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December 19, 2001

Thank you for your interest in the State of Wisconsin.

Each year we prepare a Continuing Disclosure Annual Report for the State's securities. *This is the Annual Report for the fiscal year ending June 30, 2001.* It provides information on different securities that the State issues and was prepared to fulfill 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 this Annual Report by reference.

### **Organization of this Annual Report**

This Annual Report is divided into seven 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 general purpose financial statements for the fiscal year ending June 30, 2001 and the State Auditor's report. Page 26 in this part of the Annual Report also includes the following statement regarding the State's 2001-03 biennial budget:

In response to a national economy in recession, the State has implemented a hiring freeze and ordered State agencies to reduce operating budgets by an additional 3.5% for the current 2001-02 fiscal year. On December 18, 2001, the Department of Revenue reported that individual income and sales tax collections through October 31, 2001 were below the Legislative Fiscal Bureau projections used in the preparation of the 2001-03 biennial budget. See "**General Fund Information**" in this Part II of the Annual Report for general fund revenue and expenditure information for the period ended November 30, 2001.

It is expected that the Legislative Fiscal Bureau will release an updated general fund revenue forecast by late-January 2002. At that time, if the Secretary of Administration determines that budgeted expenditures will exceed revenues by more than one-half of one percent of general purpose revenues, the Secretary of Administration is required by law to notify the Governor, the Legislature, and its Joint Committee on Finance, and the Governor must submit a bill correcting the imbalance. If the Legislature is not in session, the Governor must call a special session to take up the matter.

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

- **Part III – General obligations**
- **Part IV – Master lease certificates of participation**

- **Part V – Transportation revenue bonds**
- **Part VI – Clean water revenue bonds**
- **Part VII – Petroleum inspection fee revenue obligations**

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.

<u>Security</u>	<u>Fitch, Inc.</u>	<u>Moody's Investors Service, Inc.</u>	<u>Standard &amp; Poor's Ratings Services</u>
General Obligations	<b>AA</b> <sup>(1)</sup>	<b>Aa3</b> <sup>(2)</sup>	<b>AA</b> <sup>(3)</sup>
Master Lease Certificates of Participation	AA-	<b>A1</b> <sup>(4)</sup>	<b>AA-</b> <sup>(5)</sup>
Transportation Revenue Bonds	AA	Aa3	AA-
Clean Water Revenue Bonds	AA+	Aa2	AA+
Petroleum Inspection Fee Revenue Bonds	AA-	Aa3	AA-

<sup>(1)</sup> Downgraded from AA+ on September 4, 2001.

<sup>(2)</sup> Downgraded from Aa2 on August 28, 2001.

<sup>(3)</sup> Placed on "Negative Outlook" on August 29, 2001.

<sup>(4)</sup> Downgraded from Aa3 on August 28, 2001.

<sup>(5)</sup> Upgraded from A+ since last year, and placed on "Negative Outlook" on August 29, 2001.

### **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 page that contains other information that may be of interest. Neither the web site nor the additional information it contains is part of this Annual Report.

[www.doa.state.wi.us/debf/scf/](http://www.doa.state.wi.us/debf/scf/)

Financial Disclosure and Debt Management, including—

- Annual Reports
- CAFR
- Official Statements
- Offering Memoranda
- Upcoming Sale Materials
- Secondary Market Continuing Disclosure Announcements
- Monthly General Fund Reports

We welcome your comments or suggestions about the format and content of this 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](mailto:capfin@doa.state.wi.us).

Sincerely,

Frank R. Hoadley  
Capital Finance Director

**SUMMARY OF OUTSTANDING STATE OF WISCONSIN OBLIGATIONS  
AS OF DECEMBER 1, 2001**

	<b>Principal Balance <u>12/1/2000</u></b>	<b>Principal Issued 12/1/2000 - <u>12/1/01</u></b>	<b>Principal Matured or Redeemed 12/1/2000 - <u>12/1/01</u></b>	<b>Principal Balance <u>12/1/2001</u></b>
<b><u>GENERAL OBLIGATIONS<sup>(a)</sup></u></b>				
<b>Total General Obligations</b>	<b>\$4,067,583,078</b>	<b>\$727,750,000</b>	<b>\$554,889,596</b>	<b>\$4,240,443,481</b>
General Purpose Revenue (GPR)	2,896,583,413	562,388,853	426,674,902	3,032,297,364
Self-Amortizing: Veterans	785,320,000	55,000,000	60,405,000	779,915,000
Self-Amortizing: Other	385,679,665	110,361,147	67,809,694	428,231,117
<b><u>MASTER LEASE CERTIFICATES OF PARTICIPATION</u></b>				
<b>Master Lease COPs</b>	<b>\$76,939,981</b>	<b>\$40,530,652</b>	<b>\$28,380,909</b>	<b>\$89,089,724</b>
<b><u>TRANSPORTATION REVENUE OBLIGATIONS<sup>(a)(b)</sup></u></b>				
<b>Transportation Revenue Obligations</b>	<b>\$1,000,878,000</b>	<b>\$140,000,000</b>	<b>\$41,620,000</b>	<b>\$1,099,258,000<sup>(b)</sup></b>
<b><u>CLEAN WATER REVENUE BONDS</u></b>				
<b>Clean Water Revenue Bonds</b>	<b>\$545,625,000</b>	<b>\$70,000,000</b>	<b>\$27,245,000</b>	<b>\$588,380,000</b>
<b><u>PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS<sup>(a)(c)</sup></u></b>				
<b>Petroleum Inspection Fee Revenue Obligations</b>	<b>\$248,500,000</b>	<b>\$30,000,000</b>	—	<b>\$278,500,000<sup>(c)</sup></b>

(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 outstanding balance as of December 15, 2001

(c) Reflects outstanding balance as of December 18 2001

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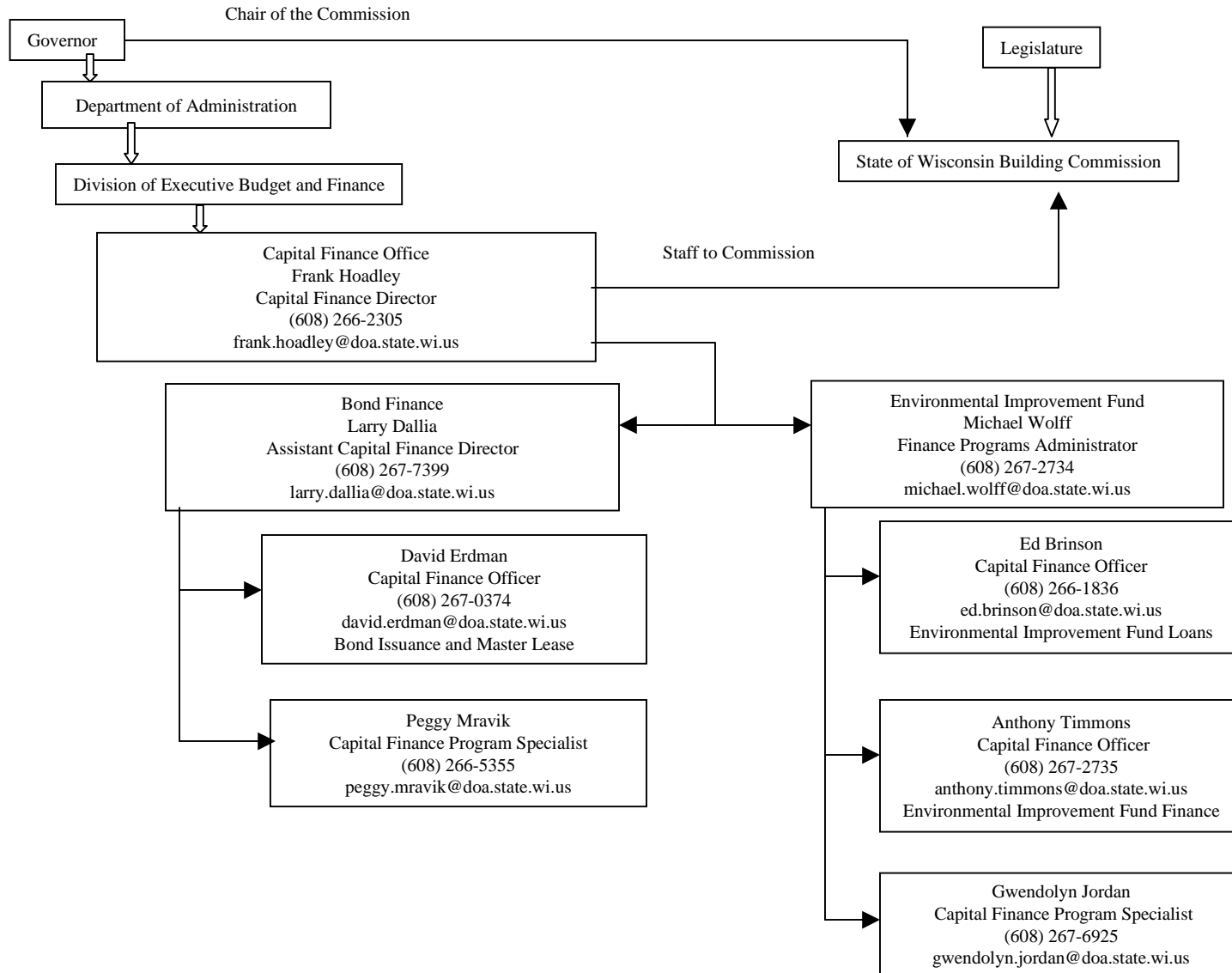
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## Capital Finance Office Staff (As of December 1, 2001)



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

## BUILDING COMMISSION MEMBERS

<b>Voting Members</b>	<b>Term of Office Expires</b>
Governor Scott McCallum, Chairperson	January 6, 2003
Senator Fred A. Risser, Vice-Chairperson	January 3, 2005
Senator Mark Meyer	January 3, 2005
Senator Carol Roessler	January 3, 2005
Representative Timothy Hoven	January 6, 2003
Representative Jeffrey Plale	January 6, 2003
Representative Daniel Vrakas	January 6, 2003
Mr. Bryce Styza, Citizen Member	At the pleasure of the Governor
<b>Nonvoting, Advisory Members</b>	
Mr. George Lightbourn, Secretary Department of Administration	At the pleasure of the Governor
Mr. Adel Tabrizi, State Chief Engineer Department of Administration	—
Mr. Wilbert King, State Chief Architect Department of Administration	—
<b>Building Commission Secretary</b>	
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

Mr. Jack C. Voight State Treasurer	January 6, 2003
Mr. James E. Doyle State Attorney General	January 6, 2003

## 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 2000-01 Fiscal Year
- State Budget—See “**STATE BUDGET; Budget for 2001-03; Current Budget Status**” on **page 26** of this Part II of the Annual Report for the current disclosure on the State’s budget.
- General Fund Information
- State Government Organization
- State Obligations
- Statistical Information

APPENDIX A to this part includes the audited general purpose financial statements for the fiscal year ending June 30, 2001, and the State Auditor’s report.

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](mailto:capfin@doa.state.wi.us)

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. Material 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** 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 the taxes that appear in Table II-1.

#### *Individual Income Tax*

The tax brackets and rates for the 2000 and 2001 tax years are as follows. The taxable income brackets have been indexed for changes in the consumer price index:

<u>Taxable Income Brackets</u>		<u>Marginal Tax Rate</u>	
<u>Single</u>	<u>Married Filing Jointly<sup>(a)</sup></u>	<u>2000</u>	<u>2001</u>
\$0 to 8,060	\$0 to 10,750	4.73%	4.60%
8,061 to 16,130	10,751 to 21,500	6.33	6.15
16,131 to 116,330	21,501 to 155,100	6.55	6.50
116,330+	155,100+	6.75	6.75

<sup>(a)</sup> 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 Franchise and Income Taxes*

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

#### *Public Utility Taxes*

There are two methods used for taxing public utilities. An ad valorem method on property is used for pipeline companies, conservation and regulation companies, railroads, and airlines. 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.

