

THE STATE OF WISCONSIN

A

SENATE CHAIR
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JOINT COMMITTEE ON FINANCE

MEMORANDUM

To: Members
Joint Committee on Finance

From: Senator Brian Burke
Representative John Gard

Date: January 8, 1999

Attached is a copy of a report from the Department of Corrections, pursuant to a request by the Joint Committee on Finance at its June 23, 1998 meeting. The report provides information on the correctional population growth and plans to accommodate increases.

The report is being provided for your information only. No formal action is required by the Committee. Please feel free to contact us if you have any questions.

Attachment

BB:JG:dh



Tommy G. Thompson
Governor

Michael J. Sullivan
Secretary



State of Wisconsin
Department of Corrections

Mailing Address
149 East Wilson Street
Post Office Box 7925
Madison, WI 53707-7925
Telephone (608) 266-2471

DATE: January 4, 1999

TO: Senator Brian Burke
Co-Chair, Joint Committee on Finance

Representative John Gard
Co-Chair, Joint Committee on Finance

FROM: *Michael J. Sullivan /MS*
Michael J. Sullivan, Secretary
Department of Corrections

SUBJ: Department of Corrections Population Growth
Plans to Accommodate Increases

At the June 23, 1998 Joint Committee on Finance meeting there was extensive discussion regarding the prison crowding situation and the Department of Corrections need for resources. On June 30, 1998 the Committee requested that the Department develop a plan that addresses the long term needs and priorities of the Department, the factors driving these needs, an evaluation of factors influencing population increases, the potential impact of recently passed legislation on future resource needs and recommendations on how correctional programs can be made more cost effective to address these long term needs and priorities. The Committee requested that this be completed by January 1, 1999. The following report was prepared in response to these issues.

The monitoring and management of the correctional population is a continuous, ongoing process for the Department. The daily attention to the handling, movement, and management of the increasing numbers of offenders sent to the DOC for confinement and/or community supervision is imperative. In addition to emergency requests utilizing the s.13.10/s.16.515 processes the planning processes the Department consistently relies on to advance proposals to address the growth in the correctional population are the biennial operating and capital budgets. These budget requests incorporate the most up to date population projection information and agency operating experience. These plans are subject to review, modification and updating as they move through the administrative and legislative review processes with the end result being approval by the Legislature and Governor.

In September 1998, the Department submitted its 1999-01 biennial operating and capital budget requests to the Department of Administration. At that time it was anticipated that the adult prison population would be 21,696 and 25,086 respectively by the end of the upcoming biennium. In response to this projected growth the Department requested the resources to increase contract bed capacity to almost 5,600 in FY 2000 and almost 7,800 in FY 2001. Furthermore, in an effort to reduce the number of offenders returning to DOC facilities from community supervision, the Department requested authority to reallocate existing community resources from the now reduced Intensive Sanctions program to enhance the supervision of offenders in the community. The Department also requested additional resources for the Sex Offender Intensive Supervision Program and to create a small enhanced parole supervision program in Milwaukee County. This program would be modeled after the enhanced programming currently underway in Racine and Dane counties. Operating budget resources were also requested for the opening in this next biennium of a 600 bed community corrections facility in Milwaukee; 400 beds of which will be a jail like facility for probation and parole violators being built in response to the reduced level of jail beds available for use by community corrections.

Recognition is also given to the fact that the legislative process affords other opportunities for additions and changes to the laws that ultimately impact who the Department serves and for what duration. Under these circumstances the agency must continuously examine the events, activities, and its actual experience in an effort to accurately represent these needs to the Governor and Legislature.

POPULATION GROWTH

From January 1998 through November 1998 there were a total of 6,746 adult males and females admitted to the Dodge Correctional Institution Reception Center, an average of 613 new admissions each month. In 1997, the average number of new admissions was 542.

During this same time period there has also been a significant decrease in the number of offenders released from prison. As a result, the department has experienced a net gain of almost 2,900 inmates in the first 11 months of 1998, an average net gain of 262 a month. If this growth were extended as a straight-line projection through the end of the next budget cycle it is estimated that the department would require approximately 7,900 additional beds by the end of the 1999-01 biennium. The department has no reason to believe that these trends will not continue for the immediate future, at least through the next biennium.

The Department prepares offender population forecasts each quarter. In November, the Department completed a forecast based on data (actual admissions and releases) through September 30. This forecast indicated that adult institution populations would reach 23,238 by June 30, 2000 and 27,560 by June 30, 2001. These endpoints represent an

increase over the projections that were used when the budget was submitted in September 1998 of 1,542 in FY 2000 and 2,474 in FY 2001.

The growth in the institutions is the result of a combination of factors. New admissions to the prison system have increased, the number of offenders being released on discretionary parole has decreased, and the number of inmates serving to their mandatory release date has increased. Additionally, due to a recent court decision there are also more restrictions on the Department's ability to use county jails for probation and parole violators. In response to these restrictions an increasing number of these offenders have had to be admitted to DOC institutions in response to violations of their community supervision.

Recent data and experience also indicate that not only are inmates currently serving a slightly longer period of time for some violent crimes, the actual sentences that are being imposed are also longer. The combination of these conditions has created a stacking effect that also contributes to an increase in the number of incarcerated offenders.

CAPACITY AND CROWDING

On December 18, 1998 the department had an adult prison population of 17,906. The DOC rated operating capacity is 10,595 but 14,201 inmates were actually confined in Wisconsin prisons on that date. There were also 233 inmates at the Wisconsin Resource Center, and 3,472 inmates in contract beds in various facilities both within the state as well as out of state.

	TOTAL CAPACITY	POPULATION	RATE OF OCCUPANCY
Adult Inst.	10,595	14,201	135%
WRC	233	233	100%
Contracts	3,472	3,472	100%
TOTAL	14,200	17,906	

As the above indicates, the current level of occupancy and subsequent overcrowding within the DOC facilities is significant. Even with the relief that has been made available to the system through increased contract bed capacity the DOC institutions are operating at 135% of their designated operating capacity.

To further address the demand for prison capacity, the Department also expects to open more than 2200 previously authorized beds by July 2001. These beds include 500 at Boscobel, 750 at Redgranite, 200 in Milwaukee, 375 in New Lisbon, 300 dorm beds at Fox Lake currently being used as construction-related surge space, and 30 for women at

the Robert E. Ellsworth Correctional Center in Union Grove. Given the continued growth in the population in the next 3-5 years it is anticipated that as this new prison capacity becomes available to the department it will have only a minimal impact on the overcrowding situation; other solutions will be required in the short and long term.

CURRENT BED CAPACITY

At the present time the DOC has an operating capacity of 10,595 beds of which 9,959 are for adult males and 636 for adult females. The Department also houses over 300 inmates at the Prairie du Chien facility, 283 inmates (20 females) in Wisconsin county jails and has authorization to contract for 3,907 out-of state beds, 3,707 for males and 200 for women.

Potential capacity increases to the correctional system include a combination of previously authorized new construction in the state, recently approved contract bed increases, and proposals in the 1999-01 Biennial and Capital Budgets to provide for more contract beds and additional construction (see Attachment I).

FUTURE CAPACITY SHORTFALLS/CONSIDERATIONS

As indicated in the table below, a preliminary comparison of the projected demand for prison beds to the known available bed capacity results in a projected capacity shortfall by June 30, 2001 of 9,844 beds for men and 795 beds for women.

