STATE OF WISCONSIN CONTINUING DISCLOSURE ANNUAL REPORT

FILED PURSUANT TO UNDERTAKINGS PROVIDED TO PERMIT COMPLIANCE WITH SECURITIES EXCHANGE COMMISSION RULE 15c2-12

GENERAL OBLIGATIONS

MASTER LEASE CERTIFICATES OF PARTICIPATION

TRANSPORTATION REVENUE OBLIGATIONS

DECEMBER 27, 1996

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 7864
Madison, WI 53707-7864

Frank R. Hoadley
Capital Finance Director
Telephone: (608) 266-2305
Facsimile: (608) 266-7645

December 27, 1996

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, 1996 submitted by the State of Wisconsin 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 format and scope of this report is tentative, given the lack of reporting models for major bond issuers to reference. We have chosen an inclusive global approach to the report as opposed to a very brief report incorporating separately filed financial statements by reference. The format of this document in future years will depend largely upon the feedback received from people who use this report. Your comments on the usefulness of this report and how it may be modifed or improved will always be welcome.

This Annual Report is divided into five parts. Part I presents the State's continuing disclosure undertakings. More specifically, the State has executed a Master Agreement on Continuing Disclosure that establishes a general framework under which the State will provide continuing disclosure about municipal securities issues. The State has also executed three separate addenda that describe the information to be provided about general obligations, master lease certificates of participation, and transportation 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, 1996 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, and about transportation revenue bonds in Part V. 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.

As of this date, the State has not entered into any undertaking that requires it to provide information about it clean water revenue bonds. The most recent official statement for the clean water revenue bonds is dated June 29, 1995. The State is preparing a clean water revenue bond issue for a planned sale in January 1997. The State will include the clean water revenue bonds under the Master Agreement on Continuing Disclosure at that time and will provide information about the clean water revenue bonds in future annual reports.

The following is a summary of the ratings, as of December 1, 1996, assigned to the different types of municipal securities issued by the State:

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

On December 16, 1996 the Capital Finance Office was advised that the Moody's rating for the clean water revenue bonds will be expressed as "Aa2" for the bond sale planned for January, 1997.

While this Annual Report includes the audited general purpose financial statements for the fiscal year ending June 30, 1996 for the State of Wisconsin prepared by the State Controller, interested parties may also wish to refer to the State Controller's comprehensive annual financial report for the same period. That document will be filed separately with each nationally recognized municipal securities information repository.

This office is the primary contact point for disclosure information about the State of Wisconsin. The general telephone number for information is (608) 266-2305.

Sincerely,

Frank R. Hoadley
Capital Finance Director

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TRANSPORTATION REVENUE BONDS

STATE OF WISCONSIN OFFICIALS

The Honorable Tommy G. Thompson
Governor

The Honorable Jack C. Voight
Treasurer

The Honorable James E. Doyle
Attorney General

Mr. Mark D. Bugher
Secretary
Department of Administration

Mr. Frank R. Hoadley
Capital Finance Director
Department of Administration
101 E. Wilson Street, 10th Floor
P.O. Box 7864
Madison, Wisconsin 53707-7864
(608) 266-2305

BUILDING COMMISSION MEMBERS

Voting Members	**Term of Office Expires**
Governor Tommy G. Thompson, Chairperson	January 4, 1999
Senator Carol Buettner	January 6, 1997
Senator Kimberly M. Plache	January 6, 1997
Senator Fred A. Risser	January 6, 1997
Representative Sheryl K. Albers	January 6, 1997
Representative Clifford Otte	January 6, 1997
Representative Robert Turner	January 6, 1997
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

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PART I

STATE'S CONTINUING 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 about municipal securities issues. Also included in this part of the Annual Report are conformed copies of the three addenda which the State has executed. These describe information to be provided about (i) general obligations, (ii) master lease certificates of participation, and (iii) transportation 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.

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

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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 1995-96 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, 1996, 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 these 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 February 15 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 which would cause the estimated General Fund balance to be less than 1% of the general purpose revenue appropriations for that fiscal year. For the 1995–96 fiscal year, the statutorily required reserves was \$83 million, and for the 1996–97 fiscal year, the statutorily required reserves is \$92 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 which 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.

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, 1996 the State has prepared a Comprehensive Annual Financial Report ("CAFR") in accordance with GAAP. The General Purpose Financial Statements section of the CAFR 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, 1996 was a surplus of $581 million on the statutory basis. Under GAAP the balance at June 30, 1996 was a deficit of $918 million. 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, 1996 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 a specific 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.

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 860,686 students attending public elementary and secondary schools in 1994–95. The State is divided into 16 technical college districts. In the 1994–95 academic year 434,780 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 centers providing 2-year courses. The system's total enrollment in 1994–95 was 152,129 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 FM radio 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 freeway 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 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 three million vehicles are registered each year, and almost one million driver examination tests are given 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 which 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 which 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 appropriation relating to State operations is the funding of any planned adjustments to employe compensation, which is budgeted here but transferred to and ultimately paid by each agency.

FINANCIAL INFORMATION

Revenue Structure

The State has an extremely diverse revenue-raising structure. Approximately thirty-eight percent of the total revenue is derived from the various taxes levied by the State. The remainder comes from the federal government and from various kinds of fees, licenses, permits and service charges paid by users of specific services, privileges or facilities. 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. Approximately one-half of all general-fund taxes collected by the State are returned to local units of government. The remaining funds are used for State programs. A brief description of each tax 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.

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.

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. Revenue received from railroads and airlines is deposited in the Transportation Fund; all other revenues are deposited to the General Fund. 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 for local service ranges from 2.813% for gross revenues of less than $10,000 to 5.6% for gross revenues in excess of $500,000. The tax on toll service (long distance calls) ranges from 2.813% if toll revenues are less than $25,000 to 7.8% if toll revenues exceed $800,000. 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.

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
Taxes are levied on four products. Cigarettes are taxed at the rate of 38 cents per pack of 20. Liquor is taxed on the basis of alcoholic content (25 cents, 45 cents or $3.25 per gallon). The tax is collected from wholesalers. Beer is taxed at the rate of $2 per barrel, and the tax is paid monthly by brewers. 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.

Motor Fuel Tax
Motor fuel is taxed at the rate of 23.7 cents per gallon. Each April a formula based on highway maintenance costs and fuel consumption is used to adjust the motor fuel tax. 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.

Inheritance and Gift Taxes
Effective January 1, 1992 both the inheritance tax and gift tax were eliminated. The phaseout of the taxes began in 1988. The State continues to receive some revenue as estates are probated.

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 from local taxing units. After its receipt in the General Fund, it is transferred to the segregated Conservation Fund.

Pari-Mutuel Tax
The pari-mutuel tax is a sliding rate based on the cumulative amount wagered at each track during the year. For horse racing the tax begins at 1% for wagered amounts in excess of $50 million increasing to 3% for wagered amounts in excess of $150 million. For dog racing the tax begins at 2% and increases to 8.67% for wagered amounts in excess of $250 million. The revenues are deposited in the segregated Racing Fund.

Homestead Tax Credit
Property tax relief is provided to low-income home owners 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. These credits are reflected as expenditures for budgeting purposes.

Table II-1

REVENUES (ALL SOURCES)[a]

1995-96 FROM 1991-92

	1995-96	1994-95	1993-94	1992-93	1991-92
State Collected Taxes					
Individual Income	$ 4,157,444,344	$ 3,932,948,357	$ 3,638,710,246	$ 3,445,828,768	$ 3,142,212,356
General Sales and Use	2,704,226,017	2,571,212,098	2,427,900,047	2,260,562,784	2,127,315,030
Corporate Franchise and Income	636,009,525	631,750,239	541,284,287	492,014,523	437,689,226
Public Utility	288,773,786	271,979,923	268,236,755	278,325,863	261,596,570
Excise	245,350,413	223,419,538	219,567,523	212,972,813	193,227,911
Inheritance and Gift	45,602,214	40,783,701	53,201,971	53,742,241	57,646,429
Insurance Companies	92,284,836	94,416,471	95,990,959	86,904,742	82,800,824
Motor Fuel	676,002,610	651,186,179	634,621,215	595,622,479	573,948,758
Forest	42,943,134	39,193,215	36,512,823	44,392,839	27,840,473
Miscellaneous	134,422,491	119,666,306	119,276,892	99,963,841	92,651,495
Subtotal	9,023,059,370	8,576,556,027	8,035,302,718	7,570,330,893	6,996,929,072
Federal Aid					
Medical Assistance	1,461,929,742	1,457,070,300	1,361,264,722	1,297,791,258	1,194,407,867
AFDC	188,491,658	212,576,642	236,096,288	338,804,634	335,789,338
Transportation	558,478,336	484,075,362	512,447,000	376,054,661	278,103,759
Education	739,728,615	705,186,682	656,580,271	620,772,533	582,376,885
Other	946,163,108	917,134,225	912,102,104	707,533,186	694,565,785
Subtotal	3,894,791,459	3,776,043,211	3,678,490,385	3,340,956,272	3,085,243,634
Fees					
University of Wisconsin System	460,539,331	459,980,731	454,232,963	432,655,703	414,689,429
Other	519,180,189	488,347,136	476,710,654	231,978,179	196,707,737
Subtotal	979,719,520	948,327,867	930,943,617	664,633,882	611,397,166
Licenses and Permits					
Vehicles and Drivers	249,312,483	249,461,275	250,475,479	237,786,472	226,827,627
Hunting and Fishing	49,602,129	47,357,165	50,822,937	48,929,766	45,937,891
Other	368,467,942	332,090,249	331,515,213	37,606,023	40,108,155
Subtotal	667,382,554	628,908,689	632,813,629	324,322,261	312,873,673
Miscellany					
Service Charges	439,035,773	424,749,482	406,308,823	782,624,054	714,587,820
Sales of Products	690,834,331	722,782,430	685,092,976	648,243,168	604,332,109
Investment Income	5,446,036,326	5,146,837,274	1,276,947,011	3,808,721,594	3,325,397,805
Gifts and Grants	210,638,629	176,311,213	165,759,549	192,434,750	145,008,468
Employe Benefit Contributions[b]	1,318,994,693	1,478,712,390	1,310,111,343	1,285,666,403	1,144,891,365
General Obligation Proceeds	330,950,056	324,941,338	243,711,514	300,031,476	375,768,222
Local Government Investment Pool					724,130,153
Other Revenues	438,067,477	493,451,382	368,652,742	517,943,464	183,117,131
Subtotal	8,874,557,285	8,767,785,509	4,456,583,958	7,535,664,909	7,217,233,073
Summary					
TOTAL NET REVENUE	23,439,510,188	22,697,621,303	17,734,134,307	19,435,908,217	18,223,676,618
Transfers	403,849,988	385,960,590	521,021,635	585,483,548	596,754,265
Gross Revenue	$ 23,843,360,176	$ 23,083,581,893	$ 18,255,155,942	$ 20,021,391,765	$ 18,820,430,883

(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 $606,491,798 for 1995-96, $583,132,459 for 1994-95, $563,812,191 for 1993-94, $536,795,313 for 1992-93, and $472,340,981 for 1991-92

Source: Wisconsin Department of Administration

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 nine functional categories and three distinct types of expenditures within each. The nine 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.

Table II-2

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

1995-96 FROM 1991-92

	1995-96	1994-95	1993-94	1992-93	1991-92
Commerce					
State Operations	$ 172,663,899	$ 181,381,591	$ 169,547,039	$ 170,037,312	$ 150,954,198
Aids to Individuals and Organizations	345,586,275	354,331,970	321,207,957	340,364,966	316,869,048
Local Assistance	52,620,000	43,629,795	30,817,241	30,046,362	32,867,866
Subtotal	570,870,174	579,343,356	521,572,237	540,448,640	500,691,112
Education					
State Operations	2,521,127,678	2,473,042,166	2,338,021,272	2,253,048,466	2,147,074,523
Aids to Individuals and Organizations	246,362,211	189,484,289	182,593,262	186,469,323	179,458,603
Local Assistance	3,110,348,236	2,864,657,285	2,569,340,081	2,355,854,478	2,247,275,355
Subtotal	5,877,838,125	5,527,183,740	5,089,954,615	4,795,372,267	4,573,808,481
Environmental Resources					
State Operations	1,168,542,505	1,159,663,779	1,152,013,867	1,015,194,537	934,020,694
Aids to Individuals and Organizations	26,915,579	22,244,920	18,830,360	12,358,310	7,881,445
Local Assistance	779,576,130	782,756,275	742,154,919	710,325,080	684,571,831
Subtotal	1,975,034,214	1,964,664,974	1,912,999,146	1,737,877,927	1,626,473,970
Human Relations and Resources					
State Operations	1,371,651,160	1,258,608,769	1,231,587,975	1,088,358,504	1,037,281,234
Aids to Individuals and Organizations	3,415,134,822	3,367,986,626	3,266,649,767	3,083,816,446	2,913,964,199
Local Assistance	720,706,514	692,135,323	661,800,665	628,649,785	579,454,733
Subtotal	5,507,492,496	5,318,730,718	5,160,038,407	4,800,824,735	4,530,700,166
General Executive					
State Operations	2,052,231,694	1,934,984,996	1,773,191,971	1,673,432,934	1,448,264,985
Aids to Individuals and Organizations	27,173,763	32,334,180	28,122,954	25,470,640	3,682,221
Local Assistance	26,213,441	19,924,069	15,469,064	11,994,163	5,907,203
Subtotal	2,105,618,898	1,987,243,245	1,816,783,989	1,710,897,737	1,457,854,409
Judicial					
State Operations	64,237,307	64,107,905	62,686,535	55,996,510	53,658,424
Local Assistance	18,263,107	7,691,854	11,066,928	72,000	447,800
Subtotal	82,500,414	71,799,759	73,753,463	56,068,510	54,106,224
Legislative					
State Operations	50,047,274	50,840,285	46,952,652	44,911,438	44,409,735
Subtotal	50,047,274	50,840,285	46,952,652	44,911,438	44,409,735
General					
State Operations	504,768,472	467,730,594	522,102,729	634,673,083	504,064,629
Aids to Individuals and Organizations	209,922,994	206,100,611	216,600,048	191,352,574	184,982,890
Local Assistance	1,510,746,840	1,447,264,919	1,419,981,721	1,468,179,316	1,434,257,511
Subtotal	2,225,438,306	2,121,096,124	2,158,684,498	2,294,204,973	2,123,305,030
General Obligation Bond Program					
State Operations	310,823,789	425,243,946	289,286,562	277,510,958	295,746,645
Local Assistance				47,223,826	93,688,871
Subtotal	310,823,789	425,243,946	289,286,562	324,734,784	389,435,516
Summary Totals					
State Operations	8,216,093,778	8,015,604,031	7,585,390,602	7,213,163,742	6,615,475,067
Aids to Individuals and Organizations	4,271,095,644	4,172,482,596	4,034,004,348	3,839,832,259	3,606,838,406
Local Assistance	6,218,474,268	5,858,059,520	5,450,630,619	5,252,345,010	5,078,471,170
GRAND TOTAL	$18,705,663,690	$18,046,146,147	$17,070,025,569	$16,305,341,011	$15,300,784,643

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

Source: Wisconsin Department of Administration.

RESULTS OF 1995-96 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".

The Annual Fiscal Report for the fiscal year ending June 30, 1996 was published October 14, 1996. It reports that the State ended the fiscal year on a statutory and unaudited basis with an unreserved, undesignated balance of $581 million. On an all-funds basis the total amount available was $24.244 billion consisting of (i) a beginning balance of $401 million, (ii) tax revenues of $9.023 billion and (iii) nontax revenues of $14.820 billion. Total disbursements and reserves were $23.603 billion, resulting in the balance stated previously. On a general-fund basis the total amount available was $14.205 billion consisting of (i) the same beginning balance, (ii) tax revenues of $8.221 billion and (iii) nontax revenues of $5.583 billion. Total disbursements and reserves were approximately $13.624 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, 1996, the State issued $250 million of operating notes. The operating notes were issued on July 6, 1995 and matured on June 17, 1996. Operating notes are not general obligations of the State and are not on a parity with State general obligations.

STATE BUDGET

Budget for 1996–97

For the fiscal year ending June 30, 1997, the budget on an all-funds basis projects a balance of $84 million. Total available revenues are estimated to be $21.526 billion consisting of (i) a beginning balance of $582 million, (ii) tax revenues of $8.631 billion and (iii) nontax revenues of $12.313 billion. Total disbursements and reserves are estimated to be $21.534 billion, consisting of net disbursements of $21.125 billion and reserves of $409 million. This results in an estimated negative balance of $8 million which, when combined with the statutorily required balance of $92 million, results in a balance at June 30, 1997 of $84 million. The budget is summarized in Table II-3.

The projected general-fund balance for June 30, 1997 is the same as the all-fund balance, $84 million. Total available revenues are estimated to be $14.940 billion consisting of (i) a beginning balance of $582 million, (ii) tax revenues of $8.631 billion and (iii) nontax revenues of $5.727 billion. Total disbursements and reserves are estimated to be $14.948 billion, consisting of net disbursements of $14.539 billion and reserves of $409 million. The balance is identical to the all-funds amount. The budget is summarized in Table II-4.

The above narrative reflects the quarterly economic outlook released by the State on November 20, 1996. This report includes certain information which has an impact on the 1996–97 budget. General state tax collections for the 1996–97 budget are expected to total $8.631 billion. This is $33 million lower than numbers released in January 1996 by the Wisconsin Legislative Fiscal Bureau and used in the Official Statement, dated October 16, 1996, for the State of Wisconsin $30,000,000 General Obligation Bonds of 1996, Series D.

Table II-3

STATE BUDGET—ALL FUNDS[a]

	Actual [b] 1995-96	Budget 1995-96	Budget 1996-97
RECEIPTS			
Fund Balance from Prior Year	$ 400,881,000	$ 408,880,400	$ 581,690,000
Tax Revenue			
Individual Income	4,183,604,000	4,160,100,000	4,430,000,000
General Sales and Use	2,704,226,000	2,710,000,000	2,845,000,000
Corporate Franchise and Income	636,010,000	650,000,000	635,000,000
Public Utility	285,288,000	284,600,000	292,100,000
Excise			
Cigarette/Tobacco Products	205,350,000	206,300,000	205,000,000
Liquor and Wine	30,813,000	30,500,000	30,500,000
Malt Beverage	9,187,000	9,000,000	9,100,000
Inheritance, Estate & Gift	45,602,000	41,000,000	46,000,000
Insurance Company	92,285,000	96,000,000	93,000,000
Other	830,664,000	43,900,000 [c]	44,900,000 [c]
Subtotal	9,023,029,000	8,231,400,000	8,630,600,000
Nontax Revenue			
Departmental Revenue	128,256,000	174,683,100	228,779,200
Total Federal Aids	3,275,795,000	3,850,830,600	3,891,800,700
Total Program Revenue	2,179,107,000	2,185,416,200	1,975,161,400
Total Segregated Funds	2,705,320,000	1,908,291,300	1,910,832,300
Bond Authority	330,950,000	305,000,000	330,000,000
Employe Benefit Contributions [d]	6,200,903,000	3,737,890,089	3,976,959,649
Subtotal	14,820,331,000	12,162,111,289	12,313,533,249
Total Available	$ 24,244,241,000	$ 20,802,391,689	$ 21,525,823,249
DISBURSEMENTS AND RESERVES			
Commerce	$ 575,240,000	$ 305,755,800	$ 361,145,100
Education	5,978,715,000	6,008,560,200	6,645,449,700
Environmental Resources	2,057,321,000	1,966,661,500	1,955,734,400
Human Relations and Resources	5,623,499,000	5,507,561,200	5,446,078,300
General Executive	2,146,487,000	437,336,900	568,192,600
Judicial	82,503,000	82,558,300	87,716,700
Legislative	50,048,000	50,169,100	50,119,600
General Appropriations	2,191,850,000	1,827,543,400	1,816,969,400
General Obligation Bond Program	309,320,000	305,000,000	330,000,000
Employe Benefit Payments [d]	1,317,768,000	1,695,305,629	1,843,607,584
Reserve for Employe Benefit Payments [d]	4,883,135,000	2,042,584,460	2,133,352,065
Subtotal	25,215,886,000	20,229,036,489	21,238,365,449
Less: (Lapses)	NA	(41,322,800)	(113,723,000)
Compensation Reserves	NA	18,235,000	46,382,400
Required Statutory Balance	NA	82,598,400	91,999,900
Fund Transfer	NA	3,503,800	257,990,600
Federal Retiree Reserve	NA	26,600,000	12,700,000
Change in Continuing Balance	(1,553,335,000)	NA	NA
Total Disbursements & Reserves	$ 23,662,551,000	$ 20,318,650,889	$ 21,533,715,349
Fund Balance	$ 581,690,000	$ 483,740,800	$ (7,892,100)
Undesignated Surplus	$ 581,690,000	$ 566,339,200	$ 84,107,800

(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) The budgets do not include taxes collected for segregated funds. The largest such tax is the motor vehicle fuel tax, of which $676 million were collected in the 1995-96 fiscal year

(d) 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-1and II-2. Benefits are provided for on a fully funded basis. Therefore, when contributions actually received exceed the benefits actually paid out, the difference is added to the trust funds. In the event that the actual benefit payments exceed the contribution received, 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)] 1995-96	Budget 1995-96	Budget 1996-97
RECEIPTS			
Fund Balance from Prior Year	$ 400,881,000	$ 408,880,400	$ 581,690,000
Tax Revenue			
State Taxes Deposited to General Fund			
Individual Income	4,183,604,000	4,160,100,000	4,430,000,000
General Sales and Use	2,704,226,000	2,710,000,000	2,845,000,000
Corporate Franchise and Income	636,010,000	650,000,000	635,000,000
Public Utility	285,288,000	284,600,000	292,100,000
Excise			
Cigarette/Tobacco Products	205,350,000	206,300,000	205,000,000
Liquor and Wine	30,813,000	30,500,000	30,500,000
Malt Beverage	9,187,000	9,000,000	9,100,000
Inheritance, Estate & Gift	45,602,000	41,000,000	46,000,000
Insurance Company	92,285,000	96,000,000	93,000,000
Other	28,874,000	43,900,000	44,900,000
Subtotal	8,221,239,000	8,231,400,000	8,630,600,000
Nontax Revenue			
Departmental Revenue	128,256,000	174,683,100	228,779,200
Program Revenue Federal	3,275,795,000	3,457,543,500	3,523,184,100
Program Revenue Other	2,179,107,000	2,185,416,200	1,975,161,400
Subtotal	5,583,158,000	5,817,642,800	5,727,124,700
Total Available	$ 14,205,278,000	$ 14,457,923,200	$ 14,939,414,700
DISBURSEMENTS AND RESERVES			
Commerce	$ 164,514,000	$ 165,757,000	$ 191,645,400
Education	5,837,139,000	5,964,122,000	6,600,333,700
Environmental Resources	242,361,000	236,724,600	239,038,900
Human Relations and Resources	5,255,874,000	5,329,183,900	5,355,935,200
General Executive	412,906,000	420,885,100	486,673,600
Judicial	82,154,000	81,921,900	87,080,300
Legislative	50,048,000	50,169,100	50,119,600
General Appropriations	1,603,605,000	1,635,804,400	1,641,130,200
Subtotal	13,648,601,000	13,884,568,000	14,651,956,900
Less: (Lapses)	NA	(41,322,800)	(113,723,000)
Compensation Reserves	NA	18,235,000	46,382,400
Required Statutory Balance	NA	82,598,400	91,999,900
Fund Transfers	NA	3,503,800	257,990,600
Federal Retiree Reserve	NA	26,600,000	12,700,000
Other Adjustments	(2,000)	NA	NA
Changes in Continuing Balance	(25,011,000)	NA	NA
Total Disbursements & Reserves	$ 13,623,588,000	$ 13,974,182,400	$ 14,947,306,800
Fund Balance	$ 581,690,000	$ 483,740,800	$ (7,892,100)
Undesignated Surplus	$ 581,690,000	$ 566,339,200	$ 84,107,800

(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.
Source: Wisconsin Department of Administration.

Potential Effect of Litigation

APPENDIX A to this part of the Annual Report includes the General Purpose Financial Statements. 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.

Special Performance Dividend–See page Part II A-78

The 1995–96 and 1996–97 budgets do not specifically provide for this payment.

Computer Software–See page Part II A-78

The 1995–96 and 1996–97 budgets do not specifically provide for this payment.

Domestic Mutual Insurance Companies–See page Part II A-78

The 1995–96 and 1996–97 budgets do not specifically provide for this payment.

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 has one year from the date of filing to review the claim. It is estimated that refunds could be made in an aggregate amount up to $90 million. Legislation reducing taxation on telephone companies has been enacted. It is expected that the claims will be withdrawn upon the full and complete implementation of the legislation in 1997. The 1995–96 and 1996–97 budgets do not provide for the payment of these claims.

Federal Pension Income–See page Part II A-78

The State is current on making the refunds.

Corporate Tax Apportionment Methodology–See page Part II A-78

The 1995–96 and 1996–97 budgets do not provide for payment of these 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 are assigned on the basis of occupational groupings to one of nineteen statewide bargaining units. Eighteen of the bargaining units representing more than 33,000 employes are under contract. The contracts expire June 30, 1997. The other employes are currently not under contract. Negotiations with the remaining unit continue and the unit is working under extension of their previous contract, which expired on June 30, 1995.

Each contract contains a no-strike-or-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 has established plans to staff and operate the various State agencies for any eventuality that may occur which 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 which 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 organization as well as approval of both houses of the Legislature and the Governor.

State Budget Assumptions

Tax revenue projections for the 1995–96 budget was based on November 1994 Department of Revenue ("DOR") estimates. Tax revenue projections for the 1996–97 budget is based on November 1996 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 1995–96 budget was based primarily on certain projections of Data Resources, Inc. ("DRI") as presented in its report of November 1994. The economic forecast underlying the 1996–97 budget is based primarily on certain projections of DRI as presented in its report of November 1996 and results of economic models which incorporate the projections. See Table II-5.

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 Data Resources, Incorporated ("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 data base 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 a 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 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	$6,742.9	$6901.5	$7063.8	$7230.0	$7374.2
Percent Change	2.0	2.4	2.4	2.4	2.0
Consumption	4,577.9	4,691.1	4,819.4	4,943.9	5,044.4
Percent Change	2.3	2.5	2.7	2.6	2.0
Investment (including inventory)	1,010.2	1,059.2	1,103.6	1,137.6	1,166.3
Percent Change	3.1	4.9	4.2	3.1	2.5
Nonresidential Structures	181.1	186.9	190.5	191.4	192.0
Percent Change	7.3	3.2	1.9	0.5	0.3
Business Equipment	534.4	578.3	612.1	652.0	677.8
Percent Change	10.4	8.2	5.8	6.5	4.0
Residential Fixed	262.7	276.8	276.7	275.5	276.6
Percent Change	-2.3	5.4	0.0	-0.4	0.4
Change in Inventory	33.2	19.7	28.3	24.8	27.2
Exports	775.4	819.6	866.6	940.4	1,020.2
Percent Change	8.9	5.7	5.7	8.5	8.5
Imports	883.0	941.2	1,009.3	1,080.7	1,153.0
Percent Change	8.0	6.6	7.2	7.1	6.7
Federal Government	472.3	467.0	456.8	442.1	431.0
Percent Change	-3.6	-1.1	-2.2	-3.2	-2.5
State and Local Government	788.6	803.7	823.5	844.0	864.0
Percent Change	2.4	1.9	2.5	2.5	2.4
GDP (Current Dollars)	7,253.8	7,571.6	7,921.5	8,292.2	8,661.9
Percent Change	4.6	4.4	4.6	4.7	4.5
Employment, Unemployment, Wages and Prices					
Nonfarm Employment (millions)	117.2	119.5	121.4	123.1	124.9
Percent Change	2.7	2.0	1.6	1.4	1.5
Unemployment Rate (%)	5.6	5.4	5.3	5.5	5.7
Compensation per hour (%)	3.6	3.8	3.9	3.7	3.6
Consumer Price Index (%)	2.8	3.0	3.0	2.8	2.9
Producer Price Index (%)	3.6	2.2	0.6	0.9	1.5
GDP Price Deflator (%)	2.5	2.1	2.4	2.3	2.4
Industrial Production (% change)	3.3	3.1	3.0	3.7	3.7
Money and Interest Rates					
Money Supply (M2) (billions)	$3,642.0	$3,785.2	$3,966.3	$4,153.8	$4,352.9
Percent Change	3.9	3.9	4.8	4.7	4.8
Prime Commercial Rate	8.8	8.3	8.6	8.7	8.5
3-Month Treasury Bills (rate)	5.5	5.0	5.3	5.4	5.2
30-Year U.S. Gvt. Bonds (rate)	6.9	6.7	6.8	7.0	6.8
G.O. AAA Municipals (rate)	5.8	5.6	5.6	5.8	5.7
New Conventional Mortgages (rate)	7.9	7.8	7.9	8.1	8.0

Table II-5 – Continued

	Calendar Year				
	1995	1996	1997	1998	1999
Income, Profits and Savings (Amounts in Billions)					
Personal Income	$6,115.1	$6,449.4	$6,780.1	$7,107.6	$7,433.6
Percent Change	6.3	5.5	5.1	4.8	4.6
Personal Income ($ 1992)	$5,684.2	$5,871.6	$6,019.6	$6,147.7	$6,259.2
Percent Change	3.9	3.3	2.5	2.1	1.8
Savings Rate	4.7	4.8	4.9	4.6	4.4
Corporate Profits Before Tax	$ 586.7	$ 643.4	$ 640.8	$ 683.9	$ 718.2
Percent Change	10.8	9.7	-0.4	6.7	5.0

Source: Data Resources, Inc./McGraw-Hill, November 1996

WISCONSIN EMPLOYMENT FORECAST

	Calendar Year				
	1995	1996	1997	1998	1999
Annual Industry Detail Average (Thousands of Workers)					
Durable Goods	364.1	364.0	358.2	358.3	362.0
Percent Change	4.0	0.0	-1.6	0.0	1.0
Nondurable Goods	237.0	235.9	235.5	238.0	240.8
Percent Change	1.2	-0.5	-0.2	1.1	1.2
Mining	2.4	2.3	2.3	2.3	2.2
Percent Change	-2.5	-3.1	1.5	-1.5	-3.6
Construction	100.1	105.9	109.0	108.5	106.0
Percent Change	2.0	5.7	2.9	-0.5	-2.3
Transportation and Utilities	119.3	119.9	121.8	124.2	126.0
Percent Change	2.7	0.5	1.6	2.0	1.5
Finance, Insurance, Real Estate	136.1	137.1	139.0	141.5	145.1
Percent Change	0.8	0.8	1.4	1.8	2.5
Retail Trade	460.6	466.2	475.0	487.9	498.9
Percent Change	3.0	1.2	1.9	2.7	2.2
Wholesale Trade	126.7	127.5	127.6	130.2	132.3
Percent Change	2.2	0.6	0.1	2.0	1.6
Services	630.7	645.6	658.6	674.1	688.5
Percent Change	2.3	2.4	2.0	2.4	2.1
Government	378.1	381.7	390.1	394.0	397.7
Percent Change	3.0	0.9	2.2	1.0	0.9
Total Nonfarm	2,555.1	2,586.2	2,617.1	2,659.1	2,699.6
Percent Change	2.6	1.2	1.2	1.6	1.5

Source: Wisconsin Department of Revenue, Economic Outlook, November 1996

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	$68.59	$71.83	$75.17	$77.40
Other Labor Income	8.96	9.13	9.57	10.16	10.81
Farm Proprietor's Income	-0.20	0.09	0.17	0.25	0.27
Nonfarm Proprietor's Income	6.61	6.96	7.05	7.20	7.38
Rental Income	2.12	2.18	2.36	2.56	2.75
Personal Dividend Income	4.17	4.53	4.86	5.22	5.52
Personal Interest Income	12.88	13.29	13.93	14.52	15.04
Transfer Payments	17.64	18.49	19.38	20.26	21.33
Residence Adjustment	1.67	1.78	1.87	1.96	2.05
Contributions to Social Insurance	5.26	5.44	5.70	5.98	6.25
Personal Income	114.04	119.58	125.32	131.33	137.30
Personal Taxes and Nontax Pmts	16.33	17.90	18.34	19.00	19.84
Disposable Personal Income	97.71	101.68	106.99	112.33	117.46
Annual Rates of Change (Percent Change)					
Wages and Salaries	5.9	4.8	4.7	4.7	4.3
Other Labor Income	5.7	1.8	4.9	6.1	6.4
Farm Proprietor's Income			99.7	49.1	6.6
Nonfarm Proprietor's Income	8.1	5.4	1.2	2.1	2.4
Rental Income	3.1	2.5	8.2	8.5	7.7
Personal Dividend Income	7.7	8.7	7.4	7.3	5.7
Personal Interest Income	8.9	3.1	4.8	4.3	3.6
Transfer Payments	6.5	4.8	4.9	4.5	5.3
Residence Adjustment	5.2	6.9	4.7	5.2	4.7
Contributions to Social Insurance	6.2	3.4	4.7	4.9	4.6
Personal Income	6.1	4.9	4.8	4.8	4.5
Personal Taxes and Nontax Pmts	8.4	9.6	2.5	3.6	4.4
Disposable Personal Income	5.7	4.1	5.2	5.0	4.6
Inflation Adjusted Income Measures (1992 Dollars)					
Real Personal Income (billions)	$ 106.01	$ 108.87	$ 111.27	$ 113.59	$ 115.60
Percent Change	3.7	2.7	2.2	2.1	1.8
Real Personal Income per Capita	$20,677.0	$21,090.0	$21,390.0	$21,665.0	$21,877.0
Percent Change	2.9	2.0	1.4	1.3	1.0
Per Capita Personal Income	$22,244.0	$23,165.0	$24,092.0	$25,047.0	$25,981.0
Percent Change	5.3	4.1	4.0	4.0	3.7

Source: Wisconsin Department of Revenue, Wisconsin Economic Outlook, November 1996

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 which 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)

	1996	1995	1994	1993	1992
ASSETS					
Cash & Investment Pool Shares	$ 574,513	$ 489,935	$ 186,705	$ 292,548	$ 187,434
Imprest Funds	4,108	4,107	4,107	3,880	4,082
Investments	445	445	445	190	431
Receivables					
Accounts Receivable	684,739	763,515	714,859	400,166	746,274
Due from Other Funds	16,716	9,244	135,924	7,450	9,824
Student Loans Receivable					4,066
Inventory			379		
Prepayments	34,361	39,878	33,406		
TOTAL ASSETS	$ 1,314,882	$ 1,307,124	$ 1,075,825	$ 704,234	$ 952,111
LIABILITIES					
Accounts Payable	$ 295,189	$ 333,644	$ 251,849	$ 104,219	$ 467,190
Due to Other Funds	32,251	36,564	57,093	100	9,326
Tax and Other Deposits	40,400	59,666	44,490	22,597	16,700
Advances from Other Funds	6,000	8,000	14,226	14,226	
Deferred Revenue	22,417	21,995	26,235		
TOTAL LIABILITIES	$ 396,257	$ 459,869	$ 393,893	$ 141,142	$ 493,216
FUND BALANCE					
Reserves					
Encumbrances & GPR Balances	$ 160,963	$ 120,329	$ 159,128	$ 92,486	$ 86,861
Program Revenue Balances	171,864	321,938	284,242	313,607	290,621
Contingent Fund Advances	4,108	4,107	3,685	3,459	3,666
Student Loans					4,066
Total Reserves	$ 336,935	$ 446,374	$ 447,055	$ 409,552	$ 385,214
Unreserved Balance-Undesignated	581,690	400,881	234,877	153,540	73,681
TOTAL FUND BALANCE	$ 918,625	$ 847,255	$ 681,932	$ 563,092	$ 458,895
TOTAL LIABILITIES AND FUND BALANCE	$ 1,314,882	$ 1,307,124	$ 1,075,825	$ 704,234	$ 952,111

[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 1994 through November 1996 and the projected cash flow for December 1996 through June 1997. The amounts reported include the proceeds of the sale of operating notes in July 1994, 1995, and 1996 and the payment of impoundments for February, March, April and May of 1995, 1996, and 1997. 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 "OTHER OBLIGATIONS; Operating Notes".