**Table II-1**

**REVENUES (ALL SOURCES)<sup>(a)</sup>  
1996-97 TO 2000-01**

	<u>2000-01</u>	<u>1999-2000</u>	<u>1998-99</u>	<u>1997-98</u>	<u>1996-97</u>
<b>State Collected Taxes</b>					
Individual Income.....	\$ 5,156,565,325	\$ 5,959,818,943	\$ 5,162,238,865	\$ 5,047,324,479	\$ 4,544,739,246
General Sales and Use.....	3,609,895,359	3,501,658,965	3,284,694,814	3,047,406,215	2,864,373,180
Corporate Franchise and Income.....	537,159,154	644,625,016	635,202,891	627,024,134	643,821,885
Public Utility.....	239,298,968	259,991,437	287,093,752	288,376,893	306,500,391
Excise.....	299,775,120	301,851,909	308,921,713	299,091,574	253,904,414
Inheritance and Gift.....	77,084,123	133,261,148	116,898,047	80,110,729	50,825,151
Insurance Companies.....	89,041,589	86,877,861	97,045,435	88,065,247	94,641,133
Motor Fuel.....	918,449,310	914,673,547	907,722,042	740,209,790	692,893,775
Forest.....	58,648,511	58,061,250	52,253,055	49,561,411	45,557,665
Miscellaneous.....	112,312,779	104,617,943	129,848,806	235,983,488	130,528,135
Subtotal.....	<u>11,098,230,239</u>	<u>11,965,438,019</u>	<u>10,981,919,420</u>	<u>10,503,153,960</u>	<u>9,627,784,975</u>
<b>Federal Aid</b>					
Medical Assistance.....	2,395,438,874	1,961,769,304	1,679,110,792	1,578,071,534	1,590,405,412
AFDC/W2.....	403,990,150	263,964,530	148,879,361	154,334,829	164,787,870
Transportation.....	671,344,340	608,670,820	525,360,773	421,841,928	474,426,495
Education.....	1,028,557,046	957,144,633	870,817,978	805,930,081	798,317,039
Other.....	1,727,232,553	1,055,061,747	1,154,327,827	972,945,870	987,991,522
Subtotal.....	<u>6,226,562,962</u>	<u>4,846,611,034</u>	<u>4,378,496,731</u>	<u>3,933,124,242</u>	<u>4,015,928,338</u>
<b>Fees</b>					
University of Wisconsin System.....	2,155,613,345	632,110,050	578,407,190	552,167,916	509,412,010
Other.....	300,580,123	282,404,664	267,718,834	244,291,725	232,011,982
Subtotal.....	<u>2,456,193,468</u>	<u>914,514,714</u>	<u>846,126,024</u>	<u>796,459,641</u>	<u>741,423,992</u>
<b>Licenses and Permits</b>					
Vehicles and Drivers.....	324,531,760	326,133,108	304,346,133	290,782,206	244,748,335
Hunting and Fishing.....	78,929,285	132,906,803	84,829,913	56,268,405	49,494,891
Other.....	328,027,538	243,832,829	260,410,783	273,800,793	372,081,930
Subtotal.....	<u>731,488,582</u>	<u>702,872,740</u>	<u>649,586,829</u>	<u>620,851,404</u>	<u>666,325,156</u>
<b>Miscellany</b>					
Service Charges.....	524,635,878	500,897,911	423,557,725	407,273,543	407,520,980
Sales of Products.....	679,562,010	687,203,049	684,788,382	675,171,110	640,015,801
Investment Income.....	(4,003,889,358)	8,119,031,124	5,825,766,448	8,626,768,140	7,887,795,007
Gifts and Grants.....	373,700,027	349,206,053	281,312,163	301,417,790	258,967,175
Employee Benefit					
Contributions <sup>(b)</sup> .....	1,847,520,797	1,558,509,041	1,697,287,871	1,484,849,345	1,455,505,437
General Obligation Proceeds.....	1,012,418,625	702,676,279	490,002,803	444,985,883	290,612,226
Other Revenues <sup>(c)</sup> .....	709,942,714	1,867,986,094	1,184,536,265	847,094,578	749,323,693
Subtotal.....	<u>1,143,890,693</u>	<u>13,785,509,551</u>	<u>10,587,251,657</u>	<u>12,787,560,389</u>	<u>11,689,740,319</u>
<b>Summary</b>					
TOTAL NET REVENUE.....	21,656,365,944	32,214,946,058	27,443,380,661	28,641,149,636	26,741,202,780
Transfers.....	620,137,706	658,364,767	656,836,667	956,781,647	669,555,936
Gross Revenue.....	<u>\$ 22,276,503,650</u>	<u>\$ 32,873,310,825</u>	<u>\$ 28,100,217,328</u>	<u>\$ 29,597,931,283</u>	<u>\$ 27,410,758,716</u>

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

<sup>(b)</sup> Figures include all State and non-State employer and employee contributions. State contributions for State employees totaled \$758,283,014 for 2000-01; \$668,926,218 for 1999-2000; \$641,535,593 for 1998-99; \$608,663,836 for 1997-98; and \$576,660,781 for 1996-97.

<sup>(c)</sup> The increase from 1998-99 to 1999-2000 reflects tobacco settlement receipts and an increase in child support collections.

Source: Wisconsin Department of Administration.

The gross receipts tax is 3.19% for electric cooperatives. Light, heat, and power companies pay a gross receipts license fee at the rates of 0.97% of revenues from gas services and 3.19% of revenues from electric services. Each year's fee is based on revenues collected in the previous year. Revenue received from utilities 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 20% of the manufacturer's list price. The tax is collected from distributors and subjobbers. Wine is taxed at 25 cents to \$3.25 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 27.3 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.

### **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 was \$19,154 for 1999 and increased to \$24,500 for 2000 and thereafter. The maximum amount of aidable property taxes is \$1,450, and the amount of farm acreage on which the property tax is based is 120 acres. For renters, the amount of rent allocated as property tax is 25%, or 20% if heat is included in rent.

### *Earned Income Tax Credit*

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

The State's earned income tax credit is calculated as a percentage of the federal credit. The federal earned income tax credit varies by income and family size. In addition to the federal standards, the State's credit varies the percent of the federal credit by number of children: 4% of the federal credit for one child, 14% for two, and 43% for three or more. The maximum State credit in tax year 2000 ranged from \$94 for one child, \$544 for two children, and \$1,672 for three or more children.

### *Farmland Preservation Tax Credit*

The farmland preservation program provides property tax relief to farmland owners and encourages local governments to develop farmland preservation policies. The credit reduces income tax liability or is rebated if the credit exceeds income tax due. The credit formula is based on household income, the amount of property tax 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 fiscal year 2001, farmers received \$17.4 million in farmland preservation tax credits.

### *School Levies Tax Credit*

The school levies tax credit is distributed based on each municipality's share of statewide levies for school purposes and is provided to all classes of taxpayers (residential, commercial, industrial, and others). For property taxes levied in December 2001, \$469 million of school levy tax credits will be distributed statewide, and the credit will lower school property taxes paid by taxpayers by 16% of the gross school tax levy. The credits are paid to municipalities to reduce the amount due from all property taxpayers.

### *Lottery Property Tax Credit.*

The net proceeds of the state lottery are reserved for property tax relief. 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. Lottery credits will total \$106.0 million in December 2001.

### *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 constituting property taxes, for a maximum credit of \$300. In fiscal year 2000-2001, taxpayers are expected to receive \$319.0 million in school property tax/rent credits.

### **Tax Collection Procedure (Delinquencies)**

If a taxpayer does not file a valid return when requested, the Department of Revenue 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.

The Department of Revenue 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 the Department of Revenue.

Collection of delinquencies begins with a notice of delinquency, 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 the Department of Revenue, 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 shows the amounts expended (all funds) by function and type for each of the last five years.

**Table II-2**  
**EXPENDITURES BY FUNCTION AND TYPE (ALL FUNDS)<sup>(a)</sup>**  
**1996-97 TO 2000-2001**

	<u>2000-01</u>	<u>1999-2000</u>	<u>1998-99</u>	<u>1997-98</u>	<u>1996-97</u>
<b>Commerce</b>					
State Operations.....	\$ 171,267,613	\$ 162,895,100	\$ 150,658,080	\$ 147,344,847	\$ 145,911,884
Aids to Individuals and Organizations.....	215,454,938	346,664,701	155,481,162	151,694,308	157,468,642
Local Assistance.....	51,631,378	56,346,765	58,646,694	53,076,585	62,755,294
Subtotal.....	438,353,929	565,906,566	364,785,936	352,115,740	366,135,820
<b>Education</b>					
State Operations.....	3,075,483,311	2,804,394,458	2,622,619,858	2,502,704,172	2,344,846,070
Aids to Individuals and Organizations.....	391,871,206	342,821,711	323,423,408	280,565,768	286,352,107
Local Assistance.....	4,941,446,927	4,676,809,090	4,435,185,215	4,163,022,316	3,982,781,815
Subtotal.....	8,408,801,444	7,824,025,259	7,381,228,481	6,946,292,256	6,613,979,992
<b>Environmental Resources</b>					
State Operations.....	1,689,461,785	1,471,082,344	1,427,889,702	1,289,397,451	1,207,567,848
Aids to Individuals and Organizations.....	25,802,608	25,185,553	27,519,834	11,458,404	19,948,063
Local Assistance.....	1,011,992,606	1,039,528,614	967,912,080	851,469,438	825,580,909
Subtotal.....	2,727,256,998	2,535,796,511	2,423,321,616	2,152,325,292	2,053,096,820
<b>Human Relations and Resources</b>					
State Operations.....	1,972,235,028	1,863,099,973	1,726,775,813	1,573,507,826	1,397,116,967
Aids to Individuals and Organizations.....	5,711,855,259	5,220,672,714	3,971,027,191	3,484,623,091	3,463,741,981
Local Assistance.....	697,998,641	676,100,856	699,232,414	650,326,226	669,708,105
Subtotal.....	8,382,088,927	7,759,873,543	6,397,035,418	5,708,457,143	5,530,567,053
<b>General Executive</b>					
State Operations.....	3,870,708,222	3,356,742,192	2,925,101,503	2,885,868,362	2,307,744,396
Aids to Individuals and Organizations.....	357,195,805	302,438,911	300,649,421	304,857,854	300,295,018
Local Assistance.....	59,560,427	40,962,042	35,229,960	36,173,254	63,969,441
Subtotal.....	4,287,464,453	3,700,143,145	3,260,980,884	3,226,899,470	2,672,008,855
<b>Judicial</b>					
State Operations.....	85,292,057	78,820,982	74,014,002	69,616,266	65,595,425
Local Assistance.....	23,726,900	23,666,900	21,416,900	21,410,600	21,362,200
Subtotal.....	109,018,957	102,487,882	95,430,902	91,026,866	86,957,625
<b>Legislative</b>					
State Operations.....	62,220,008	59,819,385	58,081,525	55,051,282	53,218,947
Subtotal.....	62,220,008	59,819,385	58,081,525	55,051,282	53,218,947
<b>General</b>					
State Operations.....	564,306,377	656,616,891	709,978,546	725,825,981	721,694,632
Aids to Individuals and Organizations.....	837,938,682	884,416,569	178,777,552	185,874,167	191,255,582
Local Assistance.....	1,675,208,599	1,779,060,238	1,639,701,767	1,701,484,672	1,347,118,143
Subtotal.....	3,077,453,657	3,320,093,698	2,528,457,865	2,613,184,820	2,260,068,357
<b>General Obligation Bond Program</b>					
State Operations.....	675,100,374	576,493,991	453,827,797	435,910,841	440,373,335
Subtotal.....	675,100,374	576,493,991	453,827,797	435,910,841	440,373,335
<b>Summary Totals</b>					
State Operations.....	12,166,074,774	11,029,965,316	10,148,946,826	9,685,227,028	8,684,069,504
Aids to Individuals and Organizations.....	7,540,118,497	7,122,200,159	4,956,878,568	4,419,073,591	4,419,061,393
Local Assistance.....	8,461,565,478	8,292,474,505	7,857,325,030	7,476,963,090	6,973,275,907
GRAND TOTAL.....	<u>\$28,167,758,749</u>	<u>\$26,444,639,980</u>	<u>\$22,963,150,424</u>	<u>\$21,581,263,709</u>	<u>\$20,076,406,804</u>

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

Source: Wisconsin Department of Administration.

## **General Fund Expenditures**

Based on the budget and allocations for the 2001-02 fiscal year, over 60% 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 (23%).

# **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.

## **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, 2001 the State has prepared a Comprehensive Annual Financial Report (CAFR) in accordance with GAAP. The General Purpose Financial Statements section of the CAFR for the fiscal year ended June 30, 2001 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, 2001 was a surplus of \$207.5 million on the statutory basis. Under GAAP, the balance at June 30, 2001 was a deficit of \$1,214.8 million. The

difference results primarily because GAAP recognizes accrued liabilities that are not taken into account under the statutory basis. The single largest accrued liability for the fiscal year ended June 30, 2001 was \$489.0 million and related to the State's payment of shared revenues to municipalities and counties.

