STATE OF WISCONSIN CONTINUING DISCLOSURE ANNUAL REPORT

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

GENERAL OBLIGATIONS
(Base CUSIPs 977053, 977055, and 977056)

MASTER LEASE CERTIFICATES OF PARTICIPATION
(Base CUSIP 977087)

TRANSPORTATION REVENUE OBLIGATIONS
(Base CUSIP 977123)

CLEAN WATER REVENUE BONDS
(Base CUSIP 977092)

PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS
(Base CUSIP 977109)

GENERAL FUND ANNUAL APPROPRIATION BONDS
(Base CUSIP 977100)

DECEMBER 23, 2003

JIM DOYLE
GOVERNOR

MARC J. MAROTTA
SECRETARY

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December 23, 2003

Thank you for your interest in the State of Wisconsin.

This is the Continuing Disclosure Annual Report for the fiscal year ending June 30, 2003 (**Annual Report**).

The Annual Report provides information on different securities that the State issues and fulfills the State's continuing disclosure undertakings. These undertakings of the State are intended to help dealers and brokers comply with Rule 15c2-12 under the Securities Exchange Act of 1934. As of this date, the State has filed the Annual Report with each nationally recognized municipal securities information repository.

Official Statements for securities that the State issues during the next year may incorporate parts of this Annual Report by reference.

Organization of the Annual Report

The Annual Report is divided into eight parts. The first two parts present general information.

- **Part I** presents the **State's continuing disclosure undertakings**. A Master Agreement on Continuing Disclosure establishes a general framework. Separate addenda describe the information to be provided for specific types of securities.

- **Part II** presents **general information about the State**, including its operations and financial results. This part includes the audited basic financial statements for the fiscal year ending June 30, 2003 and the State Auditor's report. This part also includes the results of the 2002-03 fiscal year and the current status of the budget for the 2003-04 fiscal year.

The remaining parts present information about different types of securities that the State issues.

- **Part III — General obligations (including bonds, commercial paper, and extendible municipal commercial paper)**
- **Part IV — Master lease certificates of participation**
- **Part V — Transportation revenue obligations (including bonds and commercial paper)**
- **Part VI — Clean water revenue bonds**
- **Part VII — Petroleum inspection fee revenue obligations (including bonds and extendible municipal commercial paper)**
- **Part VIII – General fund annual appropriation bonds**

Please note that certain terms may have different meanings in different parts.

Ratings on the State's Securities
The following chart presents a summary of the long-term ratings currently assigned to different types of securities that the State issues. Your attention is called to rating changes highlighted below.

Security	Fitch Ratings	Moody's Investors Service, Inc.	Standard & Poor's Ratings Services
General Obligations	**AA** (1)	Aa3 (2)	AA–
Master Lease Certificates of Participation	**AA–** (1)	A1 (2)	A+
Transportation Revenue Bonds	AA	Aa3	AA–
Clean Water Revenue Bonds	AA+	Aa2	AA+
Petroleum Inspection Fee Revenue Bonds	AA–	Aa3	AA–
General Fund Annual Appropriation Bonds	**AA–** (3)	**A1** (4)	A+

(1) Fitch Ratings has assigned a rating watch negative the State's general obligations and master lease certificates of participation.
(2) Moody's has assigned a negative outlook on the State's long-term general obligation bonds.
(3) Fitch Ratings assigned a rating watch negative corresponding to the rating watch negative on the general obligation bonds.
(4) Moody's assigned a negative outlook corresponding to the negative outlook on the general obligation bonds.

How to Get Additional Information

If you are interested in information about securities that the State issues, please contact the Capital Finance Office. *The Capital Finance Office is the only party authorized to speak on the State's behalf about the State's securities.*

The Capital Finance Office maintains a web site that provides access to both disclosure and non disclosure information.

www.doa.wi.gov/capitalfinance

The Capital Finance Office posts to this web site monthly general fund cash flow reports. The Capital Finance Office also posts to this web site all information and material event filings that it makes with each nationally recognized municipal securities information repository.

We welcome your comments or suggestions about the format and content of the Annual Report. The general telephone number of the Capital Finance Office is (608) 266-2305. The e-mail address is capfin@doa.state.wi.us.

Sincerely,

/S/ FRANK R. HOADLEY

Frank R. Hoadley
Capital Finance Director

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SUMMARY OF OUTSTANDING STATE OF WISCONSIN OBLIGATIONS AS OF DECEMBER 1, 2003

	Principal Balance 12/1/2002	Principal Issued 12/1/2002 – 12/1/03	Principal Matured, Redeemed, or Defeased 12/1/2002 – 12/1/03	Principal Balance 12/1/2003
GENERAL OBLIGATIONS[a]				
Total	**$4,386,518,967**	**$602,660,000**	**$619,016,285**	**$4,370,162,682**
General Purpose Revenue (GPR)	3,296,100,208	213,171,000	207,291,135	3,301,980,073
Self-Amortizing: Veterans	657,730,000	133,630,000	378,085,000	413,275,000
Self-Amortizing: Other	432,688,759	255,859,000	33,640,150	654,907,609
MASTER LEASE CERTIFICATES OF PARTICIPATION				
Total	**$ 122,125,452**	**$ 36,125,900**	**$ 43,110,926**	**$ 115,140,426**
TRANSPORTATION REVENUE OBLIGATIONS[a]				
Total	**$1,244,498,000**	**$250,000,000**	**$ 52,420,000**	**$1,442,078,000**
CLEAN WATER REVENUE BONDS				
Total	**$ 656,885,000**	**—**	**$ 36,405,000**	**$ 620,480,000**
PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS[a]				
Total	**$ 329,360,000**	**—**	**$ 12,070,000**	**$ 317,290,000**
TAXABLE GENERAL FUND ANNUAL APPROPRIATION BONDS[b]				
Total	**—**	**$1,794,850,000**	**—**	**$1,794,850,000**

(a) This table includes variable rate obligations that have been issued by the State. Please see the respective part of this Annual Report for more information on the variable rate obligations issued for each credit..

(b) Reflects amount outstanding as of December 23, 2003.

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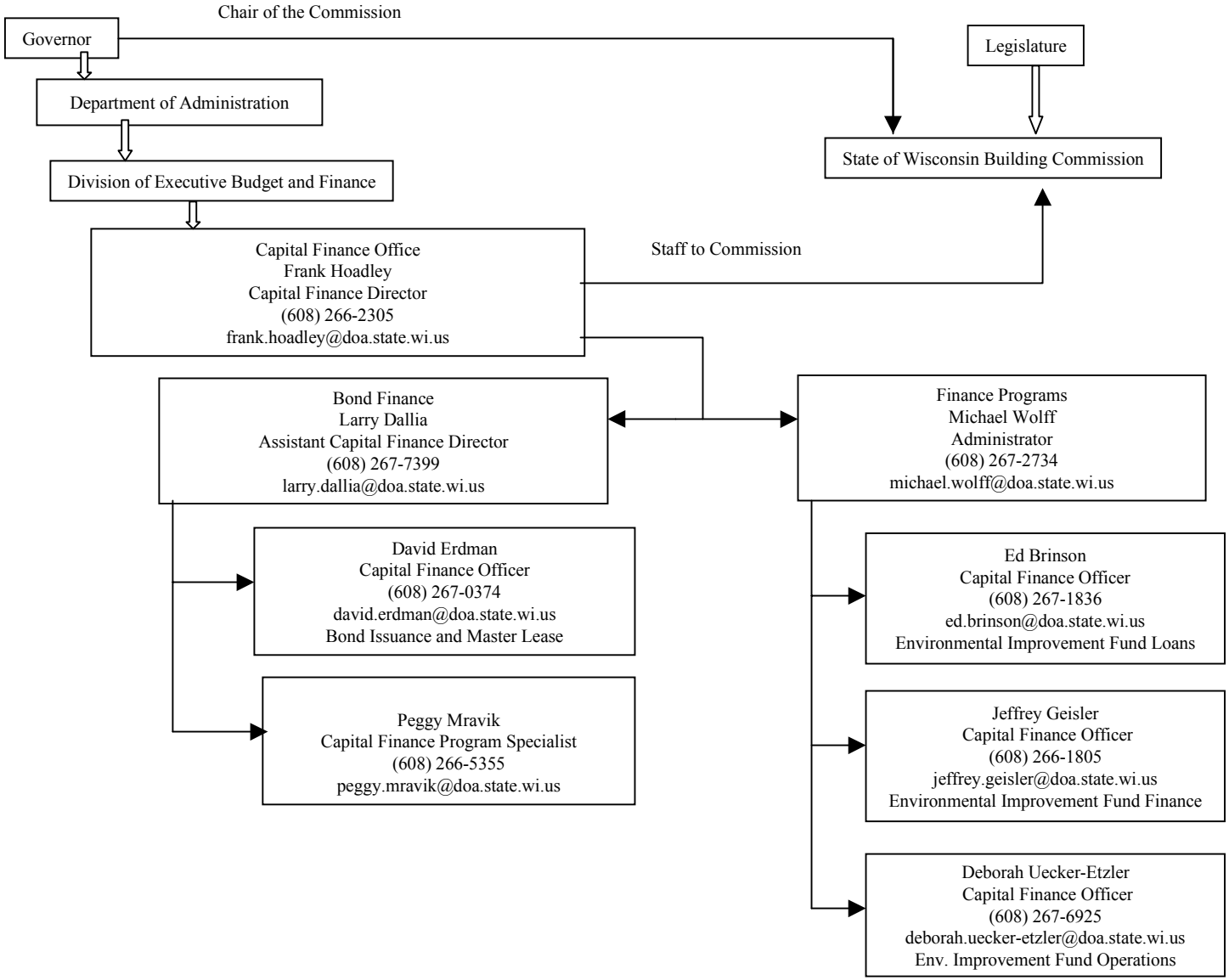
Capital Finance Office Staff (As of December 1, 2003)



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

BUILDING COMMISSION MEMBERS

Voting Members	**Term of Office Expires**
Governor Jim Doyle, Chairperson	January 8, 2007
Senator Fred A. Risser, Vice-Chairperson	January 3, 2005
Senator Robert Cowles	January 3, 2005
Senator Carol Roessler	January 3, 2005
Representative Spencer Black	January 3, 2005
Representative Jeff Fitzgerald	January 3, 2005
Representative Daniel Vrakas	January 3, 2005
Mr. Terry McGuire, Citizen Member	At the pleasure of the Governor
Nonvoting, Advisory Members	
Mr. Adel Tabrizi, State Chief Engineer Department of Administration	——
Mr. Dave Haley, State Chief Architect Department of Administration	——
Building Commission Secretary	
Mr. Robert G. Cramer, Administrator Division of Facilities Development Department of Administration	At the pleasure of the Building Commission and Secretary of Administration

OTHER PARTICIPANTS

Ms. Peggy A. Lautenschlager State Attorney General	January 8, 2007
Mr. Marc J. Marotta, Secretary Department of Administration	At the pleasure of the Governor

DEBT MANAGEMENT AND DISCLOSURE

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PART II

GENERAL INFORMATION ABOUT THE STATE OF WISCONSIN

This part provides general information about the State of Wisconsin **(State)**. It describes the following:

- Financial Information; Revenues and Expenditures
- Accounting and Financial Reporting
- Budgeting Process and Fiscal Controls
- Results of 2002-03 Fiscal Year
- State Budget
- General Fund Information
- State Government Organization
- State Obligations
- Statistical Information

APPENDIX A to this part includes the audited general purpose external financial statements for the fiscal year ending June 30, 2003 and the independent auditor's report that is provided by the State Auditor.

Requests for additional information about the State may be directed as follows:

Contact: Capital Finance Office
Attn: Capital Finance Director
Phone: (608) 266-2305
Mail: 101 East Wilson Street, FLR 10
P.O. Box 7864
Madison, WI 53707-7864
E-mail: capfin@doa.state.wi.us
Web site: www.doa.wi.gov/capitalfinance

The State has independently provided, since July 2001, monthly general fund financial information. These monthly reports are not required by any of the State's undertakings provided to permit compliance with Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934. These reports are available on the State's Capital Finance Office web site that is listed above; however, the State is not obligated to continue providing such monthly reports.

This Annual Report includes information and defined terms for different types of securities issued by the State. The context or meaning of terms used in this Part II of the Annual Report may differ from that of terms used in another part. Information and resources referred to in this Annual Report is not part of the Annual Report unless expressly included.

FINANCIAL INFORMATION–REVENUES

Revenue Structure

The State raises revenues from diverse sources:

- Various taxes levied by the State
- Federal government payments
- Various kinds of fees, licenses, permits, and service charges paid by users of specific services, privileges, or facilities
- Investment income
- Gifts, donations, and contributions

Table II-1 on the following page identifies the specific sources of revenue (all funds) and the amounts raised from each source for each of the last five years. There can be no assurance that future receipts will correlate with historical data.

Tax Structure

The State collects a diverse variety of taxes. The most significant taxes are based on income, and sales and use. The following is a brief description of certain taxes that appear in Table II-1.

Individual Income Tax

The tax brackets and rates for the 2003 and 2004 tax years are as follows. The taxable income brackets have been indexed for changes in the consumer price index.

2003 Taxable Income Brackets		2003 Marginal Tax Rate
Single	Married Filing Jointly[(a)]	
$0 to 8,430	$0 to 11,240	4.60%
8,431 to 16,860	11,241 to 22,480	6.15
16,861 to 126,420	22,481 to 168,560	6.50
126,421+	168,561+	6.75

2004 Taxable Income Brackets		2004 Marginal Tax Rate
Single	Married Filing Jointly[(a)]	
$0 to 8,610	$0 to 11,480	4.60%
8,610 to 17,220	11,480 to 22,960	6.15
17,220 to 129,150	22,960 to 172,200	6.50
129,150+	172,200+	6.75

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

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.

Corporate Income and Franchise 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. The net tax liability is determined by subtracting allowable credits.

Table II-1

REVENUES (ALL SOURCES)[a]

1998-99 TO 2002-03

	2002-03	2001-02	2000-01	1999-2000	1998-99
State Collected Taxes					
Individual Income	$ 5,051,996,958	$ 4,979,661,843	$ 5,156,565,325	$ 5,959,818,943	$ 5,162,238,865
General Sales and Use	3,737,912,069	3,695,795,708	3,609,895,359	3,501,658,965	3,284,694,814
Corporate Franchise and Income	526,544,586	503,007,920	537,159,154	644,625,016	635,202,891
Public Utility	276,794,706	252,297,980	239,298,968	259,991,437	287,093,752
Excise	354,759,924	348,282,067	299,775,120	301,851,909	308,921,713
Inheritance and Gift	68,702,274	82,634,627	77,084,123	133,261,148	116,898,047
Insurance Companies	114,896,687	96,055,400	89,041,589	86,877,861	97,045,435
Motor Fuel	996,166,648	954,147,642	918,449,310	914,673,547	907,722,042
Forest	70,922,998	65,885,102	58,648,511	58,061,250	52,253,055
Miscellaneous	124,423,116	113,979,522	112,312,779	104,617,943	129,848,806
Subtotal	11,323,119,967	11,091,747,811	11,098,230,239	11,965,438,019	10,981,919,420
Federal Aid					
Medical Assistance	2,876,517,126	2,663,987,093	2,395,438,874	1,961,769,304	1,679,110,792
AFDC/W2	477,330,616	490,161,681	403,990,150	263,964,530	148,879,361
Transportation	726,594,153	769,221,794	671,344,340	608,670,820	525,360,773
Education	1,316,197,365	1,120,807,676	1,028,557,046	957,144,633	870,817,978
Other	2,121,671,098	2,158,980,902	1,727,232,553	1,055,061,747	1,154,327,827
Subtotal	7,518,310,358	7,203,159,146	6,226,562,962	4,846,611,034	4,378,496,731
Fees					
University of Wisconsin System[b]	775,395,525	84,006,675	2,155,613,345	632,110,050	578,407,190
Other	377,001,995	356,048,754	300,580,123	282,404,664	267,718,834
Subtotal	1,152,397,520	440,055,429	2,456,193,468	914,514,714	846,126,024
Licenses and Permits					
Vehicles and Drivers	319,449,151	340,205,268	324,531,760	326,133,108	304,346,133
Hunting and Fishing	81,846,434	81,747,187	78,929,285	132,906,803	84,829,913
Other	444,479,156	383,584,407	328,027,538	243,832,829	260,410,783
Subtotal	845,774,742	805,536,862	731,488,582	702,872,740	649,586,829
Miscellany					
Service Charges	711,017,199	625,265,992	524,635,878	500,897,911	423,557,725
Sales of Products	723,916,809	682,332,141	679,562,010	687,203,049	684,788,382
Investment Income	2,038,503,724	(3,541,516,552)	(4,003,889,358)	8,119,031,124	5,825,766,448
Gifts and Grants	343,153,253	337,321,976	373,700,027	349,206,053	281,312,163
Employee Benefit Contributions [c]	2,038,154,899	1,768,712,369	1,847,520,797	1,558,509,041	1,697,287,871
General Obligation Proceeds	646,000,534	785,363,834	1,012,418,625	702,676,279	490,002,803
Other Revenues[d]	3,002,651,240	5,265,115,871	709,942,714	1,867,986,094	1,184,536,265
Subtotal	9,503,397,656	5,922,595,630	1,143,890,693	13,785,509,551	10,587,251,657
Summary					
TOTAL NET REVENUE	30,343,000,242	25,463,094,878	21,656,365,944	32,214,946,058	27,443,380,661
Transfers	939,405,913	1,307,219,152	620,137,706	658,364,767	656,836,667
Gross Revenue	$ 31,282,406,155	$ 26,770,314,030	$ 22,276,503,650	$ 32,873,310,825	$ 28,100,217,328

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

[b] The decrease in 2001-02 is the result of these fees being erroneously posted under "Miscellany; Other Revenues" in this table.

[c] Figures include all State and non-State employer and employee contributions. State contributions for State employees totaled $975,778,982.77 for 2002-03, $824,268,843 for 2001-02; $758,283,014 for 2000-01; $668,926,218 for 1999-2000; and $641,535,593 for 1998-99.

[d] The increase from 2000-01 to 2001-02 reflects sale of rights to tobacco settlement revenues, an increase in child support collections, certain University of Wisconsin Systems fees being erroneously posted to this category, and other intergovernmental transfers or miscellaneous revenues.

Source: Wisconsin Department of Administration.

Public Utility Taxes

There are two methods used for taxing public utilities. An ad valorem method on property is used for pipeline companies, conservation and regulation companies, railroads, and airlines. The State assesses the value of the property; then the average statewide property tax rate is applied to derive the tax. An ad valorem tax on the real and tangible personal property is used for telephone companies.

The gross receipts tax is 3.19% for electric cooperatives and municipal power companies. Private light, heat, and power companies pay a gross receipts license fee at the rates of 0.97% of revenues from gas services and 3.19% of revenues from electric services. Each year's fee is based on revenues collected in the previous year. Revenue received from utilities is deposited to the General Fund; however, revenue from railroads and airlines is deposited in the segregated Transportation Fund. Car line companies, which are businesses that furnish or lease car line equipment to a railroad but do not operate a railroad, are subject to a 3% gross receipts tax, which is also deposited into the Transportation Fund.

Excise Taxes

Cigarettes are taxed at the rate of 77 cents per pack of 20. Tobacco products, other than cigarettes, are taxed at the rate of 25% of the manufacturer's list price. The tax is collected from distributors and subjobbers. Wine is taxed at 25 cents or 45 cents per gallon, depending on its alcohol content. Liquor is taxed at $3.25 per gallon. The wine and liquor tax is collected from wholesalers. Beer is taxed at the rate of $2 per barrel, and the tax is paid monthly by brewers.

Estate, Inheritance, and Gift Taxes

The State imposes an estate tax equal to the state death tax credit provided under federal tax law.

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.

Motor Fuel Tax

Motor fuel is taxed at the rate of 28.5 cents per gallon. The motor fuel tax is indexed using an inflation-only factor based on the Consumer Price Index. The tax is collected from the wholesaler but is specifically passed through to the user. The revenues are deposited in the Transportation Fund, where they are used primarily for highway purposes.

Forest Tax

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

Miscellaneous Taxes

The State collects other miscellaneous taxes and fees, the largest of which is the real estate transfer fee. This fee is assessed at the time of a sale or transfer of real estate and at the rate of 30.0 cents per $100 value.

Tax Credits

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

Homestead Tax Credit

Property tax relief is provided to low-income homeowners and renters through a homestead tax credit on state individual income taxes. The maximum household income limit is $24,500. 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. In the 2002-03 fiscal year, low-income homeowners and renters received $113 million in homestead tax credit relief.

Earned Income Tax Credit

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

The State's earned income tax credit is calculated as a percentage of the federal credit. The federal earned income tax credit varies by income and family size. In addition to the federal standards, the State's credit varies the percent of the federal credit by number of children: 4% of the federal credit for one child, 14% for two, and 43% for three or more. The maximum State credit in tax year 2002 ranged from $100 for one child, $580 for two children, and $1,780 for three or more children. In the 2002-03 fiscal year, low-income wage earners received $72 million in earned income tax credits.

Farmland Preservation Tax Credit

The farmland preservation program provides property tax relief to farmland owners and encourages local governments to develop farmland preservation policies. The credit reduces income tax liability or is rebated if the credit exceeds income tax due. The credit formula is based on household income, the amount of property tax levied by all governments, and the type of land use provisions protecting the farmland (either a preservation agreement or exclusive agricultural zoning). Claimants may receive a credit on up to $6,000 of property taxes. The maximum potential credit is $4,200. In the 2002-03 fiscal year, farmland owners received $17 million in farmland preservation tax credits.

School Levy Tax Credit

The school levy tax credit is distributed based on each municipality's share of statewide levies for school purposes and is provided to all classes of taxpayers (residential, commercial, industrial, and others). For property taxes levied in December 2003, $469 million of school levy tax credits will be distributed statewide, and the credit will lower school property taxes paid by taxpayers by 5.9% of the total gross school tax levy. The credits are paid to municipalities to reduce the amount due from all property taxpayers.

Lottery Property Tax Credit.

The net proceeds of the state lottery are reserved for property tax relief. The lottery credit is paid to municipalities to reduce the amount due from local taxpayers. The lottery credit is paid only for property taxes on primary residences. The lottery credit is expected to total $118 million in December 2003.

School Property Tax/Rent Credit

The school property tax/rent credit is equal to 12% of the first $2,500 in property taxes, or rent relating to allocable property taxes, for a maximum credit of $300. In the 2002-03 fiscal year, the school property tax/rent credit totaled $387 million.

Tax Collection Procedure (Delinquencies)

If a taxpayer does not file a valid return when requested, the State of Wisconsin Department of Revenue **(DOR)** estimates the amount of tax due and sends the taxpayer an assessment of the amount owing. Until

the due date, the taxpayer may appeal the amount stated to be owing, and absent an appeal, the account is considered delinquent on the due date. Other delinquencies occur when a taxpayer fails to properly pay taxes on a filed return or undercomputes the tax due. In that case, the taxpayer is billed for the shortfall, and there is no appeal process. Assessments can also result from office or field audits. Audit adjustments may be appealed up to the due date of the assessment.

DOR uses a computer system to record payment and collection information for income, franchise, sales, and use taxes. Revenue agents around the state can access the case records for delinquent accounts through DOR.

Collection of delinquencies begins with a notice of overdue tax, which is sent to the taxpayer. This notice informs the taxpayer that failure to pay within 10 days may result in a warrant being filed in the county of residence or other involuntary collection actions. The account is assigned to a revenue agent, who will schedule an informal hearing with the taxpayer to attempt to solicit payment in full or set up an installment payment plan. Records of all collection contacts and actions are maintained in the statewide computer system.

If voluntary payments cannot be arranged, the revenue agent can proceed to a variety of involuntary collection actions, such as attachment of wages or levy or garnishment of assets. If the delinquent taxpayer has a refund coming from any tax program administered by DOR, the refund is applied to the delinquent balance. Beginning in calendar year 2001, federal tax refunds were applied to the delinquent balance.

Other actions that may be recommended to resolve a delinquent account include:

- Revocation of a business seller's permit
- Withholding of a business's liquor license
- Denial of a state-issued occupational license
- Referral to a private collection agency

If it is unknown whether the taxpayer has any assets that might be garnished, a supplemental hearing may be called before the court commissioner in the taxpayer's county of residence, and the taxpayer's affairs could 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 the overall delinquency rate for the income, franchise, and sales and use taxes is shown in Table II-26 of "STATISTICAL INFORMATION".

FINANCIAL INFORMATION–EXPENDITURES

General

State expenditures are categorized under eight functional categories and the general obligation bond program. They are subcategorized by three distinct types of expenditures. The eight functional categories, which are listed in Table II-2, are described later in this part of the Annual Report. See "STATE GOVERNMENT ORGANIZATION; Description of Services Provided by State Government". The three types of expenditures are defined below.

- *State Operations.* Direct payments by State agencies to carry out State programs for expenses such 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 (for example, aid for families with dependent children and school aids).

Table II-2 on the following page shows the amounts expended (all funds) by function and type for each of the last five years.

General Fund Expenditures

Based on the budget and allocations for the 2003-04 fiscal year, over 59% of all general-fund taxes collected by the State are returned to local units of government. The remaining funds are used for payments to individuals and organizations (17%) and state programs, including the University of Wisconsin System (24%).

ACCOUNTING AND FINANCIAL REPORTING

Statutory Basis

The State accounts for, reports, and budgets its operations as set forth in the statutes. The Annual Fiscal Report (which is unaudited) must 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:

- 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.
- 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: (1) amounts withheld for income taxes prior to July 1, and (2) 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.
- 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 new fiscal year.
- Revenues and expenditures are reported on a net basis. Overcollections refunded are deducted from revenues and current year overpayments made are deducted from expenditures.
- General Fund investments are carried at the lower of cost or par with discounts, premiums, and earnings recorded on an accrual basis.
- Encumbrances are treated as expenditures in the year of initiation.

Table II-2

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

1998-99 TO 2002-2003

	2002-03	2001-02	2000-01	1999-2000	1998-99
Commerce					
State Operations	176,083,715	$ 170,184,711	$ 171,267,613	$ 162,895,100	$ 150,658,080
Aids to Individuals and Organizations	187,477,215	174,212,058	215,454,938	346,664,701	155,481,162
Local Assistance	74,394,249	74,407,965	51,631,378	56,346,765	58,646,694
Subtotal	437,955,179	418,804,734	438,353,929	565,906,566	364,785,936
Education					
State Operations	3,303,821,334	3,115,399,765	3,075,483,311	2,804,394,458	2,622,619,858
Aids to Individuals and Organizations	485,812,841	427,268,613	391,871,206	342,821,711	323,423,408
Local Assistance	5,355,644,148	5,118,756,509	4,941,446,927	4,676,809,090	4,435,185,215
Subtotal	9,145,278,323	8,661,424,887	8,408,801,444	7,824,025,259	7,381,228,481
Environmental Resources					
State Operations	1,848,457,071	1,669,826,629	1,689,461,785	1,471,082,344	1,427,889,702
Aids to Individuals and Organizations	16,157,370	32,409,367	25,802,608	25,185,553	27,519,834
Local Assistance	1,115,024,574	1,009,292,244	1,011,992,606	1,039,528,614	967,912,080
Subtotal	2,979,639,014	2,711,528,240	2,727,256,998	2,535,796,511	2,423,321,616
Human Relations and Resources					
State Operations	2,407,000,030	2,201,627,675	1,972,235,028	1,863,099,973	1,726,775,813
Aids to Individuals and Organizations	7,214,104,334	7,002,052,675	5,711,855,259	5,220,672,714	3,971,027,191
Local Assistance	754,700,651	722,778,120	697,998,641	676,100,856	699,232,414
Subtotal	10,375,805,016	9,926,458,471	8,382,088,927	7,759,873,543	6,397,035,418
General Executive					
State Operations	4,534,745,855	4,507,929,098	3,870,708,222	3,356,742,192	2,925,101,503
Aids to Individuals and Organizations	375,249,497	326,682,917	357,195,805	302,438,911	300,649,421
Local Assistance	125,798,685	104,908,224	59,560,427	40,962,042	35,229,960
Subtotal	5,035,794,037	4,939,520,239	4,287,464,453	3,700,143,145	3,260,980,884
Judicial					
State Operations	85,979,874	84,149,092	85,292,057	78,820,982	74,014,002
Local Assistance	24,073,100	23,716,900	23,726,900	23,666,900	21,416,900
Subtotal	110,052,974	107,865,992	109,018,957	102,487,882	95,430,902
Legislative					
State Operations	61,219,698	62,114,318	62,220,008	59,819,385	58,081,525
Subtotal	61,219,698	62,114,318	62,220,008	59,819,385	58,081,525
General					
State Operations	850,238,866	1,320,960,416	564,306,377	656,616,891	709,978,546
Aids to Individuals and Organizations	836,426,667	1,179,940,690	837,938,682	884,416,569	178,777,552
Local Assistance	1,702,335,971	1,693,443,439	1,675,208,599	1,779,060,238	1,639,701,767
Subtotal	3,389,001,503	4,194,344,545	3,077,453,657	3,320,093,698	2,528,457,865
General Obligation Bond Program					
State Operations	447,479,707	622,061,731	675,100,374	576,493,991	453,827,797
Subtotal	447,479,707	622,061,731	675,100,374	576,493,991	453,827,797
Summary Totals					
State Operations	13,715,026,150	13,754,253,435	12,166,074,774	11,029,965,316	10,148,946,826
Aids to Individuals and Organizations	9,115,227,924	9,142,566,320	7,540,118,497	7,122,200,159	4,956,878,568
Local Assistance	9,151,971,378	8,747,303,402	8,461,565,478	8,292,474,505	7,857,325,030
GRAND TOTAL	31,982,225,451	$31,644,123,157	$28,167,758,749	$26,444,639,980	$22,963,150,424

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

Source: Wisconsin Department of Administration.

Generally Accepted Accounting Principles

The State also accounts for and reports on its operations using generally accepted accounting principles (**GAAP**). For the fiscal year ended June 30, 2003 the State has prepared a Comprehensive Annual Financial Report (**CAFR**) in accordance with GAAP. The General Purpose External Financial Statements section of the CAFR for the fiscal year ended June 30, 2003 has been audited and is included as APPENDIX A to this Part II 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, 2003 was a deficit of $282 million on a budgetary basis. Under GAAP, the balance for the fiscal year ended June 30, 2003 was a deficit of $2.243 billion. The difference results primarily because GAAP recognizes accrued liabilities that are not taken into account under the statutory basis. The single largest accrued liability for the fiscal year ended June 30, 2003 was $738 million and related to the State's unpaid income tax refunds.

BUDGETING PROCESS AND FISCAL CONTROLS

Annual appropriations are made through the enactment of the State budget. Most of the budget process derives from statutory laws or custom and practice, and thus the process is subject to change.

The State budget is the legislative document that sets the level of authorized state expenditures for the two fiscal years in a biennium and the corresponding level of revenues (primarily taxes) projected to be available to finance those expenditures. A biennium begins on July 1 of each odd-numbered year and ends on June 30 of the subsequent odd-numbered year. The requirement for a state budget is linked directly to the Wisconsin Constitution, which provides that "No money shall be paid out of the treasury except in pursuance of an appropriation by law." The Wisconsin Constitution requires a balanced budget. It also requires that, if final budgetary expenses of any fiscal year exceed available revenues, then the Legislature must take actions to pay the deficiency in the succeeding fiscal year.

Budget Requests from Agencies

The formal budget process begins when the State Budget Office in the Department of Administration **(Department)** issues instructions to State agencies for submission of their budget requests for the next biennium. Most larger agencies actually begin their internal processes for development of their budget requests several months prior to the issuance of these instructions.

By statute, agency budget requests are to be submitted no later than September 15 of each even-numbered year. Agencies are required, by statute, to submit copies of their budget requests to the Legislative Fiscal Bureau at the same time that copies are delivered to the State Budget Office.

Executive Budget

The Secretary of Administration is required, by statute, to provide to the Governor or Governor-Elect and to each member of the next Legislature, by November 20 of each even-numbered year, a compilation of the total amount of each agency's biennial budget request. The statutes require that summary information be compiled on the actual and estimated revenues for the current and forthcoming biennium. These revenue estimates are used by the Governor as the basis on which total General Fund biennial budget spending levels are recommended. The State Budget Director (who is an appointee of the Secretary of Administration) is involved in the review of agency requests and the development of the Governor's budget recommendations for appropriations. In addition, the Governor's budget recommendations include any statutory language changes needed to accomplish the policy initiatives and program or appropriation changes that are part of the Governor's recommendations. A draft bill is

prepared by the Legislative Reference Bureau incorporating the Governor's fiscal and statutory recommendations.

Under state law, the Governor is required to deliver the biennial budget message and executive budget bill or bills to the Legislature on or before the last Tuesday in January of the odd-numbered year. However, upon request of the Governor, a later submission date may be allowed by the Legislature upon passage of a joint resolution. For 9 of the last 10 biennial budgets, a delayed submission date, averaging 15 days, has been requested by the Governor.

The statutes provide that immediately after delivery of the Governor's budget message, the executive budget bill or bills must be introduced by the Joint Committee on Finance, without change, into one of the two houses of the Legislature. Upon introduction, the bill or bills must be referred to that committee for review. Committee review is usually the first step in the legislative processing of any proposed statutory enactment. However, because of both the complexity of the budget and its significance, committee review of the budget bill is the most extensive and involved review given to any bill in a legislative session.

Legislative Consideration

The Legislative Fiscal Bureau usually provides initial overview briefings on the budget for the Joint Finance Committee. The committee holds public hearings on the proposed budget, including both hearings at which agencies present informational briefings and hearings to allow public comment. Other legislative committees may hold meetings, at the discretion of the committee chairperson, to inform committee members of particular aspects of the budget that may affect the substantive interests of the committee.

Upon conclusion of the public hearings, the Joint Committee on Finance commences executive sessions of the Governor's recommended budget. The committee invariably adopts a budget that contains numerous changes to the Governor's recommendations. The form of the committee's budget is usually a substitute amendment to the Governor's budget bill rather than being a separately identified new bill.

The two houses of the Legislature rarely pass identical versions of the budget in their first consideration. There are alternative methods available for achieving resolution of the differences between the two houses on bills. A common method is for one house to seek a committee of conference on the bill wherein a specified number of members from each house are delegated to meet as a bargaining committee with the goal of producing a report reconciling the differences. Another method that has been used from time to time has been to successively pass, between the houses, narrowing amendments dealing only with the points of difference between the respective budgets as initially recommended by the two houses.

Governor's Partial Veto Power

The Wisconsin Constitution grants the Governor the power of partial veto for any appropriation bill. This means that rather than having to approve or reject the budget bill in its entirety, the Governor may selectively delete portions of the budget bill. Thus, both language and dollar amounts in a budget bill may be eliminated by the Governor's veto, and dollar amounts may be reduced. The budget bill (less any items deleted or reduced by the Governor's partial veto) then becomes the State's fiscal policy document for the next two years.

Just as it may do with a Governor's veto of a bill in its entirety, the Legislature may, with a two-thirds vote by each house, override a partial veto and enact the vetoed portion into law. This action may be taken before or after the budget becomes effective.

Continuing Authority

The failure of the Legislature to adopt a new budget before the commencement of a biennium does not result in a lack of spending authority. The Wisconsin Statutes provide that if an existing appropriation for the second year of a biennium is not amended or repealed, it continues in effect for all subsequent fiscal years. Thus, 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 in enacted.

Fiscal Controls

No money shall be paid out of the Treasury except as appropriated by law. The Statutes require that the Secretary of Administration and the State Treasurer must approve all payments. The Secretary of Administration is also responsible for audit of expenditures prior to disbursement. The Legislative Audit Bureau has postaudit responsibility.

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

State law prohibits the enactment of legislation that would cause the estimated General Fund balance to be less than a specified amount or percentage of the general purpose revenue appropriations for that fiscal year. While no amount was specified for the 2002-03 fiscal year, the specified amount for the 2003-04 fiscal year is $35 million. State law currently requires that the amount for the 2004-05 fiscal year should be $40 million and for the 2005-06 fiscal year should be $75 million. State law also requires that, beginning with the 2006-07 fiscal year, the statutory required reserve should be 2.0% of the general purpose revenue appropriations for that fiscal year.

The budget could move out of balance if estimated revenues are less than anticipated in the budget or if expenditures for open-ended appropriations are greater than anticipated. Statutes provide that, following the enactment of the budget, if 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 approval of expenditure estimates can occur. Further, the Secretary of Administration must notify the Governor and the Legislature, 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-fourth of the General Fund budget). The Secretary of Administration may also temporarily reallocate free balances of certain funds to other funds that have insufficient balances and, further, may prorate or defer certain payments in the event current or projected balances are insufficient to meet current obligations. See "GENERAL FUND INFORMATION, General Fund Cash Flow." The Department of Administration may also request the issuance of operating notes by the State of Wisconsin Building Commission (**Commission**).

RESULTS OF 2002-03 FISCAL YEAR

The Annual Fiscal Report (Budgetary Basis) for the fiscal year ending June 30, 2003 was published October 10, 2003. It reports that the State ended the 2002-03 fiscal year on a statutory and unaudited basis with an undesignated balance of negative $282 million. This is $2 million better than the negative

$284 million balance projected after enactment of the budget emergency bill for the 2002-03 fiscal year (2003 Wisconsin Act 1). Since the ending balance is negative, and as required by the State Constitution, the budget for the succeeding fiscal year (2003-04) does include actions to balance the budget. See "STATE BUDGET; Budget for 2003-05". The State did not issue any operating notes during the 2002-03 fiscal year.

The Annual Fiscal Report is not part of this Annual Report. A complete copy of the Annual Fiscal Report may be obtained from the State at the following address:

State of Wisconsin Capital Finance Office
Department of Administration
101 East Wilson Street, FLR 10
P.O. Box 7864
Madison, WI 53707-7864
(608) 266-2305
capfin@doa.state.wi.us
www.doa.wi.gov/capitalfinance

Tables II-3, II-4 and II-5 in the section "STATE BUDGET" summarizes the results from the 2002-03 fiscal year.

STATE BUDGET

Budget for 2003-05

Governor Doyle's proposed budget for the 2003-04 and 2004-05 fiscal years was introduced on February 18, 2003. The Legislature approved a budget bill for the 2003-04 and 2004-05 fiscal years, which included differences from the Governor's proposed budget. Governor Doyle signed the budget bill for the 2003-04 and 2004-05 fiscal years into law, with some partial vetoes, on July 24, 2003 (2003 Wisconsin Act 33). A two-thirds vote in each house is required to override any veto. In August, 2003, one house of the Legislature (the Senate) considered a motion to override certain vetoes relating to the budget for the 2003-04 and 2004-05 fiscal years, but the motion failed to obtain the requisite two-thirds vote.

The budget for the 2003-04 and 2004-05 fiscal years (2003 Wisconsin Act 33) is summarized in Tables II-3, II-4, and II-5. The tax collection estimates for the 2003-04 and 2004-05 fiscal years are taken from projections in a memorandum released by the Legislative Fiscal Bureau on January 23, 2003.

Additional information on 2003 Wisconsin Act 33 and the tax collection estimates released by the Legislative Fiscal Bureau on January 23, 2003 may be obtained from the State at the following address:

State of Wisconsin Capital Finance Office
Department of Administration
101 East Wilson Street, FLR 10
P.O. Box 7864
Madison, WI 53707-7864
(608) 266-2305
capfin@doa.state.wi.us
www.doa.wi.gov/capitalfinance

Table II-3
State Budget Summary
General Fund Basis
(Amounts in Millions)

	Budget 2002-03	Actual 2003-03	Budget 2003-04	Budget 2004-05
Beginning Balance	$ 54	$ 54	$ (284) [c]	$ 144
Tax Revenues	10,223	10,218	10,742	11,346
Tobacco Settlement Payments	149	154	n/a	n/a
Tribal Gaming Revenues	n/a	n/a	78	79
Nontax Revenues	8,240	10,312	9,425	9,294
Total Amount Available	$ 18,666	$ 20,738	$ 19,961	$ 20,863
Total Disbursements/Reserves	$ 18,950	$ 20,985	$ 19,852	$ 20,717
Estimated Gross Balance	$ (284)	$ (157)	$ 109	$ 146
GPR Designated and PR Balances[e]	n/a	(125)	n/a	n/a
Required Statutory Reserve	0[a]	n/a	35	40
Net Balance	$ (284)[b]	$ (282)[b]	$ 144	$ 186[d]

All-Funds Basis[f]
(Amounts in Millions)

	Budget 2002-03	Actual 2003-03	Budget 2003-04	Budget 2004-05
Beginning Balance	$ 54	$ 54	$ (284) [c]	$ 144
Tax Revenues	10,223	11,323	10,742	11,346
Tobacco Settlement Payments	149	154	n/a	n/a
Tribal Gaming Revenues	n/a	n/a	78	79
Nontax Revenues	20,988	19,805	20,557	20,462
Total Amount Available	$ 31,414	$ 31,336	$ 31,093	$ 32,031
Total Disbursements/Reserves	$ 31,698	$ 31,493	$ 30,984	$ 31,885
Estimated Gross Balance	$ (284)	$ (157)	$ 109	$ 146
GPR Designated and PR Balances[e]	n/a	(125)	n/a	n/a
Required Statutory Reserve	0[a]	n/a	35	40
Net Balance	$ (284)[b]	$ (282)[b]	$ 144	$ 186[d]

(a) 2003 Wisconsin Act 1 included an exemption from the statutory balance requirement for that fiscal year.

(b) The Wisconsin Constitution requires the Legislature to enact a balanced biennial budget, and the Wisconsin Constitution also requires that, if final budgetary expenses of any fiscal year exceed available revenues, the Legislature must take actions to balance the budget in the succeeding fiscal year.

(c) The actual ending balance for the 2002-03 fiscal year is negative $282 million.

(d) The Legislative Fiscal Bureau's estimate of the impact of the veto of the property tax limits decreases individual income tax by $17 million and increases expenditures by $16 million over the 2003-05 biennium. This results in a balance at June 30, 2005 of $186 million. The Department of Administration's estimate of the impact of the veto of the property tax limits decreases individual income tax by $9 million and increases expenditures by $9 million over the 2003-05 biennium. This results in a balance at June 30, 2005 of $205 million.

(e) See Exhibit A-2 of the Annual Fiscal Report (budgetary basis) for the 2002-03 fiscal year.

(f) The all-funds budget assumes that certain categories of revenues are expended in like amounts. This includes federal funds, revenues paid into specific funds (other than the General Fund) for a specified program or purpose or which are credited to an appropriation to finance a specific program or agency, and proceeds of general obligation debt. In any given fiscal year, there may be a balance at year-end in the funds, specific program, or agency.

Table II-4
State Budget–General Fund[a]

	Budget 2002-2003	Actual 2002-2003 [b]	Budget 2003-2004	Budget 2004-2005
RECEIPTS				
Fund Balance from Prior Year	$ 53,782,000	$ 53,782,000	$ (283,633,300) [f]	$ 144,469,900
Tax Revenue				
State Taxes Deposited to General Fund				
Individual Income	5,120,000,000	5,051,997,000	5,405,800,000	5,795,900,000
General Sales and Use	3,760,000,000	3,737,912,000	3,915,400,000	4,107,200,000
Corporate Franchise and Income	490,000,000	526,545,000	539,750,000	554,350,000
Public Utility	260,400,000	276,790,000	268,000,000	278,000,000
Excise				
Cigarette/Tobacco Products	307,900,000	309,205,000	305,200,000	302,600,000
Liquor and Wine	36,300,000	36,038,000	37,200,000	38,500,000
Malt Beverage	9,700,000	9,517,000	9,800,000	9,900,000
Inheritance, Estate & Gift	67,000,000	68,702,000	85,000,000	90,000,000
Insurance Company	105,000,000	114,897,000	105,000,000	95,000,000
Other	67,200,000	86,391,000	71,300,000	74,700,000
Subtotal	10,223,500,000	10,217,994,000	10,742,450,000	11,346,150,000
Nontax Revenue				
Departmental Revenue				
Tobacco Settlement	149,081,600	153,923,000	n/a	n/a
New Tribal Gaming Revenues	n/a	n/a	78,305,500	79,172,100
Other	278,613,700	253,879,000	331,285,900	329,447,800
Program Revenue-Federal	4,860,982,500	6,668,346,000	5,707,550,800	5,435,423,200
Program Revenue-Other	3,100,962,000	3,389,779,000	3,385,951,600	3,529,154,200
Subtotal	8,389,639,800	10,465,927,000	9,503,093,800	9,373,197,300
Total Available	$ 18,666,921,800	$ 20,737,703,000	$ 19,961,910,500	$ 20,863,817,200
DISBURSEMENTS AND RESERVES				
Commerce	$ 228,319,500	$ 222,143,000	$ 267,951,200	$ 270,736,800
Education	8,849,025,300	9,087,026,000	9,236,518,400	9,369,734,400
Environmental Resources	248,745,100	264,282,000	252,915,200	251,677,800
Human Relations and Resources	7,552,695,500	8,630,020,000	7,704,344,000	8,355,526,200
General Executive	637,880,200	646,171,000	622,251,300	627,647,400
Judicial	103,786,900	109,697,000	110,945,700	110,988,200
Legislative	57,649,200	61,219,000	62,468,300	62,479,800
General Appropriations	1,386,187,500	1,935,927,000	1,687,946,100	1,690,239,300
Subtotal	19,064,289,200	20,956,485,000	19,945,340,200	20,739,029,900
Less: (Lapses)	(208,894,700)	n/a	(237,052,500)	(224,586,700)
Compensation Reserves	79,815,500	n/a	109,152,900	163,019,600
Required Statutory Balance	0 [e]	n/a	35,000,000	40,000,000
Transfer to Tobacco Control Board	15,345,100	n/a	-	-
Changes in Continuing Balance	n/a	(61,576,000)	n/a	n/a
Total Disbursements & Reserves	$ 18,950,555,100	$ 20,894,909,000	$ 19,852,440,600	$ 20,717,462,800
Fund Balance	$ (283,633,300)	$ (157,206,000)	$ 109,469,900	$ 146,354,400
GPR Designated Balance		$ (6,402,000) [c]		
PR Balance		$ (118,613,000) [c]		
Undesignated Balance	$ (283,633,300)	$ (282,221,000) [d]	$ 144,469,900	$ 186,354,400 [g]

(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 dollars.
(c) See Exhibit A-2 of the Annual Fiscal Report (budgetary basis) for the 2002-03 fiscal year.
(d) The budget for the 2003-04 fiscal year anticipated a negative $284 million beginning balance and projects a balance of $144 million at June 30, 2004.
(e) A required balance for the 2002-03 fiscal year was not specified in State Statutes.
(f) The Wisconsin Constitution requires the Legislature to enact a balanced biennial budget. Subsequent to adoption of the 2001-2003 biennial budget (2001 Wisconsin Act 16), there was in January 2002 a downward re-estimate of revenues resulting in projected negative ending balances. 2001 Wisconsin Act 109 eliminated the projected negative ending balances. The projected fund balance reflects the revenue estimates and projections contained in a memorandum released by the Legislative Fiscal Bureau on January 23, 2003 and the General Fund condition statement following enactment of the budget emergency bill for the 2002-03 fiscal year (2003 Wisconsin Act 1).
(g) The Legislative Fiscal Bureau's estimated impact of the veto of property tax limits lowers individual income tax by $17 million and increases expenditures by $16 million over the 2003-05 biennium. This results in a balance at June 30, 2005 of $186 million. The Department of Administration's estimated impact of the veto of property tax limits decreases individual income tax by $9 million and increases expenditures by $9 million over the 2003-05 biennium. This results in a balance at June 30, 2005 of $205 million.

Sources: Legislative Fiscal Bureau and Wisconsin Department of Administration.