EXPECTED SHORTFALL *

MALE BEDS

	1998	1999	2000	2001	2002
DOC Capacity	9,940	9,940	10,815	11,765	12,140
Authorized Contract Beds	2,493	3,970	3,970	3,970	4,298
WRC Beds	60	130	200	300	486
Prairie Du Chien	303	303	-	-	-
	12,796	14,343	14,985	16,035	16,924
End Point June 30	15,292	18,583	21,820	25,879	30,523
SHORTFALL	(2,496)	(4,240)	(6,835)	(9,844)	(13,599)

FEMALE BEDS

	1998	1999	2000	2001	2002
DOC Capacity	636	666	666	666	666
Authorized Contract Beds	20	220	220	220	220
	656	886	886	886	886
End Point June 30	1044	1207	1417	1681	1983
SHORTFALL	(388)	(321)	(531)	(795)	(1,097)

* These numbers do not include the Department's 2000-2001 budget request for an additional 2,307 contract beds in FY 2000 and 4,484 contract beds in FY 2001.

Given the magnitude of the projected growth and corresponding limits of the known capacity increases, the department and the legislature will be faced with continuing to identify short and long term solutions to the crowding. The solutions will most likely require a combination of capital and operating budget resource considerations.

Based on previous experience and possible future actions there are any number of possible alternatives to consider in response to the problem. Some that might warrant further legislative consideration and debate could include:

- (1) Additional increases to the current contract bed capacity beyond those levels previously approved by the JFC and the increases included in the DOC 1999-01 biennial budget request.
- (2) Legislative approval during the deliberation of the 1999-01 Capital Budget to authorize further expansions at existing DOC facilities (e.g. JCI, FLCI) or increase the capacities of the new facilities being planned and soon to be constructed at Redgranite or New Lisbon. This approach would offer additional capacity to the system in eighteen months as opposed to the three to four years required for construction at a new site.
- (3) Legislative changes to provide authority for the department to enter into contracts, lease-purchase options, etc., with private prisons that may be planned and/or built in Wisconsin.
- (4) Legislative review and consideration of the best future use of the Prairie duChien facility, currently housing 300 adult males. By law, it is presently scheduled to revert to a juvenile institution on 7/1/99 and existing legislation would allow for the option of leaving this facility for use by adults and accommodating any increases in the juvenile population through the use of Type II community based facilities instead.
- (5) Expanded use of concepts such as enhanced supervision in the community for offenders who can benefit from the structure and accountability provided through local treatment, employment, and job related services in conjunction with the expanded use of electronic monitoring services and intensive supervision programs.
- (6) Development of state/county partnerships that will enhance the advantage to both parties of jail construction/expansion projects that are or may be initiated in the months/years ahead.
- (7) Development of more local correctional facilities and programs that provide constructive activities and community service work opportunities for offenders to make positive contributions and repair some of the harm their criminal behavior has caused local citizens and communities.

Even though these suggestions are not exhaustive or necessarily all-inclusive, it is clear that new ways of partnering and working together will be critical to Wisconsin's ability to effectively manage the increasing numbers of offenders sent to the Department of Corrections for confinement and/or supervision. The Department, the Legislature, and local communities must work together to identify and implement cost effective responses to criminal behavior; responses that do not diminish the need to hold offenders accountable for their behavior and ensure continued safety of the public. The human and financial costs of not doing so in a responsible manner will only continue to grow.

ADDITIONAL FUTURE CONSIDERATIONS

There are a number of events that will also warrant careful review and monitoring in the upcoming months that will impact on the future needs of the Department of Corrections, including:

(1) Future outcomes/recommendations of the Truth in Sentencing Committee

In April 1999 when the final recommendations of the Truth in Sentencing Committee are presented to the Governor and Legislature it is projected there will be in excess of 18,700 offenders in the prison system. For these offenders that are already under the department's custody and control the recommended changes in the criminal penalties, sentencing, and community supervision options will not have a direct impact. The long-term effects of any recommended changes will affect those individuals whose criminal offense is committed after December 31, 1999. Under these circumstances it is extremely difficult for the department to anticipate the resulting demand for prison capacity without knowing the details of the truth in sentencing proposals. Under any circumstances, however, it is likely that the department will require additional prison/secure confinement capacity to enhance its ability to sanction and detain offenders in the community. Such options will offer an alternative to perhaps longer periods of confinement in response to violations of the conditions of supervision. In addition, to the degree that criminal penalties are increased, decreased, expanded or eliminated there will be an eventual impact on the demand for prison capacity and/or community corrections resources. These needs will have to be determined when the final details become known. The Legislature should anticipate such requests would be forthcoming.

The **Truth in Sentencing** legislation will clearly shape and define the long term future for the Department of Corrections and will require careful planning. To that end, the Legislature and Governor may want to consider revising and updating the facility capacities, program, and policy impacts as reflected in the **Correctional System Development Plan** originally prepared in 1990. Such a planning effort should be less DOC institution specific compared to this 1990 Plan but still afford the opportunity for the State to address the future needs resulting from this law in a more systematic, comprehensive way. Given the circumstances and the implications of the continued rise in offender populations, it is imperative that any comprehensive correctional system plan be expansive enough to incorporate community corrections options and the continued utilization of contractual relationships to address the population growth. These include contracts with Wisconsin counties, public entities out of state, i.e. the Federal government

and Texas counties, and private operators out of state, i.e. Corrections Corporation of America.

(2) Potential impact of the Kleismet decision

In 1997 the Wisconsin Supreme Court held that sec. 302.31, Stats. grants to the department the authority to temporarily detain probation or parole violators in the county jail, subject to "the well-established duty of the sheriff to vigilantly guard the safety of the jail." The sheriff may refuse to keep DOC detainees, if he or she determines that "taking additional DOC detainees would result in such overcrowding as to constitute an unacceptable risk of harm to inmates, deputies, and jail staff". Although Kliesmet specifically concerned alleged violators of probation and parole, the holding applies to any DOC offender (or any other person) sought to be detained under sec. 302.31, Stats. The Department is already working to reduce the number of probation and parole violators in the Milwaukee County Jail through contracting and the planned construction of a new probation and parole holds facility in Milwaukee. It is possible that in the future other counties will also apply this ruling to the Department's ability to hold offenders in their local jails. This could also further impact on the available capacity in DOC facilities.

(3) Possible reduction and/or termination of existing contracts

In the ongoing consideration of available prison bed capacity it is important to recognize that the existing contracts with local sheriffs, the Texas jails, the Federal Bureau of Prisons, and Corrections Corporation of America are all governed by existing termination clauses which provide for either party to terminate the agreement for cause. In the cases of Wisconsin jails and Texas jails this can be affected with 30 days notice; for the Federal Bureau of Prisons and Corrections Corporation of America the notice is 60 days. Given the extensive reliance on these contract capacities by the Wisconsin Department of Corrections, approximately 3500 beds, the agency is sensitive to the fact that any short-term reduction in these capacities will demand an immediate response for alternative housing for those inmates affected by an existing contract modification or termination. Such actions could clearly require legislative action and response.

Finally, in view of the continued increases in the correctional population and the resources that are needed to respond effectively, the focus must remain on the fact that appropriate solutions cannot and do not rest exclusively with the development of more prison beds. The legislature and the department in cooperation with local communities must continuously strive to seek the proper balance that provides for the safety of the community, victims, and staff while holding offenders accountable for their behavior. The challenge looms large; the responses will demand a broad base of support and investment.

