Depreciation	37,747	58,254
Total operating expenses	26,867,334	26,599,759
Net operating (loss)	(5,914,642)	(8,278,160)
OTHER INCOME (EXPENSE):		
Investment interest	17,619,452	17,102,740
Operating grants	1,054,019	2,082,758
Hardship grants and other expenditures	(10,631,761)	(10,585,735)
Other revenues	-	2,100
Total other income	8,041,710	8,601,863
Operating transfer in	16,264	-
Residual equity transfers (out)	-	(3,067)
Net income	$2,143,332	$320,636

The accompanying notes to financial statements are an integral part of these statements.

STATE OF WISCONSIN

CLEAN WATER FUND PROGRAM

STATEMENTS OF CHANGES IN FUND EQUITY

FOR THE YEARS ENDED JUNE 30, 1997 AND 1996

	Contributed Capital	Retained (Deficit)	Total Fund Equity
FUND EQUITY, June 30, 1995	$478,632,023	$(22,477,526)	$456,154,497
NET INCOME	-	320,636	320,636
CAPITAL CONTRIBUTIONS:			
State of Wisconsin	12,000,000	-	12,000,000
U.S. Environmental Protection Agency	26,923,291	-	26,923,291
FUND EQUITY, June 30, 1996	517,555,314	(22,156,890)	495,398,424
NET INCOME	-	2,143,332	2,143,332
CAPITAL CONTRIBUTIONS:			
State of Wisconsin	37,000,000	-	37,000,000
U.S. Environmental Protection Agency	43,680,202	-	43,680,202
FUND EQUITY, June 30, 1997	$598,235,516	$(20,013,558)	$578,221,958

The accompanying notes to financial statements are an integral part of these statements.

STATE OF WISCONSIN

CLEAN WATER FUND PROGRAM

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 1997 AND 1996

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Payments to employees for services	$(2,474,166)	$(2,010,732)
Payments to suppliers and change in receivables	(747,782)	(1,729,517)
Net cash (used in) operations	(3,221,948)	(3,740,249)
CASH FLOWS FROM NONCAPITAL FINANCING:		
Operating grants received	1,799,689	1,586,660
Grants paid	(10,609,448)	(10,585,735)
Contributed capital—State of Wisconsin	41,000,000	24,000,000
Return of contributed capital—State of Wisconsin	(4,000,000)	(12,000,000)
Contributed capital—U.S. Environmental Protection Agency	45,567,941	25,035,552
Proceeds from issuance of long-term debt	80,093,217	80,933,834
Retirement of long-term debt	(13,560,000)	(10,100,000)
Interest payments	(22,691,379)	(21,269,308)
Operating transfers in/(out)	16,264	-
Net cash provided by noncapital financing activities	117,616,284	77,601,003
CASH FLOWS FROM CAPITAL AND RELATED FINANCING:		
Purchase of fixed assets	-	(22,804)
Net cash used in capital and related financing activities	-	(22,804)
CASH FLOWS FROM INVESTING:		
Origination of loans	(122,331,525)	(99,443,739)
Collection of loans	31,208,336	27,803,217
Interest on loans	20,511,597	17,932,156
Purchase of investments	(23,845,177)	(5,000,000)
Liquidation of investments	9,992,132	2,046,428
(Increase) in restricted assets	(5,133,888)	(4,930,975)
Investment income recorded	16,927,578	17,229,603
Net cash used in investing activities	(72,670,947)	(44,363,310)
Net increase in cash and cash equivalents	41,723,389	29,474,640
CASH AND CASH EQUIVALENTS, at beginning of year	137,275,276	107,800,636
CASH AND CASH EQUIVALENTS, at end of year	$178,998,665	$137,275,276

The accompanying notes to financial statements are an integral part of these statements.