Table II-5
State Budget–All Funds[a]

	Budget 2002-2003	Actual 2002-2003 [b]	Budget 2003-2004	Budget 2004-2005
RECEIPTS				
Fund Balance from Prior Year	$ 53,782,000	$ 53,782,000	$ (283,633,300)	$ 144,469,100
Tax Revenue				
Individual Income	5,120,000,000	5,051,997,000	5,405,800,000	5,795,900,000
General Sales and Use	3,760,000,000	3,737,912,000	3,915,400,000	4,107,200,000
Corporate Franchise and Income	490,000,000	526,545,000	539,750,000	554,350,000
Public Utility	260,400,000	276,790,000	268,000,000	278,000,000
Excise				
Cigarette/Tobacco Products	307,900,000	309,205,000	305,200,000	302,600,000
Liquor and Wine	36,300,000	36,038,000	37,200,000	38,500,000
Malt Beverage	9,700,000	9,517,000	9,800,000	9,900,000
Inheritance, Estate & Gift	67,000,000	68,702,000	85,000,000	90,000,000
Insurance Company	105,000,000	114,897,000	105,000,000	95,000,000
Other	67,200,000 [c]	1,191,518,000	71,300,000 [c]	74,700,000 [c]
Subtotal	10,223,500,000	11,323,121,000	10,742,450,000	11,346,150,000
Nontax Revenue				
Departmental Revenue				
Tobacco Settlement	149,081,600	153,923,000	n/a	n/a
Tribal Gaming Revenues	n/a	n/a	78,305,500	79,172,100
Other	278,613,700	253,879,000	331,285,900	329,447,800
Total Federal Aids	5,687,824,500	7,518,310,000	6,341,233,000	6,098,611,900
Total Program Revenue	3,101,975,200	3,389,779,000	3,385,951,600	3,529,154,200
Total Segregated Funds	3,647,172,000	3,925,129,000	3,187,386,300	2,815,900,300
Bond Authority	383,000,000	646,000,000	475,000,000	485,000,000
Employee Benefit Contributions [d]	7,889,603,973	4,072,266,000	6,835,282,000	7,203,432,000
Subtotal	21,137,270,973	19,959,286,000	20,634,444,300	20,540,718,300
Total Available	$ 31,414,552,973	$ 31,336,189,000	$ 31,093,261,000	$ 32,031,337,400
DISBURSEMENTS AND RESERVES				
Commerce	$ 417,323,800	$ 467,587,000	$ 459,932,200	$ 466,314,600
Education	8,921,866,800	9,313,180,000	9,334,721,500	9,492,726,500
Environmental Resources	2,750,095,800	3,072,187,000	2,333,184,400	2,474,026,200
Human Relations and Resources	8,230,228,400	10,481,535,000	8,607,732,800	8,803,584,600
General Executive	771,359,700	5,056,589,000	775,791,000	782,718,500
Judicial	104,496,000	110,053,000	111,659,000	111,701,500
Legislative	57,649,200	61,219,000	62,468,300	62,479,800
General Appropriations	2,286,296,700	3,419,880,000	2,080,920,300	2,024,567,200
General Obligation Bond Program	383,000,000	348,603,000	475,000,000	485,000,000
Employee Benefit Payments [d]	3,830,081,149	3,979,708,000	4,028,899,000	4,428,317,000
Reserve for Employee Benefit Payments [d]	4,059,522,824	92,558,000	2,806,383,000	2,775,115,000
Subtotal	31,811,920,373	36,403,099,000	31,076,691,500	31,906,550,900
Less: (Lapses)	(208,894,700)	n/a	(237,052,500)	(224,586,700)
Compensation Reserves	79,815,500	n/a	109,152,900	163,019,600
Required Statutory Balance	- [g]	n/a	35,000,000	40,000,000
Transfer to Tobacco Control Board	15,345,100	n/a	-	-
Change in Continuing Balance	n/a	(4,909,704,000)	n/a	n/a
Total Disbursements & Reserves	$ 31,698,186,273	$ 31,493,395,000	$ 30,983,791,900	$ 31,884,983,800
Fund Balance	$ (283,633,300) [h]	$ (157,206,000)	$ 109,469,100	$ 146,353,600
GPR Designated Balance		$ (6,402,000) [e]		
PR Balance		$ (118,613,000) [e]		
Undesignated Balance	$ (283,633,300)	$ (282,221,000) [f]	$ 144,469,100	$ 186,353,600 [i]

(a) The amounts shown are based on statutorily required accounting and not on GAAP. The all-funds budget assumes that certain categories of revenues are expended in like amounts. This includes federal funds, revenues paid into specific funds (other than the General Fund) for a specified program or purpose or which are credited to an appropriation to finance a specific program or agency, and proceeds of general obligation debt. In any given fiscal year, there may be a balance at year-end in the funds, specific program, or agency.

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

(c) The budgeted amounts do not include taxes collected for segregated funds. The largest such tax is the motor fuel tax. The State collected $902 million of motor fuel taxes in the 2002-03 fiscal year.

(d) State law separates the accounting of employee benefits from the budget. They are included for purposes of comparability to the figures presented in this table and Tables II-1 and II-2 in Part II of the 2002 Annual Report.

(e) See Exhibit A-2 of the Annual Fiscal Report (budgetary basis) for the 2002-03 fiscal year.

(f) The budget for the 2003-04 fiscal year anticipated a negative $284 million beginning balance and projects a balance of $144 million at June 30, 2004.

(g) A required balance for the 2002-03 fiscal year was not specified in State Statutes.

(h) The Wisconsin Constitution requires the Legislature to enact a balanced biennial budget. Subsequent to adoption of the 2001-2003 biennial budget (2001 Wisconsin Act 16), there was in January 2002 a downward re-estimate of revenues resulting in projected negative ending balances. 2001 Wisconsin Act 109 eliminated the projected negative ending balances. The projected fund balance reflects the revenue estimates and projections contained in a memorandum released by the Legislative Fiscal Bureau on January 23, 2003 and the General Fund condition statement following enactment of the budget emergency bill for the 2002-03 fiscal year (2003 Wisconsin Act 1).

(i) The Legislative Fiscal Bureau's estimated impact of the veto of property tax limits lowers individual income tax by $17 million and increases expenditures by $16 million over the 2003-05 biennium. This results in a balance at June 30, 2005 of $186 million. The Department of Administration's estimated impact of the veto of property tax limits decreases individual income tax by $9 million and increases expenditures by $9 million over the 2003-05 biennium. This results in a balance at June 30, 2005 of $205 million.

Sources: Legislative Fiscal Bureau and Wisconsin Department of Administration.

Sale of Tobacco Settlement Revenues

The State has previously sold to the Badger Tobacco Asset Securitization Corporation **(Corporation)** the right of the State to receive, after June 30, 2003, tobacco settlement revenues to be made by the participating cigarette manufacturers under the Master Settlement Agreement, which was entered into among the participating cigarette manufacturers and the attorneys general of 46 states and six other U.S. jurisdictions on November 23, 1998 in connection with the settlement of certain smoking-related litigation.

The Corporation issued $1,591,095,000 principal amount of bonds to finance the purchase and to fund necessary reserves, operating costs, and costs of issuance. The State received $1.275 billion for selling its right to receive the tobacco settlement revenues. Of this amount, $681 million was transferred to the general fund in 2001-02 fiscal year, and the balance was used in lieu of general fund money to make shared revenue payments to local municipalities in the 2002-03 fiscal year.

The Corporation is a special purpose nonstock, nonprofit corporation, organized under the general nonstock corporation law of the State by the Secretary of Administration pursuant to authority granted under Section 16.63 of the Wisconsin Statutes. A board of directors that consists of three directors governs the Corporation. The Secretary of Administration appoints all directors. Financial reports and further information can be obtained from the Corporation, 10 East Doty Street, Suite 800, Madison, WI 53703. The e-mail address for the Corporation is btasc@btasc.org.

Potential Effect of Litigation

APPENDIX A to this part of the Annual Report includes the General Purpose External Financial Statements for the fiscal year ended June 30, 2003. The notes to the General Purpose External Financial Statements include a description of various legal proceedings, claims, and tax refunds that may have a potential budgetary effect. The potential budgetary impact of these legal proceedings and claims, and any updates to those proceedings subsequent to June 30, 2003, are outlined below.

Corporate Tax Measured by Interest from U.S. Securities

The State was involved in a corporate franchise tax case. Although the State Supreme Court ruled in favor of the State, certain taxpayers maintain the decision is not applicable to certain years. The State maintains the principles of the decision apply to those years. The 2003-04 budget does not provide for payment of any claim.

Federal Pension Income

The refunds resulting from this case are essentially complete. Subsequent litigation with other retirees on a variety of issues has occurred, with DOR prevailing in all instances. Litigation is still in process on a limited number of cases. The 2003-04 budget does not provide for payment of refunds in the event that the State should fail to prevail on this matter.

Environmental Clean-Up Actions

The State is involved in the environmental clean-up of property owned by the State that has the potential to cause soil and groundwater contamination and that does not involve releases from underground storage tanks. The estimated remediation costs of these properties is $5.2 million. The 2003-04 budget does not specifically provide for payment of these costs; however, the payment would be made from certain funds already established by the State.

Sales Tax on Customized Computer Software

On approximately December 1, 2003, the State Tax Appeals Commission recently ruled that sales of certain customized computer software are not subject to the State's sale tax. The State intends to appeal this decision. At this date, the Department of Revenue has not established an estimate of the financial

impact f this ruling; however the State does estimate that it collects about $65 million annually in sales tax under circumstances similar to those in the ruling.

Other

The State, its officers, and its employees are defendants in numerous other 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 payment of debt service.

Employee Relations

Of the State's approximately 41,000 civil service employees, approximately 35,000 are employees whose wage rates, fringe benefits, hours, and conditions of employment are determined by collective bargaining agreements. All these classified employees are either assigned to a collective bargaining unit or are exempted from bargaining unit coverage due to their "confidential" or "management" designation. Covered employees are assigned to one of twenty-two bargaining units set up by occupational groupings based by their civil service classification. An exclusive bargaining agent represents nineteen of the bargaining units. Seven of the nineteen bargaining units have reached agreement on their 2003-05 contracts. Labor agreements for the remaining twelve bargaining units expired on June 30, 2003, but have been extended while the State continues to negotiate the agreements for the period ending June 30, 2005.

The employment of non-represented civil service employees is covered by civil service statutes, rules, and the non-represented compensation plan.

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

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

State Budget Assumptions

Tax revenues for the 2003-05 biennial budget are based on January 23, 2003 estimates from the Legislative Fiscal Bureau. The estimates are based on the State tax structure and on assumptions about 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.

State disbursements for the budget 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 revenue estimates provided by the Legislative Fiscal Bureau on January 23, 2003 was based primarily on certain projections presented in a January 2003 report by Global Insight (previously known as DRI-WEFA), which provides national economic forecasts, data base support, and consulting services. See Table II-6 for a summary of the January 2003 Global Insight report. Portions of Table II-6 also contain a summary of information from DOR's Wisconsin Econometric Model **(Model)** for a slightly different period, ending March 2003, that includes information from a February 2003 report by Global Insight.

Wisconsin Econometric Model

The Model is a forecasting tool used for assessing 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 economic conditions and plays a critical role in the revenue estimating process. The Model was first designed by a predecessor of Global Insight (Standard & Poor's Data Resources Inc.). DOR has redesigned the Model to correspond to changes in national modeling concepts in the Global Insight Macro Model of the U.S. economy.

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 206 equations.

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

The Model's structure adopts an adaptive expectations framework in which the forecasted economic variables (for example, 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 include measures of industry output, factor costs, tax levels and rates, interest rates, inflation, etc. Currently, Global Insight 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.

The Model uses data on U.S. economic trends to forecast the State economy, which in turn is 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. The employment sector of the Model is currently in a transition phase to incorporate the North American Industry Classification System (NAICS). Employment is the major determinant of earnings, which is the sum of wages and salaries, other labor income, and proprietor's income. Personal income is the sum of earnings, property income, and transfer payments. Forecasts of personal income are determined by calculating separate forecasts of the level of each of these components. Federal, State, and local tax revenue and non-tax accruals are functions of income, employment, and tax rates. Disposable income is the difference between personal income and personal taxes.

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

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

Table II-6

ECONOMIC FORECASTS
U.S. ECONOMIC FORECAST

	Calendar Year				
	2003	**2004**	**2005**	**2006**	**2007**
Real GDP and its Components (Amounts in Billions of Chain Weighted 1996 Dollars)					
GDP	$9,702.3	$10,097.2	$10,410.9	$10,752.8	$11,069.9
Percent Change	3.1	4.7	3.3	3.3	2.9
Consumption	6,745.0	7,037.9	7,276.7	7,513.4	7,721.1
Investment (including inventory)	1,650.0	1,819.1	1,903.0	1,982.8	2,055.1
Nonresidential Structures	219.1	232.5	260.6	272.8	279.4
Business Equipment	1,043.9	1,170.3	1,252.7	1,319.0	1,390.9
Residential Fixed	374.4	372.5	381.5	386.7	393.2
Change in Inventory	27.8	75.4	42.4	45.0	41.1
Exports	1,119.5	1,221.7	1,324.6	1,427.9	1,533.3
Imports	1,609.9	1,739.5	1,835.6	1,935.1	2,030.8
Federal Government	676.4	697.3	688.5	694.4	701.0
State and Local Government	881.1	887.8	902.9	923.0	940.3
GDP (Current Dollars)	10,987.1	11,775.8	12,448.7	13,135.5	13,808.0
Money and Interest Rates					
Money Supply (M2) (billions)	$6,142.0	$6,374.0	$6,568.0	$6,796.0	$7,061.0
Percent Change	6.2	3.8	3.1	3.5	3.9
Prime Commercial Rate	4.7	6.3	7.2	7.9	8.0
3-Month Treasury Bills (rate)	1.7	3.2	4.0	4.7	4.8
10-Year Treasury Note Yield (rate)	4.9	6.6	6.8	6.7	6.5
G.O. AAA Municipals (rate)	5.4	6.2	6.2	6.3	6.1
30-Year Mortgage (rate)	6.7	8.1	8.2	8.2	7.9
Income, Profits and Savings (Amounts in Billions)					
Personal Income	$9,391.6	$10,004.3	$10,566.7	$11,139.9	$11,708.3
Percent Change	5.0	6.5	5.6	5.4	5.1
Personal Income ($ 1996)	$8,267.9	$8,612.3	$8,921.3	$9,202.3	$9,459.8
Percent Change	2.6	4.2	3.6	3.1	2.8
Savings Rate (%)	4.9	4.8	4.1	3.5	2.8
Corporate Profits Before Tax	818.5	843.8	870.6	902.2	965.7

Source: Global Insight, January, 2003

Table II-6 - Continued

WISCONSIN EMPLOYMENT FORECAST

	Calendar Year				
	2003	2004	2005	2006	2007
Annual Industry Detail Average (Thousands of Workers)					
Manufacturing	514.3	520.4	535.5	544.7	548.2
Percent Change	(2.7)	1.2	2.9	1.7	0.7
Non-Manufacturing	1,853.1	1,911.4	1,952.6	1,980.8	2,012.0
Percent Change	1.0	3.1	2.2	1.4	1.6
Government	417.5	416.2	420.8	427.1	430.5
Percent Change	0.7	(0.3)	1.1	1.5	0.8
Total Nonfarm	2,784.9	2,848.1	2,908.9	2,952.7	2,990.8
Percent Change	0.2	2.3	2.1	1.5	1.3

Source: Wisconsin Department of Revenue, Economic Outlook, March 2003

WISCONSIN INCOME FORECAST

	Calendar Year				
	2003	2004	2005	2006	2007
Components of Personal Income (Amounts in Billions)					
Wages and Salaries	92.332	98.944	103.860	108.423	113.230
Other Labor Income	12.080	12.946	13.784	14.298	14.747
Proprietor's Income	9.633	10.466	10.974	11.285	11.712
Rental Income	2.470	2.683	2.836	2.959	3.083
Personal Dividend Income	9.931	10.305	10.744	11.448	12.217
Personal Interest Income	20.620	21.717	23.238	25.081	26.744
Transfer Payments	23.622	24.061	24.749	25.919	27.349
Residence Adjustment	2.825	3.050	3.294	3.544	3.816
Contributions to Social Insurance	7.309	7.634	7.974	8.298	8.647
Total Personal Income	168.204	176.537	185.506	194.658	204.251
Personal Taxes and Nontax Pmts	19.460	19.137	20.762	23.351	25.801
Disposable Personal Income	148.743	157.400	164.744	171.308	178.450
Inflation Adjusted Income Measures (1996 Dollars)					
Real Personal Income (billions)	148.455	153.138	157.820	162.179	166.166
Percent Change	1.2	3.2	3.1	2.8	2.5
Real Per Capita Income	27,148	27,834	28,512	29,124	29,661
Percent Change	0.6	2.5	2.4	2.1	1.8
Per Capita Income (current $)	30,760	32,087	33,514	34,956	36,459
Percent Change	2.6	4.3	4.4	4.3	4.3

Source: Wisconsin Department of Revenue, Wisconsin Economic Outlook, March 2003

Budget Format

The State prepares two budgets—a general-fund budget and an all-funds budget—as well as subbudgets for each fund.

The general-fund budget includes the money appropriated for the fiscal year from:

- All state-collected general taxes
- Revenues collected by State agencies that are deposited into the General Fund and lose their identity (departmental revenues)

- Various miscellaneous receipts

A portion of these revenues is returned to local governments in the form of shared tax payments and to school districts in the form of general equalization aid payments. Additionally, some of the revenues are used for aids to individuals. The remaining portion constitutes the operating budget for State agencies conducting State-administered programs.

The all-funds budget includes all money appropriated for the fiscal year from:

- All revenues included in the general-fund budget
- Revenues collected by State agencies that are paid into a specific fund (such as the Transportation or Conservation Fund)
- Federal funds that are estimated to be received and either paid into a specific fund (such as the Transportation or Conservation Fund) for a specified program or purpose, or credited to an appropriation to finance a specific program or agency
- Revenues resulting from the contracting of public debt

The all-funds budget presented in this Annual Report also includes employee benefits, which under State law are separated from the budget. The all-funds budget assumes that certain categories of revenues are expended in like amounts. This includes federal funds, revenues paid into specific funds (other than the General Fund) for a specified program or purpose or which are credited to an appropriation to finance a specific program or agency, and proceeds of general obligation debt. In any given fiscal year, there may be a balance at year-end in the funds, specific program, or agency. Because it includes only estimates of federal funds to be received and expended, the all-funds budget may vary during the course of the fiscal year.

Impact of Federal Programs

The State does not typically receive substantial amounts of Federal aid. Any reduction in Federal aid would have a more immediate effect on individuals, local governments, and other service providers than on the State directly. Any reduction would, however, increase the likelihood of the State being asked to increase its support of the affected parties, which could not happen without the Legislature's approval.

Supplemental Appropriations

Even after the budget is adopted, the State may increase appropriations or reduce taxes. However, it has been the State's practice that supplemental appropriations adopted by the Legislature will be within revenue projections for that fiscal period or balanced by reductions in other appropriations.

No legislation directly or indirectly affecting general purpose revenue may be enacted if it would cause the estimated General Fund balance at the end of the fiscal year to be less than the required statutory reserve.

GENERAL FUND INFORMATION

General Fund Cash Flow

Many of the budgetary tables presented thus far in this part of the Annual Report have reported information on a budgetary basis. The following tables present information primarily on a cash basis.

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 cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. Based on the 2003-04 biennial budget, this amount is approximately $542 million for the 2003-04 fiscal year. In addition, the

Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect (approximately $325 million for the 2003-04 fiscal year) for a period of up to 30 days. 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:

- All direct and indirect payments of principal and interest on State general obligation debt have first priority and may not be prorated or reduced.
- All direct and indirect payments of principal and interest on operating notes have second priority and may not be prorated or reduced.
- All State employee payrolls have third priority and may be prorated or reduced.
- All other payments shall be paid in a priority determined by the Secretary of Administration and may be prorated or reduced. Pursuant to indentures and trust agreements, the Secretary of Administration has covenanted to give high priority to payments due under the Master Lease Program and debt service due on the General Fund Annual Appropriation Bonds.

Table II-7 is presented over two pages and includes the detailed actual cash flow for the 2002-03 fiscal year and the detailed actual cash-flow (through November 30, 2003) and projected cash-flow (December 1, 2003 to June 30, 2004) for the 2003-04 fiscal year. Table II-8 provides year-to-date receipts and disbursement on a cash basis along with a comparison to both estimates for same period and actual receipts and disbursements for the same period of the previous fiscal year. Table II-9 presents a monthly summary of the General Fund from July 1, 2001 through November 30, 2003 and the projected cash-flow for December 1, 2003 through June 30, 2004. The amounts reported include the proceeds of the sale of operating notes in September 2001 and September 2003 and the payment of impoundments for February, March, April, and May of both 2002 and 2004. No operating notes were issued in the 2002-03 fiscal year. The tables should be read in conjunction with other information concerning the State budget set forth elsewhere in this part of the Annual Report, including "BUDGETING PROCESS AND FISCAL CONTROLS", "STATE BUDGET", and "STATE OBLIGATIONS; Operating Notes". As noted above, there has been and will continue to be differences in the amounts shown for the cash-flow basis and the budgetary basis presentations. For example, the cash-flow basis presentation in the following tables includes all tax receipts as revenues and tax refunds as disbursements, while the budgetary basis presentations in Tables II-3 through II-5 include tax revenues that are net of tax refunds.

Monthly projections of cash flow are based upon on fiscal bills enacted into law through the 2003-05 biennial budget bill (2003 Wisconsin Act 33) 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. The monthly projections of cash flow also reflect the revenue estimates released on January 23, 2003 by the Legislative Fiscal Bureau. 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.

Table II-10 presents the actual cash balances available for interfund borrowings from July 31, 2001 through November 30, 2003 and the projected balances for December 31, 2003 through June 30, 2004.

Tables II-11 and II-12 present recorded revenues deposited into the General Fund and recorded expenditures made from the General Fund, as recorded by State agencies, for the period of July 1, 2003 to November 30, 2003 as compared to the period of July 1, 2002 to November 30, 2002. These tables present information that is based on the revenues and expenditures that are recorded in, or processed through, the State's central accounting system.

Table II-7
ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2002 TO JUNE 30, 2003[a]

(In Thousands of Dollars)

	July 2002	August 2002	September 2002	October 2002	November 2002	December 2002	January 2003	February 2003	March 2003	April 2003	May 2003	June 2003
BALANCES[a]												
Beginning Balance	($421,915)	($616,711)	($151,597)	$312,086	$637,718	$631,559	$159,706	$833,727	$940,167	$209,055	$597,754	$516,851
Ending Balance [b]	($616,711)	($151,597)	$312,086	$637,718	$631,559	$159,706	$833,727	$940,167	$209,055	$597,754	$516,851	($301,120)
Lowest Daily Balance [b]	($835,846)	($682,211)	($292,593)	$146,623	$562,154	($164,082)	$159,706	$677,134	$31,400	($95,472)	$285,166	($735,433)
RECEIPTS												
TAX RECEIPTS												
Individual Income	$515,747	$350,778	$629,833	$469,429	$306,427	$591,751	$753,704	$448,331	$425,443	$800,494	$350,610	$627,194
Sales & Use	360,882	367,587	361,239	344,735	335,382	318,549	366,893	283,770	278,331	319,239	320,108	347,662
Corporate Income	14,037	12,214	110,295	24,404	14,643	120,855	21,494	12,509	172,994	22,473	12,993	114,972
Public Utility	197	19	211	4,299	145,137	5,492	(2,773)	5,070	23	2,018	120,118	2,175
Excise	32,420	32,992	32,434	32,234	33,477	26,215	28,962	31,172	21,643	25,512	32,534	29,407
Insurance	1,086	1,897	22,836	784	1,291	23,036	1,889	16,309	24,750	24,504	2,581	24,962
Inheritance	6,834	7,406	14,701	3,871	4,538	3,497	7,799	2,124	2,625	3,761	8,797	3,650
Subtotal Tax Receipts	$931,203	$772,893	$1,171,549	$879,756	$840,895	$1,089,395	$1,177,968	$799,285	$925,809	$1,198,001	$847,741	$1,150,022
NON-TAX RECEIPTS												
Federal	$451,110	$384,251	$473,314	$500,946	$491,232	$443,561	$628,967	$537,288	$523,444	$511,718	$354,871	$660,374
Other & Transfers [c]	318,163	479,857	381,016	225,312	150,199	173,532	298,922	385,219	203,021	391,682	282,728	219,984
Note Proceeds [d]	0	0	0	0	0	0	0	0	0	0	0	0
Subtotal Non-Tax Receipts	$769,273	$864,108	$854,330	$726,258	$641,431	$617,093	$927,889	$922,507	$726,465	$903,400	$637,599	$880,358
TOTAL RECEIPTS	$1,700,476	$1,637,001	$2,025,879	$1,606,014	$1,482,326	$1,706,488	$2,105,857	$1,721,792	$1,652,274	$2,101,401	$1,485,340	$2,030,380
DISBURSEMENTS												
Local Aids [e]	$903,055	$166,454	$704,521	$101,549	$410,446	$1,175,368	$223,251	$244,546	$1,199,379	$133,429	$214,765	$1,810,134
Income Maintenance	357,630	355,727	306,119	359,298	357,037	365,688	357,190	353,772	326,068	404,651	347,535	289,515
Payroll and Related	289,522	317,944	213,252	361,884	396,657	234,841	410,335	305,602	230,548	314,141	434,080	281,801
Tax Refunds	46,735	41,583	44,505	55,983	70,935	133,298	70,374	377,534	358,377	355,000	166,318	134,427
Debt Service	0	1,159	0	120,742	1,281	0	0	893	0	262,262	6,797	0
Miscellaneous	298,330	289,020	293,799	280,926	252,129	269,146	370,686	333,005	269,014	243,219	396,748	332,474
Note Repayment [d]	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL DISBURSEMENTS	$1,895,272	$1,171,887	$1,562,196	$1,280,382	$1,488,485	$2,178,341	$1,431,836	$1,615,352	$2,383,386	$1,712,702	$1,566,243	$2,848,351

(a) The General Fund cash balances presented in this schedule are not based on Generally Accepted Accounting Principles (GAAP). The General Fund includes funds designated for operations and capital purposes of certain proprietary programs of the State's Universities. Receipts and disbursements of such funds for the designated programs and the disbursement of such funds for other purposes are reflected in the cash flow. A use of the designated funds for purposes other than the proprietary programs is, in effect, a borrowing of such funds. Therefore, at any time that the balance in the General Fund is less than the balance of such designated funds, the State is obligated to replenish the designated funds to the extent of the shortfall. Ther designated funds were expected to range from $150 to $300 million during the 2002-03 fiscal year. In addition, the General Fund is the depository for several escrow accounts pursuant to court orders or federal rulings. These funds were expected to average approximately $50 million during the 2002-03 fiscal year.

(b) The Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. This amount was approximately $556 million for the 2002-03 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect (approximately $334 million for the 2002-03 fiscal year) for a period of up to 30 days. If the amount of interfund borrowing available to the general fund is not sufficient, the Secretary of Administration is authorized to prorate and defer certain payments.

(c) Reflects receipt on August 1, 2002 of $231million of proceeds from the sale and subsequent securitization of payments due the State from tobacco manufacturers under the Master Settlement Agreement.

(d) No operating notes were issued in the 2002-03 fiscal year; therefore, the table does not include any proceeds from the issuance of operating notes or any impoundment payments.

(e) Reflects use in November 2002 of approximately $600 million of proceeds from the sale and subsequent securitization of payments due the State from tobacco manufacturers under the Master Settlement Agreement to make a portion of the shared revenue payment.

Table II-7 (Continued)
ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2003 TO NOVEMBER 30, 2003
PROJECTED GENERAL FUND CASH FLOW; DECEMBER 1, 2003 TO JUNE 30, 2004[a]

(In Thousands of Dollars)

	July 2003	August 2003	September 2003	October 2003	November 2003	December 2003	January 2004	February 2004	March 2004	April 2004	May 2004	June 2004
BALANCES[b]												
Beginning Balance	($301,120)	($622,418)	($400,502)	$418,507	$907,811	$863,882	$434,000	$1,203,070	$1,413,008	$302,037	$766,295	$862,656
Ending Balance [c]	($622,418)	($400,502)	$418,507	$907,811	$863,882	$434,000	$1,203,070	$1,413,008	$302,037	$766,295	$862,656	$116,343
Lowest Daily Balance [c]	($762,702)	($757,258)	($654,756)	$289,720	$648,269	($285,075)	$382,981	$1,090,812	$250,542	$110,613	$560,709	($104,046)
RECEIPTS												
TAX RECEIPTS												
Individual Income [d]	$535,668	$361,664	$632,800	$495,028	$390,357	$539,700	$800,000	$464,400	$460,900	$855,700	$332,900	$651,300
Sales & Use	368,518	363,614	375,775	374,113	350,192	304,400	408,000	318,600	287,700	324,400	344,800	354,000
Corporate Income	15,220	19,228	126,009	28,093	26,301	137,000	23,000	12,000	159,900	25,000	16,400	114,200
Public Utility	296	0	325	4,994	129,422	4,300	0	3,700	200	5,200	118,000	1,700
Excise	38,152	34,660	28,651	32,261	28,631	28,900	28,200	29,900	25,000	27,500	30,800	30,400
Insurance	828	1,375	25,541	293	1,334	22,100	1,800	12,000	19,100	24,100	3,900	23,200
Inheritance	5,660	11,035	7,017	6,607	6,089	4,900	8,200	5,500	6,200	10,300	6,300	5,600
Subtotal Tax Receipts	$964,342	$791,576	$1,196,118	$941,389	$932,326	$1,041,300	$1,269,200	$846,100	$959,000	$1,272,200	$853,100	$1,180,400
NON-TAX RECEIPTS												
Federal	$420,678	$479,004	$507,840	$618,086	$454,026	$448,900	$610,800	$525,300	$471,600	$533,500	$518,900	$553,400
Other & Transfers [d]	291,431	190,445	519,577	270,496	197,625	237,900	385,600	387,100	328,100	329,800	312,300	411,100
Note Proceeds [e]	0	0	400,000	0	0	0	0	0	0	0	0	0
Subtotal Non-Tax Receipts	$712,109	$669,449	$1,427,417	$888,582	$651,651	$686,800	$996,400	$912,400	$799,700	$863,300	$831,200	$964,500
TOTAL RECEIPTS	$1,676,451	$1,461,025	$2,623,535	$1,829,971	$1,583,977	$1,728,100	$2,265,600	$1,758,500	$1,758,700	$2,135,500	$1,684,300	$2,144,900
DISBURSEMENTS												
Local Aids	$890,876	$172,578	$741,814	$109,530	$781,331	$1,156,159	$205,865	$256,886	$1,179,936	$123,589	$247,081	$1,774,181
Income Maintenance	439,565	373,987	352,115	385,040	293,337	345,825	390,021	335,896	391,678	360,479	340,741	310,329
Payroll and Related	317,741	312,301	225,424	462,397	252,453	304,330	415,696	225,616	305,368	476,187	255,458	302,883
Tax Refunds	68,585	50,293	54,656	50,624	58,967	70,100	57,200	327,007	328,885	293,412	219,400	195,000
Debt Service	0	984	118,305	441	441	0	0	3,892	263,998	0	36,394	0
Miscellaneous	280,982	328,966	312,212	332,635	241,377	281,568	427,748	300,863	298,137	315,906	387,197	308,820
Note Repayment [e]	0	0	0	0	0	0	0	98,402	101,669	101,669	101,668	0
TOTAL DISBURSEMENTS	$1,997,749	$1,239,109	$1,804,526	$1,340,667	$1,627,906	$2,157,982	$1,496,530	$1,548,562	$2,869,671	$1,671,242	$1,587,939	$2,891,213

(a) Projections reflect the 2003-05 biennial budget bill that Governor Doyle signed into law with some partial vetoes on July 24, 2003 (2003 Wisconsin Act 33). The projections also reflect the revenue estimates released by the Legislative Fiscal Bureau on January 23, 2003 and adjustments made starting in September 2003 to better reflect end-of-month electronic fund transfers. While the projections are based on budgetary assumptions, they are presented on a cash basis and not a budgetary basis. Projections do not include interfund borrowings.

(b) The General Fund cash balances presented in this schedule are not based on Generally Accepted Accounting Principles (GAAP). The General Fund includes funds designated for operations and capital purposes of certain proprietary programs of the State's Universities. Receipts and disbursements of such funds for the designated programs and the disbursement of such funds for other purposes are reflected in the cash flow. A use of the designated funds for purposes other than the proprietary programs is, in effect, a borrowing of such funds. Therefore, at any time that the balance in the General Fund is less than the balance of such designated funds, the State is obligated to replenish the designated funds to the extent of the shortfall. Ther designated funds are expected to range from $150 to $300 million during the 2003-04 fiscal year. In addition, the General Fund is the depository for several escrow accounts pursuant to court orders or federal rulings. These funds are expected to average approximately $50 million during the 2003-04 fiscal year.

(c) The Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. This amount is approximately $542 million for the 2003-04 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect (approximately $325 million for the 2003-04 fiscal year) for a period of up to 30 days. If the amount of interfund borrowing available to the General Fund is not sufficient, the Secretary of Administration is authorized to prorate and defer certain payments.

(d) The July Individual Income Tax Receipts and Non-Tax Receipts for Other & Transfers have been restated due to a subsequent reporting reclassification by the Department of Revenue.

(e) Includes $400 million in operating note proceeds received in September, 2003 and impoundment payments due on February 27, March 31, April 30, and May 28, 2004. The February 27, 2004 impoundment payment excludes the premium deposited on September 18, 2003 into the operating note redemption fund.

Table II-8

GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS YEAR-TO-DATE COMPARED TO ESTIMATES AND PREVIOUS FISCAL YEAR[a]
(Cash Basis)
As of November 30, 2003

	FY03 through November 2002	FY04 through November 2003				
	Actual	Actual	Estimate[b]	Variance	Adjusted Variance[c]	Difference FY03 Actual to FY04 Actual
RECEIPTS						
Tax Receipts						
Individual Income	$ 2,272,214	$ 2,415,517	$ 2,490,100	$ (74,583)	$ (11,983)	$ 143,303
Sales	1,769,825	1,832,212	1,839,300	(7,088)	(7,088)	62,387
Corporate Income	175,593	214,851	197,500	17,351	17,351	39,258
Public Utility	149,863	135,037	142,500	(7,463)	(7,463)	(14,826)
Excise	163,557	162,355	161,900	455	455	(1,202)
Insurance	27,894	29,371	27,200	2,171	2,171	1,477
Inheritance	37,350	36,408	36,700	(292)	(292)	(942)
Total Tax Receipts	$ 4,596,296	$ 4,825,751	$ 4,895,200	$ (69,449)	$ (6,849)	$ 229,455
Non-Tax Receipts						
Federal	$ 2,300,853	$ 2,479,634	$ 2,385,000	$ 94,634	$ 94,634	$ 178,781
Other and Transfers	1,554,547	1,469,574	1,446,500	23,074	23,074	(84,973)
Note Proceeds	-	400,000	400,000	-	-	400,000 [d]
Total Non-Tax Receipts	$ 3,855,400	$ 4,349,208	$ 4,231,500	$ 117,708	$ 117,708	$ 493,808
TOTAL RECEIPTS	$ 8,451,696	$ 9,174,959	$ 9,126,700	$ 48,259	$ 110,859	$ 723,263
DISBURSEMENTS						
Local Aids	$ 2,286,025	$ 2,696,129	$ 2,756,876	$ 60,747	$ 60,747	$ 410,104
Income Maintenance	1,735,811	1,844,044	1,815,478	(28,566)	(28,566)	108,233
Payroll & Related	1,579,259	1,570,316	1,581,494	11,178	11,178	(8,943)
Tax Refunds	259,741	283,125	289,055	5,930	5,930	23,384
Debt Service	123,182	120,171	133,120	12,949	12,949	(3,011)
Miscellaneous	1,414,204	1,496,172	1,592,321	96,149	96,149	81,968
Note Repayment	-	-	-	-	-	-
TOTAL DISBURSEMENTS	$ 7,398,222	$ 8,009,957	$ 8,168,344	$ 158,387	$ 158,387	$ 611,735
VARIANCE FY04 YEAR-TO-DATE				$ 206,646	$ 269,246	

(a) None of the data presented here has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments. In addition, comparison of monthly General Fund financial information has many inherent problems. Unforeseen events (including even a change in weather conditions) or variations from underlying assumptions may cause a decrease in receipts or an increase in disbursements from those projected for a given month.

(b) Estimates include assumptions from the 2003-05 biennial budget bill, as signed into law with some partial vetoes by Governor Doyle on July 24, 2003 (2003 Wisconsin Act 33), but are presented on a cash basis and not a budgetary basis. The projections also reflect the revenue estimates released by the Legislative Fiscal Bureau on January 23, 2003.

(c) Changes were made, after the beginning of the fiscal year, to the estimates of receipts starting in September 2003. These changes were made to better reflect the timing of end-of-month electronic fund transfers. Because the changes were made starting in September 2003, the July and August 2003 estimates could not be changed. Since the timing of end-of-month electronic fund transfers impacted August and September 2003, the changes to the estimates of receipts include an increase in September 2003 but could not include any decrease in the August 2003 estimate. As a result, the variance has been adjusted by $63 million to show the result if the August 2003 estimate were changed.

(d) Operating Notes were issued in the 2003-04 fiscal year but were not issued in the 2002-03 fiscal year.

Table II-9

GENERAL FUND MONTHLY CASH POSITION
July 1, 2001 through November 30, 2003 — Actual
December 1, 2003 through June 30, 2004 — Estimated[a]
(Amounts in Thousands)

	Starting Date	Starting Balance		Receipts[c]	Disbursements[c]
2001	July	$ 281,565	[d]	$ 1,575,450	$ 1,853,617
	August	3,398	[d]	1,497,565	1,103,304
	September	397,659	[d]	2,520,198	1,627,038
	October	1,290,819		1,631,893	1,101,102
	November	1,821,610		1,469,470	2,347,429
	December	943,651	[d]	1,530,624	2,090,608
2002	January	383,667		2,014,638	1,293,585
	February	1,104,720		1,570,087	1,705,687
	March	969,120	[d]	1,530,532	2,730,873
	April	(231,221)	[d]	2,070,342	1,573,434
	May	265,687	[d]	2,155,171	1,844,456
	June	576,402	[d]	1,753,300	2,751,617
	July	(421,915)	[d]	1,700,476	1,895,272
	August	(616,711)	[d]	1,637,001	1,171,887
	September	(151,597)	[d]	2,025,879	1,562,196
	October	312,086		1,606,014	1,280,382
	November	637,718		1,482,326	1,488,485
	December	631,559	[d]	1,706,488	2,178,341
2003	January	159,706		2,105,857	1,431,836
	February	833,727		1,721,792	1,615,352
	March	940,167		1,652,274	2,383,386
	April	209,055	[d]	2,101,401	1,712,702
	May	597,754		1,485,340	1,566,243
	June	516,851	[d]	2,030,380	2,848,351
	July	(301,120)	[d]	1,676,451	1,997,749
	August	(622,418)	[d]	1,461,025	1,239,109
	September	(400,502)	[d]	2,623,535	1,804,526
	October	418,507		1,829,971	1,340,667
	November	907,811		1,583,977	1,627,906
	December	863,882	[d]	1,728,100	2,157,982
2004	January	434,000		2,265,600	1,496,530
	February	1,203,070		1,758,500	1,548,562
	March	1,413,008		1,758,700	2,869,671
	April	302,037		2,135,500	1,671,242
	May	766,295		1,684,300	1,587,939
	June	862,656	[a]	2,144,900	2,891,213

[a] The General Fund balances shown in this table are not based on Generally Accepted Accounting Principles (GAAP).

[b] The monthly receipt and disbursement projections for December 1, 2003 through June 30, 2004 are based on the revenue estimates released by the Legislative Fiscal Bureau on January 23, 2003 and the budget for the 2003-05 biennium (2003 Wisconsin Act 33). Adjustments have been made to the cash-flow projections to better reflect end-of-month electronic fund transfers.

[c] The amounts shown in October 2001 and September 2003 include receipts from the issuance of operating notes, and amounts shown in February through May 2002 and February through May 2004 include disbursements for impoundment payments required in connection with the issuance of operating notes. No operating notes were issued for the 2002-03 fiscal year.

[d] The Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. This amount was $556 million for the 2002-03 fiscal year and is approximately $542 million for the 2003-04 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect ($334 million for the 2002-03 fiscal year and approximately $325 million for the 2003-04 fiscal year) for a period of up to 30 days. If the amount of interfund borrowing available to the General Fund is not sufficient, the Secretary of Administration is authorized to prorate and defer certain payments.

Source: Wisconsin Department of Administration.

Table II-10
CASH BALANCES IN FUNDS AVAILABLE FOR INTERFUND BORROWING[a]
July 31, 2001 to November 30, 2003 — Actual
December 31, 2003 to June 30, 2004 — Estimated[b]
(Amounts in Millions)

Month (Last Day)	2001	2002	2003	2004
January	$	$ 5,360	$ 5,025	$ 1,738
February		5,463	5,235	1,802
March		5,628	5,438	1,917
April		5,135	5,113	1,765
May		4,819	4,674	1,724
June		5,001	4,836	1,819
July	5,275	5,401	5,135	
August	4,785	4,785	4,579	
September	4,897	4,898	4,378	
October	4,328	4,328	3,922	
November	4,242	4,242	3,797	
December	4,737	4,737	1,649[b]	

[a] Consists of the following funds:

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

[b] Estimated balances for December 31, 2003 and subsequent months include as an assumption that only 20% of the amount will be available for the local government investment pool. The local government investment pool is composed of funds deposited by local units of government that may be withdrawn without notice. Balances in the local government investment pool the past five years have ranged from a low of $2.096 billion on November 14, 1997 to a high of $4.684 billion on March 26, 2002. Under Section 20.002 (11), Wisconsin Statutes, the Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. This amount was $556 million for the 2002-03 fiscal year and is approximately $542 million for the 2003-04 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect ($334 million for the 2002-03 fiscal year and approximately $325 million for the 2003-04 fiscal year) for a period of up to 30 days. If the amount of interfund borrowing available to the General Fund is not sufficient, the Secretary of Administration is authorized to prorate and defer certain payments.

Source: Wisconsin Department of Administration.

Table II-11

GENERAL FUND RECORDED REVENUES[a]
(Agency Recorded Basis)
July 1, 2003 to November 30, 2003 compared with previous year

	Annual Fiscal Report Revenues 2002-03 FY[b]	Projected Revenues 2003-04 FY[c]	Recorded Revenues July 1, 2002 to November 30, 2002[d]	Recorded Revenues July 1, 2003 to November 30, 2003[e]
Individual Income Tax	$ 5,052,500,000	$ 5,405,800,000	$ 1,738,752,724	$ 1,871,794,628
General Sales and Use Tax	3,738,000,000	3,915,400,000	1,288,701,360	1,343,003,684
Corporate Franchise and Income Tax	526,500,000	539,750,000	111,034,076	161,598,421
Public Utility Taxes	276,800,000	268,000,000	139,056,330	58,349,876
Excise Taxes	354,800,000	352,200,000	129,026,998	123,090,239
Inheritance Taxes	68,700,000	105,000,000	36,348,882	35,617,137
Insurance Company Taxes	114,900,000	85,000,000	25,302,845	27,345,455
Miscellaneous Taxes	67,500,000	71,300,000	46,321,667	45,139,525
SUBTOTAL	$ 10,199,700,000	$ 10,742,450,000	$ 3,514,544,882	$ 3,665,938,966
Federal and Other Inter-Governmental Revenues[f]	$ 6,668,346,000	$ 5,707,551,000	$ 2,891,664,935	$ 2,496,303,809
Dedicated and Other Revenues[g]	3,815,875,000	1,931,197,500	1,867,610,815	1,777,876,419
TOTAL	$ 20,683,921,000	$ 18,381,198,500	$ 8,273,820,632	$ 7,940,119,194

[a] None of the data presented here has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments.

[b] The amounts are from the Annual Fiscal Report (budgetary basis) for the 2002-03 fiscal year, dated October 10, 2003.

[c] Projected revenues are based on the 2003-05 budget signed into law, with some partial vetoes, on July 24, 2003 by Governor Doyle (2003 Wisconsin Act 33) and also reflect the revenue estimates for the 2002-03 fiscal year that were released by the Legislative Fiscal Bureau on January 23, 2003.

[d] The amounts shown are 2002-03 fiscal year revenues as recorded by state agencies.

[e] The amounts shown are 2003-04 fiscal year revenues as recorded by state agencies.

[f] This category includes intergovernmental transfers. The amount of these transfers may vary greatly between fiscal years, and therefore, this category may not be comparable on a historical basis.

[g] Certain transfers between General Fund appropriations are recorded as both revenues and expenditures of the General Fund. The amount of these transfers may vary greatly between fiscal years, and therefore, this category may not be comparable on a historical basis.

Source: Wisconsin Department of Administration.

Table II-12

GENERAL FUND RECORDED EXPENDITURES BY FUNCTION[a]
(Agency Recorded Basis)
July 1, 2003 to November 30, 2003 compared with previous year

	Annual Fiscal Report Expenditures 2002–03 FY[b]	Appropriations 2003–04 FY[c]	Recorded Expenditures July 1, 2002 to November 30, 2002[d]	Recorded Expenditures July 1, 2003 to November 30, 2003[e]
Commerce	$ 222,143,000	$ 267,951,200	$ 95,840,747	$ 118,588,079
Education	9,087,026,000	7,372,173,100	2,565,521,310	2,639,272,558
Environmental Resources	264,282,000	252,915,200	99,390,670	87,013,236
Human Relations & Resources	8,630,020,000	7,704,344,000	3,765,637,209	3,299,878,343
General Executive	646,171,000	622,251,300	257,296,080	243,507,496
Judicial	109,697,000	110,945,700	47,854,949	48,052,927
Legislative	61,219,000	62,468,300	21,879,118	20,855,679
General Appropriations	1,935,927,000	1,687,946,100	1,577,313,360	1,576,943,764
TOTAL	$ 20,956,485,000	$ 18,080,994,900	$ 8,430,733,444	$ 8,034,112,081

[a] None of the data presented here has been subjected to customary fiscal period closing procedures or other procedures used in the preparation of a financial statement, including verification, reconciliation, and identified adjustments.

[b] The amounts are from the Annual Fiscal Report (budgetary basis) for the 2002-03 fiscal year, dated October 10, 2003.

[c] Estimated appropriations based on the 2003-05 budget bill signed into law, with some partial vetoes, on July 24, 2003 by Governor Doyle (2003 Wisconsin Act 33).

[d] The amounts shown are 2002-03 fiscal year expenditures as recorded by state agencies.

[e] The amounts shown are 2003-04 fiscal year expenditures as recorded by state agencies.

Source: Wisconsin Department of Administration.

General Fund History

Table II-13 presents the General Fund condition for the previous five years.

Table II-13

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

	2003	2002	2001	2000	1999
ASSETS					
Cash & Investment Pool Shares	$ (295,396)	$ (416,191)	$ 288,792	$ 678,331	$ 867,293
Contingent Fund Advances	3,533	3,539	3,514	3,910	4,322
Investments	445	445	446	445	445
Receivables					
Accounts Receivable	1,050,580	1,069,077	1,028,554	995,286	896,640
Due from Other Funds	60,087	333,205	39,165	22,398	158,398
Inventory			418	1	
Prepayments	59,731	59,690	54,807	59,761	42,338
TOTAL ASSETS	$ 878,980	$ 1,049,765	$ 1,415,696	$ 1,760,132	$ 1,969,436
LIABILITIES					
Accounts Payable	$ 413,162	$ 315,491	$ 343,261	$ 282,582	$ 521,609
Due to Other Funds	62,182	66,493	46,898	63,804	282,825
Tax and Other Deposits	33,539	33,900	41,925	39,231	52,979
Deferred Revenue	27,752	50,174	38,848	27,600	35,999
TOTAL LIABILITIES	$ 536,635	$ 466,058	$ 470,932	$ 413,217	$ 893,412
FUND BALANCE					
Reserves					
Encumbrances & GPR Balances	$ 98,324	$ 131,945	$ 106,438	$ 136,731	$ 100,700
Program Revenue Balances	407,629	407,293	392,327	635,798	237,576
Total Reserves	$ 505,953	$ 539,238	$ 498,765	$ 772,529	$ 338,276
Unreserved Balance-Undesignated	(163,608)	44,469	445,999	574,416	737,748
TOTAL FUND BALANCE	$ 342,345	$ 583,707	$ 944,764	$ 1,346,945	$ 1,076,024
TOTAL LIABILITIES AND FUND BALANCE	$ 878,980	$ 1,049,765	$ 1,415,696	$ 1,760,162	$ 1,969,436

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

Source: Wisconsin Department of Administration.

STATE GOVERNMENT ORGANIZATION

The State is located in the Midwest. 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

Executive Branch

The executive branch is under the direction of the Governor. The Governor is the chief executive officer of the State and is assisted by five elected constitutional officers (each elected to a four-year term):

- *Lieutenant Governor*. The Governor and Lieutenant Governor are elected on the same ballot. The Lieutenant Governor serves as Acting Governor during the absence or incapacity of the Governor.
- *Attorney General*. The Attorney General heads the Department of Justice, which provides all state agencies with legal advice and counsel.

- *State Treasurer*. The State Treasurer receives and disburses all money of the State Treasury in accordance with law.
- *Secretary of State*. The Secretary of State keeps a record of the official acts of the Legislature and executive agencies.
- *Superintendent of Public Instruction*. 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 executive branch consists of 17 departments (including two headed by other constitutional officers) and 13 independent agencies.

Legislative Branch

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 members 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.

Judicial Branch

The judicial branch consists of:

- *Supreme Court*. The Supreme Court is composed of seven justices who are elected statewide for staggered ten-year terms.
- *Court of Appeals*. The Court of Appeals is composed of 16 judges who are elected statewide for staggered six-year terms sitting in three-judge panels.
- *Circuit Courts*. There are 69 Circuit Courts (the State's trial courts), each has one or more judges who are locally elected for six-year terms, and all are administered from ten administrative districts.

The State pays all costs of the Supreme Court and Court of Appeals and certain costs of the Circuit Courts.

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 both budgetary and financial reporting of the General Fund into eight functional groupings. Each State agency is categorized into one of these functions. There are some agency activities that fit into more than one function. 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. The State also actively promotes economic development by (1) working with companies seeking to expand or move to the State, and (2) broadening markets for State goods and services. These objectives are met in several ways:

- Inspection of raw products and conditions under which they are grown or obtained, including conducting research in areas such as animal or plant diseases, grading of products, and establishing standards for contents of processed foods.
- Licensing of members of various trades and professions whose activities affect the health of individuals, such as doctors and nurses, or whose actions are considered important for public safety, such as architects and engineers.
- Maintaining an orderly market in which to conduct business and specifying methods of fair competition:
    - regulating the rates that public utilities may charge for their services
    - setting standards for the operation of banks, savings and loan companies, and credit unions to protect depositors
    - regulating the sale of securities and insurance offered for sale in the State
    - approving or disapproving the establishment or discontinuance of transportation routes

Several State agencies participate in the field of commerce:

- *Department of Agriculture, Trade and Consumer Protection* provides consumer protection and regulates the conditions of the growth and processing of food and fair trade practices in general.
- *Department of Regulation and Licensing* supervises a variety of examining boards in the various trades and professions.
- *Department of Financial Institutions* regulates securities transactions and supervises banks, credit unions, and savings and loans.
- *Public Service Commission* regulates the rates and services offered by railroads and heat, light, power, and water companies.
- *Department of Commerce* promotes industrial development in the State and coordinates relations between the State and local governments and between the Federal Government and State and local governments.
- *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, technical colleges operated at the local level, assists private higher educational institutions, and operates the University of Wisconsin system.