CC: Secretary Jon Litscher
Cindy O'Donnell
Jessica O'Donnell
DOC Executive Staff

ATTACHMENT 1
WISCONSIN DEPARTMENT OF CORRECTIONS
OPERATING CAPACITIES-ADULT FACILITIES AND CONTRACT BEDS

MALE BEDS

	FY 97 BASE	FY 98	FY 99	FY 00	FY 01	FY 02	INST CAP
DCI		150					1,165
WCI							882
GBCI							749
CCI		100					541
Supermax				500			500
Redgranite					750		750
New Lisbon						375	375
Racine Youthful Offender Facility		400					400
200 AODA Beds in SE Wisconsin					200		200
RCI							1,021
JCI		150					837
FLCI				300			991
KMCI							783
OSCI							1,494
OCI							300
Black River Correctional Center							66
Burke Correctional Center							186
Drug & Alcohol Correctional Center				75			200
St. Croix							94
Thompson							118
Remaining Male Correctional Centers							488
SUBTOTAL: DOC Beds	9140	800		875	950	375	12,140
FY END DOC Capacity		9,940	9,940	10,815	11,765	12,140	
Wi Resource Center			170	200	300	486	486

FEMALE BEDS

	FY 97 BASE	FY 98	FY 99	FY 2000	FY 2001	INST CAP
TCI	486					464
DCI A&E	30					30
Mil Women's Center	42					42
Ellsworth	100		30			130
SUBTOTAL: DOC Beds	636	0	666	0	0	666
FY END DOC Capacity						666

FY 99 AUTHORIZED CONTRACT BEDS

Contract Site	Authorized Beds	
	Men	Women
Wisconsin Counties	263	20
Prairie Du Chien Correctional Facility	303	
Corrections Corp. of America		
Tennessee	1,500	
Oklahoma	1,057	
Federal Bureau of Prisons		
Duluth, Minnesota	400	
Alderson, West Virginia		200
Oxford, Wisconsin	50	
Texas Counties	700	
Total Authorized Contract Beds	4,298	220

THE STATE OF WISCONSIN

SENATE CHAIR
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JOINT COMMITTEE ON FINANCE

MEMORANDUM

To: Members
Joint Committee on Finance

From: Senator Brian Burke
Representative John Gard

Date: February 4, 1999

Re: Department of Corrections Report

Attached please find a copy of a report from the Department of Corrections concerning mental health services provided to prisoners in 1998. Pursuant to s. 301.03(6m), Stats., the Department is required to submit this report to the Joint Committee on Finance on or before January 30 of each year.

This information is for your review only. No action is required by the Committee.

BB/JG/js

Tommy G. Thompson
Governor

Jon E. Litscher
Secretary



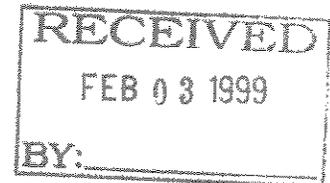
State of Wisconsin
Department of Corrections

Mailing Address

149 East Wilson Street
Post Office Box 7925
Madison, WI 53707-7925
Telephone (608) 266-2471
Fax (608) 267-3661

January 28, 1999

Senator Brian Burke and
Representative John Gard, Co-Chairs
Joint Committee on Finance
Donald J. Schneider, Senate Chief Clerk
Charles Sanders, Assembly Chief Clerk



Re: 1998 Report Pursuant to
s.301.03(6m) WI STATS

Dear Sirs:

The following information is provided for your consideration and review pursuant to 301.03(6m) WI STATS. The figures below cover the period from January 1, 1998 to December 31, 1998.

1. There were 43 inmates transferred involuntarily from a prison to a mental health institute under 51.20(13)(A) 4. All but four were committed for outpatient treatment. Two inmates were returned to Corrections with their cases dismissed. Two inmates were committed upon release.

Six inmates were committed to inpatient treatment and stayed an average of 103 days. One inmate transferred voluntarily from prison to a mental health institute and stayed for 20 days.

2. 3,733 inmates underwent voluntary treatment with psychotropic drugs and 39 inmates were treated with psychotropics on an involuntary basis.

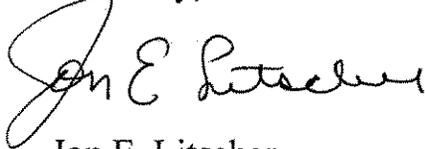
The types of medications used include antipsychotic drugs, antidepressant drugs, mood stabilizers, anti-parkinsonian medications, and medications for side effects.

3. Mental health services, both psychiatric and psychological, are available at all the major institutions. Services include individual and group therapy, chemotherapy, psychiatric, psychological, and neuropsychological evaluations, crisis interventions, sex offender groups, domestic abuse groups, anger management groups, and cognitive interventions programs.

Inmates who need more intensive mental health services are transferred to the Special Management Unit at Columbia Correctional Institution, the Wisconsin Resource Center, or one of the Mental Health Institutes.

If you have any questions or need additional information, please let me know

Sincerely,

A handwritten signature in black ink that reads "Jon E. Litscher". The signature is written in a cursive style with a large, looping initial "J".

Jon E. Litscher
Secretary

THE STATE OF WISCONSIN

SENATE CHAIR
BRIAN BURKE

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JOINT COMMITTEE ON FINANCE

MEMORANDUM

To: Members
Joint Committee on Finance

From: Senator Brian Burke
Representative John Gard

Date: February 4, 1999

Re: Prison Industries Annual Report

Attached is a copy of a report from the Department of Corrections, pursuant to s. 303.018, Stats. The report provides information on prison industries.

The report is being provided for your information only. No formal action is required by the Committee. Please feel free to contact us if you have any questions.

Attachment

BB:JG:dh

Tommy G. Thompson
Governor

Jon E. Litscher
Secretary

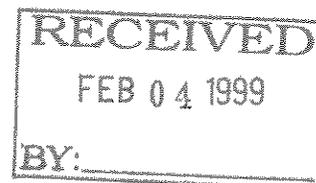


State of Wisconsin
Department of Corrections

Mailing Address

149 East Wilson Street
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January 22, 1999



The Honorable Brian Burke, Co-Chair
The Honorable John Gard, Co-Chair
Joint Committee on Finance
119 Martin Luther King Blvd., LL2
Madison, WI INTER-D

Dear Senator Burke and Representative Gard:

This is the annual report on Prison Industries for the fiscal year ending on June 30, 1998, as required by *Wisconsin Statutes* 303.018. This report includes the cash balance of each industry and the amount of wood furniture and printing state agencies purchased from Prison Industries.

The cash deficit for traditional prison industries (appropriation 134) has been eliminated. The Department showed a cash profit of \$700,687 during FY 98; a change of the accumulated balance from (\$236,629) in FY 97 to \$464,058 on June 30, 1998.

The cash deficit for private venture partnership industries (appropriation 189) increased by \$290,747 (from (\$989,310) in FY 97 to (\$1,280,057) in FY 98). The unsupported portion of the negative balance is \$878,877.

See Appendix A for a summary of the cash balance for each industry and the overall financial condition of Prison Industries.

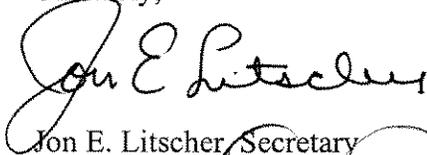
State agencies purchased \$36,898,424 in printing from all sources in FY98. Of that amount \$1,125,177 or 3% was purchased from Prison Industries. State printing bulletins now require that all forms for which Prison Industries has negotiated a contract be purchased from Prison Industries.