STATE OF WISCONSIN

CLEAN WATER FUND PROGRAM

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 1997 AND 1996

(Continued)

	1997	1996
RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED IN) OPERATIONS:		
Operating (loss)	$(5,914,642)	$(8,278,160)
ADJUSTMENTS TO RECONCILE OPERATING (LOSS) TO NET CASH (USED IN) OPERATIONS:		
Depreciation	37,747	58,254
Amortization	964,718	1,184,881
Interest income classified as investing activity	(20,952,692)	(17,932,156)
Interest expense classified as noncapital financing activity	22,054,380	21,347,762
Changes in assets and liabilities-		
Decrease in prepaid items	601	1,563
(Increase)/decrease in receivables	(64)	1,200
(Increase) in due from other funds	(726,691)	(439,180)
(Increase) in due from other governments	-	(389,426)
Increase/(decrease) in accounts payable	3,621	(62,148)
Increase in interest payable	292,616	325,649
(Decrease)/increase in compensated absences	(37,130)	23,570
Increase in due to other funds	1,057,088	416,442
(Decrease)/increase in due to other governments	(1,500)	1,500
Total adjustments	2,692,694	4,537,911
Net cash (used in) operations	$(3,221,948)	$(3,740,249)

The accompanying notes to financial statements are an integral part of these statements.

STATE OF WISCONSIN

CLEAN WATER FUND PROGRAM

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1997

(1) Nature of Operations and Summary of Significant Accounting Policies-

(a) Reporting entity-

The State of Wisconsin Clean Water Fund Program (the "Fund") is an enterprise fund of the State of Wisconsin (the "State") administered by the State of Wisconsin Department of Natural Resources (the "DNR") and the State of Wisconsin Department of Administration (the "DOA").

The Fund was established in 1990 when the State of Wisconsin approved legislation directing establishment of the Clean Water Fund Loan Program. The Fund consists of the following programs:

- Leveraged Loan Program--This program is funded by proceeds of revenue obligation bonds and capital contributions from the State. Assets in this program are used for loans to Wisconsin municipal waste water projects that meet applicable State eligibility and reporting requirements.

- Direct Loan Program--This program is funded by U.S. Environmental Protection Agency (the "EPA") capitalization grants and capital contributions from the State (i.e., a minimum 20% match of EPA capitalization grant). Loans in this program are made for waste water projects that comply with EPA eligibility and reporting requirements.

- Proprietary Program--This program is funded by capital contributions from the State. Assets of this program are used for other various waste water projects including both loans and hardship grants.

(b) Net operating losses-

The Fund incurred net operating losses in 1997 and 1996 of approximately $5.9 million and $8.3 million. Management expects the Fund will generally incur net operating losses for the foreseeable future. As explained in Note 2, these losses result from the Fund's statutory mission to provide loans to municipalities at interest rates below the Fund's own cost of funds. The losses have historically been funded by capital contributions. Capital contributions were approximately $81 million and $39 million in 1997 and 1996, respectively. Management expects capital contributions will continue for the foreseeable future sufficient to fund both the future net operating losses and, together with additional borrowing, to fund additional loans to municipalities.

(c) Interest on loans receivable-

Interest on loans receivable is recognized on an accrual basis and recorded within due from other governmental entities on the balance sheet.

(d) United States Treasury Note-

The Fund holds a United States Treasury Note as an investment at June 30, 1997. The carrying value of the Note was $6,991,853 with a fair market value of $7,213,884. The Note bears interest at 6% and matures on December 1, 1997. By the GASB Statement No. 3 definition, this security is classified as a category one investment.

(e) Investments-

Investments are stated at cost (see Note 6). Accrued interest on investments is recorded as earned. Investment transactions are recorded on the trade date.

(f) Deferred debt expense-

Issuance costs relating to the revenue obligation bonds were capitalized and are being amortized using the effective rate method.

(g) Revenue obligation bonds-

Interest on revenue obligation bonds is recognized on an accrual basis.

(h) Deferred charge-

The Fund defers the difference between the reacquisition price and the net carrying amount of defeased debt and amortizes it as a component of interest expense over the shorter of the remaining life of the old debt or the life of the new debt. The unamortized deferred charge related to debt defeasance is classified as a reduction of revenue obligation bonds.

(i) Cash equivalents-

The Fund considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The Fund also considers as cash equivalents guaranteed investment contracts or repurchase agreements permitting withdrawals required by the bond resolution to meet insufficiencies in debt service payments.