Monthly projections of cash flow are based upon the 1996–97 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, 1994 through December 1, 1996 and the projected balances for January 1, 1997 through June 1, 1997.

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, 1996 to November 30, 1996 and July 1, 1995 to November 30, 1995.

Table II-7

GENERAL FUND MONTHLY CASH POSITION
July 1, 1994 through November 30, 1996 — Actual
December 1, 1996 through June 30, 1997 — Estimated[a]
(Amounts in Thousands)

	Starting Date	Starting Balance	Receipts[b]	Disbursements[b]
1994	July	$ 186,704	$1,470,855	$1,398,247
	August	259,312	1,052,011	734,930
	September	576,393	1,276,805	1,077,444
	October	775,754	1,064,641	751,206
	November	1,089,189	1,192,576	1,575,886
	December	705,879	1,154,400	1,448,653
1995	January	411,626	1,390,708	744,552
	February	1,057,782	1,044,973	1,037,499
	March	1,065,256	1,148,635	1,826,357
	April	387,534	1,222,615	931,170
	May	678,979	1,228,463	981,567
	June	925,875	1,240,931	1,715,816
	July	451,090	1,306,431	1,337,712
	August	419,809	1,005,527	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	1,244,075	1,654,506
1997	January	447,432	1,550,322	1,016,271
	February	981,483	1,115,695	1,046,909
	March	1,050,269	1,247,692	2,023,643
	April	274,318	1,379,004	970,239
	May	683,083	1,261,583	984,657
	June	960,009	1,390,893	2,030,776

[a] The monthly receipt and disbursement projections for December 1, 1996 through June 30, 1997 are based on estimates provided by the Division of Executive Budget and Finance.

[b] The receipt amounts shown in July 1994–1996 include the proceeds received at closing for the respective operating notes. See "OTHER OBLIGATIONS; Operating Notes". The disbursement amounts shown for February, March, April and May 1995–1997 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, 1994 to December 1, 1996 — Actual
January 1, 1997 to June 1, 1997 — Estimated[b]
(Amounts in Millions)

	1994	1995	1996	1997
Januay		$3,604.96	$2,991.90	$2,150.86[b]
February		4,204.34	3,428.21	2,126.47
March		4,450.34	3,852.78	2,162.05
April		3,886.69	3,808.74	2,053.43
May		3,022.74	3,402.69	2,007.01
June		2,703.44	3,145.00	2,055.69
July	$4,153.73	2,838.71	3,252.38	
August	4,502.50	3,143.94	3,511.90	
September	4,193.96	2,975.23	3,250.54	
October	3,728.02	2,902.89	3,010.27	
November	3,214.22	2,630.23	2,687.47	
December	3,185.67	2,732.65	2,072.66	

[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, 1997 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, 1996 to November 30, 1996 compared with previous year.
Unaudited

	Actual Receipts 1995–96 FY[b]	Projected Receipts 1996–97 FY	Actual Receipts July 1, 1995 to November 30, 1995	Actual Receipts July 1, 1996 to November 30, 1996
Individual Income Tax	$ 4,183,604,344	$ 4,430,000,000	$ 1,331,723,923	$ 1,449,013,350
General Sales and Use Tax	2,704,226,017	2,845,000,000	924,134,202	987,764,313
Corporate Franchise and Income Tax	636,009,525	635,000,000	182,688,840	167,538,674
Public Utility Taxes	285,287,485	292,100,000	151,685,551	156,559,727
Excise Taxes	245,350,413	244,600,000	85,612,030	89,648,834
Inheritance Taxes	45,602,214	46,000,000	13,939,816	16,218,776
Miscellaneous Taxes	121,159,011	137,900,000	64,033,240	52,175,346
SUBTOTAL	8,221,241,009	8,630,600,000	2,753,817,602	2,918,919,020
Federal Receipts	3,275,795,203	3,523,184,100	1,316,760,922	1,301,696,853
Dedicated and Other Revenues	2,307,363,090	2,203,940,600	925,304,811 [c]	1,005,531,790 [c]
TOTAL	$13,804,399,302	$14,357,724,700	$4,995,883,335	$4,107,482,077

(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".

(b) The amounts shown are the sum of all revenues for fiscal year 1995-96 based on the data used in the preparation of the Annual Fiscal Report, Budgetary Basis, for the year ending June 30, 1996.

(c) The amounts shown do not reflect receipt of $250 million principal amount in fiscal year 1995–96 and $150 million principal amount in fiscal year 1996–97 from the sale of operating notes.

Source: Wisconsin Department of Administration.

Table II-10

GENERAL FUND EXPENDITURES BY FUNCTION[a]
July 1, 1996 to November 30, 1996 compared with previous year.
Unaudited

	Actual Expenditures 1995–96 FY[b]	Appropriations 1996–97 FY	Actual Expenditures July 1, 1995 to November 30, 1995	Actual Expenditures July 1, 1996 to November 30, 1996
Commerce	$ 164,514,710	$ 191,645,400	$ 69,240,198	$ 73,953,205
Education	5,837,139,605	6,600,333,700	1,556,802,354	1,636,593,808
Environmental Resources	242,360,896	239,038,900	80,960,865	78,447,618
Human Relations & Resources	5,255,874,239	5,355,935,200	2,059,265,356	2,049,182,847
General Executive	412,906,488	486,673,600	169,697,592	184,325,903
Judicial	82,154,128	87,080,300	35,301,297	38,860,967
Legislative	50,047,274	50,119,600	17,939,669	17,805,754
General Appropriations	1,603,605,241	1,641,130,200	1,158,019,586	1,351,417,521
TOTAL	$13,648,601,581	$14,651,956,900	$5,147,226,917	$5,430,587,623

(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".

(b) The amounts shown are the sum of all expenditures for fiscal year 1995-96 based on the data used in the preparation of the Annual Fiscal Report, Budgetary Basis, for the year ending June 30, 1996.

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 which 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 27, 1996, the State had approximately $3.3 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 request for issuance must also be approved by the Governor and the Joint Finance Committee of the Legislature.

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 a 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.

On July 11, 1996, the State issued $150 million of operating notes, which are due June 16, 1997.

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 November 30, 1996, the principal amount of the State's obligations under the master lease program was approximately $42 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.

Six 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 approximately $8 million outstanding as of November 30, 1996.

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 proposes to make loans to senior citizens for the payment of local property taxes on their primary residences. The Legislature has authorized the issuance of $10 million of bonds for this program, but no bonds have been issued to date, nor can they be issued on a tax-exempt basis.

The fifth program is to finance State highways and related transportation facilities. The bonds are secured by motor vehicle registration fees. The Commission has issued nine series of bonds for this program, which were outstanding in the amount of $751 million as of December 27, 1996. See Part V of this Annual Report for additional information on this transportation revenue bond program.

The sixth 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 four series of bonds for this program. The amount outstanding as of December 27, 1996 was $371 million. The Commission has authorized the sale of up to $220 million of additional 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 which 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, 1996 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, there are $625 million of borrowing authority, of which $68 million were available on October 31, 1996. WHEDA has $100 million of borrowing authority for its housing rehabilitation programs, of which $84 million were available on October 31, 1996. WHEDA also has a single-family home ownership mortgage loan program. To October 31, 1996 it has issued $3.1 billion in such bonds. WHEDA has $99 million of aggregate borrowing authority for residential facilities for the elderly and chronically disabled. To October 31, 1996 it has sold three bond issues totaling $5 million for this program. WHEDA has $200 million of borrowing authority for economic development loans. To October 31, 1996 it has sold 102 series of bonds for economic development totaling $63 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, 1996, WHEDA sold four single-family issues totaling $150 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 November 1, 1996 WHEFA had outstanding 200 issues totaling approximately $3.1 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.

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. At this date only one district exists, and it has issued $146.7 million of bonds that are not 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; 4.8% for elected officials, judges and certain other positions in State government; 5.8% for protective occupation participants who are also covered by Social Security and 6.2% 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 1.4% 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 1997 employer rates have been established at 8.9% for protective participants with Social Security, 13.6% for protective participants without Social Security, 10.2% for elected officials and judges and 5.0% 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 1.6% 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 $607 million as of December 31, 1995.

Table II-11

WISCONSIN RETIREMENT SYSTEM
ACTUARIAL STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 1995 UNAUDITED
(Amounts in Millions)

	12/31/95	12/31/94	Increase (Decrease)
Assets and Employer Obligations:			
Net Assets			
Cash, Investments & Receivables			
Less: Payables & Suspense Items			
Fixed Division	$25,820.7	$23,266.9	$2,553.8
Variable Division	4,426.2	3,617.7	808.5
Totals	30,246.9	26,884.6	3,362.3
Obligations of Employers			
Unfunded Accrued Liability	2,055.7	2,006.9	48.8
TOTAL ASSETS	$32,302.6	$28,891.5	$3,411.1
Reserves and Surplus:			
Reserves			
Actuarial Present Value of Projected Benefits Payable to Terminated Vested Participants and Active Members:			
Member Normal Contributions	$ 8,867.0	$ 8,054.8	$ 812.2
Member Additional Contributions	155.5	142.8	12.7
Employer Contributions	11,073.5	9,989.0	1,084.5
Total Contributions	$20,096.0	$18,186.6	$1,909.4
Actuarial Present Value of Projected Benefits Payable to Current Retirees and Beneficiaries:			
Fixed Annuities	$ 9,804.1	$ 9,029.6	$ 774.5
Variable Annuities	1,556.0	1,487.0	69.0
TOTAL ANNUITIES	11,360.1	10,516.6	843.5
Special Death Benefit Reserve	0.7	0.7	0.0
TOTAL RESERVES	$31,456.8	$28,703.9	$2,752.9
Surplus			
Fixed Annuity Reserve Surplus	$ 547.6	$ 256.6	$ 291.0
Variable Annuity Reserve Surplus	298.2	(69.0)	367.2
TOTAL SURPLUS	845.8	187.6	3658.2
TOTAL RESERVE AND SURPLUS	$32,302.6	$28,891.5	$3,411.1

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, 1995 was $2,168,868,260.

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, 5.8% for Protective Occupations with Social Security, and 6.2% 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, 1995 was $277,180,712 which consisted of $166,776,640 or 7.7% of payroll from the employer and $110,404,072 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, 1995 was $607,046,525 or 29.5% of the total system unfunded liability of $2.06 billion.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employe service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS and employers. The System does not make separate measurements of assets and pension benefit obligation for individual employers. The pension benefit obligation as of December 31, 1995 for the System as a whole, determined through an actuarial valuation performed as of that date, was $28.50 billion. The System's net assets (at actuarial value) available for benefits on that date were $29.40 billion, leaving assets in excess of pension benefit obligation of $900 million. The State of Wisconsin 1995 contribution represented 28.7% of total contributions required of all participating entities.

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, 1995 Comprehensive Annual Financial Report.

The preceding provides a comparative actuarial balance sheet for the most recent reporting periods. The December 31, 1995 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)
1986	$11,648,957	$1,285,081	$12,934,038	90.1%
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

Source: Wisconsin Department of Employe Trust Funds.

Table II-13

WISCONSIN RETIREMENT SYSTEM
COVERED EMPLOYEES

1986 to 1995

Year	Active State	Active Local	Retired
1986	52,942	139,416	66,497
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

Source: Wisconsin Department of Employe Trust Funds.

Table II-14

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

	State		Local		Total	
Year	Employe	Employer	Employe	Employer	Employe	Employer
1986	$11,445	$175,479	$5,054	$415,714	$16,499	$591,193
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

[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	8.9%	0.9%	9.8%
Elected	10.2%	1.0%	11.2%
General	5.0%	1.3%	6.3%

[a] Effective January 1, 1997

Source: Wisconsin Department of Employe Trust Funds.

Table II-16

WISCONSIN RETIREMENT SYSTEM
REVENUES BY TYPE
(Amounts in Thousands)

	Contributions						
Year	Required Employe	Required Employer[a]	Additional Employe	Investment Income	Supplemental	Misc.	Total
1986	$225,242	$382,450	$3,308	$1,246,585	$12,619	$ 0	$1,870,204
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

[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
1986	$32,004	$ 8,211	$ 348,057	$12,619	$ 0	$ 400,891
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

[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, 1996.

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 & Service	With Soc. Sec.	Without Soc. Sec.	Males	Females	Males	Females	Executive &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	
Age	With Soc. Sec.	Without 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, eight-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. These participants are required to keep their cash balances in the State Investment Fund. In addition, the State Investment Fund also includes investment deposits from elective participants consisting of over 1,000 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 which 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. SWIB has a staff of approximately 80 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 other participants and is appointed by the Wisconsin Retirement Board. Six members, called public members, are appointed by the Governor. Of these public members, five are required to have at least ten years of investment experience and one is further required to be a non-elected government official from a smaller local government participant. 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 OCTOBER 31, 1996 (UNAUDITED)
Estimated Portfolio Valuation Report

	Estimated Book Value	Estimated Market Value	Percentage of Portfolio at Market
Fixed Income Investments			
Corporate Bonds	$ 754,105,605	$ 753,907,585	13.30%
Government Bonds	450,456,386	457,163,820	8.06
Other Bonds	89,984,168	90,059,909	1.59
Short Term Investments			
Commercial Paper	1,172,322,465	1,172,712,465	20.68
Certificates of Deposit	263,737,889	263,017,455	4.64
Repurchase Agreements	1,936,446,000	1,936,446,000	34.15
U.S. Agencies	1,034,461,070	1,034,771,852	18.25
Restructured Investments			
Structured Notes	35,000,000	28,306,250	0.50
Interest Rate Swaps		(79,266,659)	(1.40)
Accrued Income	13,271,655	13,271,655	0.23
	$5,749,785,238	$5,670,390,332	100.00

Average Maturity for the Last Six Months

Reporting Date	Average Maturity (Days)	Reporting Date	Average Maturity (Days)
10/31/1996	44	7/31/1996	44
9/30/1996	45	6/30/1996	38
8/31/1996	46	5/31/1996	33

Summary of Investment Fund Participants

	Par Amount (Amounts in Thousands)	Percent of Portfolio
Mandatory Participants		
State of Wisconsin:		
General Fund	$ 1,347,976	24.2%
Transportation Fund	77,386	1.4
Natural Resources Fund	49,125	0.9
Bond Security and Redemption Fund	99,166	1.8
Lottery Fund	63,123	1.1
Patients Compensation	17,435	0.3
Veterans Mortgage Loan Repayment	88,497	1.6
Capital Improvement Fund	119,519	2.2
Others	430,167	7.8
State of Wisconsin Retirement System:		
Fixed Retirement Investment Trust	242,494	4.4
Variable Retirement Investment Trust	19,681	0.4
Combined Stock Fund	953,640	17.3
Elective Participants		
Local Government Investment Pool	2,012,878	36.5
	$ 5,521,087	100.0

NOTE: The difference between the total of participants share ($5,521,087,000) and the book value ($5,749,785,238) 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
1987 TO 1996

Calendar Year	Value of Taxable Property	Rate of Increase (Decrease)
1987	$121,883,655,590	—
1988	126,587,557,530	3.9
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

Source: Wisconsin Department of Administration.

Table II-23

DELINQUENCY RATE:
INCOME, FRANCHISE, GIFT, SALES AND USE TAXES
1991-92 TO 1995-96[a]

Fiscal Year	Total Revenues Expected (Amounts in Thousands)	Delinquent Balance (Amounts in Thousands)	Delinquent Balance as a Percent of Total Revenues Expected
1991-92	$5,756,537	$344,128	5.98%
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

[a] The gift tax was eliminated effective January 1, 1992.

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	0.5	0.8	90.1	70.3
1991	4,949	17	1.1	1.4	91.1	71.3
1992	4,997	18	1.0	1.1	92.0	72.1
1993	5,044	18	0.9	1.1	92.9	72.9
1994	5,083	18	0.8	1.0	93.6	73.6
1995	5,123	18	0.8	0.9	94.3	74.3

[a] 1981-1989 and 1991-1995 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, 1995

	Wisconsin	U.S.
Under 5	6.7%	7.5%
5-17	19.7	18.7
18-44	40.5	41.2
45-64	19.7	19.9
65 +	13.4	12.7
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.
1986	$ 66,898	$14,072	$14,906	94.4%
1987	70,242	14,707	15,638	94.0
1988	74,260	15,397	16,610	92.7
1989	79,831	16,436	17,690	92.9
1990	85,288	17,434	18,666	93.4
1991	88,895	17,962	19,201	93.5
1992	95,423	19,096	20,146	94.8
1993	99,996	19,825	20,809	95.3
1994	106,142	20,882	21,699	96.2
1995	111,879	21,839	22,788	95.8

Source: Bureau of Economic Analysis, U.S. Department of Commerce, World Wide Web Site.

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	44,444	44,615	99.6
1993	46,363	45,161	102.7
1994	48,982	47,012	104.2

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 PLACE OF WORK BY INDUSTRY

	Wisconsin Distribution			U.S. Distribution
	1992	1993	1994	1994
Farm	1.5%	0.9%	1.3%	1.3%
Nonfarm	98.5	99.1	98.7	98.7
Private Nonfarm	84.1	84.7	84.7	82.7
Agricultural Services, Forestry, Fisheries, etc.	0.5	0.6	0.6	0.7
Mining	0.1	0.1	0.1	0.9
Construction	5.6	5.7	5.8	5.3
Manufacturing	28.7	28.4	28.7	18.3
Transportation & Public Utilities	5.8	5.8	6.0	6.7
Trade	15.6	15.6	15.5	15.8
Finance, Insurance & Real Estate	6.1	6.3	6.0	7.4
Services	21.6	22.1	22.0	27.6
Government	14.5	14.5	14.0	16.0
Total Earnings by Industry	100.0	100.0	100.0	100.0
Total Earnings by Industry (Amount in Millions)	$67,697	$71,128	$76,323	$4,084,922

Source: Bureau of Economic Analysis, U.S. Department of Commerce, June 1996, CD-ROM.

Table II-30

ESTIMATED EMPLOYEES IN WISCONSIN ON NONAGRICULTURAL PAYROLLS[a] 1995 ANNUAL AVERAGE

	Wisconsin		U.S.	
	(Amounts in Thousands)	%	(Amounts in Thousands)	%
Mining	2.4	0.1	580	0.5
Contract Construction	100.2	3.9	5,158	4.4
Manufacturing	600.9	23.5	18,468	15.8
Transportation & Public Utilities	119.2	4.7	6,165	5.3
Wholesale Trade	126.7	5.0	6,412	5.5
Retail Trade	460.6	18.0	21,173	18.1
Finance, Insurance & Real Estate	136.1	5.3	6,830	5.8
Miscellaneous Services	630.8	24.7	33,107	28.2
Government	378.1	14.8	19,311	16.5
Total	2,554.9	100.0	117,203	100.0

[a] Not seasonally adjusted.

Note: This table excludes Agriculture, Forestry and Fisheries employees. (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	1995	% Change	1980	1995	% Change
Weekly Earnings	$323.10	$537.20	66.3	$288.62	$514.62	75.5
Weekly Hours	40.2	42.1	4.7	39.7	41.6	5.8
Hourly Earnings	$ 8.03	$ 12.76	58.9	$ 7.27	$ 12.37	65.9
Number of All Manufacturer Workers (Amounts in thousands)	558	601	7.7	20,285	18,468	(9.0)

Source: Wisconsin Department of Workforce Development.

Table II-33

TOTAL NEW HOUSING UNITS AUTHORIZED IN PERMIT–ISSUING PLACES

Year	Wisconsin	% Change Wisconsin	% Change U.S.
1986	21,824	8.3	2.1
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)

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

Table II-34

UNEMPLOYMENT RATE COMPARISON[a]
BY MONTH 1991 to 1996
BY QUARTER 1987 to 1990

	1996		1995		1994		1993		1992		1991	
	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.
January	4.4	6.3	4.5	6.2	5.5	6.8	5.0	7.9	6.1	8.0	5.6	7.0
February	4.7	6.0	4.6	5.9	5.9	7.1	5.1	7.7	6.3	8.1	6.6	7.2
March	4.4	5.8	4.5	5.7	5.6	7.3	5.5	7.3	5.8	7.7	6.9	7.1
April	3.9	5.4	4.0	5.6	5.0	6.2	5.2	6.8	4.9	7.1	6.0	6.5
May	3.5	5.4	3.6	5.5	4.5	5.9	4.8	6.7	4.9	7.2	5.3	6.9
June	3.7	5.5	3.8	5.8	5.0	6.2	5.2	7.1	5.3	7.8	5.5	6.7
July	3.4	5.6	3.4	5.9	4.6	6.2	4.6	6.9	5.1	7.6	4.7	6.7
August	3.1	5.1	3.2	5.6	4.4	5.9	4.4	6.5	4.7	7.3	4.5	6.5
September	2.7	5.0	3.1	5.4	4.1	5.6	4.0	6.4	5.1	7.2	4.8	6.4
October	2.6	4.9	3.2	5.2	4.0	5.4	4.0	6.3	4.5	6.8	4.8	6.4
November	2.7	5.0	3.4	5.3	4.1	5.3	4.2	6.1	3.9	7.0	4.9	6.6
December			3.2	5.2	4.1	5.1	4.2	6.0	4.3	7.0	5.0	6.8
Annual Average			3.7	5.6	4.7	6.1	4.7	6.8	5.1	7.4	5.4	6.7

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

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

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

1987 Quarters	Wis.	U.S.
I	7.5	7.1
II	6.2	6.2
III	5.2	5.9
IV	5.5	5.6
Annual Average	6.1	6.2

[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

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, 1996. The entire CAFR is available from the State Controller's Office, Department of Administration, P.O. Box 7864, Madison, WI 53707-7864.

General Purpose Financial Statements
For the Fiscal Year Ended June 30, 1996

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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 13, 1996

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, 1996.

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
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INDEPENDENT AUDITOR'S REPORT

Honorable Members of the Legislature

The Honorable Tommy G. Thompson, Governor

We have audited the accompanying general purpose financial statements of the State of Wisconsin as of and for the year ended June 30, 1996, as listed in the table of contents. These general purpose financial statements are the responsibility of the State of Wisconsin's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Clean Water Fund and the Health Insurance Risk Sharing Plan, which represent 31 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, which represent 82 percent of the assets and 22 percent of the revenues and operating transfers of the debt service funds, 58 percent of the assets and 66 percent of the bond proceeds of the capital projects funds, and 22 percent of the liabilities of the general long-term debt account group. We did not audit the financial statements of the University of Wisconsin Hospitals and Clinics, which represent 8 percent of the assets of the University of Wisconsin System and 11 percent of the revenues, transfers, and other additions of the System's current funds. In addition, we did not audit the financial statements of the Wisconsin Housing and Economic Development Authority and the Wisconsin Health Care Liability Insurance Plan, which represent 100 percent of the financial activity of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely upon the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. The financial statements of the Clean Water Fund, Health Insurance Risk Sharing Plan, Wisconsin Department of Transportation Revenue Bond Program, University of Wisconsin Hospitals and Clinics, and Wisconsin Health Care Liability Insurance Plan were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audit and the reports of other auditors, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the State of Wisconsin as of June 30, 1996, and the results of its operations, the cash flows of its proprietary fund types, nonexpendable trust funds, and discretely presented component units, and the changes in fund balances of the University of Wisconsin System, for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we will issue reports dated December 13, 1996, on our consideration of the State of Wisconsin's internal control structure and its compliance with laws and regulations. Those reports will be included in the State's single audit report.

LEGISLATIVE AUDIT BUREAU

December 13, 1996 by Dale Cattanach

Dale Cattanach
State Auditor

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units
June 30, 1996

(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	$ 286,583	$ 355,476	$ 6,686	$ 31,897	$ 572,609	$ 44,511
Investments	2,626	-	16,574	76,635	677,578	-
Investment in Variable Retirement Investment Fund	-	-	-	-	-	-
Receivables (net of allowance for uncollectibles):						
Taxes	623,891	73,825	-	-	-	-
Student Loans	-	-	-	-	9,982	-
Veterans Loans	-	-	-	-	33,462	-
Mortgage Loans	-	-	-	-	544,267	-
Insurance Policy Loans	-	-	-	-	3,738	-
Loans to Local Governments	-	-	-	-	606,071	-
Other Receivables	92,888	20,175	29,702	302	58,018	818
Due from Other Funds	80,900	33,354	3,553	2,114	25,081	21,317
Due from Component Units	-	-	-	-	8	-
Interfund Loans Receivable	53,690	23,864	-	21,570	-	-
Due from Other Governments	392,816	49,895	-	768	11,423	957
Inventories	79,082	15,750	-	-	8,665	7,194
Prepaid Items	220,061	9,768	-	-	58,514	511
Advances to Other Funds	-	-	-	-	6,000	3,792
Restricted Assets:						
Cash and Cash Equivalents	-	-	-	-	29,472	-
Investments	-	-	-	-	-	-
Deferred Charges	-	-	-	-	6,939	523
Fixed Assets	-	-	-	-	142,156	194,319
Other Assets	-	6	-	-	9,080	-
Other Debits:						
Amount Available in Debt Service Fund	-	-	-	-	-	-
Amount to be Provided for Retirement of General Long-term Obligations	-	-	-	-	-	-
Total Assets and Other Debits	$ 1,832,537	$ 582,113	$ 56,515	$ 133,285	$ 2,803,063	$ 273,943

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)
$ 5,813,201	$ -	$ -	$ 447,699	$ 7,558,662	$ 131,322	$ 7,689,984
37,478,874	-	-	184,062	38,436,350	444,278	38,880,628
19,749,230	-	-	-	19,749,230	-	19,749,230
-	-	-	-	697,716	-	697,716
-	-	-	152,355	162,337	-	162,337
-	-	-	-	33,462	-	33,462
-	-	-	-	544,267	1,622,173	2,166,440
-	-	-	-	3,738	-	3,738
255,241	-	-	-	861,312	-	861,312
580,098	-	-	104,626	886,627	17,808	904,434
76,511	-	-	44,329	287,158	-	287,158
-	-	-	-	8	-	8
500,252	-	-	-	599,375	-	599,375
87,745	-	-	36,649	580,252	-	580,252
-	-	-	45,469	156,159	-	156,159
3,897	-	-	15,054	307,806	-	307,806
-	-	-	-	9,792	-	9,792
-	-	-	-	29,472	-	29,472
-	-	-	-	-	78,744	78,744
-	-	-	7,486	14,948	17,325	32,273
635	1,460,924	-	3,715,246	5,513,280	4,888	5,518,168
223,256	-	-	-	232,342	10,418	242,760
-	-	7,009	-	7,009	-	7,009
-	-	3,408,713	-	3,408,713	-	3,408,713
$ 64,768,940	$ 1,460,924	$ 3,415,722	$ 4,752,974	$ 80,080,015	$ 2,326,956	$ 82,406,971

(Continued)

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units
June 30, 1996

(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	$ 396,142	$ 145,864	$ -	$ 18,983	$ 270,631	$ 16,624
Due to Other Funds	93,908	43,006	468	1,293	23,647	5,521
Due to Primary Government	-	-	-	-	-	-
Interfund Loans Payable	-	21,571	-	23,827	26,721	26,968
Bank Overdraft	-	-	-	-	622	-
Due to Other Governments	1,245,557	64,350	-	846	1,012	47
Tax Refunds Payable	524,855	4,577	-	-	-	-
Tax and Other Deposits	61,361	7,975	-	-	8,324	-
Deferred Revenue	423,227	10,634	-	-	49,259	1,392
Interest Payable	-	-	22,917	-	5,493	1,412
Investment Due Fixed Retirement Investment Fund	-	-	-	-	-	-
Advances from Other Funds	6,000	-	-	-	-	3,792
Future Benefits and Loss Liabilities	-	-	-	-	641,939	69,920
Capital Leases	-	-	-	-	111	18,992
Compensated Absences	-	-	-	-	5,294	1,703
Employer Pension Costs	-	-	-	-	-	-
General Obligation Bonds Payable	-	-	735	-	538,371	97,558
Revenue Bonds and Notes Payable	-	-	25,385	-	373,329	-
Other Bonds Payable	-	-	-	-	-	-
Claims, Judgments and Commitments	-	-	-	-	-	-
Installment Contracts Payable	-	-	-	-	356	366
Total Liabilities	2,751,050	297,977	49,505	44,949	1,945,110	244,296
Equity and Other Credits:						
Contributed Capital	-	-	-	-	782,578	22.639
Investment in General Fixed Assets	-	-	-	-	-	-
Retained Earnings:						
Reserved	-	-	-	-	42,661	-
Unreserved	-	-	-	-	32,714	7,007
Fund Balances:						
Reserved	293,225	431,890	-	132,860	-	-
Unreserved:						
Designated	-	-	-	-	-	-
Undesignated	(1,211,738)	(147,754)	7,009	(44,524)	-	-
Total Equity and Other Credits	(918,513)	284,136	7,009	88,336	857,954	29,646
Total Liabilities, Equity and Other Credits	$ 1,832,537	$ 582,113	$ 56,515	$ 133,285	$ 2,803,063	$ 273,943

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)
$ 908,591	$ -	$ -	$ 146,542	$ 1,903,377	$ 9,870	$ 1,913,247
74,788	-	-	44,526	287,159	-	287,159
-	-	-	-	-	8	8
500,289	-	-	-	599,375	-	599,375
-	-	-	-	622	-	622
2,800,263	-	-	3,129	4,115,202	-	4,115,202
-	-	-	-	529,432	-	529,432
218,120	-	-	1,494	297,273	132,516	429,789
1,768	-	-	66,362	552,643	3,010	555,652
-	-	-	-	29,823	55,422	85,245
19,749,230	-	-	-	19,749,230	-	19,749,230
-	-	-	-	9,792	-	9,792
-	-	-	-	711,860	138,660	850,520
-	-	8,905	17,232	45,240	-	45,240
247,626	-	682,498	42,725	979,848	242	980,090
-	-	131,215	-	131,215	-	131,215
-	-	1,720,373	728,489	3,085,526	-	3,085,526
-	-	750,565	-	1,149,279	1,760,537	2,909,816
-	-	-	1,842	1,842	-	1,842
-	-	119,447	-	119,447	-	119,447
-	-	2,719	1,051	4,493	-	4,493
24,500,675	-	3,415,722	1,053,392	34,302,677	2,100,264	36,402,941
-	-	-	-	805,217	-	805,217
-	1,460,924	-	2,967,033	4,427,956	-	4,427,956
-	-	-	-	42,661	117,971	160,632
-	-	-	-	39,721	108,720	148,442
41,926,688	-	-	690,521	43,475,182	-	43,475,182
-	-	-	3,766	3,766	-	3,766
(1,658,423)	-	-	38,263	(3,017,166)	-	(3,017,166)
40,268,265	1,460,924	-	3,699,582	45,777,338	226,691	46,004,030
$ 64,768,940	$ 1,460,924	$ 3,415,722	$ 4,752,974	$ 80,080,015	$ 2,326,956	$ 82,406,971

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, 1996

(In Thousands)

	Governmental Fund Types				Fiduciary Fund Type	Totals
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	(Memorandum Only)
Revenues:						
Taxes	$ 8,173,163	$ 801,321	$ -	$ -	$ -	$ 8,974,484
Intergovernmental	3,123,219	419,902	-	12,545	11,982	3,567,648
Licenses and Permits	175,421	450,495	58,354	60	-	684,330
Charges for Goods and Services	115,060	40,816	-	2,556	335	158,766
Contributions	-	-	-	-	485,541	485,541
Investment and Interest Income	41,412	13,029	4,654	5,909	153,843	218,846
Gifts and Donations	4,491	1,226	-	223	93	6,032
Other Revenues	56,939	10,093	1	6,691	34,662	108,386
Total Revenues	11,689,705	1,736,883	63,009	27,983	686,456	14,204,035
Expenditures:						
Current:						
Commerce	155,938	5,041	-	944	-	161,923
Education	3,280,166	141	-	3,204	14,266	3,297,776
Transportation	939	1,342,148	-	476	-	1,343,563
Environmental Resources	104,415	381,136	-	21,869	-	507,420
Human Relations and Resources	4,993,422	2,598	-	37,042	498,507	5,531,569
General Executive	228,320	11,831	-	6,410	92,932	339,493
Judicial	82,164	341	-	-	-	82,505
Legislative	50,165	-	-	-	-	50,165
Tax Relief and Other General Expenditures	574,655	-	-	116	-	574,771
Intergovernmental	1,010,618	-	-	-	-	1,010,618
Capital Outlay	-	-	-	153,809	-	153,809
Debt Service:						
Principal	-	-	144,925	-	-	144,925
Interest	-	-	125,463	-	-	125,463
Bond Administration Costs	-	-	167	-	-	167
Total Expenditures	10,480,802	1,743,235	270,554	223,870	605,705	13,324,166
Excess of Revenues Over (Under) Expenditures	1,208,903	(6,352)	(207,545)	(195,888)	80,751	879,868
Other Financing Sources (Uses):						
Proceeds from Sale of Bonds	-	8,758	2,155	333,421	-	344,335
Proceeds from Refunding Bonds	-	-	145,224	-	-	145,224
Payment to Refunding Bond Escrow Agent	-	-	(145,224)	-	-	(145,224)
Operating Transfers In	28,979	18,325	210,393	4,408	-	262,105
Operating Transfers Out	(1,091,593)	(30,549)	(2,399)	(3,892)	(3,952)	(1,132,385)
Capital Leases Acquisitions	6,208	-	-	-	-	6,208
Installment Purchase Acquisitions	-	98	-	1,634	-	1,732
Total Other Financing Sources (Uses)	(1,056,405)	(3,368)	210,149	335,572	(3,952)	(518,004)