The total amount of purchases made by state agencies for wood furniture is no longer available. Due to an accounting policy change, agencies are only required to identify a purchase for wood furniture by a specific object code if it exceeds \$5,000. State agencies reported

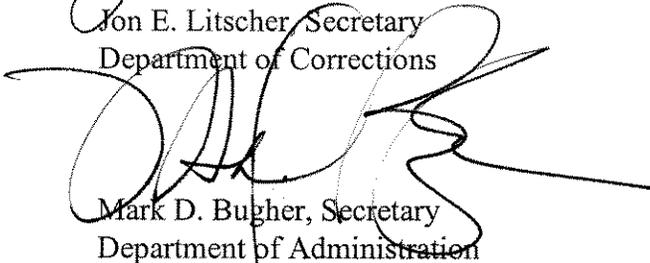
purchases of \$236,236 for wood furniture in FY97. Prison Industries reported the sale of \$905,875 of wood furniture to state agencies. Purchases of less than \$5,000 are included in the amount reported by Prison Industries.

Appendix B provides comparisons with FY97 for printing and wood furniture.

Sincerely,



Jon E. Litscher, Secretary
Department of Corrections



Mark D. Bugher, Secretary
Department of Administration

Attachments

cc: Cindy O'Donnell, Dpty Sec.
Dick Verhagen, DAI
Steve Kronzer, BCE
Doug Percy, DOA
Cathy Halpin, BoB
Sue Johnson, BFAS

Jessica O'Donnell, Ex. Asst.
Cindy Schoenike, DAI
Bill Clausius, DOC
Mary Cassady, BoB
Mary Rondou, BCE

Appendix B

Wood Furniture and Printing

Section 303.018 of the statutes requires an annual report on the amount expended by state agencies for wood furniture and printing, and the portion of that amount for furniture and printing provided by prison industries.

The following table provides the FY 1997-98 expenditures along with a comparison with the previous year.

	<u>FY 1996-97</u>		<u>FY 1997-98</u>	
	<u>Total purchases</u>	Amount from industries from state agencies	<u>Total purchases</u>	Amount from industries from state agencies
Wood Furniture	399,172*	618,374	236,236	905,875
Printing	39,625,006	1,302,154	36,898,424	1,080,723

* Reflects only purchases over \$5,000 in accordance with an accounting policy change.

BADGER STATE INDUSTRIES

YEAR TO DATE CASH BALANCE SUMMARY BY INDUSTRY

AS OF JUNE 30, 1998

INDUSTRY	TRADITIONAL INDUSTRIES			
	CASH BALANCE 07/01/97 (AFTER RE- CLASSIFICATION)	REVENUE (CASH BASIS)	EXPENDITURE (CASH BASIS)	CASH BALANCE 06/30/98
MANAGEMENT & SUPPORT	(7,816.26)	(97,536.03)	2,246,324.09	(2,351,676.38)
SOLID WASTE REDUCT&RECYCL	(25.00)	5,291.06	17,558.11	(12,292.05)
DISCONT. INDUSTRIES	(2,082,226.53)	0.00	0.00	(2,082,226.53)
METAL STAMPING	9,210,861.46	3,036,064.35	1,837,354.46	10,409,571.35
OSHKOSH LAUNDRY	590,905.50	1,095,940.38	756,822.82	930,023.06
GREEN BAY LAUNDRY	277,602.40	368,173.27	143,167.18	502,608.49
DISTRIBUTION CENTER	0.00	350.00	900,927.57	(900,577.57)
TEXTILES	(1,453,738.15)	129,892.50	420,196.31	(1,744,041.96)
JCI TEXTILES	(174,606.80)	728,122.07	494,167.81	59,347.46
REECC DATA ENTRY	(15,077.30)	58,881.79	41,171.54	2,632.95
RCI DATA ENTRY	(1,107,092.03)	200,212.17	249,902.33	(1,156,782.19)
SIGNS	(348,212.82)	1,602,351.21	1,182,912.38	71,226.01
SILKSCREENING SVCS	(801,746.59)	194,541.69	232,926.50	(840,131.40)
COLUMBIA PRINTING	218,842.96	1,125,177.67	1,075,109.94	268,910.69
WOOD & LAMINATING	(9,039,505.46)	818,690.46	1,689,945.58	(9,910,760.58)
METAL/SYSTEM FURNITURE	4,018,254.30	7,985,388.39	5,880,219.15	6,123,423.54
UPHOLSTERY	476,951.32	2,194,271.23	1,576,419.52	1,094,803.03
TOTAL	(236,629.00)	19,445,812.21	18,745,125.29	464,057.92

INDUSTRY	PRIVATE SECTOR VENTURES			
	CASH BALANCE 07/01/97 (AFTER RE- CLASSIFICATION)	REVENUE (CASH BASIS)	EXPENDITURE (CASH BASIS)	CASH BALANCE 06/30/98
PRIV-PARTNER-GLOVES	(1,010,242.14)	1,611,003.23	1,549,747.74	(948,986.65)
PRIV-PARTNER-CONVEYORS	20,932.14	53,826.82	27,917.00	46,841.96
PRIV-PARTNER-GLOVE-JCI	0.00	45,746.72	423,658.75	(377,912.03)
TOTAL	(989,310.00)	1,710,576.77	2,001,323.49	(1,280,056.72)

BADGER STATE INDUSTRIES
TRADITIONAL & PRIVATE SECTOR PARTNERSHIPS
CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 1998

12/17/98

	ASSETS		
	6/30/98	6/30/97	6/30/96
Cash	-	-	-
Contingent Fund	6,000	10,000	10,000
	<u>6,000</u>	<u>10,000</u>	<u>10,000</u>
Accounts Receivable	2,994,394	2,462,010	1,792,392
Less Allowance for Uncollectables	10,000	8,000	5,000
Net Accounts Receivable	<u>2,984,394</u>	<u>2,454,010</u>	<u>1,787,392</u>
Prepaid Expenses	34,940	46,853	-
Net Investment in Capital Leases-Current	20,434	27,854	22,466
Raw Materials	2,318,646	2,873,757	2,885,770
Work in Progress	168,795	544,315	483,477
Finished Goods	1,016,987	886,351	314,753
Linens in Service	86,052	208,788	208,788
Total Inventory	<u>3,590,479</u>	<u>4,513,211</u>	<u>3,892,788</u>
Total Current Assets	6,636,247	7,051,928	5,712,646
Net Investment in Capital Leases-Non-Current	259,354	271,468	156,094
Software-Net of Amortization	11,531	16,678	25,765
Land	33,900	33,900	33,900
Buildings	623,569	621,219	572,594
Motor Vehicles	478,916	478,756	482,206
Major Movable Equipment	3,853,700	3,574,548	3,954,028
	<u>4,990,085</u>	<u>4,708,423</u>	<u>5,042,728</u>
Less Accumulated Depreciation	3,152,262	2,822,237	2,786,761
Net Property, Plant & Equipment	<u>1,837,823</u>	<u>1,886,186</u>	<u>2,255,967</u>
Total Non Current Assets	2,108,708	2,174,332	2,437,826
Total Assets	<u>8,744,955</u>	<u>9,226,260</u>	<u>8,150,472</u>

BADGER STATE INDUSTRIES
TRADITIONAL & PRIVATE SECTOR PARTNERSHIPS
CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 1998