(2) Loans to Wisconsin Municipalities-

Loans to Wisconsin municipalities represent loans for waste water treatment projects and are for terms of up to 20 years. These loans are made at a number of prescribed interest rates based on project type categories. In order to effectuate statutory policy, a majority of the loans issued by the Clean Water Fund Program are at interest rates which are below the State's cost of borrowing. The net loss and resulting retained deficit created by this negative interest margin is funded by State contributions. Interest rates ranged from 0% to 5.8% in both 1997 and 1996. The weighted average interest rate was 3.17% in both 1997 and 1996. The loans contractually are revenue obligations or general obligations of the municipalities, or both. Additionally, various statutory provisions exist which provide further security for payment. In the event of a default, the State can intercept State aid payments due to the applicable municipality, induce an additional charge to the amount of property taxes levied by the county in which the applicable municipality is located, or both. Accordingly, no reserve for loan loss is deemed necessary.

Of the loans outstanding at June 30, 1997 and 1996, $197,716,719 and $181,548,216 (28% and 30%), respectively, were loans due from the Milwaukee Metropolitan Sewerage District.

The Fund has made additional financial assistance commitments of $133,961,661 as of June 30, 1997. From July 1, 1997 to September 26, 1997, the Fund made loan disbursements of $31,796,360 from these additional commitments. These loan commitments are generally met through the proceeds from additional Federal grants and from the issuance of additional revenue obligation bonds. (See Note 4.)

(3) Cash and Cash Equivalents-

As of June 30, 1997 and 1996, cash and cash equivalents consisted of the following:

	1997	1996
State of Wisconsin Investment Board (SWIB) Local Government Investment Pool (LGIP)	$123,333,226	$128,872,776
Repurchase agreement with Sanwa Bank (New York)	-	24,026,289
MBIA guaranteed investment agreement	6,250,292	6,250,292
Repurchase agreement with Bayerische Landesbank	7,597,910	7,597,910
American International Group Matched Funding Corp. (AIG) guaranteed investment agreement	24,026,289	-
Trinity Funding Company municipal investment contract	52,396,827	-
	213,604,544	166,747,267
Less: Restricted assets (see Note 4)	(34,605,879)	(29,471,991
Total cash and cash equivalents	$178,998,665	$137,275,276

The LGIP is an investment fund managed by SWIB that accepts investment deposits from over 1,000 municipalities and other public entities in the State of Wisconsin. The objectives of the LGIP are to provide safety of principal, liquidity, and a reasonable rate of return. The LGIP is insured as to credit risk. The LGIP functions in a manner similar to a money market fund in that the yield earned changes daily and participants may invest or withdraw any or all amounts on a daily basis at par value. The LGIP is strategically managed with a longer average life than a money market fund. At June 30, 1997, the current yield on the LGIP was 5.26%.

The investment with MBIA Investment Management Corporation is secured by a financial guarantee insurance policy issued by the MBIA Insurance Corporation. At June 30, 1997, the agreement was accruing interest at the rate of 6.2%. The investment with AIG is secured by a financial guarantee insurance policy issued by the parent of AIG, American International Group. At June 30, 1997, the agreement was accruing interest at the rate of 8.10%. The repurchase agreement with Bayerische Landesbank is collateralized by U.S. Treasury notes, bonds and debentures with a market value of $9,612,394 at June 30, 1997. The collateral is held by Norwest Bank pursuant to a custody agreement. The repurchase agreement contains a fixed yield of 6.5%. Both the repurchase agreement along with the MBIA and AIG investment agreements provide for liquidation of investments at par if and when required by the terms of the Clean Water Revenue Bond General Resolution. The investment with Trinity is a municipal investment account with a fixed yield of 5.72%. The investment is supported by an irrevocable letter of credit and liquidity facility from GE Capital Corporation.