## **BUDGETING PROCESS AND FISCAL CONTROLS**

The State Constitution requires the Legislature to enact a balanced budget. The State's fiscal year runs from July 1 through June 30 of the following year. State law establishes procedures for the budget's enactment:

- The Secretary of Administration, under the direction of the Governor, compiles all budget information and prepares an executive budget consisting of the planned operating expenditures and revenues of all State agencies. The Department of Revenue furnishes forecasts of tax revenues to the Department of Administration.
- The budget is submitted by the Governor to the Legislature on or about the last Tuesday in January of each odd-numbered year.
- The Legislature's Joint Committee on Finance reviews the executive budget and reports its findings to the full Legislature, usually in the form of a substitute budget bill.
- Both houses of the Legislature must ultimately concur with the appropriations and revenue measures embodied in the budget bill and then the entire bill is submitted to the Governor.
- The Governor is empowered to sign the bill into law or to veto all or part of the bill. If the Governor vetoes any portions, those items may be reconsidered in accordance with the rules of each house and, if approved by two-thirds of the members of each house, will become law notwithstanding the Governor's veto.

In the event that a budget is not in effect at the start of a fiscal year, the prior year's budget serves as the budget until such time as a new one is enacted.

The Legislature is required to provide an annual tax sufficient to meet the estimated expenses of the State each year, including debt service on all outstanding general obligations. Should a deficiency occur in any year, the Legislature must levy taxes sufficient to cover both the deficit and the estimated expenses of the ensuing year.

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 percentage of the general purpose revenue appropriations for that fiscal year. For the 2000-01 fiscal year, the specified percentage was 1.2%, and the statutorily required reserve was \$134 million. For the 2001-02 fiscal year, the specified percentage is also 1.2%, and the statutorily required reserve is \$138 million. State law currently



requires that, beginning with the 2003-04 fiscal year, the statutory required reserve be 1.6% and gradually increase each year so that it is 2.0% by the 2005-06 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 be 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, the Legislature and its Joint Committee on Finance, and the Governor must submit a bill correcting the imbalance. If the Legislature is not in session, the Governor must call a special session to take up the matter.

The Secretary of Administration also has statutory power to order reductions in the appropriations of state agencies (which represent less than one-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. In such an event, the Department of Administration may also request the issuance of operating notes by the State of Wisconsin Building Commission (**Commission**).

## **RESULTS OF 2000-01 FISCAL YEAR**

Both actual and projected financial results are described in this document on an all-funds basis and a general-fund basis.

The Annual Fiscal Report (Budgetary Basis) for the fiscal year ending June 30, 2001 was published October 15, 2001. It reports that the State ended the fiscal year on a statutory and unaudited basis with an unreserved, undesignated balance of \$208 million. This is \$24 million more than the \$184 million that was included in the budget for the 2000-01 fiscal year. The State did not issue any operating notes during the 2000-01 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 address on the first page of this Part II of the Annual Report.

Table II-3 summarizes the results from fiscal year 2000-01 as compared to the 2000-01 budget.

**Table II-3  
State Budget  
Results of 2000-01 Fiscal Year  
General-Fund Basis  
(Amounts in Millions)**

	<u>Actual 2000-01</u>	<u>Budgeted 2000-01</u>
Beginning Balance	\$ 836	\$ 659
Tax Revenues	10,079	10,281
Nontax Revenues	<u>9,206</u>	<u>7,172</u>
Total Amount Available	\$20,121	\$18,112
Total Disbursements/Reserves	\$19,904	\$18,063
Estimated Balance	\$ 217	\$ 49
Designated For Expenditure	9	n/a
Statutory Required Reserve	<u>n/a</u>	<u>134</u>
Undesignated Balance	\$ 208	\$ 183

**All-Funds Basis  
(Amounts in Millions)**

	<u>Actual 2000-01</u>	<u>Budgeted 2000-01</u>
Beginning Balance	\$ 836	\$ 659
Tax Revenues	11,098	10,281
Nontax Revenues	<u>11,178</u>	<u>17,498</u>
Total Amount Available	\$23,112	\$28,438
Total Disbursements/Reserves	\$22,895	\$28,388
Estimated Balance	\$ 217	\$ 49
Designated For Expenditure	9	n/a
Statutory Required Reserve	<u>n/a</u>	<u>134</u>
Undesignated Balance	\$ 208	\$ 183

**STATE BUDGET**

**Budget for 2001-03**

On August 30, 2001, the Governor signed into law in part, and vetoed in part, the budget for the 2001-02 and 2002-03 fiscal years. A two-thirds vote in each house is required to override any veto. A copy of the approved budget, which incorporates vetoes made by the Governor, along with the Governor's veto message may be obtained from:

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](mailto:capfin@doa.state.wi.us)

Table II-4 provides a general summary, and Tables II-5 and II-6 provide a more detailed summary, of the biennial budget as enacted into law.

*Current Budget Status*

In response to a national economy in recession, the State has implemented a hiring freeze and ordered State agencies to reduce operating budgets by an additional 3.5% for the current 2001-02 fiscal year. On December 18, 2001, the Department of Revenue reported that individual income and sales tax collections through October 31, 2001 were below the Legislative Fiscal Bureau projections used in the preparation of the 2001-03 biennial budget. See “General Fund Information” in this Part II of the Annual Report for general fund revenue and expenditure information for the period ended November 30, 2001.

It is expected that the Legislative Fiscal Bureau will release an updated general fund revenue forecast by late-January 2002. At that time, if the Secretary of Administration determines that budgeted expenditures will exceed revenues by more than one-half of one percent of general purpose revenues, the Secretary of Administration is required by law to notify the Governor, the Legislature, and its Joint Committee on Finance, and the Governor must submit a bill correcting the imbalance. If the Legislature is not in session, the Governor must call a special session to take up the matter.

**Table II-4  
General-Fund Basis  
(Amounts in Millions)**

	<u>Actual 2000-01</u>	<u>Budget 2001-02</u>	<u>Budget 2002-03</u>
Beginning Balance	\$ 836	\$ 198	\$ 275
Tax Revenues	10,079	10,661	11,131
Tobacco Securitization Proceeds	n/a	450	n/a
Tobacco Settlement Payments	124	155	158
Nontax Revenues	<u>9,082</u>	<u>8,010</u>	<u>8,112</u>
Total Amount Available	\$20,121	\$19,474	\$19,676
Total Disbursements/Reserves	<u>\$19,904</u>	<u>\$19,199</u>	<u>\$19,636</u>
Estimated Gross Balance	\$ 217	\$ 275	\$ 40
Designated for Expenditure	9	n/a	n/a
Required Statutory Reserve	<u>n/a</u>	<u>138</u>	<u>143</u>
Net Balance	\$ 208	\$ 137	\$ (103) <sup>(a)</sup>

**All-Funds Basis  
(Amounts in Millions)**

	<u>Actual 2000-01</u>	<u>Budget 2001-02</u>	<u>Budget 2002-03</u>
Beginning Balance	\$ 836	\$ 198	\$ 275
Tax Revenues	11,089	10,661	11,131
Tobacco Securitization Proceeds	n/a	450	n/a
Tobacco Settlement Payments	124	155	158
Nontax Revenues	<u>11,054</u>	<u>19,898</u>	<u>20,038</u>
Total Amount Available	\$23,112	\$31,363	\$31,601
Total Disbursements/Reserves	<u>\$22,895</u>	<u>\$31,088</u>	<u>\$31,561</u>
Estimated Gross Balance	\$ 217	\$ 275	\$ 40
Designated for Expenditure	9	n/a	n/a
Required Statutory Reserve	<u>n/a</u>	<u>138</u>	<u>143</u>
Net Balance	\$ 208	\$ 137	\$ (103) <sup>(a)</sup>

<sup>(a)</sup> One of the Governor’s vetoes prevented the shift of a school aid payment of \$115 million from June 2003 to July 2003 to avoid an increase in the State’s GAAP deficit. This negative fund balance assumes that the Legislature’s Joint Committee on Finance opts to make this payment when it sets the fiscal year 2002-2003 school aid funding level in June 2002. The budget meets the constitutional balance requirement because the gross balance is positive.

**Table II-5  
State Budget—All Funds<sup>(a)</sup>**

	<u>Actual 2000-2001<sup>(b)</sup></u>	<u>Budget 2000-2001</u>	<u>Budget 2001-2002</u>	<u>Budget 2002-2003</u>
<b>RECEIPTS</b>				
Fund Balance from Prior Year.....	\$ 835,714,000	\$ 658,784,800 <sup>(c)</sup>	\$ 197,829,200	\$ 275,402,200
<b>Tax Revenue</b>				
Individual Income.....	5,156,565,000	5,158,800,000	5,455,527,500	5,687,055,500
General Sales and Use.....	3,609,895,000	3,710,000,000	3,750,575,400	3,975,136,000
Corporate Franchise and Income.....	537,159,000	658,300,000	594,197,100	606,318,500
Public Utility.....	239,238,000	220,000,000	244,000,000	249,977,500
<b>Excise</b>				
Cigarette/Tobacco Products.....	254,867,000	255,200,000	314,900,000 <sup>(d)</sup>	322,850,000 <sup>(d)</sup>
Liquor and Wine.....	35,543,000	33,500,000	35,900,000	36,800,000
Malt Beverage.....	9,365,000	9,300,000	9,500,000	9,500,000
Inheritance, Estate & Gift.....	77,084,000	75,000,000	110,000,000	91,000,000
Insurance Company.....	89,042,000	100,000,000	90,000,000	92,000,000
Other.....	1,089,472,000	61,000,000 <sup>(e)</sup>	56,600,000 <sup>(e)</sup>	60,300,000 <sup>(e)</sup>
Subtotal.....	<u>11,098,230,000</u>	<u>10,281,100,000</u>	<u>10,661,200,000</u>	<u>11,130,937,500</u>
<b>Nontax Revenue</b>				
<b>Departmental Revenue</b>				
Tobacco Settlement.....	124,389,000	124,763,700	155,526,000	157,602,800
Tobacco Securitization.....	NA	NA	450,000,000	NA
Other.....	226,993,000	190,946,100	228,159,800	205,922,300
Total Federal Aids.....	5,499,440,000	4,703,374,700	5,480,779,400	5,569,179,100
Total Program Revenue.....	3,382,374,000	2,734,917,200	3,017,256,400	3,081,343,100
Total Segregated Funds.....	3,998,487,000	2,292,791,500	3,210,905,000	2,908,494,600
Bond Authority.....	1,012,419,000	400,000,000	500,000,000	383,000,000
Employee Benefit Contributions <sup>(f)</sup> .....	(3,065,828,000)	7,051,394,300	7,461,324,917	7,889,603,973
Subtotal.....	<u>11,178,274,000</u>	<u>17,498,187,500</u>	<u>20,503,951,517</u>	<u>20,195,145,873</u>
Total Available.....	<u>\$ 23,112,218,000</u>	<u>\$ 28,438,072,300</u>	<u>\$ 31,362,980,717</u>	<u>\$ 31,601,485,573</u>
<b>DISBURSEMENTS AND RESERVES</b>				
Commerce.....	\$ 450,530,000	\$ 415,866,300	\$ 424,005,100	\$ 424,913,400
Education.....	8,673,626,000	8,223,303,400	8,705,842,100	8,992,452,100
Environmental Resources.....	2,805,522,000	2,437,927,900	2,681,682,500	2,693,527,500
Human Relations and Resources.....	8,597,677,000	6,733,347,000	7,795,217,500	8,050,009,400
General Executive.....	4,360,894,000	669,656,800	770,231,300	769,646,400
Judicial.....	109,019,000	104,709,200	105,252,300	105,622,700
Legislative.....	62,220,000	59,086,500	63,818,500	63,112,500
General Appropriations.....	3,108,270,000	2,163,488,700	2,695,544,400	2,269,025,800
General Obligation Bond Program.....	583,078,000	400,000,000	500,000,000	383,000,000
Employee Benefit Payments <sup>(f)</sup> .....	2,655,528,000	2,695,311,400	3,377,515,809	3,830,081,149
Reserve for Employee Benefit Payments <sup>(f)</sup> .....	0	4,356,082,900	4,083,809,108	4,059,522,824
Subtotal.....	<u>31,406,364,000</u>	<u>28,258,780,100</u>	<u>31,202,918,617</u>	<u>31,640,913,773</u>
Less: (Lapses).....	NA	(122,124,800)	(149,272,400)	(177,409,300)
Compensation Reserves.....	NA	117,750,000	27,900,000	82,500,000
Required Statutory Balance.....	NA	134,328,600	138,726,600	142,701,500
Transfer to Tobacco Control Board.....	NA	NA	6,032,300	15,345,100
Change in Continuing Balance.....	<u>(8,511,569,000)</u>	<u>NA</u>	<u>NA</u>	<u>NA</u>
Total Disbursements & Reserves.....	<u>\$ 22,894,795,000</u>	<u>\$ 28,388,733,900</u>	<u>\$ 31,226,305,117</u>	<u>\$ 31,704,051,073</u>
Fund Balance.....	\$ 217,423,000	\$ 49,338,400	\$ 136,675,600	\$ (102,565,500) <sup>(g)</sup>
Undesignated Balance.....	\$ 207,508,000	\$ 183,667,000	\$ 275,402,200	\$ 40,136,000

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

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

(c) The beginning balance for the 2000-2001 fiscal year represents information when the budget became law.