- *Primary and Secondary Schools.* There are 426 school districts in the State, which administer the elementary and secondary schools within those districts. There were approximately 881,231 students attending public elementary and secondary schools in 2002-03. Elementary and secondary schools are operated by district boards, with supervision of the system provided by the Department of Public Instruction.
- *Technical Colleges.* The State is divided into 16 technical college districts. In the 2002-03 academic year, 429,355 full- and part-time students were enrolled in the technical college system. The technical colleges are operated by district boards, with supervision of the system provided by the Technical College System Board.

- *University of Wisconsin System.* The University of Wisconsin System consists of its doctoral campuses in Madison (the largest campus in the state) and Milwaukee as well as 11 other four-year degree-granting institutions and 13 two-year colleges. The system's total enrollment in 2002-03 was 160,635 students.

Other agencies concerned with the education function of the State include:

- *Educational Communications Board*, which operates the State public radio network, the State public television network, and the State educational television network.
- *The State Historical Society,* which maintains the State historical library, museum, and various historical sites.
- *Arts Board,* which 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 or protection of the land, forest, water, air, and minerals of the State.

The State works with municipalities and industries to treat sewage or industrial wastes to retain the purity of State lakes and streams. Smokestack and automobile exhausts are monitored to prevent air pollution. Parks and forests have been established and maintained both to preserve unusual phenomena of nature and to provide the public with recreational and educational opportunities. Private forest owners are given incentives to observe scientific conservation practices so that new growth may replace cut timber. Hunting and fishing limits are set, and hunters and fishermen licensed, to preserve the fish and wildlife from extinctive practices. Farming methods that preserve the quality and stability of the soil are encouraged.

Governmental activities for preserving and protecting the State's natural resources are largely the province of the Department of Natural Resources, but the Department of Agriculture, Trade and Consumer Protection is also actively involved.

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. Nearly 5.1 million vehicles are registered each year.

The Department of Transportation also gives various forms of driver examination tests when driver licenses are issued or renewed to ensure drivers know the laws, are physically fit to drive, and have the required driving skills. Road building and motor vehicle regulation are also responsibilities of the Department of Transportation, which also 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

Various State agencies have responsibilities to maximize human growth and development, including health, living standards, safety, and 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.

Improving living standards for needy, aged, handicapped, and minors in need of assistance is also a goal of the State. Such health and welfare activities are primarily the work of the Department of Health and Family Services, including the State's Badger Care program, which provides health insurance coverage for low-income working families, and a prescription drug program for the elderly. 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.
- State worker's compensation provides financial assistance if a worker is injured on the job.
- Unemployment compensation is provided to the worker if the worker's job is lost.
- Employment services are provided by the State (in partnership with the Federal Government) to help a worker find a job or to acquire the skills necessary for employment.
- Investigation of discrimination matters occurs if a worker cannot obtain a job and suspects discrimination based on race, age, gender, creed, or handicap.

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 citizens and insure peaceable relations among them, the State seeks to protect citizens 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 that 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.

- *Department of Administration* duties include budgeting, information technology, data processing, accounting, payroll, financial reporting, engineering, and facilities management and planning.
- *Office of Employment Relations* supervises State personnel practices.
- *Ethics Board* administers a code of ethics for State public officials.
- *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.

- *Department of Employee Trust Funds* manages the State's public employee retirement system.
- *Office of the State Treasurer* processes the receipt and disbursement of monies received or expended by the State (effective July 1, 2004, these functions will be transferred to and performed by the Department of Administration), serves as custodian of unclaimed property, and administers the EdVest Program, which is the State's Section 529 College Savings Program.
- *Office of the Secretary of State* keeps various state records and affixes the state seal on certain records to authenticate them.
- *Department of Financial Institutions* is responsible for chartering corporations.
- *State Elections Board* oversees the election processes of the State, monitoring campaign expenditures and keeping election records.

Judicial

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

Legislative

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

General Appropriations

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

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

STATE OF WISCONSIN BUILDING COMMISSION

The Commission supervises all matters relating to the State's issuance of general obligations, revenue obligations, and operating notes.

Constitutional limitations severely restricted the issuance of direct State debt until 1969, when the Constitution was amended to authorize the State to borrow money. Chapter 18 of the Wisconsin Statutes delegates powers to the Commission and establishes the procedures for the issuance of debt.

The Commission is composed of eight members. The Governor serves as the chairperson. Each house of the Legislature appoints three members. One citizen member is appointed by the Governor and serves at the Governor's pleasure. State law provides for the two major political parties to be represented in the membership from each house, and one member appointed from each house must be a member of the Legislative State Supported Program Study and Advisory Committee. The members act without liability except for misconduct.

The Department of Administration assists the Commission. The Administrator of the Division of State Facilities, with the concurrence of the Secretary of Administration, serves as the Secretary to the Building Commission. The Secretary of Administration, the head of the engineering function, and the ranking architect in the Department of Administration serve as nonvoting advisory members. Employees

of the Division of Executive Budget and Finance serve as the Capital Finance Director and staff responsible for managing the State's various borrowing programs.

The Commission's office is located at the 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.

STATE OBLIGATIONS

General Obligations

The State, acting through the Commission, may issue general obligation bonds and notes or enter into loans that are secured by the State's full faith, credit, and taxing power. Payments of debt service on State general obligations are paramount to all other obligations of the State. As of December 1, 2003, the State had $4.370 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 it determines that a deficiency will occur in the funds of the State that will not permit the State to pay its operating expenses in a timely manner. The Governor and the Joint Finance Committee of the Legislature must also approve the request for issuance.

Operating notes may be issued in an amount not exceeding 10% of budgeted appropriations of general purpose and program revenues in the year in which operating notes are issued. Operating notes are not general obligations of the State and are not on parity with State general obligations. The General Fund may be pledged for the repayment of operating notes, and money of the General Fund may be impounded for future payment of principal and interest; however, any such repayment or impoundment must be made subsequent to the payment of the amounts due the Bond Security and Redemption Fund securing the repayment of State general obligation bonds. All payments and impoundments securing the operating notes are also subject to appropriation. Owners of the operating notes have a right to file suit against the State in accordance with procedures established in State law.

The State issued $400 million principal amount of operating notes for the 2003-04 fiscal year but did not issue any operating notes for the 2002-03 fiscal year.

Master Lease Program

The State, acting by and through the Department of Administration, has entered into a master lease for the purpose of acquiring property (and in limited situations, prepaid service contracts) 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 issued that evidence a proportionate interest in certain lease payments to be made by the State. As of December 1, 2003, the principal amount of the State's obligations under the master

lease program was approximately $115 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 Wisconsin Statutes authorizes the State, acting through the Commission, to issue revenue obligations. Revenue obligations may be in one of the following forms:

- *Enterprise obligations.* Secured by a pledge of revenues or property derived solely from the operation of a program funded by the issuance of the revenue obligations.
- *Special fund obligations.* Secured by a pledge of revenues or property derived from any program or any pledge of revenues.

Any such program to be undertaken or obligations to be issued must be specifically authorized by the Legislature. The resulting obligations are not general obligations of the State.

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.

Three such programs have been authorized and are currently outstanding:

- *Transportation revenue bond program.* This program finances a portion of the costs of the State highways and related transportation facilities. The obligations are secured by motor vehicle registration fees. The Commission has issued fourteen series of bonds and one series of commercial paper notes for this program (not including refunding bond issues), which were outstanding in the amount of $1.442 billion as of December 1, 2003. See Part V of this Annual Report for additional information on transportation revenue obligations.
- *Clean water fund program.* This program makes loans to municipalities in the State for the construction or improvement of their water pollution control facilities. The Commission has issued eight series of bonds for this program (not including refunding bond issues), which were outstanding in the amount of $620 million as of December 1, 2003. See Part VI of this Annual Report for additional information on clean water revenue bonds.
- *Petroleum inspection fee revenue bond program.* This program funds claims submitted under the Petroleum Environmental Cleanup Fund Award Program. Obligations issued for this program are secured by petroleum inspection fees. The Commission has issued two series of bonds and two series of extendible municipal commercial paper for this program, which were outstanding in the amount of $317 million as of December 1, 2003. See Part VII of this Annual Report for additional information on petroleum inspection fee revenue obligations.

General Fund Annual Appropriation Bonds

On December 18, 2003, the State issued $1.795 billion of taxable general fund annual appropriation bonds. These obligations were issued, pursuant to Section 16.527 of the Wisconsin Statutes, to pay the State's unfunded accrued prior service (pension) liability and the unfunded accrued liability for sick leave conversion credits. See Part VIII of this Annual Report for additional information on general fund annual appropriation bonds.

Independent Authorities

State law creates and grants to three independent special purpose authorities the power to issue bonds and notes. None of these entities is a department or agency of the State, and none can issue bonds or

notes that are legal obligations of the State. By law, the Commission serves as financial advisor for two of these independent authorities in the issuance of their debt.

Wisconsin Housing and Economic Development Authority

The Wisconsin Housing and Economic Development Authority (**WHEDA**) acts as a funding vehicle for the development of housing for low– and moderate–income families and economic development projects. WHEDA is also authorized to administer the State's agricultural production loan guaranty and interest subsidy program.

WHEDA may issue bonds and notes, which are to be general obligations of WHEDA (except for bonds for the housing rehabilitation loan program) unless WHEDA chooses to limit the obligation. The State is expressly not liable on WHEDA debts. Repayment may be secured by capital reserve funds, which may be created for each bond issue in an amount that is appropriate for the type of projects being funded. Invasion of this reserve triggers a moral obligation pledge on the part of the State and prevents further WHEDA borrowing until the reserve is replenished. 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:

- *General programs.* Borrowing authority of $325 million, excluding debt issued to refund other debt, of which $113 million of borrowing authority was available on November 30, 2003.
- *Housing rehabilitation programs.* Borrowing authority of $100 million, of which $100 million of borrowing authority was available on November 30, 2003.
- *Single-family home ownership mortgage loan program.* WHEDA has issued $4.683 billion in such bonds as of November 30, 2003. In the one-year period ending November 30, 2003, WHEDA sold four single-family issues totaling $407 million.
- *Residential facilities for the elderly and chronically disabled.* Borrowing authority of $99 million, and as of November 30, 2003, WHEDA had sold three bond issues totaling $5 million.
- *Economic development and agriculture loans.* Borrowing authority of $217 million of which, as of November 30, 2003, WHEDA had sold 142 series of bonds for economic development and agriculture totaling $83 million, which are not general obligations of WHEDA, and 56 series of bonds, totaling $92 million, which are general obligations of WHEDA.

WHEDA is directed by a twelve-member board: the Secretary of the Department of Administration, the Secretary of the Department of Commerce, two representatives to the 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 and the e-mail address is info@wheda.com.

Wisconsin Health and Educational Facilities Authority

The Wisconsin Health and Educational Facilities Authority (**WHEFA**) provides revenue bond financing for hospitals, nursing homes, other health-related organizations, and private, higher educational facilities. It may finance any qualifying capital project and may refinance any qualifying outstanding indebtedness. As of June 30, 2003 WHEFA had outstanding 244 issues totaling approximately $5.043 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 authorization for a moral obligation pledge. 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 53045-5841. The phone number is (262) 792-0466 and the e-mail address is info@whefa.com.

University of Wisconsin Hospitals and Clinics Authority

The University of Wisconsin Hospitals and Clinics Authority (**UWHC**) operates the University of Wisconsin hospital and a number of clinics. It provides instruction for medical and other health related professions, students, and sponsors. It also supports medical research and assists health care programs and personnel throughout the State. As of November 30, 2003 UWHC had outstanding three issues totaling approximately $175 million.

UWHC may issue bonds and notes payable solely from the funds pledged in the bond resolution or any trust indenture or mortgage or deed of trust that secures the obligations. The State is not liable for the payment of principal or interest on the debt nor is it liable for the performance of any pledge, mortgage, obligation or agreement entered into by UWHC.

UWHC is directed by a fifteen-member board that consists of the Secretary of the Department of Administration, a faculty member of a University of Wisconsin-Madison (**UW**) health professions school (other than the Medical School) appointed by the UW Chancellor, a chairperson of a department of the Medical School appointed by the UW Chancellor, the dean of the Medical School, the UW Chancellor, three members appointed by the board of regents, the co-chairs of the Legislature's joint committee on finance, three members serving three-year terms nominated by the Governor and confirmed by the Senate, and two nonvoting members from labor organizations the represent UWHC employees. Financial reports can be obtained from the University of Wisconsin Hospitals and Clinics Authority, Room H5/803, 600 Highland Avenue, Madison, WI 53792-8360. The phone number is (608) 263-8025.

Local Districts

The Legislature has authorized the creation of the following types of local districts, which may be created by one or more local units of government:

- *Exposition center district.* A district is authorized to issue bonds for costs related to an exposition center. 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 (the Wisconsin Center District).
- *Local professional baseball park district.* A district's territory consists of each county with a population of more than 600,000 and all contiguous counties. A district is authorized to issue bonds for costs related to a baseball park. If the Secretary of Administration determines that certain conditions are met, the State may have a moral obligation to appropriate moneys to make up deficiencies in the district's reserve funds that secure up to $160 million principal amount of bonds in the event the project revenues and tax revenues received by the district are inadequate to pay debt service. To date, one such district has been created (the Southeast Wisconsin Professional Baseball Park District).
- *Local professional football park district.* A district's territory consists of any county with a population of more than 150,000 that includes the principal site of a stadium that is the home of a professional football team. A district is authorized to issue revenue bonds for costs related to a football park. If the Secretary of Administration determines that certain conditions are met, the

State may have a moral obligation to appropriate moneys to make up deficiencies in the district's reserve funds that secure up to $160 million principal amount of bonds in the event the project revenues and tax revenues received by the district are inadequate to pay debt service. To date, one such district has been created (the Green Bay-Brown County Professional Football Stadium District).

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 and amount of outstanding obligations that are subject to the State's moral obligation include:

- Payments required to be made by municipalities on loans from the Clean Water Fund, if so designated by the State. Currently no Clean Water Fund loan carries a moral obligation of the State.
- Payments to reserve funds securing certain obligations of WHEDA. Currently there are 8 issues outstanding in the aggregate amount of $439 million that carry a moral obligation of the State.

Name of WHEDA Issue	Maturity Date	Principal Issued	Outstanding Balance
Housing Revenue Bonds			
1992 Series A	11/1/2012	$ 72,450,000	$ 5,755,000
1992 Series B, C & D	11/1/2022	72,945,000	-0-
1993 Series A & B	11/1/2023	77,560,000	48,850,000
1993 Series C	11/1/2019	145,785,000	97,305,000
1995 Series A & B	11/1/2026	51,700,000	36,730,000
1998 Series A, B & C	11/1/2032	39,895,000	35,660,000
1999 Series A & B	11/1/2031	41,400,000	37,960,000
2000 Series A& B	11/1/2032	10,785,000	10,440,000
2002 Series A-1	5/1/2034	169,160,000	166,495,000
Totals		$681,680,000	$439,195,000

- Payments to reserve funds securing certain obligations of different types of local districts, subject to the Secretary of Administration's determination that certain conditions have been met. Currently there is one issue from a local district (Wisconsin Center District) that is outstanding in the amount of $126 million that carries a moral obligation of the State. Two other local districts (the Southeast Wisconsin Professional Baseball Park District and the Green Bay-Brown County Professional Football Stadium District) each have authority to issue $160 million of revenue obligations that, subject to the Secretary of Administration's determination that certain conditions have been met, could carry a moral obligation of the State. Both districts have issued revenue obligations that do not carry the moral obligation of the State.
- Payments to reserve funds securing obligations issued by certain redevelopment authorities, subject to the Secretary of Administration's determination that certain conditions have been met. Currently there is one issue from a redevelopment authority (Redevelopment Authority of the City of Milwaukee-Milwaukee Public Schools Neighborhood Schools Initiative) that is outstanding in the amount of $112 million that carries a moral obligation of the State.

Employee 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 employees and will have to be paid out in the future. After deducting the fixed contributions of employees, the State then contributes an amount sufficient to meet the remaining value of the obligations. 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-14 through II-20.

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-21, II-22 and II-23.

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 employees, *the State has no financial obligation for payment of any local government contribution.*

The Wisconsin Retirement System covers all full-time employees of the State. The total retirement contribution consists of a member (employee) contribution and an employer contribution. Member contributions for calendar year 2004 are set at the following rates:

- 5.0% of salary for general employees including teachers
- 2.6% for elected officials, judges, and certain other positions in State government
- 4.5% for protective occupation participants who are also covered by Social Security
- 3.2% 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 employee's salary is assumed by the State. An additional 0.6% nonrefundable contribution is required from general employees, including teachers.

The employer contribution is actuarially determined each year by an independent actuarial firm. As of December 1, 2003, the calendar year 2004 employer contributions have been established at the following rates:

- 7.6% for protective participants with Social Security
- 10.6% for protective participants without Social Security
- 8.1% for elected officials and judges
- 4.2% for general employees

In addition, the State is charged an average of 0.7% 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 December 31, 2029. The State is also charged 3.9% of its protective payroll for special duty disability coverage.

Monthly benefits upon retirement at normal retirement age (65 for general employees, 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 employees 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:

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

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

Table II-14 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 $705 million as of December 31, 2002. As of June 30, 2003 the State's share of the unfunded accrued liability of the Wisconsin Retirement System was $686 million.

Table II-14

WISCONSIN RETIREMENT SYSTEM
ACTUARIAL STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2002 (UNAUDITED)
(Amounts in Millions)

	12/31/2002	12/31/2001	Increase (Decrease)
Assets and Employer Obligations:			
Net Assets			
Cash, Investments & Receivables			
Less: Payables & Suspense Items			
Fixed Division	$51,385.7	$51,549.8	$ (164.1)
Variable Division	4,719.3	6,279.8	(1,560.5)
Totals	56,105.0	57,829.6	(1,724.6)
Obligations of Employers			
Unfunded Accrued Liability	1,756.9	2,110.4	(353.5)
TOTAL ASSETS	$57,861.9	$59,940.0	$(2,078.1)
Reserves and Surplus:			
Reserves			
Actuarial Present Value of Projected Benefits Payable to Terminated Vested Participants and Active Members:			
Member Normal Contributions	$13,885.1	$14,117.4	$ (232.3)
Member Additional Contributions	137.8	157.9	(20.1)
Employer Contributions	17,797.3	19,783.2	(1,985.9)
Total Contributions	$31,820.2	$34,058.5	$(2,238.3)
Actuarial Present Value of Projected Benefits Payable to Current Retirees And Beneficiaries:			
Fixed Annuities	$23,202.9	$21,283.6	$ 1,919.3
Variable Annuities	3,993.1	4,547.4	(554.3)
TOTAL ANNUITIES	27,196.0	25,831.0	1,365.0
TOTAL RESERVES	$59,016.2	$59,889.5	$ (873.3)
Surplus			
Fixed Annuity Reserve Surplus	$ (60.5)	696.1	$ (756.6)
Variable Annuity Reserve Surplus	(1,093.8)	(645.6)	(448.2)
TOTAL SURPLUS	(1,154.3)	50.5	(1,204.8)
TOTAL RESERVES AND SURPLUS	$57,861.9	$59,940.0	$(2,078.1)

Notes to Wisconsin Retirement System

All eligible State of Wisconsin employees participate in the Wisconsin Retirement system **(System)**, a cost-sharing multiple-employer public employee retirement system **(PERS)**. The payroll for employees covered by the system for the year ended December 31, 2002 was $2.87 billion.

All permanent employees expected to work over 600 hours a year are eligible to participate in the System. Covered employees are required by statute to contribute 5.0% of their salary (2.6% for Executive and Elected Officials, 4.5% for Protective Occupations with Social Security, and 3.2% 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 employees. 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, 2002 was $317 million, which consisted of $166 million or 5.8% of payroll from the employer and $151 million or 5.3% of payroll from employees.

Employees who retire at or after age 65 (55 for protective occupation employees) 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 after December 31, 1999. Service earned before January 1, 2000 accrue benefits at a rate of 1.765% (2.165% for Executives, Elected Officials, and Protective Occupations with social security and 2.665% for protective occupations without social security). Final Average Earnings is the average of the employee's three highest years' earnings. Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees 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.

The System also provides death and disability benefits for employees. 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. However, periodically, the Employe Trust Funds Board has reviewed and, when appropriate, adjusted the actuarial assumptions used to determine this liability. Changes in the assumptions affect the unfunded accrued actuarial liability, and the resulting actuarial gains or losses are credited or charged to employer's unfunded liability accounts. The unfunded liability for the State of Wisconsin as of December 31, 2002 was $705 million or 40.8% of the total system unfunded liability of $1.73 billion.

Ten-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's December 31, 2002 Comprehensive Annual Financial Report.

The preceding provides a comparative actuarial balance sheet for the most recent reporting periods.

Table II-15

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)
1993	$25,437,200	$2,042,926	$27,480,126	92.6
1994	26,884,600	2,006,900	28,891,500	93.1
1995	30,059,826	2,055,718	32,115,544	93.6
1996	33,962,600	2,134,400	36,097,000	94.1
1997	38,584,600	2,178,300	40,762,900	94.7
1998	43,390,500	2,226,600	45,617,100	95.1
1999	49,403,700	2,145,800	51,549,500	95.8
2000	51,824,600	2,169,000	53,993,600	96.0
2001	58,024,300	2,110,400	60,134,700	96.5
2002	57,861,900	1,756,900	59,618,800	97.1

Source: Wisconsin Department of Employe Trust Funds.

Table II-16

WISCONSIN RETIREMENT SYSTEM
COVERED EMPLOYEES
1993-2002

Year	Active State	Active Local	Retired
1993	63,118	166,242	83,836
1994	64,178	169,488	86,214
1995	63,977	172,297	88,998
1996	63,886	175,749	92,198
1997	64,381	179,531	95,128
1998	65,663	183,074	99,112
1999	66,716	186,582	102,817
2000	68,330	189,710	107,425
2001	70,512	193,371	112,142
2002	71,222	195,128	116,289

Source: Wisconsin Department of Employe Trust Funds.

Table II-17

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

	State		Local		Total	
Year	**Employee**	**Employer**	**Employee**	**Employer**	**Employee**	**Employer**
1993	$5,789	$246,913	$5,223	$628,321	$11,012	$ 875,234
1994	5,921	258,278	5,218	656,714	11,139	914,992
1995	6,410	270,770	4,816	683,840	11,226	954,610
1996	7,582	282,430	5,570	759,765	13,152	1,042,195
1997	6,006	294,834	8,336	761,116	14,342	1,055,950
1998	1,686	298,793	4,015	777,419	5,701	1,076,212
1999	886	294,436	3,564	863,003	4,450	1,157,439
2000	800	305,049	3,543	754,516	4,343	1,059,565
2001	739	283,567	3,467	765,541	4,206	1,049,108
2002	763	315,782	3,679	733,748	4,442	1,049,530

[(a)] Employer contributions include employer pick-up of employee contributions.

Source: Wisconsin Department of Employe Trust Funds.

Table II-18

WISCONSIN RETIREMENT SYSTEM
STATE EMPLOYER CONTRIBUTION RATES[(a)]

Employee Classification	Current Service	Prior Service	Total
Protective	7.6%	0.6%	8.2%
Elected	8.1	1.0	9.1
General.....	4.2	1.2	5.4

[(a)] Effective January 1, 2004

Source: Wisconsin Department of Employe Trust Funds.

Table II-19

WISCONSIN RETIREMENT SYSTEM
REVENUES BY TYPE
(Amounts in Thousands)

	Contributions						
Year	Required Employee	Required Employer[a]	Additional Employee	Investment Income	Supplemental	Misc.	Total
1993	$349,914	$536,331	$ 5,516	$2,608,684	$ 496	$ 0	$3,500,941
1994	364,864	561,265	6,060	1,654,301	444	0	2,586,934
1995	380,993	584,842	8,977	5,903,712	407	113	6,879,044
1996	393,765	661,582	13,199	5,414,556	358	160	6,483,620
1997	410,567	659,725	6,422	7,241,025	216,590	179	8,534,508
1998	520,864	561,049	9,848	7,037,489	7,315	231	8,136,796
1999	505,411	656,478	8,802	9,235,371	6,272	205	10,412,539
2000	511,661	561,052	10,441	(1,032,185)	5,496	184	56,649
2001	496,012	557,303	5,086	(1,990,408)	4,517	211	(927,279)
2002	513,038	910,181	13,593	(5,880,598)	3,873	184	(4,439,279)

[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-20

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

Year	Separations	Death	Annuities	Supplemental[b]	Misc.	Total
1993.....	$20,462	$ 8,078	$ 915,300	$ 496	$31,362	$ 975,698
1994.....	23,966	11,339	993,771	444	31,362	1,060,882
1995.....	30,180	10,812	1,080,227	407	25,593	1,147,219
1996.....	36,883	15,359	1,254,044	358	24,586	1,331,230
1997.....	41,039	12,332	1,514,634	216,590	11,108	1,795,703
1998.....	41,931	13,939	1,624,293	7,315	10,978	1,698,456
1999.....	35,609	13,858	1,844,479	6,272	12,328	1,912,546
2000.....	49,814	25,724	2,237,824	5,496	183,350	2,502,208
2001.....	40,740	22,308	2,467,690	4,517	15,635	2,550,890
2002.....	38,470	27,551	2,603,193	3,873	18,667	2,691,754

[a] Amounts include payments from employee additional contributions.

[b] Supplemental benefits were granted to certain employees 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 that will be applied in the determination of contribution levels required for the funding of the retirement system effective January 1, 2004.

Table II-21

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	11.7%	4.9%	10.1%	10.0%	18.0%	18.9%	7.5%	17.6%	16.9%
1	6.4	2.5	7.0	7.0	15.0	16.2	7.0	10.6	11.1
2	5.1	2.4	5.3	6.0	13.0	14.9	6.5	7.9	8.7
3	3.6	2.3	3.8	5.4	11.0	12.8	6.0	6.8	7.1
4	3.0	2.2	3.5	4.0	10.0	10.5	5.5	6.0	6.0
5 & over									
25	2.1	1.0	3.5	4.0	10.0	10.5	5.0	6.0	6.0
30	1.7	1.0	2.7	3.5	10.0	10.5	4.8	4.6	5.8
35	1.2	0.7	1.5	2.3	9.0	8.3	4.6	3.1	4.5
40	1.1	0.7	1.2	1.5	5.0	5.3	4.0	2.1	3.2
45	1.1	0.7	1.0	1.2	3.3	3.8	3.2	1.8	2.9
50	1.0	0.7	0.9	1.2	2.0	2.9	2.4	1.5	2.5
55	1.0	0.7	0.9	1.2	1.0	2.0	2.0	1.5	1.8
60	1.0	0.7	0.9	1.2	0.7	2.0	2.0	1.5	0.6

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	0.01%	0.04%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
25	0.01	0.04	0.01	0.01	0.01	0.01	0.01	0.01
30	0.01	0.05	0.01	0.01	0.01	0.01	0.01	0.04
35	0.04	0.06	0.01	0.01	0.01	0.05	0.02	0.05
40	0.06	0.11	0.02	0.02	0.02	0.08	0.06	0.07
45	0.11	0.19	0.05	0.07	0.04	0.07	0.11	0.10
50	0.38	0.59	0.14	0.13	0.07	0.13	0.25	0.16
55	1.25	0.65	0.26	0.19	0.21	0.20	0.48	0.29
60	0.85	0.50	0.43	0.28	0.28	0.30	0.85	0.41

Source: Wisconsin Department of Employe Trust Funds.

Table II-22

WISCONSIN RETIREMENT SYSTEM
RETIREMENT PATTERNS

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

	% Retiring Next Year								
	General		Public Schools		University		Protective		
Age	Males	Females	Males	Females	Males	Females	With Soc. Sec.	Without Soc. Sec.	Executive & Elected
50							5%	2%	
51							5	2	
52							5	4	
53							31	34	
54							27	36	
55							27	39	
56							27	42	
57	25%	27%	30%	25%	20%	25%	27	38	8%
58	25	27	30	22	16	15	27	37	8
59	25	27	30	22	15	25	27	33	12
60	25	28	30	25	16	17	31	31	14
61	28	34	30	23	18	19	26	40	20
62	47	50	45	36	25	32	47	40	15
63	45	50	45	25	22	26	38	40	15
64	45	50	45	40	23	37	31	40	15
65	45	50	55	40	25	33	34	40	20
66	32	39	50	31	25	32	50	40	20
67	29	30	40	20	25	24	50	40	20
68	24	25	40	20	25	26	50	40	20
69	22	20	40	20	25	20	50	40	20
70	12	20	40	20	25	20	100	100	20
71	12	20	40	20	25	20	100	100	20
72	12	20	40	20	25	20	100	100	20
73	12	20	40	20	25	20	100	100	20
74	12	20	40	20	25	20	100	100	20
75	100	100	100	100	100	100	100	100	100

Source: Wisconsin Department of Employe Trust Funds.

Table II-23

WISCONSIN RETIREMENT SYSTEM
OTHER ASSUMPTIONS

Mortality Rates

Active & Retired Life Mortality Rates

Sample Attained Ages	Future Life Expectancy (years) Males	Females
40	39.7	45.1
45	34.9	40.3
50	30.2	35.4
55	25.7	30.7
60	21.4	26.1
65	17.3	21.6
70	13.5	17.3
75	10.3	13.4
80	7.6	10.1
85	5.5	7.3

Salary Scale

	% Increases in Salaries Next Year								
	Merit					Total			
Age	Other	Teachers	Protective	Executive & Elected	Base (Economy)	Other	Teachers	Protective	Executive & Elected
30	4.3%	4.2%	3.8%	2.8%	4.5%	8.8%	8.7%	8.3%	7.3%
35	3.1	3.1	2.6	1.4	4.5	7.6	7.6	7.1	5.9
40	2.2	2.2	1.2	0.8	4.5	6.7	6.7	5.7	5.3
45	1.5	1.5	0.5	0.5	4.5	6.0	6.0	5.0	5.0
50	1.0	1.0	0.3	0.3	4.5	5.5	5.5	4.8	4.8
55	0.4	0.4	0.1	0.1	4.5	4.9	4.9	4.6	4.6
60	0.3	0.3	0.1	0.1	4.5	4.8	4.8	4.6	4.6
65	0.3	0.3	0.1	0.1	4.5	4.8	4.8	4.6	4.6

Future Annual Investment Return

For purposes of the above tables, the future annual invested return is assumed to be 8.0%. On December 12, 2003, the Employee Trust Funds Board, as the result of completing a regular, periodic review of actuarial assumptions, reduced this assumed rate to 7.8%.

For benefit calculation purposes, an assumed benefit rate of 5.0% is used.

Source: Wisconsin Department of Employe Trust Funds.

STATE OF WISCONSIN INVESTMENT BOARD

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

Pursuant to Statutes, the State Investment Fund consists of cash balances of the General Fund, State agencies and departments, and Wisconsin Retirement System reserves. In addition, the State Investment Fund also includes investment deposits from elective participants consisting of over 1,100 municipalities

and other public entities, which are accounted for in a subset of the State Investment Fund called the Local Government Investment Pool (**LGIP**). The LGIP portion of the State Investment Fund is additionally insured as to most credit risks by an independent insurer.

The objectives of the State Investment Fund are to provide (in order of priority):

- Safety of principal
- Liquidity
- Reasonable rate of return

This fund includes the cash balances from retirement trust funds while they are pending longer-term investment. 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 and may have a longer average maturity 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:

- Types of assets and the amount that can be acquired
- Delegation of powers to purchase and sell and specific guidelines for various types of investments
- Emergency powers in the event the Trustees are unable to meet
- Guidelines pertaining to use of derivatives, financial futures, and related options

The policies seek to achieve safety of principal and liquidity by attention to quality standards, maturity, and marketability. The policies seek to enhance return through portfolio management that considers, among other things, anticipated changes in interest rates and the yield curve.

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

The nine members of the Trustees include:

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

All appointed members serve six-year terms. The Trustees usually meet on a monthly basis.

As a public agency, SWIB is not registered under the Investment Company Act of 1940, the Investment Advisor Act of 1940, or the Commodity Exchange Act. However, a description of LGIP and State Investment Fund risk factors, guidelines, and investment objectives may be obtained from the State of

Wisconsin Investment Board, P.O. Box 7842, Madison, WI 53707-7842 . The phone number is (608) 266-2381, and the e-mail address is info@swib.state.wi.us.

Table II-24 presents unaudited statistical information for the State Investment Fund. A copy of SWIB's annual report or information on the LGIP and State Investment Fund may be obtained from the State of Wisconsin Investment Board.

Table II-24

STATE INVESTMENT FUND
AS OF SEPTEMBER 30, 2003 (UNAUDITED)
Market Versus Amortized Cost Valuation Report

	Amortized Cost	Market Value	Portfolio Percentage at Amortized Cost
U.S. Government Repurchase Agreements	$1,436,000,000	$1,436,000,000	23.1%
U.S. Government Agencies	3,558,864,899	3,559,250,866	57.1
U.S. Government Treasuries	140,561,849	152,102,440	2.3
Corporate Commercial Paper	585,586,676	585,582,411	9.4
Certificates of Deposit	506,130,000	506,130,000	8.1
Mortgage-Backed Securities	1,087,778	1,087,778	0.0
Swaps	0	(19,547,074)	0.0
	$6,228,231,202	$6,220,606,421	100.0%

Accrued Gross Income: $4,521,390

Average Maturity for the Last Six Months

Reporting Date	Average Maturity (Days)	Reporting Date	Average Maturity (Days)
9/30/2003	61	6/30/2003	51
8/31/2003	49	5/31/2003	41
7/31/2003	49	4/30/2003	42

Summary of Investment Fund Participants
As of September 30, 2003

	Par Amount (Amounts in Thousands)	Percent of Portfolio
Mandatory Participants		
State of Wisconsin and Agencies	$ 2,260,023	38.1%
State of Wisconsin Investment Board	517,823	8.7
Elective Participants		
Local Government Investment Pool	3,152,780	53.2
	$ 5,930,626	100.0%

NOTE: The difference between the total of the participants' share ($5,930,626,000) and the amortized cost ($6,228,231,202) 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 by the State in posting bank receipts that have already been invested by SWIB.

Source: State of Wisconsin Investment Board

STATISTICAL INFORMATION

The following tables present information pertaining to the State's economic condition, including property value, population, income, and employment.

Table II-25
STATE ASSESSMENT
(EQUALIZED VALUE)
OF TAXABLE PROPERTY
1994 TO 2003

Calendar Year	Value of Taxable Property	Rate of Increase (Decrease)
1994	$184,994,866,100	—
1995	201,538,109,000	8.9%
1996	216,943,757,600	7.6
1997	233,074,233,400	7.4
1998	248,994,915,200	6.8
1999	266,567,513,500	7.1
2000	286,321,491,800	7.4
2001	312,483,706,600	9.1
2002	335,326,478,700	7.3
2003	360,710,211,300	7.6

Source: Wisconsin Department of Revenue.

Table II-26
DELINQUENCY RATE:
INCOME, FRANCHISE, GIFT, SALES, AND USE TAXES
1998-99 TO 2002-03

Fiscal Year	Total Revenues Expected (Amounts in Thousands)	Delinquent Balance (Amounts in Thousands)	Delinquent Balance as a Percent of Total Revenues Expected
1998-99	$ 9,011,610	$478,883	5.31%
1999-2000	10,144,899	515,487	5.08
2000-01	9,327,051	538,914	5.78
2001-02	9,255,488	615,933	6.65
2002-03	9,264,797	564,275	6.09

Source: Wisconsin Department of Revenue.

Table II-27
POPULATION TREND

	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
1990	4,892	16	4.0	9.8	90.1	70.3
2000	5,364	18	9.6	13.2	98.8	79.6
2001	5,406	18	0.8	1.4	99.5	80.7
2002	5,441	20	0.7	1.1	100.2	81.5

Source: Decennial census and land area statistics—2000 Census of Population and Housing, and U.S. Bureau of the Census World Wide Web Site.

Table II-28
POPULATION CHARACTERISTICS
(April 2000)

	Wisconsin	U.S.
% Urban	68.3	79.0
% Rural/nonfarm	29.1	19.9
% Rural/farm	2.6	1.1
% Foreign-born	3.6	11.1
Dependency Ratio [(a)]	1.59	1.62

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

	Wisconsin	U.S.
Grade School - 8 years	94.6	92.5
High School - 4 years	85.0	80.4
Bachelor's Degree	22.5	24.4

[(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: 2000 Census of Population and Housing, U.S. Bureau of the Census World Wide Web Site.

Table II-29
POPULATION BY AGE GROUP
(July 2002)

	Wisconsin	U.S.
Under 5	6.2%	6.8%
5-17	18.4	18.5
18-64	62.4	62.4
65 +	13.0	12.3
Total	100.0	100.0

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

Table II-30
ESTIMATED PERSONAL INCOME

Year	Wisconsin Total (Amounts in Millions)	Per Capita Wisconsin	Per Capita U.S.	Percentage Wis. to U.S.
1992	$ 99,454	$ 19,790	$20,960	94.4%
1993	104,337	20,519	21,539	95.3
1994	110,570	21,538	22,340	96.4
1995	115,960	22,365	23,255	96.2
1996	121,864	23,301	24,270	96.0
1997	128,920	24,481	25,412	96.3
1998	137,759	26,004	26,893	96.7
1999	143,589	26,926	27,880	96.6
2000	152,572	28,389	29,760	95.4
2001	157,216	29,196	30,413	96.0
2002	163,216	29,996	30,832	97.3

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

Table II-31
MEDIAN INCOME FOR FOUR-PERSON FAMILY

Year	Wisconsin	U.S.	Percentage Wis. to U.S.
1992	$44,219	$44,251	99.9%
1993	46,363	45,161	102.7
1994	48,982	47,012	104.2
1995	50,628	49,687	101.9
1996	52,986	51,518	102.8
1997	57,270	53,350	107.3
1998	58,000	56,061	103.5
1999	63,436	59,981	105.8
2000	66,725	62,228	107.2
2001	65,441	63,278	103.4

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; World Wide Web Site.

Table II-32
DISTRIBUTION OF EARNINGS BY INDUSTRY
(By Place of Work)

	Wisconsin Distribution		U.S. Distribution	
	2001	2002	2001	2002
Farm	0.5%	0.4%	0.6%	0.6%
Nonfarm				
Private Nonfarm	84.7	84.5	83.4	82.7
Natural Resources & Mining	0.4	0.4	1.1	1.1
Construction	6.5	6.4	6.3	6.3
Manufacturing	23.2	22.4	13.3	12.6
Wholesale Trade	5.2	5.2	5.3	5.2
Retail Trade	7.2	6.9	6.8	6.8
Transportation, Warehousing & Utilities	4.4	4.2	4.4	4.4
Information	2.5	2.4	4.5	4.2
Financial Activities	5.7	5.9	7.4	7.4
Professional & Business Services	5.5	5.4	9.3	9.0
Educational & Health Services	11.6	12.3	10.1	10.7
Leisure & Hospitality	0.8	0.8	1.2	1.2
Other Services	2.8	2.7	2.8	2.8
Government	14.8	15.1	15.9	16.7
Total Earnings by Industry	100.0	100.0	100.0	100.0

Note: This table has been updated to reflect the North American Industry Classification System (NAICS), which is a new industry classification system being used to report such information and replacing the SIC system.

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

Table II-33
ESTIMATED EMPLOYEES IN WISCONSIN ON NONAGRICULTURAL PAYROLLS[(a)]
2002 ANNUAL AVERAGE

	Wisconsin		U.S.	
	(Amounts in Thousands)	%	(Amounts in Thousands)	%
Natural Resources & Mining	3.9	0.1	581	0.4
Construction	123.3	4.4	6,732	5.2
Manufacturing	528.6	19.0	15,306	11.7
Transportation, Warehousing & Utilities	104.4	3.8	4,805	3.7
Wholesale Trade	114.5	4.1	5,641	4.3
Retail Trade	505.7	11.4	15,047	11.5
Information	50.9	1.8	3,420	2.6
Financial Activities	153.2	5.5	7,843	6.0
Professional & Business Services	240.0	8.6	16,010	12.3
Educational & Health Services	356.8	12.8	16,184	12.4
Leisure & Hospitality	238.8	8.6	11,969	9.2
Other Services	133.4	4.8	5,348	4.1
Government	414.5	14.9	21,489	16.5
Total	2,778.7	100.0	130,376	100.0

[(a)] Not seasonally adjusted.

Source: Wisconsin Department of Workforce Development

Table II-34
GENERAL STATISTICS OF MANUFACTURING[a]

	1992	1997
New Capital Expenditures (millions)	$ 2,951.2	$ 4,092.9
Number of Employees (thousands)	546.0	562.5
Total Payroll (millions)	$ 16,087.3	$ 18,766.4
Number of Production Workers (thousands)	369.4	416.3
Value Added by Manufacturer (millions)	$ 41,704.9	$ 54,947.1
Value of Shipments (millions)	$ 88,560.2	$117,383.0

[a] Data for 1992 and 1997 is from census of manufacturers.

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

Table II-35
ESTIMATED PRODUCTION WORKERS
IN MANUFACTURING: HOURS AND EARNINGS
ANNUAL AVERAGE

	Wisconsin			United States		
	1990	2002	% Change	1990	2002	% Change
Weekly Earnings	$459.77	$641.72	39.6	$288.62	$603.58	109.1
Weekly Hours	41.4	40.5	(2.2)	40.5	40.5	0.0
Hourly Earnings	$ 11.10	$ 15.84	42.7	$ 10.77	$ 15.28	41.9
Number of All Manufacturer Workers (Amounts in thousands)	523	529	1.3	17,695	15,306	(13.5)

Source: Wisconsin Department of Workforce Development.

Table II-36
TOTAL NEW HOUSING UNITS AUTHORIZED
IN PERMIT–ISSUING PLACES

		% Change	
Year	Wisconsin	Wisconsin	U.S.
1992	30,995	23.4	15.4
1993	32,114	3.6	9.5
1994	34,619	7.8	14.4
1995	32,403	(6.4)	(2.8)
1996	33,296	2.8	7.0
1997	31,925	(4.1)	1.1
1998	35,436	11.0	11.9
1999	35,570	0.4	3.2
2000	34,154	(4.0)	(4.3)
2001	37,773	10.6	2.8
2002	38,208	1.2	6.8

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

Table II-37
UNEMPLOYMENT RATE COMPARISON[a]
BY MONTH 1998 to 2003
BY QUARTER 1994 to 1997

	2003		2002		2001		2000		1999		1998	
	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.
January.....	6.3	6.5	5.8	6.3	4.8	4.7	4.0	4.5	4.0	4.8	3.9	5.2
February.....	6.5	6.4	6.8	6.1	5.3	4.6	4.3	4.4	4.0	4.7	4.0	5.0
March	6.5	6.2	6.7	6.1	5.3	4.6	4.3	4.3	3.7	4.4	3.9	5.0
April	5.8	5.8	5.8	5.7	4.8	4.2	3.8	3.7	3.1	4.1	3.1	4.1
May.....	5.1	5.8	4.6	5.5	4.2	4.1	3.5	3.9	2.8	4.0	2.9	4.2
June.....	5.7	6.5	5.5	6.0	4.8	4.7	4.0	4.2	3.0	4.5	3.5	4.7
July	5.5	6.3	5.3	5.9	4.6	4.7	3.7	4.2	2.9	4.5	3.6	4.7
August	5.4	6.0	5.1	5.7	4.1	4.9	3.3	4.1	2.6	4.2	3.1	4.5
September..	4.9	5.8	4.6	5.4	3.8	4.7	2.9	3.8	2.3	4.1	3.0	4.4
October.....	4.6	5.6	4.6	5.3	4.1	5.0	2.7	3.6	2.5	3.8	3.1	4.2
November..			5.0	5.6	4.4	5.3	2.9	3.8	2.8	3.8	3.2	4.1
December...			5.3	5.7	4.4	5.4	3.0	3.7	2.8	3.7	3.1	4.0
Annual Average ...			5.5	5.8	4.6	4.8	3.5	4.0	3.0	4.2	3.4	4.5

1997 Quarters	Wis.	U.S.
I	4.5	5.7
II	3.9	4.9
III	3.4	4.8
IV	3.0	4.4
Annual Average.....	3.7	4.9

1996 Quarters	Wis.	U.S.
I	4.6	6.0
II	3.7	5.4
III	3.1	5.2
IV	3.0	5.0
Annual Average	3.5	5.4

1995 Quarters	Wis.	U.S.
I	4.5	5.9
II	3.8	5.6
III	3.2	5.6
IV	3.2	5.2
Annual Average.....	3.7	5.6

1994 Quarters	Wis.	U.S.
I	5.9	7.1
II	5.0	6.1
III	4.3	5.9
IV	3.8	5.3
Annual Average	4.7	6.1

[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 EXTERNAL FINANCIAL STATEMENTS

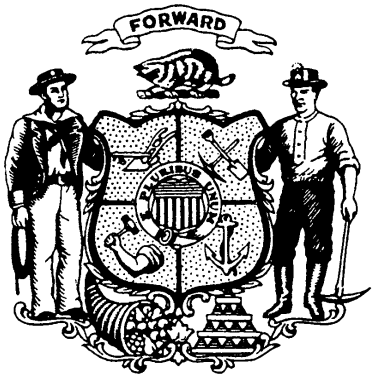
The following material is a reprint of the "General Purpose External Financial Statements" section of the audited CAFR for the fiscal year ended June 30, 2003. The entire CAFR is available from the State Controller's Office, Department of Administration, P.O. Box 7864, Madison, WI 53707-7864. The entire CAFR is also available on the internet at:

www.doa.wi.gov/capitalfinance

{This page number is the last sequential page number of the Annual Report to be used in this Part II of the Annual Report. The following uses page numbers from the general purpose external financial statements. The sequential page numbers for the Annual Report continue in Part III.}

WISCONSIN

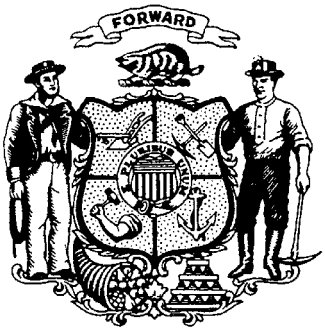
GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS



For the fiscal year ended June 30, 2003

STATE OF
WISCONSIN

GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS



For the fiscal year ended June 30, 2003

Jim Doyle, Governor

Department of Administration
Marc J. Marotta, Secretary
William J. Raftery, State Controller

Prepared by the State Controller's Office DOA-6082AP (R12/03)

General Purpose External Financial Statements
For the Fiscal Year Ended June 30, 2003

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WISCONSIN DEPARTMENT OF
ADMINISTRATION

JIM DOYLE
GOVERNOR

MARC J. MAROTTA
SECRETARY

Office of the Secretary
Post Office Box 7864
Madison, WI 53707-7864
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TTY (608) 267-9629

December 12, 2003

The Honorable Jim Doyle
The Honorable Members of the Legislature
Citizens of the State of Wisconsin

We are pleased to submit the General Purpose External Financial Statements of the State of Wisconsin for the fiscal year ended June 30, 2003.

These General Purpose External Financial Statements are part of the audited Comprehensive Annual Financial Report. They include management's discussion and analysis (MD&A), the basic financial statements, and required supplementary information (RSI). MD&A introduces the basic financial statements and provides an analytical overview of the State's financial activities. The basic financial statements provide a summary overview of the government as a whole (excluding the State's fiduciary activities), as well as detailed information on all governmental, proprietary, fiduciary fund activity, together with notes to the financial statements. RSI includes data on infrastructure and the budgetary comparison schedule with accompanying notes. 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 External 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/debf

Sincerely,

Marc J. Marotta
Secretary

William J. Raftery, CPA
State Controller

State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

JANICE MUELLER
STATE AUDITOR

22 E. MIFFLIN ST., STE. 500
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INDEPENDENT AUDITOR'S REPORT

Honorable Members of the Legislature The Honorable James Doyle, Governor

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Wisconsin as of and for the year ended June 30, 2003, which collectively constitute the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Wisconsin's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the following financial statements: the Wisconsin Department of Transportation Revenue Bond Program and Commercial Paper Program, which represent 12 percent of the liabilities of the governmental activities and 2 percent of the revenues of the aggregate remaining fund information; the Environmental Improvement Fund, which is a major fund and represents 17 percent of the assets and 18 percent of the liabilities of the business-type activities; or the College Savings Program Trust, which represents 1 percent of the assets of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts audited by others, are based solely upon their reports. In addition, we did not audit the financial statements of the discretely presented component units. Those financial statements were audited by other auditors. Our opinion on the aggregate discretely presented component units is based solely upon the reports of the Wisconsin Housing and Economic Development Authority, the Badger Tobacco Asset Securitization Corporation, and the University of Wisconsin Hospitals and Clinics Authority.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Wisconsin Housing and Economic Development Authority, which were audited by other auditors, were also audited in accordance with these standards. The financial statements of the other funds and component units that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *Government Auditing Standards*. Auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements previously referred to present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Wisconsin as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 18 C to the financial statements, the Patients Compensation Fund's projected ultimate loss liability is an estimate based on recommendations of a consulting actuary. The Patients Compensation Fund Board of Governors believes that the estimated loss liability is reasonable and adequate to cover the cost of claims incurred to date. However, uncertainties inherent in projecting the frequency and severity of large medical malpractice claims because of the Patients Compensation Fund's unlimited liability coverage, and extended reporting and settlement periods, make it likely that amounts paid will ultimately differ from the recorded estimated liabilities. These differences cannot be quantified.