(4) Revenue Obligation Bonds and Restricted Assets-

Revenue obligation serial and term bonds as of June 30, 1997 and 1996, consisted of the following:

	1997	1996
1991 Series 1:		
Serial Bonds, optional redemption for bonds at 102% of par, June 1, 2001, declining to 100% of par, June 1, 2003	$62,660,000	$71,100,000
Term Bonds, mandatory redemption of bonds at 100% of Par, June 1, 2009 through June 1, 2011	57,445,000	57,445,000
	120,105,000	128,545,000
Unamortized discount on bonds	(339,231)	(368,003)
	119,765,769	128,176,997

	1997	1996
1993 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2004	$79,395,000	$82,735,000
Unamortized discount on bonds	(671,565)	(736,741)
	78,723,435	81,998,259
1993 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2004	79,120,000	79,650,000
Unamortized premium on bonds	1,834,987	1,977,256
	80,954,987	81,627,256
1995 Series 1		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2006	$78,750,000	$80,000,000
Unamortized premium on bonds	968,091	1,126,872
	79,718,091	81,126,872
1997 Series 1		
Serial Bonds, option redemption for bonds at 100% of par, June 1, 2008	$80,000,000	$ -
Unamortized premium on bonds	254,146	-
	80,254,146	-
Total of all series	439,416,428	372,929,384
Unamortized deferred charge related to debt defeasance (Note 5)	(7,442,424)	(8,297,486)
Revenue obligation bonds, net of deferred charge	$431,974,004	$364,631,898

The original issue discount or premium and weighted average interest rate on the following bonds were:

Series	Original Issue Discount/(Premium)	Weighted Average Interest Rate
1991 Series 1	$1,366,407	6.61%
1993 Series 1	907,852	5.02%
1993 Series 2	(2,349,252)	5.01%
1995 Series 1	(1,253,936)	5.31%
1997 Series 1	(288,312)	5.18%

Interest rates range from 3.90% to 6.88% on the bonds.

Maturities of the bonds, net of advance refundings, as of June 30, 1997, are as follows:

Years Ending	1991 Series	1993 Series 1	1993 Series 2	1995 Series 1	1997 Series 1	Total
1998	$8,940,000	$3,470,000	$550,000	$1,310,000	$ -	$14,270,000
1999	9,470,000	3,610,000	575,000	3,165,000	2,640,000	19,460,000
2000	10,060,000	3,765,000	600,000	3,300,000	2,760,000	20,485,000
2001	10,695,000	3,925,000	625,000	3,450,000	2,880,000	21,575,000
2002	11,375,000	4,095,000	650,000	3,640,000	3,010,000	22,770,000
2003-2005	12,120,000	13,450,000	28,545,000	12,345,000	9,885,000	76,345,000
2006-2010	-	27,160,000	47,575,000	25,740,000	20,340,000	120,815,000
2011-2017	57,445,000	19,920,000	-	25,800,000	38,485,000	141,650,000
	$120,105,000	$79,395,000	$79,120,000	$78,750,000	$80,000,000	$437,370,000

The revenue obligation bonds are collateralized by a security interest in all assets of the Leveraged Loan Program. At June 30, 1997 and 1996, the total assets of the Leveraged Loan Program were $541,215,834 and $458,889,300, respectively. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the revenue obligation bonds. However, as the loans granted to the municipalities are at an interest rate which is less than the Revenue Bond rate, the State is obligated by the Clean Water Fund General Resolution to fund, prior to each loan disbursement, a reserve which subsidizes the Leveraged Loan Program in an amount which offsets this interest rate disparity.

Among other restrictions under the revenue obligation bond agreements are provisions that require that a specified amount of cash and investments be held by an independent trustee in a reserve account for the purpose of paying bond interest and principal when due. The restricted assets on the balance sheet, which constitute substantially all of the MBIA, AIG, Trinity, and Bayerische Landesbank investments (Note 3), represent the amounts restricted under the agreements and an equal amount, as defined, to maintain a prescribed minimum credit quality rating for the loans outstanding.

(5) Advance Refunding-

In 1993, the Fund defeased a portion of the 1991 Series 1 Revenue Obligation Bonds by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Fund's financial statements. On June 30, 1997, $73,765,000 of bonds outstanding were considered defeased.

