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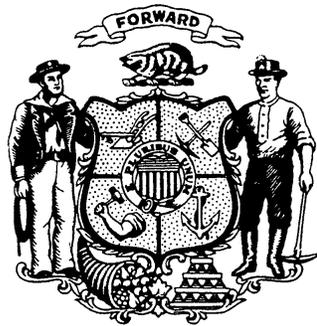
COMPREHENSIVE ANNUAL FINANCIAL REPORT



For the fiscal year ended June 30, 1999

STATE OF **WISCONSIN**

COMPREHENSIVE ANNUAL FINANCIAL REPORT



For the fiscal year ended June 30, 1999

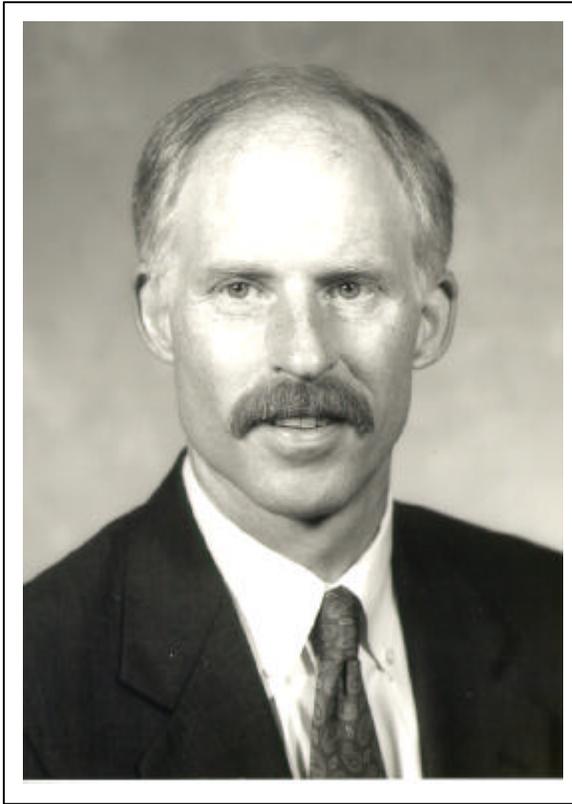
Tommy G. Thompson, Governor

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

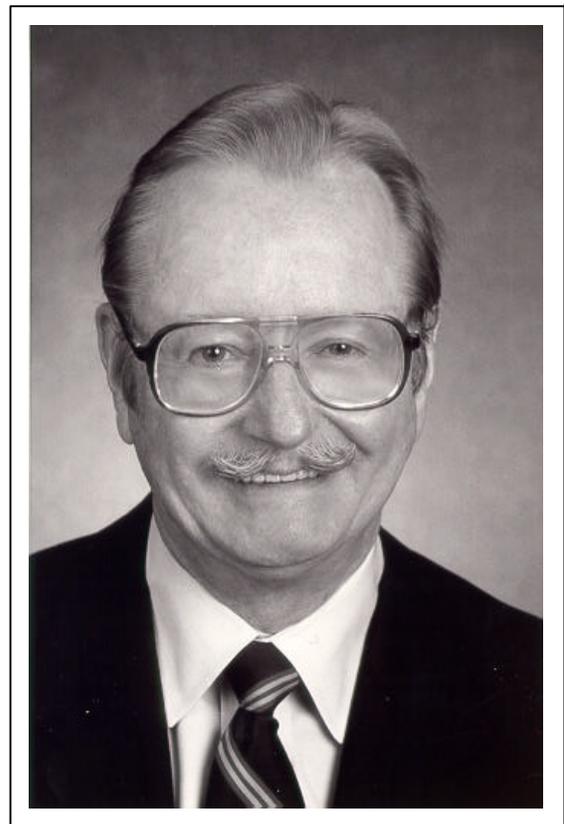
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**George Lightbourn, Acting Secretary
Department of Administration**



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



Tommy G. Thompson
Governor

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

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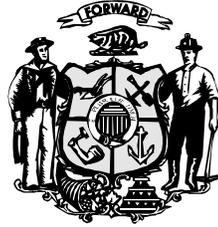
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INTRODUCTORY SECTION

TOMMY G. THOMPSON
GOVERNOR

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December 17, 1999

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

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the State of Wisconsin for the fiscal year ended June 30, 1999. This report is prepared by the Department of Administration, Division of Executive Budget and Finance, State Controller's Office, which is responsible for both the accuracy of the data and the completeness and fairness of its presentation, including disclosures. We believe that the information presented is accurate in all material respects and reported in a manner designed to show the financial position and operating results of the State.