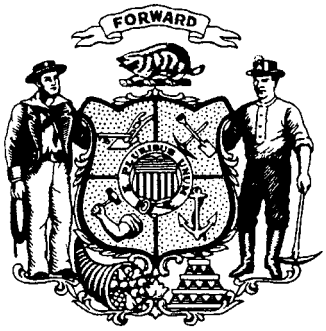
Management's discussion and analysis, the infrastructure narrative, and the budgetary comparison schedule with related notes as listed in the table of contents are not required parts of the basic financial statements of the State of Wisconsin but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have prepared a report dated December 12, 2003, on our consideration of the State of Wisconsin's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. A more detailed version of that report will be included in the State's single audit report. The report on internal control and compliance is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this independent auditor's report in considering the results of our audit.

LEGISLATIVE AUDIT BUREAU

December 12, 2003 by

Janice Mueller
State Auditor


FORWARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

The *Management's Discussion and Analysis* of the State of Wisconsin's Comprehensive Annual Financial Report (CAFR) presents a discussion and analysis of the State's financial performance during the fiscal year that ended June 30, 2003. It should be read in conjunction with the transmittal letter located at the front of this CAFR, and the State's financial statements, which follow this part of the CAFR.

FINANCIAL HIGHLIGHTS -- PRIMARY GOVERNMENT

Government-wide (Tables 2 and 3 on Pages 9 and 10)

- *Net Assets.* The assets of the State of Wisconsin exceeded its liabilities at the close of Fiscal Year 2003 by $13.1 billion (reported as "net assets"). Of this amount, $(4.5) billion was reported as "unrestricted net assets". A positive balance in unrestricted net assets would represent the amount available to be used to meet a government's ongoing obligations to citizens and creditors.
- *Changes in Net Assets.* The State's total net assets decreased by $.7 billion in Fiscal Year 2003. Net assets of governmental activities decreased by $670.8 million or 8.8 percent, while net assets of the business-type activities showed a decrease of $77.8 million or 1.2 percent.
- *Excess of Revenues over (under) Expenses -- Governmental Activities.* During Fiscal Year 2003, the State's total revenues for governmental activities of $19.4 billion were $408.0 million more than total expenses for governmental activities of $19.0 billion. These expenses were $6.8 billion more than the $12.2 billion generated in taxes and other "general revenues" for governmental programs (before special items and transfers).

Fund

- *Governmental Funds -- Fund Balances.* As of the close of Fiscal Year 2003, the State's governmental funds reported combined ending fund balances of $(1,303.3) million, a decrease of $892.2 million in comparison with the prior year. Of this total amount, $(2.8) billion represents the "unreserved fund balances".
- *General Fund -- Fund Balance*. At the end of the current fiscal year, the unreserved fund balance for the General Fund was $(2.6) billion, or (16.3) percent of total General Fund expenditures.

Long-term Debt

- The State's total long-term debt obligations (bonds and notes payable) increased by $172.1 million during the current fiscal year which represents the net difference between new issuances, and payments and refundings of outstanding debt. The key factors contributing to this increase was the issuance during the fiscal year of $415.2 million of general obligation bonds and $285.6 million of revenue bond obligations, and early redemptions and refundings of general obligation bonds. Additional detail regarding these activities begins on Page 16.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Section of this CAFR consists of four parts: (1) **management's discussion and analysis** (this section), (2) **basic financial statements**, (3) additional **required supplementary information,** and (4) optional **other supplementary information.** Parts (2), (3), and (4) are briefly described on the following page:

Basic Financial Statements

The basic financial statements include two sets of statements that present different views of the State -- the ***government-wide financial statements*** and the ***fund financial statements***. These financial statements also include notes that explain some of the information in the financial statements and provide more detail.

Government-wide Financial Statements

The *government-wide financial statements* provide a broad view of the State's operations. The statements provide both short-term and long-term information about the State's financial status, which assists in assessing the State's financial condition at the end of the fiscal year. The government-wide financial statements include two statements:

- The *statement of net assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the state's net assets are an indicator of whether its financial health is improving or weakening, respectively.

- The *statement of activities* presents a comparison between direct expenses and program revenues for each function of the State's governmental activities and for different identifiable business-type activities of the State.

These government-wide financial statements are divided into three categories:

- *Governmental Activities* – Most services generally associated with State government fall into this category, including commerce, education, transportation, environmental resources, human relations and resources, general executive, judicial and legislative.

- *Business-Type Activities* – Those operations for which a fee is charged to external users for goods and services are reported in this category.

- *Discretely Presented Component Units* – These are operations for which the State has financial accountability but that have certain independent qualities as well. The State's discretely presented component units (all business-type activities) are:
  - Wisconsin Housing and Economic Development Authority,
  - Wisconsin Health Care Liability Insurance Plan,
  - University of Wisconsin Hospitals and Clinics Authority, and
  - Badger Tobacco Asset Securitization Corporation.

  Complete financial statements of the individual component units can be obtained from their respective administrative offices. Addresses and other additional information about the State's component units are presented in Note 1-B to the financial statements.

The government-wide financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The accrual basis of accounting, which is similar to the methods used by most businesses, takes into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid.

Fund Financial Statements

The *fund financial statements* focus on individual parts of the State government, reporting the State's operations in more detail than the government-wide statements. The basic fund financial statements provide more detailed information of the State's most significant funds.

The State has three kinds of fund categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently.

- *Governmental Funds* – Most of the basic services provided by the State are financed through governmental funds. Governmental funds report information using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assists in

determining whether there will be adequate financial resources available to meet the current needs of the State. Because this information does not encompass the long-term focus of the government-wide statements, reconciliations are provided on the subsequent page of the governmental fund statements. The State has three major governmental funds -- the General Fund, the Transportation Fund, and the Tobacco Settlement Endowment Fund. Examples of non-major governmental funds include the Conservation Fund, the Bond Security and Redemption Fund, and the Capital Improvement Fund.

- *Proprietary Funds* – These funds are used to show activities that operate more like those of commercial enterprises. Fees are charged for services provided, both to outside customers and to other units of the State. Proprietary funds, like the government-wide statements, use the accrual basis of accounting. The State has five major proprietary funds -- the Patients Compensation Fund, the Environmental Improvement Fund, the Veterans Mortgage Loan Repayment Fund, the University of Wisconsin System and the Unemployment Insurance Reserve Fund. Examples of the State's non-major proprietary funds include the Lottery and the Health Insurance Fund.

- *Fiduciary Funds* – These funds are used to show assets held by the State as trustee or agent for others outside the State, such as the Wisconsin Retirement System and the Local Government Pooled Investment Fund. Similar to proprietary funds, these funds use the accrual basis of accounting. Because the State can not use these assets to finance its operations, fiduciary funds are not included in the government-wide financial statements discussed above.

Table 1, below, shows how the required parts of this financial report are arranged and relate to one another.

Table 1

Major Features of State of Wisconsin's Government-wide and Fund Financial Statements

	GOVERNMENT-WIDE STATEMENTS	FUND STATEMENTS		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire State government (except fiduciary funds) and the State's component units	The activities of the State that are not proprietary or fiduciary. Governmental activities are primarily financed through taxes, intergovernmental revenues, and other nonexchange revenues. Examples of governmental funds include: • General • Transportation • Bond Security and Redemption • Capital Improvement • Common School	The activities the State operates similar to private business. Examples of proprietary funds include: • Enterprise funds: -- Patients Compensation -- Environmental Improvement -- University of Wisconsin System -- Lottery • Internal service funds: -- Technology Services -- Facilities Operations and Maintenance	Instances in which the State is the trustee or agent for someone else's resources. Examples of fiduciary funds include: • Wisconsin Retirement System • Local Government Pooled Investment • Unclaimed Property • College Savings Program Trust
Required financial statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• Balance sheet • Statement of revenues, expenses and changes in fund equity • Statement of cash flows	• Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resource focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow-outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	• Revenues for which cash is received during or soon after the end of the year • Expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

Additional Required Supplementary Information

In addition to this Management's Discussion and Analysis, which is required supplementary information, the basic financial statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements. The required supplementary information includes (1) condition and maintenance data regarding the State's infrastructure, and (2) a budgetary comparison schedule of the General, Transportation and Tobacco Settlement Endowment funds, including reconciliations between the statutory and GAAP fund balances at fiscal year-end.

Other Supplementary Information

The Other Supplementary Information includes combining financial statements for nonmajor governmental funds, nonmajor proprietary funds, internal service funds and fiduciary funds, each of which are added together and presented in single columns in the basic financial statements.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Tables 2 and 3, below, present summary information of the State's net assets and changes in net assets.

Net Assets

As presented in Table 2, total assets of the State on June 30, 2003 were $27.3 billion, while total liabilities were $14.2 billion, resulting in combined net assets (government and business-type activities) of $13.1 billion. The largest component of the State's total assets, $13.9 billion or approximately 106.3 percent, reflects its investment in capital assets (i.e., land, buildings, equipment, infrastructure, and others), less any related debt outstanding that was needed to acquire or construct the assets. Approximately $3.7 billion were restricted by external sources or the State Constitution, and were not available to finance the day-to-day operations of the State.

The unrestricted net assets, which, if positive, could be used at the State's discretion, showed a negative balance of $(4.5) billion. Therefore, no funds were available for discretionary purposes. A contributing factor to the negative balance is that governments recognize a liability on the government-wide statement of net assets as soon as an obligation is incurred. While financing focuses on when a liability will be paid, accounting is primarily concerned with when a liability is incurred. Accordingly, the State recognizes long-term liabilities (such as general obligation debt, compensated absences, employer pension related debt, and future benefits and loss liabilities – listed In Note 10 to the financial statements) on the statement of net assets. In addition to the effect of reporting long-term liabilities when incurred, the General Fund's total deficit fund balance of $(2.2) billion at year-end, as discussed on Page 25, also contributed to the deficit unrestricted net assets reported in the statement of net assets.

The State's general obligation bonds outstanding increased by $415.2 million for Fiscal Year 2003. These bonds were issued primarily for the acquisition or improvement of land, water, property, highways, buildings, equipment or facilities for public purposes, to refund a portion of outstanding general obligation bonds, and to fund veterans housing loans. Outstanding revenue bonds, which are not considered general obligation debt of the State, were $1.9 billion at June 30, 2003.

Table 2
Net Assets
(in millions)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2003	2002	2003	2002	2003	2002	2002-2003
Current and Other Assets	$ 4,346.8	$ 5,176.4	$ 6,475.1	$ 6,642.2	$ 10,821.9	$ 11,818.5	(8.4) %
Capital Assets	13,313.6	12,785.2	3,130.5	3,017.1	16,444.1	15,802.3	4.1
Total Assets	17,660.4	17,961.5	9,605.7	9,659.3	27,266.0	27,620.8	(1.3)
Long-term Liabilities	5,407.1	5,074.5	2,830.8	2,845.5	8,237.9	7,920.0	4.0
Other Liabilities	5,305.5	5,268.4	629.4	590.6	5,935.0	5,859.1	1.3
Total Liabilities	10,712.6	10,342.9	3,460.2	3,436.1	14,172.8	13,779.0	2.9
Net Assets:							
Invested in Capital Assets Net of Related Debt	11,090.1	10,657.6	2,828.4	2,693.0	13,918.5	13,350.6	4.3
Restricted	657.6	551.0	3,012.9	3,038.8	3,670.4	3,589.8	2.2
Unrestricted (deficit)	(4,799.9)	(3,590.0)	304.2	491.3	(4,495.8)	(3,098.7)	45.1
Total Net Assets	$ 6,947.8	$ 7,618.6	$ 6,145.4	$ 6,223.2	$ 13,093.2	$ 13,841.8	(5.4)

Changes in Net Assets

The revenues and expenses information, as shown in Table 3, was derived from the government-wide statement of activities and reflects how the State's net assets changed during the fiscal year. The State earned program revenues of $12.1 billion and general revenues of $12.2 billion for total revenues of $24.3 billion during Fiscal Year 2003. Expenses for the State during Fiscal Year 2003 were $25.1 billion. As a result of the excess of expenses over revenues, the total net assets of the State decreased $.7 billion, net of contributions, transfers, and special items.

Table 3
Changes in Net Assets
(in millions)

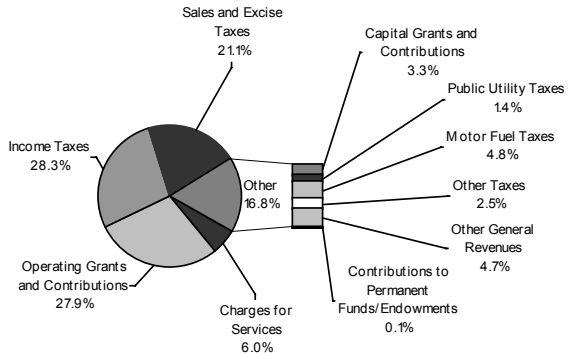
	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	2003	2002	2003	2002	2003	2002	2002-2003
Program Revenues:							
Charges for Goods and Services	$ 1,162.8	$ 1,109.7	$ 4,391.6	$ 4,101.7	$ 5,554.5	$ 5,211.4	6.6 %
Operating Grants and Contributions	5,425.7	4,933.8	497.3	297.1	5,923.0	5,230.9	13.2
Capital Grants and Contributions	635.4	669.1	35.5	61.8	670.9	730.9	(8.2)
General Revenues:							
Income Taxes	5,502.4	5,415.3	-	-	5,502.4	5,415.3	1.6
Sales and Excise Taxes	4,102.4	4,048.7	-	-	4,102.4	4,048.7	1.3
Public Utility Taxes	273.9	244.0	-	-	273.9	244.0	12.3
Motor Fuel Taxes	924.5	892.2	-	-	924.5	892.2	3.6
Other Taxes	483.6	443.4	-	-	483.6	443.4	9.1
Other General Revenues	922.0	1,366.9	18.2	11.1	940.2	1,377.9	(31.8)
Total Revenues	19,432.7	19,123.1	4,942.6	4,471.6	24,375.3	23,594.8	3.3
Program Expenses:							
Commerce	224.4	194.5	-	-	224.4	194.5	15.4
Education	5,675.1	5,444.9	-	-	5,675.1	5,444.9	4.2
Transportation	1,590.7	1,714.2	-	-	1,590.7	1,714.2	(7.2)
Environmental Resources	475.0	532.0	-	-	475.0	532.0	(10.7)
Human Relations and Resources	8,158.2	7,987.4	-	-	8,158.2	7,987.4	2.1
General Executive	489.4	423.5	-	-	489.4	423.5	15.6
Judicial	107.8	106.4	-	-	107.8	106.4	1.3
Legislative	59.8	59.9	-	-	59.8	59.9	(0.3)
Tax Relief and Other General Expenditures	1,951.7	1,919.9	-	-	1,951.7	1,919.8	1.7
Interest on Long-term Debt	292.6	297.0	-	-	292.6	297.0	(1.5)
Patients Compensation	-	-	102.9	72.9	102.9	72.9	41.1
Environmental Improvement	-	-	42.6	42.5	42.6	42.5	0.2
Veterans Mortgage Loan Repayment	-	-	47.3	53.9	47.3	53.9	(12.3)
University of Wisconsin System	-	-	3,075.5	2,935.2	3,075.5	2,935.2	4.8
Unemployment Insurance Reserve	-	-	1,186.6	1,071.8	1,186.6	1,071.8	10.7
Lottery	-	-	418.9	407.5	418.9	407.5	2.8
Health Insurance	-	-	762.0	655.8	762.0	655.8	16.2
Other Business-type	-	-	486.3	482.0	486.3	482.0	0.9
Total Expenses	19,024.7	18,679.7	6,122.0	5,721.6	25,146.8	24,401.3	3.1
Excess (deficiency) Before Special Items and Transfers	408.0	443.4	(1,179.4)	(1,250.0)	(771.5)	(806.6)	(4.4)
Contributions to Term and Permanent Endowments	-	-	2.1	6.5	2.1	6.5	(68.0)
Contributions to Permanent Funds/Endowments	20.8	19.0	-	-	20.8	19.0	9.5
Transfers	(1,099.6)	(1,060.1)	1,099.6	1,060.1	-	-	
Special Items	-	1,275.0	-	-	-	1,275.0	(100.0)
Increase (decrease) in Net Assets	(670.8)	677.4	(77.8)	(183.4)	(748.6)	493.9	(251.6)
Net Assets - Beginning (2003 Restated)	7,618.6	6,941.3	6,223.2	6,406.6	13,841.8	13,347.9	3.7
Net Assets - Ending	$ 6,947.8	$ 7,618.6	$ 6,145.4	$ 6,223.2	$ 13,093.2	$ 13,841.8	(5.4)

Governmental Activities

The net assets of governmental activities decreased $.7 billion in Fiscal Year 2003. Revenues for the governmental activities (including Contributions to Permanent fund) totaled $19.5 billion, while expenses and net transfers totaled $20.1 billion in 2003.

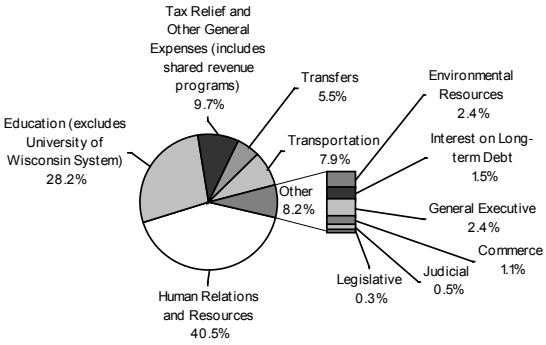
As shown in Table 4, below, approximately 58.1 percent of revenues from all sources earned came from taxes (sales and use, income, public utility, motor fuel, and other taxes). Operating and capital grants and contributions, which represent amounts received from other governments/entities – primarily the federal government – provided 31.2 percent of total revenues. Charges for services contributed 6.0 percent, and various other revenues provided 4.7 percent of the remaining governmental activity revenue sources.

Table 4
Governmental Activities - 2003 Revenues



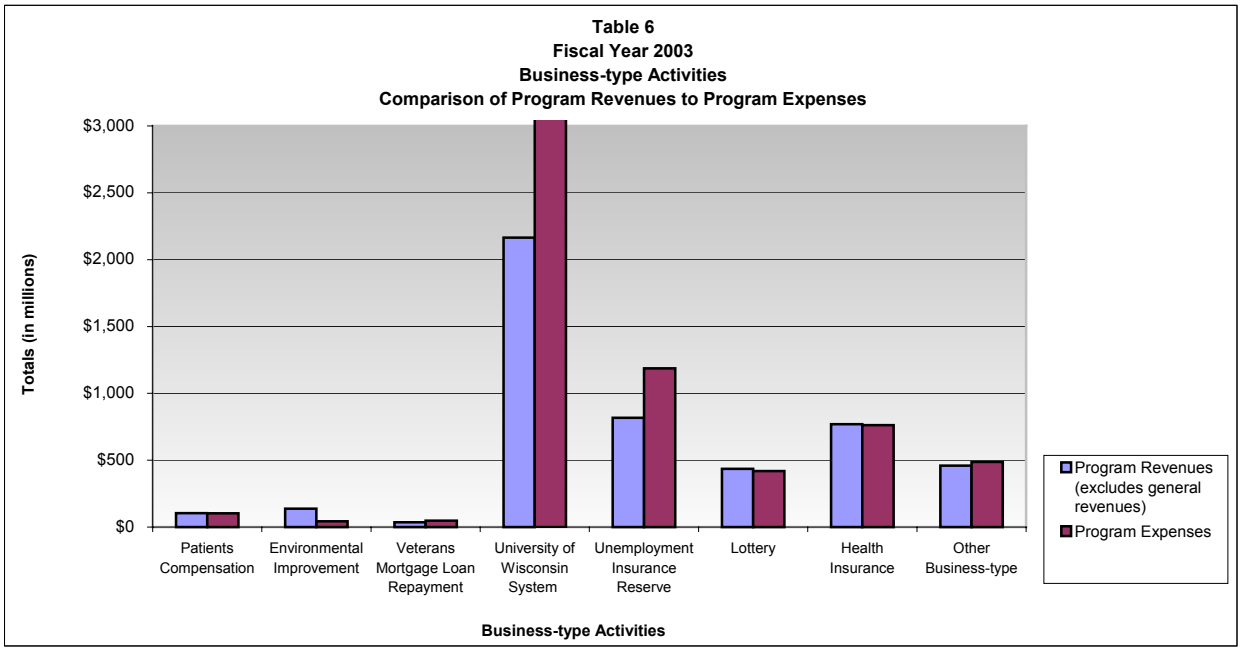
As shown in Table 5, below, expenses for Human Relations and Resources programs make up the largest portion – 40.5 percent – of total governmental expenses and transfers. Included in this function are various programs such as Medical Assistance, the prison system, and the temporary assistance to needy families "TANF" program. Educational expenses, which include various school aids but exclude expenses of the University of Wisconsin System, make up 28.2 percent. Tax Relief and Other General Expenses, which include the municipal and county shared revenue program, represent 9.7 percent of the total, while Transportation expenses represent 7.9 percent. Net transfers to business-type activities, which include a general purpose revenue "GPR" subsidy to the University of Wisconsin System for various programs, make up 5.5 percent of the total expenses/transfers. The interest on long-term debt and remaining functional expenses total 8.2 percent.

Table 5
Governmental Activities - 2003 Expenses



Business-Type Activities

Revenues of business-type activities totaled $4.9 billion for Fiscal Year 2003. These activities generated program revenues of $4.9 billion and general revenues of $.02 billion. The program revenues consisted of $4.4 billion of charges for services, $.5 billion of operating grants and contributions, and $.04 billion of capital grants and contributions. General revenues consisted solely of $.02 billion of other general revenues. The total expenses for business-type activities were $6.1 billion. Table 6, below, compares the program revenues and program expenses of the various State business-type activities.



FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

Governmental Funds

At the end of Fiscal Year 2003, the State's governmental funds reported a combined fund balance of $(1,303.3) million. Funds with significant changes in fund balance are discussed below:

General Fund

The General Fund is the chief operating fund of the State. At June 30 2003, the State's General Fund reported a total fund balance of $(2,242.5) million. The net change in fund balance during Fiscal Year 2003 was $(758.7) million. While certain revenue sources increased over the previous fiscal year, the change in other factors, such as the increase in expenditures, outweighed the positive direction of revenues. Major revenue, expenditure and other sources/uses contributing to the change in fund balance are as follows:

Revenues

Revenues of the General Fund totaled $16,695.8 million in Fiscal Year 2003, an increase of $247.1 million from Fiscal Year 2002. Factors contributing to the increase included the following:

- Revenues from taxes increased $168.9 million from Fiscal Year 2002 to Fiscal Year 2003. The most significant increase related to individual income tax withholdings, which increased $158.9 million or 3 percent. This increase was due to the growth in wages in the State during that period.

- Intergovernmental revenues (e.g., federal assistance) increased $494.1 million in Fiscal Year 2003, primarily due to an increase in expenditures that were eligible for Federal reimbursement. These items included an increase in benefits paid related to Medical Assistance and the Waiver Program.

- Intergovernmental transfers decreased $371.3 million during Fiscal Year 2003. This change was due primarily to a decrease in the supplementary nursing home Medical Assistance payments that could be made under federal law with funds received through intergovernmental transfers (IGT) from certain counties.

- Other revenues, such as charges for goods and services, and gifts and grants decreased $44.6 million.

Expenditures

Expenditures of the General Fund totaled $16,195.9 million in Fiscal Year 2003, an increase of $314.1 million from Fiscal Year 2002. The factors contributing to the increase included the following:

- An increase in education expenditures of $248.3 million primarily resulted from a 3.41 percent increase to the general equalization assistance provided to the State’s 426 school districts.

- Other functional expenditures increased $65.9 million.

Other Financing Sources and Uses

Other financing sources/uses and increases/decreases totaled a net $(1,258.6) million in Fiscal Year 2003, a change of $(492.7) from the prior year. The components of this change included the following:

- In Fiscal Year 2003, the State transferred to the General Fund $287.1 million from the Tobacco Settlement Endowment Fund. This amount represents the remaining balance of the original proceeds that had been created from the sale of a portion of the State’s right to the Attorneys General Master Settlement Agreement of 1998. A similar Transfer In during Fiscal Year 2002 totaled $992.3 million.

- During this fiscal year, contributions initially intended to be paid to the accumulated unused sick leave credit program were instead transferred to the General Fund. The amount transferred from various funds to the General Fund totaled $38.6 million.

- Transfers out of the General Fund totaled $1,746.8 million, a decrease of $146.3 million from the prior year. The largest decrease in transfers out related to transfers to the Medical Assistance Trust Fund.

- Other financing sources/uses and other increases/decreases resulted in a net increase of $27.5 million from the prior fiscal year.

As of June 30, 2003, the General Fund reported $(2,638.2) million in its "Unreserved" Fund Balance. This compares to a General Fund Unreserved Fund Balance of $(1,877.3) million as of June 30, 2002. An unreserved fund balance represents the excess of the assets of the General Fund over its liabilities and reserved fund balance accounts. Reservations of fund balances of governmental funds represent amounts that are not available for appropriation. Examples of fund balance reservations reported in the General Fund include reserves for encumbrances, inventories and prepaid items.

Due to a shortfall of revenues beginning in prior fiscal years, the State has taken steps to reduce expenditures. However, this did not prevent the deficit in the General Fund from increasing $758.2 million. As a result, the State may be required to make significant changes in future budgets, which may reduce expenditures to recognize revenue shortfalls or examine alternative funding strategies.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were significant (a $2.6 billion increase in appropriations). This was due primarily to the fact that several of the State's largest programs (including Custody Accounts, Food Stamps and the majority of Interagency Aids – see the Items *, below) are not included in the original budget. In addition, numerous adjustments to spending estimates were needed as the year progressed because of changing circumstances (spending needs can change dramatically over a one-year period). The largest variances incurred in the following programs (in millions):

Program	Variance
General Equalization Aids	$ (54.9)
Federal Educational Aids; Local Aid	100.4
UW System General Program Operations – Comprehensive Universities	51.0
UW System Academic Student Fees	80.2
UW System Federal Aid – Special Projects	87.3
Department of Health and Family Services Interagency Aids	599.6 *
Federal Aid, Medical Assistance	181.9
Department of Workforce Development Interagency and Intra-agency Aids	56.0 *
Food Stamps, Electronic Benefit Transfer	226.6 *
Department of Administration Federal Aid; Local Assistance	93.2
Custody Accounts	598.6 *

Actual charges to appropriations (expenditures) were $1.3 billion below the final budgeted estimates. The most significant positive variance occurred in UW System Federal Aid – Special Projects ($57.5 million).

During the past fiscal year the budgetary-based fund balance decreased for the General Fund, primarily due to increases in ongoing entitlement programs and a shortfall in tax revenues of $23.8 million. The decline in the General Fund balance was indicative of the general downturn in economic conditions nation-wide.

Tobacco Settlement Endowment Fund

The Tobacco Settlement Endowment Fund accounts for all of the proceeds from the sale of the State's right to receive payments under the Attorneys General Master Tobacco Settlement of 1998 and all investment earnings on the proceeds. The fund generated by the proceeds totaled $3.4 million in interest earnings for Fiscal Year 2003. A transfer out of the Tobacco Settlement Endowment Fund to the General Fund, totaling $287.1 million in Fiscal Year 2003, represents the Tobacco Settlement Endowment Fund portion to be applied to the municipal and county shared revenue program payment.

Proprietary Funds

The State's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail. Significant changes to balances of proprietary funds from Fiscal Year 2002 to Fiscal Year 2003 include the following:

- Due to the increasing unemployment and extended benefits payments in the State, the Unemployment Insurance Reserve benefit expenses increased from $1,071.7 million in Fiscal Year 2002 to $1,186.6 million in Fiscal Year 2003.

- In Fiscal Year 2003, the Health Insurance Fund's revenues increased to $769.2 million and expenses increased to $762.0 million, reflecting a $97.7 million and $106.2 million increase, respectively, due to the rising cost of health insurance premiums paid to health insurance providers.

- Due to a decline in new mortgage loans and an increase in mortgage prepayments, the Veterans Mortgage Loan Repayment Fund's mortgage loans receivable has declined $238.8 million or 39.0 percent and its cash balance has increased $106.0 million or approximately 73 percent over the previous fiscal year.

- In Fiscal Year 2003, the University of Wisconsin System's Tuition and Fees revenue increased $63.0 million or approximately 12.3 percent and its Federal Grants and Contracts revenue increased $144.3 million or approximately 29.8 percent.

Fiduciary Funds

Significant changes to balances of fiduciary funds from Fiscal Year 2002 to Fiscal Year 2003 include the following:

- At June 30, 2003, assets held in trust for pension and other employee benefits totaled $56.2 billion, which represents a $233.4 million increase (0.42 percent) from June 30, 2002. This change reflects an increase in investments of the pension and other employee benefit trusts of $1.3 billion or 2.3 percent from the previous year.

- Net assets of the College Savings Program Trust Fund, a private purpose fund, increased from $440.5 million as of June 30, 2002, to $856.5 million as of June 30, 2003.

GOVERNMENT-WIDE CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the close of Fiscal Year 2003, the State had $16.4 billion invested in capital assets, net of accumulated depreciation of $2.6 billion. This represents an increase of $694.5 million, or 4.4 percent, from Fiscal Year 2002. Depreciation charges totaled $97.8 million and $130.8 million for governmental and business-type activities, respectively, in Fiscal Year 2003. The details of these assets are presented in Table 7, below. Additional information about the State's capital assets is presented in Note 7 to the financial statements.

Table 7
Capital Assets, Net of Depreciation, as of June 30
(in millions)

	Governmental Activities		Business Type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Land and Land Improvements	$ 1,268	$ 1,149	$ 114	$ 109	$ 1,382	$ 1,258
Buildings and Improvements	1,277	1,203	1,804	1,673	3,081	2,876
Library Holdings	75	74	987	968	1,061	1,041
Machinery and Equipment	243	212	198	192	440	404
Infrastructure	9,352	9,206	-	-	9,352	9,206
Construction in Progress	1,098	955	29	10	1,127	965
Totals	$ 13,314	$ 12,798	$ 3,131	$ 2,952	$ 16,444	$ 15,750

The major capital asset additions completed during Fiscal Year 2003 included the New Lisbon Correctional Institution ($37.9 million expended), the University of Wisconsin-Madison Engineering Centers ($22.7 million expended), and the University of Wisconsin-Madison Chemistry Building Addition ($19.1 million expended). In addition to these completed projects, construction in progress as of June 30, 2003 for governmental and business-type activities totaled $1,098.5 million and $158.2 million, respectively. (For business-type activities, $129.2 million of construction in progress for the University of Wisconsin System is reported within various other categories of capital assets.) A list of construction in progress projects is provided in Note 7. The State's proposed major capital projects for Fiscal Year 2004 include the Cogeneration Plant – University of Wisconsin-Madison (estimated budget of $90.0 million).

Debt Administration

The State of Wisconsin Building Commission, an agency of the State, is empowered by law to consider, act upon, authorize, issue and sell all debt obligations of the State. The total general obligation debt outstanding for the State as of June 30, 2003 was $4.0 billion, as shown in Table 8.

During Fiscal Year 2003, $415.2 million of these general obligation bonds were issued to provide for the acquisition or improvement of land, water, property, highways, buildings, equipment, or facilities for public purposes and refund current outstanding bonds.

Chapter 18 of the Wisconsin Statutes authorizes the State to issue revenue obligations. These obligations, which are not general obligation debt of the State, are secured by a pledge of revenues or property derived from the operations of a program funded by the issuance of the obligations. Revenue bonds of the primary government totaled $1.9 billion outstanding at June 30, 2003, as shown in Table 8. These bonds included $1,137.5 million of Transportation Revenue Bonds, $188.1 million of Petroleum Inspection Revenue Bonds, and $623.4 million of Environmental Improvement Revenue Bonds.

Table 8
Outstanding Debt as of June 30, 2003 and 2002
(in millions)

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
General obligation bonds and notes	$ 3,090.9	$ 2,963.4	$ 913.5	$ 993.3	$ 4,004.4	$ 3,956.7
Revenue bonds and notes	1,325.6	1,165.1	623.4	659.5	1,949.0	1,824.6
Totals	$ 4,416.5	$ 4,128.5	$ 1,536.9	$ 1,652.8	$ 5,953.4	$ 5,781.3

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

At June 30, 2003, State of Wisconsin fixed bonds had a rating of Aa3 from Moody's Investors Services, AA- from Standard and Poor's Corporation, and AA from Fitch Investors Service, L.P. Variable bonds had a rating of P-1 from Moody's, A-1 from Standard and Poor's Corporation, and F-1 from Fitch Investors Services, L.P.

Detailed information about the State's long-term debt activity is presented in Note 11 to the financial statements.

INFRASTRUCTURE -- MODIFIED APPROACH

The State reports infrastructure (i.e., roads, bridges, and buildings considered an ancillary part of roads) as capital assets. The State has elected to report its infrastructure assets (11,200 centerline miles of roads and 4,900 bridges with a combined value of $9.4 billion), using the modified approach. Under this method, infrastructure assets are not required to be depreciated if the State manages its eligible infrastructure assets using an asset management system designed to maintain and preserve these assets at a condition level established and disclosed by the State.

All infrastructure assets constructed prior to July 1, 2000 have been recorded at estimated historical cost. Historical cost was determined by calculating current costs of a similar asset and deflating that cost, using a price-index, to the estimated average construction date. Infrastructure costs, which exclude right of way, are expressed in 2000 dollars and deflated back to the average construction date using the Federal Highway Administration's composite index for federal-aid highway construction.

In order to adequately serve the traveling public and support the State economy, it is the State's policy to ensure at least 85 percent of the state-owned roads and bridges are in good or fair condition. As of June 30, 2003, 95.7 percent of the roads and 93.8 percent of bridges were in good or fair condition, consistent with State policies.

For the fiscal year ended June 30, 2003, actual maintenance and preservation costs for the State's road network were $336.7 million, or $84.2 million less than the estimated amount. On that same date, actual maintenance and preservation costs for the State's bridge network were $45.7 million, or $0.7 million less than the estimated amount. In developing estimated costs at the beginning of the fiscal year it is difficult to predict the types of projects that will actually incur costs during the year. Actual maintenance and preservation costs for the road network reflect an unanticipated shift from maintenance/preservation projects to capital construction projects during the Fiscal Year 2003. In addition, the State of Wisconsin, Department of Transportation's multi-year budgeting process, allowing encumbrances to carry forward, makes a comparison of actual to estimated amounts difficult since expenditures for the current year may have been budgeted and committed to a project in prior years.

ECONOMIC FACTORS

In 2002 and 2003, the Wisconsin economy reflected the slow national recovery. After averaging 2 percent growth annually from 1991 to 2000, Wisconsin's employment declined (1.2) percent in 2002. Employment recovered in early 2002 and then began a second decline in 2002 that continued though mid-2003. Expansion again took hold in April. By October 2003, employment increased 0.2 percent over the prior year. Unemployment averaged 5.5 percent of the labor force in both 2002 and 2003. However, unemployment was on the rise at the end of 2002 and on the decline in 2003. Job gains in business services and health care are offsetting losses in manufacturing and construction.

Personal income growth weakened with the employment losses. Personal income growth slowed throughout 2001. It steadily improved throughout 2002. Income growth averaged 3.2 percent in 2002. Wisconsin's income growth outpaced the US average, 2.5 percent, and the average for its region, 2.4 percent. Through the first half of 2003, income growth is still averaging 3.2 percent and remains ahead of the rest of the region and the U.S. as a whole.

Wisconsin's property values have been insulated from the recession. Real property values increased significantly in 2002. Total values increased 7.5 percent in 2002. Commercial, manufacturing, residential and forest real estate all increased significantly. In 2002, new construction added $8.7 billion to real property values in Wisconsin up from $7.5 billion in 2001.

Inflation in Wisconsin has been modest. As measured by the Milwaukee-Racine CSA consumer price index, inflation in 2002 dropped to 1.3 percent from a year earlier. In the first half of 2003, inflation has increased to 3.0 percent.

CONTACTING THE STATE'S FINANCIAL MANAGEMENT

This financial report is designed to provide Wisconsin's citizens, taxpayers, customers, investors and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. Questions about this report or requests for additional financial information should be addressed to: State of Wisconsin, State Controller's Office, 101 E. Wilson Street, 5th Floor, Madison, WI 53707.

The State's component units issue their own separately issued audited financial statements. These statements may be obtained by directly contacting the component unit. You may contact the individual component units through their administrative offices identified in Note 1-B.

* * * *

Statement of Net Assets
June 30, 2003

(In Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Assets				
Cash and Cash Equivalents	$ 1,402,063	$ 2,692,035	$ 4,094,098	$ 198,900
Investments	152,290	1,326,563	1,478,853	478,449
Receivables (net)	2,362,964	2,200,837	4,563,801	1,852,294
Internal Balances	6,619	(6,619)	-	-
Inventories	46,488	37,310	83,798	6,485
Prepaid Items	349,491	116,458	465,949	2,848
Capital Leases Receivable - Component Units	-	22,927	22,927	-
Restricted and Limited Use Assets:				
Cash and Cash Equivalents	-	64,135	64,135	97,374
Investments	-	-	-	642,484
Other Receivables	-	-	-	90
Deferred Charges	26,182	13,300	39,482	28,034
Capital Assets:				
Depreciable	1,420,315	2,003,958	3,424,273	224,023
Nondepreciable:				
Infrastructure	9,352,302	-	9,352,302	-
Other	2,540,944	1,126,561	3,667,505	25,829
Other Assets	694	8,198	8,892	9,965
Total Assets	17,660,352	9,605,663	27,266,015	3,566,775
Liabilities				
Accounts Payable and Other Accrued Liabilities	1,630,876	369,724	2,000,600	128,873
Due to Other Governments	1,643,165	27,521	1,670,686	1,556
Tax Refunds Payable	1,013,459	-	1,013,459	-
Tax and Other Deposits	30,873	15,549	46,422	101,889
Deferred Revenue	349,712	189,148	538,860	1,100
Interest Payable	62,680	11,544	74,224	75,369
Short-term Notes Payable	574,769	15,932	590,701	-
Long-term Liabilities:				
Current Portion	402,087	366,615	768,702	87,593
Noncurrent Portion	5,004,974	2,464,212	7,469,187	3,803,764
Total Liabilities	10,712,594	3,460,247	14,172,841	4,200,144
Net Assets				
Invested in Capital Assets, Net of Related Debt	11,090,111	2,828,388	13,918,499	85,005
Restricted for:				
Transportation Programs	66,744	-	66,744	-
Debt Service	25,991	-	25,991	-
Unemployment Compensation	-	1,217,032	1,217,032	-
Environmental Improvement	-	953,656	953,656	-
Permanent Trusts:				
Expendable	9,414	181,388	190,802	3,704
Nonexpendable	546,925	99,079	646,004	815
Other Purposes	8,504	561,705	570,208	381,702
Unrestricted	(4,799,930)	304,167	(4,495,763)	(1,104,594)
Total Net Assets	$ 6,947,758	$ 6,145,416	$ 13,093,174	$ (633,369)

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

Statement of Activities
For the Fiscal Year Ended June 30, 2003

(In Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Commerce	$ 224,377	$ 148,083	$ 35,549	$ -
Education	5,675,138	22,332	614,241	-
Transportation	1,590,710	436,929	93,974	627,000
Environmental Resources	474,969	177,462	61,896	1,022
Human Relations and Resources	8,158,215	130,524	4,329,717	7,380
General Executive	489,442	191,304	234,556	-
Judicial	107,835	46,377	631	-
Legislative	59,758	1,419	-	-
Tax Relief and Other General Expenses	843,757	5,940	55,161	-
Intergovernmental	1,107,958	-	-	-
Interest on Debt	292,579	2,458	-	-
Total Governmental Activities	19,024,739	1,162,827	5,425,725	635,402
Business-type Activities:				
Patients Compensation	102,878	104,221	-	-
Environmental Improvement	42,560	34,818	103,116	-
Veterans Mortgage Loan Repayment	47,280	35,541	-	-
University of Wisconsin System	3,075,475	1,940,491	191,277	33,443
Unemployment Insurance Reserve	1,186,584	614,932	202,466	-
Lottery	418,944	435,133	-	-
Health Insurance	761,995	769,210	-	-
Other Business-type	486,321	457,283	397	2,071
Total Business-type Activities	6,122,037	4,391,628	497,258	35,514
Total Primary Government	$ 25,146,777	$ 5,554,455	$ 5,922,983	$ 670,916
Component Units:				
Housing and Economic Development Authority	271,786	133,591	129,210	-
Health Care Liability Insurance Plan	13,456	10,585	-	-
University Hospitals and Clinics Authority	533,513	547,792	449	656
Badger Tobacco Asset Securitization Corporation	98,437	56,507	-	-
Total Component Units	$ 917,192	$ 748,475	$ 129,659	$ 656

General Revenues:
- Dedicated for General Purposes:
  - Income Taxes
  - Sales and Excise Taxes
  - Public Utility Taxes
  - Other Taxes
- Motor Fuel/Other Taxes Dedicated for Transportation
- Other Dedicated Taxes
- Grants and Contributions Not Restricted to Specific Programs
- Interest and Investment Earnings
- Miscellaneous

Contributions to Term and Permanent Endowments
Contributions to Permanent Fund Principal
Transfers

Total General Revenues, Contributions, Special and Extraordinary Items, and Transfers

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (40,745)	$ -	$ (40,745)	
(5,038,565)	-	(5,038,565)	
(432,807)	-	(432,807)	
(234,589)	-	(234,589)	
(3,690,594)	-	(3,690,594)	
(63,582)	-	(63,582)	
(60,828)	-	(60,828)	
(58,339)	-	(58,339)	
(782,656)	-	(782,656)	
(1,107,958)	-	(1,107,958)	
(290,122)	-	(290,122)	
(11,800,786)		(11,800,786)	
-	1,343	1,343	
-	95,374	95,374	
-	(11,740)	(11,740)	
-	(910,264)	(910,264)	
-	(369,186)	(369,186)	
-	16,189	16,189	
-	7,215	7,215	
-	(26,570)	(26,570)	
-	(1,197,637)	(1,197,637)	
(11,800,786)	(1,197,637)	(12,998,423)	
			$ (8,985)
			(2,872)
			15,384
			(41,930)
			(38,402)
5,502,423	-	5,502,423	-
4,102,350	-	4,102,350	-
273,892	-	273,892	-
277,633	-	277,633	-
924,503	-	924,503	-
205,984	-	205,984	-
2	-	2	-
22,353	18,192	40,544	34,845
899,636	5	899,640	-
-	2,075	2,075	20
20,769	-	20,769	-
(1,099,606)	1,099,606	-	-
11,129,938	1,119,877	12,249,815	34,865
(670,848)	(77,760)	(748,609)	(3,537)
7,618,606	6,223,176	13,841,782	(629,832)
$ 6,947,758	$ 6,145,416	$ 13,093,174	$ (633,369)

Balance Sheet - Governmental Funds
June 30, 2003

(In Thousands)

	General	Transportation	Tobacco Settlement Endowment	Nonmajor Governmental	Total Governmental
Assets					
Cash and Cash Equivalents	$ 9,495	$ 370,835	$ -	$ 986,591	$ 1,366,920
Investments	882	-	-	151,408	152,290
Receivables (net of estimated uncollectible accounts):					
Taxes	1,095,198	93,636	-	25,321	1,214,155
Loans to Local Governments	14,892	-	-	236,526	251,418
Other Receivables	180,439	5,176	-	20,372	205,987
Due from Other Funds	171,272	21,357	-	59,735	252,364
Due from Component Units	5	-	-	-	5
Interfund Receivables	-	486	-	-	486
Due from Other Governments	552,235	90,645	-	13,267	656,146
Inventories	13,010	20,885	-	2,448	36,343
Prepaid Items	304,826	2,781	-	15,407	323,014
Advances to Other Funds	-	-	-	1,850	1,850
Other Assets	-	-	-	694	694
Total Assets	$ 2,342,253	$ 605,801	$ -	$ 1,513,619	$ 4,461,672
Liabilities and Fund Balances					
Liabilities:					
Accounts Payable and Other Accrued Liabilities	$ 597,620	$ 101,317	$ -	$ 195,553	$ 894,490
Due to Other Funds	152,020	43,508	-	74,222	269,749
Due to Component Units	1,400	-	-	-	1,400
Interfund Payables	636,405	-	-	486	636,891
Due to Other Governments	1,557,111	62,264	-	23,105	1,642,480
Tax Refunds Payable	1,009,648	3,598	-	213	1,013,459
Tax and Other Deposits	23,667	531	-	6,675	30,873
Deferred Revenue	606,922	8,219	-	15,671	630,812
Interest Payable	-	-	-	37,805	37,805
Advances from Other Funds	-	-	-	4,334	4,334
Short Term Notes Payable	-	-	-	543,643	543,643
General Obligation Bonds Payable	-	-	-	100	100
Revenue Bonds and Notes Payable	-	-	-	58,940	58,940
Total Liabilities	4,584,792	219,438	-	960,746	5,764,976
Fund Balances:					
Reserved for Encumbrances	209,241	613,035	-	228,289	1,050,565
Reserved for Inventories	13,010	20,885	-	2,448	36,343
Reserved for Prepaid Items	173,360	2,781	-	15,400	191,541
Reserved for Restricted Funds	-	-	-	798	798
Reserved for Long-term Receivables	-	-	-	169,517	169,517
Reserved for Advances to Other Funds	-	-	-	1,850	1,850
Unreserved, Reported In:					
General Fund	(2,638,150)	-	-	-	(2,638,150)
Special Revenue Funds	-	(250,338)	-	155,582	(94,756)
Capital Projects Funds	-	-	-	(433,813)	(433,813)
Debt Service Funds	-	-	-	25,991	25,991
Permanent Funds	-	-	-	386,811	386,811
Total Fund Balances	(2,242,539)	386,363	-	552,872	(1,303,304)
Total Liabilities and Fund Balances	$ 2,342,253	$ 605,801	$ -	$ 1,513,619	$ 4,461,672

(Continued)

Balance Sheet - Governmental Funds
June 30, 2003

(Continued)

		Total Governmental
Reconciliation to the Statement of Net Assets:		
Total Fund Balances from previous page	$	(1,303,304)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Infrastructure		9,352,302
Other Capital Assets		4,237,904
Accumulated Depreciation		(587,172)
Other long-term assets that are not available to pay for current period expenditures and, therefore, are deferred in the funds.		31,265
Some of the State's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.		290,550
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		(2,016)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Revenue Bonds Payable		(1,266,646)
General Obligation Bonds Payable		(2,917,231)
Accrued Interest on Bonds		(24,874)
Capital Leases		(34,658)
Installment Contracts		(2,644)
Compensated Absences		(101,294)
Claims and Judgments		(2,174)
Employer Pension Related Debt Costs		(722,248)
Net Assets of Governmental Activities as reported on the Statement of Net Assets (See page 19)	$	6,947,758

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

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Fiscal Year Ended June 30, 2003

(In Thousands)

	General	Transportation	Tobacco Settlement Endowment	Nonmajor Governmental	Total Governmental
Revenues:					
Taxes	$ 10,139,610	$ 925,137	$ -	$ 206,072	$ 11,270,818
Intergovernmental	5,224,798	721,617	-	38,243	5,984,658
Licenses and Permits	219,985	310,361	-	360,914	891,260
Charges for Goods and Services	207,382	22,986	-	17,150	247,519
Investment and Interest Income	727	3,771	3,353	40,986	48,838
Fines and Forfeitures	27,419	494	-	27,921	55,834
Gifts and Donations	2,026	-	-	12,316	14,342
Other Revenues:					
Intergovernmental Transfer	598,580	-	-	-	598,580
Tobacco Settlement	153,923	-	-	-	153,923
Other	121,370	13,621	-	4,539	139,531
Total Revenues	16,695,820	1,997,987	3,353	708,141	19,405,302
Expenditures:					
Current Operating:					
Commerce	183,753	-	-	42,429	226,182
Education	5,621,309	-	-	27,972	5,649,280
Transportation	7,320	1,497,686	-	14,261	1,519,266
Environmental Resources	114,877	-	-	349,602	464,479
Human Relations and Resources	7,715,005	-	-	398,452	8,113,457
General Executive	399,051	-	-	91,795	490,846
Judicial	104,577	-	-	354	104,930
Legislative	60,175	-	-	-	60,175
Tax Relief and Other General Expenditures	843,155	-	-	1,975	845,130
Intergovernmental	1,107,958	-	-	-	1,107,958
Debt Service:					
Principal	-	-	-	270,719	270,719
Interest and Other Charges	-	-	-	226,469	226,469
Capital Outlay	38,741	430,585	-	222,260	691,586
Total Expenditures	16,195,920	1,928,271	-	1,646,287	19,770,479
Excess of Revenues Over (Under) Expenditures	499,900	69,716	3,353	(938,146)	(365,177)
Other Financing Sources (Uses):					
Long-term Debt Issued	-	-	-	506,524	506,524
Premium/Discount on Bonds	-	-	-	31,640	31,640
Transfers In	470,947	118	-	763,092	1,234,157
Transfers Out	(1,746,799)	(39,171)	(287,147)	(246,071)	(2,319,188)
Installment Purchase Acquisitions	70	-	-	2,793	2,863
Capital Leases Acquisitions	17,143	-	-	-	17,143
Total Other Financing Sources (Uses)	(1,258,639)	(39,053)	(287,147)	1,057,977	(526,862)
Net Change in Fund Balances	(758,739)	30,663	(283,794)	119,831	(892,038)
Fund Balances, Beginning of Year	(1,484,336)	356,331	283,794	433,110	(411,102)
Increase (Decrease) in Reserve for Inventories	536	(631)	-	(68)	(164)
Fund Balances, End of Year	$ (2,242,539)	$ 386,363	$ 0	$ 552,872	$ (1,303,304)