(6) Contributed Capital-

State of Wisconsin--For fiscal year 1997, Capital Contributions from the State consisted of $41,000,000 in cash reduced by the return of capital of $4,000,000 (all of which was statutorily mandated). The statutorily mandated return of capital is based on amounts the State general fund requires for debt service payments on obligations the State incurred to fund certain capital contributions to the fund. The Fund will be required to return capital to the State in fiscal 1998 and 1999 of $4,000,000 each year. Using cash contributed by the State, the Fund owned $86,638,873 (par value) of State of Wisconsin General Obligation Bonds ($55,000,000 of Clean Water Fund Series 1 Bonds of 1991, $5,000,000 of Clean Water Fund Series A Bonds of 1993, $20,000,000 of Clean Water Fund Series 1 Bonds of 1994, $5,000,000 of Clean Water Fund Series 1 Bonds of 1995 and $5,000,000 of Clean Water Fund Series 1 Bonds of 1996, and $5,000,000 of Clean Water Fund Series 1 Bonds of 1997) as of June 30, 1997. The full faith, credit and taxing power of the State are irrevocably pledged for payment of the principal of and interest on the General Obligation Bonds. Although the intent of the Fund is to hold the Bonds to maturity, the Bonds can be sold without restriction. The estimated market value and the stated weighted average interest rate of the State of Wisconsin General Obligation Bonds-Clean Water Fund Series are as follows:

	Estimated Market Value		Weighted Average Interest Rate	
	1997	1996	1997	1996
1991 Series 1	$56,805,443	$56,961,498	9.4%	9.4%
1993 Series A	4,758,092	4,752,048	8.0%	8.0%
1994 Series 1	18,870,469	18,523,259	6.6%	6.6%
1995 Series 1	4,740,700	4,814,781	7.3%	7.2%
1996 Series 1	4,801,912	-	7.4%	-
1997 Series 1	5,138,733	-	7.4%	-

The Bonds are registered in the name of the Fund and held by an independent trustee. By the GASB Statement No. 3 definition these securities are classified as category one (insured or registered with securities held by the Fund's agent in the Fund's name).

Maturities of the Bonds as of June 30, 1997, are as follows:

Years Ending June 30,	1991 Series 1	1993 Series A	1994 Series 1	1995 Series 1	1996 Series 1	1997 Series 1	Total
1998	$1,863,005	$170,729	$558,396	$166,122	$ -	$802	$2,759,054
1999	2,026,223	179,976	590,720	159,640	-	271,547	3,228,106
2000	2,206,073	194,837	630,157	167,902	-	285,835	3,484,804
2001	2,409,495	206,860	660,100	180,055	-	297,817	3,754,327
2002	2,624,301	222,391	691,928	192,571	346,889	175,776	4,253,856
2003-2017	37,787,739	3,413,391	15,883,704	3,769,413	4,336,256	3,968,223	69,158,726
	$48,916,836	$4,388,184	$19,015,005	$4,635,703	$4,683,145	$5,000,000	$86,638,873

U.S. Environmental Protection Agency--The Federal Water Quality Act of 1987 (the "Water Quality Act") established a joint Federal and State program to assist in providing financial assistance to municipalities within the states for governmentally owned waste water treatment projects. Reauthorization of the Water Quality Act of 1987 is not expected to be acted upon by the present Congress of the United States, although the allocation of capitalization grants to states are expected to result in a grant to Wisconsin of approximately $28 million for federal fiscal year 1998. Authorization levels for years after 1998 are unknown at this time. $44,734,221 was received in fiscal year 1997 through this grant, of which $43,680,202 was reflected as contributed capital and $1,054,019 as operating grants. In fiscal year 1996, $29,006,048 was received, of which $26,923,291 was reflected as contributed capital, and $2,082,758 as operating grants. Under the terms of the EPA grant, the State was required (1) to establish the Fund, a perpetual state revolving fund into which the grant monies must be deposited, (2) to provide State matching funds equal to 20% of the grant and (3) to use the monies to provide financial assistance to municipalities for governmentally owned waste water treatment projects in a number of ways, provided that such assistance is not in the form of a grant.