This report has been prepared in accordance with generally accepted accounting principles (GAAP) for governments as promulgated by the Governmental Accounting Standards Board (GASB). To report the State's financial activity, the State's budgetary funds are grouped into the fund types required by GAAP. The State's 54 budgetary funds are expanded and have been displayed into the 93 individual GAAP funds, the University of Wisconsin System, and three discrete component units. The major change has been to reclassify certain activities from the budgetary General Fund and present them in proprietary and fiduciary fund types more appropriate for the financial reporting of transactions related to commercial and trust activities. Note 1-C to the financial statements includes a more detailed discussion of the generic GAAP fund types.

Wisconsin's 1999 Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section, which provides information on the general contents of the report, contains this letter of transmittal, a list of State officials and an organizational chart of State government. The Financial Section is composed of the auditor's report, the general purpose financial statements, required supplementary information and the combining financial statements. The Statistical Section provides various financial, economic and demographic data about the State, generally on a multi-year basis.

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

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

ECONOMIC CONDITION AND OUTLOOK

Wisconsin's economy remains vibrant. A strong 1998 has been followed by an equally strong 1999.

- Unemployment remained at full employment levels in 1998, averaging 3.4 percent. In 1999, unemployment has averaged 3.1 percent through October. Wisconsin's unemployment rate reached an all-time low of 2.6 percent in July 1999. The October 1999 rate of 2.8 percent is far below the national average of 4.1 percent.
- Manufacturing jobs rose 1.2 percent in 1998 to 616,800, a new record. In 1999, manufacturing jobs should average about 609,400 the same as in the previous record year, 1997.
- Construction employment increased to 112,400 in 1998, 3.4 percent higher than 1997. Construction employment reached a record high of 129,000 in July 1999.
- Total non-farm employment in 1998 also set a new record at 2,711,400. This should be eclipsed in 1999 with total non-farm employment reaching 2,745,600.
- Personal income increased 5.2 percent in 1998 and is expected to match that increase in 1999.
- The State's exports were \$9.2 billion in 1998, down slightly from the 1997 record of \$9.8 billion.

Wisconsin's economy has matched the nation's economic performance in recent years.

- Since 1987, Wisconsin's unemployment rate has been below the national rate.
- The Bureau of Economic Analysis projects Wisconsin's real growth will exceed the national average through the year 2005.
- The State's population growth has been among the highest for Midwest states as people relocate to Wisconsin. Since 1990, the State's population has grown by 6.8 percent.
- Over the past four years, Wisconsin's per capita personal income grew by 19.9 percent, nearly matching the national average of 20.1 percent.
- At 91.6 percent of population, Wisconsin has the second highest health insurance coverage rate in the country for the three years 1996 to 1998.
- Wisconsin also has the third lowest poverty rate.
- Wisconsin's median household income, \$40,032 for 1996 to 1998 is the thirteenth highest in the country, 8.6 percent above the national average.

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

Wisconsin's personal income growth will be affected by the slowdown in employment growth. Total personal income will grow by 5.2 percent to reach \$138.4 billion in 1998 and by 4.1 percent to \$144.0 billion in 1999. Personal income per capita continues to increase, but will do so at a slower rate than in 1998.

MAJOR INITIATIVES

Economic Development. In 1999, the State continued its efforts to expand existing businesses and attract new businesses to Wisconsin. The major tools used in these efforts are the Wisconsin Development Fund and the Enterprise Development Program. The State awarded \$10,680,355 during Fiscal Year 1999 from the Wisconsin Development Fund, primarily through the major economic development program and customized labor training grants. The Enterprise Development Zone program has awarded more than \$80.6 million in tax credits, and is expected to create over 13,100 new jobs, retain almost 19,000 jobs, and generate private investments of approximately \$1.5 billion. In addition, the State offers a variety of programs that target minority business development and community based economic development. In Fiscal Year 1999, the State unveiled a Certified Capital Company (CAPCO) program that provides tax credits to eligible insurance companies in support of up to \$50 million in venture capital for start-up firms, particularly in the biotechnology field. The State also continued its efforts to expand business and economic opportunities to rural areas, providing over \$1.5 million through the Dairy 2020 and Rural Economic Development programs.