(Continued)

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Fiscal Year Ended June 30, 2003

(Continued)

		Total Governmental
Reconciliation to the Statement of Activities:		
Net Change in Fund Balances from previous page	$	(892,038)
Inventories, which are recorded under the purchases method for governmental fund reporting, are reported under the consumption approach on the Statement of Activities. As a result of this change, the Increase (Decrease) in Reserve for Inventories on the fund statement has been reclassified as functional expenses on the government-wide statement.		(164)
Repayment of bond principal is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Net Assets.		270,719
Governmental funds report the acquisition or construction of capital assets as expenditures, while governmental activities report depreciation expense to allocate the cost of these assets over their estimated useful life. Donated assets are set up at fair value with a corresponding amount of revenue recognized. In the current period, these amounts are:		
Capital Outlay/Functional Expenditures		682,223
Depreciation Expense		(74,565)
Grants and Contributions (Donated Assets)		1,672
Transfers of capital assets between governmental and business-type activities results in the movement of those assets on the Statement of Net Assets and corresponding recognition of the related transfer in/out on the Statement of Activities.		741
In the Statement of Activities, only the gain on the sale of capital assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.		(71,072)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		7,662
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.		
Bonds Issued		(506,524)
Bond Premium		(31,640)
Bond Issuance Costs		2,861
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Net increase in accrued interest		(2,176)
Increase in Capital Leases		(7,904)
Decrease in Installment Contracts		(1,395)
Increase in Compensated Absences		(13,235)
Increase in Claims and Judgments		(202)
Increase in Employer Pension Related Debt Costs		(15,245)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.		(20,568)
Changes in Net Assets of Governmental Activities as reported on the Statement of Activities (See page 21)	$	(670,848)

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

Balance Sheet
Proprietary Funds
June 30, 2003

(In Thousands)

	Business-type Activities		
	Patients Compensation	Environmental Improvement	Veterans Mortgage Loan Repayment
Assets			
Current Assets:			
Cash and Cash Equivalents	$ 6,094	$ 197,832	$ 252,006
Investments	10,802	30,661	-
Receivables (net of estimated uncollectible accounts):			
Loans Receivable	-	76,609	16,688
Other Receivables	8,534	330	6,751
Due from Other Funds	-	304	32
Due from Component Units	16	-	-
Due from Other Governments	-	6,343	-
Inventories	1	-	-
Prepaid Items	7	4	69
Capital Leases Receivable - Component Units	-	-	-
Deferred Charges	-	-	101
Total Current Assets	25,454	312,083	275,646
Noncurrent Assets:			
Investments	641,986	116,321	-
Receivables (net of estimated uncollectible accounts):			
Loans Receivable	-	1,119,900	375,587
Prepaid Items	-	-	-
Advances to Other Funds	-	-	-
Capital Leases Receivable - Component Units	-	-	-
Restricted and Limited Use Assets:			
Cash and Cash Equivalents	-	64,135	-
Deferred Charges	-	2,731	4,473
Capital Assets (net of accumulated depreciation)	6	-	135
Other Assets	-	-	287
Total Noncurrent Assets	641,992	1,303,086	380,483
Total Assets	$ 667,446	$ 1,615,169	$ 656,129
Liabilities and Fund Equity			
Current Liabilities:			
Accounts Payable and Other Accrued Liabilities	$ 312	$ 81	$ 1,218
Due to Other Funds	23	1,638	1,182
Due to Component Units	-	-	-
Interfund Payables	-	-	-
Due to Other Governments	-	-	-
Tax and Other Deposits	-	-	2
Advances from Other Funds	-	-	-
Deferred Revenue	2,832	-	98
Interest Payable	-	2,749	5,888
Short Term Notes Payable	-	-	-
Current Portion of Long-term Liabilities:			
Future Benefits and Loss Liabilities	74,375	-	-
Capital Leases	-	-	-
Installment Contracts Payable	-	-	-
Compensated Absences	9	63	111
General Obligation Bonds Payable	-	-	113,120
Revenue Bonds and Note Payable	-	37,545	-
Total Current Liabilities	77,551	42,075	121,619
Noncurrent Liabilities:			
Accounts Payable and Other Accrued Liabilities	-	-	-
Due to Other Governments	-	3,141	-
Deferred Revenue	-	-	96
Noncurrent Portion of Long-term Liabilities:			
Future Benefits and Loss Liabilities	581,940	-	-
Capital Leases	-	-	-
Installment Contracts Payable	-	-	-
Compensated Absences	23	28	163
General Obligation Bonds Payable	-	-	467,255
Revenue Bonds and Notes Payable	-	585,873	-
Total Noncurrent Liabilities	581,963	589,042	467,514
Total Liabilities	659,514	631,117	589,133
Fund Equity:			
Invested in Capital Assets, Net of Related Debt	-	-	135
Restricted for Unemployment Compensation	-	-	-
Restricted for Environmental Improvement	-	953,656	-
Restricted for Expendable Trusts	-	-	-
Restricted for Nonexpendable Trusts	-	-	-
Restricted for Future Benefits	7,932	-	-
Restricted for Other Purposes	-	-	-
Unrestricted	-	30,395	66,861
Total Fund Equity	7,932	984,052	66,996
Total Liabilities and Fund Equity	$ 667,446	$ 1,615,169	$ 656,129

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

Business-type Activities				Governmental Activities - Internal Service Funds
University of Wisconsin System	Unemployment Insurance Reserve	Nonmajor Enterprise	Totals	
$ 559,344	$ 1,084,171	$ 592,589	$ 2,692,035	$ 35,142
-	-	16,673	58,136	-
27,503	-	8,506	129,307	-
79,926	150,623	47,224	293,387	368
40,846	500	32,503	74,185	26,680
1,931	-	-	1,946	266
48,917	8,740	6,135	70,135	265
29,496	-	7,813	37,310	6,102
24,891	-	91,488	116,458	12,185
2,967	-	-	2,967	-
5,156	-	-	5,257	7
820,975	1,244,034	802,931	3,481,123	81,014
289,653	-	220,467	1,268,428	-
149,567	-	60,827	1,705,881	-
-	-	-	-	14,293
-	-	-	-	2,984
19,960	-	-	19,960	-
-	-	-	64,135	-
-	-	839	8,043	804
2,962,055	-	168,323	3,130,519	310,527
-	-	7,911	8,198	-
3,421,236	-	458,367	6,205,164	328,607
$ 4,242,211	$ 1,244,034	$ 1,261,298	$ 9,686,287	$ 409,621
$ 158,851	$ 18,125	$ 51,430	$ 230,017	$ 15,652
38,181	1,970	36,545	79,538	4,542
1,560	-	11	1,572	3
-	-	28,824	28,824	37,846
17,401	6,907	73	24,381	100
1,459	-	14,088	15,549	-
500	-	-	500	-
94,620	-	91,503	189,052	4,498
2,566	-	342	11,544	1,758
14,151	-	1,781	15,932	31,126
-	-	72,947	147,322	23,475
4,157	-	358	4,515	3,453
-	-	-	-	252
43,883	-	3,383	47,449	1,063
14,910	-	1,754	129,784	7,495
-	-	-	37,545	-
392,239	27,002	303,039	963,524	131,263
-	-	107,375	107,375	11,872
-	-	-	3,141	-
-	-	-	96	5,637
-	-	438,137	1,020,077	94,790
34,339	-	2,063	36,401	2,204
-	-	-	-	757
33,455	-	4,524	38,193	1,587
276,217	-	40,196	783,667	166,049
-	-	-	585,873	-
344,011	-	592,295	2,574,824	282,897
736,250	27,002	895,333	3,538,349	414,160
2,705,850	-	122,402	2,828,388	74,653
-	1,217,032	-	1,217,032	-
-	-	-	953,656	-
181,388	-	-	181,388	-
99,079	-	-	99,079	-
-	-	263,127	271,059	-
222,981	-	67,650	290,631	-
296,662	-	(87,214)	306,704	(79,192)
3,505,961	1,217,032	365,965	6,147,938	(4,539)
$ 4,242,211	$ 1,244,034	$ 1,261,298	$ 9,686,287	$ 409,621

Total Fund Equity Reported Above	$ 6,147,938
Adjustment to Reflect the Consolidation of Internal Service Activities Related to Enterprise Funds	(2,523)
Net Assets of Business-type Activities	$ 6,145,415

Statement of Revenues, Expenses, and Changes in Fund Equity - Proprietary Funds For the Fiscal Year Ended June 30, 2003

(In Thousands)

	Business-type Activities		
	Patients Compensation	Environmental Improvement	Veterans Mortgage Loan Repayment
Operating Revenues:			
Charges for Goods and Services	$ 29,520	$ -	$ -
Participant and Employer Contributions	-	-	-
Tuition and Fees	-	-	-
Federal Grants and Contracts	-	-	-
Local and Private Grants and Contracts	-	-	-
Sales and Services of Educational Activities	-	-	-
Sales and Services of Auxiliary Enterprises	-	-	-
Sales and Services to UW Hospital Authority	-	-	-
Investment and Interest Income	74,504	34,784	35,541
Other Income:			
Federal Aid for Unemployment Insurance Program	-	-	-
Reimbursing Financing Revenue	-	-	-
Other	-	34	-
Total Operating Revenues	104,024	34,818	35,541
Operating Expenses:			
Personal Services	487	4,533	3,710
Supplies and Services	449	1,960	984
Lottery Prize Awards	-	-	-
Scholarships and Fellowships	-	-	-
Depreciation	6	-	43
Benefit Expense	101,937	-	-
Interest Expense	-	34,646	39,283
Other Expenses	-	-	2,858
Total Operating Expenses	102,879	41,140	46,879
Operating Income (Loss)	1,145	(6,322)	(11,338)
Nonoperating Revenues (Expenses):			
Operating Grants	-	78,002	-
Investment and Interest Income	-	25,334	2,503
Gain (Loss) on Disposal of Capital Assets	(4)	(1)	-
Interest Expense	-	-	-
Gifts and Donations	-	-	-
Other Revenues	197	-	-
Other Expenses:			
Property Tax Credits	-	-	-
Grants Disbursed	-	(1,425)	(434)
Other	-	-	-
Total Nonoperating Revenues (Expenses)	193	101,910	2,069
Income (Loss) Before Contributions and Transfers	1,337	95,589	(9,269)
Capital Contributions	-	-	-
Additions to Endowments	-	-	-
Transfers In	-	32,800	-
Transfers Out	(9)	(6,069)	(286)
Net Change in Fund Equity	1,328	122,320	(9,555)
Total Fund Equity-Beginning of Year	6,604	861,732	76,551
Total Fund Equity-End of Year	$ 7,932	$ 984,052	$ 66,996

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

Business-type Activities				Governmental Activities - Internal Service Funds
University of Wisconsin System	Unemployment Insurance Reserve	Nonmajor Enterprise	Totals	
$ -	$ -	$ 809,387	$ 838,907	$ 249,330
-	484,503	816,527	1,301,030	-
577,442	-	-	577,442	-
625,844	-	-	625,844	-
105,899	-	-	105,899	-
195,845	-	-	195,845	-
232,437	-	-	232,437	-
32,291	-	-	32,291	-
-	75,989	33,845	254,663	1
-	202,466	-	202,466	-
-	49,294	-	49,294	-
170,733	5,146	123	176,037	1,103
1,940,491	817,398	1,659,882	4,592,155	250,434
2,150,948	-	231,900	2,391,579	46,485
724,051	-	140,512	867,957	140,730
-	-	248,520	248,520	-
62,180	-	-	62,180	-
120,122	-	10,661	130,831	23,437
-	1,186,584	916,403	2,204,924	30,527
-	-	618	74,548	-
4,901	-	7,341	15,100	-
3,062,202	1,186,584	1,555,955	5,995,639	241,178
(1,121,711)	(369,186)	103,927	(1,403,484)	9,256
-	-	397	78,399	-
9,473	-	11,578	48,887	21
(15,973)	-	(11)	(15,989)	3,213
(15,874)	-	(1,105)	(16,979)	(10,091)
185,696	-	-	185,696	-
-	-	1,744	1,940	403
-	-	(105,767)	(105,767)	-
-	-	(6,133)	(7,991)	-
(749)	-	(8)	(757)	(2,984)
162,573	-	(99,305)	167,440	(9,437)
(959,138)	(369,186)	4,622	(1,236,044)	(181)
33,443	-	2,071	35,514	-
2,075	-	-	2,075	-
1,102,549	-	68,624	1,203,973	10,237
(39,104)	-	(40,338)	(85,806)	(28,095)
139,824	(369,186)	34,980	(80,289)	(18,040)
3,366,137	1,586,218	330,986	6,228,227	13,501
$ 3,505,961	$ 1,217,032	$ 365,965	$ 6,147,938	$ (4,539)

Total Net Change in Fund Equity Reported Above	$ (80,289)
Consolidation Adjustment of Internal Services Activities Related to Enterprise Funds	2,528
Change in Net Assets of Business-Type Activities	$ (77,761)

Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2003

(In Thousands)

	Business-type Activities		
	Patients Compensation	Environmental Improvement	Veterans Mortgage Loan Repayment
Cash Flows from Operating Activities:			
Cash Receipts from Customers	$ 32,619	$ -	$ -
Cash Payments to Suppliers for Goods and Services	(461)	(1,201)	(935)
Cash Payments to Employees for Services	(462)	(5,435)	(3,793)
Tuition and Fees	-	-	-
Grants and Contracts	-	-	-
Cash Payments for Lottery Prizes	-	-	-
Cash Payments for Loans Originated	-	-	(61,146)
Collection of Loans	-	-	293,296
Interest Income	-	-	37,390
Cash Payments for Benefits	(27,695)	-	-
Sales and Services of Educational Activities	-	-	-
Sales and Services of Auxiliary Enterprises	-	-	-
Sales and Services of Hospitals	-	-	-
Scholarships and Fellowships	-	-	-
Other Operating Revenues	-	34	-
Other Operating Expenses	-	-	(2,922)
Other Sources of Cash	176	-	-
Other Uses of Cash	-	-	-
Net Cash Provided (Used) by Operating Activities	4,177	(6,602)	261,890
Cash Flows from Noncapital Financing Activities:			
Operating Grants Receipts	-	77,644	-
Grants for Loans to Governments	-	-	-
Grants Disbursed	-	(1,425)	(544)
Proceeds from Issuance of Long-term Debt	-	92,266	29,889
Retirement of Long-term Debt	-	(36,405)	(147,272)
Escrow Deposit	-	(92,044)	-
Interest Payments	-	(34,443)	(40,219)
Property Tax Credits	-	-	-
Noncapital Gifts and Grants	-	-	-
Interfund Loans Received	-	-	-
Interfund Loans Repaid	-	-	-
Interfund Borrowings to Other Funds	-	-	-
Repayment of Interfund Borrowings	-	-	-
Interfund Advances Collected	-	-	-
Transfers In	-	32,800	-
Transfers Out	(9)	(6,069)	(286)
Student Direct Lending Receipts	-	-	-
Student Direct Lending Disbursements	-	-	-
Other Cash Inflows from Noncapital Financing Activities	-	-	-
Other Cash Outflows from Noncapital Financing Activities	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	(9)	32,324	(158,432)
Cash Flows from Capital and Related Financing Activities:			
Proceeds from Issuance of Long-term Debt	-	-	-
Capital Contributions	-	-	-
Repayment of Long-term Debt	-	-	-
Repayment of Short-term Notes	-	-	-
Interest Payments	-	-	-
Capital Lease Obligations	-	-	-
Proceeds from Sale of Capital Assets	-	-	-
Payments for Purchase of Capital Assets	-	-	(44)
Other Cash Inflows from Capital Financing Activities	-	-	-
Other Cash Outflows from Capital Financing Activities	-	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	-	-	(44)
Cash Flows from Investing Activities:			
Proceeds from Sale and Maturities of Investment Securities	177,348	54,422	-
Purchase of Investment Securities	(223,820)	(58,775)	-
Cash Payments for Loans Originated	-	(185,553)	-
Collection of Loans	-	72,367	-
Investment and Interest Receipts	31,230	50,191	2,503
Net Cash Provided (Used) by Investing Activities	(15,242)	(67,348)	2,503
Net Increase (Decrease) in Cash and Cash Equivalents	(11,075)	(41,625)	105,917
Cash and Cash Equivalents, Beginning of Year	17,168	303,592	146,088
Cash and Cash Equivalents, End of Year	$ 6,094	$ 261,966	$ 252,006

Business-type Activities				Governmental Activities - Internal Service Funds
University of Wisconsin System	Unemployment Insurance Reserve	Nonmajor Enterprise	Totals	
$ -	$ 475,660	$ 1,614,647	$ 2,122,926	$ 260,587
(781,541)	-	(135,322)	(919,460)	(149,676)
(2,136,056)	-	(236,812)	(2,382,558)	(46,173)
557,915	-	-	557,915	-
771,503	-	-	771,503	-
-	-	(263,785)	(263,785)	-
(39,055)	-	(19,372)	(119,572)	-
37,801	-	21,374	352,472	-
-	-	4,440	41,830	-
-	(1,182,672)	(906,992)	(2,117,358)	(24,084)
196,383	-	-	196,383	-
239,936	-	-	239,936	-
31,602	-	-	31,602	-
(62,180)	-	-	(62,180)	-
163,091	251,767	1,786	416,678	3,325
-	(558)	(32,004)	(35,484)	-
-	-	6,882	7,058	397
-	-	(43)	(43)	(2,978)
(1,020,600)	(455,803)	54,799	(1,162,139)	41,399
-	-	344	77,988	-
-	-	30	30	-
-	-	(6,393)	(8,362)	-
-	-	-	122,155	-
-	-	-	(183,677)	-
-	-	-	(92,044)	-
-	-	(618)	(75,280)	-
-	-	(106,042)	(106,042)	-
188,591	-	-	188,591	-
-	-	2,587	2,587	-
-	-	(433)	(433)	(7,559)
-	-	5,795	5,795	-
-	-	20,474	20,474	-
-	-	-	-	24
1,063,805	-	68,825	1,165,430	9,414
-	-	(35,766)	(42,130)	(28,095)
119,598	-	-	119,598	-
(119,533)	-	-	(119,533)	-
-	-	130	130	-
(2,755)	-	(7)	(2,763)	-
1,249,705	-	(51,075)	1,072,513	(26,216)
137,502	-	22,668	160,170	16,978
29,085	-	2,071	31,156	-
(76,525)	-	(1,031)	(77,556)	(7,810)
-	-	-	-	(21,893)
(53,945)	-	(1,129)	(55,074)	(10,501)
-	-	(389)	(389)	(3,560)
-	-	14	14	12,145
(208,265)	-	(32,852)	(241,161)	(18,026)
-	-	14	14	-
-	-	(603)	(603)	-
(172,148)	-	(11,238)	(183,430)	(32,667)
536,970	-	35,884	804,623	-
(549,085)	-	(18,651)	(850,331)	-
-	-	(206)	(185,759)	-
-	-	290	72,657	-
9,512	75,989	29,107	198,531	21
(2,603)	75,989	46,423	39,721	21
54,354	(379,814)	38,908	(233,335)	(17,463)
504,991	1,463,986	553,680	2,989,505	52,606
$ 559,344	$ 1,084,171	$ 592,589	$ 2,756,170	$ 35,142

(Continued)

Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2003

(Continued)

	Business-type Activities		
	Patients Compensation	Environmental Improvement	Veterans Mortgage Loan Repayment
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operations:			
Operating Income (Loss)	$ 1,145	$ (6,322)	$ (11,338)
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation	6	-	43
Amortization	-	580	-
Provision for Uncollectible Accounts	-	-	(64)
Operating Income (Investment Income) Classified as Investing Activity	(76,639)	(34,784)	-
Operating Expense (Interest Expense) Classified as Noncapital Financing Activity	-	34,300	39,283
Miscellaneous Nonoperating Income (Expense)	197	-	-
Changes in Assets and Liabilities:			
Decrease (Increase) in Receivables	2,162	-	240,554
Decrease (Increase) in Due from Other Funds	14	(51)	(24)
Decrease (Increase) in Due from Component Units	(1)	-	-
Decrease (Increase) in Due from Other Governments	-	-	-
Decrease (Increase) in Inventories	-	-	-
Decrease (Increase) in Prepaid Items	-	-	(21)
Decrease (Increase) in Other Assets	-	-	276
Decrease (Increase) in Deferred Charges	-	(128)	-
Increase (Decrease) in Accounts Payable and Other Accrued Liabilities	(78)	(1)	(6,623)
Increase (Decrease) in Compensated Absences	7	-	32
Increase (Decrease) in Due to Other Funds	2	(7)	(102)
Increase (Decrease) in Due to Component Units	-	-	-
Increase (Decrease) in Due to Other Governments	-	44	-
Increase (Decrease) in Tax and Other Deposits	-	-	-
Increase (Decrease) in Deferred Revenue	1,188	-	(124)
Increase (Decrease) in Interest Payable	-	(234)	-
Increase (Decrease) in Future Benefits and Loss Liabilities	76,175	-	-
Total Adjustments	3,032	(280)	273,228
Net Cash Provided (Used) by Operating Activities	$ 4,177	$ (6,602)	$ 261,890
Noncash Investing, Capital and Financing Activities:			
Capital Leases (Initial Year):			
Fair Market Value	$ -	$ -	$ -
Current Year Cash Receipts (Payments)	-	-	-
Contributions/Transfer In (Out) of Noncash Assets and Liabilities from/to other Funds	-	-	-
Net change in unrealized gains and losses	39,585	-	-
Other	-	-	-

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

Business-type Activities				Governmental Activities - Internal Service Funds
University of Wisconsin System	Unemployment Insurance Reserve	Nonmajor Enterprise	Totals	
$ (1,121,711)	$ (369,186)	$ 103,927	$ (1,403,484)	$ 9,256
120,122	-	10,661	130,831	23,437
-	-	-	580	-
-	2,081	76	2,093	-
-	(75,989)	(29,378)	(216,790)	-
-	-	618	74,202	-
(12,857)	-	1,518	(11,141)	(3,297)
9,919	(18,283)	(9,702)	224,649	255
-	(82)	(23,677)	(23,821)	12,015
-	-	-	(1)	(154)
-	284	(2,230)	(1,946)	(192)
(1,058)	-	(296)	(1,354)	2,114
(2,156)	-	(8,894)	(11,072)	2,679
-	130	1,700	2,106	-
(2,640)	-	-	(2,767)	-
(5,817)	3,315	(19,174)	(28,378)	(7,490)
7,179	-	997	8,214	475
-	(526)	(12,145)	(12,778)	(6,274)
-	-	11	11	3
-	2,452	36	2,533	(76)
-	-	1,357	1,357	-
(11,581)	-	25,637	15,120	2,204
-	-	-	(234)	-
-	-	13,757	89,931	6,443
101,111	(86,617)	(49,128)	241,345	32,143
$ (1,020,600)	$ (455,803)	$ 54,799	$ (1,162,139)	$ 41,399
$ 2,065	$ -	$ 1,222	$ 3,287	$ 314
(385)	-	(106)	(491)	-
-	-	1,613	1,613	-
8,648	-	9,523	57,756	-
12,320	-	11	12,331	2

Statement of Fiduciary Net Assets
June 30, 2003

(In Thousands)

	Pension and Other Employee Benefit Trust	Investment Trust	Private-Purpose Trust	Agency
Assets				
Cash and Cash Equivalents	$ 544,307	$ 2,855,980	$ 11,626	$ 85,410
Securities Lending Collateral	3,209,471	-	-	-
Prepaid Items	9,018	-	6	-
Receivables (net of estimated uncollectible accounts):				
Prior Service Contributions Receivable	1,650,602	-	-	-
Benefits Overpayment Receivable	2,397	-	-	-
Due from Other Funds	32,819	-	-	932
Interfund Receivables	78,794	703,075	-	-
Due from Other Governments	108,144	-	-	-
Interest and Dividends Receivable	171,408	-	-	-
Investment Sales Receivable	88,407	-	-	-
Other Receivables	(2,448)	1,142	259	1,842
Total Receivables	2,130,122	704,217	259	2,775
Investments:				
Fixed Income	14,489,301	-	-	-
Stocks	35,666,207	-	-	-
Limited Partnerships	2,693,113	-	-	-
Mortgages	726,725	-	-	-
Real Estate	436,628	-	-	-
Investments of Private Purpose Funds	-	-	866,489	-
Investments of Agency Funds	-	-	-	797
Multi-asset Investments	1,451,682	-	-	-
Total Investments	55,463,656	-	866,489	797
Capital Assets	63	-	-	-
Other Assets	-	-	15,589	278,789
Total Assets	61,356,636	3,560,197	893,969	$ 367,771
Liabilities				
Accounts Payable and Other Accrued Liabilities	36,504	-	59	$ 73,959
Securities Lending Collateral Liability	3,209,471	-	-	-
Annuities Payable	181,894	-	-	-
Advance Contributions	308	-	-	-
Due to Other Funds	28,150	18	26	4,955
Interfund Payables	78,794	-	-	-
Due to Other Governments	22,158	-	-	-
Tax and Other Deposits	76	-	-	288,856
Investment Payable	242,402	-	-	-
Deferred Revenue	2,234	-	-	-
Compensated Absences Payable	1,309,685	-	-	-
Total Liabilities	5,111,675	18	86	$ 367,771
Net Assets				
Held in Trust for Pension Benefits, Pool Participants and Other Purposes	$ 56,244,962	$ 3,560,178	$ 893,884	

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

Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended June 30, 2003

(In Thousands)

	Pension and Other Employee Benefit Trust	Investment Trust	Private-Purpose Trust
Additions			
Contributions:			
Employer Contributions	$ 482,520	$ -	$ -
Employee Contributions	713,954	-	-
Total Contributions	1,196,473	-	-
Deposits	-	11,599,250	395,972
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	1,002,551	-	-
Interest	683,251	-	-
Dividends	276,396	-	-
Securities Lending Income	41,984	-	-
Other	98,468	-	-
Investment Income of Investment, Private Purpose, and Other Employee Benefit Trust Funds	40,739	58,915	48,930
Less:		-	
Investment Expense	(156,202)	(1,841)	(4,422)
Securities Lending Rebates and Fees	(33,039)	-	-
Investment Income Distributed to Other Funds	(39,717)	-	-
Net Investment Income	1,914,430	57,074	44,508
Interest on Prior Service Receivable	127,972	-	-
Miscellaneous Income			
Escheat Additions	-	-	28,184
Other	1,399	-	-
Total Miscellaneous Income	1,399	-	28,184
Total Additions	3,240,275	11,656,324	468,664
Deductions			
Benefits and Refunds:			
Retirement, Disability, and Beneficiary	2,671,699	-	-
Separations	37,898	-	-
Total Benefits and Refunds	2,709,598	-	-
Distributions	78,454	11,925,183	35,109
Insurance Premiums	199,213	-	-
Unusual Write-off of Receivable	(33)	-	-
Administrative Expense	23,618	211	2,581
Transfers Out	-	-	16,009
Total Deductions	3,010,850	11,925,394	53,699
Net Increase (Decrease)	229,425	(269,070)	414,964
Net Assets - Beginning of Year	56,015,537	3,829,248	478,919
Net Assets - End of Year	$ 56,244,962	$ 3,560,178	$ 893,884

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

Notes To The Financial Statements

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying general purpose financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB).

B. Financial Reporting Entity

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

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

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

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

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

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

Wisconsin Health Care Liability Insurance Plan
Office of the Commissioner of Insurance
125 South Webster Street
Madison, WI 53702

University of Wisconsin Hospitals and Clinics Authority
635 Science Drive, Room 310
Madison, WI 53711

Badger Tobacco Asset Securitization Corporation
10 East Doty Street, Suite 800
Madison, WI 53703

Blended Component Units

Blended component units are entities that 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 a special revenue 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 are reported in a separate column and in separate rows in the government-wide statements to emphasize that they are legally separate. One of the component units reports on a fiscal year ended December 31, while another reports on a fiscal year ended May 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 that include financing for farmers and for economic development projects. While the Authority receives no State tax dollars for its bond-supported programs and the State is not liable on bonds the Authority issues, the State has the ability to significantly influence operations of the Authority through legislation. The State appoints the Authority's Board and has the ability to impose its will on the Authority.

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

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

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

The Affiliation Agreement requires the Hospital to continue to support the educational, research and clinical activities of the University of Wisconsin-Madison, which are administered by the Hospital. Under the terms of a Lease Agreement, the Hospital leases facilities, which were occupied by the Hospital as of June 29, 1996 (see Note 12A to the financial statements). Under a Conveyance Agreement, certain assets and liabilities related to the Hospital were identified and transferred to the Hospital effective July 1, 1996. Subject to the Contractual Services Agreement and Operating and Service Agreement between the Board of Regents and the Hospital, the two parties have entered into contracts for the continuation of services in support of programs and operations.

Badger Tobacco Asset Securitization Corporation (BTASC) – A nonstock public corporate entity created under Chapter 181 of the Wisconsin Statutes was created for the purpose of making a one-time purchase of Tobacco Settlement Revenues (TSRs) from the State. In May 2002, the BTASC issued bonds necessary to provide sufficient funds for carrying out its purpose. BTASC bears all risk for collection of TSRs to repay bonds. Bonds issued by the BTASC are the sole obligation of the BTASC. The State is not liable for any debt issued by the BTASC nor is the debt dependent upon any dedicated stream of revenue generated by the State. Directors of the corporation are appointed by the Secretary of Administration for staggered three-year terms. Once appointed, directors can only be removed for cause. At least one of the directors must be determined to be "independent" for federal bankruptcy law purposes. The State appoints the BTASC board and has the ability to impose its will on the BTASC.

Pursuant to a Purchase and Sale Agreement with the State, BTASC acquired all of the State's future right, title, and interest in the TSRs under the Master Settlement Agreement and the Consent Decree and Final Judgment (MSA). The MSA was entered into on November 23, 1998, among the attorneys general of 46 states, the District of Columbia, the Commonwealth of

Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Commonwealth of the Northern Mariana Islands (the "Settling States") and the four largest United States tobacco manufacturers. This settlement, among other things, released the participating manufacturers from past and present smoking-related claims by the Settling States and provides for a continuing release of future smoking-related claims in exchange for certain payments to be made to the Settling States as well as certain tobacco advertising and marketing restrictions.

During the fiscal year ended June 30, 2002, consideration paid by BTASC to the State for TSRs consisted of $1.3 billion and a residual certificate assigned to the State. Upon discharge of BTASC's obligations under its May 1, 2002 bond indenture, all subsequent TSRs are owned by the State of Wisconsin pursuant to the residual certificate.

Component Units Not Reported in the Financial Statements

State Fair Park Exposition Center, Inc. - In October 2000, The State Fair Park Exposition Center, Inc. (SFPEC) was organized, by the State of Wisconsin, State Fair Park, as a nonstock, not-for-profit corporation under the Internal Revenue Code 501(c)(3). Authorization for the SFPEC's organization is found under Chapter 42, Wis. Stats. The SFPEC has broad general powers that include approving the sale, lease, or purchase of any real estate and obtaining financing through loans or other methods. The board of the SFPEC includes the chairperson of the State Fair Park Board, and three members appointed by the SFPEC's Board.

In August 2001, the State Fair Park entered into an agreement with the SFPEC to lease 7.52 acres on the State Fair grounds for construction of an exposition center. Financing for the exposition center was obtained by the SFPEC through a loan agreement with the City of West Allis, Wisconsin, which secured funding through issuance of $44.9 million in industrial revenue bonds. The bonds were issued under an indenture of trust between the City of West Allis and a commercial lending institution. To secure the bonds, the SFPEC obtained a letter of credit from the commercial lending institution that is intended to repay the loan to the City of West Allis in the event that the debt service payments under the loan agreement are not paid. The exposition center was substantially completed and placed in service as of August 1, 2002.

The SFPEC follows the financial reporting recommendations of the Financial Accounting Standards Board (FASB), Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. As of December 31, 2002, total assets of the SFPEC were $48.4 million consisting primarily of $37.8 million of capital assets and $10.0 million of cash and cash equivalents, while liabilities consisted primarily $40.8 million of industrial revenue bonds payable. Unrestricted net assets at calendar year-end were $2.5 million. Operating revenues and expenses for the year ended were $1.1 million and $1.1 million, respectively. Other income (expenses) of $3.0 million consisted of $4.1 million of bond refinancing income and $1.1 million of interest expense.

The SFPEC is considered a component unit of the State Fair Park, an enterprise fund, because, although legally separate, the organizations are so intertwined that they are, in substance, the same. Under the provisions of GASB Statement No. 14, the SFPEC is presented with the separately issued financial information of the State Fair Park. However, the SFPEC's financial information is not reported within the State's Fiscal Year 2003 CAFR because the financial information was not available on a timely basis. Exclusion of the SFPEC does not have a material effect on the State's financial condition.

The separately issued financial report of the SFPEC can be requested from:

State Fair Park Exposition Center, Inc.
8200 West Greenfield Avenue
West Allis, WI 53214-0307

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. Government-wide and Fund Financial Statements

The *government-wide* financial statements consist of the Statement of Net Assets and the Statement of Activities. These statements report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which are generally financed though taxes, intergovernmental revenues and other nonexchange revenues are reported separately from business-type activities, which are generally financed by fees charged to external parties for goods and services. The focus of the government-wide statements is the primary government. A separate column is presented for all discretely presented component units.

The *fund* financial statements provide detailed information on all governmental, proprietary and fiduciary funds. Separate columns are presented for all major governmental and enterprise funds. Nonmajor governmental and enterprise funds are aggregated and presented as a single column on the respective governmental or proprietary statements. Internal service funds are exempt from the major fund reporting requirements and are aggregated and ultimately reported as a single column on the proprietary statement. Fiduciary funds are also exempt from major fund reporting and are aggregated by fund type and ultimately reported as single columns on the fiduciary statements.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The *government-wide* financial statements, as well as the *proprietary and fiduciary fund* statements, are reported using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Under the accrual basis, revenues are recorded when earned and expenses are recorded when the related liability is incurred.

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

The Wisconsin Health Care Liability Insurance Plan (WHCLIP) is reported as an insurance fund and, in applying GAAP, has elected to apply the provisions of relevant pronouncements of FASB including those issued after November 30, 1989.

In the University of Wisconsin System's enterprise fund, revenues and expenses of an academic term that spans two fiscal years are recognized in two years based on a proration of summer school days.

Governmental fund financial statements 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.

Governmental 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. For this purpose, the State considers tax revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Other revenues are considered to be available if received within one year after the fiscal year end. Material revenue sources susceptible to accrual include individual and corporate income taxes, sales taxes, public utility taxes, motor fuel taxes and federal revenues.

Expenditures and related liabilities are recognized when obligations are incurred as a result of the receipt of goods and services. However, expenditures related to debt service, compensated absences, and claims and judgments, are recorded only when payment is due.

The State reports the following major funds:

Major Governmental Funds

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

- *Transportation Fund* - accounts for the proceeds from motor fuel taxes, vehicle registrations, licensing fees, and federal and local governments which are used to supply and support safe, efficient and effective transportation in Wisconsin.

- *Tobacco Settlement Endowment Fund* - accounts for all of the proceeds from the sale of the State's right to receive payments under the Attorneys General Master Tobacco Settlement of November 23, 1998, and all investment earnings on the proceeds.

Major Enterprise Funds

- *Patients Compensation Fund* – accounts for the program to provide excess medical malpractice insurance for Wisconsin health care providers. The revenues to finance this insurance are primarily derived from assessments against health care providers.

- *Environmental Improvement Fund* – accounts for financial resources generated and used for clean water projects. Federal capitalization grants, interest earnings, revenue bond proceeds, and general obligation bond proceeds are its primary revenue sources.

- *Veterans Mortgage Loan Repayment Fund* – accounts for the issuance and administration of veterans' first mortgage loans. Revenues are primarily derived from bond proceeds, mortgage payments, and investment income.

- *University of Wisconsin System Fund* – accounts for the 13 universities, 13 two-year colleges, the University of Wisconsin Extension and System Administration.

- *Unemployment Insurance Reserve Fund* – accounts for unemployment contributions made by employers, federal program receipts, benefit payment recoveries and unemployment benefits paid to laid off workers in the State.

In addition, the State reports the following fund types:

Governmental Funds

- *Special Revenue Funds* – account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditure for specified purposes. Examples include the Conservation Fund and the Petroleum Inspection Fund.

- *Debt Service Funds* – account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

- *Capital Projects Funds* – account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds)

- *Permanent Funds* – account for resources that are legally restricted to the extent that only earnings and not principal, may be used for purposes that support the State's programs.

Proprietary Funds

- *Enterprise Funds* – account for the activities for which fees are charged to external users for goods or services. Examples include the Lottery Fund and the Veterans Trust Fund.

- *Internal Service Funds* – account for the operations of State agencies which provide goods or services to other State units or other governments on a cost-reimbursement basis. These services include technology, fleet management, financial, facilities management, and risk management. Additional goods and services are provided by the inmate work experience program, Badger State Industries.

Fiduciary Funds

- *Pension (And Other Employee Benefit) Trust Funds* – account for the Wisconsin Retirement System as well as other employee benefit programs including accumulated sick leave, employee reimbursement accounts, life insurance and deferred compensation.

- *Investment Trust Funds* – account for the local government investment pool managed by the State Treasurer and the Milwaukee Retirement System.

- *Private-purpose Trust Funds* – account for escheated property held by the State for private individuals, State-sponsored college savings programs, and the special death benefit program for the former Milwaukee Teacher Retirement fund.

- *Agency Funds* – account for assets held by the State for inmates and residents of state facilities, deposits of bank and insurance companies doing business in the state, assets of liquidated insurance companies to insure payments to claimants, and the collection and disbursement of court-ordered support payments.

Amounts reported as program revenues on the government-wide financial statements include (a) charges for services – amounts received from customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided by the State; or investment and interest earnings from various loan and insurance funds/component units, (b) program-specific operating grants and contributions, and (c) program-specific capital grants and contributions. General revenues consist of taxes and all other revenues that do not meet the definition of program revenues. Special items, if any, are significant transactions or events within the control of management that are either unusual in nature or infrequent in occurrence.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. This includes all internal service fund activity, as well as, other internal allocations. Exceptions to this general rule are certain charges between various functions of the government, whose elimination would distort the direct costs and program revenues reported for the various functions concerned.

The revenues and expenses shown on the proprietary fund statements are identified as either operating or nonoperating. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's primary mission. The State's enterprise funds are involved in many diverse fields including patient care, insurance programs, loan programs, the University of Wisconsin System, employee benefit plans, and the lottery. The internal service funds provide services and goods to other State agencies and departments.

A significant portion of operating revenues for the proprietary funds are recorded under charges for goods and services. In the case of the State's insurance and loan enterprise funds, investment and interest income is an important component of operating revenue. Operating revenues of the University of Wisconsin include tuition and fees, certain grants and contracts resulting from exchange transactions, and sales and services of educational activities and auxiliary enterprises. In regards to the employee benefit plans, the primary operating revenue source is participant and employer contributions. Operating expenses for the proprietary funds include the costs of sales and services, benefit expenses, administration expenses and depreciation on capital assets. All revenues and expenses not related to a fund's primary purpose are reported as nonoperating.

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Assets, Liabilities, and Net Assets/Equity

1. 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 consistent with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. 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.

2. Investments

Primary Government

The State may invest in direct obligations of the United States and Canada, securities guaranteed by the United States, certificates of deposit issued by banks in the United States and solvent financial institutions in the State, commercial paper and nonsecured corporate notes and bonds, bankers acceptances, participation agreements, privately placed bonds and mortgages, common and preferred stock and other securities approved by applicable sections of the Wisconsin Statutes, bond resolutions, and various trust indentures (see Note 5 to the financial statements).

Generally, investments of the primary government are reported at fair value consistent with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Typically, fair value information is determined using quoted market prices. However, when quoted market prices are not available for certain securities, fair values are estimated through techniques such as discounted future cash flows, matrix pricing and multi-tiers.

There are a certain number of securities carried at cost. Certain non-public or closely held stock are carried at cost since no independent quotation is available to price these securities. Further, certain investment agreements are reported on a cost basis because the State cannot readily determine whether these agreements meet the definition of interest-earning investment contracts as defined by GASB Statement No. 31. However, the impact on the financial statements is immaterial.

Under Wisconsin Statutes, the investment earnings of certain Permanent Funds are assigned to other funds. The following table shows the funds earning the investment income and the ultimate recipients of that income:

Fund Generating Investment Income	Fund Receiving Investment Income
Agricultural College	University of Wisconsin System
Normal School	General
University	University of Wisconsin System
Benevolent	General

Component Units

Investments of the Wisconsin Housing and Economic Development Authority (the Authority) are reported at fair value based on quoted market prices. Collateralized and uncollateralized investment agreements are not transferable and are considered nonparticipating contracts. As such, both types of investment agreements are reported at contract value.

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

Certain investments of the Wisconsin Health Care Liability Insurance Plan are reported on a cost basis; however, the impact on the financial statements is not material.

Except for forward delivery agreements, investments of the Badger Tobacco Asset Securitization Corporation are reported at fair value. Forward delivery agreements are securities with maturities of one year or less and are reported at cost.

3. 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 or expenses over the projected life of the loan.

Mortgage loans of the Veterans Mortgage Loan Repayment Bonds and the Veterans Trust Fund programs, business-type activities, 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.

4. 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, the only property tax levied by the State, 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.

Consistent with the requirements of GASB Interpretation No. 5, *Property Tax Revenue Recognition in Governmental Funds,* collections received July 1 through August 31 that were due but unpaid at June 30 are accrued.

5. 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 Receivables" or "Interfund Payables."

Long-term interfund loans are classified as "Advances to Other Funds" and "Advances from Other Funds." Advances to Other Funds, as reported in the governmental fund financial statements, are offset with a fund balance reserve to indicate that they are neither available for appropriation nor expendable available financial resources.

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”.

Amounts reported in the funds as interfund assets/liabilities are eliminated in the governmental and business-type columns of the Statement of Net Assets, except for the net residual amount due between governmental and business-type activities which is shown as internal balances.

6. Inventories and Prepaid Items

Inventories of governmental and proprietary funds are valued at cost, which approximates market, using the first-in/first-out, last 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 at market, 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.

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

The fund balances of governmental 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.

7. Capital Assets

Capital assets, which include property, plant, equipment, land and infrastructure assets (roads, bridges, and buildings considered an ancillary part of roads) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Assets, other than infrastructure and land purchased for the construction of infrastructure assets, are capitalized when they have a unit cost of $5,000 or more except for a collection of library resources that must have a cumulative value equal to or greater than $5.0 million.

Purchased or constructed capital assets are valued at cost or estimated historical cost if actual historical cost is not practicably determinable. Donated capital assets are recorded at their fair value at the time received.

The State has elected to report infrastructure assets (roads, bridges and buildings considered an ancillary part of roads) using the modified approach. Under this method infrastructure assets are not required to be depreciated if the State manages its eligible infrastructure assets using an asset management system designed to maintain and preserve its infrastructure assets at a condition level established and disclosed by the State. All infrastructure assets constructed prior to July 1, 2000 have been recorded at estimated historical cost. The estimated historical cost was determined by calculating current cost of a similar asset and deflating that cost through the use of a price-index to the estimated average construction date. Costs, which exclude right of way, are expressed in 2000 dollars and deflated back to the average construction date using the Federal Highway Administration's composite index for federal-aid highway construction. The costs of maintenance and preservation that do not add to the asset's capacity or efficiency are not capitalized. Interest incurred during construction is not capitalized.

Exhaustible capital assets of the primary government and the component units are depreciated on the straight-line method over the asset's useful life. Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds and component units. There is no depreciation recorded for land, construction in process, infrastructure and other capital assets defined as inexhaustible (except for construction in progress reported by the University of Wisconsin System, which is included in the applicable major capital assets categories). Generally, estimated useful lives are as follows:

Buildings and improvements	4 - 45 years
Equipment, machinery and furnishings	3 - 27 years

Collections of works of art, historical treasures, and similar assets, which are on public display, used in furtherance of historical education, or involved in advancement of artistic or historical research, are not capitalized unless these collections were already capitalized at June 30, 1999. Collections range from memorabilia on display in the Wisconsin Veterans Museum, the State Historical Society Museum and other museums to buildings such as the Villa Louis Mansion and the Fur Trade Museum located at the Villa Louis historical site. In addition, works of art or historical treasures on display in the various State office buildings, as well as statues on display outside the State Capitol, also are not capitalized.

8. Restricted and Limited Use Assets

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

9. 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, 2003, 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 that are within the State's fiscal year. The result is that a liability of $519.8 million representing one-half of the total appropriated amount is reported at June 30, 2003 as Due To Other Governments.

State Property Tax Credit Program

At June 30, 2003, 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, 2003.

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, 2003.

The aggregated State Property Tax Credit Program liability of $353.6 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 2003 property tax bills, the State made this payment in March 2003.

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 that ends on December 31. Therefore, part of the March distribution represents an expense of the State in Fiscal Year 2003, while the remaining portion represents a prepaid item. The resulting Prepaid Item reported within the Lottery Fund totals $26.1 million at June 30, 2003.

State Aid for Exempt Computers

The Aid for Exempt Computers compensates local governments for tax base lost due to the property tax exemption for computers, software and related equipment. Aid payments are calculated using a procedure that results in an aid amount equal to the amount of taxes that would be paid if the property were taxable. Payments to local governments are made on the first Monday in May.

A portion of the May payment distributed to the general government taxing jurisdictions, Tax Incremental Districts, and special districts applies to their fiscal period ending December 31. Therefore, part of the May distribution represents an expense to the State in Fiscal Year 2003, while the remaining portion represents a prepaid item. The resulting Prepaid Item within the General Fund totals $20.8 million at June 30, 2003.

10. Long-term Debt Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt is reported as a liability. Bond premiums and discounts, as well as issuance costs, are deferred and amortized using the effective interest rate method on a prospective basis beginning in Fiscal Year 2002. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums and discounts on debt issuances are reported as other financing sources and other financing uses, respectively.

Debt issuance costs, as well as bond premiums and discounts, relating to revenue obligations of the Environmental Improvement Fund, an enterprise fund, were deferred and are being amortized using the effective interest rate method.

Debt issuance costs relating to general obligation bonds of the Veterans Mortgage Loan Repayment Fund and the University of Wisconsin System Fund, both enterprise funds, are amortized ratably over the life of the obligations to which they relate. On the government-wide financial statements, bond premiums and discounts, as well as issuance costs, related to the Transportation Revenue Bonds and the Petroleum Inspection Fee Obligation Revenue Bonds (which finance programs in a capital projects fund and a special revenue fund, respectively) are also 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.

Debt issuance costs, and bond premiums and discounts, of the Wisconsin Housing and Economic Development Authority and the University of Wisconsin Hospitals and Clinics Authority, both component units, are amortized ratably over the life of the obligations to which they relate.

Debt issuance costs, bond premiums and discounts of the Badger Tobacco Asset Securitization Corporation, a component unit, are capitalized and amortized over the lives of the related debt using the interest method.

11. 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 employees' 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 employees for hours worked in excess of forty hours per week. Each full-time employee is eligible for three and one-half personal holidays each calendar year, provided the employee is in pay status for at least one day in the year. If a holiday occurs on a Saturday, employees 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 government-wide, proprietary fund types and fiduciary funds. In the component units the obligation is reported as a fund liability.

Sick Leave

Full-time employees earn sick leave at a rate of five 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 employee 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 employees. That portion of the total health insurance obligation for which the State has already accumulated resources is presented in the Accumulated Sick Leave Fund, a pension and other employee benefit trust fund.

12. Deferred Revenue

In the government-wide statements and proprietary fund financial statements 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. In the governmental fund statements revenues are also deferred for amounts that are unearned or unavailable.

Deferred revenues of the University of Wisconsin System consist of payments received but not earned at June 30, 2003, primarily for summer session tuition, tuition and room deposits for the next fall term, advance ticket sales for upcoming intercollegiate athletic events, and amounts received from grant and contract sponsors that have not yet been earned under the terms of the agreement.

13. Self-Insurance

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

The State's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, State management believes it is more economical to manage its own risks internally. The Risk Management Fund, an internal service fund, is used to pay for losses incurred by any State agency and for administrative costs incurred to manage a state-wide risk management program. These losses include damage to property owned by the agencies, personal injury or property damage liabilities incurred by a State officer, agent or employee, and worker's compensation costs for State employees. 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).

14. Fund Balance Reserves and Restricted Net Assets/Fund Equity

Fund Balance Reserves

Reservations of fund balances of governmental funds represent amounts that are not available for appropriation. Examples of fund balance reservations include reserves for encumbrances, inventories and prepaid items.

Restricted Net Assets/Fund Equity

Restricted Net Assets (presented in the government-wide statement of net assets) and Restricted Fund Equity (presented in the balance sheet of proprietary funds) are reported when constraints placed on net assets or fund equity use are either (1) externally imposed by creditors (such as through debt covenants, grantors, contributors, or laws or regulation of other governments, or (2) imposed by law through constitutional provisions. Unrestricted net assets or fund equity may be used at the State's discretion but often have limitations on use based on State statutes.