12/17/98

LIABILITIES

	6/30/98	6/30/97	6/30/96
Accounts Payable	645,436	608,747	309,920
Accrued Payroll & Fringe Benefits	101,063	97,912	53,893
Compensated Absence Payable	138,944	98,104	68,738
Other Accrued Current Liabilities	7,610	-	-
Capital Leases Payable-Current	174,931	1,567	8,220
Installment Purchases-Current	-	99,231	60,332
Due DOA-Waupun Cleanup	115,000	115,000	115,000
Current Maturities-Bonds	3,732	89,859	56,427
Estimated Liability Under Warranties	57,000	42,000	-
Total Current Liabilities	1,243,717	1,152,420	672,530
Capital Leases Payable-Long Term	282,526	-	4,012
Installment Purchases	-	333,196	305,819
General Obligation Bonds	134,508	138,253	226,081
Amount Due St of Wisconsin (1)	506,678	1,867,015	1,967,968
Total Non Current Liabilities	923,712	2,338,464	2,503,880
 Total Liabilities	 2,167,429	 3,490,884	 3,176,410
EQUITY			
Contributed Capital	1,825,574	1,825,574	1,825,574
Supported (Unsupported) Overdraft	7,763,790	7,018,722	6,181,209
Fund Balance	(3,011,838)	(3,108,920)	(3,032,721)
Total Equity	6,577,526	5,735,376	4,974,062
 Total Liabilities & Equity	 8,744,955	 9,226,260	 8,150,472

(1) Reconciliation of Amount Due State of Wisconsin 6/30/98

	DOC	BSI	
Balance per books	(815,999)	(506,678)	
Contingent Fund		6,000	
Rounding		(1)	
Accounts Payable		(359,223)	
1998 Deposits in Transit		43,903	
	(815,999)	(815,999)	

BADGER STATE INDUSTRIES
 TRADITIONAL & PRIVATE INDUSTRIES TOTAL
 STATEMENT OF INCOME AND EXPENSE
 FOR THE FISCAL YEAR ENDING JUNE 30, 1998

12/17/98

Sales		22,794,021
Cost of Sales		
Beginning Inventory	4,513,211	
Inventory Purchases	11,537,655	
Direct Labor	1,220,182	
Factory Overhead:		
Staff Salaries & Fringe	2,196,932	
Indirect Labor	379,019	
Indirect Mat'ls & Supplies	648,550	
Misc Other Services	2,044,109	
Depreciation Expense	263,588	
	<u>5,532,198</u>	
		22,803,246
Less Ending Inventory		<u>3,590,478</u>
Cost of Goods Sold		<u>19,212,768</u>
Gross Profit		3,581,253
Selling/Delivery Expenses	715,670	
Administrative Expenses	2,004,994	
Bad Debts Expense	2,000	
		<u>2,722,664</u>
Net Operating Income (Loss)		858,589
Other Revenues and Gains		
Interest Income		5,990
Gain (Loss) on Disposal of Asset		13,560
Other Expenses and Losses		
Interest Expense		47,728
Net Income		<u><u>830,411</u></u>

BADGER STATE INDUSTRIES
TRADITIONAL INDUSTRIES
CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 1998

12/17/98

	ASSETS		
	6/30/98	6/30/97	6/30/96
Cash	-		
Contingent Fund	6,000	10,000	10,000
	<u>6,000</u>	<u>10,000</u>	<u>10,000</u>
Accounts Receivable	2,933,234	2,219,182	1,792,392
Less Allowance for Uncollectables	10,000	8,000	5,000
Net Accounts Receivable	<u>2,923,234</u>	<u>2,211,182</u>	<u>1,787,392</u>
Prepaid Expenses	34,940	46,853	
Net Investment in Capital Leases-Current			22,466
Raw Materials	2,315,183	2,411,919	2,885,770
Work in Progress	160,967	487,361	483,477
Finished Goods	1,016,134	823,791	314,753
Linens in Service	86,052	208,788	208,788
Total Inventory	<u>3,578,336</u>	<u>3,931,859</u>	<u>3,892,788</u>
Total Current Assets	6,542,510	6,199,894	5,712,646
Net Investment in Capital Leases-Non-Current			156,094
Software-Net of Amortization	11,531	16,678	25,765
Land	33,900	33,900	33,900
Buildings	570,609	621,219	572,594
Motor Vehicles	478,916	478,756	482,206
Major Movable Equipment	<u>3,853,700</u>	<u>3,574,548</u>	<u>3,954,028</u>
	4,937,125	4,708,423	5,042,728
Less Accumulated Depreciation	<u>3,147,391</u>	<u>2,822,237</u>	<u>2,786,761</u>
Net Property, Plant & Equipment	1,789,734	1,886,186	2,255,967
Total Non Current Assets	1,801,265	1,902,864	2,437,826
Total Assets	<u>8,343,775</u>	<u>8,102,758</u>	<u>8,150,472</u>

BADGER STATE INDUSTRIES
TRADITIONAL INDUSTRIES
CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 1998

12/17/98

LIABILITIES

	6/30/98	6/30/97	6/30/96
Accounts Payable	549,736	350,050	309,920
Accrued Payroll & Fringe Benefits	99,313	91,524	53,893
Compensated Absence Payable	137,810	98,104	68,738
Other Accrued Current Liabilities	3,829		
Capital Leases Payable-Current	129,471	1,567	8,220
Installment Purchases-Current		55,730	60,332
Due DOA-Waupun Cleanup	115,000	115,000	115,000
Current Maturities-Bonds	3,732	89,859	56,427
Estimated Liability Under Warranties	57,000	42,000	
Total Current Liabilities	<u>1,095,891</u>	<u>843,834</u>	<u>672,530</u>
Capital Leases Payable-Long Term	79,270		4,012
Installment Purchases		84,481	305,819
General Obligation Bonds	134,508	138,253	226,081
Amount Due St of Wisconsin (1)	(739,525)	945,932	1,967,968
Total Non Current Liabilities	<u>(525,747)</u>	<u>1,168,666</u>	<u>2,503,880</u>
Total Liabilities	570,144	2,012,500	3,176,410

EQUITY

Contributed Capital	1,825,574	1,825,574	1,825,574
Supported (Unsupported) Overdraft	7,738,099	7,018,722	6,181,209
Fund Balance	(1,790,042)	(2,754,038)	(3,032,721)
Total Equity	<u>7,773,631</u>	<u>6,090,258</u>	<u>4,974,062</u>
Total Liabilities & Equity	<u>8,343,775</u>	<u>8,102,758</u>	<u>8,150,472</u>

(1) Reconciliation of Amount Due State of Wisconsin 6/30/98

	DOC	BSI
Balance per books	464,058	739,525
Contingent Fund		6,000
Rounding		(1)
Transfer to Fund 189		(2,022)
Accounts Payable		(279,444)
	<u>464,058</u>	<u>464,058</u>

BADGER STATE INDUSTRIES
TRADITIONAL INDUSTRIES
CONSOLIDATED STATEMENT OF INCOME AND EXPENSE
FOR THE FISCAL YEAR ENDING JUNE 30, 1998

12/17/98

Sales		21,102,875
Cost of Sales		
Beginning Inventory	3,931,859	
Inventory Purchases	10,952,197	
Direct Labor	332,058	
Factory Overhead:		
Staff Salaries & Fringe	1,936,131	
Indirect Labor	379,019	
Indirect Mat'ls & Supplies	535,605	
Misc Other Services	1,949,139	
Depreciation Expense	260,057	5,059,951
		<u>20,276,065</u>
Less Ending Inventory		<u>3,578,336</u>
Cost of Goods Sold		<u>16,697,729</u>
Gross Profit		4,405,145
Selling/Delivery Expenses	715,670	
Administrative Expenses	1,990,749	
Bad Debts Expense	2,000	
	0	<u>2,708,419</u>
Net Operating Income (Loss)		1,696,727
Other Revenues and Gains		
Interest Income		0
Gain (Loss) on Disposal of Asset		13,560
Other Expenses and Losses		
Interest Expense		31,301
Net Income		<u><u>1,678,986</u></u>