In 1999, the State expended \$8.8 million to market Wisconsin as a national and international tourism destination, assisting a tourism industry that pumps over \$7.7 billion into Wisconsin's economy and directly or indirectly supports nearly 230,000 jobs. Through an Internet home page, the State is providing statewide tourism information and enabling local governments and local tourism organizations to showcase local and regional attractions.

Transportation. The State continued to make significant investments in transportation infrastructure through expansion in highway capacity and reconstruction of existing highways and bridges. In 1999, more than 1,238 miles of State Trunk Highway (STH) and local highways were improved and 302 deficient STH bridges were rehabilitated or replaced. In all, more than \$628 million in construction projects on STH and local road systems was contracted through the Wisconsin Department of Transportation.

Wisconsin also distributes State transportation user fee revenues to local governments for transportation infrastructure improvements and transit operating assistance. In 1999, \$410.8 million was transferred to local governments for these purposes.

Environment. Created in 1989, Wisconsin's Warren Knowles-Gaylord Nelson Stewardship Program underscores the State's role as a national leader in environmental preservation and enhancement. The program is authorized to expend \$250 million through the sale of general obligation bonds and the use of federal grant moneys for various resource development and land protection activities. To date, the Stewardship program has committed \$241.2 million in a variety of categories, including acquisition of State park lands, protection of urban rivers and assistance for local parks.

Wisconsin's Environmental Improvement Fund program provides financial assistance to municipalities for the planning, design and construction of pollution abatement facilities -- primarily for wastewater treatment. Most communities applying for assistance receive subsidized loans, although some are eligible for partial grants through a hardship component of the program. Funding is provided from a State-matched federal capitalization grant authorized through the Water Quality Act, and through State revenue and general obligation bonds. In Fiscal Year 1999, the Environmental Improvement Fund made awards to municipalities amounting to \$193.4 million, bringing the total amount of loans and grants awarded by the program to \$1.3 billion since its inception in 1991.

The Petroleum Environmental Cleanup Fund Award program (PECFA) assists owners of leaking petroleum storage tanks with environmental remediation costs and has provided \$666.8 million for cleanups at 6,620 locations since 1988. In response to concerns regarding site closure methodologies and claim payment backlogs, fundamental changes are under development aimed at dramatically reducing the number of sites requiring cleanup while protecting the environment and public health.

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

Human Resources. Fiscal Year 1999 was the second year for Wisconsin's welfare reform program called Wisconsin Works or W-2, which officially began on September 1, 1997. This program, the culmination of welfare reform efforts that began eleven years ago, replaced welfare checks with the opportunity to earn a living. The welfare caseload has continued its steep decline from over 71,000 in June of 1995 to just over 38,000 in June of 1997 to just under 11,500 cases in June of 1999. The caseload declined from June 1998 to June 1999 by 28.1 percent.

Education. Educational technology was at the forefront of major education initiatives in Fiscal Year 1999. As part of the 1997-99 biennial budget, the Governor and Legislature created the TEACH program to enable Wisconsin educational institutions to take advantage of the opportunities to improve instruction available through the expanded use of information technology. In Fiscal Year 1999, the state authorized \$55 million in technology grants and loan subsidies for school districts, private schools, the University of Wisconsin System, the Wisconsin Technical College System and public libraries. Funding is used to wire schools for Internet and distance education access, subsidize monthly access costs, purchase hardware and software and provide staff training.

Regarding public elementary and secondary education, the State continued its commitment, initiated in Fiscal Year 1997, to fund two-thirds of partial school costs (costs paid either by local property taxes or state aids and credits). State aids and tax credits applied to 1998-99 school year costs totaled \$4.5 billion. As part of this state aid commitment, funding for the SAGE program, which provides grants to school districts to lower class size in grades Kindergarten through 3, more than doubled in Fiscal Year 1999, from \$7.0 million in Fiscal Year 1998 to \$15.0 million. This allowed 80 individual schools in 46 school districts to lower class sizes in the 1998-99 school year.