NOTE 2. DETAILED RECONCILIATION OF THE GOVERNMENT-WIDE AND FUND STATEMENTS

A. Explanation of Differences Between the Balance Sheet – Governmental Funds and the Statement of Net Assets

During the year ended June 30, 2003, the following adjustments and reclassifications were necessary to reconcile the information from the fund-based Balance Sheet – Governmental Funds to the amounts presented in the governmental section of the Statement of Net Assets (in thousands). The differences result primarily from the long-term economic focus of the Statement of Net Assets compared to the current financial focus of the Balance Sheet – Governmental Funds.

	Total Governmental Funds	Long-term Assets, Liabilities (1)	Internal Service Funds (2)	Reclassifications and Eliminations (3)	Total Amount for Statement of Net Assets
Assets:					
Cash and Cash Equivalents	$ 1,366,920	$ -	$ 35,142	$ -	$ 1,402,063
Investments	152,290	-	-	-	152,290
Receivables:					
Taxes	1,214,155	-	-	(1,214,155)	-
Loans to Local Governments	251,418	-	-	(251,418)	-
Other Receivables	205,987	1,849	899	2,154,230	2,362,964
Due from Other Funds	252,364	-	29,664	(282,028)	-
Due from Component Units	5	-	-	(5)	-
Interfund Receivables	486	-	-	(486)	-
Due from Other Governments	656,146	-	-	(656,146)	-
Internal Balances	-	-	2,523	4,096	6,619
Inventories	36,343	4,044	6,102	-	46,488
Prepaid Items	323,014	-	26,477	-	349,491
Advances to Other Funds	1,850	-	-	(1,850)	-
Other Assets	694	-	-	-	694
Deferred Charges	-	25,372	810	-	26,182
Depreciable Capital Assets	-	1,135,565	284,750	-	1,420,315
Infrastructure	-	9,352,302	-	-	9,352,302
Other Non-depreciable Capital Assets	-	2,515,166	25,777	-	2,540,944
Total Assets	$ 4,461,672	$ 13,034,298	$ 412,144	$ (247,762)	$ 17,660,352
Liabilities:					
Accounts Payable and Other Accrued Liabilities	$ 894,490	$ -	$ 29,385	$ 707,001	$ 1,630,876
Due to Other Funds	269,749	-	42,388	(312,138)	-
Due to Component Units	1,400	-	-	(1,400)	-
Interfund Payables	636,891	-	-	(636,891)	-
Due to Other Governments	1,642,480	685	-	-	1,643,165
Tax Refunds Payable	1,013,459	-	-	-	1,013,459
Tax and Other Deposits	30,873	-	-	-	30,873
Deferred Revenue	630,812	(291,235)	10,135	-	349,712
Interest Payable	37,805	24,874	-	-	62,680
Advances from Other Funds	4,334	-	-	(4,334)	-
Short Term Notes Payable	543,643	-	31,126	-	574,769
Long-term Liabilities:					
Short-term Portion	-	307,309	35,739	59,040	402,087
Long-term Portion	-	4,739,587	265,388	-	5,004,974
General Obligation Bonds Payable	100	-	-	(100)	-
Revenue Bonds and Notes Payable	58,940	-	-	(58,940)	-
Total Liabilities	5,764,976	4,781,220	414,160	(247,762)	10,712,594
Fund Balances/Net Assets	(1,303,304)	8,253,078	(2,016)	-	6,947,758
Total Liabilities and Fund Balances/Net Assets	$ 4,461,672	$ 13,034,298	$ 412,144	$ (247,762)	$ 17,660,352

(1) Long-term asset and liability differences arise because governmental funds focus only on short-term financing (that is, resources that will be available to pay for current period expenditures). In contrast, the Statement of Net Assets has a long-term economic focus and reports on all capital and financial resources.

(2) The adjustment for internal service funds reflects the reclassification of these funds for the government-wide statement. The assets and liabilities of these funds are reported as proprietary activities on the fund statements, but are included as governmental activities on the Statement of Net Assets

(3) Various reclassifications are necessary due to the differing level of detail needed on each of the statements. Eliminations are done on the Statement of Net Assets to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government. The net residual amounts due between governmental and business-type activities are shown as internal balances.

B. Explanation of Differences Between the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds and the Statement of Activities

During the year ended June 30, 2003, the following adjustments and reclassifications were necessary to reconcile the information from the fund-based Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the amounts presented in the governmental section of the Statement of Activities (in thousands). The differences result primarily from the long-term economic focus of the Statement of Activities compared to the current financial focus of the Statement of Revenues, Expenditures, Changes in Fund Balance – Governmental Funds.

	Total Governmental Funds	Long-term Revenues and Expenses (1)	Capital-Related Items (2)
Revenues:			
Taxes	$ 11,270,818	$ -	$ -
Income Taxes	-	15,104	-
Sales & Excise Taxes	-	1,964	-
Public Utility Taxes	-	-	-
Other Taxes	-	(380)	-
Motor Fuel (Transportation) Taxes	-	(634)	-
Other Dedicated Taxes	-	(88)	-
Intergovernmental	5,984,658	-	-
Operating Grants	-	-	775
Capital Grants	-	-	896
Unrestricted Grants	-	-	-
Licenses and Permits	891,260	-	-
Charges for Goods and Services	247,519	1,615	-
Investment and Interest Income	48,838	-	-
Fines and Forfeitures/Contributions to Permanent Fund	55,834	-	-
Gifts and Donations	14,342	-	-
Other Revenues:		(7,462)	(945)
Intergovernmental Transfer	598,580	-	-
Tobacco Settlement	153,923	-	-
Other	139,531	-	-
Total Revenues	19,405,302	10,119	727
Expenditures:			
Current Operating:			
Commerce	226,182	(52)	2,512
Education	5,649,280	173	6,143
Transportation	1,519,266	(1,667)	74,927
Environmental Resources	464,479	(1,359)	12,321
Human Relations and Resources	8,113,457	(9,531)	49,737
General Executive	490,846	(2,592)	4,078
Judicial	104,930	(841)	3,893
Legislative	60,175	(935)	444
Tax Relief and Other General Expenditures	845,130	-	-
Intergovernmental	1,107,958	-	-
Debt Service:			
Principal	270,719	-	-
Interest and Other Charges	226,469	55,205	-
Capital Outlay	691,586	-	(691,586)
Total Expenditures	19,770,479	38,402	(537,531)
Excess of Revenues Over (Under) Expenditures	(365,177)	(28,282)	538,258
Other Financing Sources (Uses):			
Net Transfers	(1,085,031)	18,561	741
Long-term Debt Issued	506,524	-	-
Premium/Discount on Bonds	31,640	-	-
Installment Purchase Acquisitions	2,863	(2,863)	-
Capital Leases Acquisitions	17,143	(17,143)	-
Total Other Financing Sources (Uses)	(526,862)	(1,445)	741
Net Change in Fund Balance	(892,038)	$ (29,727)	$ 538,999
Change in Reserve for Inventories	(164)		
Net Change for the Year	$ (892,202)		

(1) Long-term revenue differences arise because governmental funds report revenues only when they are considered "available," while government-wide statements report revenues when earned. Long-term expense differences arise because governmental funds report operating expenses (including interest) using the modified accrual basis of accounting, while government-wide statements report using the accrual basis of accounting.

(2) Capital-related adjustments consist of the difference between proceeds for the sales of capital assets and the gain or loss from the sales of capital assets, and from the difference between capital outlay expenditures recorded in the governmental funds and depreciation expense recorded in the government-wide statements.

(3) The adjustment for internal service funds reflects the elimination of these funds from the government-wide statement, which is accomplished by charging/refunding additional amounts to participating governmental activities to completely offset the internal service funds' cost for the year.

Internal Service Funds (3)	Long-term Debt Transactions (4)	Eliminations (5)	Revenue/Expense Reclassifications (6)	Total Amount for Statement of Activities
$ -	$ -	$ -	$ (11,270,818)	$ -
-	-	-	5,487,319	5,502,423
-	-	-	4,100,385	4,102,350
-	-	-	273,892	273,892
-	-	-	278,013	277,633
-	-	-	925,137	924,503
-	-	-	206,072	205,984
-	-	-	(5,984,658)	-
-	-	33,950	5,391,000	5,425,725
-	-	-	634,505	635,402
-	-	-	2	2
-	-	-	(891,260)	-
15,632	-	(28,265)	926,325	1,162,827
22	-	-	(26,507)	22,353
-	-	-	(35,065)	20,769
-	-	-	(14,342)	-
-	-	-	908,043	899,636
-	-	-	(598,580)	-
-	-	-	(153,923)	-
-	-	-	(139,531)	-
15,655	-	5,685	16,009	19,453,497
(470)	-	(3,829)	33	224,377
(3,176)	-	22,350	369	5,675,138
(2,580)	135	-	629	1,590,710
(379)	50	(168)	24	474,969
(6,383)	202	11,573	(840)	8,158,215
21,724	(239)	(24,241)	(134)	489,442
(223)	76	-	-	107,835
(239)	314	-	-	59,758
-	-	-	(1,373)	843,757
-	-	-	-	1,107,958
-	(270,719)	-	-	-
10,091	(631)	-	1,446	292,579
-	-	-	-	-
18,364	(270,814)	5,685	155	19,024,739
(2,709)	270,814	-	15,855	428,758
(17,858)	-	-	(16,019)	(1,099,606)
-	(506,524)	-	-	-
-	(31,640)	-	-	-
-	-	-	-	-
-	-	-	-	-
(17,858)	(538,163)	-	(16,019)	(1,099,606)
$ (20,568)	$ (267,349)	$ 0	(164)	(670,848)
			164	-
			$ (0)	$ (670,848)

(4) Long-term debt transaction differences consist of bond proceeds and principal repayments reported as other financing sources and expenditures in governmental funds, but as increases and decreases in liabilities in the government-wide statements.

(5) Intra-entity activity within the same function is eliminated to remove the grossing up of both direct expenses and program revenues within that category.

(6) Revenue and expense reclassifications are necessary due to the differing level of detail needed on each of the statements. In addition, the Statement of Activities focuses on program revenue, which has been redefined from the traditional revenue source categories.

NOTE 3. BUDGETARY CONTROL

The legal level of budgetary control for Wisconsin is at the function, agency, program, appropriation-level. 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.

Due to the continuing economic downturn, tax revenue collections throughout fiscal year 2003 were significantly less than the original estimates. As a consequence of this revenue shortfall, various budget repair bills were needed to bring expenditures in line with expected revenues. The net result of these bills, along with earlier cost-saving legislation, was that additional expenditure controls were enacted, segregated funds were required to transfer additional funds to the General Fund, and payment of a portion of the expenditures for the State's shared revenue program was temporarily shifted from General Fund to Tobacco Settlement Endowment Fund resources.

The budgetary comparison schedule and related disclosures for the General and all major special revenue funds are reported as Required Supplementary Information. This schedule presents the original budget, the final budget and actual data of the current period. The related disclosures describe the budgetary practices of the State, as well as, provide a detailed reconciliation between the General and major special revenue funds' equity balance on the budgetary basis compared to the GAAP basis as shown on the governmental fund statements.

NOTE 4. DEFICIT FUND BALANCE/FUND EQUITY/NET ASSETS

In addition to the General Fund, funds reporting a deficit fund balance, fund equity, or net assets position at June 30, 2003 are (in thousands):

Special Revenue:		
Petroleum Inspection	$	256,847
Information Technology Investment		2,984
Capital Projects:		
Capital Improvement		194,829
Transportation Revenue Bonds		70,463
Enterprise:		
Duty Disability		197,566
Internal Service:		
Fleet Service		814
Risk Management		116,526
Pension and Other Employee Benefit Trust:		
Accumulated Sick Leave		688,311

NOTE 5. 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 Department of Financial Institutions.

At June 30, 2003, the carrying amount of the primary government deposits reported as cash was $(43.5) million and the bank balance was $244.7 million. In addition, $150.0 million of International Time Deposits, reported on the financial statements as investments, are considered uncollateralized and uninsured. Of the bank amount, excluding a bank overdraft of $37.7 million in two bank accounts that are covered by compensating balances in other accounts,

- $9.5 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
- $272.9 million was uncollateralized and uninsured.

The State's unemployment compensation program had $1,056.3 million on deposit with the U.S. Treasury. This amount is presented as Cash and Cash Equivalents and is not included in the carrying amount of deposits nor is it categorized according to risk because it is neither a deposit with a financial institution nor an investment.

Petty cash and contingent accounts authorized under Wis. Stat. Sec 20.920, which are held by agencies and reported as Cash and Cash Equivalents in the amount of $171 thousand, are not included in the carrying amount nor bank balance of deposits in this note because these are neither deposits nor investments.

Component Units

At June 30, 2003, the carrying amount of the component units' deposits was $25.8 million and the bank balance was $25.9 million. Of the bank amount, $2.1 million was covered by federal depository insurance, the State Public Deposit Guarantee Fund or collateralized with securities held by the State or its agent in the State's name and $23.8 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 investment trust 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 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.

Valuation of Securities

Investments are valued at fair value for financial statement purposes and amortized cost for purposes of calculating income to participants. The custodial bank has compiled fair value information for all securities by utilizing third party pricing services. Government and agency securities and commercial paper are priced using matrix pricing. This method estimates a security's fair value by using quoted market prices for securities with similar interest rates, maturities, and credit ratings. Repurchase agreements and certificates of deposit are valued at cost because they are nonparticipating contracts that do not capture interest rate changes in their value. Swaps are valued at the net present value of estimated expected future cash flows using discount rates commensurate with the risk involved. In addition, a bond issued by other State agencies having a par value of $1.3 million is valued at par, which management believes approximates fair value. The fair value of investments is determined at the end of each month.

Pool Earnings and Pool Shares

For purposes of calculating earnings to each participant, all investments are valued at amortized cost. Specifically, income is distributed to pool participants monthly based on their average daily share balance. Distributed income includes realized investment gains and losses calculated on an amortized cost basis, interest income based on stated rates (both paid and accrued), amortization of discounts and premiums on a straight-line basis, and investment and administrative expenses. This method differs from the fair value method used to value investments because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair values of the pool's investments.

Derivative Financial Instruments

As of June 30, 2003, the only derivative financial instrument held by the State Investment Fund was a restructured interest rate swap. 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 an increase in income. Entering into interest rate swap agreements subjects the investor to the possibility of financial loss in the event of adverse changes in market rates or nonperformance by the counterparty to the swap agreement. Selecting creditworthy counterparties mitigates credit risks arising from derivative transactions.

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, 2003, the fair value of the restructured investments was negative $9.4 million while the amortized deferred loss was negative $8.6 million.

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

Deposits

The State Investment Fund holds certificates of deposit at various Wisconsin banks as part of the Wisconsin Certificate of Deposit Program implemented in July 1987. As of June 30, 2003, the fair value of these certificates of deposit was $400.0 million.

Approximately $354.2 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 $45.8 million are considered Category 3 uncollateralized deposits.

Investments

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, 2003, the State Investment Fund's investments are as follows (in millions):

	Category			Fair
	1	2	3	Value
U.S. government and agency holdings	$ 3,328.2	--	--	$ 3,328.2
Repurchase agreements	1,777.0	--	--	1,777.0
Commercial paper	455.1	--	--	455.1
Mortgage backed securities	1.3	--	--	1.3
	$ 5,561.6	--	--	5,561.6
Swaps				(22.9)
				$ 5,538.6

Copies of the separately issued financial report that includes financial statements and other supplementary information for the State Investment Fund may be obtained by writing to:

State of Wisconsin Investment Board
PO Box 7842
Madison, WI 53707-7842

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 permanent, proprietary, and fiduciary funds. A discussion of these investment activities follows:

Governmental

Historical Society - At June 30, 2003, investments of $9.8 million consisted of stock and bond index funds.

Business-Type

Local Government Property Insurance, State Life Insurance, and Patients Compensation Funds - At June 30, 2003, investments were $12.4 million for the Local Government Property Insurance Fund, $77.2 million for the State Life Insurance Fund, and $652.8 million for the Patients Compensation Fund, consisting of stocks and fixed income.

Fiduciary

Pension Trust Fund – This trust is a pooled fund consisting of retirement contributions made by and on behalf of participants in the Wisconsin Retirement System (WRS) (see Note 13 to the financial statements). At June 30, 2003, the Pension Trust Fund held $54,296.9 million of investments consisting of fixed income, stocks, limited partnerships, real estate, mortgages and other investments valued at fair value in accordance with Wis. Stat. Sec. 25.17(14). In addition, $336.0 million of investments are included in the fund's cash and cash equivalents. Further, $150.0 million is invested in a time deposit reported as part of the securities lending collateral and not included in the investments.

In addition, $3,209.5 million of securities lending transactions were held at June 30, 2003. These transactions are categorized consistent with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*.

Tuition Trust Fund – At June 30, 2003, investments of $13.3 million consisted of bonds and principal only strips.

The following table presents investments of these funds at June 30, 2003, categorized in accordance with the requirements of GASB Statement No. 3.

At June 30, 2003, the investments of the Other Funds Managed by the Board consisted of (in millions):

	Category			Fair
	1	2	3	Value
Fixed Income	$ 10,089.4	$ --	$ --	$ 10,089.4
Stocks	14,005.7	--	--	14,005.7
Repurchase Agreements	192.1	--	--	192.1
Certificates of Deposit	50.0	--	--	50.0
	$ 24,337.2	$ --	$ --	24,337.2
Limited Partnerships				2,693.1
Pooled Equity Funds				20,558.2
Pooled Bond Funds				5,260.9
Mortgages				726.7
Real Estate				436.6
Custodial Pooled Cash and Equivalents				336.0
Pooled Multi-Asset Fund				285.0
Investments Held by Broker Dealers Under Securities Loans:				
Fixed Income				1,914.9
Equities				1,187.5
Securities Lending Cash Collateral Pooled Investments				721.7
				$ 58,457.8

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

Securities on loan at June 30, 2003 are presented as unclassified in the preceding schedule of custodial risk. At year end, no credit risk exposure to borrowers existed because the amounts owed the borrowers exceeded the amounts the borrowers owed. The contract with the lending agent requires them to indemnify if the borrowers fail to return the loaned securities and the collateral is inadequate to replace the securities lent.

The majority of securities loans can be terminated on demand, although the average term of the loans is approximately one week. The term to maturity of the securities loans is matched with the term to maturity of the investments of the cash collateral by investing in a variety of short term investments with a weighted average maturity of 22 days.

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

Derivative Financial Instruments

As of June 30, 2003, the State of Wisconsin Investment Board (SWIB) utilized various derivative financial instruments, including forward contracts, futures contracts, collateralized mortgage obligations and principal only strips in the pension trust fund. All financial derivative instruments are reported at fair value, regardless of whether the instruments are held for trading or nontrading purposes. The instruments are marked to market monthly, with valuation changes recognized in income.

Foreign Currency Forwards and Options - The State of Wisconsin Investment Board's derivative trading activities primarily involve forward contracts and foreign currency options. Generally, foreign currency forwards and options are held to hedge foreign exchange risk. Market risk is generally controlled by holding substantially offsetting purchase and sell positions. At June 30, 2003 the fair value of foreign currency forward contracts assets totaled $1.2 billion, while the liabilities totaled $1.2 billion.

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.

Futures Contracts – One outside investment manager used futures contracts to manage exposure to the stock market. Upon entering into a futures contract, the outside manager is required to deposit with the broker, in SWIB's name, an amount of U.S. government obligations in accordance with the initial margin requirements of the broker. Futures contracts are marked to market daily with gains and losses being recognized. The variation margin is settled daily until the contracts expire or are closed. Futures contracts involve, to varying degrees, risk of loss in excess of the variation. Losses may arise from the changes in the value of the underlying instrument, illiquidity in the secondary market for the contracts, or if the counterparties do not perform under the terms of the contract. Futures contracts are valued each day at the settlement price established by the board of trade or exchange on which they are traded. As of June 30, 2003, no futures contracts were held.

Collateralized Mortgage Obligations (CMO's) – Bonds that are collateralized by whole loan mortgages, mortgage pass-through securities or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes or traunches in accordance with each CMO's established payment order. Some CMO traunches have more stable cash flows relative to changes in interest rates while others are significantly more sensitive to interest rate fluctuations. In a declining interest rate environment, some CMO's may be subject to a reduction in interest payments as a result of prepayments of mortgages which make up the collateral pool. A reduction in interest payments causes a decline in cash flows and thus a decline in the fair value of the security. Rising interest rates may cause an increase in interest payments, thus an increase in fair value of the security. CMO's are held to maximize yields and in part to hedge against a rise in interest rates. At June 30, 2003, CMO's valued at $90.0 million were held.

Principal Only Strips – Securities that derive cash flow from the payment of principal on underlying debt securities. SWIB holds several principal only strips for yield enhancing purposes. The underlying securities are United States Treasury obligations, therefore the credit risk is low. On the other hand, principal only strips are more volatile in terms of pricing, and thus the market risk is higher than traditional United States Treasury obligations. As of June 30, 2003, principal only strips valued at $.3 million were held.

Unfunded Capital Commitments

Partnership agreements generally set a limit on the total dollar amount that limited partners must commit to funding when entering the partnership. Over the life of the partnership, the general partner will request capital contributions totaling the agreed upon limit. As of June 30, 2003, unfunded capital commitments totaled $1.5 billion.

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:

Governmental

General Fund – At June 30, 2003, investments of $.9 million of which $.7 million are considered deposits and included in Note 5A.

Transportation Revenue Bond Funds - At June 30, 2003, the Transportation Revenue Bond Capital Projects Fund and the Transportation Revenue Bond Debt Service Fund had investments totaling $167.3 million, of which $162.0 million are reported as cash equivalents. Investments of $5.3 million satisfy risk category No. 1, while the remaining investments are uncatergorized.

Common School Fund – At June 30, 2003, investments totaling $132.8 million meet risk Category 1.

Petroleum Inspection Fund – At June 30, 2003, investments totaling $.1 million were uncategorized.

Wisconsin Public Broadcasting Foundation Fund - The fund's investments at June 30, 2003, were $5.0 million, which consists of $3.3 million of various investments and $1.7 million of money market funds which are reported as cash equivalents. All investments meet Category 1 risk criteria.

Business-Type

Environmental Improvement Fund - The fund's aggregate investments at June 30, 2003, were $182.7 million, of which $35.7 million are reported as cash equivalents consisting of a repurchase agreement which is a Category 2 level of risk. Investments of $147.0 million consist of government and agency holdings and satisfy Category 1 risk criteria.

Lottery Fund - Investments are all in the form of U.S. Treasury zero coupon bonds. At June 30, 2003, investments of $147.5 million which meet Category 1 risk criteria were held.

The *University of Wisconsin System* – The fund's aggregate investments at June 30, 2003, were $303.3 million of which $13.7 million are reported as cash equivalents. Of the remaining $289.6 million, $262.0 million meet Category 1 risk criteria while the remaining investments are unclassified.

Fiduciary

Inmate and Resident Fund – At June 30, 2003, investments totaling $.7 million of which $.5 million are reported as cash equivalents and $.2 million meet risk Category 3.

College Savings Program Trust -- At June 30, 2003, investments totaling $853.2 million, which consist of short-term securities which meet risk Category 1.

At June 30, 2003, the State has approximately $278.8 million of securities 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 $15.6 million securities, presented as "Other Assets" on the financial statements meet risk Category 1.

The State's Section 457 *Deferred Compensation Plan Fund* investments, totaling $1,166.7 million at June 30, 2003, are in the form of equity, bond and money market mutual funds, insured savings accounts and investment contracts with insurance companies.

The following table presents investments of the Other State Agencies and Funds at June 30, 2003, categorized in accordance with the requirements of GASB Statement No. 3.

At June 30, 2003, the Other State Agencies and Funds' investments consisted of (in millions):

	Category 1	Category 2	Category 3	Reported Amount	Fair Value
Government and agency holdings	$ 658.0	$ --	$ .3	$ 658.3	$ 658.3
Municipal bonds	166.6	--	--	166.6	166.6
Commercial paper and nonsecured corporate notes and bonds	156.3	--	--	156.3	156.3
Repurchase agreements	--	35.7	--	35.7	35.7
Negotiable certificates of deposit	7.2	--	--	7.2	7.2
	$ 988.1	$ 35.7	$ .3	1,024.2	1,024.2
Mutual Funds				854.9	854.9
Pooled Fixed Income				9.0	9.0
Money market funds				166.6	166.6
Pooled Equity Fund				30.3	30.3
Deferred compensation investments				1,166.7	1,166.7
Limited partnerships				1.1	1.1
Other				1.0	1.0
				$ 3,253.8	$ 3,253.8

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 aggregate investments at June 30, 2003, were $831.7 million of which $146.2 million are reported as cash equivalents consisting of repurchase agreements, commercial paper, money market funds, and short-term investment agreements. The Authority's investments except for uncollateralized investment agreements of $68.1 million are a Category 1 level of risk. The Authority's investments in uncollateralized investment agreements are a Category 3 level of risk.

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

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

The Authority's Finance committee approved the use of a security-lending program with the trust department of a bank acting as an agent. As of June 30, 2003 the Authority had $73.2 million of securities on loan to broker-dealers for a fee. The transactions are categorized consistently with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*.

Security lending transactions involve the lending of securities to broker-dealers and other entities for collateral, in the form of cash or securities, with the simultaneous agreement to return the collateral for the same securities in the future. The securities custodian is an agent in lending the domestic and international securities for collateral of 102 percent and 105 percent, respectively, of the loaned securities' market value. The lending agent in accordance with contractual investment guidelines, which are designed to insure the safety of principal and obtain a moderate rate of return, reinvests the collateral. The investment guidelines include very high credit quality standards and also allow for a portion of the collateral investments to be invested with short-term securities. The Authority has the following types of securities on loan: U.S. agency securities, U.S. government securities and corporate notes. The Authority has received the following types of collateral for the securities lent: cash,

government securities or irrevocable letters of credit. The fair value of the investment securities loaned was $73.2 million as of June 30, 2003, and the fair value of the collateral received was $74.7 million. The Authority may request the bank to terminate any loan of securities for any reason at any time.

As of June 30, 2003, no credit risk exposure to borrowers existed because the amounts owed the borrowers exceeded the amounts the borrowers owed. The contract with the lending agent states that in the event that a borrower fails to return the lent security, the bank will indemnify the Authority for the following amounts: a) The difference between the closing market value of security on the date it should have been returned to the account and the cash collateral substituted for the lent securities, or b) In the case of collateral received in kind, the difference between the closing market value of the security on the date it should have been returned to the account and the closing market value of the collateral in kind on the same date.

The Authority assumes all risk of loss arising out of collateral investment loss and any resulting collateral deficiencies. The bank expressly assumes the risk of loss arising from negligent or fraudulent operations of its securities lending program. The bank operates the securities lending program as a business trust investment pool with open and matched components. In the matched portion of the investment pool, the maturities of the securities lent and collateral are the same. The open portions of the pool maintains a weighted average maturity of the portfolio at approximately 15 days, with a range from 1 day to 25 days. The open portions of the pool generally have a 15-day mismatch between the portfolio coverage maturity and the open loans. As of June 30, 2003, approximately 61.0% of the securities lent were in the matched portion and approximately 39.0% in the open portion of the investment pool. No restrictions on the amount of the loans exist or can be made. The earnings generated from the securities lending program is reported as other income. During the year ended June 30, 2003 the Authority received $104 thousand of income related to security lending transactions.

Wisconsin Health Care Liability Insurance Plan - The investments of the Wisconsin Health Care Liability Insurance Plan at December 31, 2002 were $97.3 million, of which $26.9 million are reported as cash equivalents. Investments of $4.0 million in bonds meet the Category 1 risk level, while all remaining investments meet the Category 2 risk level.

University of Wisconsin Hospital and Clinics Authority – The University of Wisconsin Hospitals and Clinics Authority (the Hospital) aggregate investments of $227.9 million consist of $194.5 million of restricted and limited use investments and $33.4 million of unrestricted investments.

Badger Tobacco Asset Securitization Corporation -- Investments of $234.5 million of which $97.4 million are reported as cash equivalents. Investments of $137.1 million meet the Category 1 risk level, while $97.4 million are uncategorized.

The following table presents investments of component units at December 31, 2002, May 31, 2003, or June 30, 2003, categorized in accordance with the requirements of GASB Statement No. 3.

At December 31, 2002, May 31, 2003, or June 30, 2003, the component units' investments consisted of (in millions):

	Category			Reported	Fair
	1	2	3	Amount	Value
Bonds	$ 116.8	$ 36.0	$ --	$ 152.8	$ 158.9
Negotiable certificates of deposit	18.1	--	--	18.1	18.1
Uncollateralized investment agreements	--	--	68.1	68.1	68.1
Mortgage-backed securities	6.6	33.5	--	40.1	40.1
Repurchase agreements	--	55.3	--	55.3	55.4
Collateralized investment contracts	433.1	--	--	433.1	433.1
Commercial Paper	46.7	--	--	46.7	46.7
Forward Delivery Contracts	137.1	--	--	137.1	140.1
	$ 758.4	$ 124.8	$ 68.1	951.3	960.5
Money market funds				266.7	266.7
International Equities				173.4	173.4
				$ 1,391.4	$ 1,400.6

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

Other Funds Managed by the Board	$ 58,457.8
Other State Agencies and Funds	3,253.8
Component Units	1,391.4
Total Investments	$ 63,103.0

C. Lottery Investments and Related Future Prize Obligations

Investments of the State Lottery Fund totaling $147.5 million are held to finance grand prizes payable over a 20-year or 25-year period. The investments in prize annuities are debt obligations of the U.S. government and backed by its full faith and credit as to both principal and interest. Liabilities related to the future prize obligations are presented at their present value and included as Accounts Payable and Other Accrued Liabilities. The following is a schedule of future prize obligations (in thousands):

Fiscal Year	Amount
2004	$ 16,750
2005	16,868
2006	16,992
2007	17,118
2008	17,250
Thereafter	101,818
Total future value	186,796
Less: Present value adjustment	(63,064)
Present value of payments	$ 123,731

NOTE 6. RECEIVABLES AND NET REVENUES

A. Receivables

Receivables at June 30, 2003 were as follows (in thousands):

	Taxes	Student Loans	Veterans Loans	Mortgage Loans	Insurance Policy Loans	Loans to Local Governments	Other Receivables	Due From Other Governments	Due From Component Units	Total Receivables
Governmental Activities:										
General	$ 1,095,198	$ -	$ -	$ -	$ -	$ 14,892	$ 180,439	$ 552,235	$ 5	$ 1,842,769
Transportation	93,636	-	-	-	-	-	5,176	90,645	-	189,456
Nonmajor Governmental	25,321	-	-	-	-	236,526	20,372	13,267	-	295,486
Total Governmental:	1,214,155	-	-	-	-	251,418	205,987	656,146	5	2,327,711
Government-wide Adjustments:										
Internal Service Funds	-	-	-	-	-	-	368	265	266	899
Accrual Adjustments	-	-	-	-	-	-	1,849	-	-	1,849
Fiduciary Receivables	-	-	-	-	-	-	32,506	-	-	32,506
Total – Governmental Activities	$ 1,214,155	$ -	$ -	$ -	$ -	$ 251,418	$ 240,710	$ 656,411	$ 271	$ 2,362,964
Related revenue deferral because the receivable does not meet the availability criteria	$ 252,164	$ -	$ -	$ -	$ -	$ -	$ 43,114	$ -	$ -	$ 295,279
Business-type Activities:										
Current:										
Patients Compensation	$ -	$ -	$ -	$ -	$ -	$ -	$ 8,534	$ -	$ 16	$ 8,550
Environmental Improvement	-	-	-	-	-	76,609	330	6,343	-	83,282
Veterans Mortgage Loan Repayment	-	-	-	16,688	-	-	6,751	-	-	23,438
University of Wisconsin System	-	27,503	-	-	-	-	79,926	48,917	1,931	158,276
Unemployment Insurance Reserve	-	-	-	-	-	-	150,623	8,740	-	159,363
Nonmajor Enterprise	-	411	6,498	1,391	-	206	47,224	6,135	-	61,865
Total Current:	-	27,914	6,498	18,078	-	76,816	293,387	70,135	1,946	494,775
Noncurrent:										
Environmental Improvement	-	-	-	-	-	1,119,900	-	-	-	1,119,900
Veterans Mortgage Loan Repayment	-	-	-	375,587	-	-	-	-	-	375,587
University of Wisconsin System	-	149,567	-	-	-	-	-	-	-	149,567
Nonmajor Enterprise	-	960	39,436	15,131	3,722	1,579	-	-	-	60,827
Total Noncurrent	-	150,527	39,436	390,718	3,722	1,121,479	-	-	-	1,705,881
Government-wide Adjustments:										
Fiduciary Receivables	-	-	-	-	-	-	180	-	-	180
Total – Business-type Activities	$ -	$ 178,441	$ 45,934	$ 408,796	$ 3,722	$ 1,198,295	$ 293,567	$ 70,135	$ 1,946	$ 2,200,837

B. Net Revenues

Certain revenues of the University of Wisconsin System are reported net of scholarship allowances. For Fiscal Year 2003, these scholarship allowances totaled as follows (in thousands):

Student Tuition and Fees	$ 72,509
Sales and Services of Auxiliary Enterprises	13,870
Total	$ 86,379

NOTE 7. CAPITAL ASSETS

Primary Government

Capital asset activity for the fiscal year ended June 30, 2003 was as follows (in thousands):

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and Land Improvements	$ 1,072,168	$ 140,918	$ (601)	$ 1,212,485
Buildings and Improvements	151,792	2,727	-	154,519
Library Holdings	73,797	1,054	(25)	74,827
Equipment	641	-	-	641
Construction in Progress	916,064	527,483	(345,077)	1,098,470
Infrastructure	9,205,713	212,179	(65,591)	9,352,302
Total capital assets, not being depreciated	11,420,176	884,362	(411,293)	11,893,245
Capital assets, being depreciated:				
Land Improvements	82,235	8,643	(11,133)	79,745
Buildings and Improvements	1,448,807	117,352	(10,489)	1,555,669
Equipment	523,470	50,962	(33,746)	540,687
Totals	2,054,512	176,956	(55,367)	2,176,100
Less accumulated depreciation for:				
Land Improvements	19,641	4,650	-	24,291
Buildings and Improvements	396,997	39,702	(3,661)	433,038
Equipment	272,893	53,422	(27,859)	298,457
Totals	689,531	97,774	(31,520)	755,785
Total Capital Assets, being depreciated, net	1,364,981	79,182	(23,848)	1,420,315
Governmental activities capital assets, net	$ 12,785,157	$ 963,543	$ (435,141)	$ 13,313,560
Business-type activities:				
Capital assets, not being depreciated:				
Land and Land Improvements	$ 109,813	$ 1,210	$ (103)	$ 110,920
Library Holdings	967,601	22,974	(3,928)	986,646
Construction in progress	10,828	29,565	(11,397)	28,995
Total Capital Assets, not being depreciated	1,088,241	53,749	(15,429)	1,126,561
Capital assets, being depreciated:				
Land Improvements	8,486	207	(1)	8,692
Buildings	3,028,698	148,623	(782)	3,176,539
Equipment	630,806	88,060	(69,067)	649,799
Totals	3,667,989	236,890	(69,849)	3,835,030
Less accumulated depreciation for:				
Land Improvements	5,462	426	(1)	5,888
Buildings	1,294,081	79,515	(679)	1,372,916
Equipment	439,606	50,891	(38,229)	452,268
Totals	1,739,149	130,831	(38,909)	1,831,072
Total Capital Assets, being depreciated, net	1,928,840	106,058	(30,941)	2,003,958
Business-type activities capital assets, net	$ 3,017,082	$ 159,807	$ (46,369)	$ 3,130,519

In addition to the capital assets reported by governmental and business-type activities, the fiduciary funds reported gross capital assets of $4,008 thousand at June 30, 2003, with accumulated depreciation totaling $3,945 thousand.

Depreciation Expense

Depreciation expense was charged to functions of the primary government as follows (in thousands):

Governmental Activities		Business-type Activities	
Commerce	$ 2,280	Patients Compensation	$ 6
Education	2,500	Veterans Mortgage Loan Repayment	43
Transportation	9,425	University System	120,122
Environmental Resources	9,112	Lottery	64
Human Relations and Resources	42,673	Other Business-Type	10,597
General Executive Functions	4,057		
Judicial	3,846	Total depreciation expense - business-type activities	$ 130,831
Legislative	444		
Depreciation on capital assets held by the internal service funds	23,437		
Total depreciation expense - governmental activities	$ 97,774		

Construction in Progress

Construction in progress of the primary government reported in the government-wide statement of net assets at June 30, 2003 included the following projects (in thousands):

	Allotments	Expended to June 30, 2003	Encumbrances Outstanding	Unencumbered Allotment Balance
Governmental Activities:				
Reported through capital projects funds:				
Justice Center and Law Library	$ 42,600	$ 123	$ 32	$ 42,445
Camp Douglas US Property and Fiscal	13,717	875	351	12,491
Four probation/parole facilities	12,346	9,502	747	2,097
West Bend Army Aviation Support	11,069	2,402	475	8,193
Madison Crime Lab Remodeling	10,227	3,940	4,776	1,511
Other projects with allotments totaling less than $10 million		47,087		
		63,929		
Other:				
Transportation related		1,029,216		
Other		5,325		
Total construction in progress – governmental activities		$ 1,098,470		
Business-type Activities:				
University of Wisconsin System:				
Health Science Learning Center - Madison	$ 63,887	$ 32,321	$ 16,174	$ 15,392
Klotsche Center Physical Education Addition - Milwaukee	39,973	2,568	29,906	7,499
Fine Arts Center Remodeling/Addition – Stevens Point	26,120	1,791	24	24,305
Gates Center Physical Education Addition/Remodeling - Superior	16,201	10,291	4,997	913
Lab Science Remodeling – Green Bay	15,140	7,894	5,466	1,780
Residence Hall – River Falls	10,641	633	429	9,579
Upham Science Addition/Remodeling - Whitewater	10,030	6,299	2,194	1,537
Home for Veterans:				
Home-Skilled Nursing Facility – Southern Wisconsin Center	17,076	959	353	15,765
State Fair Park:				
Grandstand Replacement	20,500	19,395	1,105	--
Other projects with allotments totaling less than $10 million:				
University of Wisconsin System		67,388		
Other		8,642		
Total construction in progress – business-type activities		$ 158,180		

As discussed in Note 1E7, construction in progress of the University of Wisconsin System is reported in the applicable major capital assets categories. Construction in progress of the University of Wisconsin System and of the other business-type activities totaled $129.1 million and $29.0 million as of June 30, 2003, respectively.

Component Units

Capital Assets balance of the Wisconsin Housing and Economic Development Authority and the University of Wisconsin Hospitals and Clinics Authority as of June 30, 2003 were as follows (in thousands):

	Amount
Capital Assets, not being depreciated:	
Land and Land Improvements	$ 5,820
Construction in Progress	20,009
Total Capital Assets, not being depreciated	25,829
Capital Assets, being depreciated:	
Buildings	268,067
Equipment	154,592
Totals	422,659
Less accumulated depreciation for:	
Buildings	108,946
Equipment	89,690
Totals	198,636
Total Capital Assets, being depreciated, net	224,023
Component Units Capital Assets, net	$ 249,852

NOTE 8. ENDOWMENTS

Primary Government

University of Wisconsin System

The University of Wisconsin System invests its trust funds, principally gifts and bequests designated as endowments or quasi-endowments, in two of its own investment pools: the Long Term Fund and the Intermediate Term Fund. Benefiting University of Wisconsin System entities receive quarterly distributions from the Long Term Fund, principally endowed assets, based on an annual spending rate of 4.5 percent applied to a 12-quarter moving average market value of the fund. Distributions from the Intermediate Term Fund, principally quasi-endowments and unspent income distributions, consist of interest earnings distributed monthly. Spending rate and interest distributions from both of these funds are transferred to the State Investment Fund, pending near-term expenditures. At June 30, 2003, net appreciation of $9.5 million was available to be spent.

University of Wisconsin System investment policies and guidelines for the Long Term Fund and Intermediate Term Fund are governed and authorized by the Board of Regents. The approved asset allocation policy for the Long Term Fund sets a general target of 65 percent marketable equities, 25 percent fixed income and 10 percent alternatives. Accordingly, the fund includes investments in domestic and non-U.S. stocks and bonds, and limited partnerships consisting of venture capital and other private equity investments. The approved asset allocation for the Intermediate Term Fund is 100 percent intermediate maturity, investment-grade fixed income.

The fair value of Endowments as of June 30, 2003 was $295.9 million including unrealized gains of $11.0 million when fair values as of June 30, 2003 are compared to asset acquisition costs. This compares to a fair value as of June 30, 2002 of $298.1 million. The net decrease in fund balance during 2002-03 was $2.2 million.

The book value of Endowments under control of the University of Wisconsin System was $284.9 million as of June 30, 2003 compared to a book value of $295.7 million as of June 30, 2002. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments since realized gains and losses are based on the difference between the selling price and the acquisition cost of the asset. Therefore, when assets are reported at fair value much of the realized gain or loss may have already been included in prior years as part of the overall change in the fair value of investments.

At June 30, 2003, the book value and fair value of principal funds under control of the University of Wisconsin System was (in millions):

Original Contributions and Distributed Net Gains	$ 128.6
Realized Gains – Undistributed	156.3
Book Value	284.9
Unrealized Net Gains/Losses - Undistributed	11.0
Fair Value	$ 295.9

On June 30, 2003, the portfolio at market contained 67.4 percent in stocks, 25.4 percent in fixed income obligations, .4 percent in alternative assets, and 6.8 percent in short-term investments. The total return on the principal Long-term Fund including capital appreciation was 1.2 percent. The total return on the principal Intermediate Fund including capital appreciation was 7.1 percent. External investment counsel was furnished for funds representing 98.0 percent of market-value principal.

NOTE 9. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances as of or for the year ended June 30, 2003 consist of the following (in thousands):

A. Due from/to Other Funds:

Due from Other Funds and the Due to Other Funds represent short-term interfund accounts receivable and payable. The balances in these accounts at June 30, 2003 were as follows (in thousands):

	Due to Other Funds:			
	General	Transportation	Nonmajor Governmental	Patients Compensation
Due from Other Funds:				
General	$ -	$ 22,564	$ 41,303	$ 13
Transportation	1,795	-	19,351	-
Nonmajor Governmental	38,730	13,047	6,530	3
Environmental Improvement	14	-	290	-
Veterans Mortgage Loan Repayment	1	-	-	-
University of Wisconsin System	36,416	452	3,834	-
Unemployment Insurance Reserve	500	-	-	-
Nonmajor Enterprise	30,724	44	24	-
Internal Service	18,440	4,180	685	-
Fiduciary	25,400	3,220	2,205	7
Total	$ 152,020	$ 43,508	$ 74,222	$ 23

The balances in the Due from Other Funds and Due to Other Funds accounts typically result form the time lag between the dates that

(1) interfund goods and services were provided and when the payments occurred, and

(2) interfund transfers were accrued and when the liquidations occurred.

Environmental Improvement	Veterans Mortgage Loan Repayment	University of Wisconsin System	Unemployment Insurance Reserve	Nonmajor Enterprise	Internal Service	Fiduciary	Total
$ 226	$ 67	$ 37,009	$ 1,970	$ 33,955	$ 2,100	$ 32,065	$ 171,272
-	-	23	-	-	188	-	21,357
1,353	-	2	-	-	71	-	59,735
-	-	-	-	-	-	-	304
-	-	-	-	32	-	-	32
49	-	-	-	1	93	-	40,846
-	-	-	-	-	-	-	500
-	1,067	-	-	455	8	180	32,503
2	2	1,148	-	225	1,557	441	26,680
8	45	-	-	1,877	525	464	33,751
$ 1,638	$ 1,182	$ 38,181	$ 1,970	$ 36,545	$ 4,542	$ 33,150	$ 386,980

B. Due from/to Component Units

Receivables and payables between funds and component units at June 30, 2003 were as follows (in thousands);

	Due from Component Unit				Due from Primary Government		
	General	Patients Compensation	University of Wisconsin System	Internal Service	Wisconsin Housing And Economic Development Authority	University of Wisconsin Hospitals and Clinics Authority	Total
Due to Primary Government:							
Wisconsin Housing and Economic Development Authority	$ --	$ --	$ --	$ 19	$ --	$ --	$ 19
Wisconsin Health Care Liability Insurance Plan	--	16	--	--	--	--	16
University of Wisconsin Hospitals and Clinics Authority	5	--	1,931	247	--	--	2,183
Due to Component Unit:							
General	--	--	--	--	60	1,340	1,400
University of Wisconsin System	--	--	--	--	--	1,560	1,560
Nonmajor Enterprise	--	--	--	--	--	11	11
Internal Service	--	--	--	--	3	--	3
Total	$ 5	$ 16	$ 1,931	$ 266	$ 63	$ 2,912	$ 5,192

The receivable and payable balances between the primary government and the component units typically result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between entities are made.

C. Interfund Receivables/Payables

Interfund Receivables/Payables represent short-term loans from one fund to another to cover cash overdrafts. Interfund receivables/payables at June 30, 2003 by individual fund were as follows (in thousands):

	Interfund Receivables:		
	Transportation	Fiduciary	Total
Interfund Payables:			
General	$ --	$ 636,405	$ 636,405
Nonmajor Governmental	486	--	486
Nonmajor Enterprise	--	28,824	28,824
Internal Service	--	37,846	37,846
Fiduciary	--	78,794	78,794
Total	$ 486	$ 781,869	$ 782,355

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, 2003 by individual fund were as follows (in thousands):

	Advances to Other Funds (asset):		
	Nonmajor Governmental	Internal Service	Total
Advances from Other Funds (liability):			
Nonmajor Governmental	$ 1,350	$ 2,984	$ 4,334
University of Wisconsin System	500	--	500
Total	$ 1,850	$ 2,984	$ 4,834

E. Interfund Transfers

Interfund Transfers in and out that occurred during Fiscal Year 2003 were as follows (in thousands):

	Transfers in:							
	General	Transportation	Nonmajor Governmental	Environmental Improvement	University of Wisconsin System	Nonmajor Enterprise	Internal Service	Total
Transfers out:								
General	$ -	$ 9	$ 692,094	$ -	$ 988,692	$ 57,391	$ 8,613	$ 1,746,799
Transportation	16,342	-	22,829	-	-	-	-	39,171
Tobacco Settlement Endowment	287,147	-	-	-	-	-	-	287,147
Nonmajor Governmental	61,426	102	25,302	32,800	113,852	11,149	1,440	246,071
Patients Compensation	9	-	-	-	-	-	-	9
Environmental Improvement	69	-	6,000	-	-	-	-	6,069
Veterans Mortgage Loan Repayment	286	-	-	-	-	-	-	286
University of Wisconsin System	38,598	6	500	-	-	-	-	39,104
Nonmajor Enterprise	40,221	-	10	-	-	84	23	40,338
Internal Service	26,841	-	356	-	5	-	892	28,095
Fiduciary	9	-	16,000	-	-	-	-	16,009
Capital Assets Transferred From Proprietary Funds To Governmental Funds	-	-	-	-	-	-	(731)	(731)
Total	$ 470,947	$ 118	$ 763,092	$ 32,800	$ 1,102,549	$ 68,624	$ 10,237	$ 2,448,367

Transfers are typically used to move: (1) revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, (3) unrestricted revenues collected in one fund to finance various programs accounted for in other funds in accordance with statute or budgetary authorizations, and (4) accumulated surpluses from other funds to the General Fund when authorized by statute.

In the fiscal year ended June 30, 2003, transfers considered non-routine or inconsistent with the fund making the transfer included the following (in thousands):

Funds Reporting the Transfer	Amount
Amounts transferred to the General Fund from other funds to address revenue shortfalls:	
Transportation	$ 12,382
Utility Public Benefits	8,366
Environmental	11,346
Recycling	9,120
Universal Service	3,639
Technology Services	11,330
Facilities Operations and Maintenance	6,942
Other funds	8,868
Amounts transferred to the General Fund from other funds in lieu of contributions for accumulated unused sick leave credits:	
Transportation	3,475
Conservation	1,247
University of Wisconsin System	28,867
Other funds	4,980
Tobacco Settlement Endowment Fund transfer to fund a portion of the shared revenue program in the General Fund	287,147

NOTE 10. CHANGES IN LONG-TERM LIABILITIES

During the year ended June 30, 2003, the following changes occurred in long-term liabilities (in thousands):

Primary Government

Governmental Activities	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Amounts Due Within One Year
Bonds and Notes Payable:					
General Obligation Bonds	$ 2,963,410	$ 352,586	$ 225,121	$ 3,090,875	$ 222,754
Revenue Bonds	1,165,061	211,724	51,199	1,325,586	60,584
Total Bonds and Notes Payable	4,128,471	564,310	276,320	4,416,461	283,339
Other Liabilities:					
Future Benefits and Loss Liability	111,821	30,509	24,065	118,265	23,475
Capital Leases	33,011	20,117	12,814	40,315	12,482
Installment Contracts	1,249	4,141	1,737	3,653	1,170
Compensated Absences	91,008	53,911	40,974	103,945	42,622
Employer Pension Related Debt Costs	707,003	54,005	38,761	722,248	39,000
Claims, Judgments and Commitments	1,972	202	-	2,174	-
Total Governmental Activities Long-term Liabilities	$ 5,074,536	$ 727,195	$ 394,670	$ 5,407,061	$ 402,087

Repayment of the general obligation bonds is made from the Bond Security and Redemption Fund. The amount presented in this fund represents the liability to be paid from resources accumulated to provide debt service payments in Fiscal Year 2003. Repayment of the revenue bonds principal and interest is made from the appropriate debt service fund with payments secured by registration and inspection fees collected by the appropriate program. The compensated absences liability will be liquidated by the State's governmental and internal service funds. Long-term liabilities for employer pension costs, and claims, judgments and commitments are generally liquidated with resources of the governmental activities.