BADGER STATE INDUSTRIES
 COMPUTER RECYCLING
 STATEMENT OF INCOME AND EXPENSE
 FOR THE FISCAL YEAR ENDING JUNE 30, 1998

12/17/98

Sales	15,651	
Intershop Component Sales		
Total Income		15,651
Cost of Sales		
Beginning Inventory		0
Inventory Purchases		2,318
Direct Labor		1,343
Factory Overhead:		
Staff Salaries & Fringe	12,098	
Indirect Labor	2,287	
Indirect Mat'ls & Supplies	224	
Misc Other Services	64,968	
Depreciation Expense	0	79,577
		83,238
Less Ending Inventory		0
Cost of Goods Sold		83,238
Gross Profit		(67,587)
Selling/Delivery Expenses		
Administrative Expenses		2,672
Bad Debts Expense		2
		2,674
Net Operating Income (Loss)		(70,261)
Other Revenues and Gains:		
Interest Income		
Gain (Loss) on Disposal of Asset		
Other Expenses and Losses:		
Interest Expense		622
Net Income (Loss)		(70,883)

BADGER STATE INDUSTRIES
LAUNDRY-OSCI
STATEMENT OF INCOME AND EXPENSE
FOR THE FISCAL YEAR ENDING JUNE 30, 1998

12/1798

Sales	1,177,816	
Intershop Component Sales	(1,149)	
Total Income		1,176,667
Cost of Sales		
Beginning Inventory		215,804
Inventory Purchases		101,739
Direct Labor		89,950
Factory Overhead:		
Staff Salaries & Fringe	143,488	
Indirect Labor	59,562	
Indirect Mat'ls & Supplies	40,237	
Misc Other Services	626,330	
Depreciation Expense	50,446	920,063
		1,327,556
Less Ending Inventory		97,146
Cost of Goods Sold		1,230,410
Gross Profit		(53,743)
Selling/Delivery Expenses	5,993	
Administrative Expenses	130,733	
Bad Debts Expense	112	
		136,838
Net Operating Income (Loss)		(190,581)
Other Revenues and Gains		
Interest Income		
Gain/(loss) on Disposal of Asset		17,500
Other Expenses and Losses		
Interest Expense		3,060
Net Income (Loss)		(176,141)

BADGER STATE INDUSTRIES
 TEXTILES-JCI
 STATEMENT OF INCOME AND EXPENSE
 FOR THE FISCAL YEAR ENDING JUNE 30, 1998

12/17/98

Sales	644,133	
Intershop Component Sales	(7,027)	
Total Income	<u> </u>	637,106
Cost of Sales		
Beginning Inventory		474,246
Inventory Purchases		322,872
Direct Labor		15,220
Factory Overhead:		
Staff Salaries & Fringe	77,404	
Indirect Labor	9,480	
Indirect Mat'ls & Supplies	28,105	
Misc Other Services	31,875	
Depreciation Expense	513	147,377
		<u>959,715</u>
Less Ending Inventory		<u>85,565</u>
Cost of Goods Sold		<u>874,150</u>
Gross Profit		(237,044)
Selling/Delivery Expenses	31,295	
Administrative Expenses	79,961	
Bad Debts Expense	61	
		<u>111,317</u>
Net Operating Income (Loss)		(348,361)
Other Revenues and Gains		
Interest Income		
Gain/(loss) on Disposal of Asset		
Other Expenses and Losses		
Interest Expense		243
Net Income		<u><u>(348,604)</u></u>

BADGER STATE INDUSTRIES
 TEXTILES-JCI/GBCI
 STATEMENT OF INCOME AND EXPENSE
 FOR THE FISCAL YEAR ENDING JUNE 30, 1998

12/17/98

Sales	978,332	
Intershop Component Sales	20,918	
Total Income	<u> </u>	999,250
Cost of Sales		
Beginning Inventory	483,598	
Inventory Purchases	599,569	
Direct Labor	18,673	
Factory Overhead:		
Staff Salaries & Fringe	119,143	
Indirect Labor	11,756	
Indirect Mat'ls & Supplies	82,983	
Misc Other Services	48,066	
Depreciation Expense	7,288	
	<u>269,236</u>	
	1,371,077	
Less Ending Inventory	<u>345,061</u>	
Cost of Goods Sold		<u>1,026,015</u>
Gross Profit		(26,765)
Selling/Delivery Expenses	50,998	
Administrative Expenses	145,944	
Bad Debts Expense	93	
	-	
		<u>197,035</u>
Net Operating Income (Loss)		(223,800)
Other Revenues and Gains		
Interest Income		
Gain/(loss) on Disposal of Asset		
Other Expenses and Losses		
Interest Expense		641
Net Income		<u><u>(224,441)</u></u>

BADGER STATE INDUSTRIES
 DATA ENTRY-REECC
 STATEMENT OF INCOME AND EXPENSE
 FOR THE FISCAL YEAR ENDING JUNE 30, 1998

12/17/98

Sales		59,695	
Intershop Component Sales			
Total Income			59,695
Cost of Sales			
Beginning Inventory			
Inventory Purchases			
Direct Labor		15,033	
Factory Overhead:			
Staff Salaries & Fringe	15,420		
Indirect Labor	7,355		
Indirect Mat'ls & Supplies	2,421		
Misc Other Services	1,068		
Depreciation Expense	1,508		
		27,772	
			42,805
Less Ending Inventory		0	
Cost of Goods Sold			42,805
Gross Profit			16,890
Selling/Delivery Expenses		1,947	
Administrative Expenses		6,167	
Bad Debts Expense		6	
			8,120
Net Operating Income (Loss)			8,770
Other Revenues and Gains			
Interest Income			
Gain/(loss) on Disposal of Asset			
Other Expenses and Losses			
Interest Expense			2
Net Income			8,768

BADGER STATE INDUSTRIES
DATA ENTRY-RCI
STATEMENT OF INCOME AND EXPENSE
FOR THE FISCAL YEAR ENDING JUNE 30, 1998

12/17/98

Sales	216,250	
Intershop Component Sales	(1,600)	
Total Income		214,650
Cost of Sales		
Beginning Inventory		0
Inventory Purchases		
Direct Labor		27,173
Factory Overhead:		
Staff Salaries & Fringe	143,860	
Indirect Labor	27,648	
Indirect Mat'ls & Supplies	10,778	
Misc Other Services	40,422	
Depreciation Expense	5,929	
		228,637
		255,810
Less Ending Inventory		0
Cost of Goods Sold		255,810
Gross Profit		(41,160)
Selling/Delivery Expenses		6,518
Administrative Expenses		69,683
Bad Debts Expense		19
		76,220
Net Operating Income (Loss)		(117,380)
Other Revenues and Gains		
Interest Income		
Gain/(loss) on Disposal of Asset		
Other Expenses and Losses		
Interest Expense		28
Net Income		(117,408)

BADGER STATE INDUSTRIES
PRIVATE SECTOR PARTNERSHIPS-GLOVES & CONVEYORS
BALANCE SHEET
AS OF JUNE 30, 1998

12/17/98

	ASSETS		
	6/30/98	6/30/97	6/30/96
Cash			
Contingent Fund			
	<hr/>		
Accounts Receivable	61,160	242,828	
Less Allowance for Uncollectables			
Net Accounts Receivable	<hr/> 61,160	<hr/> 242,828	
Prepaid Expenses			
Net Investment in Capital Leases-Current	20,434	27,854	
Raw Materials	3,463	461,838	
Work in Progress	7,828	56,954	
Finished Goods	852	62,560	
Linens in Service			
Total Inventory	<hr/> 12,143	<hr/> 581,352	
 Total Current Assets	 93,737	 852,034	
Net Investment in Capital Leases-Non-Current	259,354	271,468	
Software-Net of Amortization			
Land			
Buildings	52,960		
Motor Vehicles			
Major Movable Equipment			
	<hr/> 52,960		
Less Accumulated Depreciation	<hr/> 4,871		
Net Property, Plant & Equipment	<hr/> 48,089		
 Total Non Current Assets	 307,443	 271,468	
 Total Assets	 <hr/> <hr/> 401,180	 <hr/> <hr/> 1,123,502	