The Milwaukee Parental Choice Program, which provides state funding to allow low-income families to send their children to private schools, also experienced significant expansion in the 1998-99 school year. As a result of a ruling by the State Supreme Court that expansion of the program to sectarian schools was constitutional, enrollment in choice schools increased from 1,497 students in the 1997-98 school year to 5,873 students in 1998-99.

Improving the quality of the State's teaching force received considerable attention in Fiscal Year 1999 with the creation of two new programs. Under the National Teacher Certification program, Wisconsin teachers who are certified by the National Board for Professional Teaching Standards will be eligible for \$4,500 in state payments during the 1999-2001 biennium. The second new program provides grants to school districts that implement peer review and mentoring programs to assist teachers in improving their teaching skills.

In addition, the University of Wisconsin System received \$1.5 million in new State funding and 8.0 FTE positions in Fiscal Year 1999 to support the expansion of interdisciplinary biotechnology research and instruction at the Madison campus. This funding should help Wisconsin maintain its position as a national leader in the biological sciences.

FINANCIAL INFORMATION

Internal Controls

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

Budgetary Controls

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

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

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

General Government Functions

The following schedules present a summary of revenues (and proceeds from sale of bonds) and expenditures for the governmental fund types (i.e., the General Fund, special revenue funds, capital projects funds, and debt service funds) for Fiscal Years 1999 and 1998. These revenues, proceeds from sale of bonds, and expenditures are reported on the modified accrual basis of accounting in accordance with GAAP (in thousands):

Revenues and Bond Proceeds (by Source) (in thousands)	1999 Amount	Percent of Total	1998 Amount	Change 1998/1999
Taxes	\$ 11,158,516	68.2%	\$ 10,218,307	\$ 940,209
Intergovernmental (e.g., federal assistance)	3,813,275	23.3	3,704,247	109,028
Licenses and Permits	687,766	4.2	631,870	55,896
Charges for Goods and Services	217,145	1.3	193,964	23,181
Investment Income	95,089	0.6	85,647	9,442
Gifts and Donations	14,885	0.1	5,461	9,424
Other Revenues	133,405	0.8	149,400	(15,995)
Total Revenues	16,120,081		14,988,896	1,131,185
Proceeds from Sale of Bonds	249,007	1.5	160,470	88,537
Total Revenues and Bond Proceeds	\$ 16,369,088	100.0%	\$ 15,149,366	\$ 1,219,722

Revenues of governmental fund types totaled \$16.1 billion for the Fiscal Year 1999, increasing \$1,131.2 million or approximately 7.5 percent over the previous year. Due to continued strong growth, State tax revenue for Fiscal Year 1999 totaled \$11.2 billion, an increase of approximately \$940.2 million which represents a 9.2 percent increase over the previous year. Major increases in tax revenues occurred in individual income, general sales and use, and excise taxes. Intergovernmental revenues consisting primarily of federal assistance increased \$109.0 million over Fiscal Year 1998, while revenues from all other sources, excluding proceeds from sale of bonds, increased \$81.9 million, a 7.7 percent increase from the previous year.

Expenditures (by Function) (in thousands)	1999 Amount	Percent of Total	1998 Amount	Change 1998/1999
Current:				
Commerce	\$ 194,893	1.3%	\$ 181,559	\$ 13,334
Education	4,542,339	30.4	4,397,970	144,369
Transportation	1,601,962	10.7	1,468,365	133,597
Environmental Resources	476,985	3.2	552,423	(75,438)
Human Relations and Resources	5,323,054	35.6	5,116,259	206,795
General Executive	333,034	2.2	308,736	24,298
Judicial	95,705	0.6	91,450	4,255
Legislative	62,789	0.4	55,144	7,645
Tax Relief and Other				
General Expenditures	831,526	5.6	725,316	106,210
Intergovernmental (Shared Revenue)	1,008,617	6.7	1,008,572	45
Capital Outlay	164,360	1.1	143,467	20,893
Debt Service	308,103	2.1	295,848	12,255
Total	\$ 14,943,367	100.0%	\$ 14,345,109	\$ 598,258

Governmental expenditures totaled \$14.9 billion for the fiscal year ended June 30, 1999. This represents a \$598.3 million or a 4.2 percent increase over the previous year. Human Relations and Resources expenditures had the largest increase of \$206.8 million, while Environmental Resources expenditures had the largest decrease of \$75.4 million.