(7) Transactions with Related Parties-

The DNR and DOA have statutory duties to manage the Fund. All expenses relating to the management of the Fund are allocated to and paid by the Fund. Total allocated expenses from DNR and DOA which are reflected in the statement of revenues and expenses for the years ended June 30, 1997 and 1996, were $2,628,582 and $2,713,693, respectively. The Fund charges all DNR and DOA expenses to the Direct Loan Program and Proprietary Program. Thus, certain expenses have been allocated to the Leveraged Loan Program to more accurately reflect the expenses incurred by each program.

(8) Hardship and Other Grants-

Wisconsin statutes require that the Fund provide financial hardship assistance for those communities that qualify under Wisconsin Statute 281.58(13). This assistance may come in the form of reduced interest rates (as low as 0%) or grants subject to limitations prescribed by the statute. In 1997, the fund expended hardship grants of $10,527,610. At fiscal year end, the Fund had committed to award $6,320,273 of additional hardship grants. In addition, the Fund expended $81,837 of other grants.

STATE OF WISCONSIN

CLEAN WATER FUND PROGRAM

BALANCE SHEET BY PROGRAM

AS OF JUNE 30, 1997

	Direct Loan Program	Proprietary Program	Leveraged Loan Program	Eliminations	Total
CASH AND CASH EQUIVALENTS	$98,027,894	$20,556,730	$60,414,041	$ -	$178,998,665
UNITED STATES TREASURY NOTE	-	-	6,991,853	-	6,991,853
INVESTMENTS, State of Wisconsin General Obligation Clean Water Bonds	-	-	86,638,873	-	86,638,873
RECEIVABLES:					
Loans to Wisconsin municipalities	330,299,919	20,847,785	346,046,606	-	697,194,310
Due from State of Wisconsin	-	2,712,435	-	(2,673,735)	38,700
Due from other governmental entities	1,880,673	68,828	1,737,578	-	3,687,079
Accrued investment income	-	-	1,767,260	-	1,767,260
RESTRICTED ASSETS	-	-	34,605,879	-	34,605,879
DEFERRED DEBT EXPENSE	-	-	3,013,744	-	3,013,744
OTHER ASSETS	-	80,022	-	-	80,022
Total assets	$430,208,486	$44,265,800	$541,215,834	$(2,673,735)	$1,013,016,385
REVENUE OBLIGATION BONDS, net (including deferred charge)	$ -	$ -	$431,974,004	$ -	$431,974,004
ACCRUED INTEREST ON BONDS	-	-	2,051,018	-	2,051,018
DUE TO OTHER FUNDS	1,237,987	539,516	1,490,596	(2,673,735)	594,364
ACCRUED EXPENSES	-	175,041	-	-	175,041
Total liabilities	1,237,987	714,557	435,515,618	(2,673,735)	434,794,427
FUND EQUITY	428,970,499	43,551,243	105,700,216	-	578,221,958
Total liabilities and fund equity	$430,208,486	$44,265,800	$541,215,834	$(2,673,735)	$1,013,016,385