(d) The increase is the result of an \$0.18 per pack increase on cigarettes.

(e) The budgeted amounts do not include taxes collected for segregated funds. The largest such tax is the motor fuel tax. The State collected \$827 million of motor fuel taxes in the 2000-2001 fiscal year.

(f) 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 the 2000 Annual Report.

(g) One of the Governor's vetoes prevented the shift of a school aid payment of \$115 million from June 2003 to July 2003 to avoid an increase in the State's GAAP deficit. This negative fund balance assumes that the Legislature's Joint Committee on Finance opts to make this payment when it sets the fiscal year 2002-2003 school aid funding level in June 2002. The budget meets the constitutional balance requirement because the Undesignated Balance is positive.

Sources: Legislative Fiscal Bureau and Wisconsin Department of Administration.

**Table II-6  
State Budget–General Fund<sup>(a)</sup>**

	Actual 2000-2001 <sup>(b)</sup>	Budget 2000-2001	Budget 2001-2002	Budget 2002-2003
<b>RECEIPTS</b>				
Fund Balance from Prior Year.....	\$ 835,714,000	\$ 658,784,800 <sup>(c)</sup>	\$ 197,829,200	\$ 275,402,200
<b>Tax Revenue</b>				
State Taxes Deposited to General Fund				
Individual Income.....	5,156,565,000	5,158,800,000	5,455,527,500	5,687,055,500
General Sales and Use.....	3,609,895,000	3,710,000,000	3,750,575,400	3,975,136,000
Corporate Franchise and Income.....	537,159,000	658,300,000	594,197,100	606,318,500
Public Utility.....	239,238,000	220,000,000	244,000,000	249,977,500
<b>Excise</b>				
Cigarette/Tobacco Products.....	254,867,000	255,200,000	314,900,000 <sup>(d)</sup>	322,850,000 <sup>(d)</sup>
Liquor and Wine.....	35,543,000	33,500,000	35,900,000	36,800,000
Malt Beverage.....	9,365,000	9,300,000	9,500,000	9,500,000
Inheritance, Estate & Gift.....	77,084,000	75,000,000	110,000,000	91,000,000
Insurance Company.....	89,042,000	100,000,000	90,000,000	92,000,000
Other.....	70,573,000	61,000,000	56,600,000	60,300,000
Subtotal.....	10,079,331,000	10,281,100,000	10,661,200,000	11,130,937,500
<b>Nontax Revenue</b>				
Departmental Revenue				
Tobacco Settlement.....	124,389,000	124,763,700	155,526,000	157,602,800
Tobacco Securitization.....	NA	NA	450,000,000	NA
Other.....	226,993,000	190,946,100	228,159,800	205,922,300
Program Revenue-Federal.....	5,472,647,000	4,121,351,700	4,764,099,400	4,824,834,300
Program Revenue-Other.....	3,382,374,000	2,734,917,200	3,017,256,400	3,081,343,100
Subtotal.....	9,206,403,000	7,171,978,700	8,615,041,600	8,269,702,500
Total Available.....	\$ 20,121,448,000	\$ 18,111,863,500	\$ 19,474,070,800	\$ 19,676,042,200
<b>DISBURSEMENTS AND RESERVES</b>				
Commerce.....	\$ 221,297,000	\$ 220,214,600	\$ 229,323,700	\$ 234,907,900
Education.....	8,353,243,000	8,163,838,300	8,637,401,400	8,920,102,400
Environmental Resources.....	272,918,000	259,939,200	254,440,800	262,716,600
Human Relations and Resources.....	7,287,626,000	6,541,581,500	7,441,989,600	7,520,124,900
General Executive.....	651,970,000	569,934,100	635,922,900	636,185,000
Judicial.....	108,676,000	104,051,400	104,543,200	104,913,600
Legislative.....	62,220,000	59,086,500	63,818,500	63,112,500
General Appropriations.....	2,490,467,000	2,013,925,700	1,946,568,600	1,973,407,500
Subtotal.....	19,448,417,000	17,932,571,300	19,314,008,700	19,715,470,400
Less: (Lapses).....	NA	(122,124,800)	(149,272,400)	(177,409,300)
Compensation Reserves.....	NA	117,750,000	27,900,000	82,500,000
Required Statutory Balance.....	NA	134,328,600	138,726,600	142,701,500
Transfer to Tobacco Control Board.....	NA	NA	6,032,300	15,345,100
Changes in Continuing Balance.....	455,608,000	NA	NA	NA
Total Disbursements & Reserves.....	\$ 19,904,025,000	\$ 18,062,525,100	\$ 19,337,395,200	\$ 19,778,607,700
Fund Balance.....	\$ 217,423,000	\$ 49,338,400	\$ 136,675,600	\$ (102,565,500) <sup>(e)</sup>
Undesignated Balance.....	\$ 207,508,000	\$ 183,667,000	\$ 275,402,200	\$ 40,136,000

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

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

(c) The beginning balance for the 2000-2001 fiscal year represents information when the budget became law.

(d) The increase is the result of an \$0.18 per pack increase on cigarettes.

(e) One of the Governor's vetoes prevented the shift of a school aid payment of \$115 million from June 2003 to July 2003 to avoid an increase in the State's GAAP deficit. This negative fund balance assumes that the Legislature's Joint Committee on Finance opts to make this payment when it sets the fiscal year 2002-2003 school aid funding level in June 2002. The budget meets the constitutional balance requirement because the Undesignated balance is positive.

Sources: Legislative Fiscal Bureau and Wisconsin Department of Administration.

### Potential Effect of Litigation

**APPENDIX A** to this part of the Annual Report includes the General Purpose Financial Statements for the fiscal year ended June 30, 2001. The notes to the General Purpose 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, 2001, are outlined below.

*Corporate Tax Measured by Interest from U.S. Securities*

The 2001-02 budget does not provide for payment of any claim.

*Federal Pension Income*

The State is current on making refunds. The 2001-02 budget does not provide for payment of refunds to individuals that the State is currently engaged in litigation with on the matter of whether or not they are federal employees.

*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 40,000 civil service employees, approximately 34,000 are employees whose wage rates, fringe benefits, hours, and conditions of employment are determined by collective bargaining agreements. All of 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. Current labor agreements expired on June 30, 2001, but have been extended while the State continues to negotiate the agreements for the period ending June 30, 2003.

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 2001-03 budget are based on May 15, 2001 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 on May 15, 2001 by the Legislative Fiscal Bureau was based primarily on certain projections presented in a May 7, 2001 report by DRI-WEFA, which provides national economic forecasts, data base support, and consulting services. See [Table II-7](#) for a summary of the May 7, 2001 DRI-WEFA report and subsequent results of the Wisconsin Econometric Model of the Department of Revenue (**DOR**).

#### *Wisconsin Econometric Model*

The Wisconsin Econometric Model (**Model**) is a forecasting tool used for predicting the future of the State's economy, measured primarily by income and employment. The Model provides the Department of Revenue with information about how the State's economy responds to changes in the national environment and plays a critical role in the revenue estimating process. The Model was first designed by Standard & Poor's Data Resources Inc. (**DRI**), which is a predecessor to DRI-WEFA. The Department of Revenue has redesigned the Model to correspond to changes in national modeling concepts in the DRI-WEFA Macro Model of the U.S. economy. The Department of Revenue also maintains the Model.

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

Maintaining the Model is an ongoing process. The Model is calibrated to be temporally consistent 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-7**  
**ECONOMIC FORECASTS**  
**U.S. ECONOMIC FORECAST**

	Calendar Year				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Real GDP and its Components</b>					
<b>(Amounts in Chain Weighted 1996 Dollars)</b>					
GDP .....	\$9,505.1	\$9,734.9	\$10,120.4	\$10,469.6	\$10,848.1
Percent Change .....	2.0	2.4	4.0	3.5	3.6
Consumption .....	6,476.4	6,679.5	6,948.0	7,194.6	7,460.9
Investment (including inventory) .....	1,803.7	1,836.3	1,968.3	2,068.2	2,167.2
Nonresidential Structures .....	300.5	281.1	276.1	275.2	278.5
Business Equipment .....	1,142.4	1,200.7	1,314.2	1,418.3	1,512.5
Residential Fixed .....	355.1	345.4	363.8	374.8	384.8
Change in Inventory .....	13.8	29.8	47.0	44.5	46.3
Exports .....	1,145.6	1,200.2	1,290.4	1,385.8	1,488.6
Imports .....	1,561.5	1,667.1	1,807.4	1,935.1	2,056.6
Federal Government .....	563.6	575.5	585.6	596.1	606.4
State and Local Government .....	1,053.6	1,078.7	1,102.6	1,125.9	1,148.6
GDP (Current Dollars) .....	10,404.8	10,876.9	11,510.7	12,105.3	12,748.3
<b>Money and Interest Rates</b>					
Money Supply (M2) (billions) .....	\$5,276.9	\$5,791.0	\$6,157.9	\$6,474.9	\$6,787.5
Percent Change .....	9.9	9.7	6.3	5.1	4.8
Prime Commercial Rate .....	7.3	6.6	7.2	7.7	8.0
3-Month Treasury Bills (rate) .....	3.8	3.3	3.9	4.3	4.6
10-Year Treasury Note Yield (rate) .....	5.1	5.1	5.3	5.4	5.5
G.O. AAA Municipals (rate) .....	5.2	5.5	5.5	5.5	5.7
30-Year Mortgage (rate) .....	7.0	6.9	7.2	7.3	7.4
<b>Income, Profits and Savings</b>					
<b>(Amounts in Billions)</b>					
Personal Income .....	\$8,664.3	\$9,040.0	\$9,553.4	\$10,054.1	\$10,571.6
Percent Change .....	4.6	4.3	5.7	5.2	5.1
Personal Income (\$ 1996) .....	\$7,883.1	\$8,086.0	\$8,412.2	\$ 8,719.6	\$ 9,024.3
Percent Change .....	2.2	2.6	4.0	3.7	3.5
Savings Rate .....	-0.3	-0.2	0.2	0.4	0.4
Corporate Profits Before Tax .....	\$ 913.3	\$ 962.3	\$1,023.5	\$ 1,031.9	\$ 1,056.0

**Source: DRI-WEFA, May 7, 2001**

Table II-7 - Continued

WISCONSIN EMPLOYMENT FORECAST

Annual Industry Detail Average (Thousands of Workers)	Calendar Year				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Mining .....	2.6	2.4	2.3	2.2	2.1
Percent Change .....	-4.5	(7.2)	(5.1)	(5.1)	(4.8)
Construction .....	126.8	123.8	123.4	124.9	127.5
Percent Change .....	0.4	(2.4)	(0.3)	1.2	2.1
Durable Goods .....	360.8	347.5	353.3	360.5	365.5
Percent Change .....	(3.9)	(3.7)	1.7	2.0	1.4
Nondurable Goods .....	238.8	237.6	239.4	241.0	243.2
Percent Change .....	(0.9)	(0.5)	0.8	0.6	0.9
Transportation and Utilities .....	135.1	135.3	136.8	139.6	142.1
Percent Change .....	1.3	0.2	1.0	2.0	1.8
Finance, Insurance, Real Estate .....	151.4	151.1	152.6	154.6	156.0
Percent Change .....	1.9	(0.2)	1.0	1.3	0.9
Retail Trade .....	499.8	498.8	500.6	505.6	509.6
Percent Change .....	0.6	(0.2)	0.4	1.0	0.8
Wholesale Trade .....	139.8	139.8	141.1	142.5	143.6
Percent Change .....	0.4	0.0	0.9	1.0	0.8
Services .....	784.3	797.0	817.1	837.9	860.4
Percent Change .....	2.4	1.6	2.5	2.5	2.7
Government .....	407.7	411.3	413.4	415.4	417.3
Percent Change .....	0.7	0.9	0.5	0.5	0.4
Total Nonfarm .....	2,847.3	2,844.6	2,880.0	2,924.0	2,967.2
Percent Change .....	0.5	(0.1)	1.2	1.5	1.5

Source: Wisconsin Department of Revenue, Economic Outlook, June 2001

WISCONSIN INCOME FORECAST

Components of Personal Income (Amounts in Billions)	Calendar Year				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Wages and Salaries .....	\$ 92.67	\$ 96.52	\$101.57	\$106.59	\$111.43
Other Labor Income .....	9.43	9.64	10.06	10.45	10.94
Farm Proprietor's Income .....	(0.03)	(0.04)	(0.05)	(0.08)	(0.11)
Nonfarm Proprietor's Income .....	8.82	9.39	9.93	10.25	10.56
Rental Income .....	2.53	2.60	2.61	2.60	2.62
Personal Dividend Income .....	8.93	9.45	10.05	10.49	10.93
Personal Interest Income .....	20.75	20.19	21.01	22.08	23.32
Transfer Payments .....	19.70	20.88	21.92	22.82	23.77
Residence Adjustment .....	2.87	3.05	3.27	3.49	3.72
Contributions to Social Insurance ..	6.85	6.97	7.23	7.50	7.75
Personal Income .....	158.81	164.71	173.14	181.18	189.42
Personal Taxes and Nontax Pmts ...	24.79	25.09	26.02	27.28	28.36
Disposable Personal Income .....	134.02	139.62	147.11	153.90	161.05

**Table II-7 - continued**

**Inflation Adjusted Income Measures (1996 Dollars)**

Real Personal Income (billions).....	\$ 144.49	\$ 147.32	\$ 152.49	\$ 157.13	\$ 161.69
Percent Change.....	2.5	2.0	3.5	3.1	2.9
Real Personal Income/Capita.....	\$26,973.0	\$27,333.0	\$28,126.0	\$28,837.0	\$29,529.0
Percent Change.....	1.8	1.3	2.9	2.5	2.4
Personal Income/Capital (Current \$).....	\$29,648.0	\$30,559.0	\$31,942.0	\$33,252.0	\$34,593.0
Percent Change.....	4.2	3.1	4.5	4.1	4.0

**Source: Wisconsin Department of Revenue, Wisconsin Economic Outlook, June 2001**

**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. 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 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

The State has experienced and expects to continue to experience certain periods when the General Fund is in a negative cash position. The Statutes provide certain administrative remedies to deal with these periods. The Secretary of Administration may temporarily reallocate up to 5% of the general-purpose revenue appropriations then in effect of available cash in other funds to the General Fund. This amount is approximately \$571 million for fiscal year 2001-02. 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 \$343 million) 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.