Business-type Activities	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Amounts Due Within One Year
Bonds and Notes Payable:					
General Obligation Bonds	$ 993,335	$ 103,587	$ 183,470	$ 913,452	$ 129,784
Revenue Bonds	659,451	85,575	121,608	623,418	37,545
Total Bonds and Notes Payable	1,652,786	189,162	305,078	1,536,870	167,329
Other Liabilities:					
Future Benefits and Loss Liability	1,077,468	215,262	125,330	1,167,400	147,322
Capital Leases	37,779	3,287	150	40,916	4,515
Compensated Absences	77,416	53,648	45,422	85,642	47,449
Total Business-type Activities Long-term Liabilities	$ 2,845,449	$ 461,359	$ 475,980	$ 2,830,828	$ 366,615

Component Units

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Amounts Due Within One Year
Bonds and Notes Payable:					
Revenue Bonds	$ 3,995,969	$ 954,528	$ 1,137,968	$ 3,812,529	$ 78,626
Future Benefits and Loss Liability	67,212	--	15,532	51,680	6,000
Capital Leases	25,772	--	2,845	22,927	2,967
Compensated Absences	3,177	1,044	--	4,221	--
Total Component Units Long-term Liabilities	$ 4,092,129	$ 955,572	$ 1,156,345	$ 3,891,357	$ 87,593

NOTE 11. BONDS, NOTES AND OTHER DEBT OBLIGATIONS

The following schedule summarizes outstanding long-term bonds and notes payable at June 30, 2003 (in thousands):

Primary Government	
Governmental Activities:	
General Obligation Bonds	$ 3,090,875
Revenue Bonds:	
Transportation	1,137,467
Petroleum Inspection	188,119
Total Governmental Activities	4,416,461
Business-Type Activities:	
General Obligation Bonds:	
Veterans Mortgage Loan Repayment	580,375
University of Wisconsin System	291,128
Other Business-Type	41,949
Revenue Bonds:	
Environmental Improvement	623,418
Total Business-Type Activities	1,536,870
Total Primary Government	5,953,331
Component Units	
Wisconsin Housing and Economic Development Authority Revenue	2,069,675
University of Wisconsin Hospitals And Clinics Authority Revenue Bonds	175,628
Badger Tobacco Asset Securitization Corporation	1,567,226
Total Component Units	3,812,529
Total at June 30, 2003	$ 9,765,860

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.

At June 30, 2003, $2,610.7 million of general obligation bonds were authorized but unissued.

General obligation bonds issued and outstanding as of June 30, 2003 were as follows (in thousands):

Fiscal Year Issued	Series	Dates	Interest Rates	Maturity Through	Amount Issued	Amount Outstanding
1990	1990 Series D	5/90	6.9 to 7.0	5/10	$ 65,859	$ 23,844
1991	1991 Series B and I	5/91; 6/91	5.25 to 9.6	1/21	202,136	79,294
1992	1992 Series B and Refunding Issue	6/92; 3/92	6.0 to 6.6	1/22	478,935	192,865
1993	1992 2	11/92				
	1993 1, 2 and A and H; 1993 AC	1/93; 3/93; 5/93; 1/93	4.5 to 6.0	5/15	552,890	289,540
1994	1993 Refunding Issues	8/93; 12/93; 12/93;				
	3, 4, 5, 6; 1994 Refunding	10/93; 3/94;				
	Issue 2; and 1994 Series A					
	and B; 1994 AC 1	1/94; 6/94; 1/94	4.4 to 7.18	5/24	838,215	355,834
1995	1994 Series 3 and C;	9/94; 9/94				
	1995 Series A & B, and 1	1/95; 2/95; 2/95	5.4 to 7.0	5/25	336,715	41,415
1996	1995 Series 2 and C;	10/95; 9/95;				
	1996 Series 1, B; 1995 AC	2/96; 1/96; 5/96; 8/95				
	and Note 995B	and 7/95	4.7 to 7.64	11/26	453,537	238,959
1997	1996 C and D;	9/96; 10/96;				
	1997 1 and A; 1996 AC; 1997 AC	3/97; 3/97; 8/96; 3/97	5.0 to 7.81	5/28	200,230	62,974
1998	1997 B, C and D;	7/97; 9/97; 10/97; 2/98	4.5 to 7.81	11/28	421,765	304,787
	1998 A, B and C; 1997 AC 2					
	and 1998 AC	9/97; 3/98; 5/98; 5/98				
1999	1998 Series 1, 2, D, E and F;	8/98; 9/98; 9/98; 10/98	4.0 to 7.25	11/30	590,675	488,885
	1999 Series 1, A and B	10/98; 2/99; 5/99; 5/99				
2000	1999 C and D; 2000 A; 1999 AC	10/99; 11/99; 3/00;	5.0 to 8.0	11/30	320,000	197,980
		12/99				
2001	2000 Series B, C, D, E; and	7/00;7/00;11/00;11/00	4.5 to 8.05	11/31	556,710	443,100
	2001 Series A, B, C and D,	2/01; 4/01; 6/01; 6/01;				
	2000 AC; 2001 AC	11/00; 4/01				
2002	2001 Series 1, E, F and F1; and	10/01; 10/01; 10/01;	3.5 to 6.96	5/33	824,545	817,720
	2002 Series 1, A, B, C, and D;	10/01; 3/02; 3/02;				
	2001 BC	3/02; 6/02; 6/02; 12/01				
2003	2002 Series E, F, G and H;	9/02; 9/02; 10/02; 12/02	2.45 to 6.00	5/33	415,190	415,190
	2003 Series 1, 2, and A	4/03; 4/03; 5/03				
Total					6,257,402	3,952,387
Premiums/Discounts					--	60,164
Deferred Amount on Refunding					--	(8,224)
Total General Obligation Bonds and Notes					$ 6,257,402	$ 4,004,327

As of June 30, 2003, general obligation bond debt service requirements for principal and interest for governmental activities and business - type activities are as follows (in thousands):

Fiscal Year	Governmental Activities		Business-Type Activities	
Ended June 30	Principal	Interest	Principal	Interest
2004	$ 217,688	$ 161,541	$ 42,524	$ 51,612
2005	211,725	149,300	44,513	49,064
2006	210,554	136,864	45,187	46,916
2007	208,195	125,475	41,221	44,538
2008	206,696	114,022	33,092	42,606
2009-2013	932,462	412,749	188,239	184,578
2014-2018	685,782	198,561	196,759	130,260
2019-2023	366,508	44,616	155,457	79,212
2024-2028	--	--	113,810	36,609
2029-2033	--	--	51,975	6,989
Total	3,039,610	1,343,128	912,777	672,384
Premiums/Discounts	54,365	--	5,799	--
Deferred Amount on Refunding	(3,100)	--	(5,124)	--
Total	$ 3,090,875	$ 1,343,128	$ 913,452	$ 672,384

Zero Coupon Bonds

The general obligation bonds of 1990, Series D (Higher Education Series), are zero coupon bonds recorded in the amount of $23.8 million which is the accreted value at June 30, 2003. The bonds mature on May 1 through the year 2010.

The general obligation bonds of 1991, Series B, are zero coupon bonds recorded in the amount of $44.4 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 $2,095.6 million of revenue bonds. Presently, there are eleven issues of Transportation Revenue Bonds totaling $1,113.1 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, 2003 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2002A	10/02	3.0 to 5.0	7/23	$ 200,000	$ 200,000
20022	4/02	3.0 to 5.5	7/22	68,930	68,930
20021	4/02	4.5 to 5.75	7/19	241,865	241,865
2001A	11/01	3.0 to 5.0	7/22	140,000	140,000
2000A	9/00	5.3 to 5.5	7/21	93,100	93,100
1998A&B	8&10/98	4.0 to 5.5	7/19	229,545	212,225
1996A	5/96	5.0 to 6.0	7/08	54,630	31,115
1995A	9/95	4.8 to 6.25	7/07	49,495	24,095
1994A	7/94	5.3 to 7.5	7/05	41,845	13,735
1993A	9/93	4.4 to 5.0	7/12	116,450	88,055
				1,235,860	1,113,120
Unamortized Premium					24,347
Total				$ 1,235,860	$ 1,137,467

Petroleum Inspection Fee Revenue Bonds

Petroleum Inspection Fee (PIF) Revenue Bonds are issued to finance claims made under the Petroleum Environmental Cleanup Fund Award (PECFA) Program for reimbursement of cleanup costs to soil and groundwater contamination. The program reimburses owners for 75 percent to 99 percent of cleanup costs associated with soil and groundwater contamination.

Presently, there are two issues of PIF Bonds outstanding totaling $188.1 million. Debt service payments are secured by petroleum inspection fees.

The PIF revenue bonds issued and outstanding as of June 30, 2003 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2001A	12/01	5.0	7/08	$ 30,000	$ 30,000
2000A	3/00	5.25 to 6.0	7/12	170,250	157,060
				200,250	187,060
Unamortized Premium				--	1,059
Total				$ 200,250	$ 188,119

Clean Water Revenue Bonds

The Environmental Improvement Fund (the Fund) provides loans and grants to local municipalities to finance wastewater treatment planning and construction. The Fund is authorized to issue up to $1,616.0 million in Revenue Bonds. At June 30, 2003, there were eleven issues of Revenue Bonds outstanding totaling $623.4 million. These bonds are secured by payments on program loans and earnings of investments.

Bonds issued and outstanding for the Fund as of June 30, 2003 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2002-2	8/02	3.0 to 5.5	6/26	$ 85,575	$ 84,580
2002-1	5/01	4.0 to 5.25	6/23	100,000	97,250
2001-1	4/01	4.5 to 5.0	6/21	70,000	65,300
1999-1	9/99	5.0 to 5.75	6/20	80,000	53,570
1998-2	8/99	4.0 to 5.5	6/17	104,360	90,400
1998-1	1/98	4.0 to 5.0	6/18	90,000	69,335
1997-1	2/97	4.5 to 6.0	6/17	80,000	14,205
1995-1	7/95	4.0 to 6.25	6/15	80,000	8,475
1993-2	9/93	2.75 to 6.25	6/08	81,950	75,440
1993-1	9/93	3.6 to 5.3	6/13	84,345	4,480
1991-1	4/91	5.4 to 6.9	6/11	225,000	57,445
				1,081,230	620,480
Unamortized Premium					15,332
Less: Unamortized discount and charge					(12,394)
Total, net of discount, charge and premium				$ 1,081,230	$ 623,418

As of June 30, 2003, revenue bond debt service requirements for principal and interest for governmental activities and business-type activities are as follows (in thousands):

	Governmental Activities				Business-Type Activities	
	Transportation Revenue Bonds		Petroleum Inspection Fee Revenue Bonds		Clean Water Revenue Bonds	
Fiscal Year Ended June 30	Principal	Interest	Principal	Interest	Principal	Interest
2004	$ 46,870	$ 45,856	$ 12,070	$ 10,139	$ 37,545	$ 32,986
2005	57,885	52,647	12,735	9,425	39,340	31,163
2006	60,760	49,869	13,495	8,638	41,255	29,182
2007	63,345	46,978	14,305	7,830	43,455	26,928
2008	66,045	43,917	30,115	6,617	45,765	24,572
2009-2013	292,525	173,637	104,340	13,698	219,555	83,542
2014-2018	280,670	97,214	--	--	132,845	35,656
2019-2023	229,735	31,028	--	--	60,720	7,874
2024-2028	15,285	363	--	--	--	--
Total	1,113,120	541,509	187,060	56,347	620,480	271,903
Unamortized Premium	24,347	--	1,059	--	15,332	--
Unamortized Discount/Charge	--	--	--	--	(12,394)	--
Total, net	$ 1,137,467	$ 541,509	$ 188,119	$ 56,347	$ 623,418	$ 271,903

Component Units

Wisconsin Housing and Economic Development Authority

Bonds and notes payable at June 30, 2003 of the Wisconsin Housing and Economic Development Authority (Authority) consisted of the following (in thousands):

Revenue bonds and notes	$ 1,696,226
Special obligation and subordinated Special obligation	379,695
Total	2,075,921
Less: Deferred amount on refunding	(6,246)
Total, net	$ 2,069,675

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 and at prices ranging from 100 percent to 103 percent of par value. Any particular series contains both term bonds and serial bonds which mature at various dates.

The Authority's revenue bonds and notes outstanding at June 30, 2003 consisted of the following (in thousands):

Series/ Issue	Date	Rates	Maturity Through	Outstanding
Housing Revenue Bonds:				
1992 A	1/92	6.4 to 6.85	2012	$ 9,670
1993 A&B	10/93	4.0 to 5.65	2023	52,670
1993 C	12/93	5.1 to 5.875	2019	104,130
1995 A&B	7/95	5.45 to 6.5	2026	40,720
1998 A,B&C	2/98	4.4 to 6.88	2032	36,140
1999 A&B	10/99	4.55 to 6.18	2031	39,055
2000 A&B	9/00	Variable	2032	10,585
2002 A, B&C	5/02	3.2 to 5.6	2033	110,135
2002 D, E&G	5/02	Variable	2034	15,850
2002 F	5/02	Variable	2033	10,430
2002 H	5/02	4.68	2033	25,520
2002 I	5/02	Variable	2033	7,005
				461,910
Home Ownership Revenue Bonds:				
1987 B&C	8/87	7.375	2015	555
1994 A&B	4/94	5.7 to 6.45	2017	19,860
1995 A&B	1/95	5.4 to 7.1	2025	10,385
1995 C,D&E	5/95	5.45 to 7.45	2026	29,100
1995 F,G&H	9/95	5.25 to 7.2	2017	11,785
1996 A&B	3/96	5.2 to 6.15	2027	29,720
1996 C&D	7/96	4.5 to 6.45	2027	25,555
1996 E&F	11/96	5.0 to 6.1	2026	20,330
1997 A,B&C	4/97	5.1 to 7.11	2028	28,975
1997 D&E	6/97	4.85 to 6.0	2028	42,500
1997 G,H&I	11/97	4.75 to 5.75	2028	33,860
1998 A,B&C	4/98	4.75 to 5.6	2028	67,355
1998 D&E	6/98	4.45 to 6.04	2028	67,545
1999 C &D	4/99	4.0 to 7.29	2029	52,825
1999 A&B	8/99	5.3 to 5.5	2021	52,420
1999 F&G	7/99	4.3 to 7.07	2030	44,825
2000 A,B&C	3/00	5.1 to 8.57	2030	25,955
2000 D&E	9/00	5.15 to 7.91	2031	31,070
2000 F	7/00	Variable	2015	11,645
2000 G	11/00	4.75 to 7.21	2031	15,710
2000 H	11/00	Variable	2024	19,500
2001 A,B,C & D	5/01	3.95 to 6.4 & Variable	2032	62,445
2002 A&C	2/02	3.5 to 5.5	2032	76,610
2002 B	2/02	5.88	2032	19,515
2002 C	2/02	3.69	2016	14,945
2002 D	2/02	2.91	2022	9,965
2002 E,G&H	3/03	2.2 to 5.25	2022	128,445
2002 I	10/02	Variable	2032	85,000
2002 F	7/02	Variable	2032	22,980
2002 J	10/02	Variable	2032	9,980
2003 A	4/03	1.3 to 4.95	2033	110,000
				1,181,360
Business Development Bonds:				
1989 3&28	Various	4.4 to 5.2	2014	2,045
1991 4,6	Various	3.75 to 5.5	2006	1,925
1994 1,4	Various	Variable	2014	2,305
1995 1-2,4-9	Various	Variable	2015	10,875
				17,150
Notes Payable	Various	Variable	2021	35,806
Authority's Total Revenue Bonds and Notes				$ 1,696,226

(Continued)

Authority's Special Obligation Bonds

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

Special obligation bonds at June 30, 2003 consist of the following (in thousands):

Series/ Issue	Date	Rates	Maturity Through	Outstanding
Home Ownership Revenue Bonds:				
1993 A	6/92	5.6 to 6.5	2025	$ 37,155
1994 C&D	8/94	5.625 to 6.3	2014	12,955
1998 F&G	10/98	4.1 to 6.7	2029	62,250
				112,360
Single Family Drawdown Revenue Bonds:				
2001-1	11/01	Variable	2004	206,000
2003-1	4/03	Variable	2006	61,335
				267,335
Total Special Obligation Bonds				$ 379,695

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, 2003, the Authority had issued 142 series of such bonds in an aggregate principal amount of $82.6 million for economic projects in Wisconsin.

The Authority has entered into various interest rate swap agreements. The agreements provide the Authority with synthetic fixed interest rates on a portion of its debt. During the term of the swap agreements, the Authority expects to effectively pay a fixed rate on the debt. In return, the counterparty pays interest based on a contractually agreed upon variable rate. The Authority will be exposed to variable rates on the outstanding bonds if the counterparty to the swap defaults, the swap is terminated or the effective interest rate, determined by the Remarketing Agent used for Bond Holder payments, increases over the variable rate index used for calculating the interest received from the counterparty. All interest rate swap agreements at June 30, 2003 are classified as effective. The Authority does not intend to terminate these agreements prior to their maturity.

The following table outlines information related to agreements in place as of June 30, 2003 (in thousands):

Program and Bond Issue	Notional Value at 6/30/03	Effective Date	Swap Termination Date	Credit Rating	Percent Fixed Rate Paid	Variable Rate/Index Received	Swap Termination Market Value at 6/30/03
Housing Revenue Bonds							
2002 Series H	$ 25,520	5/21/2002	11/1/2033	AAA	4.68	70% of one month London Interbank Offered Rate (LIBOR)	$ (3,123)
							(3,123)
1987 Home Ownership Revenue Bonds							
2002 Series B	19,515	2/6/2002	3/1/2020	AAA	5.88	One month LIBOR + 35 basis points	(2,071)
2002 Series C	14,945	2/6/2002	9/1/2012	AAA	3.69	67 percent of one month LIBOR	(1,340
2002 Series D	9,965	2/6/2002	9/1/2006	AAA	2.91	70 percent of one month LIBOR	(262)
2002 Series I	8,250	10/17/2002	3/1/2008	AA+	2.33	70 percent of one month LIBOR	(245)
2002 Series I	35,020	10/17/2002	9/1/2032	AA+	4.07	70 percent of one month LIBOR	(2,714)
2002 Series J	9,980	10/17/2002	9/1/2006	AA+	3.13	One month LIBOR + 40 basis points	(214)
							(6,846)
1988 Home Ownership Revenue Bonds							
2002 Series E	22,370	7/11/2002	3/1/2011	AAA	3.24	70 percent of one month LIBOR	(1,168)
2002 Series E	23,890	7/11/2002	9/1/2032	AAA	4.67	70 percent of one month LIBOR	(2,042)
2002 Series F	22,890	7/11/2002	9/1/2014	AAA	5.20	Three months LIBOR + 40 basis	(1,746)
2003 Series A	25,000	4/3/2003	9/1/2014	AAA	2.98	65 percent one month LIBOR + 25 basis points	(832)
2003 Series A	31,375	4/3/2003	9/1/2030	AAA	4.26	65 percent one month LIBOR + 25 basis points	(1,287)
2003 Series A	17,920	4/3/2003	9/1/2033	AAA	4.17	65 percent one month LIBOR + 25 basis points	(867)
							(7,942)
							$ (17,911)

The commercial paper obligations are issued for terms of one to 270 days. These obligations bear interest at various rates, which ranged from .95%-1.30% and 1.50%-1.65% at June 30, 2003 and June 30, 2002 respectively. The obligations are backed by a line of credit agreement which is renewable annually and bears interest at variable rates, based on an index defined in the agreement. The line of credit agreements used for temporary mortgage financing, one of which is renewable annually, bear interest based on the 30 day LIBOR rate. The three agreements bear interest at the rates of 1.800%, 2.210% and 1.625% at June 30, 2003.

University of Wisconsin Hospitals and Clinics Authority

In April 1997, the University of Wisconsin Hospitals and Clinics Authority (the Hospital) issued $50.0 million of Variable Rate Demand Hospital Revenue Bonds, Series 1997. The bond proceeds are designated to finance qualified capital projects. Principal payments on the Series 1997 Bonds are due annually commencing in April 2010 through April 2026. Interest is payable monthly. The effective annual estimated interest rate was 1.3 percent in 2003.

In March 2000, the Hospital issued $56.5 million of Hospital Revenue Bonds Series 2000. The bond proceeds are designated to finance qualified capital projects. Principal payments are due annually commencing in April 2007 through April 2029. Interest rates range from 5.35 percent to 6.20 percent and interest is payable semiannually on April 1 and October 1 each year beginning October 1, 2000.

The Series 1997 Bonds and Series 2000 Bonds are collateralized by a security interest in substantially all of the Hospital's revenue. The borrowing agreements contain various covenants and restrictions including compliance with the terms and conditions of the lease agreement (Note 1-B) and provisions limiting the amount of additional indebtedness which may be incurred. The borrowing agreements also require the establishment and maintenance of certain funds under the control of a trustee.

In September 2000, the Hospital entered into an interest rate swap in order to effectively change a portion of the Series 2000 Bonds fixed rate interest cash flows to variable rate interest cash flows. The notional amount of this swap agreement was $46.5 million. The terms of the swap agreement are for the Hospital to pay to the counterparty a variable rate and to receive a fixed interest payment from the counterparty. The fair value of $2.9 million at June 30, 2002 is not reflected in the financial statements. The swap agreement was terminated in September 2002. The cancellation resulted in a gain to the Hospital of $4.0 million reflecting additional market value appreciation.

In October 2002, the Hospital issued $68.5 million of Hospital Revenue Bonds, Series 2002 (Series 2002 Bonds) consisting of $55.6 million Series 2002A Short-term Adjustable Securities and $12.9 million Series 2002B Fixed Interest Rate Bonds. The bond proceeds are designated to finance qualified capital projects. Principal payments on the Series 2002A Bonds range from $500 thousand to $3.9 million due annually commencing in April 2013 through 2032. The interest rates and the interest payment dates for the Series 2002A Bonds vary depending on if the bonds are in auction mode, daily mode, weekly mode, or in flexible mode beginning November 29, 2002. Principal payments on the Series 2002B Bonds range from $1.4 million to $1.9 million due annually commencing in April 2006 through April 2013. Interest rates for the Series 2002B Bonds range from 5.25 percent to 5.50 percent and interest is payable semiannually on April 1 and October 1 of each year beginning April 1, 2003. The effective annual interest rate of the Series 2002 A Bonds was 1.19 percent in 2003. The effective annual interest rate of the Series 2002B Bonds was 5.45 percent in 2003.

In October 2002, the Hospital entered into an interest rate swap in order to convert a portion of the Series 2002A Short-term Adjustable Rate Securities to fixed rates. The notional amount of this swap agreement was $21.4 million at June 30, 2003, which matures on April 1, 2022. The terms of the swap agreement are for the Hospital to pay the counterparty a fixed rate of 3.85 percent per annum, payable semiannually, and the Hospital to receive a floating rate of 70 percent of one-month LIBOR per annum, payable monthly. As of June 30, 2003, the interest rate received by the Hospital was 0.92 percent. The Hospital will be exposed to variable rates if the counterparty to the swap defaults or if the swap is terminated. The swap exposes the Hospital to basis risk should the relationship between LIBOR and auction rate converge, changing the synthetic rate on the bonds. The Hospital does not intend to terminate this agreement. As of June 30, 2003, the Hospital was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Hospital would be exposed to credit risk in the amount of the swap's fair value.

The Hospital is limited to total borrowings, exclusive of amounts payable to the primary government, to $175.0 million, with limited exceptions.

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

Badger Tobacco Asset Securitization Corporation

In May 2002, the Badger Tobacco Asset Securitization Corporation issued $1.6 billion of bonds for the purpose of making a one-time purchase of Tobacco Settlement Revenue (TSRs) from the State. Interest on the bonds is due June 1 and December 1, commencing December 1, 2002. See Note 1-B for additional discussion.

As of June 30, 2003, debt service requirements for principal and interest for component units at May 31 or June 30, 2003 are as follows (in thousands):

	Component Units					
	Wisconsin Housing and Economic Development Authority Bonds		University of Wisconsin Hospitals and Clinics Authority Bonds		Badger Tobacco Asset Securitization Corporation	
Fiscal Year Ended	Principal	Interest	Principal	Interest	Principal	Interest
2004	$ 78,626	$ 84,788	$ --	$ 9,614	$ --	$ 148,634
2005	267,865	79,045	--	5,185	--	97,643
2006	131,780	75,321	1,385	5,186	12,210	97,308
2007	65,650	71,646	2,035	5,114	12,315	96,603
2008	68,945	68,458	2,480	5,007	12,485	95,966
2009-2013	363,265	294,113	18,530	22,674	166,665	456,698
2014-2018	354,515	208,371	33,135	18,514	209,260	403,156
2019-2023	278,290	132,914	42,235	14,352	258,810	333,536
2024-2028	293,890	68,060	52,010	9,271	404,880	233,486
2029-2033	171,515	23,542	23,190	921	514,470	77,171
2034	1,580	1,421			--	--
Total	2,075,920	1,107,680	175,000	95,838	1,591,095	2,040,201
Unamortized Premium/Discount	--	--	628	--	(23,869)	--
Deferred Amount on Refunding	(6,245)	--	--	--	--	--
Total	$2,069,675	$ 1,107,680	$ 175,628	$ 95,838	$1,567,226	$ 2,040,201

C. Refundings and Early Extinguishments

Refunding Provisions of GASB Statement No. 23

The State implemented the provisions of GASB Statement No. 23. *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities* beginning with 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 fell 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.

Current Year Refundings/General Obligation Bonds

In April 2003, the State issued $7.0 million of general obligation refunding bonds (2003 Series 1), the proceeds of which were used to refund the outstanding 1992 Series B bonds. As a result of the refunding, the bonds are considered defeased and the associated liability removed from the financial statements. The refunding resulted in a decrease in total debt service payments by $2.4 million and an economic gain of $.3 million.

In April 2003, the State issued $13.7 million of general obligation refunding bonds (2003 Series 2), the proceeds of which were used to replacement refund principal due on certain general obligation bonds previously issued to fund veterans housing loans. The refunding resulted in an increase in total debt service payments by $(8.7) million with an economic gain of $4.0 million.

Prior Year Refundings/General Obligation Bonds

Government Accounting Standards Board Statement No. 7 *Advance Refundings Resulting in Defeasance of Debt*, provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. At June 30, 2003, approximately $504.2 million of general obligation bond principal have been defeased.

Prior Year Refundings/Revenue Bonds

For financial reporting purposes, the following primary government revenue bonds have been defeased, and therefore, removed as a liability from the balance sheet:

- Environmental Improvement Fund revenue bonds – At June 30, 2003, revenue bonds outstanding of $86.1 million have been defeased.
- Transportation revenue bonds – At June 30, 2003, revenue bonds outstanding of $233.3 million have been defeased.

In addition, the Wisconsin Housing and Economic Development Authority (the Authority), a proprietary component unit, 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, 2003, the remaining outstanding defeased debt was $32.1 million.

Early Extinguishments

Component Units

Wisconsin Housing and Economic Development Authority

During 2003, 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 2003
Home Ownership Revenue Bond Resolutions:	
1987	$ 152,630
1988	277,300
All Other	223,230
Housing Revenue Bonds	105,425
General funds	175

D. Short-Term Financing

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

General Obligation Commercial Paper Notes

The State has authorized General Obligation Commercial Paper Notes for the acquisition, construction, development, extension, enlargement, or improvement of land, waters, property, highway, buildings, equipment or facilities. As of June 30, 2003, the State issued $166.7 million of general obligation commercial paper notes. Periodically, additional commercial paper notes are issued to pay for maturing commercial paper notes.

The State intends to make annual May 1 payments on the outstanding commercial paper notes that reflect principal amortization of the notes. The State also intends to make regular payments to the issuing and paying agent that will be equal to the interest due on maturing notes. At June 30, 2003, the amount of commercial paper notes outstanding was $77.1 million which had interest rates ranging from .90 percent to 1.07 percent and maturities ranging from July 1, 2003 to September 10, 2003.

Short term debt activity for the year ended June 30, 2003 for the general obligation commercial paper notes was as follows (in millions):

Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003
$ 79.1	$ --	$ 2.0	$ 77.1

General Obligation Extendible Municipal Commercial Paper

The State has authorized general obligation extendible municipal commercial paper for the acquisition, construction, development, extension, enlargement, or improvement of land, waters, property, highway, buildings, equipment or facilities. As of June 30, 2003, the State issued $340.5 million of general obligation extendible municipal commercial paper. Periodically, additional extendible municipal commercial papers are issued to pay for maturing extendible municipal commercial paper. The State intends to make annual May 1 payments on the outstanding extendible commercial paper that reflect principal amortization of the paper. The State also intends to make regular payments to the issuing and paying agent that will be equal to the upcoming interest due on maturing notes. At June 30, 2003, the amount of extendible municipal commercial paper outstanding was $239.9 million which had interest rates ranging from 0.9 percent to 1.10 percent and maturities ranging from July 1, 2003, to August 14, 2003.

Short term debt activity for the year ended June 30, 2003 for the general obligation extendible municipal commercial paper was as follows (in millions):

Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003
$ 265.9	$ --	$ 26.0	$ 239.9

Petroleum Inspection Fee Revenue Extendible Municipal Commercial Paper

The State has authorized petroleum inspection fee revenue extendible municipal commercial paper to pay the costs of claims under the Petroleum Environmental Cleanup Fund Award (PECFA) Program. As of June 30, 2003, the State issued $142.3 million of petroleum inspection fee revenue extendible municipal commercial paper. Periodically, additional extendible municipal commercial paper is issued to pay for maturing paper. The State may periodically deposit money into the Junior Subordinate Principal Account, which represents principal payments to be made on the extendible municipal commercial paper. The State also intends to make regular payments to the issuing and paying agent that will be equal to the upcoming interest due on maturing paper. At June 30, 2003, the amount of extendible commercial paper outstanding was $142.3 million which had interest rates ranging from 0.9 percent to 1.12 percent and maturities ranging from July 1, 2003 to August 4, 2003.

Short term debt activity for the year ended June 30, 2003 for the petroleum inspection fee revenue extendible municipal commercial paper was as follows (in millions):

Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003
$ 80.0	$ 62.3	$ --	$ 142.3

Transportation Revenue Commercial Paper Notes

The State authorized transportation revenue commercial paper notes to pay the costs of major highway projects and certain State transportation facilities. As of June 30, 2003, the State issued $157.8 million of transportation revenue commercial paper notes. Periodically, additional commercial paper notes are issued to pay for maturing commercial paper notes. The State intends to make annual July 1 payments on the commercial paper notes that reflect principal amortization of the notes. The State also intends to make regular payments to the issuing and paying agent that will be equal to the upcoming interest due on maturing notes. At June 30, 2003, the amount of commercial paper notes outstanding was $131.4 million which had interest rates ranging from 1.0 percent to 1.10 percent and maturities ranging from July 7, 2003 to January 22, 2004.

Short term debt activity for the year ended June 30, 2003 for the transportation revenue commercial paper notes was as follows (in millions):

Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003
$ 136.7	$ --	$ 5.3	$ 131.4

E. Certificates of Participation

The State established a facility in 1992 that provides lease purchase financing for property and certain service items acquired by State agencies. This facility is the Third Amended and Restated Master Lease 1992-1. Pursuant to the terms and conditions of this agreement, the trustee for the facility issues parity Master Lease certificates of participation that evidence proportionate interest of the owners thereof in lease payments. A common pool of collateral ratably secures all Master Lease certificates. Title in the property and service items purchased under the facility remains with the State and the State grants to the Trustee, for the benefit of all Master Lease certificate holders, a first security interest in the leased items. At June 30, 2003, the following parity Master Lease certificates were outstanding:

- Master Lease Certificates of Participation of 1996, Series B, in the amount of $.05 million. This series of Master Lease certificates had an interest rate of 4.9 percent and matures through September 1, 2003.

- Master Lease Certificates of Participation of 1999, Series A, in the amount of $2.4 million. This series of Master Lease certificates have interest rates ranging from 3.7 percent to 3.9 percent and mature semi-annually through March 1, 2005.

- Master Lease Certificates of Participation of 1999, Series B (Taxable), in the amount of $5.7 million. This series of Master Lease certificates have interest rates ranging from 5.5 percent to 5.6 percent and mature semi-annually through September 1, 2005.

- Master Lease Certificates of Participation of 2000, Series A, in the amount of $10.3 million. This series of Master Lease certificates have interest rates ranging from 4.5 percent to 4.75 percent and mature semi-annually through September 1, 2007.

- Master Lease Certificates of Participation of 2000, Series B (Taxable), in the amount of $6.1 million. This series of Master Lease certificates have interest rates ranging from 6.85 percent to 7.0 percent and mature semi-annually through September 1, 2005.

- Master Lease Certificates of Participation of 2002, Series A, in the amount of $35.3 million. This series of Master Lease certificates have interest rates ranging from 2.50 percent to 3.75 percent and mature semi-annually through September 1, 2007.

- Master Lease Certificates of Participation of 2002, Series B (Revolving Credit Agreement – Taxable) in the amount of $60.0 million. This Master Lease certificate evidences the State's obligation to repay revolving loans under a Revolving Credit Agreement, dated July 1, 2002 between U.S. Bank National Association (Trustee) and the Bank of America Leasing and Capital, LLC. This Master Lease certificate shall bear interest at the rates provided for in the Revolving Credit Agreement and matures on September 1, 2017. The balance of this certificate of participation may include some accrued interest that will be payable at the next semi-annual interest payment date.

- Master Lease Certificates of Participation of 2002, Series C (Revolving Credit Agreement – Tax Exempt) in the amount of $19.8 million. This Master Lease certificate evidences the State's obligation to repay tax-exempt revolving loans under a Revolving Credit Agreement, dated July 1, 2002 between U.S. Bank National Association (Trustee) and the Bank of America Leasing & Capital LLC. This Master Lease certificate shall bear interest at the rates provided for in the Revolving Credit Agreement and matures on March 1, 2013. The balance of this certificate of participation may include some accrued interest that will be payable at the next semi-annual interest payment date.

- Master Lease Certificates of Participation of 2002, Series D, in the amount of $27.1 million. This series of Master Lease Certificates have interest rates ranging form 2.0 percent to

5.0 percent and mature semi-annually through September 1, 2007.

- Master Lease Certificates of Participation of 2003, Series A (Revolving Credit Agreement – Taxable). This Master Lease certificate evidences the State's obligation to repay revolving loans under a Revolving Credit Agreement, dated July 1, 2002 between U.S. Bank National Association (Trustee) and the Bank of America Leasing & Capital LLC, as amended to extend the Commitment date to June 30, 2004. This Master Lease certificate shall bear interest at the rates provided for in the Revolving Credit Agreement and matures on March 1, 2019. The balance of this certificate of participation may include some accrued interest that will be payable at the next semi-annual interest payment date.

The Third Amended and Restated Master Lease 1992-1 provides that certain lease schedules to the facility can be terminated if the State deposits with the Trustee an amount that is equal to the outstanding amount of the lease schedule, or in amounts that are sufficient to purchase investments that mature on dates and in amounts to make the lease payments when due. At June 30, 2003, the State has deposited with the Trustee amounts, that when invested, will terminate lease schedules having an aggregate outstanding amount of $4.1 million. As a result of terminating these lease schedules, the associated liability is removed from the financial statements.

F. Arbitrage Rebate

The Tax Reform Act of 1986 requires that governmental entities issuing tax-exempt debt subsequent to August 1986, calculate and rebate arbitrage earnings to the federal government. Specifically, the excess of the aggregated amount earned on investments purchased with bond proceeds over the amount that would have been earned if the proceeds were invested at a rate equal to the bond yield, is to be rebated to the federal government. As of June 30, 2003, no arbitrage rebate liability existed.

G. Moral Obligation Debt

Through legislation enacted in 1994, the State authorized the creation of local exposition districts. These districts (Wisconsin Center District, Southeast Wisconsin Professional Baseball Park District, and the Green Bay/Brown County Professional Football Stadium District) 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, the Wisconsin Center District has issued $125.8 million of bonds that are subject to the moral obligation. The two other local exposition districts each have authority to issue $160.0 million of revenue obligations that, subject to the Secretary of Administration's determination that certain conditions have been met, could carry a moral obligation of the State. Each of these districts have issued revenue obligations that do not carry the moral obligation of the State.

Through legislation enacted in 1999, the State authorized the issuance of up to $170.0 million principal amount of bonds to finance the development or redevelopment of sites and facilities to be used for public schools. If certain conditions are satisfied, and if a special debt service reserve fund is created for the bonds, the State will provide a moral obligation pledge, which would restore the special debt reserve fund established for the bonds to an amount not to exceed the maximum annual debt service on the bonds. One bond issue of $33.3 million has been issued that has a special debt service reserve fund secured by the State's moral obligation.

H. Credit Agreements

Primary Government

The State has, as part of the working bank contract, a letter of credit agreement with the US Bank National Association 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, 2003, $50.0 million was unused and available.

The State has previously entered into a credit agreement to provide a line of credit for liquidity support for up to $85.0 million of general obligation commercial paper notes. The line of credit expires in March, 2004, but is subject to annual renewal as provided for in the credit agreement. The cost of this line of credit is .12 percent per year.

Also, the State has entered into a credit agreement with two banks to provide a line of credit for liquidity support for its transportation revenue commercial paper program. The amount of the line of credit is $140.0 million. This line of credit expires in May, 2004, but is subject to renewal as provided for in the credit agreement. The cost of this line of credit is 0.170 percent per year.

NOTE 12. LEASE COMMITMENTS AND INSTALLMENT PURCHASES

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 as either a capital lease or an operating lease.

A. Capital Leases

Primary Government

Capital lease commitments in the government-wide and proprietary funds statements are reported as liabilities at lease inception. The related assets along with the depreciation are also reported at that time. Lease payments are reported as a reduction of the liability.

For capital leases in governmental funds, "Other Financing Sources - Capital Lease Acquisitions" and expenditures are recorded at lease inception. Lease payments are recorded as expenditures.

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, 2003 for capital leases (in thousands):

Fiscal Year	Governmental Activities	Business-type Activities
2004	$ 14,257	$ 6,360
2005	10,498	5,386
2006	7,774	4,560
2007	4,791	3,949
2008	5,117	24,393
2009 – 2013	2,511	2,323
2014 – 2018	303	991
Total minimum future payments	45,251	47,963
Less: Executory costs	(29)	--
Less: Interest	(4,907)	(7,047)
Present value of net minimum lease payments	$ 40,315	$ 40,916

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 capital assets recorded under capital leases as of June 30, 2003 (in thousands):

	Governmental Activities	Business-type Activities
Land and Land Improvements	$ 376	$ --
Buildings and Improvements	1,060	48,654
Machinery and Equipment	63,418	10,743
Less: Accumulated Depreciation	(15,864)	(8,485)
Carrying Amount	$ 48,991	$ 50,912

Master Lease Program

The State established a facility in 1992 that provides lease purchase financing for property and certain service items acquired by state agencies. This facility is the Third Amended and Restated Master Lease between the State acting by and through the Department of Administration and U.S. Bank National Association. Lease purchase obligations under the Master Lease are not general obligations of the State, but are payable from appropriations of State agencies participating in the Master Lease Program, subject to annual appropriation. The interest component of each lease/purchase payment is subject to a separate determination. Pursuant to terms of the Master Lease, the Trustee for the facility issues parity Master Lease Certificates of Participation that evidence proportionate interest of the owners thereof in lease payments. The outstanding balance as of June 30, 2003 was as follows:

Balance Due	Average Life (Weighted Term)
$127,148,130	3.46196 Years

Component Unit

Under the terms of a lease agreement, the University of Wisconsin Hospitals and Clinics Authority (the Hospital) leases facilities which were occupied by the Hospital as of June, 1996 (see Note 1B to the financial statements). The initial term of the lease is 30 years to be renewed annually with automatic extensions of one additional year on each July 1 until action is taken to stop the extensions. Included in the consideration for the lease is an amount equal to the debt service during the term of the lease agreement on all outstanding bonds issued by the State for the purpose of financing the acquisition, construction or improvement of the leased facilities. Interest rates on the related bonds range from 4.0 percent to 6.26 percent, with final maturities due beginning in April 2000 through April 2022. Scheduled principal and interest payments through April 2022 are $22.9 million.

B. Operating Leases

Operating leases, those leases not recorded as capital leases as required by FASB Statement No. 13, are not recorded in the statement of net assets. 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. Operating lease expenditures/expenses are recognized as incurred or paid over the lease term.

Governmental and business-type activities rental expenses under operating leases for Fiscal Year 2003 were $62.8 million. Of this amount, $62.3 million relates to minimum rental payments stipulated in lease agreements, $510 thousand relates to contingent rentals, and $425 thousand relates to subrental payments.

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

Fiscal Year	Governmental Activities	Business-type Activities	Component Units
2004	$ 43,691	$ 10,499	$ 5,425
2005	34,606	8,382	5,320
2006	26,208	6,413	5,013
2007	20,961	4,521	4,448
2008	18,454	2,949	3,270
Thereafter	44,450	12,585	4,189
Minimum lease payments	$ 188,369	$ 45,349	$ 27,665

C. Installment Purchases

The State has entered into installment purchase agreements. 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, 2003 for installment purchases (in thousands):

Fiscal Year	Governmental Activities
2004	$ 1,282
2005	1,223
2006	810
2007	563
Total minimum future payments	3,878
Less: Interest	(224)
Present value of net minimum installment payments	$ 3,653

NOTE 13. 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 employees. The WRS consists of the fixed retirement investment trust, the variable retirement investment trust, and the police and firefighters trust. Although separated for accounting purposes, the assets of these trust funds can be used to pay benefits for any member of the WRS, and are reported as one pension plan.

The WRS is considered part of the State of Wisconsin's financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information for the year ending December 31, 2001, may be obtained by writing to:

Department of Employee Trust Funds
801 West Badger Road
P.O. Box 7931
Madison, WI 53707-7931.

The separately issued financial reports for the year ended December 31, 2002 will be available in Calendar Year 2004.

Plan Description

The WRS, governed by Chapter 40 of the Wisconsin Statutes, is a cost-sharing multiple-employer defined benefit pension plan. It provides coverage to all eligible State of Wisconsin, local government and other public employees. Any employee of a participating employer who is expected to work at least 600 hours per year for at least one year must be covered by the WRS. As of December 31, 2002, the number of participating employers was:

State Agencies	61
Cities	153
Counties	71
4th Class Cities	34
Villages	219
Towns	192
School Districts	426
Wisconsin Technical College System Board Districts	16
Cooperative Educational Service Agencies	12
Other	175
Total Employers	1,359

For employees beginning participation on or after January 1, 1990 and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 are immediately vested. Employees who retire at or after age 65 (55 for protective occupation employees, 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 a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits. The WRS also provides death and disability benefits for employees.

Accounting Policies and Plan Asset Matters

The financial statements of the WRS have been prepared in accordance with generally accepted accounting principles, using the flow of economic resources measurement focus and a full accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

All assets of the WRS are invested by the State of Wisconsin Investment Board. The retirement fund assets consist of shares in the variable retirement investment trust and the fixed retirement investment trust. The variable retirement investment trust consists primarily of equity securities. The fixed retirement investment trust is a balanced investment fund made up of fixed income securities and equity securities. Shares in the fixed retirement investment trust are purchased as funds are made available from retirement contributions and investment income, and sold when funds for benefit payments and other expenses are needed.

The assets of the fixed and variable retirement investment trusts are carried at fair value with all market value adjustments recognized in current operations. Investments are revalued monthly to current market value. The resulting valuation gains or losses are recognized as income, although revenue has not been realized through a market-place transaction.

The WRS does not have any investments (other than those issued or guaranteed by the U.S. Government) in any one organization that represent 5.0 percent or more of plan net assets.

State Contributions Required and Contributions Made

Covered State employees in the General/Teacher category are required by statute to contribute 5.0% of their salary (3.1% for Executives and Elected Officials, 4.0% for Protective Occupations with Social Security, and 3.0% for Protective Occupations without Social Security) to the plan. Employers may make these contributions to the plan on behalf of employees.

Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits; however, State legislation in 1999 prescribed a $200 million contribution holiday for employers for the first time in the plan's history. State contributions made for the years ended December 31, 2002, 2001 and 2000 were as follows (in millions):

	2002	2001	2000
Employer current service	$ 127.2	$ 122.9	$ 124.7
Percent of payroll	4.3%	4.2%	4.6%
Employer prior service	$ 38.3	$ 15.5	$ 0.4
Percent of payroll	1.3%	0.5%	0.0%
Employee required	$ 145.7	$ 140.9	$ 134.1
Percent of payroll	4.9%	4.9%	4.9%
Benefit adjustment contrib.	$ 5.3	$ 5.1	$ 12.1
Percent of payroll	0.2%	0.2%	0.4%
Percent of Required Contributions	100%	100%	100%

The WRS uses the "Entry Age Normal with Frozen Initial Liability" actuarial method in establishing employer contribution rates. Under this method, the unfunded actuarial accrued liability (UAAL) is generally affected only by the monthly amortization payments, compound interest, the added liability created by new employer units, and any liabilities caused by changes in benefit provisions. The UAAL is being amortized over a 40 year period beginning January 1, 1990. However, periodically, the Employee Trust Funds Board has reviewed and, when appropriate, adjusted the actuarial assumptions used to determine this liability. Changes in the assumptions may affect the UAAL, and the resulting actuarial gains or losses are credited or charged to employers' unfunded liability accounts.

All actuarial gains or losses arising from the difference between actual and assumed experience are reflected in the determination of the normal cost.

As of June 30, 2003 and 2002, the WRS's unfunded actuarial accrued liability was $1.7 billion and $2.0 billion, respectively. These amounts are presented as Prior Service Contributions Receivable on the financial statements. New prior service liabilities resulting from employers entering the WRS or increasing their prior service coverage are recognized as contributions in the year service is granted and are added to the Prior Service Contributions Receivable. Employer contributions for prior service reduce the receivable. The receivable is increased as of calendar year end with interest at the assumed interest rate of 8 percent.

Employer Pension Costs

The State's unfunded liability as of June 30, 2003, was $722.2 million, or 43.8 percent of the total WRS unfunded liability of $1.7 billion. This liability is determined in accordance with the provisions of GASB Statement No. 27. The State's unfunded liability for prior service is recorded in the governmental activities.

NOTE 14. MILWAUKEE RETIREMENT SYSTEM

The Milwaukee Retirement System (MRS), with participation by the City of Milwaukee Retirement System and the Milwaukee Public Schools Retirement System, is reported as an Investment Trust Fund. MRS participants provide assets to the State of Wisconsin, Department of Employee Trust Funds (DETF) for investing in its Fixed Retirement Investment Trust (FRIT) and the Variable Retirement Investment Trust (VRIT), funds of the Wisconsin Retirement System (WRS). Participation of the MRS in the FRIT and VRIT is described in the DETF Administrative Code, Chapter 10.12. The State of Wisconsin Investment Board (SWIB) manages the FRIT and VRIT with oversight by a Board of Trustees as authorized in Wis. Stat. 25.14 and 25.17. SWIB is not registered with the Securities and Exchange Commission as an investment company.

The investments of the FRIT and VRIT consist of a highly diversified portfolio of securities. Wis. Stat. 25.17(3)(a) allow investments in loans, securities and any other investments as authorized by Wis. Stat. 620.22. Permitted classes of investments include bonds of governmental units or of private corporations, loans secured by mortgages, preferred or common stock, real property and other investments not specifically prohibited by statute.

Investments are revalued monthly to fair value, with unrealized gains and losses reflected in income.

Monthly, the DETF distributes a pro-rata share of the total FRIT and VRIT earnings less administrative expenses to the MRS accounts. The MRS accounts are adjusted to fair value and gains/losses are recorded directly in the accounts per DETF Administrative Code, Chapter 10.12(2).

Neither State statute, a legal provision nor a legally binding guarantee exists to support the value of shares.