STATE OF WISCONSIN

CLEAN WATER FUND PROGRAM

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY BY PROGRAM

FOR THE YEAR ENDED JUNE 30, 1997

	Direct Loan Program	Proprietary Program	Leveraged Loan Program	Eliminations	Total
OPERATING REVENUES:					
Loan interest	$10,339,710	$473,327	$10,139,655	$ -	$20,952,692
OPERATING EXPENSES:					
Interest	-	-	23,573,310	-	23,573,310
Salaries and benefits	1,393,055	127,735	1,149,615	-	2,670,405
Contractual services and other	210,881	34,467	340,524	-	585,872
Depreciation	-	37,747	-	-	37,747
Total operating expenses	1,603,936	199,949	25,063,449	-	26,867,334
Net operating income (loss)	8,735,774	273,378	(14,923,794)	-	(5,914,642)
OTHER INCOME (EXPENSE):					
Investment interest	4,776,669	317,063	12,525,720	-	17,619,452
Operating grants	1,054,019	-	-	-	1,054,019
Hardship grants and other expenditures	-	(10,631,761)	-	-	(10,631,761)
Total other income (expense)	5,830,688	(10,314,698)	12,525,720	-	8,041,710
Net income (loss) before operating transfers	14,566,462	(10,041,320)	(2,398,074)	-	2,127,068
Operating transfers in (out)	207,495	(191,231)	-	-	16,264
Net income (loss)	14,773,957	(10,232,551)	(2,398,074)	-	2,143,332
FUND EQUITY, beginning of year	365,625,674	38,674,460	91,098,290	-	495,398,424
CAPITAL CONTRIBUTIONS:					
State of Wisconsin	4,890,666	15,109,334	17,000,000	-	37,000,000
U.S. Environmental Protection Agency	43,680,202	-	-	-	43,680,202
FUND EQUITY, end of year	$428,970,499	$43,551,243	$105,700,216	$ -	$578,221,958

STATE OF WISCONSIN

CLEAN WATER FUND PROGRAM

STATEMENT OF CASH FLOWS BY PROGRAM

FOR THE YEAR ENDED JUNE 30, 1997

	Direct Loan Program	Proprietary Program	Leveraged Loan Program	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Payments to employees for services	$(1,332,493)	$(566,473)	$(575,200)	$ -	$(2,474,166)
Payments to suppliers and other	(105,000)	7,582	(650,364)	-	(747,782)
Net cash (used in) operations	(1,437,493)	(558,891)	(1,225,564)	-	(3,221,948)
CASH FLOWS FROM NONCAPITAL FINANCING:					
Operating grants received	1,799,689	-	-	-	1,799,689
Grants paid	-	(10,609,448)	-		(10,609,448)
Contributed capital--State of Wisconsin	8,890,666	15,109,334	17,000,000	-	41,000,000
Return of contributed capital--State of Wisconsin	(4,000,000)	-	-	-	(4,000,000)
Contributed capital--U.S. Environmental Protection Agency	45,567,941	-	-	-	45,567,941
Proceeds from issuance of long term debt	-	-	80,093,217	-	80,093,217
Retirement of long-term debt	-	-	(13,560,000)	-	(13,560,000)
Interest payments	-	-	(22,691,379)	-	(22,691,379)
Operating transfers in/(out)	207,495	(191,231)	-	-	16,264
Net cash provided by noncapital financing activities	52,465,791	4,308,655	60,841,838	-	117,616,284
CASH FLOW FROM CAPITAL AND RELATED FINANCING:					
Purchase of fixed assets	-	-	-	-	-
Net cash used in capital and related financing activities	-	-	-	-	-
CASH FLOWS FROM INVESTING:					
Loans originated	(62,494,232)	(5,792,314)	(73,329,000)	19,284,021	(122,331,525)
Collection of loans	14,419,370	6,726,630	29,346,357	(19,284,021)	31,208,336
Interest on loans	10,104,026	473,430	9,934,141	-	20,511,597
Purchase of investments	-	-	(23,845,177)	-	(23,845,177)
Liquidation of investments	-	-	9,992,132	-	9,992,132
Increase in restricted assets	-	-	(5,133,888)	-	(5,133,888)
Investment income received	4,776,669	23,493	12,127,416	-	16,927,578
Net cash provided by (used in) investing activities	(33,194,167)	1,431,239	(40,908,019)	-	(72,670,947)
Net increase in cash and cash equivalents	17,834,131	5,181,003	18,708,255	-	41,723,389
CASH AND CASH EQUIVALENTS, at beginning of year	80,193,762	15,375,727	41,705,787	-	137,275,276
CASH AND CASH EQUIVALENTS, at end of year	$98,027,893	$20,556,730	$60,414,042	$ -	$178,998,665