(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, 1996

(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	152,498	(9,720)	2,604	139,684	76,798	361,864
Fund Balances, Beginning of Year	(1,106,257)	312,371	405	(35,348)	1,608,249	779,420
Increase (Decrease) in Reserve for Inventories	620	1,335	-	-	-	1,955
Residual Equity Transfers In	36,100	1,250	4,000	-	-	41,350
Residual Equity Transfers Out	(1,474)	(21,100)	-	(16,000)	-	(38,574)
Fund Balances, End of Year	$ (918,513)	$ 284,136	$ 7,009	$ 88,336	$ 1,685,047	$ 1,146,015

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, 1996

(In Thousands)

	General Fund			Budgeted Special Revenue Funds		
	Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
Revenues:						
Taxes	$ 8,216,558	$ 8,221,241	$ 4,683	$ 801,818	$ 801,818	$ -
Departmental	5,620,912	5,583,158	(37,754)	1,116,872	1,116,872	-
Total Revenues	13,837,469	13,804,399	(33,070)	1,918,691	1,918,691	-
Expenditures:						
Current:						
Commerce	185,662	164,514	21,147	25,685	13,529	12,156
Education	6,052,759	5,837,139	215,620	11,346	10,583	763
Environmental Resources	252,846	242,361	10,485	1,929,671	1,679,960	249,711
Human Relations and Resources	5,282,920	5,255,874	27,046	136,809	123,305	13,504
General Executive	487,561	412,906	74,655	10,117	3,517	6,600
Judicial	83,188	82,154	1,034	691	349	342
Legislative	50,544	50,047	496	-	-	-
General	1,613,785	1,603,605	10,180	21,041	16,041	5,000
Total Expenditures	14,009,264	13,648,601	360,663	2.135,359	1,847,283	288,077
Excess of Revenues Over (Under) Expenditures	$ (171,794)	155,799	$ 327,593	$ (216,669)	71,408	$ 288,077
Fund Balances, Beginning of Year		847,255			329,095	
Prior Period Adjustment		(307)			-	
Residual Equity Transfers		(84,121)			(19,329)	
Fund Balances, End of Year		$ 918,625			$ 381,174	

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, Similar Trust Funds and Discretely Presented Component Units For the Fiscal Year Ended June 30, 1996

(In Thousands)

	Proprietary Fund Types		Fiduciary Fund Types		Totals - Primary Government		Totals - Reporting Entity
	Enterprise	Internal Service	Nonexpendable Trust	Pension Trust	(Memorandum Only)	Component Units	(Memorandum Only)
Operating Revenues:							
Charges for Goods and Services	$ 797,379	$ 200,776	$ 198	$ -	$ 998,353	$ 9,002	$ 1,007,355
Investment and Interest Income	116,152	-	819	5,115,783	5,232,754	142,319	5,375,073
Contributions	393,786	-	-	1,019,532	1,413,318	-	1,413,318
Fines and Forfeitures	-	-	15,845	-	15,845	-	15,845
Gifts and Donations	-	-	108	-	108	-	108
Other Income	4,804	1,691	4	-	6,499	1,061	7,560
Total Operating Revenues	1,312,122	202,467	16,974	6,135,314	7,666,877	152,381	7,819,258
Operating Expenses:							
Personal Services	201,514	39,866	128	-	241,507	8,749	250,256
Supplies and Services	400,837	108,191	241	20,598	529,868	11,434	541,301
Lottery Prize Awards	276,966	-	-	-	276,966	-	276,966
Depreciation	10,194	23,631	-	-	33,825	502	34,327
Benefit Expense	215,334	(16,165)	-	1,215,861	1,415,030	5,813	1,420,842
Interest Expense	56,554	-	-	-	56,554	124,237	180,791
Other Expenses	13,707	-	-	10,520	24,227	62,313	86,539
Total Operating Expenses	1,175,106	155,523	368	1,246,979	2,577,976	213,047	2,791,023
Operating Income (Loss)	137,016	46,944	16,605	4,888,336	5,088,901	(60,666)	5,028,235
Nonoperating Revenues (Expenses):							
Operating Grants	3,500	235	5	-	3,740	59,101	62,841
Investment and Interest Income	29,377	288	1	-	29,666	26,109	55,775
Gain (Loss) on Disposal of Fixed Assets	(32)	772	-	-	740	(39)	701
Interest Expense	(713)	(5,579)	-	-	(6,292)	-	(6,292)
Other Revenues	2,514	497	-	954	3,966	-	3,966
Other Expenses	(164,516)	-	-	-	(164,516)	-	(164,516)
Total Nonoperating Revenues (Expenses)	(129,871)	(3,787)	6	954	(132,697)	85,171	(47,526)
Income (Loss) Before Operating Transfers	7,145	43,157	16,611	4,889,290	4,956,204	24,505	4,980,709
Operating Transfers In	34,930	5,377	2,500	24,330	67,137	-	67,137
Operating Transfers Out	(21,321)	(2,088)	(6)	(24,330)	(47,745)	-	(47,745)
Net Income before Extraordinary Items	20,754	46,446	19,105	4,889,290	4,975,595	24,505	5,000,100
Extraordinary Items:							
Gain (Loss) from Extinguishment of Debt	104	-	-	-	104	(62)	42
Net Income (Loss)	20,858	46,446	19,105	4,889,290	4,975,699	24,443	5,000,142

(Continued)

Combined Statement of Revenues, Expenses, and Changes in Retained Earnings/ Fund Balances - All Proprietary Fund Types, Similar Trust Funds and Discretely Presented Component Units
For the Fiscal Year Ended June 30, 1996

(Continued)

	Proprietary Fund Types		Fiduciary Fund Types		Totals - Primary Government (Memorandum Only)	Component Units	Totals - Reporting Entity (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	Pension Trust			
Retained Earnings/Fund Balances, Beginning of Year	54,586	(37,998)	337,894	33,336,929	33,691,411	202,248	33,893,659
Residual Equity Transfers In	-	132	-	-	132	-	132
Residual Equity Transfers Out	(68)	(1,573)	-	-	(1,642)	-	(1,642)
Retained Earnings/Fund Balances, End of Year	$ 75,376	$ 7,007	$ 356,998	$ 38,226,219	$ 38,665,600	$ 226,691	$ 38,892,292

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, 1996

(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)
Cash Flows from Operating Activities:						
Cash Receipts from Customers	$ 1,192,755	$ 206,539	$ 198	$ 1,399,492	$ 4,846	$ 1,404,338
Cash Payments to Suppliers for Goods and Services	(377,826)	(110,304)	(195)	(488,325)	(3,875)	(492,200)
Cash Payments to Employes for Services	(198,334)	(39,594)	(126)	(238,054)	(8,568)	(246,622)
Cash Payments for Lottery Prizes	(287,161)	-	-	(287,161)	-	(287,161)
Cash Payments for Loans Originated	(75,863)	-	-	(75,863)	(248,799)	(324,662)
Cash Payments for Benefits	(189,113)	(17,829)	-	(206,941)	(5,413)	(212,354)
Interest Income	40,857	-	-	40,857	131,130	171,987
Fines and Forfeitures	-	-	15,845	15,845	-	15,845
Collection of Loans	71,394	-	-	71,394	156,891	228,285
Other Operating Revenues (Expenses)	(35,209)	2,111	124	(32,974)	(65,078)	(98,053)
Other Sources (Uses) of Cash	2,101	157	-	2,257	7,628	9,885
Net Cash Provided (Used) by Operating Activities	143,601	41,079	15,846	200,527	(31,239)	169,288
Cash Flows from Noncapital Financing Activities:						
Operating Grants Receipts	3,016	225	5	3,246	59,101	62,347
Grants for Loans to Governments	25,036	-	-	25,036	-	25,036
Proceeds from Issuance of Long-term Debt	125,371	-	-	125,371	345,868	471,239
Retirement of Long-term Debt	(61,694)	-	-	(61,694)	(311,400)	(373,094)
Interest Payments	(54,359)	-	-	(54,359)	(131,435)	(185,794)
Interfund Loans	3,992	2,657	-	6,649	-	6,649
Interfund Loans Repaid	(4,535)	(5,453)	-	(9,988)	-	(9,988)
Interfund Advances	476	632	-	1,108	-	1,108
Operating Transfers In	35,899	5,382	2,500	43,780	-	43,780
Operating Transfers Out	(22,357)	(2,394)	(6)	(24,757)	-	(24,757)
Residual Equity Transfers In	24,000	120	-	24,120	-	24,120
Residual Equity Transfers Out	(12,000)	(120)	-	(12,120)	-	(12,120)
Other Cash Flows from Noncapital Financing Activities	(166,729)	-	-	(166,729)	(2,552)	(169,281)
Net Cash Provided (Used) by Noncapital Financing Activities	(103,885)	1,048	2,499	(100,337)	(40,418)	(140,755)
Cash Flows from Capital and Related Financing Activities:						
Proceeds from Issuance of Long-term Debt	1,675	9,548	-	11,223	-	11,223
Repayment of Long-term Debt	(557)	(6,786)	-	(7,342)	-	(7,342)
Interest Payments	(643)	(5,389)	-	(6,032)	-	(6,032)
Interfund Advances Repaid	-	(632)	-	(632)	-	(632)
Capital Lease Obligations	(57)	(12,070)	-	(12,127)	-	(12,127)
Proceeds from Sale of Fixed Assets	10	1,961	-	1,971	-	1,971
Payments for Purchase of Fixed Assets	(4,680)	(13,900)	-	(18,580)	(4,215)	(22,795)
Other Cash Flows from Capital Financing Activities	260	297	-	557	-	557
Net Cash Provided (Used) by Capital and Related Financing Activities	(3,991)	(26,972)	-	(30,963)	(4,215)	(35,178)
Cash Flows from Investing Activities:						
Proceeds from Sale and Maturities of Investment Securities	118,668	-	6,716	125,384	548,040	673,424
Purchase of Investment Securities	(124,135)	-	(7,601)	(131,735)	(579,544)	(711,279)
Cash Payments for Loans Originated	(99,807)	-	(44,444)	(144,251)	-	(144,251)
Collection of Loans	28,107	-	50,177	78,284	-	78,284
Interest and Dividends Receipts	108,617	287	817	109,722	36,232	145,954
Net Cash Provided (Used) by Investing Activities	31,451	287	5,666	37,404	4,728	42,132
Net Increase (Decrease) in Cash and Cash Equivalents	67,176	15,443	24,011	106,631	(71,143)	35,487
Cash and Cash Equivalents, Beginning of Year	534,905	29,068	66,118	630,092	202,465	832,557
Cash and Cash Equivalents, End of Year	$ 602,081	$ 44,511	$ 90,130	$ 736,723	$ 131,322	$ 868,044

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

Nonexpendable Trust Fund	$ 90,130
Fiduciary Funds, Other Than Nonexpendable Trust	5,723,071
Total Fiduciary Fund Type Cash and Cash Equivalents, End of Year	$ 5,813,201

(Continued)

Combined Statement of Cash Flows - All Proprietary Fund Types, Nonexpendable Trust Funds and Discretely Presented Component Units For Fiscal Year Ended June 30, 1996

(Continued)

	Proprietary Fund Types		Fiduciary Fund Type	Totals - Primary Government		Totals - Reporting Entity
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)	Component Units	(Memorandum Only)
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations:						
Operating Income (Loss)	$ 137,016	$ 46,944	$ 16,605	$ 200,565	$ (60,666)	$ 139,899
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:						
Depreciation	10,194	23,631	-	33.825	502	34.327
Amortization	1.217	-	-	1,217	3.084	4.301
Provision for Uncollectible Accounts	(31)	-	-	(31)	332	301
Operating Income (Investment Income) Classified as Investing Activity	(74,003)	-	(806)	(74,809)	(11,485)	(86,294)
Operating Expense (Interest Expense) Classified as Noncapital Financing Activity	54.877	-	-	54,877	120.671	175.548
Miscellaneous Nonoperating Income (Expense)	492	181	-	672	-	672
Changes in Assets and Liabilities:						
Decrease (Increase) in Receivables	(3,406)	1,474	-	(1.932)	(89,073)	(91,004)
Decrease (Increase) in Due from Other Funds	(3.229)	4.369	23	1,163	-	1.163
Decrease (Increase) in Due from Component Units	1	-	-	1	-	1
Decrease (Increase) in Due from Other Governments	(1.091)	206	-	(885)	-	(885)
Decrease (Increase) in Inventories	(1,271)	112	-	(1,159)	-	(1,159)
Decrease (Increase) in Prepaid Items	(259)	86	(1)	(173)	-	(173)
Decrease (Increase) in Deferred Charges	79	-	-	79	-	79
Decrease (Increase) in Other Assets	(461)	-	-	(461)	(437)	(898)
Increase (Decrease) in Accounts Payable and Other Accrued Liabilities	(6.413)	(1.966)	15	(8,365)	6.662	(1,703)
Increase (Decrease) in Compensated Absences	433	229	-	662	-	662
Increase (Decrease) in Due to Other Funds	244	(132)	11	122	-	122
Increase (Decrease) in Due to Primary Government	-	-	-	-	(1)	(1)
Increase (Decrease) in Due to Other Governments	(3,737)	(26)	-	(3,763)	-	(3.763)
Increase (Decrease) in Tax and Other Deposits	476	-	-	476	-	476
Increase (Decrease) in Deferred Revenue	3.653	(34)	-	3.619	(1,229)	2.390
Increase (Decrease) in Interest Payable	326	-	-	326	-	326
Increase (Decrease) in Future Benefits and Loss Liabilities	28,495	(33,994)	-	(5,499)	400	(5,099)
Total Adjustments	6,585	(5,865)	(759)	(39)	29,427	29,389
Net Cash Provided by Operating Activities	$ 143,601	$ 41,079	$ 15,846	$ 200,527	$ (31,239)	$ 169,288
Noncash Investing, Capital and Financing Activities:						
Capital Leases (Initial Year):						
Fair Market Value	$ -	$ 4	$ -	$ 4	$ -	$ 4
Current Year Cash Receipts (Payments)	-	(1)	-	(1)	-	(1)
Contributions/Transfer In (Out) of Noncash Assets and Liabilities from/to Other Funds	11.050	21	-	11.070	-	11,070
Lottery Prize Annuity Investment Assumption	2.790	-	-	2.790	-	2.790
Lottery Prize Annuity Investment Liability	(2.790)	-	-	(2,790)	-	(2.790)
Other	37	(2)	-	35	-	35

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, 1996

(In Thousands)

	Unrestricted	Restricted	Totals
Revenues:			
Tuition and Fees	$ 470,792	$ -	$ 470,792
Federal Appropriations	15,552	-	15,552
Federal Grants and Contracts	71,550	263,152	334,702
State Grants and Contracts	-	17,919	17,919
Local Grants and Contracts	23	7,845	7,867
Private Gifts, Grants and Contracts	6,097	169,844	175,941
Endowment Income	1,192	5,722	6,914
Sales and Services of Educational Activities	133,467	80	133,547
Sales and Services of Auxiliary Enterprises	185,580	-	185,580
Sales and Services of Hospitals	300,948	-	300,948
Other Sources	105,465	1,689	107,155
Total Revenues	1,290,665	466,251	1,756,916
Expenditures and Mandatory Transfers:			
Educational and General:			
Instruction	601,525	42,701	644,227
Research	115,930	293,911	409,842
Public Service	131,183	43,233	174,416
Academic Support	197,462	6,372	203,833
Farm Operations	8,954	8	8,963
Student Services	156,425	10,497	166,922
Institutional Support	118,170	3,175	121,345
Operation and Maintenance of Plant	131,382	56	131,438
Financial Aid	84,800	68,596	153,396
Total Educational and General	1,545,831	468,551	2,014,382
Auxiliary Enterprises	172,333	24	172,357
Hospitals	287,493	3,463	290,956
Mandatory Transfers:			
Debt Service on Academic Facilities	70,431	665	71,096
Debt Service on Self-Amortizing Facilities	9,263	886	10,149
Debt Service on Hospital Facilities	4,932	-	4,932
Student Loan Matching	831	-	831
Total Mandatory Transfers	85,458	1,551	87,009
Total Expenditures and Mandatory Transfers	2,091,116	473,588	2,564,704
Other Transfers, Additions (Deductions):			
Operating Transfers In	847,337	7,406	854,743
Operating Transfers Out	(5,330)	(69)	(5,399)
Excess of Restricted Receipts Over Expenditures	-	14,171	14,171
Nonmandatory Transfers	(16,494)	(42,291)	(58,785)
Residual Equity Transfers Out	(15,000)	-	(15,000)
Other	-	59	59
Net Other Transfers, Additions (Deductions)	810,513	(20,723)	789,790
Prior Period Adjustments	(7,404)	-	(7,404)
Net Increase (Decrease) in Fund Balance	$ 2,658	$ (28,060)	$ (25,403)

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, 1996

(In Thousands)

	Current Funds				Plant Funds		
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Capital Projects	Retirement of Indebtedness	Net Investment in Plant
Revenues and Other Additions:							
Unrestricted Current Funds Revenues	$ 1,295,994	$ -	$ -	$ -	$ -	$ -	$ -
Grants and Contracts	-	326,030	-	-	-	-	-
Restricted Gifts Received	-	216,419	264	427	-	-	-
Investment Income - Restricted	-	1,664	26	-	298	97	-
Endowment Income - Restricted	-	5,630	203	-	-	-	-
Proceeds from Sale of Bonds	-	-	-	-	126,466	-	-
U.S. Government Reimbursement of Loan Fund Cancellations	-	-	755	-	-	-	-
Delinquent Loan and Collection Penalty	-	-	601	-	-	-	-
U.S. Government Advances	-	-	54,353	-	-	-	-
Interest Accrued on Loans Outstanding	-	-	3,808	-	-	-	-
Interest Earned on Loan Funds Cash Balances	-	-	168	-	-	-	-
Gain on Sale of Securities	-	-	-	13,827	-	-	-
Expended for Plant Facilities	-	-	-	-	-	-	59,144
Gifts-in-Kind	-	-	-	-	-	-	5,155
Notes and Bonds Retired or Refunded	-	-	-	-	-	-	71,993
Equipment Additions (Net)	-	-	-	-	-	-	144,363
Other Additions	-	66	2	-	134	-	-
Total Revenues and Other Additions	1,295,994	549,809	60,180	14,254	126,897	97	280,655
Expenditures and Other Deductions:							
Current Funds Expenditures	2,010,987	472,037	-	-	-	-	-
Indirect Costs Recovered	-	69,320	-	-	-	-	-
Loan Cancellations, Write-offs and Adjustments	-	-	3,660	-	-	-	-
Federal Direct Student Loans Granted	-	-	51,921	-	-	-	-
Administrative Allowances-Perkins Loans	-	-	671	-	-	-	-
Loan Collection Expense	-	-	946	-	-	-	-
Notes and Bonds Issued	-	-	-	-	-	-	149,006
Expended for Plant Facilities	-	-	-	-	88,635	-	-
Disposal of Plant Facilities	-	-	-	-	-	-	67,365
Retirement of Indebtedness	-	-	-	-	-	52,689	-
Interest on Indebtedness	-	-	-	-	-	44,889	-
Other Deductions	-	7	-	172	1,954	877	2,392
Total Expenditures and Other Deductions	2,010,987	541,364	57,197	172	90,589	98,455	218,764

(Continued)

Combined Statement of Changes in Fund Balances - University of Wisconsin System For the Fiscal Year Ended June 30, 1996

(Continued)

	Current Funds				Plant Funds		
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Capital Projects	Retirement of Indebtedness	Net Investment in Plant
Transfers Among Funds:							
Operating Transfers In	847,337	7,406	92	-	-	1,240	1,233
Operating Transfers Out	(5,330)	(69)	-	-	(23)	-	(997)
Residual Equity Transfer Out	(15,000)	-	-	-	-	-	-
Mandatory Transfers:							
Debt Service on Academic Facilities	(70,431)	(665)	-	-	-	71,096	-
Debt Service on Self-Amortizing Facilities	(9,263)	(886)	-	-	-	10,149	-
Debt Service on Hospital Facilities	(4,932)	-	-	-	-	4,932	-
Student Loan Matching	(831)	-	831	-	-	-	-
Transfers to Plant Funds	(16,632)	(18,425)	-	-	-	3,927	31,129
Nonmandatory Transfers	138	(23,867)	(459)	24,188	-	-	-
Net Transfers Among Funds	725,055	(36,505)	464	24,188	(23)	91,345	31,365
Fund Balance Adjustments:							
Capital Lease and Installment Purchase Obligations	-	-	-	-	-	-	(1,280)
Net Fund Balance Adjustments	-	-	-	-	-	-	(1,280)
Net Increase (Decrease) for the Year	10,062	(28,060)	3,446	38,270	36,285	(7,013)	91,976
Fund Balances, Beginning of Year	256,230	53,317	152,634	143,709	5,628	70,195	2,892,040
Prior Period Adjustments	(7,404)	-	-	-	3,480	1,771	(16,983)
Fund Balances, Beginning of Year Restated	248,826	53,317	152,634	143,709	9,108	71,966	2,875,056
Fund Balances, End of Year	$ 258,888	$ 25,256	$ 156,080	$ 181,979	$ 45,393	$ 64,953	$ 2,967,033

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 Government 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 and the Wisconsin Health Care Liability Insurance Plan 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
One South Pinckney Street, Suite 500
Madison, WI 53702

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

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.

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 university centers, 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.

Also included in these funds as a blended component unit is the University Medical Center Corporation. This corporation, while legally separate, is so intertwined with the University of Wisconsin System in providing service entirely or almost entirely to the System, that they are, in substance, the same as the University of Wisconsin System.

Currently, the University of Wisconsin Hospitals and Clinics (the Hospital) is also included in the University of Wisconsin System funds. However, effective June 29, 1996, in accordance with legislation passed by the Wisconsin State Legislature, the Hospital restructured as a public authority, a body corporate and politic created by State statutes. This legislation provided, among other things, for the University of Wisconsin System Board of Regents to execute various agreements with the Hospital that provide for the Hospital to operate in the context of a close affiliation with the University of Wisconsin. The enabling legislation transferred various assets and liabilities to the Hospital effective July 1, 1996. Therefore, beginning with Fiscal Year 1997, the Hospital will be excluded from the University of Wisconsin System reporting entity and, instead, be reported as a component unit of 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. Plant Funds are reported in three sub-groups: accounts related to current capital projects; resources associated with the retirement of indebtedness; and the investment in plant, including land, buildings and equipment.

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, 1996 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, 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 Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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.

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 $209.3 million reported in the Bond Security and Redemption Fund of the Debt Service funds primarily represent the appropriations from these other funds.

The legal level of budgetary control for Wisconsin is at the function, agency, program, line-item (i.e., 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. 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

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 the lower of cost or market, or amortized cost, depending on the fund type, except for the Fixed Retirement Investment Trust Fund and the Variable Retirement Investment Trust Fund whose investments are stated at market in accordance with Wis. Stat. Sec. 25.17(14), and the State's Deferred Compensation Plan whose investments are stated at market.

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." The Fixed Retirement Investment Fund's share of combined stock equity securities reported in the Variable Retirement Investment Fund is classified as "Investment in Variable Retirement Investment Fund". A corresponding amount is classified as "Investment Due Fixed Retirement Investment Fund" in the Variable Retirement Investment Fund.

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 $1.5 million at June 30, 1996.

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 $1,460.9 million total fixed assets at June 30, 1996, 58 percent were valued using historical cost and 42 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.

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 $555.7 million deferred revenues presented in the accompanying financial statements consists of $423.2 million reported within the General Fund. This amount includes $284.8 million relating to tax revenues received in advance of the year in which earned.

Deferred revenues of the University of Wisconsin System consist of payments received but not earned at June 30, 1996, 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, 1996, 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, 1996 as Due To Other Governments.

State Property Tax Credit Program

At June 30, 1996, 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, 1996.

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, 1996.

The aggregated State Property Tax Credit Program liability of $253 1 million is reported in the General Fund as Due to Other Governments

Lottery Property Tax Credit Program

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

The State pays municipal treasurers for lottery credits who distribute the moneys to the various taxing jurisdictions. For credits reducing the calendar year 1996 property tax bills, the State made this payment in March 1996

The Lottery Tax Credit Program is accounted for in the Lottery Fund, an enterprise fund, that records revenues and expenses on the accrual basis. A portion of the State's March payment distributed to the general government taxing jurisdictions applies to their fiscal year which ends on December 31. Therefore, part of the March distribution represents an expense of the State in fiscal year 1996, while the remaining portion represents a prepaid item. The resulting Prepaid Item reported within the Lottery Fund totals $30 8 million at June 30, 1996.

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 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 Assets

Proprietary Fund and component unit assets required to be held and/or used as specified in bond indentures and bond resolutions have been reported as Restricted 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 statewide 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, 1996 is presented below (in thousands):

	General	Special Revenue
Fund balance June 30, 1996 (budgetary basis - budgetary fund structure) as reported on budget to actual combined statement	$ 918,625	$ 381,174
Reclassifications:		
To reclassify activities reported in another GAAP fund type	(233,133)	12,651
Fund balance June 30, 1996 (budgetary basis - GAAP fund structure)	685,493	393,825
Adjustments:		
To adjust expenditures for the municipal and county shared revenue program	(504,309)	
To adjust expenditures for State property tax credit program	(253,136)	
To accrue/defer revenues for individual income taxes (net)	(282,380)	
To defer revenues for gross receipts public utility taxes	(256,346)	
To adjust revenues and expenditures for tax-related items and other tax credit/aid programs (net)	(217,264)	(11,098)
To accrue unpaid Medicaid claims (net of receivable from federal government)	(87,146)	
To adjust expenditures/revenues for certain major health and family services accruals and deferrals (net)	7,985	
To adjust revenues and expenditures for other items (net)	(11,409)	(98,591)
Fund balance June 30, 1996 (GAAP basis)	$ (918,513)	$ 284,136

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, 1996, the carrying amount of the primary government deposits was $19.7 million and the bank balance was $436.9 million. Of the bank amount,

- $9.4 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
- $427.5 million was uncollateralized and uninsured.

Component Units

At June 30, 1996, the carrying amount of the component units' deposits was $3.8 million and the bank balance was $3.8 million of which $3.8 million was uncollateralized and uninsured.

B. Investments

Primary Government

State Investment Fund

This fund functions as the State's cash management fund by "pooling" the idle cash balances of all State funds and other public institutions. In the State's Comprehensive Annual Financial Report. the State Investment Fund is not reported as a separate fund; rather, each State fund's share in the "pool" is reported on the balance sheet as "Cash and Cash Equivalents." Shares of the fund belonging to other participating public institutions are presented in the Local Government Pooled Investment Fund, an 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, 1996, 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, 1996, 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 bonds with swap agreements attached. These bonds had an estimated fair value of $161.3 million and a carrying value of $164.9 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 $2.3 million at June 30, 1996.

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, 1996, the market value of the restructured investments was negative $83.5 million while the amortized deferred loss was negative $80.5 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.

Structured Bonds - The fund also holds high grade securities totaling $181.2 million carrying value ($177.1 million market) that have foreign interest rate altering components. These securities have minimum levels on the future potential coupons of zero percent or above. As a result, the underlying principal value of these securities is not at risk from foreign interest rate fluctuations.

Options - There were no options held on June 30, 1996. However, during the fiscal year the fund owned three call options on various foreign interest rates and one put option. The call options would have provided the fund with enhanced earnings in the event of an interest rate decline in the foreign markets. The put option gave the fund greater liquidity through the right to sell a Treasury Note. These options were of minimal market value on June 30, 1995, and expired out-of-the-money during fiscal year 1996. There was no market risk associated with owning these instruments beyond the initial cost of their purchase.

Interest Only Strips - The fund, in the past, invested in interest only strips, which are a form of asset-backed or mortgage-backed securities. At June 30, 1996, no securities of this type were owned. However, at June 30, 1995, the fund held five of these securities which were sold during fiscal year 1996. These securities are based on cash flows from interest payments on underlying consumer credit card debt and mortgages. Therefore, they are sensitive to prepayments by card holders and mortgagees, which may result from a decline in interest rates or other factors. For example, if interest rates decline and underlying debt is refinanced, the cash flows from interest payments are reduced and the value of these securities declines. Likewise, if debt is paid off over a period longer than anticipated, the cash flows are greater and the return on the initial investment would be higher than anticipated.

In addition, at June 30, 1996, the fund owned a mortgage backed security that was comprised of 18 separate interest only strips and one principal only strip. This security had a carrying value of $4.4 million and had an estimated fair value of $3.3 million. Cash flows from the principal only portion of this instrument are based on principal payments on underlying mortgages and as such are sensitive to changes in interest rates. For example, in a falling interest rate environment, prepayments tend to increase resulting in accelerated cash flows. This translates to higher yields and market values and offsets the prepayment risk associated with interest only strips to some extent.

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, 1996, the carrying value of these certificates of deposit was $91.3 million ($91.3 million market value).

Approximately $71.9 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. The remaining $19.4 million are Category 3 risk level deposits.

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, 1996, the State Investment Fund's investments are as follows (in millions):

	Category			Carrying	Market
	1	2	3	Amount	Value
U.S. government and agency holdings	$ 1,410.3	--	--	$ 1,410.3	$ 1,412.2
Securities purchased under resale agreements	1,938.5	--	--	1,938.5	1,938.5
Commercial paper and nonsecured corporate notes and bonds	1,064.9	--	--	1,064.9	1,060.7
Asset backed securities	567.1	--	--	567.1	570.4
Mortgage backed securities	205.9	--	--	205.9	200.8
Restructured notes	35.0	--	--	35.0	14.0
Bankers acceptances	67.6	--	--	67.6	67.4
Yankee/Euro dollar issue	176.1	--	--	176.1	173.9
	$ 5,465.4	--	--	5,465.4	5,437.9
Interest rate swaps				--	(65.8)
Certificates of deposit				91.3	91.3
				$ 5,556.7	$ 5,463.4

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 $37.8 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:

Fixed Retirement Investment Fund - This trust is a pooled fund consisting of retirement contributions made by and on behalf of participants in the Wisconsin Retirement System (WRS).

At June 30. 1996, the investments of the Fixed Retirement Investment Fund totaled $13,584.9 million, consisting of bonds, limited partnerships, participation agreements, mortgages, real estate, and privately placed common and preferred stocks which are valued at market, in accordance with Wis. Stat. Sec. 25.17(14).

Valuation methods vary depending on the type of asset being valued. If quoted market prices are not available, a variety of third party pricing methods are used including appraisals, certifications, pricing models, and other methods deemed acceptable by industry standards.

Variable Retirement Investment Fund - This fund consists of retirement contributions for participants in the WRS. The Variable Retirement Investment Fund consists primarily of common stocks and bonds convertible into common stock, although there may temporarily be other types of investments. All securities, totaling $23,365.0 million, are valued at market at June 30, 1996.

Local Government Property Insurance. State Life Insurance. and Patients Compensation Funds - At June 30, 1996, investments of the funds were $4.0 million for the Local Government Property Insurance Fund. $52.4 million for the State Life Insurance Fund, and $312.1 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, 1996, investments of $6.2 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, 1996, categorized in accordance with the requirements of GASB Statement No. 3.

At June 30, 1996, the Other Funds Managed by the Board investments consisted of (in millions):

	Category 1	Category 2	Category 3	Carrying Amount	Market Value
Bonds	$ 8,423.6	$ –	$ –	$ 8,423.6	$ 8,428.0
Stocks	18,927.1	–	–	18,927.1	18,927.7
Other investments	77.6	7.3	8.4	93.3	93.3
	$ 27,428.3	$ 7.3	$ 8.4	27,444.0	27,449.0
Private placements				2,811.4	2,813.0
Limited partnerships				1,487.6	1,487.6
Pooled equities				4,846.1	4,846.1
Mortgages				165.1	165.1
Real estate				412.2	412.2
Commingled real estate				155.3	155.3
Options				19.1	19.1
Swaps				(16.3)	(16.3)
				$ 37,324.5	$ 37,331.1

Securities Lending - Additional income is generated for participants by loaning securities to approved brokers who are paid a rebate through the State of Wisconsin Investment Board's custody bank, Mellon Trust, who serves as the lending agent. The securities are collateralized by cash for at least 102 percent of the loaned securities market value. The cash collateral is reinvested by Mellon Trust in accordance with contractual investment guidelines which are designed to insure safety of principal and obtain a moderate rate of return. These investment guidelines include very high credit quality standards and also allow for a portion of the collateral investment 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 Mellon Trust. As of June 30, 1996, the market value of securities on loan for the above funds was $2,161.9 million.

Derivative Financial Instruments in the Retirement Funds

As of June 30, 1996, the State of Wisconsin Investment Board utilized various derivative financial instruments, including forward contracts, options, and swap agreements, in the retirement investment funds. 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, 1996 include (in millions):

Forward Contracts	Contract Amount	Fair Value
Assets	$ 2,341.4	$ 2,338.2
Liabilities	2,341.3	2,328.5

As of June 30, 1996, two foreign currency call options were also held to provide the retirement investment funds 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	$ (12.0)	$ 18.2

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, 1996 (in millions):

Other Options	Premiums Received (Paid)	Fair Value
Purchased Calls - Basket	$ (3.5)	$ .6

Interest Rate Swaps - As of June 30, 1996, the Fixed Retirement Investment Fund held a variety of interest rate swaps. Each swap transaction involves 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.

The retirement investment funds held seven swap agreements with notional amounts aggregating $241.4 million and an estimated fair value of a negative $16.3 million at June 30, 1996. Two of these swap agreements contain leverage, whereby a multiplier effect is embedded in the rate structure of the agreement and effectively results in an increase in the notional amount of the instrument. Leverage factors effectively increased the notional amount to $321.4 million.