At June 30, 2003, the FRIT and VRIT held $57,702.7 million of investments of which includes $3,209.5 million of securities lending collateral. The following tables present investments of the FRIT and VRIT at June 30, 2003, categorized in accordance with the level of risk requirements of GASB Statement No. 3 (in millions):

Fixed Retirement Investment Trust:

	Category			Fair
	1	2	3	Value
Fixed Income	$ 9,307.4	$ --	$ --	$ 9,307.4
Stocks	11,633.8	--	--	11,633.8
Repurchase Agreements	182.7	--	--	182.7
Certificates of Deposit	47.6	--	--	47.6
Total	$ 21,171.5	$ --	$ --	21,171.5
Limited Partnerships				2,693.1
Pooled Multi-Asset Fund				285.0
Pooled Equities				18,062.7
Pooled Bonds				5,260.9
Mortgages				726.7
Real Estate Owned				436.6
Custodial Pooled Cash and Equivalents				299.0
Investments Held by Broker Dealers under Securities Loans:				
Fixed Income				1,914.9
Equities				1,038.2
Securities Lending Cash Collateral Pooled Investments				713.6
				$ 52,602.1

Variable Retirement Investment Trust:

	Category			Fair
	1	2	3	Value
Fixed Income	$ 101.8	$ --	$ --	$ 101.8
Stocks	2,286.6	--	--	2,286.6
Repurchase Agreements	9.3	--	--	9.3
Certificates of Deposit	2.4	--	--	2.4
Total	$ 2,400.1	$ --	$ --	2,400.1
Pooled Equities				2,495.6
Pooled Cash and Equivalents				37.1
Investments Held by Broker Dealers under Securities Loans:				
Equities				149.3
Securities Lending Cash Collateral Pooled Investments				36.4
				$ 5,118.5

The following schedule provides summary information by investment classification for the FRIT at June 30, 2003 (in thousands):

Classification	Interest/Coupon Rates	Maturity Dates	Cost	Fair Value
Fixed Income	Variable and 0.1 to 24.0	7/03 to 11/49	$ 13,146,466	$ 14,489,276
Common and Preferred Stock	N/A	N/A	31,621,935	30,734,716
Limited Partnerships	N/A	N/A	2,908,360	2,693,113
Mortgages	6.77 to 12.25	8/04 to 6/22	629,232	726,725
Real Estate Owned	N/A	N/A	334,554	436,628
Multi-Asset	N/A	N/A	250,000	284,967
Total Investments			$ 48,900,548	$ 49,365,425

The following schedule provides summary information by investment classification for the VRIT at June 30, 2003 (in thousands):

Classification	Interest/Coupon Rates	Maturity Dates	Cost	Fair Value
Fixed Income	N/A	10/03	$ 25	$ 25
Common and Preferred Stock	N/A	N/A	5,179,166	4,931,491
Total Investments			$ 5,179,191	$ 4,931,516

Significant financial data for the FRIT and VRIT for the year ended June 30, 2003 is presented below (in thousands):

Fixed Retirement Investment Trust
Condensed Statement of Net Assets
As of June 30, 2003

Assets:	
Cash and Cash Equivalents	$ 890,450
Securities Lending Collateral	3,053,567
Investment Receivables	252,211
Investments, at Fair Value	49,365,425
Other Assets	3,154
Total Assets	53,564,807
Liabilities:	
Securities Lending Collateral Liability	3,053,567
Investment Payables	239,470
Total Liabilities	3,293,037
Net Assets Held in Trust of:	
Internal Investment Pool Participants	50,224,150
Milwaukee Retirement System	47,620
	$ 50,271,770

Fixed Retirement Investment Trust
Condensed Statement of Changes in Net Assets
For the Year Ended June 30, 2003

Additions:	
Net Increase (Decrease) in Fair Value of Investments	$ 1,179,730
Interest	681,870
Dividends	237,524
Securities Lending Income	40,238
Other	98,468
Total Additions	2,237,830
Deductions:	
Investment Expense	145,873
Securities Lending Rebates and Fees	32,011
Net Withdrawals by Pool Participants	1,059,498
Total Deductions	1,237,382
Net Increase (Decrease)	1,000,447
Net Assets Held in Trust for Pool Participants	
Beginning of Year	49,271,323
End of Year	$ 50,271,770

Variable Retirement Investment Trust
Condensed Statement of Net Assets
As of June 30, 2003

Assets:	
Cash and Cash Equivalents	$ 135,753
Securities Lending Collateral	155,904
Investment Receivables	10,567
Investments, at Fair Value	4,931,516
Total Assets	5,233,740
Liabilities:	
Securities Lending Collateral Liability	155,904
Investment Payables	27,327
Total Liabilities	183,231
Net Assets Held in Trust of:	
Internal Investment Pool Participants	5,030,104
Milwaukee Retirement System	20,405
	$ 5,050,509

Variable Retirement Investment Trust
Condensed Statement of Changes in Net Assets
For the Year Ended June 30, 2003

Additions:	
Net Increase (Decrease) in Fair Value of Investments	$ (176,967)
Interest	1,359
Dividends	38,873
Securities Lending Income	1,746
Total Additions	(134,989)
Deductions:	
Investment Expense	10,425
Securities Lending Rebates and Fees	1,029
Net Withdrawals by Pool Participants	269,992
Total Deductions	281,446
Net Increase (Decrease)	(416,435)
Net Assets Held in Trust for Pool Participants	
Beginning of Year	5,466,944
End of Year	$ 5,050,509

NOTE 15. OTHER EMPLOYMENT BENEFITS

In addition to providing pension benefits, the State participates in the Department of Employee Trust Funds administered post retirement life insurance and health insurance benefit programs. The State provides life and health insurance benefits for retired employees in accordance with Chapter 40 of the Wisconsin Statutes.

Post retirement life insurance is provided to employees 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 employee's expense (employee must pay the full premium) until age 65 when reduced coverage is provided at no cost. Employees 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 12,809 State annuitants currently qualify for coverage without premium. Post retirement life insurance is fully insured by an independent insurance carrier. Premiums are prefunded with employer paid premiums during the employee's active career. The amount of premiums is determined by the insurer. The accrued liability and assets specifically related to post employment benefits could not be determined.

In accordance with Chapter 40, Wisconsin Statutes, the State also provides that employees 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 employee's death, that employee's accumulated unused sick leave balance may be converted at the employee's current rate of pay to credits for the payment of health insurance premiums for the employee or the employee'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 employee, or employee's dependents behalf, until the sick leave conversion credits are exhausted. At that time, the employee has the option to continue coverage by paying the total cost of the premiums. Approximately 8,880 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, 4.5 percent assumed annual salary growth, and an average sick leave accumulation of 6.4 days per year for non-University employees and 7.4 days per year for University employees. The assets and reserves of the sick leave conversion program are accounted for in a fiduciary fund. The accrued liability for the post retirement health insurance benefits at December 31, 2002, determined through an actuarial valuation performed on that date, was $1,309.7 million. The program's assets on that date were $773.1 million. The unfunded liability was $536.6 million.

Assets of the life insurance and health insurance benefit programs are valued at fair value.

The State's postemployment life and health insurance required and actual contributions totaled $4.3 million and $45.4 million, respectively, during the calendar year ended December 31, 2002.

NOTE 16. PUBLIC ENTITY RISK POOLS ADMINISTERED BY THE DEPARTMENT OF EMPLOYEE TRUST FUNDS

The Department of Employee 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, 2002.

A. Description of Funds

The Health Insurance Fund offers group health insurance for current and retired employees of the State government and of participating local public employers. All public employers in the State are eligible to participate. Two hundred ninety-seven 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 employees of the State government and of participating local public employers. All public employers in the State are eligible to participate. One hundred thirty-eight 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 employees. Four hundred sixty-six 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 15, 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. Assets of the Income Continuation Insurance, Duty Disability and Long-term Disability Insurance funds are invested in the fixed retirement investment trust. Investments are valued at fair value.

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 duty disability insurance. The liabilities for income continuation, long-term disability, health insurance and duty disability insurance were determined by actuarial methods. The Duty Disability Fund's accounting deficit is being amortized over a twenty-three year period beginning January 1, 2000. Face values are not available.

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 Employee 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 2002 (in millions):

	Health Insurance		Income Continuation Insurance		Duty Disability		Long-term Disability Insurance	
	2002	2001	2002	2001	2002	2001	2002	2001
Unpaid claims at beginning of the calendar year	$ 12.8	$ 14.2	$57.0	$46.4	$318.3	$289.2	$34.3	$29.2
Incurred claims:								
Provision for insured events of the current calendar year	70.5	73.7	17.1	28.9	30.7	35.4	11.7	10.0
Changes in provision for insured events of prior calendar years	(5.4)	(5.3)	(2.8)	(6.2)	(6.6)	13.9	3.0	(1.2)
Total incurred claims	65.1	68.4	14.3	22.7	24.1	49.3	14.7	8.8
Payments:								
Claims and claim adjustment expenses attributable to insured events of the current calendar year	62.5	61.1	3.5	5.5	0.2	0.3	0.0	0.5
Claims and claim adjustment expenses attributable to insured events of prior calendar years	7.3	8.7	9.6	6.6	21.4	19.9	5.2	3.2
Total Payments	69.8	69.8	13.1	12.1	21.6	20.2	5.2	3.7
Total unpaid claims expenses at end of the calendar year	$ 8.1	$ 12.8	$58.2	$57.0	$320.8	$318.3	$43.8	$34.3

D. Trend Information

Historical trend information showing revenue and claims development information is presented in the Department of Employee Trust Funds audited financial statements. The separately issued financial report for the year ended December 31, 2002 will be available in Calendar Year 2004. Copies of these and prior years statements may be requested from:

The Department of Employee Trust Funds
801 West Badger Road
P.O. Box 7931
Madison, Wisconsin 53707-7931

NOTE 17. 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's self-funded property program up to $2.5 million per occurrence and $2.7 million annual aggregate. When claims, which exceed $25,000 per occurrence, total $2.7 million, the State's private insurance becomes available. Losses to property occurring after the threshold are first subject to a $25,000 deductible. The amount of loss in excess of $25,000 is covered by the State's private insurance company. During Fiscal Year 2003, the excess insurance limits were written to $300 million.

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, 2003 are estimated to total $2.8 million.

Property Damages and Bodily Injuries to Third Parties

The State is self-funded for third party liability to a level of $3 million per occurrence and purchases insurance in excess of this self-funded retention. The policy limit during Fiscal Year 2003 was $50 million.

The liabilities for property damages and injuries to third parties are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. The estimate for future benefits and loss liabilities for the prior fiscal year was the reserves on open claims. The estimate for future benefits and loss liabilities is calculated by an actuary based on the reserves on open claims and prior experience. No liability is reported for environmental impairment liability claims either incurred or incurred but not reported because existing case law makes it unlikely the State would be held liable for material amounts. 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, 2003 are estimated to total $46.4 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 employees 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 employee. A claim must be filed with the program within two years from the date of injury, otherwise the claim is not allowable.

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, 2003 are estimated to total $69.1 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):

	2003	2002
Beginning of fiscal year liability	$ 111,821	$ 100,285
Current year claims and changes in estimates	30,509	30,226
Claim payments	(24,065)	(18,690)
Balance at fiscal year-end	$ 118,265	$ 111,821

Annuity Contracts

The Risk Management Fund purchased annuity contracts in various claimants' names to satisfy claim liabilities. The likelihood that the fund will be required to make future payments on those claims is remote and, therefore, the fund is considered to have satisfied its primary liability to the claimants. Accordingly, the annuity contracts are not reported in, and the related liabilities are removed from, the fund's balance sheet. The aggregate outstanding amount of liabilities removed from the financial statements at June 30, 2003 is $ 2.9 million.

NOTE 18. INSURANCE FUNDS

Primary Government

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, 2003, the Local Government Property Insurance Fund insured 1,206 local governmental units. The total amount of insurance in force as of June 30, 2003 was $32.7 billion.

Valuation of Cash Equivalents and Investments - All investments of the Local Government Property Insurance Fund are managed by the State of Wisconsin Investment Board, as discussed in Note 5-B to the financial statements. At June 30, 2003, the fund had $11.5 million of shares in the State Investment Fund which are considered cash equivalents and $12.4 million of high grade, long-term, fixed income obligations.

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. 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. Adjustments to future benefits and loss liabilities are charged or credited to expense in the periods in which they are made.

Policy Acquisition Costs - Since the Local Government Property Insurance Fund has no marketing staff and incurs no sales commissions, acquisition costs are minimal and charged to operations as incurred.

Premium Deficiency – Investment income is considered in determining whether a premium deficiency exists. No premium deficiency existed at June 30, 2003.

Reinsurance - The Local Government Property Insurance Fund uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the fund as direct insurer of the risks reinsured. The fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. As of June 30, 2003 the fund had $240 million of per occurrence excess of loss reinsurance in force with a $2.0 million combined single limit retention for each occurrence, and an annual aggregate reinsurance contract with a $18.0 million annual aggregate retention plus a per claim retention of $5 thousand once the aggregate is met, as respects occurrences for the term of the agreement. Premium ceded to reinsurers during the fiscal year amounted to $4.6 million. Reinsurance loss and adjusting expense recoveries earned for the year amounted to $3.7 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):

	2003	2002
Unpaid claims and claim adjustment expenses at beginning of the year	$11,773	$14,436
Less: Reinsurance recoverable	(4,706)	(6,097)
Net unpaid loss liability at beginning of year	7,067	8,339
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	14,406	13,858
Increase (decrease) in provision for insured events of prior years	446	301
Total incurred claims and claim adjustment expenses	14,852	14,159
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	9,040	7,278
Claims and claim adjustment expenses attributable to insured events prior years	7,169	8,153
Total payments	16,209	15,431
Net unpaid claims and claim adjustment expenses at end of year	5,710	7,067
Reinsurance recoverable	6,468	4,706
Total unpaid claims and claim adjustment expenses	$12,178	$11,773

Trend Information

Historical trend information showing revenue and claims development information is presented in the Office of the Commissioner of Insurance June 30, 2003 financial statements. Copies of these statements may be requested from:

Office of the Commissioner of Insurance
125 South Webster 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 amortized over a forty year period, considered representative of the life of the contract. The amortization is in proportion to the ratio of annual in-force business to the amount of business issued. Such anticipated in-force business was estimated using similar assumptions to those used for computing liabilities for future policy benefits.

Deferred Acquisition Cost Assumptions

Issue Years	Interest Rate	Lapse Rate	Mortality
1913-1966	3.0%	2.0%	None
1967-1976	3.0	2.0	None
1977-1985	4.0	2.0	None
1986-1994	5.0	2.0	None
1995+	4.0	2.0	None

The State Life Insurance Fund does not pay commissions nor does it incur agent expenses.

Future benefits and loss liabilities have been computed by the net level premium method based upon estimated future investment yield and mortality. 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	$ 13,615	$ 8,934
1967-1976	39,289	15,577
1977-1985	84,936	20,253
1986-1994	55,550	6,090
1995+	31,754	2,492
	$ 225,144	$ 53,346

Bases of Assumptions

Issue Year	Interest Rate	Mortality
1913-1966	3.0%	American Experience, ANB*
1967-1976	3.0	1958 CSO, ALB, Unisex
1977-1985	4.0	1958 CSO, ALB, Female Setback 3 years
1986-1994	5.0	1980 CSO, ALB, Aggregate
1995+	4.0	1980 CSO, ALB, Aggregate

* Age Last Birthday

All of the State Life Insurance Fund's ordinary life insurance in force is participating. This fund is required by statute to maintain surplus at a level between 7 percent and 10 percent of statutory admitted assets as far as practicably possible. All excess surplus is to be returned to the policyholders in the form of policyholder dividends. Policyholder dividends are declared each year in order to achieve the required level of surplus.

The statutory assets at December 31, 2002 were $77.7 million and the statutory capital and surplus were $5.1 million, and the capital and surplus at June 30, 2003 was $13.5 million.

C. Patients Compensation Fund

The Patients Compensation Fund was created in 1975 for the purpose of providing excess medical malpractice insurance for health care providers in the state. The Patients Compensation Fund pays that portion of a medical malpractice claim which is in excess of the legal primary insurance limit prescribed under law, or the maximum liability limit for which the health provider is insured, whichever limit is greater. Most health care providers permanently practicing or operating in the State of Wisconsin are required to pay Patients Compensation Fund operating fees. Risk of loss is retained by the fund.

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, 2003 as follows (in thousands):

Projected ultimate loss liability	$ 1,372,113
Less: Net loss paid from inception	(540,120)
Less: Liability for reported losses	(31,966)
Liability for incurred but not reported losses	$ 800,027

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, 2003 are estimated at 5.75 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, 2003 as follows (in thousands):

Projected ultimate loss adjustment expense liability	$ 78,897
Less: Loss adjustment expense paid from inception	(37,751)
Liability for loss adjustment expense	$ 41,146

The uncertainties inherent in projecting the frequency and severity of large claims because of the Patients Compensation Fund's 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 liability for reported losses, liability for incurred but not reported losses, and liability for loss adjustment expense are maintained on a present value basis with the difference from full value being reported as a contra account to the loss reserve liabilities. The loss reserve liabilities are discounted only to the extent that they are matched by cash and invested assets. If all loss liabilities are discounted, the discounted loss liability would be as follows as of June 30, 2003 (in thousands):

Estimated unpaid loss liabilities	$ 800,027
Estimated unpaid loss adjustment expense	41,146
Total estimated loss liabilities	841,173
Less: Amount representing interest	(218,285)
Discounted loss liabilities	$ 622,888

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 benefit expense for the fiscal year is not necessarily indicative of the loss experience for the year.

On behalf of the Fund's Board, the Office of the Commissioner of Insurance contracted for an actuarial audit of the Patients Compensation Fund, which includes a review by another actuary of the reasonableness of the actuarial methodology and assumptions used in developing estimates of the Fund's loss liabilities. A committee of the Board is currently in the process of addressing professional disagreements regarding preliminary audit results, which are not expected to be resolved until a later date. The Board believes the current estimate of the Fund's loss liabilities is a reasonable estimate.

D. Health Insurance Risk Sharing Plan

The Health Insurance Risk Sharing Plan Fund was established in 1980 to provide major medical and Medicare supplemental insurance for persons unable to obtain this insurance in the private market or who otherwise qualify for eligibility under Section 149.12, Wis. Stats. The Health Insurance Risk Sharing Plan is funded primarily by premiums paid by insureds of the plan, assessments made to participating insurers, reduction of provider payments rates, and general purpose revenue from the State of Wisconsin.

The financial statements of the Health Insurance Risk Sharing Plan fund are prepared in conformity with generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board. Premiums are recognized as revenues over the terms of the insurance policies, and a liability for unearned premiums is established to reflect premiums received applicable to subsequent accounting periods. Participating insurers are assessed every six months, and revenue is recognized in the period covered by the assessments.

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 the Future Benefit and Loss Liability account balances for the prior two fiscal years (in thousands):

	2003	2002
Balance, beginning of year	$ 15,296	$ 17,790
Incurred related to:		
Current year	90,904	75,553
Prior years	(3,815)	(7,035)
Total Incurred	87,089	68,518
Paid related to:		
Current year	76,344	61,161
Prior years	10,494	9,851
Total Paid	86,838	71,012
Balance, end of year	$ 15,547	$ 15,296

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.

Component Units

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 $1.0 million per occurrence and $3.0 million annual aggregate effective July 1, 1998. 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, 2002.

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, 2001 and December 31, 2002, are as follows (in thousands):

	2002	2001
Balance at January 1	$ 67,212	$ 84,028
Incurred related to:		
Current year	4,044	4,413
Prior years	(18,892)	(19,783)
Total Incurred	(14,848)	(15,370)
Paid related to:		
Current year	62	68
Prior years	622	1,378
Total paid	684	1,446
Balance at December 31	$ 51,680	$ 67,212

There is inherent uncertainty in medical malpractice claims when establishing the estimates of unpaid losses and unpaid loss adjustment expenses. In 2002 and 2001, the Plan decreased its estimates of unpaid losses and unpaid loss adjustment expenses related to insured events of prior years. These decreases were greater than the estimated losses incurred for the current year, causing negative incurred losses and loss adjustment expenses.

NOTE 19. SEGMENT INFORMATION AND CONDENSED FINANCIAL DATA

Primary Government

The State issues revenue bonds to finance the Leveraged Loan Program, which is accounted for as part of the Environmental Improvement Fund. Investors in those bonds rely solely on the revenue generated within the Leveraged Loan Program. Assets of this program are used primarily for loans for Wisconsin municipal waste water projects. Condensed financial statement information of the Leveraged Loan Program as of and for the year ended June 30, 2003 is presented below (in thousands):

Condensed Balance Sheet

Assets:		
Current Assets	$	108,856
Other Assets		688,350
Total Assets	$	797,206
Liabilities:		
Due to Other Funds	$	2,017
Other Current Liabilities (Including Current Portion of Long-term Debt)		40,294
Noncurrent Liabilities		588,969
Total Liabilities		631,280
Fund Equity:		
Restricted		165,926
Total Fund Equity		165,926
Total Liabilities and Fund Equity	$	797,206

Condensed Statement of Revenues, Expenses and Changes in Fund Equity

Operating Revenues (Expenses):		
Loan Interest	$	16,586
Interest Expense		(34,646)
Other Operating Expenses		(2,064)
Operating Income (Loss)		(20,124)
Nonoperating Revenues (Expenses):		
Investment Income		23,366
Transfers		12,000
Change in Fund Equity		15,242
Beginning Fund Equity		150,684
Ending Fund Equity	$	165,926

Condensed Statement of Cash Flows

Net Cash Provided (Used) by :		
Operating Activities	$	(2,164)
Noncapital Financing Activities		(58,626)
Investing Activities		(3,843)
Net Increase (Decrease)		(64,633)
Beginning Cash and Cash Equivalents		167,072
Ending Cash and Cash Equivalents	$	102,439

NOTE 20. COMPONENT UNITS – CONDENSED FINANCIAL INFORMATION

Significant financial data for the State's four component units for the year ended December 31, 2002, May 31, 2003, or June 30, 2003 is presented below (in thousands):

	Wisconsin Housing and Economic Development Authority	Wisconsin Health Care Liability Insurance Plan	University of Wisconsin Hospitals and Clinics Authority	Badger Tobacco Asset Securitization Corporation	Total
Condensed Balance Sheet					
Assets:					
Cash, Investments and Other Assets	$ 2,566,149	$ 105,267	$ 336,460	$ 306,071	$ 3,313,947
Due from Primary Government	63	--	2,912	--	2,975
Capital Assets, Net	20,609	--	229,243	--	249,852
Total Assets	$ 2,586,821	$ 105,267	$ 568,615	$ 306,071	$ 3,566,775
Liabilities:					
Accounts Payable and Other Current Liabilities	$ 158,338	$ 43,492	$ 55,917	$ 48,822	$ 306,569
Due to Primary Government	19	16	2,183	--	2,218
Long-term Liabilities (Current and Noncurrent Portions)	2,070,099	51,680	202,352	1,567,226	3,891,357
Total Liabilities	2,228,456	95,188	260,452	1,616,048	4,200,144
Fund Equity:					
Invested in Capital Assets, Net of Related Debt	--	--	85,005	--	85,005
Restricted	195,925	--	4,519	185,777	386,221
Unrestricted	162,440	10,080	218,639	(1,495,753)	(1,104,594)
Total Fund Equity	358,365	10,080	308,163	(1,309,976)	(633,369)
Total Liabilities and Fund Equity	$ 2,586,821	$ 105,267	$ 568,615	$ 306,071	$ 3,566,775
Condensed Statement of Revenues, Expenses and Changes in Fund Equity					
Program Expenses:					
Depreciation	$ 6,041	$ --	$ 22,613	$ --	$ 28,654
Payments to Primary Government	--	--	500	--	500
Other	265,745	13,456	510,400	98,437	888,038
Total Program Expenses	271,786	13,456	533,513	98,437	917,192
Program Revenues:					
Charges for Services	3,521	1,790	536,985	--	542,296
Investment and Interest Income	122,239	5,664	--	--	127,903
Operating Grants and Contributions	129,210	--	449	--	129,659
Capital Grants and Contributions	--	--	656	--	656
Other	7,831	3,131	10,807	56,507	78,276
Total Program Revenues	262,801	10,584	548,897	56,507	878,790
Net Program Revenue/(Expense)	(8,985)	(2,872)	15,384	(41,930)	(38,402)
General Revenues:					
Interest and Investment Earnings	16,261	--	9,601	8,983	34,845
Contributions to Endowments	--	--	20	--	20
Change in Fund Equity	7,276	(2,872)	25,005	(32,946)	(3,537)
Fund Equity, Beginning of Year	351,089	12,951	283,158	(1,277,030)	(629,832)
Fund Equity, End of Year	$ 358,365	$ 10,080	$ 308,163	$ (1,309,976)	$ (633,369)

NOTE 21. RESTATEMENTS OF BEGINNING FUND BALANCES/FUND EQUITY/NET ASSETS AND OTHER CHANGES

The reconciliations that follow summarize restatements of the end-of-year fund balance/fund equity/net assets as reported in the 2002 Comprehensive Annual Financial Report to the beginning-of-year fund balances/fund equity/net assets reported for Fiscal Year 2003 (in thousands).

A. Fund Statements – Governmental Funds

	Major Funds				
	General	Transportation	Tobacco Settlement Endowment	Nonmajor Funds	Total Governmental
Fund Balances June 30, 2002 as reported in the 2002 Comprehensive Annual Financial Report	$ (1,484,333)	$ 356,330	$ 283,794	$ 447,068	$ (397,140)
Fund structure reclassifications: Employee Trust Fund Administration	-	-	-	(842)	(842)
Building Trust Fund reclassification of capital projects to maintenance and repair expenditures	-	-	-	(10,521)	(10,521)
Other adjustments of assets and liabilities as of June 30, 2002	(4)	1	-	(2,596)	(2,599)
Fund Balances July 1, 2002 as restated	$ (1,484,336)	$ 356,331	$ 283,794	$ 433,110	$ (411,102)
Effect of prior period adjustments on the amount of excess revenues and other sources over expenditures and other uses of Fiscal Year 2002	$ 984	$ -	$ -	$ (12,817)	$ (11,834)

B. Fund Statements – Proprietary Funds

	Major Funds							
	Patients Compensation	Environmental Improvement	Veterans Mortgage Loan Repayment	University of Wisconsin System	Unemployment Insurance Reserve	Nonmajor Funds	Total Enterprise	Internal Service Funds
Fund Equity June 30, 2002 as reported in the 2002 Comprehensive Annual Financial Report	$ 6,604	$ 861,732	$ 76,611	$ 3,300,024	$ 1,586,218	$ 323,153	$ 6,154,343	$ 3,763
University of Wisconsin System capitalization of Energy Initiative capital leases	-	-	-	33,800	-	-	33,800	-
University of Wisconsin System restatement for accumulated depreciation of UW Hospital and Clinics	-	-	-	27,200	-	-	27,200	-
Facilities Operations and Maintenance fund adjustments for capital projects and related debt	-	-	-	-	-	-	-	9,934
Other adjustments of assets and liabilities as of June 30, 2002	-	-	(60)	5,113	-	7,832	12,884	(196)
Fund Equity July 1, 2002 as restated	$ 6,604	$ 861,732	$ 76,551	$ 3,366,137	$ 1,586,218	$ 330,986	$ 6,228,227	$ 13,501
Effect of prior period adjustments on the amount of net change fund equity of Fiscal Year 2002	$ -	$ -	$ (60)	$ -	$ -	$ (75)	$ (136)	$ 9,934

C. Fund Statements – Fiduciary Funds

	Pension and Other Employee Benefit Trust	Investment Trust	Private Purpose Trust	Total Fiduciary
Net Assets June 30, 2002 as reported in the 2002 Comprehensive Annual Financial Report	$ 56,011,582	$ 3,832,314	$ 479,043	$ 60,322,938
Fund structure reclassification: Employee Trust Funds Administration	751	-	-	751
Other adjustments of assets and liabilities as of June 30, 2002	3,205	(3,066)	(123)	15
Net Assets July 1, 2002 as restated	$ 56,015,537	$ 3,829,248	$ 478,919	$ 60,323,704
Effect of prior period adjustments on the amount of net increase in net assets of Fiscal Year 2002	$ 3,956	$ (3,066)	$ -	$ 889

D. Government-wide Statements

	Primary Government			
	Governmental Activities	Business-type Activities	Totals	Component Units
Net Assets June 30, 2002 as reported in the 2002 Comprehensive Annual Financial Report	$ 7,652,320	$ 6,149,292	$ 13,801,612	$ (624,985)
Adoption of GASB Statement No. 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments,* and other applicable GASB pronouncements	-	-	-	(3,491)
Fund structure reclassifications: Employee Trust Fund Administration	(842)	-	(842)	-
Building Trust Fund project classification changes and cash balance adjustments	(10,521)	-	(10,521)	-
Facilities Operations and Maintenance fund adjustments for capital projects and related debt	9,934	-	9,934	-
University of Wisconsin System capitalization of Energy Initiative capital leases	-	33,800	33,800	-
University of Wisconsin System restatement for accumulated depreciation of UW Hospital and Clinics	-	27,200	27,200	-
Other adjustments of assets and liabilities of June 30, 2002	(32,285)	12,884	(19,400)	(1,356)
Net Assets July 1, 2002 as restated	$ 7,618,606	$ 6,223,176	$ 13,841,782	$ (629,832)
Effect of prior period adjustments on the amount of net increase in net assets of Fiscal Year 2002	$ 11,640	$ (136)	$ 11,505	$ (2,889)

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 Governmental Activities

The State accrues liabilities related to legal proceedings, if a loss is probable and reasonably estimable. Such losses, totaling $2.2 million on June 30, 2003 reported in the governmental activities, are discussed below:

Litigation - The Department of Health and Family Services is involved in various legal proceedings where the ultimate disposition is estimated at $.5 million.

Other Claims - Work Injury Supplemental Benefits - The Work Injury Supplemental Benefit Fund, administered by the Department of Workforce Development, provides compensatory payments to survivors of fatally injured employees or disabled employees with work-related injuries. The liability for annuities to be paid to the above individuals totaled $1.7 million at June 30, 2003.

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. The potential liability amount relating to an unfavorable outcome for certain of these proceedings could impact the State by approximately $5.8 million. 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.

Corporate Tax Measured by Interest from U.S. Securities - In this corporate franchise tax case, American Family Mutual Insurance Company and American Standard Insurance Company sought refunds of taxes paid that were measured by U.S. interest.

Federal law prohibits an income tax on U.S. interest, but allows a non-discriminatory franchise tax measured on U.S. interest. The insurance companies argued that because bonds authorized by the State for housing and development were exempt from State taxes, that the franchise tax was discriminatory. The State had heretofore held that the exemption applied only to direct State taxes and had uniformly included interest on the State authorized bonds in the franchise tax measure. The Wisconsin Tax Appeals Commission and the County Circuit Court upheld the State. The Court of Appeals, District IV, reversed the decisions. The Supreme Court reversed the Court of Appeals. The taxpayers maintain that the decision is not applicable to 1993 and 1994. The State maintains the principles of the decision are applicable to the subsequent years.

Due to the uncertainty in predicting the outcome, a liability has not been recorded as of June 30, 2003.

Federal Pension Income – The 1984-1988 period settlements with approximately 3,200 military retirees and 14,000 civilian retirees, triggered by the United States Supreme Court ruling in Davis v. Michigan Department of the Treasury are essentially completed. The Davis case had held that a state government violates the intergovernmental tax immunity clause when it provided for taxation of federal pension benefits. Subsequent litigation with other retirees on a variety of issues has occurred, with the Department prevailing in all instances. Litigation is still in progress on a limited number of issues. The Department of Revenue is confident that it will continue to prevail on this issue. Because a fiscal impact cannot be readily determined if the State were not to prevail, and due to the uncertainty in predicting the outcome, a liability has not been recorded.

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. Fourteen sites have soil and/or groundwater contamination associated with underground storage tank releases with an estimated remediation cost of $2.5 million.

The State is also involved in environmental remediations on 6 properties that do not involve releases from underground storage tanks, with an estimated cost of $2.7 million.

B. Commitments

Primary Government

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, 2003 reported as Fund Balance - Reserved for Encumbrances, additional obligations at June 30, 2003 representing multi-year, long-term commitments included (in thousands):

Transportation Fund	$ 274,396
Transportation Revenue Bonds Capital Projects Fund	37,484
General Fund – Department of Commerce programs, including economic and community development programs	4,657

The Environmental Improvement Fund (the 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 $214.0 million as of June 30, 2003. 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 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 Fund's 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 Fund's 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 Fund provide financial hardship assistance for those communities that qualify under Wis. Stat. Sec. 281.58. This assistance may come in the form of reduced interest rates or grants (not to exceed 70 percent of project costs). At fiscal year ended June 30, 2003, future commitments for hardship grants totaled $369.4 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 $600 thousand in annuity payments. The total estimated replacement value of the fund's annuities as of June 30, 2003 was $133.3 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 Department of Financial Institutions, until the designated appropriation is exhausted. At June 30, 2003, the appropriation available totaled $30.2 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 Department of Financial Institutions. Any recovery made by the Department of Financial Institutions 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.

The *Veterans Mortgage Loan Repayment Fund* accounts for the issuance and administration of veterans' first mortgage loans. The loans are made to veterans for the purchase of homes to terms up to 30 years. The loan interest rates are set by the Board of Veterans Affairs. The loans are secured by real estate mortgages. The fund has commitments for loans of $5.2 million as of June 30, 2003. The loan commitments are expected to be met from current fund assets.

Component Units

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, 2003, outstanding loan guarantees totaled $39.6 million.

NOTE 23. SUBSEQUENT EVENTS

Primary Government

Short-term Debt

Operating Notes – In September 2003, the State issued $400.0 million of operating notes. The proceeds of the notes were to be used within six months to fund local assistance payments to the State's municipalities and school districts, and finance day-to-day operations in anticipation of revenue received later in the fiscal year. The notes were issued because of an imbalance between the timing of payments disbursed and receipts collected. The imbalance exists because receipts are received in the second half of the fiscal year, primarily January, March and April. The notes will be paid at maturity on June 15, 2004.

Long-term Debt

State of Wisconsin General Obligation Bonds – In July 2003, the State issued $30.0 million of 2003 Series B general obligation bonds to be used to fund veterans primary mortgage home loans. Interest is payable on May 1 and November 1, beginning May 1, 2004, with bonds maturing November 1, 2033.

In October 2003, the State issued $67.8 million of 2003 Series 3 general obligation refunding bonds, the proceeds of which were used to refund certain general obligation bonds that were previously issued to fund veterans housing bonds and to pay the costs of issuance. Interest is payable May 1 and November 1, beginning May 1, 2004.

In October 2003, the State issued $285.1 million of 2003 Series C general obligation bonds 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, beginning May 1, 2004, with bonds maturing May 1, of the years 2026 through 2034.

In July 2003, the State redeemed early $87.8 million of various veterans loan general obligation bonds outstanding consistent with the redemption provisions of those bonds. These bonds were redeemed from mortgage prepayments and undisbursed bond proceeds.

In October 2003, the State redeemed early $39.0 million of various veterans loan general obligation bonds outstanding consistent with the redemption provisions of those bonds. These bonds were redeemed from mortgage prepayments.

In December 2003, the State redeemed early $130.3 million of various veterans loan general obligation bonds outstanding consistent with the redemption provisions of those bonds. These

bonds were redeemed from mortgage prepayments and the proceeds of refunding general obligation bonds Series 2003-3.

Appropriation Bonds - On July 24, 2003, Wisconsin Act 33 was enacted and authorized the issuance of appropriation obligations to obtain proceeds to pay the State's anticipated unfunded accrued prior service (pension) liability under Wis. Stat. Section 40.05(2)(b) and its unfunded accrued liability for sick leave conversion credits under Wis. Stat. Section 40.05(4)(b), (bc), and (bw) and Subchapter IX of Chapter 40. Wisconsin Act 84, enacted on November 21, 2003, increased the authorized amount the State could issue form appropriation bonds. The State anticipates issuing $1.8 billion of bonds consisting of Series A (Taxable Fixed Rate) and Series B (Taxable Auction Rate Certificates). Most of the proceeds from the sale of the bonds will initially be placed in the General Fund, then used to make payments for the State's unfunded prior service (pension) liability and its unfunded accrued liability for sick leave conversion credits. Some of the proceeds will be deposited in a debt service account held under the Indenture to provide for payment of interest through at least November 1, 2005, and some of the proceeds will be deposited in a stabilization account held under the Indenture.

Revenue Bonds – In November 2003, the Department of Transportation issued $250.0 million of 2003 Series A transportation revenue bonds. The bond proceeds will be used to pay the costs of major highway projects, to finance certain State transportation facilities, to fund reserves and to pay the costs of issuance. Interest rates vary from 2.5 to 5.25 percent, payable January 1 and July 1, beginning July 1, 2004. The bonds mature on July 1 of the years 2005 through 2024.

Component Units

Wisconsin Housing and Economic Development Authority – In July 2003, the Authority issued $110.0 million of the Variable Rate Demand Home Ownership Revenue Bonds, 2003 Series B. These bonds were issued under the 1987 Home Ownership Revenue Bond Resolution.

The Authority entered into interest rate swap agreements as part of the two bond issues subsequent to June 30, 2003. These agreements include requirements for the pledging of assets based on the Authority's credit rating. As of October 31, 2003, there was no requirement to pledge assets.

In July 2003, the Authority redeemed $1.3 million of the Housing Revenue Bonds, 1993 Series A and B from mortgage prepayments and the proceeds of the Housing Revenue Bonds 1993 Series A. In July 2003, the Authority redeemed $.6 million of the Housing Revenue Bonds, 2002 Series A through I from mortgage prepayments and the proceeds of the Housing Revenue Bonds 2002 Series B and G and from a portion of the 2002 Series C. In July 2003, the Authority redeemed $3.2 million of the Housing Revenue Bonds, 1992 Series A from mortgage prepayments and the proceeds of the Housing Revenue Bonds 1992 Series A.

In November 2003, the Authority issued $110.2 million of Home Ownership Revenue Bonds, 2003 Series C and D.

Required Supplementary Information

Infrastructure Assets Reported Using the Modified Approach

The State has adopted the modified approach for reporting infrastructure assets. Under the modified approach, infrastructure assets are not depreciated as long as the State can demonstrate that these assets are properly managed and are being preserved at or above an established condition level. Instead of depreciation, the costs to maintain and preserve infrastructure assets are expensed, while additions and improvements are capitalized. The State owns approximately 11,200 centerline miles of roads and 4,900 bridges.

Road Network

Condition assessments are completed on a two-year cycle with the most current results reported for each State road. Numerous measures are used to assess the condition of the State's road network. The State has adopted the International Roughness Index (IRI), as defined by the Federal Highway Administration, as its primary condition measure. IRI is measured on a scale of 0 to 5, with an IRI of 2.69 or greater being defined as a "poor" ride. Roads with a "poor" IRI assessment cause negative impacts for the traveling public by decreasing driver comfort and increasing the damage to vehicles and goods. It is the State's policy to ensure no more than 15 percent of its roads receive a "poor" IRI assessment.

Recent condition assessment results are as follows:

Year Ended June 30	Miles of Road	Percent Rated "Poor"	Established Percent	Variance Favorable/ (Unfavorable)
2003	11,200	4.3	15.0	10.7
2002	11,200	4.6	15.0	10.4

Each year the State estimates the costs to maintain and preserve the road network at, or above, the established condition level. Actual maintenance/preservation costs compare to estimates as follows:

Year Ended June 30	Estimated Costs (In millions)	Actual Costs (In millions)	Variance (In millions) Favorable/ (Unfavorable)
2003	$ 420.9	$ 336.7	$ 84.2
2002	470.7	437.6	33.1

Estimated costs are developed at the beginning of the fiscal year based on projects planned for the current and future years. The types of projects ultimately contracted and incurring costs during the year are often very different. Actual costs for the year ended June 30, 2003 reflect a shift from maintenance and preservation projects to capital road construction projects that was not anticipated in the cost estimates. In addition, the State of Wisconsin, Department of Transportation's multi-year budgeting process, allowing encumbrances to carry forward, makes a comparison of actual to estimated amounts difficult since expenditures for the current year may have been budgeted and committed to a project in prior years.

Bridge Network

Condition assessments are completed on a two-year cycle, with more frequent inspections completed if warranted. The most current assessment results are reported for each State bridge, making the overall assessment a blend of measures completed in the current fiscal year and those completed in the prior year. The State has adopted the National Bridge Inventory (NBI) 10-point rating scale as its primary condition measure. Using the Federal Highway Administration's definition, a bridge is considered "structurally deficient" if it has an NBI score of 4 or less on its deck, superstructure, or substructure. "Structurally deficient" bridges cause negative impacts for the public by increasing the likelihood that heavy loads will need to be rerouted to less efficient routes, thus increasing logistic costs for State businesses. It is the State's policy to ensure no more than 15 percent of its bridges are "structurally deficient".

Recent condition assessment results are as follows:

Year Ended June 30	Number of Bridges	Percent Structurally Deficient	Established Percent	Variance Favorable/ (Unfavorable)
2003	4,900	6.2	15.0	8.8
2002	4,900	7.6	15.0	7.4

Each year the State estimates the costs to maintain and preserve the bridget network at, or above, the established condition level. Actual maintenance/preservation costs compare to estimates as follows:

Year Ended June 30	Estimated Costs (In millions)	Actual Costs (In millions)	Variance (In millions) Favorable/ (Unfavorable)
2003	$ 46.4	$ 45.7	$ 0.7
2002	33.6	38.4	(4.8)

Additional bridge maintenance and preservation projects were planned and completed during the year ended June 30, 2003. The State of Wisconsin, Department of Transportation's multi-year budgeting process, allowing encumbrances to carry forward, makes a comparison of actual to estimated amounts difficult since expenditures for the current year may have been budgeted and committed to a project in prior years.

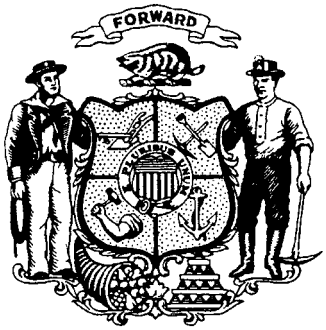
Budgetary Comparison Schedule
General and Major Special Revenue Funds
For the Fiscal Year Ended June 30, 2003

(In Thousands)

	General Fund		
	Original Budget	Final Budget	Actual Amounts
Unexpended Budgetary Fund Balances, Beginning of Year			$ 580,918
Revenues and Transfers (Inflows):			
Taxes	$ 10,533,755	$ 10,241,755	10,217,993
Departmental:			
Tobacco Settlement	157,603	149,082	153,923
Other	10,305,268	10,326,705	10,312,004
Transfers from:			
Transportation Fund	12,382	12,382	12,382
Veterans Mortgage Loan Repayment Fund	-	224	224
Nonmajor Funds	6,846	25,323	25,323
Total Revenues and Transfers	21,015,854	20,755,471	20,721,850
Amounts Available for Appropriation			21,302,768
Appropriations and Transfers (Outflows):			
Commerce	267,666	296,136	225,238
Education	9,011,341	9,399,817	9,112,309
Environmental Resources	271,268	292,747	262,766
Human Relations and Resources	7,828,797	9,330,380	8,624,123
General Executive	690,501	824,360	635,445
Judicial	105,162	111,102	109,672
Legislative	64,318	66,201	61,220
Tax Relief and Other General	1,388,892	1,927,555	1,920,582
Transfers to:			
General Fund	-	-	-
Tobacco Control Fund	15,345	15,345	15,345
Total Appropriations and Transfers	$ 19,643,289	$ 22,263,642	20,966,699
Fund Balances, End of Year			336,069
Less Encumbrances Outstanding at June 30, 2003			(499,551)
Fund Balances, End of Year Budgetary Basis			$ (163,482)
Reconciliation of the End of Year, Budgetary Basis, Fund Balance to the Amount Reported in the Annual Fiscal Report:			
Amount from Annual Fiscal Report			$ (157,206)
Late Audit Adjustment			(6,276)
Revised End of Year Fund Balance, Budgetary Basis			$ (163,482)

During Fiscal Year 2003, monies that had been budgeted for funding of the Sick Leave Conversion Program were transferred or lapsed by legislation to the General Fund. Rather than reporting these transactions as transfers in the State's annual budgetary report, these employer contributions were shown as functional expenditures of the paying agencies and revenue of the budgetary General Fund. As a result, since the Budgetary Comparison Schedule mirrors the annual budgetary report, it displays data on the budgetary basis and not on a basis consistent with generally accepted accounting principles. Therefore, expenditures and revenues of the General Fund are overstated compared to a presentation made in accordance with generally accepted accounting principles. Likewise, Final Budget revenues and appropriations are similarly overstated.

Transportation Fund			Tobacco Settlement Endowment Fund		
Original Budget	Final Budget	Actual Amounts	Original Budget	Final Budget	Actual Amounts
		$ 365,390			$ 595,155
$ 925,087	$ 925,087	925,087	$ -	$ -	-
-	-	-	-	-	-
1,266,671	1,266,671	1,266,671	3,353	3,353	3,353
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
2,191,758	2,191,758	2,191,758	3,353	3,353	3,353
		2,557,148			598,508
83	89	88	-	-	-
-	-	-	-	-	-
3,217,324	3,534,044	2,122,506	-	-	-
-	-	-	-	-	-
4,657	4,776	2,122	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
18,559	17,980	17,980	598,300	598,508	598,508
12,382	12,382	12,382	157,603	157,603	-
-	-	-	-	-	-
$ 3,253,005	$ 3,569,272	2,155,078	$ 755,903	$ 756,111	598,508
		402,071			-
		(1,064,724)			-
		$ (662,653)			$ 0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NOTE 1. BUDGETARY INFORMATION

A. Budgetary – GAAP Reporting Reconciliation

The accompanying Budgetary Comparison Schedule compares the legally adopted budget (more fully described in RSI Note 1-B) with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on the budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of basis and perspective differences as of June 30, 2003 is presented below (in thousands):

	General Fund	Transportation Fund
Fund balance June 30, 2003 (budgetary basis – budgetary fund structure)		
As reported on the budgetary comparison schedule	$ (163,482)	$ (662,653)
Reclassifications:		
To eliminate the effect of encumbrances that were reported as expenditures under budgetary reporting (basis difference)	499,551	1,064,724
To reclassify activities reported in another GAAP fund type (perspective differences):		
Enterprise funds (except for the University of Wisconsin System)	22,734	--
University of Wisconsin System	(291,632)	--
Internal service funds	4,358	--
Fiduciary funds	(37,512)	--
Transportation Revenue Bonds debt service fund	--	5,823
Fund balance June 30, 2003 (GAAP fund structure – budgetary basis, excluding encumbrances treated as expenditures at year end)	34,018	407,893
Adjustments (basis differences):		
To adjust expenditures for the municipal and county shared revenue program	(498,043)	--
To adjust expenditures for State property tax credit program	(353,639)	--
To accrue receivables and establish payables for individual income taxes (net)	(738,140)	--
To defer revenues for gross receipts public utility taxes	(154,419)	--
To adjust revenues and expenditures for tax-related items and other tax credit/aid programs (net)	(303,678)	(844)
To accrue unpaid Medicaid claims (net of receivable from federal government)	(165,014)	--
To adjust expenditures/revenues for certain major Health and Family Services and Workforce Development accruals and deferrals (net)	(15,527)	--
To accrue State educational aids payments deferred until the subsequent year	(75,000)	--
To adjust revenues and expenditures for other items (net)	26,903	(20,687)
Fund balance June 30, 2003 (GAAP fund structure – GAAP basis) as reported on the governmental fund statements	$(2,242,539)	$ 386,363

B. Budgetary Basis of Accounting

The State's biennial budget is prepared using a modified cash basis of accounting. 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 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 revenue estimates 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 of the Budgetary Comparison Schedule.

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. Various supplemental appropriations were approved during the year and have been incorporated into the budget figures.

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 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.

The budgetary basis of accounting required by State law differs materially from the basis used to report revenues and expenditures in accordance with GAAP. Other variances arise because the State's biennial budget is developed according to the statutory required fund structure which differs extensively from the fund structure used in the GAAP basis financial statements. This difference is primarily caused by the elimination of the University of Wisconsin System, and various fiduciary, proprietary and other governmental fund activity from the statutory General and special revenue funds. Consequently, a reconciliation between budgetary basis and GAAP basis is provided in Note 1-A of the notes to the required supplementary information.

The Budgetary Comparison Schedule for the General and the major special revenue funds presents both the original and final appropriated budgets, as well as the actual inflows, outflows, and fund balance on the budgetary basis. The supplementary budget comparison schedule provides this same information (with the exception of the original budget data) for the nonmajor governmental funds with annual budgets. The capital project and debt service funds are excluded from this schedule because no comprehensive budget is approved for these funds. A special revenue fund, the Wisconsin Public Broadcasting Foundation, has also been excluded from reporting because it is a blended component unit that is neither budgeted nor included under statutory reporting. Of the permanent funds, only the Historical Society Fund and a portion of the Common School Fund are budgeted.

Under biennial budgeting, numerous changes are typically needed in the second year of the biennium to address changing circumstances. The nationwide economic downturn of the past few years accentuated this problem. As a result of revenue shortfalls, a comprehensive budget repair bill, Act 109, was needed for Fiscal Year 2003 to bring expenditures in line with expected revenues. Since this legislation, which was passed in July 2002, had such major effects on budgeted expenditures, it was recognized by State officials as the original budget and is treated as such on the Budgetary Comparison Schedule.

While the legal level of budgetary control for the reported funds is maintained at the appropriation line 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.

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

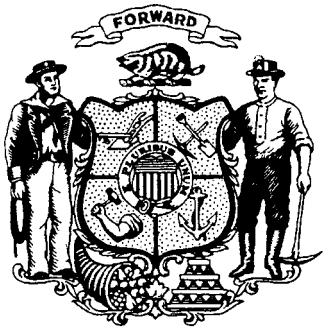
- *Continuing* - unexpended balances automatically forward to ensuing years until fully depleted or repealed by subsequent action of the Legislature.
- *Annual*:
  - *General Purpose Revenue* - unencumbered balances lapse at year end.
  - *Program Revenue* - unexpended cash balances may be forwarded 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.

Encumbrances may be carried over to the next fiscal year as a revision to the budgetary appropriation with Department of Administration approval. Under budgetary reporting, encumbrances are treated like expenditures and are shown as a reduction of fund balance. Under GAAP reporting, encumbrances outstanding at year end for purchase orders and contracts expected to be honored in the following year are reported as reservations of fund balance since they do not constitute expenditures or liabilities.

C. Excess of Expenditures over Appropriations

In the General Fund, expenditures exceeded appropriations for the following program (in millions):

UW System – Energy Costs	$	5.9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