**Table II-8** presents the detailed actual (through November 30, 2001) and projected (December 1, 2001 to June 30, 2002) cash flow for the 2001-02 fiscal year. **Table II-9** presents a monthly summary of the General Fund from July 1, 1999 through November 30, 2001 and the projected cash flow for December 1, 2001 through June 30, 2002. The amounts reported include the proceeds of the sale of operating notes in September 2001 and the payment of impoundments for February, March, April, and May of 2002. No operating notes were issued in the 1999-2000 and 2000-01 fiscal years. 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"**. 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-4** through **II-6** include tax revenues that are net of tax refunds.

Monthly projections of cash flow are based upon the 2001-02 budget and upon historical experience as adjusted to reflect economic conditions, statutory, and administrative changes and

anticipated payment dates for debt service, payrolls, and State aid. Unforeseen events or variations from underlying assumptions may cause a decrease in receipts or an increase in disbursements from those projected for a given month and thus may adversely affect the projection of cash flow for the time shown. Additionally, the timing of transactions from month to month may vary from the forecast.

**Table II-10** presents the actual cash balances available for interfund borrowings from July 1, 1999 through November 30, 2001 and the projected balances for December 1, 2001 through June 1, 2002.

**Tables II-11** and **II-12** present actual revenues deposited into the General Fund and expenditures made from the General Fund for the period of July 1, 2001 to November 30, 2001 as compared to the period of July 1, 2000 to November 30, 2000.

**Table II-8**  
**ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2001 TO NOVEMBER 30, 2001**  
**PROJECTED GENERAL FUND CASH FLOW; DECEMBER 1, 2001 TO JUNE 30, 2002<sup>(a)</sup>**

	(In Thousands of Dollars)											
	July 2001	August 2001	September 2001	October 2001	November 2001	December 2001	January 2002	February 2002	March 2002	April 2002	May 2002	June 2002
<b>BALANCES<sup>(b)</sup></b>												
<b>Beginning Balance</b>	281,565	3,398	397,659	1,290,819	1,821,610	943,651	406,156	1,307,754	1,301,547	251,851	740,198	587,834
<b>Ending Balance</b>	3,398	397,659	1,290,819	1,821,610	943,651	406,156	1,307,754	1,301,547	251,851	740,198	587,834	217,177
<b>Lowest Balance<sup>(c)</sup></b>	-162,060	-202,246	-99,652	1,248,678	943,651	-70,989	380,603	1,112,342	251,846	101,893	426,822	-326,014
<b>RECEIPTS</b>												
<b>TAX RECEIPTS</b>												
Individual Income	507,468	388,372	533,868	508,613	399,103	435,531	845,077	430,041	443,860	811,393	429,834	627,011
Sales & Use	343,973	356,048	342,096	348,297	358,636	288,662	369,900	289,719	293,399	282,828	350,012	326,873
Corporate Income	12,421	16,903	112,886	24,461	10,693	128,032	23,626	13,605	164,286	28,166	15,822	128,507
Public Utility	0	0	518	3,561	131,654	644	222	17	27	1,915	103,839	256
Excise	29,231	26,372	28,085	27,504	39,451	31,051	31,271	28,280	26,644	31,160	30,130	32,735
Insurance	999	1,657	19,935	339	887	19,567	2,426	7,049	15,109	16,744	1,591	18,461
Inheritance	6,638	6,162	13,423	5,645	5,568	20,818	6,188	11,962	9,291	7,573	9,516	7,951
<b>Subtotal Tax Receipts</b>	<b>900,730</b>	<b>795,514</b>	<b>1,050,811</b>	<b>918,420</b>	<b>945,992</b>	<b>924,305</b>	<b>1,278,710</b>	<b>780,673</b>	<b>952,616</b>	<b>1,179,779</b>	<b>940,744</b>	<b>1,141,794</b>
<b>NON-TAX RECEIPTS</b>												
Federal	343,646	452,855	365,526	452,845	346,684	369,088	512,306	424,688	403,006	397,870	407,317	419,409
Other & Transfers <sup>(d)</sup>	331,074	249,196	303,861	260,628	176,794	239,804	357,808	322,272	291,277	345,090	268,432	773,263
Note Proceeds <sup>(e)</sup>	0	0	800,000	0	0	0	0	0	0	0	0	0
<b>Subtotal Non-Tax Receipts</b>	<b>674,720</b>	<b>702,051</b>	<b>1,469,387</b>	<b>713,473</b>	<b>523,478</b>	<b>608,892</b>	<b>870,114</b>	<b>746,960</b>	<b>694,283</b>	<b>742,960</b>	<b>675,749</b>	<b>1,192,672</b>
<b>TOTAL RECEIPTS</b>	<b>1,575,450</b>	<b>1,497,565</b>	<b>2,520,198</b>	<b>1,631,893</b>	<b>1,469,470</b>	<b>1,533,197</b>	<b>2,148,824</b>	<b>1,527,633</b>	<b>1,646,899</b>	<b>1,922,739</b>	<b>1,616,493</b>	<b>2,334,466</b>
<b>DISBURSEMENTS</b>												
Local Aids	878,438	160,458	663,004	99,188	975,970	1,134,988	193,985	232,404	1,134,613	123,724	252,270	1,733,478
Income Maintenance	363,315	352,214	309,334	372,969	339,757	324,309	357,080	331,234	331,237	338,696	375,622	330,367
Payroll and Related	215,318	300,380	204,832	303,186	421,307	238,815	314,948	285,089	289,629	320,024	445,620	213,875
Tax Refunds	105,487	44,995	46,906	43,602	66,467	88,035	52,116	222,728	265,435	216,812	164,905	138,378
Debt Service	7	12,463	108,775	0	1,882	0	3,463	11,649	218,650	0	32,861	0
Miscellaneous <sup>(f)</sup>	291,052	232,794	294,187	282,157	542,046	284,545	325,634	252,735	251,468	229,573	292,016	289,025
Note Repayment <sup>(e)</sup>	0	0	0	0	0	0	0	198,001	205,563	205,563	205,563	0
<b>TOTAL DISBURSEMENTS</b>	<b>1,853,617</b>	<b>1,103,304</b>	<b>1,627,038</b>	<b>1,101,102</b>	<b>2,347,429</b>	<b>2,070,692</b>	<b>1,247,226</b>	<b>1,533,840</b>	<b>2,696,595</b>	<b>1,434,392</b>	<b>1,768,857</b>	<b>2,705,123</b>

(a) Excludes Inter-Fund Borrowing and is based on the 2001-03 biennial budget signed into law by the Governor (2001 Wisconsin Act 16).

(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. The designated funds are expected to range from \$150 to \$300 million during the 2001-02 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 2001-02 fiscal year.

(c) Lowest daily balance within each month.

(d) The projections assume that \$450 million of proceeds from the securitization of tobacco payments due the State under the Master Settlement Agreement will be received on June 3, 2002.

(e) Includes \$800 million in operating note proceeds received in September, 2001 and impoundment payments to be made on February 28, March 29, April 30, and May 31, 2002. The February, 2002 impoundment payment excludes the premium that was deposited on September 20, 2001 into the operating note redemption fund.

(f) \$275 million in federal intergovernmental transfer funds was transferred to the Medical Assistance Trust Fund on November 30, 2001.

Table II-9

**GENERAL FUND MONTHLY CASH POSITION**  
**July 1, 1999 through November 30, 2001 — Actual**  
**December 1, 2001 through June 30, 2002 — Estimated<sup>(a)</sup>**  
**(Amounts in Thousands)**

	<u>Starting Date</u>	<u>Starting Balance</u>	<u>Receipts<sup>(c)</sup></u>	<u>Disbursements<sup>(c)</sup></u>
1999	July.....	\$ 736,269	\$ 1,441,009	\$ 1,836,987
	August.....	340,291	1,308,849	868,154
	September.....	780,986	1,547,229	1,292,942
	October.....	1,035,273	1,331,192	1,031,907
	November.....	1,334,558	1,433,801	1,794,197
	December.....	974,162	1,449,618	1,987,753
2000	January.....	436,027	2,095,798	1,693,313
	February.....	838,512	1,544,207	1,240,280
	March.....	1,142,439	1,526,625	2,143,437
	April.....	525,627	1,812,812	1,174,173
	May.....	1,164,266	1,580,865	1,172,474
	June.....	1,572,657	1,910,223	2,811,272
	July.....	671,608	1,405,811	1,674,899
	August.....	402,520	1,391,600	1,036,240
	September.....	757,880	1,716,848	1,540,488
	October.....	934,240	1,545,868	1,039,609
	November.....	1,440,499	1,451,918	1,886,868
	December.....	1,005,549	1,335,205	2,070,373
2001	January.....	270,381	2,143,861	1,190,946
	February.....	1,223,296	1,494,577	1,339,377
	March.....	1,378,496	1,381,012	2,312,836
	April.....	446,672	2,042,531	1,469,093
	May.....	1,020,110	1,800,948	1,405,982
	June.....	1,415,076	1,698,317	2,831,828
	July.....	281,565	1,575,450	1,853,617
	August.....	3,398	1,497,565	1,103,304
	September.....	397,659	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	1,533,197	2,070,692
2002	January.....	406,156	2,148,824	1,247,226
	February.....	1,307,754	1,527,633	1,533,840
	March.....	1,301,547	1,646,899	2,696,595
	April.....	251,851	1,922,739	1,434,392
	May.....	740,198	1,616,493	1,768,857
	June.....	587,834	2,334,466	2,705,123

<sup>(a)</sup> The General Fund balances presented in this table are not based on Generally Accepted Accounting Principles (GAAP).

<sup>(b)</sup> The monthly receipt and disbursement projections for December 1, 2001 through June 30, 2002 are based on estimates provided by the Division of Executive Budget and Finance and the 2001-03 biennial budget signed into law by the Governor (2001 Wisconsin Act 16).

<sup>(c)</sup> The amounts shown in September 2001 include receipts from the issuance of operating notes and amounts shown in February–May 2002 include disbursements for impoundment payments required in connection with the issuance of operating notes. No operating notes were issued in the 1999-2000 or 2000-01 fiscal years. In addition, the receipt amounts shown in June 2002 include \$450 million of proceeds from the expected securitization of tobacco settlement revenues due the State under the Master Settlement Agreement.