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, 1996, of $2 2 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, 1996 investments of $218 8 million, $216 0 million meet GASB No. 3 risk Category 1 while $2.8 million meet risk Category 3.

Veterans Mortgage Revenue Bonds Fund - Investments at June 30, 1996, totaled $ 2 million which include direct obligations of the United States and its agencies or instrumentalities. All investments are a Category 3 risk.

Transportation Revenue Bond Funds - At June 30, 1996, the Transportation Revenue Bond Capital Projects Fund and the Transportation Revenue Bond Debt Service Fund had investments totaling $93 2 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, 1996, were $117 5 million, of which $37 9 million are reported as cash equivalents consisting of a repurchase agreement which is a Category 2 level of risk. Investments of $79 6 million consist of government and agency holdings and satisfy Category 1 level of risk.

The Wisconsin Public Broadcasting Foundation Fund - The fund's investments at June 30, 1996 were $3.9 million, consisting of $1.1 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 level.

Health Insurance Risk Sharing Plan - At June 30, 1996, investments of $7.9 million consisted of government and agency holdings meeting Category 1 of GASB Statement No. 3.

Insurance Company Liquidation Account - The fund's investments at June 30, 1996 were $1 3 million consisting of government and agency holdings meeting Category 1 risk criteria.

At June 30, 1996, the State has approximately $212 2 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 $4 8 million of various investments which meet risk category 1 and $1 0 of mutual funds.

The State's Section 457 *Deferred Compensation Plan Fund* investments, totaling $520 6 million at June 30, 1996, are in the form of equity securities, insured savings accounts and investment contracts with insurance companies. Additional information on the State's deferred compensation plan is provided in Note 18 to the financial statements

The following table presents investments of the Other State Agencies and Funds at June 30, 1996, categorized in accordance with the requirements of GASB Statement No. 3.

At June 30, 1996, the Other State Agencies and Funds' investments consisted of (in millions):

	Category 1	Category 2	Category 3	Carrying Amount	Market Value
Government and agency holdings	$ 477.7	$ --	$ 3.1	$ 480 8	$ 480 8
Municipal bonds	40 6	--	--	40 6	40 6
Commercial paper and nonsecured corporate notes and bonds	4 8	--	--	4 8	4 8
Repurchase agreements	93 2	37 9	--	131 1	131 1
Negotiable certificates of deposit	1.2	--	--	1.2	1.2
	$ 617.5	$ 37.9	$ 3.1	658 5	658 5
Mutual Funds				1 2	1 2
Money market funds				3 3	3 3
Deferred compensation investments				520.6	520.6
				$ 1,183.6	$ 1,183.6

University of Wisconsin System

The University of Wisconsin System investments of $184.1 million, with a market value of $219.2 million, consist primarily of assets of endowment funds having a book value of $176.6 million, while current funds and loan funds have an aggregate book value of $7.5 million. Investments, which are Category 1 Risk level, of these funds at June 30, 1996, were comprised of the following (in millions):

	Carrying	Market
Common and preferred stock	$ 94.2	$ 130.7
Bonds, notes and debentures	89.9	88.5
Total investments	$ 184.1	$ 219.2

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 and structured notes had a carrying value of approximately $92.6 million and a market value of approximately $76.0 million as of June 30, 1996. The Authority currently intends to hold such mortgage-backed securities and structured notes 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, 1996, were $487.2 million of which $122.7 million are reported as cash equivalents consisting of repurchase agreements, commercial paper, money market funds, and short-term investment agreements. The Authority's investments of $4.3 million in certificates of deposit are a Category 1 level of risk while all other investments are a Category 2 level of risk.

The Authority enters into guaranteed investment contracts with various financial institutions. The investment contracts are generally collateralized by obligations of the United States government and are carried at cost which is equivalent to contract value. The fair value of these contracts is considered to approximate contract value.

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, 1995 were $163.5 million, of which $4.9 million are reported as cash equivalents. All investments meet the Category 2 risk level.

The following table presents investments of component units at December 31, 1995 or June 30, 1996, categorized in accordance with the requirements of GASB Statement No. 3.

At December 31, 1995 or June 30, 1996, the component units' investments consisted of (in millions):

	Category 1	Category 2	Category 3	Carrying Amount	Market Value
Government and agency holdings	$ –	$ 137.4	$ –	$ 137.4	$ 133.7
Municipal bonds	–	42.3	–	42.3	42.3
Commercial paper and nonsecured corporate notes and bonds	–	63.7	–	63.7	63.6
Negotiable certificates of deposit	4.3	–	–	4.3	4.3
Mortgage-backed securities	–	138.4	–	138.4	121.8
	$ 4.3	$ 381.8	$ –	386.1	365.7
Money market funds				127.6	127.6
Guaranteed investment contracts				137.1	137.1
				$ 650.8	$ 630.4

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

Other Funds Managed by the Board	$ 37,324.7
Other State Agencies and Funds	1,183.7
University of Wisconsin System	184.1
Component Units	650.8
Total Investments	$ 39,343.3

C. Lottery Investments and Related Future Price Obligations

Investments of the State Lottery Fund totaling $218.8 million are held to finance grand prizes payable over a 20-year or 25-year period. The investments in prize annuities are in the form of United States Treasury zero coupon bonds, securities guaranteed by the United States government, or investment instruments issued by various brokerage firms secured by United States Treasury bonds. 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
1997	$ 22,290
1998	22,416
1999	22,541
2000	22,670
2001	22,803
Thereafter	286,671
Total future value	399,391
Less: Present value adjustment	(172,867)
Present value of payments	$ 226,524

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, 1995	Additions	Retirements	Completed Construction	Transfers to/from Other Funds	Balance June 30, 1996
Land	$ 301,091	$ 17,509	$ (1,467)	$ 8,625	$	$ 325,758
Buildings and improvements	524,236	21,433	(1,431)	127,303		671,540
Machinery and equipment	367,218	52,950	(22,801)	391	(988)	396,770
Construction in progress	144,237	58,937		(136,319)		66,856
Total general fixed assets	$ 1,336,782	$ 150,829	$ (25,699)	$ 0	$ (988)	$ 1,460,924

Construction in progress reported in the General Fixed Asset Account Group at June 30, 1996 included the following projects (in thousands):

	Allotments	Expended to June 30, 1996	Encumbrances Outstanding	Unencumbered Allotment Balance
Waupun Housing/Freezer/Locks	$ 14,634	$ 1,168	$ 1,630	$ 11,836
Youthful Offender Institution	24,275	3,169	17,987	3,119
Secured Juvenile School	11,500	8,291	874	2,335
Rail Acquisition/Development	10,000	6,375		3,625
Camp Williams Support Facility	14,103	13,564	62	477
Other projects with allotments totaling less than $10 million		34,289		
Total construction in progress		$ 66,856		

The following is a summary of proprietary and fiduciary fund-type, University of Wisconsin System, and component unit fixed assets at June 30, 1996 (in thousands):

	Enterprise	Internal Service	Nonexpendable Trust	University of Wisconsin System	Component Units
Land	$ 10,269	$ 8,376	$ 635	$ 87,508	$ 1,786
Buildings and improvements	191,617	150,370		1,907,391	855
Machinery and equipment	40,186	137,835		1,720,347	4,634
Less: Accumulated depreciation	(111,378)	(139,902)			(4,317)
Construction in progress	11,462	37,641			1,930
Total	$ 142,156	$ 194,320	$ 635	$ 3,715,246	$ 4,888

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

During the year ended June 30, 1996, the following changes occurred in liabilities reported in the General Long-term Debt Account Group (in thousands):

	Balance July 1, 1995	Additions	Reductions	Balance June 30, 1996
Capital Leases	$ 5,621	$ 6,208	$ 2,924	$ 8,905
Compensated Absences	410,783	271,715	--	682,498
Employer Pension Costs	114,208	44,966	27,959	131,215
General Obligation Bonds Payable	1,708,509	224,124*	212,260	1,720,373
Revenue Bonds Payable	555,950	220,000	25,385	750,565
Claims, Judgments and Commitments	167,269	6,917	54,739	119,447
Installment Contracts Payable	2,301	1,732	1,314	2,719
	$ 2,964,641	$ 775,662	$ 324,581	$ 3,415,722

* 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 1996, 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 AND NOTES PAYABLE

The following schedule summarizes outstanding bonds and notes payable at June 30, 1996 (in thousands):

Primary Government:	
General Long-term Debt Account Group:	
General Obligation Bonds	$1,720,373
Transportation Revenue Bonds	750,565
Total General Long-term Debt Account Group	2,470,938
Debt Service Funds:	
Bond Security and Redemption General Obligation	735
Transportation Revenue Bonds	25,385
Total Debt Service Funds	26,120
Enterprise Funds:	
State Fair Park General Obligation Bonds	13,040
State Nursery Operations General Obligation Bonds	734
Veterans Mortgage Loan Repayment General Obligation Bonds	524,597
Veterans Mortgage Revenue Bonds	195
Wisconsin Education Revenue Bonds	8,502
Clean Water Fund Revenue Bonds	364,632
Total Enterprise Funds	911,700
Internal Service Funds:	
Facilities Operations and Maintenance General Obligation Bonds	97,274
Badger Industries General Obligation Bonds	285
Total Internal Service Funds	97,559
University of Wisconsin System:	
General Obligation Bonds	728,489
Other Bonds	1,842
Total University of Wisconsin System	730,331
Component Units:	
Wisconsin Housing and Economic Development Authority Bonds and Notes	1,760,537
Total at June 30, 1996	$5,997,185

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 1997.

At June 30, 1996, $1,573.7 million of general obligation bonds were authorized but unissued.

General obligation bonds issued and outstanding as of June 30, 1996 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	$ 15,900
1979	1978 Series C	11/78	5.1	11/03	77,300	7,520
1986	1986 Series A	5/86	7.25 to 7.5	1/15	38,185	23,645
1987	1986 Series B	7/86	7.2	8/96	247,800	11,960
1988	Refunding Issue	5/88	6.7 to 6.8	5/98	420,065	74,458
1989	1988 Series A, B and 1989 Series A through C	7/88; 12/88 1/89; 3/89; 5/89	6.8 to 7.7	1/04	294,150	15,960
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	81,461
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	5.75 to 7.6	1/21	518,291	213,698
1992	1991 Series D; 1992 Series A and B, and Refunding Issue	9/91; 3/92 6/92; 3/92	5.1 to 6.6	1/22	794,975	521,600
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	594,020
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	852,195
1995	1994 Series 3 and C; 1995 Series A, B, and 1	9/94; 9/94 1/95; 2/95; 2/95	4.5 to 6.65	5/25	331,715	228,555
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	446,946
Total					5,331,906	
Proprietary Fund (Discounts)/Premiums						(2,392)
Total General Obligation Bonds and Notes, net of discounts					$ 5,331,906	$ 3,085,526

As of June 30, 1996, 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
1997	$ 207,739	$ 166,494	$ 374,233
1998	213,999	153,486	367,485
1999	213,692	142,067	355,759
2000	215,614	131,616	347,230
2001	211,616	122,165	333,781
Thereafter	2,103,281	783,627	2,886,908
Total	3,165,941	1,499,455	4,665,396
Proprietary Fund (Discounts)/Premiums	(2,392)		(2,392)
Unamortized zero coupon and CAB discounts	(78,023)		(78,023)
Total, net of discounts	$3,085,526	$ 1,499,455	$4,584,981

Zero Coupon Bonds

The general obligation bonds of 1990, Series D (Higher Education Series), are zero coupon bonds recorded in the amount of $38.8 million which is the accreted value at June 30, 1996 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 $13.7 million which is the accreted value at June 30, 1996 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 $68.2 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 $1,083.0 million Series A revenue bonds. Presently, there are nine issues of Transportation Revenue Bonds totaling $775.9 million. Debt service payments are secured by driver and vehicle registration fees and also a reserve fund, which will be used in the event that a deficiency exists in the redemption fund.

The Transportation Revenue Bonds issued and outstanding as of June 30, 1996 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	105,000
1994A	7/94	4.5 to 7.5	7/14	100,000	96,995
1993A	9/93	3.5 to 5.0	7/12	116,450	113,435
1992A&B	7/92	4.1 to 5.8	7/22	299,150	291,425
1991A	10/91	5.5 to 6.2	7/02	42,085	29,660
1989A	4/89	7.2 to 7.3	7/98	14,715	5,950
1988A	4/88	6.5 to 6.7	7/97	15,300	4,125
1986A	6/86	7.2 to 7.4	7/97	83,575	14,360
Total				$ 891,275	$ 775,950

As of June 30, 1996, 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
1997	$ 25,385	$ 34,498	$ 59,883
1998	29,710	37,705	67,415
1999	30,750	36,738	67,488
2000	29,490	35,741	65,231
2001	30,920	34,402	65,322
Thereafter	629,695	282,254	911,949
Total	$ 775,950	$ 461,338	$ 1,237,288

Veterans Mortgage Revenue Bonds

The Department of Veterans Affairs provides funds to finance home loans to qualified veterans. The Department of Veterans Affairs is authorized to issue up to $280.0 million in Veterans Mortgage and Veterans Home Loan Revenue Bonds. At June 30, 1996, there was one issue of Veterans Home Loan Revenue Bonds outstanding totaling $195 thousand. These bonds are secured by payments on program loans and earnings of investments.

Bonds issued and outstanding for the Veterans Mortgage Revenue Bonds as of June 30, 1996 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
1981	8/81	9.75 to 11.5	8/12	$10,055	$ 195

As of June 30, 1996, debt service requirements for principal and interest are as follows (in thousands):

Fiscal Year Ended June 30	Principal	Interest	Total
1997	$ 10	$ 22	$ 32
1998	10	21	31
1999	10	20	30
2000	10	19	29
2001	10	18	28
Thereafter	145	113	258
Total	$ 195	$ 213	$ 408

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, 1996, there was one issue of Health Education Assistance Loan program bonds outstanding totaling $8.5 million. These bonds are secured by student loan repayments and interest income.

The Health Education Assistance Loan program bonds issued and outstanding as of June 30, 1996 were as follows (in thousands):

Issue	Issue Date	Maturity Through	Issued	Outstanding
1994	12/94	12/04	$ 19,100	$ 9,485
Less: Unamortized discount				(983)
Total			$ 19,100	$ 8,502

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, 1996, there were four issues of Clean Water Revenue Bonds outstanding totaling $371.0 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, 1996 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
1995-1	7/95	4.0 to 6.25	6/15	$80,000	$80,000
1993-1	9/93	3.6 to 5.3	6/13	84,345	82,735
1993-2	9/93	2.75 to 6.13	6/08	81,950	79,650
1991-1	4/91	5.4 to 6.9	6/11	225,000	128,545
				471,295	370,930
Unamortized Premium					3,080
Less: Unamortized discount and charge					(9,378)
Total, net of discount, charge and premium				$471,295	$364,632

As of June 30, 1996, 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
1997	$ 13,560	$ 21,101	$ 34,661
1998	14,270	20,393	34,663
1999	16,820	19,639	36,459
2000	17,725	18,737	36,462
2001	18,695	17,767	36,462
Thereafter	289,860	112,785	402,645
Total	370,930	210,422	581,352
Unamortized Premium	3,080		3,080
Less: Unamortized discount and charge	(9,378)		(9,378)
Total, net	$ 364,632	$ 210,422	$ 575,054

Component Units

Wisconsin Housing and Economic Development Authority

Bonds and notes payable at June 30, 1996 of the Wisconsin Housing and Economic Development Authority (Authority) consisted of the following (in thousands):

Revenue bonds and notes	$ 1,540,809
Special obligation and subordinated special obligation	220,708
Total	1,761,517
Less: Deferred amount on refunding	(980)
Total, net	$ 1,760,537

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 notes payable of $16.0 million bear a variable interest rate based upon an index, and is reset periodically

The Authority's revenue bonds and notes outstanding at June 30, 1996 consisted of the following (in thousands):

Series/ Issue	Date	Rates	Maturity Through	Outstanding
Housing Revenue Bonds:				
1986 A&B	9/86	7.25 to 8.5	2017	$ 2,575
1988 A&B	2/88	6.8 to 8.25	2018	10,245
1989 A, B&C	9/89	7.1 to 7.85	2020	13,950
1992 A	1/92	5.2 to 6.85	2012	66,090
1992 B, C, D	4/92	5.8 to 7.2	2022	71,910
1993 A&B	10/93	3.9 to 5.65	2023	73,145
1993 C	12/93	4.0 to 5.875	2019	139,670
1995 A&B	7/95	3.9 to 6.5	2026	51,700
				429,285
Home Ownership Revenue Bonds:				
1985 I	6/85	8.4 to 9.125	2012	9,669
1985 III	12/85	8.45 to 9.125	2010	1,380
1986 A	8/86	7.4 to 8.125	2016	6,540
1986 B	11/86	6.2 to 7.375	2017	25,565
1987 A	5/87	7.3 to 7.75	2014	6,365
1987 B&C	8/87	7.3 to 7.85	2016	21,520
1987 D&E	12/87	7.45 to 7.9	1996	280
1988 A&B	6/88	7.0 to 8.0	2000	4,380
1988 C	8/88	7.4 to 7.8	2003	5,050
1988 D	10/88	7.1 to 7.9	2005	19,160
1989 A	5/89	6.95 to 7.5	2017	19,825
1989 B&C	10/89	7.0 to 7.85	2021	60,368
1990 A&B	5/90	6.85 to 8.0	2020	66,755
1990 D&E	9/90	6.9 to 8.0	2021	42,140
1991 A&B	12/90	6.65 to 7.85	2024	64,470
1991 1,2&3	7/91	6.0 to 7.2	2022	66,940
1992 A&B	3/92	5.5 to 7.1	2023	81,565
1992 1,2	6/92	5.3 to 6.875	2024	84,205
1994 A&B	4/94	4.4 to 6.75	2025	79,215
1995 A&B	1/95	5.4 to 7.1	2025	121,420
1996 A&B	3/96	4.0 to 6.15	2027	75,000
				861,812
Home Ownership Revenue Bonds (Taxable):				
1989 A	7/89	9.8	2019	2,745
1995 C,D&E	5/95	4.5 to 7.45	2026	99,905
1995 F,G&H	9/95	4.2 to 7.875	2026	70,000
				172,650
Business Development Bonds:				
1988 3-6	Various	7.625 to 8.0	2003	1,660
1989 1,3-9,11-12,17 19-22,28 & 29	Various	6.6 to 8.0	2014	16,950
1990 1-4, 6	Various	6.9 to 7.75	2010	4,650
1991 1-6	Various	5.7 to 7.05	2006	8,465
1994 1-4	Various	Variable	2014	10,310
1995 1-2, 4-9	Various	Variable	2015	18,985
				61,020
Notes Payable	Various	Variable	1998	16,042
Authority's Total Revenue Bonds and Notes				$1,540,809

Authority's Special Obligation and Subordinated Special Obligation Bonds

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

The subordinated bond R-1 is a special obligation of the Authority issued to the State Investment Board for the purpose of providing funds to purchase home improvement loans under the Housing Rehabilitation Loan Program. The bond is expressly subordinate to the payment of all Housing Rehabilitation Loan Revenue Bonds now or at any time outstanding under the general resolution. The principal and interest on the bond are payable solely from a subordinated pledge of the revenues and assets of the Housing Rehabilitation Program Funds.

The subordinated bond R-2 is a special obligation of the Authority issued to the Firstar Trust Company and is collateralized by a subordinated pledge of the revenues and assets of the Housing Rehabilitation Loan Program.

Special obligation and subordinated special obligation bonds at June 30, 1996 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	$ 11,858
Housing Rehabilitation Loan Revenue Bonds:				
R-1	8/79	5.0	1996	4,880
R-2	11/88	None	1996	1
				4,881
Home Ownership Revenue Bonds:				
1993 A	6/92	4.4 to 6.5	2025	83,805
1994 C&D	8/94	4.45 to 6.65	2025	49,370
1994 E&F	12/94	5.2 to 7.55	2026	29,855
				163,030
Home Ownership Revenue Bonds (Taxable):				
1993 B	4/93	6.45 to 7.4	2017	24,619
Home Improvement Revenue Bonds:				
1988 A	11/88	7.0 to 7.75	2006	6,705
1990 A&B	4/90	7.1 to 7.9	2006	4,560
1992 A&B	5/92	5.375 to 7.0	2010	5,055
				16,320
Total Special and Subordinated Obligation Bonds				$ 220,708

As of June 30, 1996, 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
1997	$ 62,724	$ 114,833	$ 177,557
1998	48,105	111,821	159,926
1999	43,523	109,470	152,993
2000	42,012	107,266	149,278
2001	42,322	104,564	146,886
Thereafter	1,522,831	1,447,260	2,970,091
Total	1,761,517	1,995,214	3,756,731
Less: Deferred Refunding Amount	(980)		(980)
Total	$ 1,760,537	$ 1,995,214	$ 3,755,751

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, 1996, the Authority had issued 100 series of such bonds in an aggregate principal amount of $62.3 million for economic projects in Wisconsin.

C. University of Wisconsin System

Bonds payable included in the University of Wisconsin System's Plant Funds at June 30, 1996 consist of general obligation bonds of $728.5 million; Wisconsin University Building Corporation bonds with an outstanding balance of $0.4 million maturing in the years 1997 - 1999 and the Wisconsin State College Building Corporation bonds recorded in the amount of $1.4 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, 1996, future principal payments on bonds payable of these corporations were as follows (in thousands):

Fiscal Year Ended June 30	Total
1997	$ 506
1998	469
1999	417
2000	450
Total	$ 1,842

D. Refundings and Early Extinguishments

Refunding Provisions of GASB Statement No. 23

The State has 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	1996 Amortization of Deferred Amount	Net Deferred Amount Outstanding
Facilities Operations and Maintenance	$ 248,517	$ 4,808	$ 243,709
University of Wisconsin System	1,898,210	36,727	1,861,483
	$ 2,146,727	$ 41,535	$2,105,192

Current 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. 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 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, 1996, 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, 1996, the outstanding principal on these defeased bonds was $95.4 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, 1996, 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, 1996, 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, 1996, 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, 1996, the outstanding principal on these defeased bonds was $70.0 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, 1996, the outstanding principal on these defeased bonds was $233.0 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, 1996, the outstanding principal on these defeased bonds was $323.2 million.

On May 1, 1988, the State issued general obligation bonds in the present value amount of $420.1 million for the purpose of refunding $378.8 million of various general obligation bonds outstanding at the time of the refunding. The outstanding principal at June 30, 1996, for these defeased bonds was $27.0 million.

At June 30, 1996, approximately $1,868.7 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, 1996, $73.8 million of the bonds are considered defeased.

Transportation Revenue Bonds

In 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, with an outstanding principal balance of $105.2 million. 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, 1996, $105.2 million of the bonds are considered defeased.

In 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, with an outstanding principal balance of $126.8 million. 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, 1996, 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, 1996, $26.0 million of principal is outstanding.

At June 30, 1996, 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, 1996, the remaining outstanding defeased debt was $39.7 million

Early Extinguishments

Component Units

Wisconsin Housing and Economic Development Authority

During 1996, 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 1996	Extraordinary Losses 1996
Home Ownership Revenue Bond Resolutions:		
1987	$ 15,860	$ --
1988	55,095	--
All Other	25,060	42
Housing Revenue Bonds	35,280	--
State of Wisconsin Programs	1,465	20
General funds	1,620	--

E. 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.

During Fiscal Year 1996, arbitrage calculations were performed on the Department of Transportation's 1988 Series A and 1989 Series A revenue bonds. The arbitrage liability at June 30, 1996 was determined to be approximately $1.0 million for the 1988 Series A, and $.2 million for the 1989 Series A revenue bonds.

F. 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.

G. Line of Credit Agreement

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, 1996, $50.0 million was unused and available.

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

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, 1996 (in thousands):

	General Fixed Assets	Enterprise Funds	Internal Service Funds
Buildings and Improvements	$ 619	$	$
Machinery and Equipment	13,091	168	53,617
Less: Accumulated Depreciation		(87)	(34,144)
Carrying Amount	$ 13,710	$ 82	$ 19,473

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, 1996 for capital leases (in thousands):

Fiscal Year	General Long-term Debt Account Group	Proprietary Funds	University of Wisconsin System
1997	$ 3,577	$ 9,124	$ 6,539
1998	3,264	6,539	4,731
1999	1,334	3,668	3,472
2000	730	1,381	2,320
2001	594	599	1,480
Thereafter	893		2,407
Total minimum future payments	10,392	21,311	20,950
Less: Executory costs	(99)	(1)	
Less: Interest	(1,388)	(2,208)	(3,718)
Present value of net minimum lease payments	$ 8,905	$ 19,103	$ 17,232

Master Lease Program

Under the Master Lease Program, the Department of Administration entered into a Master Lease Agreement with Firstar National Bank, NA, Milwaukee, Wisconsin, on September 30, 1992. Lease/purchase payment obligations under the Master Lease Agreement 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. During the year the program operated exclusively on a 90 day variable interest rate basis. Equipment acquired and outstanding on June 30, 1996 consisted of:

Equipment Schedules	Balance Due	Blended Interest Rate	Average Life (Weighted Term)
160	$43,157,200	6.107%	1.47 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.

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 1996 were $27.2 million. Of this amount, $26.8 million relates to minimum rental payments stipulated in lease agreements, $0.4 million relates to contingent rentals, and $108 thousand subrental payments. The University of Wisconsin System operating lease expenditures totaled $20.5 million for Fiscal Year 1996.

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
1997	$ 25,836	$ 4,842	$ 671
1998	20,292	4,479	39
1999	14,836	2,798	32
2000	10,007	1,776	1
2001	6,675	1,392	
Thereafter	14,077	5,176	
Minimum lease payments	$ 91,724	$ 20,463	$ 743

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, 1996 for installment purchases (in thousands):

Fiscal Year	General Long-term Debt Account Group	Proprietary Funds	University of Wisconsin System
1997	$ 1,489	$ 150	$ 824
1998	809	172	182
1999	373	163	28
2000	205	117	28
2001	3	110	22
Thereafter		149	
Total minimum future payments	2,878	861	1,086
Less: Interest	(159)	(138)	(34)
Present value of net minimum installment payments	$ 2,719	$ 722	$ 1,051

NOTE 9. SEGMENT INFORMATION AND CONDENSED FINANCIAL DATA

Primary Government

The State maintains 26 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, 1996 is presented below (in thousands):

	Home for Veterans (1)	Mental Health Institutes (2)	Developmental Disabilities Centers (3)	Lottery (4)	Health Insurance Risk Sharing Plan (5)	Local Government Property Insurance (6)
Operating revenues:						
Total revenues	$ 36,443	$ 29,879	$ 118,974	$482,213	$ 43,267	$ 8,988
Revenues from sales/services provided to other GAAP funds	--	--	--	--	--	--
Depreciation, depletion and amortization expense	2,155	1,778	3,238	620	1	1
Operating income or loss	1,946	(37,762)	185	147,693	(527)	1,527
Operating grants, entitlements, and shared revenues	10	112	172	--	--	--
Operating interfund transfers:						
In	23	32,364	362	--	--	--
Out	553	196	2,341	13,191	--	--
Extraordinary gain (loss)	--	--	--	--	--	--
Net income (loss)	1,678	(3,961)	(974)	(13,963)	(88)	616
Current capital:						
Contributions	1,079	8,625	1,739	51	--	--
Transfers In	--	--	--	--	--	--
Transfers Out	--	--	--	65	--	--
Property, plant and equipment:						
Additions	1,247	9,670	1,975	300	5	--
Deletions	383	1,481	370	261	--	--
Net working capital (current assets less current liabilities)	4,194	(9,453)	(2,655)	52,042	8,488	15,653
Total assets	35,382	50,259	59,204	298,772	18,579	29,840
Bonds and other material long-term liabilities outstanding:						
Amounts payable solely from operating revenues	--	96	--	204,572	8,503	6,889
Amounts potentially payable from other sources	--	--	--	--	--	--
Total equity	31,974	24,624	43,671	46,218	(9)	18,741

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
$ 8,209	$ 77,091	$ 418,274	$ 18,322	$ 37,263	$ 45	$ 1,304	$ 31,849	$1,312,122
–	–	350,504	–	–	–	–	1,143	351,647
52	18	–	1,710	36	–	–	904	10,513
693	7,611	25,205	(8,278)	(1,319)	(1)	105	(64)	137,016
–	–	–	2,083	–	–	–	–	2,377
–	–	–	–	747	100	–	1,333	34,930
–	–	–	–	427	–	–	4,611	21,321
–	–	–	–	104	–	–	–	104
693	7,617	25,205	324	5,449	108	126	(1,973)	20,858
–	–	–	26,923	–	–	–	200	38,618
–	–	–	12,000	–	–	–	5	12,005
–	–	–	–	–	–	–	–	65
21	–	–	17	54	–	–	3,430	16,719
–	1	–	60	–	–	–	322	2,877
6,451	17,010	232,863	128,670	114,590	236	147	16,890	585,126
64,009	336,177	265,723	862,613	674,191	580	10,573	97,161	2,803,063
49,498	379,336	205,782	–	524,597	185	–	13,774	1,393,232
–	–	–	357,370	–	–	8,502	–	365,872
13,875	(50,201)	27,081	495,398	133,648	374	1,629	70,931	857,954

(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; State Nursery Operations - Reforestation of State lands and public sale of nursery stock; Wisconsin Natural Resources Magazine - Subscription sales and publication; 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 two component units for the year ended June 30, 1996 is presented below (in thousands):

	Wisconsin Housing and Economic Development Authority	Wisconsin Health Care Liability Insurance Plan	Total
Condensed Balance Sheet			
Assets:			
Current Assets	$ 426,447	$ 166,960	$ 593,407
Long-term Receivables	1,622,173		1,622,173
Deferred Charges	17,325		17,325
Fixed Assets	4,888		4,888
Other Assets	89,162		89,162
Total Assets	$ 2,159,995	$ 166,960	$ 2,326,955
Liabilities:			
Current Liabilities	$195,948	$ 5,111	$ 201,059
Due to Primary Government		8	8
Future Benefits and Loss Liability		138,660	138,660
Bonds and Notes Payable	1,760,537		1,760,537
Total Liabilities	1,956,485	143,779	2,100,264
Equity:			
Retained Earnings	203,510	23,181	226,691
Total Equity	203,510	23,181	226,691
Total Liabilities and Equity	$ 2,159,995	$ 166,960	$ 2,326,955
Condensed Statement of Revenues, Expenses and Changes in Retained Earnings			
Operating Revenues	$ 135,107	$ 17,274	$ 152,381
Operating Expenses:			
Depreciation	502		502
Other	203,294	9,251	212,545
Operating Income (Loss)	(68,689)	8,023	(60,666)
Other Nonoperating Revenues (Expenses)	85,171		85,171
Net Income Before Extraordinary Item	16,482	8,023	24,505
Extraordinary Item	(62)		(62)
Net Income	16,420	8,023	24,443
Retained Earnings-Beginning of Year	187,090	15,158	202,248
Retained Earnings-End of Year	$ 203,510	$ 23,181	$ 226,691

NOTE 10. INTERFUND ASSETS/LIABILITIES

Interfund assets and liabilities at June 30, 1996 consist of the following (in thousands):

A. Due from/to Other Funds:

Due from Other Funds	$ 287,158
Due to Other Funds	287,158

Due from/to Other Funds represent short-term interfund accounts receivable and payable. The totals of Due from/to Other Funds at June 30, 1996 by individual fund were as follows (in thousands):

Fund	Due from Other Funds	Due to Other Funds
General	$ 80,900	$93,908
Special Revenue:		
Transportation	1,018	25,050
Conservation	2,779	7,362
Wisconsin Health Education Loan Repayment	26	27
Work Injury Supplemental Benefit		1
Uninsured Employers	1	34
Mediation	39	5
Agrichemical Management	48	235
Employe Trust Fund Administration	2	571
Petroleum Inspection	9,546	1,494
Environmental	5,318	1,770
Recycling	14,577	6,458
Debt Service:		
Bond Security and Redemption	3,553	468
Capital Projects:		
Building Trust		64
Capital Improvement	2,114	1,202
Transportation Revenue Bonds		27
Enterprise:		
State Fair Park	3	1,159
Home for Veterans	2	1,305
Mendota Mental Health Institute	1,434	1,288
Winnebago Mental Health Institute	1,101	1,355
Central Developmental Disabilities Center	148	449

(Continued)

Fund	Due from Other Funds	Due to Other Funds
Northern Developmental Disabilities Center		422
Southern Developmental Disabilities Center		280
Institutional Farm Operations	40	42
Institutional Canteen Operations	5	65
State Nursery Operations	287	250
Wisconsin Natural Resource Magazine	320	7
Lottery	985	12,058
Health Insurance Risk Sharing Plan	2,051	2,052
Local Government Property Insurance	3,235	2
State Life Insurance		19
Patients Compensation		52
Income Continuation Insurance	10,377	
Duty Disability	3,165	1,122
Long Term Disability Insurance	1,327	
Health Insurance	236	68
Clean Water	126	615
Veterans Trust	14	155
Veterans Mortgage Loan Repayment	223	149
Wisconsin Education Revenue Bonds		402
Wisconsin Public Broadcasting Foundation	2	329
Internal Service:		
Services to Nonstate Governmental Units	188	8
Materials and Services to State Agencies	570	297
Fleet Services	1,274	75
Building Construction Services	2,609	116
Printing and Other Services	2,164	241
State Telephone System	4,315	200
Financial Services	315	223
Risk Management	214	177
Facilities Operations and Maintenance	1,900	2,901

(Continued)

Fund	Due from Other Funds	Due to Other Funds
Information Technology Services	5,108	448
Terminal Charges		184
Institutional Power Plant	392	372
Central Warehouse	575	15
Badger State Industries	1,693	265
Expendable Trust:		
Petroleum Violation		401
Unclaimed Property Program		10
Accumulated Sick Leave	23,865	
Employe Reimbursement Accounts	428	
Life Insurance	5	
Common School Income		515
Unemployment Insurance Reserve	328	713
Nonexpendable:		
Common School	1	
Historical Society	12	110
Pension:		
Fixed Retirement Investment	25,475	71,644
Variable Retirement Investment	2,130	1,256
Special Death Benefits	169	
Police and Firefighters	13,674	
Agency:		
City of Milwaukee Retirement System	9,963	2
Inmate and Resident	463	139
University of Wisconsin System	44,329	44,526
Total	$287,158	$287,158

B. Due to/from Component Units

Receivables and payables between funds and component units at June 30, 1996 were as follows (in thousands);