Education expenditures increased approximately 3.3 percent due in part to an increase in State assistance to Wisconsin's 426 school districts and 17 public library systems.

The 13.7 percent decrease in Environmental Resource expenditures primarily represents program payment timing differences and should not be considered a downward trend in spending.

General Fund Balance

The General Fund balance on June 30, 1999 was \$(908.7) million. The fund balances appearing in the CAFR include accounts receivable for revenues accrued but cash not received, and accounts payable on expenditures which are recorded but for which cash has not yet been disbursed.

A reconciliation between the budgetary basis fund balance and the CAFR fund balance at June 30, 1999 follows (in thousands):

Fund Balance June 30, 1999 (budgetary basis – budgetary fund structure)	\$ 749,282
To eliminate outstanding year-end encumbrances from expenditures	326,744
To reclassify activities reported in another GAAP fund type	<u>(235,161)</u>
Fund balance June 30, 1999 (budgetary basis (net of encumbrances) – GAAP fund structure)	840,864
Adjustments:	
To adjust expenditures for the municipal and county shared revenue program	(504,309)
To adjust expenditures for state property tax credit program	(357,655)
To accrue/defer revenue for tax-related items and other tax credit/aid programs (net)	(813,091)
To adjust revenues and expenditures for other items (net)	<u>(74,524)</u>
Fund balance June 30, 1999 (GAAP basis - as reported in CAFR)	<u>\$ (908,714)</u>

As discussed previously, the State's 54 budgetary funds are expanded and have been displayed into 93 individual GAAP funds, the University of Wisconsin System, and three discrete component units. Accordingly, the reporting of the University of Wisconsin System in separate funds and the reclassification of certain activities from the budgetary General Fund to fiduciary and proprietary fund types resulted in the reduction of the budgetary fund balance at June 30, 1999 of \$235.2 million, as noted above.

Another variation between GAAP and statutory reporting results from the revised definition of budgetary expenditures. Budgetary expenditures include \$326.7 million of outstanding year-end encumbrances. These encumbrances are not reflected in the GAAP based expenditures and consequently do not impact GAAP fund balance.

In applying GAAP based expenditure and liability recognition and measurement criteria, two of the largest single accruals relate to deferred Municipal and County Shared Revenue Program payments and deferred State Property Tax Credit Program payments. Since the early 1980's, funding of these programs has been deferred to the State fiscal year following their accrual, resulting in liabilities for these programs totaling \$862.3 million and \$862.0 million at June 30, 1998 and 1999, respectively.

Accruals and deferrals of various tax-related items and other tax credit/aid programs also significantly contribute to the budgetary basis and GAAP basis fund difference. Net accruals/deferrals for these items resulted in an additional liability of \$987.6 million and \$813.1 million on June 30, 1998 and 1999, respectively.

The remaining difference between the General Fund budgetary balance and the GAAP basis balance, as listed above, represents accruals/deferrals for such items as Medicaid claims (additional liabilities of \$78.1 million and \$69.2 million at June 30, 1998 and 1999, respectively) and other numerous, miscellaneous adjustments to assets and liabilities.

The increase between Wisconsin's GAAP balance at June 30, 1998 (as reported in the 1998 CAFR) of \$(1,274.4) million and the GAAP balance at June 30, 1999 of \$(908.7) million amounted to \$365.7 million. The budgetary surplus increased \$160.3 million (from a budgetary fund balance of \$589.0 million at June 30, 1998 to \$749.3 million at June 30, 1999) and a net change in outstanding encumbrances totaled \$21.9 million. Other factors impacting the change included: an increase in the amount of activity reclassified as individual fund types totaling \$16.5 million; a decrease in the net liability relating to individual income taxes of \$151.2 million; and a decrease in other accruals/deferrals totaling \$48.8 million.

The Annual Fiscal Report, the State's financial report based on budgetary accounting, has a different focus on the General Fund. Budgetary accounting is concerned primarily with the General Purpose Revenue portion of the General Fund, which shows an ending undesignated fund balance of \$701.3 million. This balance is derived by eliminating the program revenue activity from the total General Fund balance and reducing the remainder for any designations. Consequently, at June 30, 1999 the ending General Fund balance of \$749.3 million is decreased by \$36.5 million to reflect the elimination of program revenue activity and decreased for fund balance designations of \$11.5 million to arrive at the ending undesignated budgetary fund balance of \$701.3 million.