**Source: Wisconsin Department of Administration.**

**Table II-10**

**BALANCES IN FUNDS AVAILABLE FOR INTERFUND BORROWING<sup>(a)</sup>**  
**July 1, 1999 to November 30, 2001 — Actual**  
**December 1, 2001 to June 1, 2002 — Estimated<sup>(b)</sup>**  
**(Amounts in Millions)**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
January .....		\$ 3,735	\$ 3,701	\$ 1,726
February .....		4,159	4,435	1,798
March .....		4,262	4,786	1,821
April .....		4,267	5,212	1,725
May .....		3,961	4,952	1,680
June .....		3,636	4,680	1,759
July .....	\$ 4,017	3,733	4,925	
August .....	4,245	4,084	5,275	
September .....	3,865	3,743	4,785	
October .....	3,820	3,796	4,328	
November .....	3,374	3,378	4,242	
December .....	3,411	3,489	1,654 <sup>(b)</sup>	

<sup>(a)</sup> Consists of the following funds:

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

<sup>(b)</sup> Estimated balances for December 1, 2001 and succeeding months include only 20% of the amount estimated to 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 ranged from a low of \$63 million on July 1, 1983 to a high of \$4.426 billion on March 1, 1994. Under Section 20.002 (11), Wisconsin Statutes, interfund borrowing is limited to 5% of the total general-purpose revenue appropriations then in effect, which based on the 2000-2001 budget is approximately \$571 million, and an additional 3% (approximately \$343 million) for a period of up to 30 days.

**Source: Wisconsin Department of Administration.**



**Table II-11**

**GENERAL FUND REVENUES<sup>(a)</sup>  
July 1, 2001 to November 30, 2001 compared with previous year  
(Unaudited)**

	<b>Actual Revenues 2000-01FY<sup>(b)</sup></b>	<b>Projected Revenues 2001-02 FY<sup>(c)</sup></b>	<b>Actual Revenues July 1, 2000 to November 30, 2000</b>	<b>Actual Revenues July 1, 2001 to November 30, 2001</b>
Individual Income Tax .....	\$ 4,725,971,194	\$ 5,455,527,500	\$ 1,867,642,790	\$ 1,818,813,727
General Sales and Use Tax ..	3,251,963,963	3,750,485,400	1,224,864,940	1,258,196,045
Corporate Franchise and Income Tax .....	542,395,802	594,297,100	138,001,348	127,417,174
Public Utility Taxes .....	239,628,753	244,000,000	115,746,221	127,210,989
Excise Taxes .....	271,939,928	360,300,000	106,945,147	120,426,575
Inheritance Taxes .....	77,348,470	110,000,000	31,347,050	36,841,272
Miscellaneous Taxes .....	<u>65,446,092</u>	<u>146,600,000</u>	<u>30,082,886</u>	<u>37,985,363</u>
SUBTOTAL.....	9,174,694,202	10,661,210,000	3,514,630,381	3,526,891,146
Federal Receipts.....	4,774,563,490	4,766,889,000	1,692,942,719	1,974,468,565
Dedicated and Other Revenues <sup>(d)</sup> .....	<u>4,409,432,922</u>	<u>3,851,470,400</u>	<u>1,278,968,661</u>	<u>1,055,504,199</u>
TOTAL.....	<u>\$ 18,358,690,614</u>	<u>\$ 19,279,569,400</u>	<u>\$ 6,486,541,761</u>	<u>\$ 6,556,863,910</u>

- (a) The amounts shown are based on the statutory accounting basis and not on GAAP. The statutory accounting basis requires that some cash deposits made after June 30th are recorded as revenues in the prior fiscal year. Therefore, the revenues in this table will not be comparable to the receipts shown in the monthly general fund cash flow tables included earlier in this Part II of the Annual Report. See "ACCOUNTING AND FINANCIAL REPORTING".
- (b) The amounts shown are the sum of all revenues for fiscal year 2000-01 based on the data used in the preparation of the Annual Fiscal Report, Budgetary Basis, for the year ended June 30, 2001.
- (c) Projected revenues based on the 2001-03 biennial budget signed into law by the Governor (2001 Wisconsin Act 16).
- (d) The statutory basis of accounting requires that certain transfers between General Fund appropriations be recorded as both revenues and expenditures of the General Fund. The amount of these transfers may vary greatly between fiscal years, and therefore, this category may not be comparable on a historical basis.

**Source: Wisconsin Department of Administration.**

**Table II-12**

**GENERAL FUND EXPENDITURES BY FUNCTION<sup>(a)</sup>  
July 1, 2001 to November 30, 2001 compared with previous year  
(Unaudited)**

	<b>Actual Expenditures 2000-01 FY<sup>(b)</sup></b>	<b>Appropriations 2001-02 FY<sup>(c)</sup></b>	<b>Actual Expenditures July 1, 2000 to November 30, 2000</b>	<b>Actual Expenditures July 1, 2001 to November 30, 2001</b>
Commerce.....	\$ 198,769,259	\$ 229,909,200	\$ 88,923,707	\$ 91,937,036
Education.....	8,260,686,345	8,655,045,700	2,283,690,026	2,403,125,719
Environmental Resources.....	263,226,746	254,725,800	94,879,275	94,785,135
Human Relations & Resources.....	7,421,203,809	7,450,283,800	2,734,202,984	3,065,577,280
General Executive.....	647,756,285	639,385,700	242,674,337	243,482,294
Judicial.....	105,763,121	104,641,000	48,649,133	46,705,883
Legislative.....	57,909,745	63,929,500	22,055,083	22,978,139
General Appropriations.....	<u>2,470,911,322</u>	<u>1,946,568,600</u>	<u>1,560,177,405</u>	<u>1,507,795,823</u>
<b>TOTAL.....</b>	<b><u>\$ 19,426,226,632</u></b>	<b><u>\$ 19,344,489,300</u></b>	<b><u>\$ 7,075,251,950</u></b>	<b><u>\$ 7,476,387,310</u></b>

- (a) The amounts shown are based on the statutory accounting basis and not on GAAP. The statutory accounting basis requires that some expenditures made after June 30th be recorded as expenses in the prior fiscal year. Therefore, the expenditures in this table will not be comparable to the disbursements shown in the general fund cash flow tables included earlier in this Part II of the Annual Report. See **“ACCOUNTING AND FINANCIAL REPORTING”**.
- (b) The amounts shown are the sum of all revenues for fiscal year 2000-01 based on the data used in the preparation of the Annual Fiscal Report, Budgetary Basis, for the year ended June 30, 2001.
- (c) Estimated appropriations based on the 2001-03 biennial budget signed into law by the Governor (2001 Wisconsin Act 16).

**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<sup>(a)</sup>**  
**(Amounts in Thousands)**

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
<b>ASSETS</b>					
Cash & Investment Pool Shares.....	\$ 288,792	\$ 678,331	\$ 867,293	\$ 446,212	\$ 498,692
Contingent Fund Advances.....	3,514	3,910	4,322	3,981	4,086
Investments.....	446	445	445	445	445
<b>Receivables</b>					
Accounts Receivable.....	1,028,554	995,286	896,640	811,184	816,708
Due from Other Funds.....	39,165	22,398	158,398	58,454	16,486
Inventory.....	418	1			
Prepayments.....	54,807	59,761	42,338	50,935	40,884
<b>TOTAL ASSETS.....</b>	<b><u>\$ 1,415,696</u></b>	<b><u>\$ 1,760,132</u></b>	<b><u>\$ 1,969,436</u></b>	<b><u>\$ 1,371,211</u></b>	<b><u>\$ 1,377,301</u></b>
<b>LIABILITIES</b>					
Accounts Payable.....	\$ 343,261	\$ 282,582	\$ 521,609	\$ 337,998	\$ 330,589
Due to Other Funds.....	46,898	63,804	282,825	59,090	301,406
Tax and Other Deposits.....	41,925	39,231	52,979	50,406	62,084
Advances from Other Funds.....				2,000	4,000
Deferred Revenue.....	38,848	27,600	35,999	27,889	26,498
<b>TOTAL LIABILITIES.....</b>	<b><u>\$ 470,932</u></b>	<b><u>\$ 413,217</u></b>	<b><u>\$ 893,412</u></b>	<b><u>\$ 477,383</u></b>	<b><u>\$ 724,577</u></b>
<b>FUND BALANCE</b>					
<b>Reserves</b>					
Encumbrances & GPR Balances .....	\$ 106,438	\$ 136,731	\$ 100,700	\$ 143,312	\$ 110,482
Program Revenue Balances.....	392,327	635,798	237,576	217,276	155,684
Total Reserves.....	\$ 498,765	\$ 772,529	\$ 338,276	\$ 360,588	\$ 266,166
Unreserved Balance-Undesignated.....	445,999	574,416	737,748	533,240	386,558
<b>TOTAL FUND BALANCE.....</b>	<b><u>\$ 944,764</u></b>	<b><u>\$ 1,346,945</u></b>	<b><u>\$ 1,076,024</u></b>	<b><u>\$ 893,828</u></b>	<b><u>\$ 652,724</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCE.....</b>	<b><u>\$ 1,415,696</u></b>	<b><u>\$ 1,760,162</u></b>	<b><u>\$ 1,969,436</u></b>	<b><u>\$ 1,371,211</u></b>	<b><u>\$ 1,377,301</u></b>

<sup>(a)</sup> 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 19 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 of which 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* regulates the conditions of the growth and processing of food and fair trade practices in general, including consumer protection.
- *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 879,476 students attending public elementary and secondary schools in 2000-01. 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 2000-01 academic year, 439,934 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 2000-01 was 156,976 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.
- *Technology for Educational Achievement in Wisconsin Board (TEACH Wisconsin)*, which provides support for investment in educational technology and telecommunications access for public school districts, public library boards, cooperative educational service agencies, private schools and colleges, tribal colleges, and technical college districts.

#### *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 extirpative 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. Approximately 4.9 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. The 2001-03 biennial budget established 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, accounting, payroll, financial reporting, engineering and facilities management and planning
- *Department of Electronic Government* duties include oversight of all State information technology activities and data processing.
- *Department 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.
- *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 Facilities Development, 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, 2001, the State had \$4.240 billion of outstanding general obligations.

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

### **Operating Notes**

The Commission may issue operating notes to fund operating expenses upon the request of the Department of Administration if the Department determines that a deficiency will occur in the funds of the State 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.

No operating notes were issued in the 2000-01 fiscal year. As of the date of this Annual Report, \$800 million of Operating Notes have been issued in the 2001-02 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 base payments to be made by the State. As of December 1, 2001, the principal amount of the State's obligations under the master lease program was approximately \$89 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.

Six such programs have been authorized.

- *Student loan program—colleges, universities, and technical colleges.* This program is operated in conjunction with an independently funded corporation, which insures against default in repayment, and the federal guaranteed student loan program, which reimburses the corporation for insurance payments made. The Commission has issued three bond series for this program. All outstanding bonds were defeased on June 11, 1991.
- *Student loan program—medical and dental schools in Wisconsin.* This program operates with direct insurance from the federal government under its Health Educational Assistance Loan program. The Commission has issued six series of bonds for this program. All outstanding bonds were redeemed as of October 1, 2001.
- *Veterans housing loan program.* All loans under this program are to be guaranteed by the Federal Veterans Administration or insured by a private mortgage insurer. The Commission has issued two series of bonds for this program. All outstanding bonds were redeemed as of August 1, 1996.
- *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 twelve 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 \$1.099 billion as of December 15, 2001. 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 wastewater treatment facilities. The Commission has issued seven series of bonds for this program (not including refunding bond issues), which were outstanding in the amount of \$588 million as of December 1, 2001. 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 one series of extendible municipal commercial paper for this program, which were outstanding in the amount of \$279 million as of December 18, 2001. See [Part VII of this Annual Report](#) for additional information on petroleum inspection fee revenue obligations.

### **Independent Authorities**

State law creates and grants to three independent special purpose authorities the power to issue bonds and notes. Neither of these entities is a department or agency of the State, and neither can issue bonds or notes that are legal obligations of the State. 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.* \$325 million of borrowing authority, excluding debt issued to refund other debt, of which \$148 million were available on November 30, 2001.
- *Housing rehabilitation programs.* \$100 million of borrowing authority, of which \$100 million were available on November 30, 2001.
- *Single-family home ownership mortgage loan program.* WHEDA has issued \$4.292 billion in such bonds as of November 30, 2001. In the one-year period ending November 30, 2001, WHEDA sold three single-family issues totaling \$154 million.
- *Residential facilities for the elderly and chronically disabled.* \$99 million of borrowing authority, by which it has sold three bond issues totaling \$5 million as of November 30, 2001.
- *Economic development and agriculture loans.* \$217 million of borrowing authority of which, as of November 30, 2001, it has sold 134 series of bonds for economic development and agriculture totaling \$81 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, 2001 WHEFA had outstanding 240 issues totaling approximately \$4.7 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 whefa@execpc.com.

### *University of Wisconsin Hospital and Clinics Authority*

The University of Wisconsin Hospital 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 June 30, 2001 UWHC had outstanding two issues totaling approximately \$107 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 Hospital and Clinics Authority, Room H4/824, 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 exposition 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 not less than 500,000 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 not less 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 loans carry 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 \$414 million that carry a moral obligation of the State.