Fund/Component Unit	Due from Component Units	Due to Primary Government
Enterprise Fund:	$	$
Patients Compensation	8	
Component Unit:		
Wisconsin Health Care Liability Insurance Plan		8
	$ 8	$ 8

C. Interfund Loans Receivable/Payable

Interfund Loans Receivable	$ 599,375
Interfund Loans Payable	$ 599,375

Interfund Loans Receivable/Payable represent loans from one fund to another to cover cash overdrafts. Interfund loans receivable/payable at June 30, 1996 by individual fund were as follows (in thousands):

Fund	Interfund Loans Receivable	Interfund Loans Payable
General	$ 53,690	$
Special Revenue:		
Transportation	23,827	
Wisconsin Health Education Loan Repayment		1
Employe Trust Fund Administration	37	
Environmental Local Assistance		21,570
Capital Projects:		
Capital Improvement	21,570	
Transportation Revenue Bonds		23,827
Enterprise:		
Mendota Mental Health Institute		7,752
Winnebago Mental Health Institute		9,847
Central Developmental Disabilities Center		2,300
Northern Developmental Disabilities Center		1,590
Institutional Farm Operations		5,217
Institutional Canteen Operations		15
Internal Service:		
Services to Nonstate Governmental Units		2,689
Materials and Services to State Agencies		962
Fleet Services		19,233
Printing and Other Services		2,089
Terminal Charges		77
Badger State Industries		1,918
Expendable Trust:		
Accumulated Sick Leave	263,100	

(Continued)

Fund	Interfund Loans Receivable	Interfund Loans Payable
Pension:		
Fixed Retirement Investment		500,252
Agency:		
Milwaukee Retirement Systems	237,151	
Deferred Compensation Plan		37
Total	$ 599,375	$ 599,375

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, 1996 by individual fund were as follows (in thousands):

Fund	Advances to Other Funds	Advances from Other Funds
General	$	$ 6,000
Enterprise:		
Local Government Property Insurance	6,000	
Internal Service:		
State Telephone System	3,792	
Information Technology Services		3,792
Total	$ 9,792	$ 9,792

E. Investment in Variable Retirement Investment Fund/Due Fixed Retirement Investment Fund

The Fixed Retirement Investment Fund's share of combined stock equity securities included in the Variable Retirement Investment Fund is reported as "Investment in Variable Retirement Investment Fund" and "Investment Due Fixed Retirement Investment Fund." The related asset and liability at June 30, 1996 by individual fund were as follows (in thousands):

Fund	Investment in Variable Retirement Investment Fund	Investment Due Fixed Retirement Investment Fund
Fixed Retirement Investment	$ 19,749,230	$
Variable Retirement Investment		19,749,230
Total	$ 19,749,230	$ 19,749,230

NOTE 11. INTERFUND TRANSFERS

A. Residual Equity Transfers

Residual equity transfers in and out that occurred during Fiscal Year 1996 were as follows (in thousands):

Fund	Residual Equity Transfers In	Residual Equity Transfers Out
General	$ 36,100	$ 1,474
Special Revenue:		
Environmental	1,250	
Recycling		21,100
Debt Service:		
Bond Security and Redemption	4,000	
Capital Projects:		
Capital Improvement		16,000
Enterprise:		
Mendota Mental Health Institute	113	
Winnebago Mental Health Institute	111	
Lottery		65
Clean Water	16,000	4,003
Internal Service:		
Material and Services to State Agencies		1,505
Information Technology Services	183	
Records Storage and Microfilm Services		200
Printing and Other Services	1,779	257
University of Wisconsin System		15,000
Total Residual Equity Transfers	59,536	59,604
Transfer of Purchased Fixed Assets from proprietary funds to General Fixed Assets Account Group	68	
Total	$ 59,604	$ 59,604

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 1996 were as follows (in thousands):

Fund	Operating Transfers In	Operating Transfers Out
General	$ 28,979	$ 1,091,593
Special Revenue:		
Transportation	557	21,137
Conservation	11,764	2,119
Wisconsin Elections Campaign	315	
Petroleum Inspection	3,349	1,809
Environmental	1,809	28
Recycling	531	5,457
Debt Service:		
Bond Security and Redemption	209,316	2,399
Transportation Revenue Bonds	1,077	
Capital Projects:		
Building Trust	1,855	481
Capital Improvement	2,553	2,334
Transportation Revenue Bonds		1,077
Enterprise:		
State Fair Park	12	197
Home for Veterans	23	553
Mendota Mental Health Institute	18,185	92
Winnebago Mental Health Institute	14,180	104
Central Developmental Disabilities Center	344	636
Northern Developmental Disabilities Center	12	857
Southern Developmental Disabilities Center	6	848
Institutional Farm Operations	687	5
Institutional Canteen Operations	245	213
State Nursery Operations	389	
Lottery		13,191
Veterans Trust		100
Veterans Mortgage Loan Repayment	747	427
Veterans Mortgage Revenue Bonds	100	
Wisconsin Public Broadcasting Foundation		4,096

(Continued)

Fund	Operating Transfers In	Operating Transfers Out
Internal Service:		
Services to Nonstate Governmental Units	152	21
Materials and Services to State Agencies	308	100
Fleet Services	21	1
Printing and Other Services	353	54
State Telephone System		103
Financial Services		381
Facilities Operations and Maintenance	4,441	1,348
Information Technology Services	100	3
Institutional Power Plants		49
Central Warehouse		9
Badger State Industries	1	20
Expendable Trust:		
Petroleum Violation		1,441
Unclaimed Property Program		2,500
Other Trust		11
Nonexpendable Trust:		
Common School	2,500	
Historical Society		6
Pension Trust:		
Fixed Retirement Investment	19,170	5,160
Variable Retirement Investment	5,160	19,170
University of Wisconsin System	857,307	6,419
Total	$ 1,186,548	$ 1,186,548

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

For Fiscal Year 1996, 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, 1995, as previously reported	$ (1,128,722)	$313,768	$ 405	$ (22,952)	$ 54,224	$ (36,337)	$ 35,283,072
Restatements:							
Restatement for adjustment of Capital Improvement Fund interest allocation				(2,896)	1,101		
Restatement to remove 1995 bond proceeds reported in the Facilities Operations and Maintenance Fund				(9,500)			
Restatement of General Purpose Revenue provided to the University of Wisconsin System	22,299						
Restatement to adjust for revenues that should have been recognized in Fiscal Year 1996 rather than 1995							
Restatement to adjust for revenues earned in prior year and previously reported as deferred revenue as of June 30, 1995							
Restatement for interest revenues and interest expenditures underreported and accounts payable overreported in prior year							
Restatement for refinements in valuing equipment inventory ($12 5 million) and for underreported capital lease obligatoins ($4 5 million)							
Other adjustments of assets and liabilities as of June 30, 1995	166	(1,396)			(739)	(1,661)	
Fund balances/retained earnings, July 1, 1995, as restated	$ (1,106,257)	$ 312,371	$ 405	$ (35,348)	$ 54,586	$ (37,998)	$ 35,283,072
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 1995	$ 22,465	$ (1,396)	$ 0	$ (12,396)	$ 362	$ (1,661)	$ 0

Amounts reported for fixed assets as of July 1, 1995 in Note 4 have been restated from amounts previously reported in the 1995 Comprehensive Annual Financial Report to reflect additional assets identified as existing at that date

Food stamps, reported in the Food Stamps and Commodities Fund, an agency fund, in the 1995 Comprehensive Annual Financial Report, are now reported in the General Fund in accordance with GASB Statement No. 24 Commodities at year end are reported in Note 1-I.

University of Wisconsin System							
Current				Plant			
Unrestricted	Restricted	Loan	Endowment and Similar	Capital Projects	Retirement of Indebtedness	Net Investment In Plant	Component Units
$ 256,230	$ 53,317	$152,634	$ 143,709	$ 5,628	$ 70,195	$ 2,892,040	$202,248
(8,455)							
1,050							
				3,480			
						(16,983)	
					1,771		
$ 248,826	$ 53,317	$ 152,634	$ 143,709	$ 9,108	$ 71,966	$ 2,875,056	$ 202,248

NOTE 13. FUND EQUITY

The following schedule enumerates the components of Fund Equity of the various funds as of June 30, 1996 (in thousands):

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types	University of		
		Special	Debt	Capital		Internal		Wisconsin	Component	
	General	Revenue	Service	Projects	Enterprise	Service	Trust	System	Units	Total
Contributed Capital	$	$	$	$	$782,578	$ 22,639	$	$	$	$ 805,217
Investment in Fixed Assets								2,967,033		2,967,033
Retained Earnings:										
Reserved for:										
Future Benefits					13,875				4,211	18,086
Market Value Adjustments					28,786					28,786
Bonds									113,760	113,760
Unreserved					32,714	7,007			108,720	148,441
Fund Balances:										
Reserved for:										
Encumbrances	126,168	406,372		132,860			9,529	129,220		804,149
Inventory	11,159	15,750						45,469		72,378
Prepaid Items	155,898	9,768					2,389	15,054		183,109
Employe Benefits							33,184,283			33,184,283
Market Value Adjustments							7,136,575			7,136,575
Unemployment Compensation							1,593,912			1,593,912
Auxiliary Operations								77,489		77,489
Hospital Operations								58,329		58,329
Restricted Funds								26,900		26,900
Loan Funds								156,080		156,080
Endowment and Similar Funds								181,979		181,979
Unreserved:										
Designated for University Contingent Fund								3,766		3,766
Undesignated	(1,211,738)	(147,754)	7,009	(44,524)			(1, 658,423)	38,263		(3,017,167)
Total Fund Equity	$ (918,513)	$ 284,136	$7,009	$ 88,336	$857,954	$ 29,646	$40,268,265	$3,699,582	$ 226,691	$ 44,543,106

NOTE 14. DEFICIT FUND BALANCES/RETAINED EARNINGS

In addition to the General Fund, funds reporting a deficit fund balance or retained earnings position at June 30, 1996 are (in thousands):

Special Revenue:	
Wisconsin Health Education	
Loan Repayment	$ 2
Petroleum Inspection	58,242
Environmental Local Assistance	21,644
Enterprise:	
Home for Veterans	6,592
Mendota Mental Health Institute	13,861
Winnebago Mental Health Institute	13,344
Northern Developmental Disabilities Center	12,279
Central Developmental Disabilities Center	10,931
Southern Developmental Disabilities Center	13,226
Institutional Farm Operations	315
Health Insurance Risk Sharing Plan	9
Patients Compensation	50,201
Duty Disability	128,250
Clean Water	22,157
Veterans Trust	33,518
Internal Service:	
Services to Nonstate Governmental Units	1,255
Materials and Services to State Agencies	826
Risk Management	55,467
Terminal Charges	435
Institutional Power Plant	2,285

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	$ 26,923	$
Clean Water Fund - Residual equity transfers in from the Capital Improvement Fund and the General Fund totaling $16,000, less return of contributed capital to the General Fund of $4,000	12,000	
Other changes to contributed capital	11,695	1,552
Subtotal	50,618	1,552
Contributed capital, beginning of year	731,960	21,087
Contributed capital, end of year	$ 782,578	$ 22,639

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 Fund, the Variable Retirement Investment Fund, the Special Death Benefits Fund, and the Police and Firefighters Fund. It is considered part of the State of Wisconsin's financial reporting entity.

Plan Description

The WRS, governed by Chapter 40 of the Wisconsin Statutes, is a cost-sharing multiple-employer retirement system. 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. The WRS membership consists of 1,202 employers participating in the plan representing total employe participants as follows:

Current employes:	
General/teachers	218,579
Elected/executive/judges	1,488
Protective with social security	13,563
Protective without social security	2,644
Total current employes	236,274
Terminated and vested participants	88,437
Retirees and beneficiaries currently receiving benefits:	
Retirement annuitants	82,333
Disability annuitants	5,279
Death beneficiary annuitants	1,386
Total annuitants	88,998
Total participants	413,709

Prior to January 1, 1990, benefits for WRS members were fully vested at the time they met the participation requirements. Effective January 1, 1990, a five year vesting requirement for annuities is required. 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 benefit.

Accounting Policies and Plan Asset Matters

All assets of the retirement system are invested by the State of Wisconsin Investment Board (the Board). The retirement fund assets consist of shares in the Variable Retirement Investment Fund and the Fixed Retirement Investment Fund. The Variable Retirement Investment Fund consists primarily of equity securities. The Fixed Retirement Investment Fund is a balanced investment fund made up of fixed income securities and the Investment in Variable Retirement Investment Fund. Shares in the Fixed Retirement Investment Fund and the Variable Retirement Investment Fund 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 Funds 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.

Funding Status and Progress

The "pension benefit obligation" (PBO) amount is the standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employe service to date. The standard measure is intended to help users assess the funding status of the system on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and for comparisons with other public employes' retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The WRS does not make a separate measurement of assets and pension benefit obligation for individual employers. The pension benefit obligation at December 31, 1995 for the WRS as a whole was $28,467.9 million. The WRS's net assets available for benefits on that date (valued at market) were $35,969.8 million, leaving assets over pension benefit obligation of $7,501.9 million. The State's contribution represents 28.6 percent of total contributions required of all participating entities.

The pension benefit obligation is based on an actuarial cost method that assigns higher costs to the later years of a participant's working life rather than the earlier years. The pension benefit obligation recognizes a relatively lower accumulated benefit at any time in a participant's working life and, therefore, gives the appearance of a better funded system by deferring higher contributions until future years. However, the WRS's funding of the pension benefit obligation is based on an actuarial cost method which allocates the cost of benefits evenly over the participant's working life. The WRS's funding method avoids increasing contribution rates as the system matures.

The pension benefit obligation was determined as part of an actuarial valuation at December 31, 1995. Significant actuarial assumptions used include:

a. A rate of return on the investment of present and future assets of 8.0 percent per year compounded annually;

b. Projected salary increases of 5.3 percent per year compounded annually, attributable to inflation;

c. Additional projected salary increases ranging from 0.0 percent to 8.0 percent per year, depending on age and type of employment, attributable to seniority/merit; and

d. 2.9 percent annual post-retirement benefit increases.

At December 31, 1995, the assets over pension benefit obligation was $7,501.9 million determined as follows (in millions):

Retirees and beneficiaries currently receiving benefits	$ 11,327.5
Terminated employes not yet receiving benefits	1,309.3
Current employes:	
Accumulated employe contributions including allocated investment income	8,187.8
Employer contributions	7,643.3
Total pension benefit obligation	28,467.9
Net assets available for benefits	35,969.8
Assets over pension benefit obligation	$ 7,501.9

WRS Actuarial Assumptions and Calculations

Significant actuarial assumptions used for the WRS include:

a. *Investment Return*: The assumed investment return is 8.0 percent for active participants and 5.0 percent for current retirees, compounded annually. The assumption for retirees is not intended to be a predictor of future actual investment earnings. The statutory intent is that this percentage be set at a level which will produce excess earnings during inflationary periods. These excess earnings may be then used to increase the benefits paid to retirees to offset the effect of inflation on the value of the benefit payments.

b. *Future Salary Increases*: Past history has demonstrated a stable relationship between across-the-board salary increases and investment returns. The factors may deviate from each other in the short run, but in the long run, high investment returns have been accompanied by high salary increases. Likewise, low investment returns have been accompanied by low salary increases.

Based on past experience, this spread between assumptions has been set at 2.7 percent (8.0 percent investment return for active employes, 5.3 percent across-the-board salary increases). This spread is the key factor in evaluating the appropriateness of these two assumptions. There would be little change in funding requirements from changing one assumption, as long as the other assumption was changed by the same amount.

Contributions Required and Contributions Made

Covered employes are required by statute to contribute a percentage of their salary to the plan as follows:

	Required	BAC*
General employes/teachers	5.0%	1.2%
Executives and elected officials	5.5%	0.1%
Protective occupations with social security	6.0%	0.5%
Protective occupations without social security	7.2%	0.0%

* Benefit Adjustment Contribution

Part or all of the employe contributions may be paid by the employer on behalf of the employe.

Employer contribution rates are determined by an actuarial method identified as the "entry age normal with frozen initial liability" method, based in part on the provisions of Accounting Principles Board (APB) Statement No. 8, with the intent of maintaining the rates at a level percentage of payroll. Required contributions were determined as part of an actuarial valuation at December 31, 1993. Significant actuarial assumptions used include:

a. A rate of return on the investment of present and future assets of 8.0 percent per year compounded annually;

b. Projected salary increases of 5.6 percent per year compounded annually, attributable to inflation;

c. Additional projected salary increases ranging from 0.0 percent to 8.0 percent per year, depending on age and type of employment, attributable to seniority/merit; and

d. 2.9 percent annual post-retirement benefit increases.

Contributions made by category for the year ended December 31, 1995 were as follows:

Employer current service	$ 396,976,044
Percent of payroll	5.3%
Employer prior service	$ 103,734,398
Percent of payroll	1.4%
Employe required	$ 380,993,431
Percent of payroll	5.1%
Benefit adjustment contribution	$ 84,131,969
Percent of payroll	1.1%

Covered payroll for the WRS in Calendar Year 1995 was $7,454.3 million.

Funding Deficit

WRS's unfunded actuarial accrued liability is being amortized as a level percentage of payroll over a 40-year period beginning January 1, 1990. As of December 31, 1995 and 1994, the WRS unfunded actuarial accrued liability was $2.06 billion and $2.01 billion respectively

Net funding deficits are the amount by which retirement costs calculated in accordance with APB Statement No. 8 exceed contributions made by the State. The Calendar Year 1995 employer contributions were $28.0 million, while the interest on unfunded prior service cost liability totaled $45.0 million, resulting in a $17.0 million excess of costs over contributions (the excess between the prior service contribution and the total interest accrued on the unfunded liability).

The General Long-term Debt Account Group employer pension liability of $131.2 million is the sum of the excess of interest costs over contributions retroactive to 1989, the first year data are available.

Trend Information

Ten-year historical trend information showing the WRS progress in accumulating sufficient assets to pay benefits when due is presented in the Department of Employe Trust Funds December 31, 1995 audited financial statements. Copies of these statements may be requested from:

The Department of Employe Trust Funds
801 West Badger Road
Madison, Wisconsin 53713

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 10,651 annuitants currently qualify for coverage without premium. Post retirement life insurance is fully insured by the State's life 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, 1995, determined through an actuarial valuation performed as of that date, was $197.0 million. The program's assets on that date were $196.0 million. The unfunded liability was $1.0 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 6,600 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 7.4 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, 1995, determined through an actuarial valuation performed on that date, was $875.7 million. The program's assets on that date were $236.8 million. The unfunded liability was $638.9 million. The unfunded liability increased by $268.8 million as a result of the partial matching benefit enhancement described above.

Assets of the life insurance and health insurance benefit programs are valued at amortized cost, which approximates market value.

The State's life and health insurance required and actual contributions totaled $3.1 million and $45.7 million, respectively, during the calendar year ended December 31, 1995.

NOTE 18. DEFERRED COMPENSATION PLAN

The State offers its employes, as well as local government and other employes, a deferred compensation plan established pursuant to Internal Revenue Code Section 457 and Wis. Stat. Secs. 40.80, 40.81 and 40.82. The multiple-employer plan is accounted for as an agency fund. The plan allows employes to defer a portion of their salary until future years. Amounts deferred are invested through an independent agent and are not subject to federal income taxes until they are paid to employes. The deferred compensation is not available to employes until termination or retirement from employment, death, or unforeseeable emergency.

The assets in the plan remain the property of the State until paid or made available to participants, subject only to the claims of the State's general creditors, although it is unlikely the State will use the assets to satisfy such claims. Although the State retains ownership of the deferred compensation assets, it assumes no liability for the investment results or for the ultimate payment of benefits. Of the $471.3 million in the plan at December 31, 1995, $382.6 million was applicable to the State, $87.6 million represented the assets of other participating jurisdictions, and $1.1 million is reserved for operation of the plan.

NOTE 19. 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, 1995.

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 forty 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 local employers plus the State currently participate. The State and local government portions of the fund are accounted for separately and have separate contribution rates, benefits, and actuarial valuations. The plan is self-insured.

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

The Long Term Disability Insurance Fund offers long term disability benefits to participants in the Wisconsin Retirement System (WRS). The long term disability benefits provided by this program are an alternative coverage to that currently provided by the WRS. All new WRS participants on or after October 15, 1992, are eligible only for the long term disability insurance coverage, while participating employees active prior to October 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 Fund. 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 claim liabilities and the corresponding contribution rates necessary to fund the liabilities, the Department assumes mortality assumptions similar to that used for disability benefits provided as part of the Wisconsin Retirement System, which is healthy life twelve years older. As additional experience is gained and analyzed in the Duty Disability program, the mortality assumptions may change to more closely correspond to the population participating in the program, which is likely to have different characteristics because only protective occupation employes are allowed to participate and the program has less restrictive disability requirements than for disability benefits provided under the Wisconsin Retirement System.

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 1995 (in millions):

	Health Insurance		Income Continuation Insurance		Duty Disability		Long-term Disability Insurance	
	1994	1995	1994	1995	1994	1995	1994	1995
Unpaid claims at beginning of the calendar year	$10.0	$11.1	$34.9	$39.5	$127.7	$135.5	$1.9	$4.3
Incurred claims:								
Provision for insured events of the current calendar year	61.6	65.8	17.2	19.4	5.1	4.8	3.3	5.4
Changes in provision for insured events of prior calendar years	0.6	0.6	(6.4)	(10.9)	14.4	18.1	(0.6)	(0.6)
Total incurred claims	62.2	66.4	10.8	8.5	19.5	22.9	2.7	4.8
Payments:								
Claims and claim adjustment expenses attributable to insured events of the current year	50.3	53.6	1.9	2.7	0.0	0.0	0.0	0.1
Claims and claim adjustment expenses attributable to insured events of prior calendar years	10.8	11.6	4.3	4.3	11.7	12.8	0.3	0.6
Total Payments	61.1	65.2	6.2	7.0	11.7	12.8	0.3	0.7
Total unpaid claims expenses at end of the calendar year	$11.1	$12.3	$39.5	$41.0	$135.5	$145.6	$4.3	$8.4

D. Trend Information

Historical trend information showing revenue and claims development information is presented in the Department of Employe Trust Funds December 31, 1995 audited financial statements. Copies of these statements may be requested from:

The Department of Employe Trust Funds
801 West Badger Road
Madison, Wisconsin 53713

NOTE 20. SELF-INSURANCE

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

State Property Damage

Property damages to State-owned properties are covered by the State self-funded property program up to $2.5 million in an annual aggregate. Insurance is purchased for losses in excess of this amount. The excess limits were written to $200 million during Fiscal Year 1996.

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, 1996 are estimated to total $4.9 million. This amount, less $2.4 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 1996 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. Starting with Fiscal Year 1996, 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, 1996 are estimated to total $32.2 million.

Worker's Compensation

The Worker's Compensation Program was created by Wisconsin Statutes Chapter 102 to provide benefits to workers injured on the job. All 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. Starting with Fiscal Year 1996, 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, 1996 are estimated to total $35.3 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):

	1995	1996
Beginning of fiscal year liability	$ 80,750	$ 103,914
Current year claims and changes in estimates	40,040	(16,165)
Claim payments	(16,876)	(17,829)
Balance at fiscal year-end	$ 103,914	$ 69,920

NOTE 21. INSURANCE FUNDS

A. Local Government Property Insurance Fund

Created by the Legislature in 1911, the purpose of the Local Government Property Insurance Fund is to provide property insurance coverage to tax-supported local government units such as counties, towns, villages, cities, school districts and library boards. Property insured includes government buildings, schools, libraries and motor vehicles. Coverage is available on an optional basis. As of June 30, 1996, the Local Government Property Insurance Fund insured 1,046 local governmental units. The total amount of insurance in force as of June 30, 1996 was $18.3 billion. Ninety-one percent of the Local Government Property Insurance Fund's insureds are using the valuation project service, which began in 1988.

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, 1996, the fund had $8.5 million of shares in the State Investment Fund which are considered cash equivalents and $4.0 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. 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.

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. The amount deducted from claim liability as of June 30, 1996 for reinsurance was $3.3 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):

	1995	1996
Unpaid claims and claim adjustment expenses at beginning of the year	$3,230	$2,127
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	4,458	6,733
Increase (decrease) in provision for insured events of prior years	(186)	(66)
Total incurred claims and claim adjustment expenses	4,272	6,667
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	2,509	3,398
Claims and claim adjustment expenses attributable to insured events prior years	2,866	1,810
Total payments	5,375	5,208
Net unpaid claims and claim adjustment expenses at end of year	2,127	3,586
Reinsurance recoverable	2,326	3,303
Total unpaid claims and claims adjustment expenses	$4,453	$6,889

Trend Information

Historical trend information showing revenue and claims development information is presented in the Office of the Commissioner of Insurance June 30, 1996 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	4.0%	2.0%	None
1967-1976	5.5	2.0	None
1977-1985	7.0	2.0	None
1986-1994	8.0	2.0	None
1995+	7.5	2.0	None

Amortization for the year ended June 30, 1996 amounted to $33 thousand. The State Life Insurance Fund does not pay commissions nor does it incur agency 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	$ 17,773	$ 9,317
1967-1976	48,117	11,400
1977-1985	94,614	12,589
1986-1994	58,936	2,699
1995+	9,030	314
	$ 228,470	$ 36,319

Bases of Assumptions

Issue Year	Interest Rate	Mortality	Withdrawals
1913-1966	4.0%	American Men, ALB*	2%
1967-1976	5.5	1950-54 Intercompany experience, ALB	2
1977-1985	7.0	1965-70 Intercompany experience, ALB	2
1986-1994	8.0	1975-80 Intercompany experience, ALB	2
1995+	7.5	1975-80 Intercompany experience, ALB	2

* 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, 1995 were $62.2 million and the statutory capital and surplus were $6.6 million, and the capital and surplus at June 30, 1996 was $13.9 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, 1996 as follows (in thousands):

Projected ultimate loss liability	$ 862,350
Less: Net loss paid from inception	(337,351)
Less: Liability for reported losses	(35,702)
Liability for incurred but not reported losses	$ 489,297

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, 1996 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, 1996 as follows (in thousands):

Projected ultimate loss adjustment expense liability	$ 34,494
Less: Loss adjustment expense paid from inception	(14,702)
Liability for loss adjustment expense	$ 19,792

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 daily pro rata basis. Assessments made to participating insurers are recognized as a receivable when the assessment is authorized. Assessments are earned when levied. Deferred policy acquisition costs have not been recorded. Rather, policy acquisition costs are expensed as incurred.

The future benefits and loss liabilities include loss reserves reflecting the accumulation of losses reported but not paid prior to the close of the accounting period and estimates of incurred but unreported losses. Loss reserves are actuarially determined and are based on historical patterns of claim payments and represent the estimated ultimate cost of settling claims incurred prior to June 30. Due to the inherent uncertainties in the reserving process, loss reserves as computed may not reflect the actual payments ultimately to be made. The methods for making such estimates and for establishing the resulting reserves are continually reviewed, and any adjustments are reflected in earnings currently.

The following represents changes in specific account balances for the prior two fiscal years (in thousands):

	1995	1996
Balance, beginning of year	$ 8,921	$ 11,118
Incurred related to:		
Current year	49,994	46,708
Prior years	(959)	(3,049)
Total Incurred	49,035	43,659
Paid related to:		
Current year	38,985	38,333
Prior years	7,853	7,941
Total Paid	46,838	46,274
Balance, end of year	$ 11,118	$ 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, 1995.

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, 1994 and December 31, 1995, are as follows (in thousands):

	1994	1995
Balance at January 1	$ 136,423	$ 138,260
Incurred related to:		
Current year	16,353	14,499
Prior years	(7,108)	(8,686)
Total Incurred	9,245	5,813
Paid related to:		
Current year	241	204
Prior years	7,167	5,209
Total paid	7,408	5,413
Balance at December 31	$ 138,260	$ 138,660

NOTE 22. LITIGATION, CONTINGENCIES AND COMMITMENTS

A. Litigation and Contingencies

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

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

The State accrues liabilities related to legal proceedings, if a loss is probable and reasonably estimable Such losses, totaling $119.4 million on June 30, 1996 and reported in the General Long-term Debt Account Group, are discussed below:

Litigation - In February 1994, the Courts entered judgment relating to the *Special Performance Dividend* lawsuit ordering the State to deposit in the trust funds an amount sufficient to allow the Department of Employe Trust Funds to make a one-time payment and to provide a prospective increase in annuities to approximately 47,000 annuitants or their beneficiaries. In May 1994, the Courts stayed the monetary relief portion of the judgment pending appeal Two separate appeals were filed by two groups of defendants. In July 1995, the Court of Appeals affirmed the prior decision requiring repayment of the special performance dividend with interest Oral arguments for an appeal to the State Supreme Court were heard in September, 1996. The most recent (December 31, 1994) actuarial calculation of the estimated cost of the payments of $96.9 million is reported in the General Long-term Debt Account Group.

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 ruling was appealed to the Court of Appeals, District IV, and has been fully briefed but no decision has been issued. The potential impact of an adverse ruling is estimated at $10.0 million to $50.0 million, with $10.0 million reported in the General Long-term Debt Account Group at June 30, 1996.

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 State intends to contest the cases vigorously. A liability of $10.0 million is reported in the General Long-term Debt Account Group at June 30, 1996.

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 $ 2 million to $2.9 million with $ 2 million 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 $2.4 million at June 30, 1996, 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 and $26.2 million were made in Fiscal Year 1994, Fiscal Year 1995, and Fiscal Year 1996 respectively. Subsequent payments will be made in Fiscal Year 1997. The liability of $13.1 million as of June 30, 1996 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 $32.5 million, which is reported in the General Fund as Tax Refunds Payable and a reduction in tax revenue.

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 Fielder 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 $30.0 million for all funds, $10.0 million for the Risk Management Fund and $20.0 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, 1996.

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 15 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 $18.8 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, 1996.

American Trucking Associations, Inc., et al v. The State of Wisconsin et al - In this case, the trucking association challenged the State's hazardous materials transportation registration fee on Commerce Clause grounds.

The Circuit Court granted the State's motion for summary judgment, upholding the validity of the State's hazardous materials transportation registration fee. The plaintiffs appealed this decision to the Court of Appeals. In October, 1996, the Court of Appeals reversed the Trial Court, holding the fees unconstitutional. The State anticipates petitioning the Wisconsin Supreme Court for review.

If the State were not to prevail, preliminary estimates indicate a fee refund exposure to the State of approximately $2.3 million. However, due to the uncertainty in predicting the outcome, a liability has not been recorded as of June 30, 1996.

Medicare-Medicaid Provider Reimbursement - This is a class action for declaratory and injunctive relief in which plaintiffs allege that the Wisconsin Department of Health and Family Services (formerly the Department of Health and Social Services) is violating Federal law by not reimbursing providers for the full value of their services for Medicare-Medicaid eligibles who are unable to pay Medicare co-insurance costs. The action is brought under the Declaratory Judgment Act and 42 U.S.C. s. 1983 on behalf of an unspecified number of State health care providers who serve low-income Medicaid beneficiaries.

Currently, a trial date has not been set An adverse Federal court decision could give rise to State court based claims for retroactive relief estimated at $4.0 million to $36.0 million depending upon what statute of limitations the Court would apply. Due to the uncertainty in predicting the outcome at this time, a liability has not been recorded as of June 30, 1996.

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 Three hundred nineteen sites have soil and/or groundwater contamination associated with underground storage tank releases with an estimated remediation cost of $13 6 million The cost of remediation has not been determined for approximately 196 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 $2 6 million.

The State is also involved in environmental remediations on 21 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, 1996 reported as Fund Balance - Reserved for Encumbrances, additional obligations at June 30, 1996 representing multi-year, long-term commitments included (in thousands):

Transportation Fund	$ 107,740
Recycling Fund	4,204
Environmental Local Assistance Fund	9,150
Capital Improvement Fund	2,634
General Fund - Department of Commerce (formerly the Department of Development) programs, including economic and community development programs	2,229
Other	175

Further, the Wisconsin Housing and Economic Development Authority, a component unit of the State, has approximately $17.4 million of commitments on a building construction project outstanding as of June 30, 1996.

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 $184 8 million as of June 30, 1996 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, 1996, the Clean Water Fund committed to award $15.5 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, 1996, outstanding loan guarantees totaled $38 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 $36 thousand in annuity payments, which the fund subsequently paid. It is unclear when the annuity provider will be able to make the remaining annuity payments and whether the fund will be able to recover the annuity payments made on behalf of the annuity provider. The estimated replacement value of the annuities in default is $2 9 million, while the total estimated replacement value of the fund's annuities as of June 30, 1996 was $106.4 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, 1996, the appropriation available totaled $21 8 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 23. SUBSEQUENT EVENTS

Bonds and Notes

Primary Government

Short-term Debt

Operating Notes - On July 11, 1996, the State issued $150 0 million of operating notes The proceeds 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 approximately 52 percent of all 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 16, 1997

Long-term Debt

State of Wisconsin General Obligation Bonds - In September 1996, the State issued $115 2 million of 1996 Series C 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, 1997, with the bonds maturing on May 1 of the years 1998 through 2017.

In October 1996, the State issued $30.0 million of the 1996 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, 1997, with the bonds maturing on May 1 of the years 2007 through 2027

Department of Veterans Affairs - In August 1996, the State made a call on the Veteran's Mortgage Revenue Bonds for $190 thousand

Certificates of Participation

Certificates of Participation 1996, Series A, were sold on July 1, 1996, for the State's Master Lease Program The certificates evidence an obligation of the State to repay, but solely from sources specified, revolving loans for the State's Master Lease Program under a Revolving Credit Agreement, dated July 1, 1996, between Firstar Trust Company, Milwaukee, Wisconsin ("Trustee") and Bank of America Illinois The certificates mature on March 1, 2006 and shall bear interest at the rates provided in the Revolving Credit Agreement As of September 30, 1996, the principal amount of the State's obligation on these certificates was $39 7 million

Component Unit

Wisconsin Housing and Economic Development Authority - In August, 1996, the Authority issued $75.0 million of Home Ownership Revenue Bonds 1996 Series C and D to finance single family homes for low and moderate income families

In November 1996, the Authority issued $60.0 million of 1996 Series E and F Home Ownership Revenue Bonds

In December 1996, the Authority issued $70.0 million of Home Ownership Revenue Bonds 1996 Series G

In addition, the Authority redeemed early $46 4 million of Home Ownership Revenue Bonds

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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 rarely employed a financial advisor for the issuance of general obligations, except for advance refunding issues. There are several 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 ("Debt Service") coming due on general obligation bonds 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 Natural resources; nonpoint source grants 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 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	There is an unlimited appropriation from the State's General Fund for the timely payment of principal and interest.