BADGER STATE INDUSTRIES
PRIVATE SECTOR PARTNERSHIPS-GLOVES & CONVEYORS
BALANCE SHEET
AS OF JUNE 30, 1998

12/17/98

LIABILITIES	6/30/98	6/30/97	6/30/96
Accounts Payable	95,700	258,697	
Accrued Payroll & Fringe Benefits	1,751	6,388	
Compensated Absence Payable	1,134		
Other Accrued Current Liabilities	3,781		
Capital Leases Payable-Current	45,460		
Installment Purchases-Current		43,501	
Due DOA-Waupun Cleanup			
Current Maturities-Bonds			
Estimated Liability Under Warranties			
Total Current Liabilities	<u>147,826</u>	<u>308,586</u>	
Capital Leases Payable-Long Term	203,256		
Installment Purchases		248,715	
General Obligation Bonds			
Amount Due St of Wisconsin (1)	1,246,203	921,083	
Total Non Current Liabilities	<u>1,449,459</u>	<u>1,169,798</u>	
Total Liabilities	1,597,285	1,478,384	
EQUITY			
Contributed Capital			
Supported (Unsupported) Overdraft	25,691		
Fund Balance	<u>(1,221,796)</u>	<u>(354,882)</u>	
Total Equity	<u>(1,196,105)</u>	<u>(354,882)</u>	
Total Liabilities & Equity	<u><u>401,180</u></u>	<u><u>1,123,502</u></u>	

(1) Reconciliation of Amount Due State of Wisconsin 6/30/98

	DOC	BSI
Balance per books	(1,280,057)	(1,246,203)
Transfer to Fund 134		2,022
Accounts Payable		(79,779)
1998 Deposits in Transit		43,903
	<u>(1,280,057)</u>	<u>(1,280,057)</u>

BADGER STATE INDUSTRIES
PRIVATE SECTOR PARTNERSHIPS-GLOVES & CONVEYORS
STATEMENT OF INCOME AND EXPENSE
FOR THE FISCAL YEAR ENDING JUNE 30, 1998

12/17/98

Sales	1,691,146	
Intershop Component Sales		
Total Income		1,691,146
Cost of Sales		
Beginning Inventory	581,352	
Inventory Purchases	585,459	
Direct Labor	888,124	
Factory Overhead:		
Staff Salaries & Fringe	260,802	
Indirect Labor	0	
Indirect Mat'ls & Supplies	112,944	
Misc Other Services	94,970	
Depreciation Expense	3,531	472,247
		<u>2,527,181</u>
Less Ending Inventory		<u>12,143</u>
Cost of Goods Sold		<u>2,515,038</u>
Gross Profit		(823,892)
Selling/Delivery Expenses	0	
Administrative Expenses	14,245	
Bad Debts Expense	0	
		<u>14,245</u>
Net Operating Income (Loss)		(838,137)
Other Revenues and Gains		
Interest Income		5,990
Gain (Loss) on Disposal of Asset		0
Other Expenses and Losses		
Interest Expense		16,427
Net Income (Loss)		<u><u>(848,574)</u></u>

BADGER STATE INDUSTRIES
PRIVATE SECTOR PARTNERSHIP-GLOVES
STATEMENT OF INCOME AND EXPENSE
FOR THE FISCAL YEAR ENDING JUNE 30, 1998

12/17/98

Sales	1,621,106	
Intershop Component Sales		
Total Income		1,621,106
Cost of Sales		
Beginning Inventory		581,352
Inventory Purchases		585,459
Direct Labor		864,992
Factory Overhead:		
Staff Salaries & Fringe	259,089	
Indirect Labor		
Indirect Mat'ls & Supplies	109,307	
Misc Other Services	92,916	
Depreciation Expense	3,531	464,843
		2,496,646
Less Ending Inventory		12,143
Cost of Goods Sold		2,484,503
Gross Profit		(863,397)
Selling/Delivery Expenses		-
Administrative Expenses		13,575
Bad Debts Expense		-
		13,575
Net Operating Income (Loss)		(876,972)
Other Revenues and Gains		
Interest Income		5,990
Gain (Loss) on Disposal of Asset		
Other Expenses and Losses		
Interest Expense		16,427
Net Income (Loss)		(887,409)

BADGER STATE INDUSTRIES
PRIVATE SECTOR PARTNERSHIP-CONVEYORS
STATEMENT OF INCOME AND EXPENSE
FOR THE FISCAL YEAR ENDING JUNE 30, 1998

12/17/98

Sales	70,040	
Intershop Component Sales		
Total Income		70,040
Cost of Sales		
Beginning Inventory		0
Inventory Purchases		
Direct Labor		23,132
Factory Overhead:		
Staff Salaries & Fringe	1,713	
Indirect Labor		
Indirect Mat'ls & Supplies	3,637	
Misc Other Services	2,053	
Depreciation Expense		7,403
		30,535
Less Ending Inventory		0
Cost of Goods Sold		30,535
Gross Profit		39,505
Selling/Delivery Expenses		
Administrative Expenses		670
Bad Debts Expense		
		670
Net Operating Income (Loss)		38,835
Other Revenues and Gains		
Interest Income		-
Gain (Loss) on Disposal of Asset		-
Other Expenses and Losses		
Interest Expense		-
Net Income (Loss)		38,835

BADGER STATE INDUSTRIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDING JUNE 30, 1998
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

12/17/98

Cash Flows From Operating Activities:		
Cash Received From Customers	\$ 22,322,805	
Cash Paid to Suppliers and Employees	<u>\$ (20,595,820)</u>	
Net Cash Provided by Operating Activities		\$ 1,726,985
Cash Flows From Investing Activities:		
Receipts of Principal on Leases	\$ 18,874	
Receipts of Interest on Leases	\$ 6,650	
Proceeds from Sale of Fixed Asset	<u>\$ 17,500</u>	
Net Cash Used by Investing Activities		<u>\$ 43,024</u>
Cash Flows From Financing Activities:		
Capital Expenditures	\$ (179,215)	
Cash Provided by State of Wisconsin	\$ (1,360,339)	
Principal Paid for Capital Lease	\$ (103,789)	
Principal Paid for General Obligation Bonds	\$ (89,859)	
Interest Paid	<u>\$ (40,807)</u>	
Net Cash Used by Financing Activities		\$ (1,774,009)
Net Increase (Decrease) in Cash and Cash Equivalents		\$ (4,000)
Cash and Cash Equivalents Beginning of Year		<u>\$ 10,000</u>
Cash and Cash Equivalents End of Year		<u><u>\$ 6,000</u></u>

BADGER STATE INDUSTRIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDING JUNE 30, 1998
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

12/17/98

Reconciliation of Net Income to Net Cash Provided by Operating Activities

Net Income		\$ 830,411
Adjustments to Reconcile Net Income to Net Cash		
Cash Provided by Operating Activities		
Depreciation and Amortization	\$ 343,612	
Change in Assets and Liabilities:		
Decrease (Increase) in Accounts Receivable	\$ (538,208)	
Decrease (Increase) in Prepaid Expense	\$ 11,913	
Decrease (Increase) in Inventory	\$ 922,733	
Increase (Decrease) in Accounts Payable and Accrued Expenses	<u>\$ 156,524</u>	
Total Adjustments to Net Income		<u>\$ 896,574</u>
Net Cash Provided by Operating Activities		<u><u>\$ 1,726,985</u></u>