<u>Name of WHEDA Issue</u>	<u>Maturity Date</u>	<u>Principal Issued</u>	<u>Outstanding Balance</u>
<b>Housing Revenue Bonds</b>			
1992 Series A	11/1/2012	\$ 72,450,000	\$ 49,920,000
1992 Series B, C & D	11/1/2022	72,945,000	66,985,000
1993 Series A & B	11/1/2023	77,560,000	56,005,000
1993 Series C	11/1/2019	145,785,000	110,060,000
1995 Series A & B	11/1/2026	51,700,000	42,555,000
1998 Series A, B & C	11/1/2032	39,895,000	37,495,000
1999 Series A & B	11/1/2031	41,400,000	40,100,000
2000 Series A& B	11/1/2032	<u>10,785,000</u>	<u>10,685,000</u>
Totals		\$512,700,000	\$413,805,000

- 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 exposition district (Wisconsin Center District) that is outstanding in the amount of \$126 million that carries a moral obligation of the State. Two other local exposition 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.

**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 Employee 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 2002 are set at the following rates:

- 5.0% of salary for general employees including teachers
- 3.1% for elected officials, judges, and certain other positions in State government
- 4.0% for protective occupation participants who are also covered by Social Security
- 3.0% 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 0.2% nonrefundable contribution is required from general employees, including teachers.

The employer contribution is actuarially determined each year by an independent actuarial firm. For calendar year 2002 employer contributions have been established at the following rates:

- 7.1% for protective participants with Social Security
- 10.4% for protective participants without Social Security
- 8.6% for elected officials and judges
- 3.8% 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 June 30, 2029. The State is also charged 2.6% 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.

1999 Wisconsin Act 11 became effective on June 12, 2001 when the Wisconsin Supreme Court ruled the law to be constitutional. This act made significant benefit and funding changes to the Wisconsin Retirement System, including the following:

- Increasing the benefit formula for all service earned before January 1, 2000.
- Increasing death benefits for some participants.
- Reopening the variable investment fund to new participants.
- Recognizing \$4 billion in deferred market gains.
- Changing the actuarial assumptions for wage inflation and investment returns.
- Providing a contribution holiday for employers.
- Changing the actuarial method for smoothing market gains and losses.

The funding mechanisms provided in the act are expected to fully fund the changes in benefits, resulting in no increase in either the unfunded accrued liability, or in future contribution rates.

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 \$698 million as of December 31, 2000. As of June 30, 2001 the State's share of the unfunded accrued liability of the Wisconsin Retirement System was \$689.5 million.



**Table II-14**  
**WISCONSIN RETIREMENT SYSTEM**  
**ACTUARIAL STATEMENT OF ASSETS AND LIABILITIES**  
**DECEMBER 31, 2000 (UNAUDITED)**  
**(Amounts in Millions)**

	<u>12/31/2000</u>	<u>12/31/99</u>	<b>Increase (Decrease)</b>
<b>Assets and Employer Obligations:</b>			
<u>Net Assets</u>			
Cash, Investments & Receivables			
Less: Payables & Suspense Items			
Fixed Division .....	\$43,670.1	\$41,157.5	\$2,512.6
Variable Division.....	<u>7,988.3</u>	<u>8,246.2</u>	<u>(257.9)</u>
Totals .....	<u>51,658.4</u>	<u>49,403.7</u>	<u>2,254.7</u>
<u>Obligations of Employers</u>			
Unfunded Accrued Liability.....	<u>2,169.0</u>	<u>2,145.8</u>	<u>23.2</u>
<b>TOTAL ASSETS .....</b>	<b><u>\$53,827.4</u></b>	<b><u>\$51,549.5</u></b>	<b><u>\$2,277.9</u></b>
<b>Reserves and Surplus:</b>			
<u>Reserves</u>			
Actuarial Present Value of Projected Benefits Payable to Terminated Vested Participants and Active Members:			
Member Normal Contributions.....	12,703.6	12,597.6	106.0
Member Additional Contributions.....	166.1	172.0	(5.9)
Employer Contributions.....	<u>18,039.7</u>	<u>17,489.2</u>	<u>550.5</u>
Total Contributions.....	\$30,909.4	\$30,258.8	\$ 650.6
Actuarial Present Value of Projected Benefits Payable to Current Retirees And Beneficiaries:			
Fixed Annuities.....	\$17,794.6	\$15,687.2	\$2,107.4
Variable Annuities .....	<u>4,749.3</u>	<u>3,659.1</u>	<u>1,090.2</u>
TOTAL ANNUITIES.....	<u>22,543.9</u>	<u>19,346.3</u>	<u>3,197.6</u>
TOTAL RESERVES .....	<u>\$53,453.3</u>	<u>\$49,605.1</u>	<u>\$3,848.2</u>
<u>Surplus</u>			
Fixed Annuity Reserve Surplus .....	912.0	1,170.6	(258.6)
Variable Annuity Reserve Surplus .....	<u>(537.9)</u>	<u>723.8</u>	<u>(1,261.7)</u>
TOTAL SURPLUS.....	<u>374.1</u>	<u>1,944.4</u>	<u>(1,520.3)</u>
<b>TOTAL RESERVES AND SURPLUS.....</b>	<b><u>\$53,827.4</u></b>	<b><u>\$51,549.5</u></b>	<b><u>\$2,277.9</u></b>

## 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, 2000 was \$2.71 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 (3.1% for Executive and Elected Officials, 4.0% for Protective Occupations with Social Security, and 3.0% 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, 2000 was \$305.8 million, which consisted of \$159.7 million or 5.9% of payroll from the employer and \$146.1 million or 5.4% 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 Employee 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, 2000 was \$698 million or 32.6% of the total system unfunded liability of \$2.14 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, 2000 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)**

<u>Year</u>	<u>A</u> <u>Net Real</u> <u>Assets</u>	<u>B</u> <u>Unfunded</u> <u>Actuarial</u> <u>Liability</u>	<u>C</u> <u>Reserve</u> <u>Requirement</u> <u>(A+B)</u>	<u>D</u> <u>Funding</u> <u>Ratio</u> <u>(A+C)</u>
1991.....	20,849,375	2,041,706	22,891,081	91.6
1992.....	22,967,100	1,984,865	24,951,965	92.1
1993.....	25,437,200	2,042,926	27,480,126	92.6
1994.....	26,884,600	2,006,900	28,891,500	93.1
1995.....	30,059,826	2,055,718	32,115,544	93.6
1996.....	33,962,600	2,134,400	36,097,000	94.1
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

Source: Wisconsin Department of Employee Trust Funds.

Table II-16

**WISCONSIN RETIREMENT SYSTEM  
COVERED EMPLOYEES  
1991-2000**

<u>Year</u>	<u>Active</u> <u>State</u>	<u>Active</u> <u>Local</u>	<u>Retired</u>
1991.....	60,963	158,723	79,465
1992.....	62,422	163,340	81,508
1993.....	63,118	166,242	83,836
1994.....	64,178	169,488	86,214
1995.....	63,977	172,297	88,998
1996.....	63,886	175,749	92,198
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

Source: Wisconsin Department of Employee Trust Funds.

**Table II-17**  
**WISCONSIN RETIREMENT SYSTEM**  
**REQUIRED CONTRIBUTIONS BY SOURCE<sup>(a)</sup>**  
**(Amounts in Thousands)**

<u>Year</u>	<u>State</u>		<u>Local</u>		<u>Total</u>	
	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
1991 .....	\$3,550	\$221,537	\$5,128	\$535,689	\$ 8,678	\$ 757,226
1992 .....	5,536	235,759	6,797	584,521	12,333	820,280
1993 .....	5,789	246,913	5,223	628,321	11,012	875,234
1994 .....	5,921	258,278	5,218	656,714	11,139	914,992
1995 .....	6,410	270,770	4,816	683,840	11,226	954,610
1996 .....	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

<sup>(a)</sup> Employer contributions include employer pick-up of employee contributions.

**Source: Wisconsin Department of Employee Trust Funds.**

**Table II-18**  
**WISCONSIN RETIREMENT SYSTEM**  
**STATE EMPLOYER CONTRIBUTION RATES<sup>(a)</sup>**

<u>Employee Classification</u>	<u>Current Service</u>	<u>Prior Service</u>	<u>Total</u>
Protective .....	7.1%	0.7%	7.8%
Elected .....	8.6%	1.0%	9.6%
General.....	3.8%	1.3%	5.1%

<sup>(a)</sup> Effective January 1, 2002

**Source: Wisconsin Department of Employee Trust Funds.**

**Table II-19**  
**WISCONSIN RETIREMENT SYSTEM**  
**REVENUES BY TYPE**  
**(Amounts in Thousands)**

<u>Year</u>	<u>Contributions</u>			<u>Investment</u> <u>Income</u>	<u>Supplemental</u>	<u>Misc.</u>	<u>Total</u>
	<u>Required</u> <u>Employee</u>	<u>Required</u> <u>Employer<sup>(a)</sup></u>	<u>Additional</u> <u>Employee</u>				
1991	\$307,748	\$464,834	\$ 3,847	\$2,429,198	\$ 595	\$ 94	\$ 3,206,316
1992	329,801	502,812	4,687	2,080,630	540	0	2,918,470
1993	349,914	536,331	5,516	2,608,684	496	0	3,500,941
1994	364,864	561,265	6,060	1,654,301	444	0	2,586,934
1995	380,993	584,842	8,977	5,903,712	407	113	6,879,044
1996	393,765	661,582	13,199	5,414,556	358	160	6,483,620
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

(a) Employer contributions include amounts required to reduce unfunded accrued liability over a 40-year amortization period beginning in 1990.

**Source: Wisconsin Department of Employee Trust Funds.**

**Table II-20**  
**WISCONSIN RETIREMENT SYSTEM**  
**BENEFIT EXPENDITURES BY TYPE<sup>(a)</sup>**  
**(Amounts in Thousands)**

<u>Year</u>	<u>Separations</u>	<u>Death</u>	<u>Annuities</u>	<u>Supplemental<sup>(b)</sup></u>	<u>Misc.</u>	<u>Total</u>
1991.....	\$27,536	\$ 9,512	\$ 751,554	\$ 595	0	\$ 789,197
1992.....	26,041	10,155	829,546	540	0	866,282
1993.....	20,462	8,078	915,300	496	\$31,362	975,698
1994.....	23,966	11,339	993,771	444	31,362	1,060,882
1995.....	30,180	10,812	1,080,227	407	25,593	1,147,219
1996.....	36,883	15,359	1,254,044	358	24,586	1,331,230
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

(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 Employee Trust Funds.**

**ACTUARIAL ASSUMPTIONS**

The following set forth the actuarial assumptions which will be applied in the determination of contribution levels required for the funding of the retirement system effective January 1, 2002.

**Table II-21  
WISCONSIN RETIREMENT SYSTEM  
SEPARATION BEFORE AGE AND SERVICE RETIREMENT**

**Select and Ultimate Withdrawal**

**% of Active Participants Terminating**

<u>Age &amp; Service</u>	<u>Protective</u>		<u>Public Schools</u>		<u>University</u>		<u>Executive &amp;Elected</u>	<u>Others</u>	
	<u>With</u>	<u>Without</u>	<u>Males</u>	<u>Females</u>	<u>Males</u>	<u>Females</u>		<u>Males</u>	<u>Females</u>
	<u>Soc. Sec.</u>	<u>Soc. Sec.</u>							
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**

<u>Age</u>	<u>Protective</u>		<u>Public Schools</u>		<u>University</u>		<u>Others</u>	
	<u>With</u>	<u>Without</u>	<u>Males</u>	<u>Females</u>	<u>Males</u>	<u>Females</u>	<u>Males</u>	<u>Females</u>
	<u>Soc. Sec.</u>	<u>Soc. Sec.</u>						
20 .....	0.04%	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 Employee Trust Funds.

Table II-22

**WISCONSIN RETIREMENT SYSTEM  
RETIREMENT PATTERNS**

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

<u>Age</u>	<u>% Retiring Next Year</u>									
	<u>General</u>		<u>Public Schools</u>		<u>University</u>		<u>Protective</u>		<u>Executive &amp; Elected</u>	
	<u>Males</u>	<u>Females</u>	<u>Males</u>	<u>Females</u>	<u>Males</u>	<u>Females</u>	<u>With Soc. Sec.</u>	<u>Without Soc. Sec.</u>		
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 Employee Trust Funds.

Table II-23

**WISCONSIN RETIREMENT SYSTEM  
OTHER ASSUMPTIONS**

**Mortality Rates**

**Active & Retired Life Mortality Rates**

<b>Sample Attained Ages</b>	<b>Future Life Expectancy (years)</b>	
	<b>Males</b>	<b>Females</b>
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**

<b>Age</b>	<b>Merit</b>					<b>Total</b>				
	<b>Other</b>	<b>Teachers</b>	<b>Protective</b>	<b>Executive &amp; Elected</b>	<b>Base (Economy)</b>	<b>Other</b>	<b>Teachers</b>	<b>Protective</b>	<b>Executive &amp; Elected</b>	
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**

The future annual invested return is assumed to be 8.0%.  
For benefit calculation purposes an assumed benefit rate of 5.0% is used.