Purpose	Sources of Revenues
Transportation; rail passenger route development Corrections; correctional facilities Health and family services; mental health facilities Health and family services; juvenile correctional facilities 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 Educational communications board; educational communications facilities Historical society; historic records Historical society; historical sites Historical society; museum facility Education; state schools and library facilities Military affairs; armories and military facilities Veterans affairs; Wisconsin veterans home State fair park board; housing facilities	
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.
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 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.

Purpose	Sources of Revenues
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 $1,627,078,182 and the cumulative debt limit is $10,847,187,880 (of which the amount available is $7,541,717,299). The lesser amount is $1,627,078,182. 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 59 distinct purposes and has limited the amount of general obligations which 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 27, 1996

Program Purpose	Legislative Authorization	General Obligations Issued to Date	Interest Earnings[a]	Remaining Authority
University of Wisconsin; academic facilities	$ 732,814,300	$ 682,892,229	$ 10,833,667	$ 39,088,404
University of Wisconsin; self-amortizing facilities	360,381,600	228,912,621	714,807	130,754,172
Natural resources; municipal clean drinking water grants	9,800,000	9,454,342	141,849	203.809
Clean water fund	553,194,000	259,935,573	15,184	293,243,243
Natural resources; nonpoint source grants	20,000,000	16,375,658	133,452	3,490,890
Natural resources; environmental repair	31,500,000	12,170,000	142,343	19,187,657
Natural resources; segregated revenue supported dam maintenance, repair, modification, abandonment and removal	4,000,000	55,000		3,945,000
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	866,330,888	18,491,494	17,627,418
Natural resources; pollution abatement and sewage collection facilities; combined sewer overflow	200,600,000	192,972,246	6,287,262	1,340,492
Natural resources; recreation projects	56,055,000	56,053,036	62	1,902
Natural resources: local parks land acquisition and development	2,490,000	2,429,349	42,248	18,403
Natural resources; recreation development	23,061,500	22,568,166	148,190	345,144
Natural resources; land acquisition	45.608,600	45.070,269	491,670	46,661
Natural resources; Wisconsin natural areas heritage program	2,500,000	2,442,545	17,174	40,281
Natural resources; segregated revenue supported facilities	14,749,900	7,534,722	41,566	7,173,612
Natural resources; general fund supported administrative facilities	6,733,500	5,411,075	17,632	1,304,793
Natural resources; ice age trail	750,000			750,000
Natural resources; dam maintenance, repair, modification, abandonment and removal	5,500,000	5,130,000	48,645	321,355

Table III-1 – Continued
STATE OF WISCONSIN
GENERAL OBLIGATION ISSUANCE STATUS REPORT
December 27, 1996

Program Purpose	Legislative Authorization	General Obligations Issued to Date	Interest Earnings[a]	Remaining Authority
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	102,155,000	1,286,829	127,558,171
Transportation; administrative facilities	8,890,400	8,759,479	33,943	96,978
Transportation; accelerated bridge improvement	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	12,000,000	8,345,000	233,120	3,421,880
Transportation; rail acquisitions and improvements	14,500,000	7,445,000		7,055,000
Corrections; correctional facilities	480,087,500	378,011,762	7,733,575	94,342,163
Corrections; self-amortizing equipment	6,110,000	700,000	55	5,409,945
Health and family services; mental health facilities	88,712,500	69,000,268	674,386	19,037,846
Health and family services; juvenile correctional facilities	29,441,500	21,623,556	95,007	7,722,937
Building commission; previous lease rental authority	143,171,600	143,068,654		102,946
Building commission; refunding corporation self-amortizing debt	2,686,600			2,686,600
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	219,525,600	161,674,121	1,038,769	56,812,710

Table III-1 – Continued
STATE OF WISCONSIN
GENERAL OBLIGATION ISSUANCE STATUS REPORT
December 27, 1996

Program Purpose	Legislative Authorization	General Obligations Issued to Date	Interest Earnings[a]	Remaining Authority
Building commission; 1 West Wilson street parking ramp	15,100,000	13,500,000	241.123	1,358.877
Building commission; project contingencies	19,659,000	14,120,000	41.538	5.497.462
Building commission; capital equipment acquisition	67,129,800	54.199.191	674,767	12.255.842
Building commission; discount sale of debt	65,000,000	36,638,125		28,361,875
Building commission; discount sale of debt (higher education bonds)	100,000,000	99.988.833 [b]		11.167
Building commission; other public purposes	736,956,000	528,867.751	3.408,705	204,679,544
Medical College of Wisconsin, Inc ; basic science education facility	10,000,000	8.000.000		2,000,000
Educational communications board; educational communications facilities	7,429,600	6,746,539	36,946	646,115
Historical society; self-amortizing facilities	3,073,600	1,029,156	3.963	2,040,481
Historical society; historic records	400,000			400,000
Historical society; historic sites	1.839.000	1,825,513		13,487
Historical society; museum facility	4,384,400	4,236.000		148,400
Education; state schools and library facilities	7.367.700	7,289,197	32,508	45,995
Military affairs; armories and military facilities	18,215.200	15,672,527	195,842	2,346.831
Veterans affairs; Wisconsin veterans home	9,990,100	7.508,065	151,588	2,330,447
Veterans affairs; self-amortizing mortgage loans	1,661,000,000	1,497.776,295	3.408,773	159,814,932
Veterans affairs; refunding bonds	625,000.000	586,954,245		38,045.755
Veterans affairs; self-amortizing housing facilities	1.629,400			1.629,400
State fair park board; housing facilities	13.000.000	4,800,000		8,200,000
State fair park board; self-amortizing facilities	27,850,000	19,408,800	6,102	8,435,098
Total	$10,020,537,500	$8,546,453,830	$56,914,784	$1,417,168,886

[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 provides tables provide data pertaining to the State's outstanding general obligation debt.

Table III-2
OUTSTANDING GENERAL OBLIGATIONS BY ISSUE
(As of December 27, 1996)

Financing	Date of Financing	Maturity	Amount of Issuance	Amount Outstanding
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	1971-1900	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	3,200,000
1977- Series A	2/15/77	1978-2007	74,000,000	-0-
Series B	5/15/77	1978-2002	128,000,000	11,900,000
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	6,320,000
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 27, 1996)

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	11,630,000
Term Bonds		2006	13,025,000	-0-
Term Bonds		2015	12,015,000	12,015,000
Series B	7/1/86	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	73,190,000 [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	1,765,000
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	6,395,000 [a]
1989- Bonds Series A	1/1/89			
Serial Bonds		1990-2004	4,150,000	2,900,000
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	1,725,000 [a]
Bonds Series C	5/1/89	1990-2009	71,415,000	2,955,000 [a]
Bonds Series D	8/1/89			
Serial Bonds		1990-2004	4,150,000	3,025,000
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	5,430,000 [a]
1990- Bonds Series A	1/1/90	1991-2010	134,495,000	12,285,000 [a]
Bonds Series B	3/1/90			
Serial Bonds		1991-2005	3,575,000	2,700,000
Accelerated Term Bonds		2010	3,975,000	-0-
Term Bonds		2020	12,450,000	4,265,000
Bonds Series C	5/1/90	1991-2010	38,170,000	2,720,000 [a]
Bonds Series D	5/24/90	1996-2010	65,859,000	61,462,000
Bonds Series E	8/1/90	1991-2010	76,810,000	5,095,000 [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 27, 1996)

Financing	Date of Financing	Maturity	Amount of Issuance	Amount Outstanding
Bonds Series F	10/1/90			
Serial Bonds		1991-2005	3,775,000	2,900,000
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	25,125,000 [a]
1991- Bonds Series A	4/1/91			
Serial Bonds		1992-2006	5,775,000	4,450,000
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	49,357,137
Bonds Series B	5/15/91	1996-2011	117,136,000	109,793,000
Bonds Series C	6/1/191	1992-2011	60,580,000	9,680,000 [a]
Bonds Series D	9/1/91	1992-2012	97,000,000	23,265,000 [a]
1992- Bonds Series A	3/1/92	1993-2012	219,040,000	63,895,000 [a]
Refunding Bonds	3/1/92	1994-2015	448,935,000	425,265,000
Bonds Series B	6/1/92			
Serial Bonds		1993-2008	7,780,000	2,380,000
Accelerated Term Bonds		2012	4,000,000	125,000
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	5,510,000
Bonds Series C	11/1/92	1994-2013	173,285,000	73,060,000 [a]
1993- Refunding Bonds Series 1	1/1/93	1994-2009	280,060,000	269,720,000
Bonds CWF Series A	1/15/93	1993-2011	5,000,000	4,530,456
Refunding Bonds Series 2	3/1/93	1993-2011	137,530,000	135,570,000
Bonds Series A	5/1/93	1994-2013	124,325,000	107,045,000
Refunding Bonds Series 3	8/1/93	1995-2012	302,050,000	296,560,000
Refunding Bonds Series 6	10/15/93			
Serial Bonds		1994-2006	5,510,000	4,445,000
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	54,010,000
Refunding Bonds Series 5	12/1/93			
Serial Bonds		1994-2006	113,550,000	113,095,000
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	14,530,085
Bonds Series A	1/1/94	1995-2014	119,810,000	110,515,000
Refunding Bonds Series 1	3/1/94	1995-2002	106,610,000	71,290,000
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		2024	4,775,000	4,775,000
Bonds Series B	6/1/94	1995-2014	110,000,000	99,233,827

[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 27, 1996)

Financing	Date of Financing	Maturity	Amount of Issuance	Amount Outstanding
Refunding Bonds Series 3	9/15/94	1995-2008	10,400,000	8,800,000
Bonds Series C	9/15/94			
Serial Bonds		1996-2013	17,135,000	16,310,000
Term Bonds		2016	5,135,000	5,060,000
Term Bonds		2020	8,535,000	8,405,000
Term Bonds		2025	14,195,000	13,980,000
Bonds CWF Series 1	1/17/95	1994-2013	4,935,573	4,843,362
1995- Bonds Series A	1/15/95	1996-2015	231,315,000	131,000,000 [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-	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	335,818
Bonds CWF Series 1	8/23/95	1996-2015	5,000,000	4,684,674
Bonds Series C	9/15/95	1997-2016	97,480,000	97,480,000
Refunding Bonds Series 2	10/15/95			
Serial Bonds		1997-2000	5,780,000	5,780,000
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	158,080,000
Refunding Bonds, Series 1	2/15/96	1996-2015	104,765,000	103,200,000
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
TOTAL GENERAL OBLIGATIONS			$8,747,537,196	$3,288,068,503

[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-3

PER CAPITA STATE GENERAL OBLIGATION DEBT 1986 TO 1995

Year Ending December 31	Outstanding Indebtedness[a] (Amounts in Thousands)	Debt Per Capita	Debt Per Capita as % of Per Capita Income
1986	$2,378,659	$500.35	3.56%
1987	2,351,368	492.33	3.35
1988	2,403,070	498.25	3.24
1989	2,566,496	528.41	3.21
1990	2,781,071	568.49	3.26
1991	3,126,391	631.72	3.52
1992	3,065,122	613.39	3.21
1993	3,104,055	615.40	3.10
1994	3,244,079	638.22	3.06
1995	3,305,471	645.22	2.95

(a) Includes obligations of nonstock, nonprofit building corporations

Sources: Legislative Audit Bureau
Tables II-24 and II-27 in part II of this Annual Report.

Table III-4

LIMITATION ON AGGREGATE PUBLIC DEBT DERIVATION OF AMOUNT FOR 1996

The aggregate debt contracted in 1996 shall not exceed the lesser of (a) or (b):

(a)	3/4 of 1% x $216,943,757,600		$1,627,078,182
(b)	5% x $216,943,757,600	$10,847,187,880	
	Deduct: Net Indebtedness 1/1/96	(3,305,470,581)	
			$7,541,717,299

The amount of $216,943,757,600 shown above is the aggregate full market value of all taxable property in the State for the year 1996 as certified by the Department of Revenue.

The amount of $3,305,470,581 shown above is the net indebtedness as of January 1, 1996 as certified by the Legislative Audit Bureau.

The lesser of (a) or (b) is $1,627,078,182. 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 1986 TO 1995

Calendar Year	Annual Debt Limitation	Actual Borrowing	Borrowing as Percentage of Limitation
1986	$ 904,310,826	$285,985,000	31.6%
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

Source: Wisconsin Department of Administration.

Table III-6

DEBT STATEMENT December 27, 1996

	Tax-Supported Debt		Revenue-Supported Debt[a]		
	General Fund	Segregated Funds[b]	Veterans Housing	Other[c]	Total
GENERAL OBLIGATIONS					
Outstanding Indebtedness	$2,410,760,945	$45,808,985	$554,765,000	$276,733,575	$3,288,068,505
NONSTOCK, NONPROFIT CORPORATIONS[d]					
Wisconsin University Building Corp.				$ 364,969	$ 364,969
Wisconsin State Colleges Building Corp.				1,575,000	1,575,000
Outstanding Indebtedness				$ 1,939,969	$ 1,939,969
Total Outstanding Indebtedness	$2,410,760,945	$45,808,985	$554,765,000	$278,673,544	$3,290,008,474

(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 "OTHER OBLIGATIONS; Nonstock, Nonprofit Corporations" 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 1986 TO 1995

Calendar Year	Value of Taxable Property (Amounts in Thousands)	Outstanding Indebtedness[a] (Amounts in Thousands)	Debt as Percentage of Equalized Value
1986	120,574,777	2,378,659	1.97%
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

(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
7/01/96-12/27/96	28,081,145	84,877,452	112,958,597
Totals	$2,860,491,806	$2,672,726,017	$5,533,217,823

Source: Wisconsin Department of Administration.

Table III-9
DEBT SERVICE MATURITY SCHEDULE:
AMOUNT DUE ANNUALLY ON GENERAL OBLIGATIONS
ISSUED TO DECEMBER 27, 1996

Fiscal Year (Ending June 30)	Principal	Interest	Total Debt Service
1997[a]	$ 179,925,924	$ 87,039,801	$ 266,965,725
1998	217,196,746	161,934,091	379,130,837
1999	217,896,706	150,350,476	368,247,182
2000	219,998,593	139,685,070	359,683,663
2001	216,185,897	129,997,313	346,183,210
2002	211,407,605	118,800,885	330,208,490
2003	203,110,854	107,403,774	310,514,628
2004	188,422,721	96,916,650	285,339,371
2005	182,797,818	86,641,228	269,439,046
2006	177,407,948	76,051,918	253,459,866
2007	172,467,238	66,918,372	239,385,610
2008	167,257,380	58,001,389	225,258,769
2009	166,841,734	49,085,730	215,927,464
2010	147,589,400	40,701,871	188,291,271
2011	131,203,740	33,410,757	164,614,497
2012	105,727,553	26,854,522	132,582,075
2013	86,756,350	21,741,960	108,498,310
2014	65,777,823	17,311,416	83,089,239
2015	53,261,474	13,721,521	66,982,995
2016	37,815,000	10,904,259	48,719,259
2017	24,900,000	8,564,213	33,464,213
2018	13,650,000	7,224,338	20,874,338
2019	14,600,000	6,472,950	21,072,950
2020	14,830,000	5,668,895	20,498,895
2021	13,570,000	4,380,258	17,950,258
2022	12,300,000	3,721,660	16,021,660
2023	12,050,000	3,162,985	15,212,985
2024	12,110,000	2,618,968	14,728,968
2025	9,825,000	2,092,875	11,917,875
2026	5,415,000	591,965	6,006,965
2027	5,770,000	255,285	6,025,285
TOTALS	$3,288,068,504	$1,538,227,395	$4,826,295,899

[a] For the fiscal year ending June 30, 1997, the table includes debt service amounts for the period December 28, 1996 through June 30, 1997.

Source: Wisconsin Department of Administration.

Table III-10

SOURCE OF DEBT SERVICE PAYMENTS ON GENERAL OBLIGATIONS ISSUED AS OF JUNE 30, 1996

	1995-96	%	1994-95	%	1993-94	%
Tax-Supported Debt						
General Fund	$273,694,885	77.7	$260,563,556	81.2	$200,667,387	82.2
Segregated Funds	9,720,739	2.8	11,530,380	3.6	6,739,468	2.8
Subtotal	283,415,624	80.4	272,093,936	84.7	207,406,855	85.0
Self-Amortizing Debt						
Veterans	42,703,489	12.1	25,829,527	8.0	20,000,377	8.2
University of Wisconsin	14,656,650	4.2	13,159,851	4.1	9,150,093	3.8
State Fair Park	1,165,114	0.3	1,071,533	0.3	722,871	0.3
Historical	96,096	0.0	89,408	0.0	79,371	0.0
Housing State Departments	10,429,917	3.0	8,857,662	2.8	6,800,734	2.8
Subtotal	69,048,266	19.6	49,008,025	15.2	36,753,446	15.0
Total Debt Service	$352,463,890	100.0	$321,101,961	100.0	$244,160,301	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 "OTHER 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 $831 million of State general obligations and nearly $2 million of corporation indebtedness outstanding on December 27, 1996. Revenue-supported debt service payments were approximately 20% of the total debt service cost for the fiscal year ending June 30, 1996. See Table III-10 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 general obligation bond issues ("Veterans Mortgage Bonds"). Approximately $555 million in aggregate principal amount of the Veterans Mortgage Bonds were outstanding on December 27, 1996. All revenue bonds issued for the program have been redeemed—see "OTHER OBLIGATIONS; State Revenue Obligations" in part II of this Annual Report. Tables III-11 through III-20 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).

It has been and continues to be 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 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). 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 1, 1996 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, 1996, of the 16,556 outstanding veterans housing loans financed by the program there were 169 loans of an aggregate principal amount of approximately $4.7 million 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-16 for more complete data concerning delinquencies.

Special Redemption for Veterans Mortgage Bonds

Certain 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 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 Veterans Mortgage Bonds, and costs associated with the veterans housing loan program, and (iii) prepayments of veterans housing loans funded from or attributed to any series of Veterans Mortgage Bonds. In the event of a partial redemption, the Commission shall direct the maturities of the Veterans Mortgage Bonds and the amounts thereof so to be redeemed. A listing of the Veterans Mortgage Bonds subject to special redemption is contained in Table III-19.

The State had outstanding as of December 27, 1996, approximately $555 million of Veterans Mortgage Bonds. Of this amount, nearly $513 million were subject to special redemption from certain loan prepayments or excess revenues, as provided for in the resolution authorizing the particular series of 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 Veterans Mortgage Bonds. A summary of prepayments of veterans housing loans is contained in Table III-20.

In the past, it was generally the State's policy, subject to federal tax requirements and the redemption provisions of each particular series of Veterans Mortgage Bonds, to redeem the highest interest rate maturities of Veterans Mortgage Bonds first. The State has modified this policy and will generally call maturities of Veterans Mortgage Bonds based on the highest proxy price at the time the call decision is evaluated. In establishing this proxy price, the State will (i) determine a hypothetical yield to maturity for each maturity of Veterans Mortgage Bonds being evaluated, using published market indices, (ii) adjust these indices to reflect the historical price relationship of the indices to comparable Veterans Mortgage Bonds and any maturity difference between the indices and the maturity of Veterans Mortgage Bonds being evaluated, and (iii) 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.

Table III-11

VETERANS HOUSING LOAN PROGRAM
BALANCE SHEET
AS OF JUNE 30
(Amounts in Thousands)

	1995	1994	1993	1992	1991
ASSETS					
Cash and Cash Equivalents	$ 135,069	$ 144,570	$ 157,568	$ 175,351	$ 197,744
Investments				913	8,657
Veterans Loans	528,219	472,298	535,052	593,256	633,078
Other Receivables	3,264	2,916	3,727	3,487	4,083
Due From Other Funds	234	901	370	51	54
Prepaid Items	57	22	22	21	19
Deferred Charges	3,789	1,829		1,281	
Fixed Assets (net of accumulated depreciation)	83	68	55	71	75
Other Assets	194	165	352	502	771
Total Assets	$ 670,909	$ 622,770	$ 697,146	$ 774,933	$ 844,481
Liabilities and Fund Equity					
Liabilities:					
Accounts Payable and Other Accrued Liabilities	$ 11,652	$ 10,018	$ 1,223	$ 1,538	$ 2,820
Due to Other Funds	102	541	167	1,281	259
Due to Other Governments	26	12	64	25	5
Tax and Other Deposits	2	1	2	2	3
Deferred Revenue	1,511	1,953	1,895	1,989	1,882
Interest Payable	3,445	3,023	15,418	17,201	5,188
Compensated Absences	155	132	65	74	
General Obligation Bonds Payable	526,919	485,632	546,559	630,639	708,492
Total Liabilities	$ 543,810	$ 501,312	$ 565,393	$ 652,749	$ 718,649
Fund Equity:					
Retained Earnings:					
Unreserved	$ 127,099	$ 121,458	$ 131,753	$ 122,183	$ 125,833
Total Fund Equity	$ 127,099	$ 121,458	$ 131,753	$ 122,183	$ 125,833
Total Liabilities and Fund Equity	$ 670,909	$ 622,770	$ 697,146	$ 774,932	$ 844,482

Source: Wisconsin Department of Veterans Affairs.

Table III-12

VETERANS HOUSING LOAN PROGRAM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
AS OF JUNE 30
(Amounts in Thousands)

	1995	1994	1993	1992	1991
Operating Revenues:					
Investment and Interest Income	$ 35,203	$ 36,234	$ 50,598	$ 54,765	$ 56,480
Other Income					
Total Operating Revenues	$ 35,203	$ 36,234	$ 50,598	$ 54,765	$ 56,480
Operating Expenses:					
Personal Services	$ 2,907	$ 2,734	$ 2,670	$ 2,599	$ 2,340
Supplies and Services	633	584	683	828	550
Depreciation	30	28	27	34	44
Interest Expense	31,679	31,998	43,462	62,288	46,856
Other Expenses	2,329	2,227	2,487	3,185	15,344
Total Operating Expenses	$ 37,577	$ 37,571	$ 49,329	$ 68,934	$ 65,134
Operating Income (Loss)	($ 2,374)	($ 1,337)	$ 1,269	($ 14,169)	($ 8,654)
Nonoperating Revenues (Expenses):					
Investment and Interest Income	$ 7,039	$ 5,889	$ 6,276	$ 9,485	$ 14,180
Other Expenses	(69)	(48)	(76)	(40)	
Total Nonoperating Revenue (Expense)	6,970	5,841	6,200	9,445	14,180
Income (Loss) Before Operating Transfers	4,596	4,504	7,469	(4,724)	5,526
Operating Transfers In	1,468	698	1,285	1,847	2,077
Operating Transfers Out		(10,172)			
Net Income before Extraordinary Items and Cumulative Effect of a Change in Accounting Principals	6,064	(4,970)	8,754	(2,877)	7,603
Extraordinary Items:					
Gain (Loss) from Extinguishment of Debt	(424)	2,850			
Net Income	$ 5,640	($ 2,120)	$ 8,754	($ 2,877)	$ 7,603
Retained Earnings, Beginning of Year	$121,458	$131,753	$122,184	$125,832	$118,229
Prior Period Adjustments		11,825	815	(771)	
Residual Equity Transfers Out		(20,000)			
Retained Earnings, End of Year	$127,099	$121,458	$131,753	$122,184	$125,832

Source: Wisconsin Department of Veterans Affairs.

Table III-13

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 1994-95	Fiscal Year 1993-94	Fiscal Year 1992-93	Fiscal Year 1991-92
Beginning Balance (July 1)	($240,016)	($239,596)	($237,164)	($203,472)
ADD: Mortgage Principal Payments	54,286	103,239	81,788	73,878
LESS: Bond Principal Payments	34,155	103,659	84,220	107,570
Ending Balance (June 30)	($219,886)	($240,016)	($239,596)	($237,164)

Source: Wisconsin Department of Veterans Affairs.

Table III-14

VETERANS HOUSING LOAN PROGRAM
STATEMENT OF CASH FLOWS
AS OF JUNE 30
(Amounts in Thousands)

	1995	1994	1993	1992	1991
Cash Flows from Operating Activities:					
Cash Payments to Suppliers for Goods and Services	($ 587)	($ 643)	($ 740)	($ 822)	($ 576)
Cash Payments to Employes for Services	(3,271)	(699)	(2,724)	(2,499)	(2,335)
Cash Payments for Loans Originated	(109,286)	(33,438)	(18,357)	(30,116)	(42,986)
Investment and Interest Income	35,238	36,974	41,593	47,300	46,172
Collection of Loans	54,286	103,239	81,788	73,878	55,326
Other Operating Revenues (Expenses)	(2,311)	(1,437)	(171)	943	1,513
Net Cash Provided (Used) by Operating Activities	($ 25,932)	$103,996	$101,389	$ 88,684	$ 57,114
Cash Flows from Noncapital Financing Activities:					
Proceeds from Issuance of Long-term Debt	$ 73,052	$ 43,657	$ 0	$ 29,650	$ 49,411
Retirement of Long-term Debt	(34,155)	(103,659)	(84,220)	(107,570)	(53,170)
Interest Payments	(30,859)	(33,055)	(42,959)	(50,067)	(53,635)
Operating Transfers In	1,468	428		899	2,077
Operating Transfers Out		(10,172)		(1,388)	
Residual Equity Transfers Out		(20,000)			
Net Cash Provided (Used) by Noncapital Financing Activities	$ 9,506	($122,801)	($127,179)	($128,476)	($ 55,317)
Cash Flows from Capital and Related Financing Activities:					
Payments for Purchase of Fixed Assets	($ 45)	($ 49)	$ 200	($ 38)	($ 24)
Net Cash Provided (Used) by Capital and Related Financing Activities	($ 45)	($ 49)	$ 200	($ 38)	($ 24)
Cash Flows from Investing Activities:					
Proceeds from Sale and Maturities of Investment Securities			$ 733	$ 6,751	$ 15,887
Interest and Dividends Receipts	6,970	5,858	7,073	10,686	15,438
Net Cash Provided (Used) by Investing Activities	$ 6,970	$ 5,858	$ 7,806	$ 17,437	$ 31,325
Net Increase (Decrease) in Cash and Cash Equivalents	($ 9,501)	($ 12,996)	($ 17,784)	($ 22,393)	$ 33,098
Cash and Cash Equivalents, Beginning of Year	144,570	157,568	175,351	197,744	164,646
Cash and Cash Equivalents, End of Year	$135,069	$144,572	$157,567	$175,351	$197,744
Operating Income (Loss)	($ 2,374)	($ 1,337)	$ 1,269	($ 14,169)	($ 8,654)
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation	$ 30	$ 28	$ 27	$ 34	$ 44
Amortization		252	138	129	(1,548)
Provision for Uncollectible Accounts	11	(15)	(5,890)	(7,500)	12,198
Operating Expense (Interest Expense) Classified as Noncapital Financing Act	31,679	31,998	45,439	62,744	46,856
Changes In Assets and Liabilities:					
Decrease (Increase) in Receivables	(56,280)	63,261	63,854	48,046	25,653
Decrease (Increase) in Due From Other Funds		362	(320)	3	(54)
Decrease (Increase) in Investments					16,891
Decrease (Increase) in Prepaid Items	(35)		(1)	(2)	(19)
Decrease (Increase) in Deferred Charges	8				
Decrease (Increase) in Other Assets	(29)	234	150	357	415
Decrease (Increase) in Accounts Payable and Other Accrued Liabilities	1,634	8,780	(314)	(1,283)	(28,321)
Decrease (Increase) in Compensated Absences	23	53	(9)	74	0
Decrease (Increase) in Due to Other Funds	(439)	374	(1,114)	124	(65)
Decrease (Increase) in Due to Other Governments	14	(52)	39	20	5
Decrease (Increase) in Tax and Other Deposits		(1)			
Decrease (Increase) in Deferred Revenues	(173)	59	(94)	107	439
Decrease (Increase) in Interest Payable			(1,783)		(6,729)
Total Adjustments	($ 23,558)	$105,333	$100,122	$102,853	$ 65,765
Net Cash Provided by Operating Activities	($ 25,932)	$103,996	$101,391	$ 88,684	$ 57,111

Source: Wisconsin Department of Veterans Affairs.

Table III-15

VETERANS HOUSING LOAN PROGRAM
BONDS ISSUED AND RELATED RATES OF INTEREST
(On Bonds Issued to December 27, 1996)

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

[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.

Source: Wisconsin Department of Administration.

Table III-16

VETERANS HOUSING LOAN PROGRAM
GENERAL OBLIGATION PROGRAM; 60+ DAY LOAN DELINQUENCIES

	Month Ending	Principal Amount Outstanding	Number of Loans Outstanding	60+ Day Delinquent Loans	Percent of Loans Outstanding
1993	January	$559,940,841	20,571	280	1.36%
	February	557,040,399	20,502	287	1.40
	March	551,836,635	20,369	222	1.09
	April	545,087,090	20,189	238	1.18
	May	536,993,663	19,965	265	1.33
	June	528,055,255	19,725	254	1.29
	July	519,795,534	19,501	252	1.29
	August	511,848,061	19,298	225	1.17
	September	503,324,126	19,081	248	1.30
	October	492,460,494	18,816	255	1.36
	November	479,819,477	18,494	218	1.18
	December	468,426,017	18,188	222	1.22
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

Source: Wisconsin Department of Veterans Affairs.

Table III-17

DEBT SERVICE SCHEDULE ON STATE GENERAL OBLIGATIONS ISSUED TO FUND VETERANS HOUSING LOANS (December 27, 1996)

Fiscal Year (Ending June 30)	Principal	Interest	Total Debt Service
1997[a]	$ 16,510,000	$ 15,672,512	$ 32,182,512
1998	20,860,000	30,320,100	51,180,100
1999	25,080,000	29,238,590	54,318,590
2000	26,475,000	27,954,726	54,429,726
2001	29,435,000	26,473,353	55,908,353
2002	31,110,000	24,929,108	56,039,108
2003	29,390,000	23,297,889	52,687,889
2004	26,755,000	21,864,011	48,619,011
2005	27,445,000	20,473,699	47,918,699
2006	26,515,000	19,092,684	45,607,684
2007	25,270,000	17,779,644	43,049,644
2008	22,335,000	16,425,025	38,760,025
2009	20,195,000	15,146,655	35,341,655
2010	15,875,000	14,046,016	29,921,016
2011	12,950,000	13,201,759	26,151,759
2012	12,455,000	12,458,814	24,913,814
2013	13,765,000	11,665,360	25,430,360
2014	13,570,000	10,791,683	24,361,683
2015	13,910,000	9,932,019	23,842,019
2016	14,530,000	9,172,851	23,702,851
2017	16,215,000	8,069,168	24,284,168
2018	13,650,000	7,224,338	20,874,338
2019	14,600,000	6,742,950	21,342,950
2020	14,830,000	5,668,895	20,498,895
2021	13,570,000	4,380,258	17,950,258
2022	12,300,000	3,721,660	16,021,660
2023	12,050,000	3,162,985	15,212,985
2024	12,110,000	2,618,968	14,728,968
2025	9,825,000	2,092,875	11,917,875
2026	5,415,000	591,965	6,006,965
2027	5,770,000	255,285	6,025,285
TOTALS	$554,765,000	$414,465,845	$969,230,845

[a] For the fiscal year ending June 30, 1997, the table includes debt service amounts for the period December 28, 1997 through June 30, 1997.

Source: Wisconsin Department of Administration.

Table III-18

VETERANS HOUSING LOAN PROGRAM
TOTAL LOANS BY COUNTY
GENERAL OBLIGATION BOND FUNDS
THROUGH OCTOBER 1996

County	Number of Loans	% of Total Loans	County	Number of Loans	% of Total Loans
Adams	131	0.27%	Marinette	292	0.61%
Ashland	89	0.18	Marquette	64	0.13
Barron	406	0.84	Menominee	15	0.03
Bayfield	86	0.18	Milwaukee	8,830	18.31
Brown	2,636	5.47	Monroe	379	0.79
Buffalo	93	0.19	Oconto	278	0.58
Burnett	72	0.15	Oneida	322	0.67
Calumet	292	0.61	Outagamie	1,903	3.95
Chippewa	441	0.91	Ozaukee	475	0.99
Clark	181	0.38	Pepin	46	0.10
Columbia	417	0.86	Pierce	321	0.67
Crawford	105	0.22	Polk	185	0.38
Dane	3,667	7.60	Portage	660	1.37
Dodge	716	1.48	Price	130	0.27
Door	227	0.47	Racine	1,982	4.11
Douglas	496	1.03	Richland	102	0.21
Dunn	267	0.55	Rock	1,968	4.08
Eau Claire	1,105	2.29	Rusk	158	0.33
Florence	8	0.02	St. Croix	521	1.08
Fond du Lac	1,071	2.22	Sauk	461	0.96
Forest	28	0.06	Sawyer	58	0.12
Grant	336	0.70	Shawano	260	0.54
Green	291	0.60	Sheboygan	1,178	2.44
Green Lake	133	0.28	Taylor	99	0.21
Iowa	187	.039	Trempeleau	198	0.41
Iron	33	0.07	Vernon	135	0.28
Jackson	189	0.39	Vilas	109	0.23
Jefferson	660	1.37	Walworth	574	1.19
Juneau	158	0.33	Washburn	111	0.23
Kenosha	1,272	2.64	Washington	910	1.89
Kewaunee	123	0.26	Waukesha	2,345	4.86
LaCrosse	1,124	2.33	Waupaca	409	0.85
Lafayette	117	0.24	Waushara	140	0.29
Langlade	117	0.24	Winnebago	1,872	3.88
Lincoln	192	0.40	Wood	1,004	2.08
Manitowoc	1,068	2.21	Total	48,220	100.00
Marathon	1,192	2.47			

Source: Wisconsin Department of Veterans Affairs.