Proprietary Operations

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

Enterprise funds are established to account for services provided to the public for which the revenues derived by the activity will support the services provided. The enterprise fund with the largest operating revenues is the Lottery Fund. The Lottery Fund's activities are used to provide property tax relief to taxpayers. Operating revenues of this fund totaled \$428.4 million in 1999.

Internal service funds are established to account for the financing of goods or services provided to State agencies, or to other governments, on a cost-reimbursement basis. The internal service fund with the largest operating revenues is the Information Technology Services Fund. This fund was established to account for computing services provided to other State agencies and the purchase and installation of data and word processing equipment. Operating revenues of this fund totaled \$43.0 million in 1999.

Pension Trust Funds

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

The most current actuarial valuations of the pension plan indicated that the WRS was funded at 95.1 percent of liabilities for the 451,771 participants of the WRS. The State's contribution represents 27.8 percent of total contributions required of all participating entities.

Debt Administration

The State of Wisconsin Building Commission, an agency of the State, is empowered by law to consider, act upon, authorize, issue and sell all debt obligations of the State. The total general obligation debt outstanding for the State as of June 30, 1999 was \$3.4 billion.

During Fiscal Year 1999, \$268.1 million of these general obligation bonds were issued to provide for the acquisition or improvement of land, water, property, highways, buildings, equipment, or facilities for public purposes. In addition, \$267.6 million of general obligation bonds were issued to provide for refundings of various general obligation bonds that were outstanding during Fiscal Year 1999. Further, \$55.0 million of these bonds were issued to fund veterans housing loans.

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

At June 30, 1999, State of Wisconsin bonds had a rating of Aa2 from Moody's Investors Services, a rating of AA from Standard and Poor's Corporation, and AA+ from Fitch Investors Service, L.P.

Chapter 18 of the Wisconsin Statutes authorizes the State to issue revenue obligations. These obligations, which are not debt of the State, are secured by a pledge of revenues or property derived from the operations of a program funded by the issuance of the obligations. Revenue bonds totaled \$3.4 billion outstanding at fiscal year-end. These bonds include: \$800.0 million in Transportation Revenue Bonds issued to finance certain transportation facilities and major highway projects; \$1.7 million of Wisconsin Education Revenue Bonds for the Health Education Assistance Loan Program; \$2.1 billion of Wisconsin Housing and Economic Development Authority Revenue Bonds; \$50.0 million for the University of Wisconsin Hospitals and Clinics Authority; and \$486.6 million of Environmental Improvement Fund bonds.

Other bonds presented in the balance sheet include \$.5 million of Wisconsin State Colleges Building Corporation Bonds issued to provide funds for the acquisition and construction of certain buildings and facilities for public purposes. Revenues pledged to the repayment of these bonds are derived through lease-rental agreements between State agencies and the corporations.

Cash Management

The State of Wisconsin Investment Board is responsible for investing in cash resources of the State. On a daily basis, excess cash from all funds is pooled and invested through a variety of investment vehicles. Interest income earned on these investments is allocated to the various funds based on their average daily cash balances. The total amount of investments in the State Investment Fund at June 30, 1999 was \$6.2 billion.

Risk Management

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

- Protecting the State's assets from catastrophic loss;
- Emphasizing loss reduction;
- Identifying and evaluating exposures to loss;
- Recommending changes in procedures and programs to eliminate or reduce existing exposures;

- Arranging appropriate insurance for the transfer of risk of loss; and
- Approving all insurance purchases.

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

OTHER INFORMATION

Independent Audit

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

Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a "Certificate of Achievement for Excellence in Financial Reporting" to the State of Wisconsin for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 1998. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

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

ACKNOWLEDGMENTS

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

Sincerely,



George Lightbourn
Acting Secretary



William J. Raftery, CPA
State Controller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Wisconsin