Supplemental Schedule of Noncash Investing and Financing Activities

Capital Leases Entered Into (First Year)	\$ 127,252
Leases Receivable	\$ 279,788

BADGER STATE INDUSTRIES
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 1998

12/17/98

NOTE 1: BASIS OF PRESENTATION

Business

The principal operations of Badger State Industries (BSI) includes the manufacture and sale of metal and wood furniture, signs and license plates, printing of documents, and laundry and data entry services. The sale of goods and services produced by BSI is limited by s.303.01 (1)b of Wisconsin Statutes to; the State of Wisconsin and other states or political units thereof; the federal government; tax supported institutions; and nonprofit agencies. Section 303.01(1)d of the Wisconsin Statutes effective May 4, 1990 further limits sales of wood and metal office furniture and laundry services to state agencies only. Section 303.01(2)h created in the Laws of 1995-96 permit the Department to contract with three private sector companies to produce product and services for these companies. Additionally the laws of 1995-96 created 303.06(3) which permits Industries to sell in the open market byproducts of recycling operations for paints and mattresses. Sales to the State of Wisconsin for the fiscal year ending June 30, 1998 were 91.0% of total sales.

Basis of Presentation

BSI is a program revenue operation of the State of Wisconsin, Department Corrections, Division of Adult Institutions created under s.303.01 of the Wisconsin Statutes. However, the accompanying financial statements are presented as an internal service fund of the State of Wisconsin. Accordingly, BSI accounts for the financing of goods and services provided on a cost-reimbursement basis.

Basis of Accounting

BSI maintains their accounting system on an accrual basis as required by s.303.016 of the Wisconsin Statutes. Revenues and

accounts receivable are recognized when goods are shipped. Expenses are recognized and accrued when the liability is incurred. As indicated in Note 2, there are areas where generally accepted accounting principles have not been implemented by BSI.

Note 2: SIGNIFICANT ACCOUNTING POLICIES

Statement of Cash Flows

Short-term investments, without regard to original maturity dates, are not considered cash equivalents for purposes of the accompanying consolidated statement of cash flows.

Contingent Fund

The amount due State of Wisconsin from establishment of a Contingent Fund is \$6,000. Badger State Industries has been given a loan under authority granted in s.20.920 to use these funds for small disbursements up to \$500. The amount carried as a current asset consists of the cash balance plus the amount to be reimbursed through contingent fund voucher.

Accounts Receivable

Accounts receivable are reported at net realizable value. Net realizable value is equal to the gross amount of receivables less an estimated allowance for uncollectible amounts.

Inventories

Inventories are classified as current assets. Raw materials, work-in-process, and finished goods inventories are valued at standard cost. Generally accepted accounting principles require that inventories be valued at the lower of cost or market. The effect of these departures from generally accepted accounting principles on financial position, results of operations, and changes in financial position have not been determined by management.

Employee Compensation Balances

Unused, earned compensated absences other than sick leave, are accrued with the resulting liability included in the compensated absence payable account. The liability and expense for compensated absences are based on current rates of pay.

Plant and Equipment

Fixed assets and equipment are valued at cost. Expenditures for replacements in excess of \$5,000 are capitalized, and the replaced items retired. Maintenance and repairs are charged to operations. Gains and losses from the sale of equipment are included in income. Depreciation is calculated on a straight line basis.

Employee Retirement Plan

Classified and unclassified civil service employees are covered by the Wisconsin Retirement Plan. The retirement plan requires employee contributions equal to specified percentages of qualified earnings based on the employee's classification, plus employer contributions at a rate determined annually. BSI's contributions to the plan for the fiscal year ending June 30, 1998 were \$419,957.

Contributed Capital

The contributed capital account reflects the value of buildings and equipment provided by the State of Wisconsin to BSI.

NOTE 3: LEASE OBLIGATIONS

Operating Leases

Badger State Industries is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in BSI's account group. The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining

noncancelable lease terms in excess of one year as of June 30, 1998:

Year Ending June 30 -----	Amounts -----
1999	213,174
2000	216,758
2001	218,611
2002	220,128
2003	221,433
Thereafter	<u>38,013</u>
Total	1,128,117

BSI's total obligation for operating leases through August 31, 2003 is \$1,128,117 including estimated price adjustments for office space rental increases based on the Consumer Price Index. In addition, the ten year lease for office space has a penalty clause for \$40,000 to be amortize over the term of the lease for termination of the lease prior to its August 31, 2003 completion date. A \$33,000 penalty for nonrenewal of a lease for office space has also been imposed and payment to be amortized over a five year period ending August 31, 1998.

CAPITAL LEASES (Previously classified as Installment Purchases)

The State of Wisconsin, Department of Administration entered into a Master Lease agreement with Firststar National Bank, NA, Milwaukee, on September 30, 1992. BSI is participating in the State sponsored program to purchase equipment. The following is a schedule of future minimum lease payments as of June 30, 1998:

Fiscal Year -----	Amounts -----
1999	\$132,973
2000	101,352
2001	94,610
2002	79,747
2003	79,922
Thereafter	35,334
Total Minimum Future Payments	<u>\$523,938</u>
Less: Amounts Representing Interest	66,481
Present value of Net Minimum Lease Payments	<u><u>\$457,457</u></u>

NOTE 4: SEGMENTAL REPORTING

BSI reports gross profit and net income by industries. Administrative and selling expense is allocated to individual industries on the basis of time expended by permanent staff.

NOTE 5: AMOUNT DUE STATE OF WISCONSIN - OPERATIONS

The amount due State of Wisconsin from operations is \$506,678 per the modified cash accounting records of the Department of Administration. Badger State Industries remits all cash receipts to the state general fund, and the state general fund pays all expenditures. The net result from inception to date of this activity is recorded in the Prison Industries appropriation of the state general fund as a negative cash balance. The supported overdraft is the amount that inventories and receivables and plant and equipment exceed expenses in excess of revenues from inception to date.

NOTE 6: GENERAL OBLIGATION BONDS

Beginning in 1970, the State of Wisconsin issued General Obligation Bonds. A portion of the proceeds from a 1986 bond issue was used for equipment upgrade and acquisition at Badger State Industries. Three issues of refunding bonds were issued in 1992, 1993 and 1994.

The remaining balance of these issues is as follows:

	BSI Share of Principal Balance	Final Payment Due
	-----	-----
Long Term Portion of Bonds	\$134,508	
Current Maturity	3,732	April 15, 2003

Total	\$138,240	
	=====	

The aggregate maturities for the five years beyond June 30, 1998 are:

1998-99	3,732
1999-00	42,271
2000-01	31,251
2001-02	30,766
2002-03	30,220

NOTE 7: RESTATEMENT OF BEGINNING RETAINED EARNINGS

For Fiscal Year 1998, the following adjustments have resulted in beginning retained earnings restatement:

Retained Earnings June 30, 1997 as previously reported	--(3,909,802)
Adjust Accounts Payable/Receivable to actual	----- (10,603)
Prior Period Assets not Recorded	----- (1,136)
Retained Earnings July 1, 1997 as restated	----- (3,921,541)
Fiscal Year 1998 Earnings	----- <u>(830,411)</u>
Retained Earnings June 30, 1998	----- (4,751,952)

NOTE 8: CONSOLIDATING AND ELIMINATING ENTRIES

During the fiscal year ending June 30, 1998, transactions between shops for materials consumed internally, amounted to \$66,842. For purposes of Consolidated Statements, these transactions have been eliminated.