Table III-19

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				8.650%
		1997	8,110,000				8.800
		1998	8,365,000				8.900
		1999	10,415,000				9.050
		2000	12,700,000				9.150
		2001	16,870,000				9.250
		2009	140,130,000				9.500
		2016	50,000,000				9.000
1986 Series A	05/15/86	1995	460,000				6.900
		1996	1,055,000				7.000
		1997	1,090,000		$ 1,090,000		7.250
		1998	1,360,000		1,360,000		7.250
		1999	1,655,000		1,655,000		7.250
		2000	2,200,000		2,200,000		7.500
		2001	2,420,000		2,420,000		7.500
		2002	2,905,000		2,905,000		7.500
		2006	13,025,000				7.500
		2015	12,015,000		12,015,000		7.500
1988 Series A	07/01/88	1994	75,000	$ 75,000			6.400
		1995	75,000	75,000			6.600
		1996	75,000	100,000			6.800
		1997	100,000	100,000	100,000	$ 100,000	7.000
		1998	100,000	100,000	100,000	100,000	7.100
		1999	100,000	125,000	100,000	125,000	7.200
		2000	125,000	125,000	125,000	120,000	7.300
		2001	125,000	125,000	125,000	125,000	7.400
		2002	150,000	150,000	150,000	150,000	7.500
		2003	150,000	200,000	150,000	195,000	7.600
		2008		1,200,000			7.850
		2008		3,050,000 [b]			7.000
		2018		7,925,000			8.100
1989 Series A	01/01/89	1994	100,000	100,000			7.000
		1995	100,000	100,000			7.100
		1996	100,000	125,000			7.200
		1997	125,000	125,000	125,000	125,000	7.250
		1998	125,000	150,000	125,000	150,000	7.350
		1999	150,000	175,000	150,000	175,000	7.400
		2000	175,000	200,000	175,000	200,000	7.500
		2001	200,000	225,000	200,000	225,000	7.600
		2002	225,000	250,000	225,000	250,000	7.650
		2003	250,000	250,000	250,000	250,000	7.700
		2004	275,000		275,000		7.700
		2009	775,000				7.800
		2009	3,900,000 [b]				7.800
		2019	11,175,000				7.900

Table III-19 – Continued

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
1989 Series D	08/01/89	1994	100,000	100,000			6.500
		1995	100,000	100,000			6.600
		1996	100,000	100,000			6.700
		1997	125,000	125,000	125,000	125,000	6.750
		1998	125,000	125,000	125,000	125,000	6.800
		1999	150,000	150,000	150,000	150,000	6.850
		2000	175,000	175,000	175,000	175,000	6.900
		2001	200,000	200,000	200,000	200,000	6.950
		2002	225,000	225,000	225,000	225,000	7.000
		2003	250,000	250,000	250,000	250,000	7.050
		2004	250,000	275,000	250,000	275,000	7.100
		2009		725,000		725,000	7.150
		2009		3,775,000 [b]			6.750
		2019		11,350,000		11,350,000	7.200
1990 Series B	03/01/90	1994	75,000	75,000			6.400
		1995	75,000	75,000			6.500
		1996	75,000	100,000			6.600
		1997	100,000	100,000	100,000	100,000	6.700
		1998	100,000	100,000	100,000	100,000	6.800
		1999	125,000	125,000	125,000	125,000	6.900
		2000	125,000	150,000	125,000	150,000	7.000
		2001	175,000	175,000	175,000	175,000	7.100
		2002	175,000	175,000	175,000	175,000	7.100
		2003	200,000	200,000	200,000	200,000	7.200
		2004	225,000	225,000	225,000	225,000	7.250
		2005	225,000		225,000		7.300
		2010	3,975,000 [b]				7.250
		2020	12,450,000		4,265,000		7.600
1990 Series F	10/01/90	1994	75,000	75,000			6.450
		1995	100,000	100,000			6.550
		1996	100,000	100,000			6.650
		1997	100,000	125,000	100,000	125,000	6.750
		1998	125,000	125,000	125,000	125,000	6.850
		1999	125,000	125,000	125,000	125,000	6.950
		2000	150,000	150,000	150,000	150,000	7.050
		2001	150,000	175,000	150,000	175,000	7.150
		2002	175,000	150,000	175,000	150,000	7.200
		2003	200,000	200,000	200,000	200,000	7.250
		2004	200,000	225,000	200,000	225,000	7.300
		2005	225,000	175,000	225,000	175,000	7.350
		2010		3,800,000 [b]			7.300
		2020		12,425,000			7.600
1991 Series A	04/01/91	1994	150,000	150,000			5.700
		1995	150,000	150,000			5.900
		1996	150,000	150,000			6.100

Table III-19 – Continued

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
1991 Series A	04/01/91	1997	150,000	175,000	150,000	175,000	6.200
(continued)		1998	175,000	175,000	175,000	175,000	6.300
		1999	175,000	175,000	175,000	175,000	6.400
		2000	200,000	200,000	200,000	200,000	6.500
		2001	225,000	250,000	225,000	250,000	6.600
		2002	250,000	250,000	250,000	250,000	6.750
		2003	250,000	300,000	250,000	300,000	6.900
		2004	275,000	300,000	275,000	300,000	7.000
		2005	325,000	325,000	325,000	325,000	7.100
		2006	275,000		275,000		7.100
		2011	5,825,000 [b]				6.750
		2021	18,400,000		18,400,000		7.500
1992 Series B	06/01/92	1994	175,000	175,000			5.600
		1995	175,000	180,000			5.600
		1996	180,000	185,000			5.600
		1997	190,000	200,000	70,000	70,000	5.600
		1998	200,000	200,000	75,000	70,000	5.600
		1999	210,000	215,000	80,000	75,000	5.750
		2000	230,000	230,000	85,000	85,000	5.900
		2001	250,000	255,000	90,000	90,000	6.000
		2002	270,000	280,000	100,000	100,000	6.100
		2003	290,000	295,000	105,000	110,000	6.200
		2004	315,000	330,000	110,000	120,000	6.300
		2005	340,000	355,000	125,000	130,000	6.400
		2006	365,000	370,000	130,000	135,000	6.400
		2007	370,000	400,000	135,000	145,000	6.500
		2008	400,000		145,000		6.500
		2012	4,000,000 [b]		125,000		6.000
		2022	18,220,000		6,605,000		6.600

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			3.300
		1996	175,000	175,000			3.650
		1997	180,000	185,000	180,000	185,000	3.850
		1998	185,000	195,000	185,000	195,000	4.000
		1999	195,000	195,000	195,000	195,000	4.100
		2000	205,000	210,000	205,000	210,000	4.200
		2001	210,000	220,000	210,000	220,000	4.300
		2002	220,000	230,000	220,000	230,000	4.450
		2003	230,000	240,000	230,000	240,000	4.550
		2004	240,000	250,000	240,000	250,000	4.650
		2005	255,000	260,000	255,000	260,000	4.750
		2006	270,000	270,000	270,000	270,000	4.850
		2010	2,125,000		2,125,000		5.150
		2013	2,150,000		2,150,000		5.250
		2016	10,215,000		10,215,000		5.300

Table III-19 – Continued

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
1993 Series 5	12/01/93	1994		95,000			2.500
		1995	90,000	85,000			3.200
		1996	90,000	95,000			3.600
		1997	95,000	95,000	95,000	95,000	3.800
		1998	95,000	100,000	95,000	100,000	4.000
		1999	105,000	105,000	105,000	105,000	4.100
		2000	105,000	6,805,000	105,000	6,805,000	4.200
		2001	3,605,000	9,135,000	3,605,000	9,135,000	4.350
		2002	5,650,000	10,885,000	5,650,000	10,885,000	4.450
		2003	8,425,000	9,555,000	8,425,000	9,555,000	4.550
		2004	7,160,000	11,000,000	7,160,000	11,000,000	4.650
		2005	8,875,000	10,275,000	8,875,000	10,275,000	4.750
		2006	9,000,000	12,025,000	9,000,000	12,025,000	4.850
		2010		14,770,000		14,770,000	5.200
		2013		1,190,000		1,190,000	5.300
		2016		1,405,000		1,405,000	5.350
		2023		4,340,000		4,340,000	5.400
1994 Series 2	03/01/94	1999	10,565,000		10,565,000		4.850
		2000	9,070,000		9,070,000		5.000
		2001	8,680,000		8,680,000		5.100
		2002	6,390,000		6,390,000		5.200
		2003	4,810,000		4,810,000		5.300
		2004	3,715,000		3,715,000		5.400
		2005	2,540,000		2,540,000		5.500
		2006	2,050,000		2,050,000		5.600
		2007	1,760,000		1,760,000		5.700
		2008	1,580,000		1,580,000		5.800
		2009	890,000		890,000		5.850
		2014	1,700,000		1,700,000		6.100
		2024	4,775,000		4,775,000		6.200
1994 Series 3	09/15/94	1995	800,000				3.900
		1996	800,000				4.300
		1997	800,000		800,000		4.550
		1998	800,000		800,000		4.750
		1999	800,000		800,000		4.900
		2000	800,000		800,000		5.000
		2001	800,000		800,000		5.100
		2002	800,000		800,000		5.200
		2003	800,000		800,000		5.300
		2004	800,000		800,000		5.400
		2005	800,000		800,000		5.500
		2006	600,000		600,000		5.600
		2007	600,000		600,000		5.700
		2008	400,000		400,000		5.800
1994 Series C	09/15/94	1996	575,000				5.500
		1997	610,000		600,000		5.500

Table III-19 – Continued

VETERANS MORTGAGE BONDS
SUBJECT TO SPECIAL REDEMPTION

	Dated		Original Par Amount		Par Amount Outstanding[a]		
Series	Date	Maturities	May	November	May	November	Coupon
1994 Series C	09/15/94	1998	635,000		625,000		5.500
(continued)		1999	670,000		660,000		5.500
		2000	700,000		690,000		5.500
		2001	740,000		730,000		5.500
		2002	780,000		770,000		5.600
		2003	825,000		815,000		5.700
		2004	870,000		855,000		5.800
		2005	915,000		900,000		5.900
		2006	980,000		965,000		6.000
		2007	1,040,000		1,025,000		6.100
		2008	1,105,000		1,090,000		6.200
		2009	1,175,000		1,155,000		6.300
		2010	1,255,000		1,235,000		6.300
		2011	1,335,000		1,315,000		6.400
		2012	1,415,000		1,395,000		6.400
		2013	1,510,000		1,485,000		6.500
		2016	5,135,000		5,060,000		6.600
		2020	8,535,000		8,405,000		6.600
		2025	14,195,000		13,980,000		6.650
1995 Series 1	2/15/95	1999	1,110,000		1,110,000		5.250
		2000	3,240,000		3,240,000		5.300
		2004	860,000		860,000		5.550
		2008	1,300,000		1,300,000		5.800
		2009	1,380,000		1,380,000		5.800
		2010	1,465,000		1,465,000		6.000
		2011	1,560,000		1,560,000		6.000
		2012	1,660,000		1,660,000		6.000
		2013	1,765,000		1,765,000		6.000
		2014	1,395,000		1,395,000		6.100
1995 Series B	2/15/95	2016	4,215,000		4,215,000		6.400
		2020	7,920,000		7,920,000		6.500
		2025	17,130,000		17,130,000		6.500
1995 Series 2	10/15/95	1997		1,100,000		1,100,000	4.000
		1998		1,685,000		1,685,000	4.150
		1999		1,395,000		1,395,000	4.250
		2000		1,600,000		1,600,000	4.350
		2004		730,000		730,000	4.850
		2005		1,985,000		1,985,000	4.950
		2007		1,975,000		1,975,000	5.200
		2008		3,245,000		3,245,000	5.250
		2009		3,450,000		3,450,000	5.400
		2010		3,660,000		3,660,000	5.400
		2011		3,895,000		3,895,000	5.500
		2012		4,130,000		4,130,000	5.600
		2013		4,390,000		4,390,000	5.700

Table III-19 – Continued

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
1995 Series 2	10/15/95	2014		4,660,000		4,660,000	5.750
(continued)		2015		4,950,000		4,950,000	5.750
1996 Series B	5/15/96	1998		2,060,000		2,060,000	4.400
		1999		2,155,000		2,155,000	4.700
		2007		6,730,000		6,730,000	5.500
		2008		5,430,000		5,430,000	5.600
		2009		3,255,000		3,255,000	5.700
		2010		200,000		200,000	5.800
		2011		210,000		210,000	5.900
		2012		230,000		230,000	6.000
		2013		240,000		240,000	6.000
		2014		255,000		255,000	6.000
		2021		10,305,000		10,305,000	6.100
		2026		13,930,000		13,930,000	6.200
1996 Series D	10/15/96	2007	4,500,000		4,500,000		5.250
		2008	2,250,000		2,250,000		5.300
		2009	1,800,000		1,800,000		5.400
		2014	3,700,000		3,700,000		5.750
		2020	6,405,000		6,405,000		5.800
		2027	11,345,000		11,345,000		6.000

[a] As of December 27, 1996.

[b] Accelerated Redemption Term Bond.

Source: Wisconsin Department of Administration

Table III-20

SUMMARY OF PREPAYMENTS ON VETERANS HOUSING LOANS

		Prepayments July 1993 - November 1996						
Mortgage Pool	Interest Rate Charged to Veterans	July-December 1993	January-June 1994	July-December 1994	January-June 1995	July-December 1995	January-June 1996	July-November 1996
1975 Series D	7.00%	$ 634,017	$ 613.166	$ 136.431	$ 286,037	$ 367.234	$ 345,447	$ 200,423
1975 Series E	6.75	667,992	553,660	254,570	434,064	245.766	351,724	185.214
1976 Series A	7 00	1,337,201	1.275.599	678,884	635.740	545,972	687.683	588,561
1976 Series B	7.00	1,479,844	1.261.943	597.983	788.808	560.318	514.761	509,570
1976 Series C	6.35	472.086	525.780	337.184	242,129	253.176	245.267	252,816
1977 Series A	6.23	665,761	713,086	179,566	189.148	277,711	289.782	326,519
1977 Series B	6.11	1,577.390	1,527,007	855.493	1,077,667	797.031	952,596	686,627
1977 Series C	6.03	499,635	478,770	346,185	261.512	370,158	307,585	199.065
1978 Series A	6.44	1,551,614	1.497.457	1,009,377	965,115	758,099	772,863	880,324
1978 Series B	6.58	1,576.371	1.469.064	1,082.228	664,820	564,578	885,364	728,837
1978 Series C	6.25	646.241	840,258	493.544	510,999	480,062	449.647	430,504
1979 Series A	6.88	1,234,885	1.526.167	798,570	958.196	735,468	649,636	590,576
1979 Series B	6.70	1,343,920	1,363,951	1.022.337	747,993	705.763	802.298	844.046
1979 Series C	6.91	1.560,361	998.268	1.055.657	1,021.204	496,146	996,467	744.979
1980 Series D	7 31	813,247	818.851	249,527	663,740	436,219	253,869	270,554
1982 Series B	10.20	1,400,814	1,244.820	362,936	231.772	237.984	362,008	129.714
1983 Series A	9.20	2.103.008	1,360,036	196.448	421,509	248.377	322,863	91.957
1983 Series C	9.90	2,653,853	1.508,773	385,033	354.153	299,388	476.456	274,570
1984 Series A	10.30	3,458.986	2,934,997	551.639	656,634	555.636	834,788	753,034
1985 Series B	10.60	1,441,960	868,969	210,975	320.816	58,902	239.859	219,873
1986 Series A	8.55	4,303,910	2.990.814	789,706	552.049	625,861	1.067.002	477,968
1988 Series A	8.55	2,578,092	1,103,651	286.011	200,370	224,347	432,037	101,029
1989 Series A	8.55	3.005.292	1,607.832	589,461	621.630	293.160	595,560	486.589
1989 Series D	7 85	2,203.306	105,249	579.109	449,771	492,865	352,851	715.285
1990 Series B	8.25	1,617,734	3.584.319	595,927	287,041	406,606	858,800	371,011
1990 Series F	8 25	3,081,738	1.376.430	959,041	298,711	505.603	714.794	378,488
1991 Series A	8 10	3.292,217	2,675,245	855,632	736,050	452,956	880,732	692,157
1992 Series B	7.40	171,647	387,585	276.247	238,581	244,494	540,482	355,481
1994 Series C	7 25	N/A	N/A	77,042	162,562	565,401	433,513	768,449
1995 Series B	7.45	N/A	N/A	N/A	1.083	33.350	490,009	112.533
1993 Series 6	5 25	0	23,857	147.347	288,803	147.116	42,377	484.945
1994 Series 1	6.00	N/A	N/A	N/A	200.027	199,553	238.892	262,195
1995 Series 1	7.45	N/A	N/A	N/A	N/A	11,232	271,433	131,431
1995 Series 2	6.55	N/A	N/A	N/A	N/A	N/A	9.099	124.454
1996 Series B	7.00	N/A	N/A	N/A	N/A	N/A	0	13,419
	Totals	$47,373,122	$37.235.605	$15,960,089	$15,468.733	$13,196,533	$17.668.544	$14,383,196

Source: Wisconsin Department of Veterans Affairs.

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 are issued under and secured by a Master Indenture, dated as of July 1, 1996, among the State of Wisconsin, 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").

Master lease certificates of participation 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 master lease certificates of participation; the State is not obligated to levy or pledge any tax to pay the Lease Payments. The master lease certificates of participation 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 master lease certificates of participation. The firm of Public Financial Management provides financial advisory services to the State 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 November 30, 1996, 15 of the 18 State departments have used the Program for acquiring $100.2 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 master lease certificates of participation. 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 master lease certificates of participation 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 review of requests to use the Program and biennial budget preparation occur in the State Budget Office; and functions related to 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 and approved 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 MASTER LEASE CERTIFICATES OF PARTICIPATION; 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. Requests for draws on this revolving credit facility are made as payments are required to be made to the equipment or service vendors.

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 assure that Lease Payments will not be mistakenly omitted from a biennial budget.

The executive budget is submitted to the Legislature on or about February 15 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 MASTER LEASE CERTIFICATES OF PARTICIPATION

General

Master lease certificates of participation 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 master lease certificates of participation. ***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 master lease certificates of participation. The Trust will serve as a common pool of collateral, ratably securing all present and future master lease 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 master lease certificates of participation so that any remedial action affects all master lease certificates of participation 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 master lease certificates of participation. 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 master lease certificates of participation 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 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 master lease certificate of participation 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 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, intends to sell additional master lease certificates of participation 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 I 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.

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. There is no assurance 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. 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.

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 master lease certificates of participation), the master lease certificates of participation 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 master lease certificates of participation 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 master lease certificate of participation 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 master lease certificates of participation will not be impaired following termination of the Master Lease.

Table IV-1

OUTSTANDING MASTER LEASE CERTIFICATES OF PARTICIPATION BY ISSUE

(As of November 30, 1996)

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	$ 4,191,192
Master Lease COPs Series B	11/8/96	3/1/97-9/1/03	38,260,000	38,260,000
Total Master Lease COPs				$ 42,451,192

Table IV-2

OUTSTANDING MASTER LEASE SCHEDULES

(As of November 30, 1996)

Master Lease Schedule No.	Orgination Date	Maturity Date	Agency	Equipment	Amount Financed	Principal Balance
93-02	29-Jan-93	01-Feb-99	DOA	Accounting System Costs thru 12/31/92	$2,565,372 86	$ 1.181.528 93
93-05	16-Mar-93	01-Feb-97	UW	250 Computer Workstations	401.478.00	53,992 76
93-06	11-Mar-93	01-Feb-97	UW	Ethernet Cards & Servers	26,732.00	3,580 83
93-07	29-Apr-93	01-Feb-97	UW	Misc. Library Automation Equipment	186,673 94	25,783 80
93-08	27-May-93	01-Aug-99	DOA	Accounting System Costs 1/1/93-4/30/93	2,188,179 89	1,161,720.42
93-09	27-May-93	01-Aug-98	STATE	Text 2000 Bill Drafting 3/1/93-4/30/93	337.810 00	141,331 58
93-10	09-Jun-93	01-Feb-97	DOR	Data Entry System for Tax Preparation	131,171 00	17,766 98
93-13	28-Jul-93	01-Aug-99	DOA	Accounting System Costs 5/1/93-7/1/93	654.527 06	353,817 88
93-17	16-Aug-93	01-Aug-98	STATE	Text 2000 Bill Drafting. 5/1/93-7/31/93	656.211 00	286,582.44
93-18	16-Aug-93	01-Aug-98	UW	Lab Information Management Equipment	173,749 51	67.605.41
93-19	15-Sep-93	01-Feb-99	UW	Used IBM Computer Mainframe	372,000 00	116.033 56
93-20	15-Sep-93	01-Aug-98	STATE	Text 2000 Bill Drafting	577,339 57	254,049 90
93-21	15-Sep-93	01-Feb-97	DNR	Computer Training Room Equipment	61.279 50	9,391 60
93-23	30-Nov-93	01-Feb-99	STATE	Text 2000 Bill Drafting	927,069 90	483,242 90
93-24	30-Nov-93	01-Feb-97	DNR	Computer Training Room	39,485.00	6.511 28
93-25	20-Dec-93	01-Feb-97	UW	Library Automation System (4 Campuses)	460,650.00	75,377 64
93-26	20-Dec-93	01-Feb-97	UW	Library Automation System (6 Campuses)	1.633,754.95	267,586.47
93-27	28-Dec-93	01-Feb-97	DOA	Direct Access Storage Devices	1,575,386 00	258,273.82
93-28	28-Dec-93	01-Feb-99	UW	Graphics Image Recorder/Printer	396,707 00	175,686 84
94-01	25-Feb-94	01-Feb-99	STATE	Hardware/Software\Text 2000 11/1/93-1/31	751.723 60	409,121 06
94-03	06-Apr-94	01-Feb-98	UW	Computer Hardware, Disk Controller, Cabl	150.000 00	50,012 98
94-04	06-Apr-94	01-Feb-97	UW	Computer Software, Disk Storage Equipmnt	356,478 50	65,494 71
94-05	26-Apr-94	01-Feb-98	UW	Mainframe Computer, Disk Drive	1,550,779 24	596.352 12
94-06	30-Jun-94	01-Aug-99	STATE	Micro Fiche Reader	57.634.00	9,942.46
94-07	03-May-94	01-Feb-98	DOJ	Automated Fingerprint ID System	3.617,655.00	1,172,079 98
94-08	03-May-94	01-Aug-97	UW	Ultrasound System	147,950.00	30.812 65
94-09	10-May-94	01-Feb-97	UW	Library Automation System	689.854.00	134,018 09
94-10	10-May-94	01-Feb-99	DOA	Xerox Printer	245,600.00	139,405 82
94-11	10-May-94	01-Aug-97	DOA	Direct Access Storage Devices	1,407,000.00	465.716.86
94-12	16-May-94	01-Feb-99	DOA	Escon Fiber Backbone	710,591.00	405,709 59
94-15	20-May-94	01-Aug-97	DOA	Geographic Information Systems Equipment	105,524 30	9,141 20
94-16	20-May-94	01-Aug-99	STATE	Hardware/Soft/Text 2000 2/1/94-4/30/94	948,157 05	590.049 56
94-17	10-Jun-94	01-Aug-97	DOJ	Hardware/Software Statewide Police Stati	248,690 00	83,576.07
94-19	30-Jun-94	01-Aug-98	AG	Computer Server	43.523.40	22,662 33
94-20	30-Jun-94	01-Aug-99	UW	Lab Information Management Equipment	42,635 00	26,816 73
94-21	13-Jul-94	01-Aug-97	DOA	Optical Library	256,854 00	89.057 25
94-23	18-Jul-94	01-Aug-97	DNR	Printers, Network Nodes. LAN Electronics	63.976 00	22,281 93
94-24	28-Jul-94	01-Aug-99	UW	Mainframe Computer	326,062 91	208,210 63
94-25	28-Jul-94	01-Feb-99	DOC	Bulk Milk Truck/License Plate Tooling	77.959 80	45,959 34
94-26	10-Aug-94	01-Aug-98	UW	Duplicating Equipment	133,570 00	71,502 58
94-27	10-Aug-94	01-Aug-97	DOJ	Vendata Enforcer Software	272.225 00	97.033 79
94-28	10-Aug-94	01-Aug-97	DOA	Geographic Information System	168.641 18	60,111 64
94-29	31-Aug-94	01-Aug-97	DNR	Printers, Network Nodes & LAN Electronic	28.238 86	10,238 92
94-30	31-Aug-94	01-Aug-00	DOA	Accounting System Costs 7/1/93-6/30/94	4.342.320.19	3,152,645 13
94-31	31-Aug-94	01-Aug-99	STATE	Hardware/Soft/Text 2000 5/1/94-6/30/94	1.013.423.30	661,661 18
94-32	14-Sep-94	01-Aug-98	DOC	Semi-Tractor Truck	56,804 00	31,036.61
94-33	14-Sep-94	01-Aug-97	DILHR	Infrastructure Hardware & Software	108,078 60	39,600 51
94-35	14-Sep-94	01-Aug-97	DOA	Hardware and Software	181.900 00	66,649 01
94-36	14-Sep-94	01-Aug-99	UW	Furniture for Regent St. Building	300,803 41	196.737.09
94-37	30-Sep-94	01-Aug-97	DOA	Direct Access Storage Devices	800.526 00	298,088 16
94-39	30-Sep-94	01-Aug-98	DPI	Personal Computers and Hardware	68.454 63	6,064.46

Table IV-2 – Continued
OUTSTANDING MASTER LEASE SCHEDULES

(As of November 30, 1996)

Master Lease Schedule No.	Orgination Date	Maturity Date	Agency	Equipment	Amount Financed	Principal Balance
94-40	14-Oct-94	01-Aug-01	DOC	John Deere Combine	93,898.95	73,776.89
94-41	14-Oct-94	01-Feb-99	DOA	Escon Director Ports	65,520.00	40,460.47
94-42	14-Oct-94	01-Feb-97	VTAE	Personal Computers and Hardware	38,346.00	6,496.95
94-43	31-Oct-94	01-Aug-97	DOA	Geographic Information Systems Equipment	68,888.41	13,630.06
94-44	31-Oct-94	01-Aug-98	DPI	Personal Computers & Hardware	129,004.69	72,810.42
94-45	31-Oct-94	01-Aug-99	UW	Furniture for Regent Street Building	39,804.31	26,641.99
94-46	23-Nov-94	01-Aug-99	UW	Gas Chromatograph/MS System	76,145.24	51,677.75
94-48	23-Nov-94	01-Aug-99	STATE	Hardware/Software: Text 2000 System	387,919.00	264,242.59
95-02	04-Jan-95	01-Aug-97	DILHR	PC's, Printers and Hardware Upgrades	127,881.00	52,481.43
95-03	04-Jan-95	01-Aug-97	DOA	DASD and DASD Controller	557,100.00	228,635.98
95-04	31-Jan-95	01-Aug-98	DPI	Personal Computers and Hardware	103,449.16	62,290.25
95-05	30-Jan-95	01-Feb-00	UW	Lab Info Mgmt System (LIMS)	96,397.00	71,221.87
95-06	07-Feb-95	01-Feb-98	DILHR	Laptop Computers/Printers	238,543.94	126,342.20
95-07	13-Feb-95	01-Feb-98	DILHR	Computer/Voice Hardware	158,033.00	84,108.40
95-08	27-Feb-95	01-Aug-97	DOA	GIS Equipment	29,005.71	7,329.74
95-09	27-Feb-95	01-Feb-99	DOC	License Plate Tooling	37,418.20	25,053.88
95-10	27-Feb-95	01-Aug-99	STATE	Hardware/Software: TEXT 2000 System	360,728.85	258,143.86
95-11	27-Feb-95	01-Aug-99	UW	Furniture for Regent Street Building	3,813.53	2,719.14
95-12	27-Mar-95	01-Feb-98	DOA	DASD	741,000.00	409,913.74
95-14	29-Mar-95	01-Aug-99	UW	Furniture for Regent Street Building	438,329.80	319,172.03
95-17	04-Apr-95	01-Feb-97	DOT	Furniture for 9th Floor Hill Farms	163,541.77	27,556.30
95-18	07-Apr-95	01-Feb-97	DNR	Upgrade and Expansion of DNR VAX Network	120,738.97	34,693.21
95-19	12-Apr-95	01-Feb-98	DOA	Amdahl Computer Upgrade	2,250,491.00	1,267,140.89
95-20	24-Apr-95	01-Aug-99	STATE	Hardware/Software: TEXT 2000 System	503,480.88	371,711.32
95-21	18-May-95	01-Feb-00	DOT	Systems Furniture for Eau Claire Dist	202,453.98	157,761.77
95-22	26-May-95	01-Feb-98	DOA	Mainframe Computer Upgrade	800,000.00	467,925.86
95-23	02-Jun-95	01-Aug-97	DNR	Upgrade and Expansion of DNR Network	56,484.93	27,160.99
95-24	02-Jun-95	01-Feb-98	DNR	Expand Computer Training Facility	193,418.96	113,401.37
95-25	16-Jun-95	01-Feb-98	DILHR	Operator Workstations - Call Centers	752,371.00	447,322.72
95-26	27-Jun-95	01-Aug-97	DOA	GIS Equipment	5,827.75	1,697.39
95-28	27-Jun-95	01-Aug-97	DNR	Upgrade and Expansion of DNR Network	118,000.34	58,527.09
95-29	27-Jun-95	01-Feb-98	DNR	Expand Computer Training Facility	29,518.75	17,740.11
95-30	14-Jul-95	01-Feb-98	DILHR	Systems Furniture/Chairs (Call Centers)	353,091.13	216,010.12
95-32	14-Jul-95	01-Feb-00	UW	Maintenance Equipment	97,928.00	78,429.36
95-33	25-Jul-95	01-Feb-00	UW	Chromatography System (Biotechnology Cnt	60,000.00	48,342.51
95-35	25-Jul-95	01-Aug-98	DOA	DASD	910,000.00	627,953.81
95-36	27-Jul-95	01-Aug-97	DNR	Computer Hardware/Software (Network)	18,680.43	9,641.21
95-37	27-Jul-95	01-Aug-99	UW	Lab Management Information Sytem Equip	7,000.00	5,439.51
95-38	28-Aug-95	01-Aug-99	DER	LAN (Computer Hardware/software)	71,431.60	56,537.91
95-39	15-Sep-95	01-Aug-00	UW	Mainframe Mini-Computer	140,260.04	102,236.08
95-40	28-Aug-95	01-Aug-99	STATE	Hardware/Software: TEXT 2000 System	389,225.08	309,207.64
95-41	28-Aug-95	01-Aug-98	DOR	Delinquent Tax Collection System	158,637.17	112,208.40
95-42	19-Sep-95	01-Aug-02	DOA	Distance Education Network (WONDER)	1,985,260.00	1,390,992.16
95-43	15-Sep-95	01-Aug-97	DNR	Computer Hardware (Expend Network)	169,109.22	92,941.07
95-44	22-Sep-95	01-Aug-98	DOA	High-Speed Tape Drives	221,086.00	159,836.49
95-45	02-Oct-95	01-Aug-00	DOA	Front-End Processors	373,664.06	320,902.76
95-46	02-Oct-95	01-Aug-99	STATE	Hardware/Software: TEXT 2000 System	96,202.00	77,812.81
95-47	20-Oct-95	01-Aug-99	DOC	GMC Truck	46,820.00	38,308.36
95-48	20-Oct-95	01-Aug-98	DILHR	Computer Hardware and Routers	86,906.52	64,378.23
95-49	07-Nov-95	01-Aug-99	DER	LAN (Computer Hardware/Software)	118,555.61	98,053.29

Table IV-2 – Continued
OUTSTANDING MASTER LEASE SCHEDULES

(As of November 30, 1996)

Master Lease Schedule No.	Orgination Date	Maturity Date	Agency	Equipment	Amount Financed	Principal Balance
95-50	14-Nov-95	01-Aug-00	DOT	Office Furniture (Truax Center)	170,331 26	149,173.08
95-51	30-Nov-95	01-Aug-98	DOA	Mainframe Printer Attachments	82,935 00	63,346 38
95-52	30-Nov-95	01-Aug-98	DNR	Software Licences (Network)	87,898 00	67,569 15
95-53	30-Nov-95	01-Aug-98	DILHR	Systems Furniture-Call Centers	285,047 39	219,365 02
95-54	30-Nov-95	01-Aug-98	DILHR	Computer Printers	42,174 00	32,420.09
95-55	12-Dec-95	01-Aug-98	DOR	Delinquent Tax Collection System	169,275 25	131,579.11
95-56	12-Dec-95	01-Aug-98	DOA	DASD	62,650 00	48,732 23
95-57	28-Dec-95	01-Aug-98	DILHR	Computer Hardware (PCs)	701,562 00	474,340.66
95-58	28-Dec-95	01-Aug-98	DOA	Mainframe Printer/Attachments	514,177 00	406,992 35
96-02	11-Jan-96	01-Aug-99	STATE	Hardware/Software: TEXT 2000 Systems	41,754 00	36,096.47
96-03	11-Jan-96	01-Aug-02	DOC	Dairy Processing Equipment	164,140 00	155,081 17
96-04	11-Jan-96	01-Aug-00	DOT	Office Furniture (Truax Center)	65,336 32	58,838 50
96-05	22-Jan-96	01-Feb-00	UW	Computer Hardware/Software-Admn Sprt Sys	962,816.00	733,180 71
96-06	25-Jan-96	01-Feb-99	UW	Computer Hardware-Routers, Modem, Server	81,107 80	68,749 11
96-07	02-Feb-96	01-Feb-99	DOA	High-Speed Tape Drives	144,000.00	122,952.61
96-08	07-Feb-96	01-Feb-99	DOA	Direct Access Storage Devices	761,848.00	653,964 95
96-09	07-Feb-96	01-Feb-01	UW	Duplo Booklet Making System	53,010.00	49,030.67
96-10	01-Mar-96	01-Feb-01	DOT	Office/System Furniture	73,303 81	64,203 19
96-13	01-Mar-96	01-Feb-99	Tourism	Computer Hardware/IT Infrastructure Item	68,766.06	60,056 98
96-16	26-Mar-96	01-Feb-00	STATE	TEXT 2000 Bill Drafting System	67,251 00	62,317 31
96-17	10-Apr-96	01-Feb-01	DOT	Systems Furniture-LaCrosse	254,892 90	243,868.09
96-18	10-Apr-96	01-Feb-01	DOT	Systems Funriture-Eau Claire	105,462 17	100,900.64
96-19	10-Apr-96	01-Feb-01	DOT	Systems Furniture	44,348.47	42,295 85
96-20	10-Apr-96	01-Feb-97	DOA	CPU Upgrades	925,000 00	579,319 16
96-21	10-Apr-96	01-Feb-99	DILHR	Systems/Office Furniture	187,933 07	170,280 73
96-23	19-Apr-96	01-Feb-01	DOA	Mail Inserter (Mailstar 300)	277,808.00	267,031 28
96-24	19-Apr-96	01-Feb-99	DOA	Computer Hard/Software (EIS/VenderNet)	59,980.50	54,700.47
96-25	26-Apr-96	01-Feb-98	UW	Personal Computers	218,055 00	125,860 10
96-26	19-Apr-96	01-Feb-03	DOC	Textile Cutting Machine/CADD (Pay #1)	49,600 00	48,516.01
96-27	29-Apr-96	01-Feb-00	STATE	Personal Computers, Computer Software	2,309,606.00	2,195,004.73
96-28	26-Apr-96	01-Feb-97	DOA	DASD	152,146 00	100,617 63
96-29	26-Apr-96	01-Feb-01	DOA	High-Speed Tape Drives	135,000 00	130,246.71
96-30	26-Apr-96	01-Feb-03	DOT	Database Re-design	146,821 55	81,767 17
96-31	26-Apr-96	01-Feb-99	DOA	Computer Aided Software Engineering(CASE	1,200,000.00	1,104,539 51
96-32	20-May-96	01-Feb-99	DOR	PCs/Equipment/Delinquent Tax Collection	163,115 97	153,417 94
96-33	04-Jun-96	01-Feb-99	UW	Computer Hardware	157,586 25	150,244 96
96-35	20-May-96	01-Feb-03	DOT	April Database Re-design Costs	121,662.64	103,064.44
96-38	04-Jun-96	01-Feb-99	UW	4-Wheel Drive Trucks (4)	83,120.40	79,095 52
96-39	04-Jun-96	01-Feb-00	STATE	Computer Hardware/Software	221,183 35	214,968 23
96-40	04-Jun-96	01-Feb-03	DOC	Dairy Processing Equipment	74,700 00	74,536 82
96-41	04-Jun-96	01-Feb-99	DHSS	Computer Hardware (LAN)	132,223 50	126,063.74
96-42	14-Jun-96	01-Feb-01	UW	Refractive (Eye) Laser	472,500 00	468,146.24
96-43	14-Jun-96	01-Feb-03	DOC	Textile Cutting Machine/CADD (Pay#2)	31,245 00	31,143 29
96-44	14-Jun-96	01-Feb-01	DOC	Semi-Tractor Truck	59,945 00	59,094.20
96-45	27-Jun-96	01-Feb-99	DOR	Equipment/Computer Hardware for Scanning	95,201 55	92,677.40
96-46	27-Jun-96	01-Feb-99	DOR	Computer Hardware (LAN)	84,422 10	82,183 75
96-47	27-Jun-96	01-Feb-03	DOT	May Database Re-design	236,615 97	236,903.40
96-48	27-Jun-96	01-Feb-00	STATE	IT Migration Project (Install,Training)	209,580 86	206,440 08
96-49	27-Jun-96	01-Feb-03	DOC	Textile Cutting Machine/CADD (Pay #3)	97,715.00	97,833 70
96-50	27-Jun-96	01-Feb-00	UW	Voice Mail System	131,750 00	129,775 59
96-51	27-Jun-96	01-Feb-99	DILHR	Office Furntiure/Workforce Mgmt Software	73,508 99	71,559 98
96-52	29-Jul-96	01-Mar-03	DOC	Sewing Machines (Private Ind Initiative)	112,621 50	112,261 56