STATE OF WISCONSIN

CLEAN WATER FUND PROGRAM

STATEMENT OF CASH FLOWS BY PROGRAM

FOR THE YEAR ENDED JUNE 30, 1997

	Direct Loan Program	Proprietary Program	Leveraged Loan Program	Eliminations	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATIONS:					
Operating income (loss)	$8,735,774	$273,378	$(14,923,794)	$ -	$(5,914,642)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY/(USED IN) OPERATIONS:					
Depreciation	-	37,747	-	-	37,747
Amortization	-	-	964,718	-	964,718
Interest income classified as investing activity	(10,339,710)	(473,327)	(10,139,655)	-	(20,952,692)
Interest expense classified as noncapital financing activity	-	-	22,054,380	-	22,054,380
Changes in assets and liabilities-					
Decrease in prepaid items	-	601	-	-	601
(Increase) in receivables	-	(64)	-	-	(64)
(Increase) in due from other funds	-	(726,691)	-	-	(726,691)
Increase in accounts payable	-	3,621	-	-	3,621
Increase in interest payable	-	-	292,616	-	292,616
(Decrease) in compensated absences	-	(37,130)	-	-	(37,130)
Increase in due to other funds	166,443	364,474	526,171	-	1,057,088
(Decrease) in due to other governments	-	(1,500)	-	-	(1,500)
Total adjustments	(10,173,267)	(832,269)	13,698,230	-	2,692,694
Net cash (used in) operations	$(1,437,493)	$(558,891)	$(1,225,564)	$ -	$(3,221,948)

STATE OF WISCONSIN

CLEAN WATER FUND PROGRAM

LEVERAGED LOAN PROGRAM

BALANCE SHEET

AS OF JUNE 1, 1997

ASSETS

CASH AND CASH EQUIVALENTS	$94,044,446
UNITED STATES TREASURY NOTES	6,852,081
INVESTMENTS--State of Wisconsin General Obligation Clean Water Bonds	86,638,873
RESTRICTED ASSETS	33,950,749
RECEIVABLES:	
Loans to Wisconsin municipalities	338,351,390
Due from other governmental entities	878,272
Accrued investment income	1,232,462
DEFERRED DEBT EXPENSE	3,038,622
Total assets	$564,986,895

LIABILITIES AND FUND EQUITY

REVENUE OBLIGATION BONDS, net (including deferred charge)	$445,485,485
ACCOUNTS PAYABLE	65,934
ACCRUED INTEREST ON BONDS	12,140,963
DUE TO PROPRIETARY PROGRAM	1,368,945
Total liabilities	459,061,327
FUND EQUITY:	
Contributed capital	118,455,964
Retained (deficit)	(12,530,396)
Total fund equity	105,925,568
Total liabilities and fund equity	$564,986,895

STATE OF WISCONSIN

CLEAN WATER FUND PROGRAM

LEVERAGED LOAN PROGRAM

STATEMENT OF REVENUES AND EXPENSES

FOR THE YEAR ENDED JUNE 1, 1997

OPERATING REVENUES:	
Loan interest	$10,032,418
OPERATING EXPENSES:	
Interest, including discount amortization	23,282,825
Salaries and benefits	1,101,748
Contractual services and other	344,544
Total operating expenses	24,729,117
Operating (loss)	(14,696,699)
INVESTMENT INCOME	12,322,428
Net (loss)	$(2,374,271)

STATE OF WISCONSIN

CLEAN WATER FUND PROGRAM

LEVERAGED LOAN PROGRAM

LOANS RECEIVABLE

LOANS RECEIVABLE, June 1, 1996	$297,475,073
Loans disbursed	56,416,811
Loan principal payments received	(15,540,494)
LOANS RECEIVABLE, June 1, 1997	$338,351,390

There were no fees or charges during the period from June 2, 1996 through June 1, 1997. As of June 1, 1997, no loans receivable were in default status.

STATE OF WISCONSIN

CLEAN WATER FUND PROGRAM

LEVERAGED LOAN PROGRAM

CHANGES IN REVENUE BONDS

FOR THE YEAR ENDED JUNE 1, 1997

REVENUE BONDS AT JUNE 1, 1996	$381,030,000
Revenue bonds issued	80,000,000
Principal payments	(10,100,000)
REVENUE BONDS AT JUNE 1, 1997	$450,930,000

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