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

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

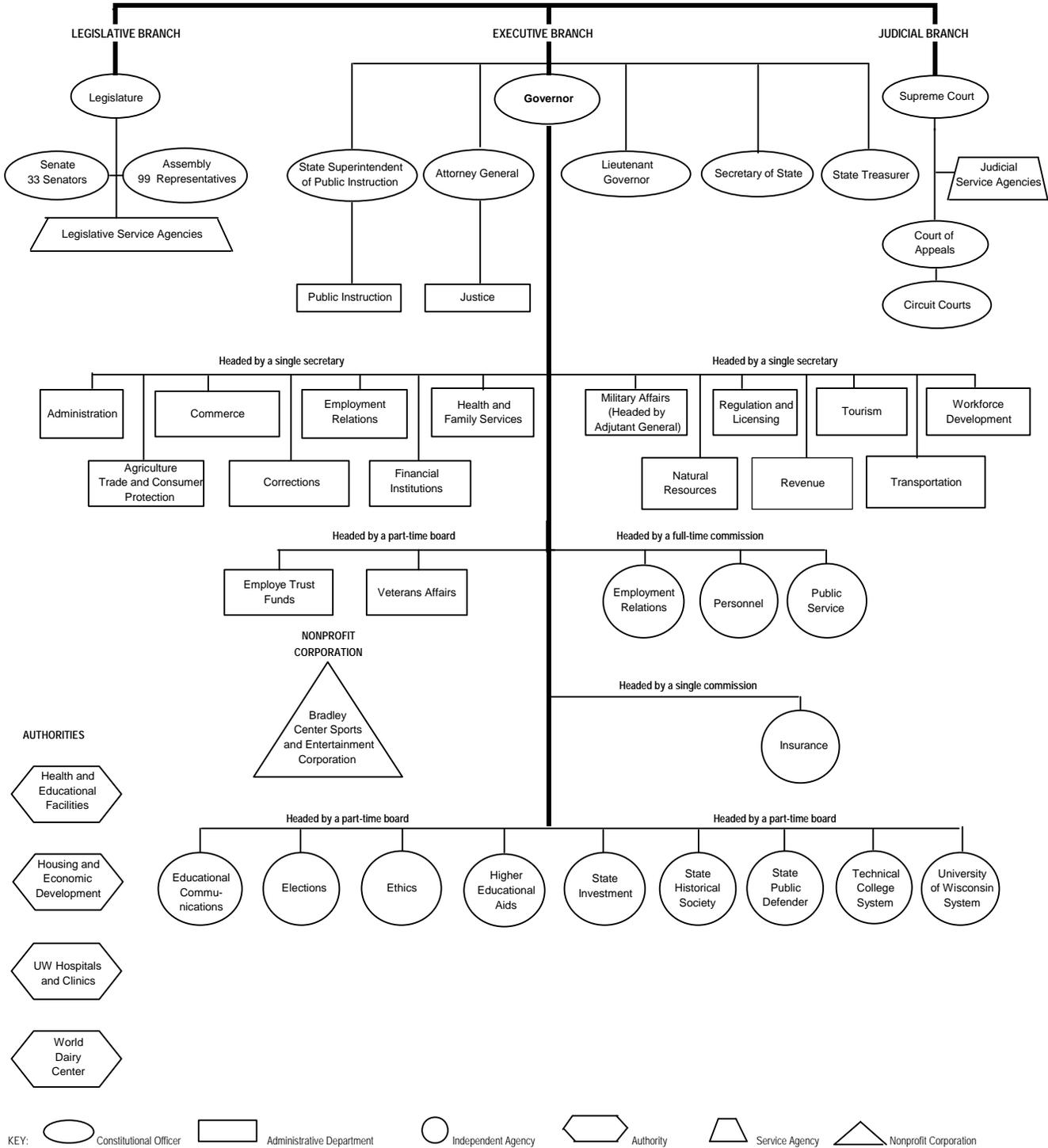


Cary Brueck
President

Jeffrey L. Essler
Executive Director

Organizational Chart

WISCONSIN STATE GOVERNMENT ORGANIZATION
January 1999



Principal State Officials

EXECUTIVE

Tommy G. Thompson
Governor

Scott McCallum
Lieutenant Governor

Douglas J. LaFollette
Secretary of State

Jack C. Voight
State Treasurer

James E. Doyle
Attorney General

John T. Benson
State Superintendent of Public Instruction

LEGISLATIVE

Fred Risser
President of the State Senate

Scott Jensen
Speaker of the Assembly

JUDICIAL

Shirley S. Abrahamson
Chief Justice of the Supreme Court