Table IV-2 – Continued
OUTSTANDING MASTER LEASE SCHEDULES
(As of November 30, 1996)

Master Lease Schedule No.	Orgination Date	Maturity Date	Agency	Equipment	Amount Financed	Principal Balance
96-53	29-Jul-96	01-Sep-99	DNR	Network Communications Equipment	164,845 94	166,302 02
96-54	29-Jul-96	01-Sep-99	DNR	AlphaServers	87,384 67	88,156 83
96-55	01-Aug-96	01-Mar-99	DOA	Computer Hardware/Software (EIS)	25,458 00	24,756 36
96-56	01-Aug-96	01-Mar-03	DOT	June Database Redesign	129,291 31	128,970 99
96-57	01-Aug-96	01-Sep-99	DWD	Personal Computers/Printers	124,922 23	125,985 77
96-58	01-Aug-96	01-Sep-99	DWD	Systems Furniture	52,500 16	52,947 12
96-59	01-Aug-96	01-Mar-00	STATE	IT Migration Equipment	494,296 62	486,455 12
96-60	01-Aug-96	01-Sep-02	UW	NEWCS Dist Educ Network	158,391 85	159,152 13
96-61	15-Aug-96	01-Mar-03	DOA	Infrastructure for DOT MDT Project	531,916 34	539,088 28
96-62	15-Aug-96	01-Sep-99	DPI	Computer Workstations	115,684 46	116,402 29
96-63	03-Sep-96	01-Mar-00	STATE	Computer Hardware/Software/Training (IT)	57,832 00	58,084 98
96-64	03-Sep-96	01-Sep-03	DOT	July Database Redesign Invoices	221,176 04	222,769 53
96-65	03-Sep-96	01-Mar-03	DOC	Textile Cutting Maching/CADD (Pay #4)	17,688 00	17,837 40
96-66	16-Sep-96	01-Sep-99	DWD	Interactive Voice Response Units	162,814 00	163,415 74
96-67	16-Sep-96	01-Mar-99	DOR	Local Area Network (LAN) Equipment-WI-Z	140,790 00	62,988 11
96-68	16-Sep-96	01-Mar-99	DOR	Local Area Network (LAN)-Audit Bur	39,457 06	39,581 55
96-69	16-Sep-96	01-Sep-97	DOA	Amdahl CPU Upgrade	1,609,000 00	1,611,457 26
96-70	16-Sep-96	01-Mar-00	STATE	Computer Hardware/Software/Training (IT)	103,087 25	103,538.19
96-71	01-Oct-96	01-Mar-03	DOC	Garment Cutting Machine/CADD	5,657 00	5,704 78
96-72	01-Oct-96	01-Sep-97	DOA	HDS CPU Upgrade	504,000.00	504,769 71
96-73	01-Oct-96	01-Sep-03	DOT	August Payment-Database Redesign	168,597.60	169,812 28
96-74	01-Oct-96	01-Mar-00	STATE	IT Migration (Hardware/Software/Training	126,891 83	127,446 90
96-75	01-Oct-96	01-Sep-03	DOA	Infrastructure for Mobile Data Terminal	163,543.44	164,721.71
96-76	01-Oct-96	01-Sep-99	DNR	AlphaServers	70,514 09	70,774 70
96-77	22-Oct-96	01-Sep-99	DWD	50 Personal COmputers/Network Cards	184,250.00	184,250.00
96-78	22-Oct-96	01-Sep-99	DOA	IT Infrastructure Equipment/SASI	187,045 86	187,045 86
96-79	22-Oct-96	01-Sep-99	UW	96 Personal Computers	215,503 00	215,503 00
96-80	01-Nov-96	01-Mar-00	STATE	IT Migration Plan - Hardware/Software/Tr	159,055 86	159,055 86
96-81	01-Nov-96	01-Mar-03	DOT	Driver/Motor Vehicle Database Redesing	209,124 56	209,124 56
96-82	01-Nov-96	01-Mar-03	DOA	Mobile Data Terminal Infrastructure	499,255 33	499,255 33
96-83	01-Nov-96	01-Sep-00	DOA	VideoConferencing Equipment	93,564.35	93,564 35
96-84	15-Nov-96	01-Sep-99	DOA	IT Infrastrucutre Equipment/SASI	374,977 11	374,977.11
96-85	27-Nov-96	01-Mar-03	DOT	Driver/Motor Vehicle Database Redesign-N	130,566.07	130,566.07
96-86	27-Nov-96	01-Mar-00	STATE	IT Migration Plan - Hard/Software/Train	91,239 77	91,239.77
96-87	27-Nov-96	01-Sep-00	UW	Golf Course Maintenance Equipment	89,185 00	89,185.00
					TOTALS:	$42,043,911.20

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 of the Master Lease, 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**" has the meaning assigned in Section 12.1.

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 thereon become subject in all respects to the Master Lease, and upon acceptance as described 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 or, 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 of the Master Indenture, 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 Certificates issued hereunder 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 hereunder, 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 1 of this Summary.

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.

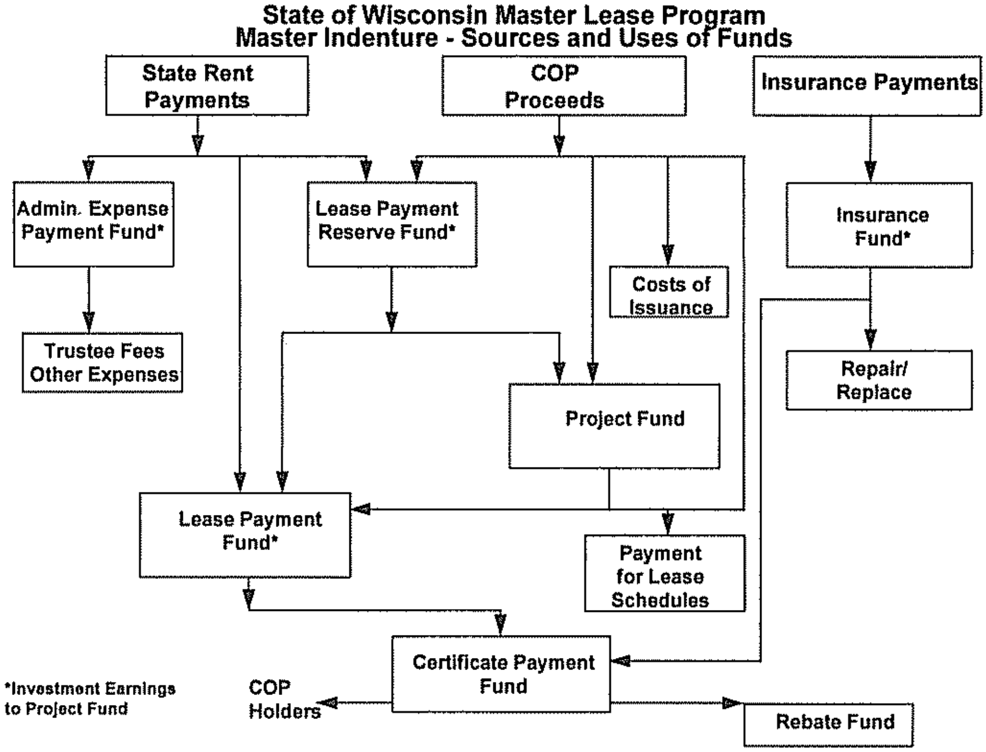
On each Interest Payment Date with respect to Certificates, the Trustee shall transfer from the Interest Account of the Lease Payment Fund (and, if necessary, from the Earnings Account of the Project Fund) for deposit into the Interest Account of the Certificate Payment Fund, an amount equal to the interest 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:



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 this Section 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 Section, 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.

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PART V

TRANSPORTATION REVENUE BONDS

This part of the Annual Report includes information about transportation 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.

Transportation revenue bonds are issued pursuant to the State of Wisconsin Transportation Facilities and Highway Projects Revenue Obligations General Resolution, dated June 26, 1996 (the "General Resolution"). 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 bonds. The State has rarely employed a financial advisor for the issuance of transportation revenue bonds, 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 are revenue obligations of the State payable solely from the Redemption Fund created by the General Resolution. The Bonds 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 previously authorized under the General Resolution are issued on parity with each other.

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 and (iv) to pay Program Expenses. The pledge is effective upon the issuance of the Bonds and remains effective until all Bonds 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 (iv) 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 shall be revenue obligations of the State payable solely out of the Redemption Fund and each Bond shall contain on its face a statement to that effect. The State is not generally liable on the Bonds and the Bonds shall not be a debt of the State for any purpose whatsoever. All Bonds previously authorized under the General Resolution are issued on parity with each other.

The State pledges and agrees with the Bondholders that the State will not limit or alter its powers to fulfill the terms of any agreements (made in the General Resolution or in the Bonds) with the Bondholders, or in any way impair the rights and remedies of the Bondholders until the Bonds, 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, 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 45% of total revenues are generated from automobiles, (ii) approximately 38% of total revenues are generated from large trucks (over 8,000 pounds gross weight), (iii) approximately 13% of total revenues are generated from small trucks and (iv) approximately 4% of total revenues are generated by miscellaneous vehicles.

Table V-1

Section 341.25 Registration Fees

Vehicle	Annual Fee
Automobile	$40
Trucks	Weight-based fee ranging from $45 to $1,850.
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 $45 to $111.
Mobile Homes and Camping Trailers	Length-based fee ranging from $12 to $18.
Motorcycle/Moped	$20 biennial fee.

Source: Wisconsin Department of Transportation

In previous biennial budgets, the Legislature authorized a number of actions which had an impact on the Registration Fees for the Program. 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 the 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.

Section 341.25 registration fee revenues for the past ten years are as follows:

Table V-2

Section 341.25 Registration Fee Revenues
1987 to 1996

Fiscal Year (June 30)	Non-IRP Fees (Amounts in Millions)	Pledged IRP Fees[a] (Amounts in Millions)	Total (Amounts in Millions)	% Change
1987	$117.4	N.A.	$117.4	—
1988	119.2	N.A.	119.2	1.5%
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

[a] Prior to Fiscal Year 1990, fees collected under the IRP were not a component of Section 341.25 revenues.

Source: Wisconsin Department of Transportation

As indicated in the preceding table, 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.

The preceding table 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 will 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 Year 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 the fiscal year ending June 30, 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 $27.3 million to a high of $43.3 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 states 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 1996, the flow of quarterly collections of annual Registration Fee revenues ranged from a low of 21.2% to a high of 28.4%. 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 revenues 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 which 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 indicated in the Table V-3:

Table V-3

Projected Section 341.25 Registration Fee Revenues
1997 to 2006

Fiscal Year	Revenues[a] (Amounts in Millions)	% Change
1997	$249.3	—
1998	260.3	4.5%
1999	261.8	0.5
2000	274.7	4.9
2001	276.7	0.7
2002	287.8	4.0
2003	287.9	0.0
2004	299.3	3.9
2005	299.5	0.1
2006	311.1	3.9

[a] Includes both IRP and non-IRP Section 341.25 revenues.

Source: Wisconsin Department of Transportation

As previously indicated, the 1991–93 biennial budget increased most vehicle registration fees, effective September 1, 1991. The previous vehicle registration fee increase occurred in Fiscal Year 1982.

The Department will monitor Registration Fee revenue as it relates to scheduled debt service payments on the Bonds 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 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 and to pay Program Expenses.

Forecasted Debt Service Coverage

The following table shows the forecasted coverage of annual debt service on the Outstanding Bonds, based on the Department's estimated Registration Fees for 1997–2006. There can be no assurance that the estimated Registration Fees will be realized in the amounts shown.

Table V-4

Debt Service on Outstanding Transportation Revenue Bonds and Estimated Revenue Coverage

Year Ending (July 1)	Total Debt Service	Estimated Revenue[a] (Millions)	Estimated Coverage[b] Ratio
1997	$70,633,719.79	$249.3	3.5
1998	69,163,282.50	260.3	3.8
1999	66,446,445.00	261.8	3.9
2000	66,438,292.50	274.7	4.1
2001	66,399,297.50	276.7	4.2
2002	66,432,715.00	287.8	4.3
2003	66,398,537.50	287.9	4.3
2004	70,390,385.00	299.3	4.3
2005	70,249,147.50	299.5	4.3
2006	70,254,262.50	311.1	4.4
2007	59,243,417.50		
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] Excludes interest earnings.

[b] Assumes that no additional bonds will be issued and continuation of current registration fees. No revenue estimates made beyond 2006.

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 four 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"), and telephone charge card renewal system. 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 which 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.

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 Indemnity Corporation ("AMBAC Indemnity"). 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 Indemnity 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 Indemnity, AMBAC Indemnity 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 Indemnity under the terms of the Surety Bond and the State is required to reimburse AMBAC Indemnity 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 Indemnity

AMBAC Indemnity 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 $2,439,000,000 (unaudited) and statutory capital of approximately $1,378,000,000 (unaudited) as of December 31, 1995. Statutory capital consists of AMBAC Indemnity's policyholders' surplus and statutory contingency reserve. AMBAC Indemnity is a wholly owned subsidiary of AMBAC Inc., a 100% publicly-held company. Moody's Investors Service, Inc., 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 Indemnity.

Copies of AMBAC Indemnity's financial statements prepared in accordance with statutory accounting standards are available from AMBAC Indemnity. 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 Indemnity has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by AMBAC Indemnity 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 Indemnity 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 Indemnity has entered into pro rata reinsurance agreements under which a percentage of the insurance underwritten pursuant to certain municipal bond insurance programs of AMBAC Indemnity has been and will be assumed by a number of foreign and domestic unaffiliated reinsurers.

AMBAC Indemnity 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 Official Statement other than the information supplied by AMBAC Indemnity and presented under the headings "*Surety Bond*" and "*AMBAC Indemnity.*"

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 and (iii) pay Program Expenses and 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.

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. 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 December 1, 1996 the Department had more than 3,800 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, 1995 to June 30, 1997 for the represented employes are in effect for all of the Department's represented employes. Each contract contains a no-strike or lock-out 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 guides the use of state and federal transportation dollars through coordinated data collection, transportation systems planning, economics and investment analysis and development of multi-modal investment plans and strategies.

2. Division of Transportation Infrastructure Development—The division provides uniform statewide direction in the project planning, design, construction and operation of the state systems of highways, airports, railroads and harbors.
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 administers the regulation of motor vehicle sales and the registration and licensing of vehicles and operators.
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-5 presents a summary of the facilities and their users for the latest available year.

Table V-5

Wisconsin Transportation
Facilities and Users

Mode	Facilities	Users
Streets and Highways	111,000 miles state and local	4.3 million vehicles 3.6 million drivers
Air	614 airports 30 seaplane bases 117 heliports/helipads	5,315 aircraft 11,967 pilots 17 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 of approximately 11,800 miles of roads, including more than 630 miles of interstate highways and over 5,000 bridges. In 1995 travel on the State trunk highway system was estimated to be 30.8 billion vehicle miles of travel and is expected by the Department to increase to 38.9 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 and use 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 generally predicated 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 sixty-nine major highway projects and certain transportation administrative facilities. Of the sixty-nine enumerated major highway projects, the Department has completed construction on forty-one projects.

The Department currently has statutory authority to issue a total of $1.083 billion of Bonds excluding revenue bonds issued to refund outstanding revenue bonds 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. This "Corridors 2020" plan consists of approximately 3,400 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 1,200 miles of this system are already in place, work on 350 miles still remains.
- A 1,850-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 400 miles of 2-lane connectors to four lanes.

The Department has established as a goal the completion of the backbone network by 2005 and the completion of the connector system by 2020.

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 directs 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. In the current and succeeding biennia, the Legislature will continue to evaluate the plan and consider how the plan components might be implemented.

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 bonds 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 23.7 cents per gallon.

Beginning in April, 1985, the State motor fuel tax was indexed to correct the two principal transportation finance problems of declining fuel consumption and inflationary pressures on transportation costs. The law now provides that, each April, the motor fuel tax rate is automatically adjusted through the calculation of an index, which combines an inflation factor (the Consumer Price Index) with a consumption factor (the percentage change in motor fuel consumption) to produce the overall percentage adjustment to the State motor fuel tax rate. Since its inception, the indexing formula has increased the State's fuel tax rate by 5.7 cents through eleven annual adjustments in twelve years. The annual indexing adjustment has stabilized the buying power of State motor fuel taxes.

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 FY 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 1995–97 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 1995–97 biennium 64% of its State transportation revenues will come from motor fuel taxes, 26% from registration fees (including Registration Fees deposited with the Trustee and pledged for repayment of the Bonds) and 10% 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 (see "SECURITY FOR THE BONDS"), are deposited in the Transportation Fund and are used for any authorized purpose. These moneys are not pledged to or available for the payment of debt service on the Bonds. 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 the Act, and depending on federal appropriation levels, it is anticipated that the federal aid level in the 1995–97 biennium will total $658.2 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 1995–97 biennium, approximately 22.6% of these funds went to system improvements (21.8% to preserve existing highways and bridges and 0.8% to major projects) while 13.3% went to system maintenance. The remainder passed directly to local units of government (40.8%), paid debt service (6.9%) and paid Departmental operations (16.3%).

The Department previously 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 27, 1996, the outstanding amount of general obligation bonds issued for this purpose was $23.1 million. In addition, there is also statutory authority for the Department to utilize State general obligation bond proceeds as follows:

Purpose	Legislative Authorization (Amounts in Millions)	General Obligations Issued to Date (Amounts in Millions)
Harbor Improvement	$12.0	$8.3
Freight Rail	14.5	7.4
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.

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 Resolution. 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 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 shall be for the equal benefit, protection and security of the holders of any and all of such Bonds.

Provisions for Issuance of Bonds

The General Resolution authorizes Bonds of a Series 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 (4) 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 (4) 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.

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.

Table V-6

OUTSTANDING TRANSPORTATION REVENUE BONDS BY ISSUE

(As of December 27, 1996)

Financing	Date of Financing	Maturity	Amount of Issuance	Amount Outstanding
1984, Series A	4/15/84	1985-2004	$ 65,000,000	0 [a]
1986, Series A	6/15/86	1987-2007	139,055,000	$ 7,130,000 [a]
1988, Series A	4/15/88	1989-2008	51,475,000	2,125,000 [a]
1989, Series A	4/15/89			
Serial Bonds		1990-2004	31,165,000	4,105,000 [a]
Term Bonds		2009	20,135,000	0 [a]
1991, Series A	10/1/91	1992-2011	105,660,000	26,125,000 [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
erm Bonds		2022	16,880,000	16,880,000
1992, Series B	7/1/92			
Serial Bonds		1993-2006	55,155,000	44,050,000
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	112,340,000
1994, Series A	7/1/94			
Serial Bonds		1995-2012	84,320,000	78,200,000
Term Bonds		2014	15,680,000	15,680,000
1995, Series A	9/1/95	1996-2015	105,000,000	101,815,000
1996, Series A	5/15/96	1997-2016	115,000,000	115,000,000
Total Transportation Revenue Bonds			$1,188,255,000	$750,565,000

[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

GLOSSARY

This Glossary includes definitions from the General Resolution and the Series Resolution.

"**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.

"**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.

"**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 canceled by the Trustee, or proven to the satisfaction of the Trustee to have been canceled 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.

"**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.

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Appendix A

AUDITED FINANCIAL STATEMENTS

The following material is the Report of Independent Certified Public Accountants, dated August 23, 1996, pages 2 through 27 and supplemental information pertaining to Program Revenues, for the year ended June 30, 1996.

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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, 1996 and 1995, 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, 1996 and 1995, 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.

Grant Thornton LLP

Madison, Wisconsin
August 23, 1996

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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	1996	1995
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)	16,573,913	37,432,028
Accrued interest receivable	891,800	10,012
	46,275,713	37,442,040
Debt Service Reserve Fund (note C)	-	-
Program Expense Fund		
Repurchase agreements (note A2)	45,419	20,626
Accrued interest receivable	192	100
	45,611	20,726
General Rebate Fund		
Repurchase agreements (note A2)	1,899,401	1,797,963
Accrued interest receivable	8,149	8,726
	1,907,550	1,806,689
Total fund assets	122,923,798	39,269,455
DEFERRED DEBT COSTS, less accumulated amortization of $2,492,606 in 1996 and $2,036,035 in 1995 (note A5)	13,462,984	13,310,200
NET PROJECT COSTS INCURRED (note A3)	740,814,124	595,860,031
	$877,200,906	$648,439,686

The accompanying notes are an integral part of these statements.

LIABILITIES	1996	1995
LIABILITIES		
Accrued interest payable	$ 19,513,402	$ 15,462,708
Accounts payable	63,491	9,580
Bonds payable (note B)		
Due within one year	25,385,000	21,590,000
Due after one year	750,565,000	555,950,000
	775,950,000	577,540,000
Total liabilities	795,526,893	593,012,288
COMMITMENTS (note E)	-	-
FUND BALANCE		
Cumulative excess of revenue over expenses	129,279,668	103,033,053
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)
	81,674,013	55,427,398
	$877,200,906	$648,439,686

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,

	1996	1995
Revenue		
Registration fees	$ 58,414,087	$ 51,194,991
Investment (note A2)	1,944,473	1,948,165
	60,358,560	53,143,156
Expenses		
Interest	33,451,403	30,743,616
Administrative	37,283	32,909
Amortization of deferred debt costs (note A5)	456,571	566,964
Premium on Surety Bonds	166,688	36,015
	34,111,945	31,379,504
EXCESS OF REVENUE OVER EXPENSES	26,246,615	21,763,652
Cumulative excess of revenue over expenses at beginning of year	103,033,053	81,269,401
Cumulative excess of revenue over expenses at end of year	$129,279,668	$103,033,053

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, 1996 and 1995

	Bond Redemption Fund
Fund assets at July 1, 1994	$ 8,589,643
Receipts	
Registration fees	8,576,963
Investment income	259,922
Interest reimbursement from Escrow Fund	4,362,675
Disbursements	
Interest payments	(6,179,189)
Bond payments	(7,425,000)
Transfers	
Transfer of assets from 1988 Series A Program Expense Fund	997
Fund assets at June 30, 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

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, 1996 and 1995

	Total	Bond Redemption Fund	Program Expense Fund
Fund assets at July 1, 1994	$ 2,099,671	$ 2,055,244	$ 44,427
Receipts			
Registration fees	2,282,197	2,282,197	-
Investment income	71,655	70,074	1,581
Interest reimbursement from Escrow Fund	2,649,400	2,649,400	-
Disbursements			
Interest payments	(3,094,038)	(3,094,038)	-
Bond payments	(1,775,000)	(1,775,000)	-
Administrative expenses	(68,081)	-	(68,081)
Bond issue costs - 1993 Series A	(42,492)	-	(42,492)
Bond issue costs - 1992 Series A	(8,712)	-	(8,712)
Transfers			
Transfer of assets for administrative expenses to Program Expense Fund	-	(95,000)	95,000
Transfer of assets in excess of Program Expense Fund requirements to 1986 Series A Bond Redemption Fund	(997)	-	(997)
Fund assets at June 30, 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

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, 1996 and 1995

	Bond Redemption Fund
Fund assets at July 1, 1994	$ 1,968,485
Receipts	
Registration fees	2,202,171
Investment income	67,696
Interest reimbursement from Escrow Fund	2,633,580
Disbursements	
Interest payments	(3,246,835)
Bond payments	(1,605,000)
Fund assets at June 30, 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

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, 1996 and 1995

	Bond Redemption Fund
Fund assets at July 1, 1994	$ 4,272,101
Receipts	
Registration fees	5,112,459
Investment income	148,971
Interest reimbursement from Escrow Fund	4,147,445
Disbursements	
Interest payments	(6,149,427)
Bond payments	(3,175,000)
Fund assets at June 30, 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

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, 1996 and 1995

	Bond Redemption Fund
Fund assets at July 1, 1994	$ 3,800,428
Receipts	
Registration fees	7,585,068
Investment income	154,260
Disbursements	
Interest payments	(7,599,600)
Fund assets at June 30, 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

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, 1996 and 1995

	Total	Program Capital Fund	Bond Redemption Fund	General Rebate Fund
Fund assets at July 1, 1994	$ 12,059,881	$ 2,638,214	$ 7,394,030	$2,027,637
Receipts				
Registration fees	11,244,532	-	11,244,532	-
Investment income	361,546	5,362	265,784	90,400
Interest reimbursement from Escrow Fund	2,318,685	-	2,318,685	-
Disbursements	-			
Project costs	(2,643,576)	(2,643,576)	-	-
Interest payments	(10,652,353)	-	(10,652,353)	-
Bond payments	(3,145,000)	-	(3,145,000)	-
Arbitrage payments	(311,348)	-	-	(311,348)
Fund assets at June 30, 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

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 - 1993 SERIES A

Years ended June 30, 1996 and 1995

	Bond Redemption Fund
Fund assets at July 1, 1994	$ 4,587,017
Receipts	
Registration fees	6,078,918
Investment income	132,582
Disbursements	
Interest payments	(5,188,489)
Bond payments	(1,955,000)
Fund assets at June 30, 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

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

STATEMENT OF CHANGES IN FUND ASSETS - 1994 SERIES A
For the year ended June 30, 1996 and
For the period from July 13, 1994 (delivery date of bonds) through June 30, 1995

	Total	Program Capital Fund	Bond Redemption Fund	Debt Service Reserve Fund
Fund assets at July 13, 1994	$ -	$ -	$ -	$ -
Receipts				
Proceeds from bond issue	99,122,863	99,122,863	-	-
Accrued interest from bond issue	181,802	181,802	-	-
Registration fees	8,112,683	-	8,112,683	-
Investment income	751,533	553,344	198,189	-
Disbursements				
Bond issue costs	(44,472)	(44,472)	-	-
Project costs	(99,595,720)	(99,595,720)	-	-
Interest payments	(2,727,030)	-	(2,727,030)	-
Premium on Surety Bonds	(36,015)	-	-	(36,015)
Transfers				
Transfer of accrued interest from bond issue from Program Capital Fund to Bond Redemption Fund	-	(181,802)	181,802	-
Transfer of assets from Program Capital Fund to Debt Service Reserve Fund for premium on Surety Bonds	-	(36,015)	-	36,015
Fund assets at June 30, 1995	5,765,644	-	5,765,644	-
Receipts				
Registration fees	8,314,711	-	8,314,711	-
Investment income	197,330	-	197,330	-
Disbursements				
Interest payments	(5,386,448)	-	(5,386,448)	-
Bond payments	(3,005,000)	-	(3,005,000)	-
Fund assets at June 30, 1996	$ 5,886,237	$ -	$ 5,886,237	$ -

The accompanying notes are an integral part of this 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
STATEMENT OF CHANGES IN FUND ASSETS - 1995 SERIES A
For the period from September 1, 1995 (delivery date of bonds) through June 30, 1996

	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	$ -

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
STATEMENT OF CHANGES IN FUND ASSETS - 1996 SERIES A
For the period from May 15, 1996 (delivery date of bonds) through June 30, 1996

	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	$ -

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
NOTES TO FINANCIAL STATEMENTS
June 30, 1996 and 1995

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. A summary of the Program's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

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.

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 aggregate cost or market value, whichever is lower. 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	1996	1995
1986 Series A	Year ended June 30, 1996	Year ended June 30, 1995
1988 Series A	Year ended June 30, 1996	Year ended June 30, 1995
1989 Series A	Year ended June 30, 1996	Year ended June 30, 1995
1991 Series A	Year ended June 30, 1996	Year ended June 30, 1995
1992 Series A	Year ended June 30, 1996	Year ended June 30, 1995
1992 Series B	Year ended June 30, 1996	Year ended June 30, 1995
1993 Series A	Year ended June 30, 1996	Year ended June 30, 1995
1994 Series A	Year ended June 30, 1996	July 13, 1994 (delivery date of bonds) through June 30, 1995
1995 Series A	September 1, 1995 (delivery date of bonds) through June 30, 1996	
1996 Series A	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 $14,360,000 at June 30, 1996. Bonds outstanding bear interest payable semiannually at rates ranging from 7.2% to 7.4%. Principal is payable in varying amounts annually through 1997.

Transportation Revenue Bonds, 1988 Series A (1988 bonds) consist of bonds dated April 15, 1988 with amounts outstanding totaling $4,125,000 at June 30, 1996. Bonds outstanding bear interest payable semiannually at rates ranging from 6.5% to 6.7%. Principal is payable in varying amounts annually through 1997.

Transportation Revenue Bonds, 1989 Series A (1989 bonds) consist of bonds dated April 15, 1989 with amounts outstanding totaling $5,950,000 at June 30, 1996. Bonds outstanding bear interest payable semiannually at rates ranging from 7.25% to 7.3%. 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 $29,660,000 at June 30, 1996. Bonds outstanding bear interest payable semiannually at rates ranging from 5.5% 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 $291,425,000 at June 30, 1996. Bonds outstanding bear interest payable semiannually at rates ranging from 4.1% 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 $113,435,000 at June 30, 1996. Bonds outstanding bear interest payable semiannually at rates ranging from 3.5% 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 $96,995,000 at June 30, 1996. 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 $105,000,000 at June 30, 1996. 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, 1996. 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, 1996.

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, 1996.

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, 1996 are as follows:

Year ending June 30,	
1997	$ 25,385,000
1998	29,710,000
1999	30,750,000
2000	29,490,000
2001	30,920,000
Later years	629,695,000
	$775,950,000

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 the lower of aggregate cost or market value, are as follows at June 30, 1996:

	Debt Service Reserve Fund requirement	Bond Redemption Fund balance
1986 Series A	$ 9,984,022	$ 7,930,311
1988 Series A	3,592,000	2,184,421
1989 Series A	2,751,000	2,108,143
1991 Series A	3,643,000	4,501,645
1992 Series A	-	3,858,078
1992 Series B	8,921,978	7,593,857
1993 Series A	-	3,727,632
1994 Series A	2,058,000	5,886,237
1995 Series A	3,425,000	7,995,497
1996 Series A	6,100,000	489,892
	$40,475,000	$46,275,713

During the period from May, 1993 to June, 1996, 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 1994 and 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 for the 1994 arbitrage calculations totaled $311,348 for the 1988 bonds and $1,580,900 for the 1989 bonds. The payments required in August, 1996 total $903,600 for the 1988 bonds and $227,656 for the 1989 bonds. The 1996 payments will be made from the General Rebate Fund established under the 1992 Series B bonds. The balance remaining in the General Rebate Fund will then be transferred to the 1992 Series A bonds.

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 made 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, 1996 and 1995. 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 audit 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.

Grant Thornton LLP

Madison, Wisconsin
August 23, 1996

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, 1996 and 1995

	Section 341.25 Registration Fees		Interest earnings on Section 341.25 Registration Fees	Total program revenue
	Non-IRP	IRP		
July, 1994	$ 15,350,217	$ 711,277	$ 3,828	$ 16,065,322
August, 1994	16,483,856	1,009,771	3,117	17,496,744
September, 1994	17,472,509	926,304	163	18,398,976
October, 1994	14,581,426	4,826,200	184	19,407,810
November, 1994	13,055,061	5,565,223	3,425	18,623,709
December, 1994	23,347,600	7,194,332	569,257	31,111,189
January, 1995	18,266,880	3,782,958	574,295	22,624,133
February, 1995	11,590,250	1,633,022	5,219	13,228,491
March, 1995	19,891,135	3,201,830	110	23,093,075
April, 1995	17,725,890	2,015,387	127	19,741,401
May, 1995	15,346,469	3,362,120	3,736	18,712,325
June, 1995	20,603,015	8,051,177	661,943	29,316,135
Total for the year ended June 30, 1995	$203,714,308	$42,279,598	$1,825,404	$247,819,310
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

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