**Source: Wisconsin Department of Employee 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 policies, 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 cannot 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 two 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.

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, 2001 (UNAUDITED)**  
**Market Versus Amortized Cost Valuation Report**

	<u>Amortized Cost</u>	<u>Market Value</u>	<u>Portfolio Percentage at Amortized Cost</u>
U.S. Government Repurchase Agreements...	\$ 25,000,000	\$ 25,000,000	17.9%
U.S. Government Agencies.....	4,885,187,509	4,888,325,868	69.7
U.S. Government Treasuries.....	141,377,256	157,718,820	2.0
Corporate Commercial Paper .....	340,855,802	340,815,585	4.9
Certificates of Deposit .....	379,915,000	379,915,000	5.4
Asset-Backed Securities .....	8,070,199	8,079,307	0.1
Mortgage-Backed Securities.....	2,386,149	2,386,149	0.0
Swaps.....	0	(31,393,628)	0.0
	<u>\$7,008,791,914</u>	<u>\$6,996,847,101</u>	<u>100.0%</u>

Accrued Gross Income: \$16,910,141.38

**Average Maturity for the Last Six Months**

<u>Reporting Date</u>	<u>Average Maturity (Days)</u>	<u>Reporting Date</u>	<u>Average Maturity (Days)</u>
9/30/2001	33	6/30/2001	40
8/31/2001	42	5/31/2001	47
7/31/2001	51	4/30/2001	55

**Summary of Investment Fund Participants**  
**As of September 30, 2001**

	<u>Par Amount (Amounts in Thousands)</u>	<u>Percent of Portfolio</u>
<b>Mandatory Participants</b>		
State of Wisconsin and Agencies .....	\$ 2,551,956	37.9%
State of Wisconsin Investment Board .....	274,885	4.1
<b>Elective Participants</b>		
Local Government Investment Pool.....	<u>3,900,643</u>	<u>58.0</u>
	<u>\$ 6,727,484</u>	100.0%

NOTE: The difference between the total of participants share (\$6,727,484,000) and the amortized cost (\$7,008,791,914) is the result of check float (checks written and posted at the Department of Administration that have not cleared the bank) and a timing delay in posting bank receipts at the department which have already been invested by SWIB.

Source: State of Wisconsin Investment Board

## STATISTICAL INFORMATION

The following tables 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  
1992 TO 2001**

<u>Calendar Year</u>	<u>Value of Taxable Property</u>	<u>Rate of Increase (Decrease)</u>
1992 .....	\$159,927,756,190	—
1993 .....	171,677,163,530	7.6%
1994 .....	184,994,866,100	7.8
1995 .....	201,538,109,000	8.9
1996 .....	216,943,757,600	7.6
1997 .....	233,074,233,400	7.4
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

**Source: Wisconsin Department of Revenue.**

**Table II-26  
DELINQUENCY RATE:  
INCOME, FRANCHISE, GIFT, SALES AND USE TAXES  
1996-97 TO 2000-01**

<u>Fiscal Year</u>	<u>Total Revenues Expected (Amounts in Thousands)</u>	<u>Delinquent Balance (Amounts in Thousands)</u>	<u>Delinquent Balance as a Percent of Total Revenues Expected</u>
1996-97 .....	\$ 8,059,345	\$503,470	6.25%
1997-98 .....	8,767,838	549,488	6.27
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

**Source: Wisconsin Department of Revenue.**

**Table II-27  
POPULATION TREND**

	<b>Wisconsin Total</b>		<b>% Change</b>		<b>Population Per Sq. Mile</b>	
	<b>(Amounts in Thousands)</b>	<b>Rank</b>	<b>Wisconsin</b>	<b>U.S.</b>	<b>Wisconsin</b>	<b>U.S.</b>
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

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

**Table II-28  
POPULATION CHARACTERISTICS  
(April 1990)**

	<b>Wisconsin</b>	<b>U.S.</b>
% Urban .....	65.7	75.2
% Rural/nonfarm .....	30.3	23.2
% Rural/farm .....	4.0	1.6
% Foreign-born .....	2.5	7.9
Dependency Ratio <sup>(a)</sup> .....	1.52	1.62

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

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

<sup>(a)</sup> Population age 18-64 years of age divided by population less than 18 years of age and population 65 years of age and older.

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

**Table II-29**  
**POPULATION BY AGE GROUP**  
**(April 2000)**

	<u>Wisconsin</u>	<u>U.S.</u>
Under 5 .....	6.4%	6.8%
5-17 .....	19.1	18.9
18-44 .....	39.2	39.9
45-64 .....	22.2	22.0
65 + .....	<u>13.1</u>	<u>12.4</u>
Total .....	100.0	100.0

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

**Table II-30**  
**ESTIMATED PERSONAL INCOME**

<u>Year</u>	<u>Wisconsin Total</u> <u>(Amounts in Millions)</u>	<u>Per Capita</u> <u>Wisconsin</u>	<u>Per Capita</u> <u>U.S.</u>	<u>Percentage</u> <u>Wis. to U.S.</u>
1991 .....	\$ 92,669	\$ 18,678	\$ 20,039	93.2%
1992 .....	99,454	19,802	20,979	94.4
1993 .....	104,337	20,529	21,557	95.2
1994 .....	110,570	21,545	22,358	96.4
1995 .....	115,960	22,373	23,272	96.1
1996 .....	121,864	23,303	24,286	96.0
1997 .....	128,920	24,484	25,427	96.3
1998 .....	137,824	26,018	26,909	96.7
1999 .....	143,323	26,863	27,859	96.4
2000 .....	150,866	28,066	29,451	95.3

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

**Table II-31**  
**MEDIAN INCOME FOR FOUR-PERSON FAMILY**

<u>Year</u>	<u>Wisconsin</u>	<u>U.S.</u>	<u>Percentage</u> <u>Wis. to U.S.</u>
1990 .....	\$43,182	\$41,451	104.2%
1991 .....	42,746	43,056	99.3
1992 .....	44,219	44,251	99.9
1993 .....	46,363	45,161	102.7
1994 .....	48,982	47,012	104.2
1995 .....	50,628	49,687	101.9
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

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**

	<u>Wisconsin Distribution</u>			<u>U.S.</u>
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>Distribution</u>
				<u>2000</u>
Farm.....	0.9%	0.8%	0.5%	0.8%
Nonfarm.....	99.1	99.2	99.5	99.2
Private Nonfarm .....	84.6	85.0	85.3	83.6
Agricultural Services, Forestry, Fisheries, etc. ....	0.6	0.6	0.6	0.7
Mining .....	0.2	0.1	0.1	0.8
Construction .....	6.2	6.5	6.6	6.1
Manufacturing .....	26.8	26.2	25.7	15.8
Transportation & Public Utilities.....	5.8	5.9	5.9	6.8
Trade .....	14.8	15.1	15.1	14.9
Finance, Insurance & Real Estate .....	6.6	7.0	7.0	9.4
Services .....	23.3	23.7	24.3	29.2
Government .....	<u>14.5</u>	<u>14.1</u>	<u>14.3</u>	<u>15.5</u>
Total Earnings by Industry .....	100.0	100.0	100.0	100.0
Total Earnings by Industry (Amount in Millions).....	\$85,206	\$90,265	\$86,051	

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

**Table II-33  
ESTIMATED EMPLOYEES IN WISCONSIN ON  
NONAGRICULTURAL PAYROLLS<sup>(a)</sup>  
1999 ANNUAL AVERAGE**

	<u>Wisconsin</u>		<u>U.S.</u>	
	<u>(Amounts in Thousands)</u>	<u>%</u>	<u>(Amounts in Thousands)</u>	<u>%</u>
Mining.....	2.8	0.1	535	0.4
Contract Construction .....	121.1	4.4	6,404	5.0
Manufacturing .....	615.6	22.1	18,543	14.4
Transportation & Public Utilities .....	130.5	4.7	6,826	5.3
Wholesale Trade .....	137.6	5.0	6,924	5.4
Retail Trade.....	490.0	17.6	22,788	17.7
Finance, Insurance & Real Estate.....	146.4	5.3	7,569	5.9
Miscellaneous Services .....	735.0	26.5	39,027	30.3
Government.....	<u>398.0</u>	<u>14.3</u>	<u>20,170</u>	<u>15.7</u>
Total .....	2,776.9	100.0	128,786	100.0

<sup>(a)</sup> Not seasonally adjusted.

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

**Source: Wisconsin Department of Workforce Development**

**Table II-34**  
**GENERAL STATISTICS OF MANUFACTURING<sup>(a)</sup>**

	<u>1992</u>	<u>1997</u>
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

<sup>(a)</sup> 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**

	<u>Wisconsin</u>			<u>United States</u>		
	<u>1980</u>	<u>1999</u>	<u>% Change</u>	<u>1980</u>	<u>1999</u>	<u>% Change</u>
Weekly Earnings .....	\$323.10	\$607.97	88.2	\$288.62	\$580.08	101.0
Weekly Hours.....	40.2	41.9	4.2	39.7	41.7	5.0
Hourly Earnings .....	\$ 8.03	\$ 14.51	80.6	\$ 7.27	\$ 13.91	91.3
Number of All Manufacturer Workers (Amounts in thousands).....	558	616	10.3	20,285	18,543	(7.5)

**Source: Wisconsin Department of Workforce Development.**

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

<u>Year</u>	<u>% Change</u>	
	<u>Wisconsin</u>	<u>U.S.</u>
1991 .....	25,122	(7.9)
1992 .....	30,995	23.4
1993 .....	32,114	3.6
1994 .....	34,619	7.8
1995 .....	32,403	(6.4)
1996 .....	33,296	2.8
1997 .....	31,925	(4.1)
1998 .....	35,436	11.0
1999 .....	35,570	0.4
2000 .....	34,154	(4.0)

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

**Table II-37**  
**UNEMPLOYMENT RATE COMPARISON<sup>(a)</sup>**  
**BY MONTH 1996 to 2001**  
**BY QUARTER 1992 to 1995**

	<u>2001</u>		<u>2000</u>		<u>1999</u>		<u>1998</u>		<u>1997</u>		<u>1996</u>	
	<u>Wis.</u>	<u>U.S.</u>	<u>Wis.</u>	<u>U.S.</u>	<u>Wis.</u>	<u>U.S.</u>	<u>Wis.</u>	<u>U.S.</u>	<u>Wis.</u>	<u>U.S.</u>	<u>Wis.</u>	<u>U.S.</u>
January .....	4.4	4.7	4.0	4.5	4.0	4.8	3.9	5.2	4.5	5.9	4.4	6.3
February ....	5.1	4.6	4.3	4.4	4.0	4.7	4.0	5.0	4.6	5.7	4.6	6.0
March .....	4.8	4.6	4.3	4.3	3.7	4.4	3.9	5.0	4.4	5.5	4.2	5.8
April .....	4.4	4.2	3.8	3.7	3.1	4.1	3.1	4.1	4.1	4.8	3.9	5.4
May .....	3.8	4.1	3.5	3.9	2.8	4.0	2.9	4.2	3.5	4.7	3.4	5.4
June .....	4.5	4.7	4.0	4.2	3.0	4.5	3.5	4.7	4.0	5.2	3.7	5.5
July .....	4.4	4.7	3.7	4.2	2.9	4.5	3.6	4.7	3.7	5.0	3.4	5.6
August .....	4.0	4.9	3.3	4.1	2.6	4.2	3.1	4.5	3.3	4.8	3.1	5.1
September..	3.4	4.7	2.9	3.8	2.3	4.1	3.0	4.4	3.1	4.7	2.8	5.0
October.....	3.9	5.0	2.7	3.6	2.5	3.8	3.1	4.2	2.9	4.4	2.8	4.9
November..			2.9	3.8	2.8	3.8	3.2	4.1	3.0	4.3	3.0	5.0
December ..			<u>3.0</u>	<u>3.7</u>	<u>2.8</u>	<u>3.7</u>	<u>3.1</u>	<u>4.0</u>	<u>3.0</u>	<u>4.4</u>	<u>3.1</u>	<u>5.0</u>
Annual												
Average ...			3.5	4.0	3.0	4.2	3.4	4.5	3.7	4.9	3.5	5.4

<u>1995 Quarters</u>		<u>Wis.</u>	<u>U.S.</u>	<u>1994 Quarters</u>		<u>Wis.</u>	<u>U.S.</u>
I .....		4.5	5.9	I .....		5.9	7.1
II .....		3.8	5.6	II .....		5.0	6.1
III .....		3.2	5.6	III .....		4.3	5.9
IV .....		<u>3.2</u>	<u>5.2</u>	IV .....		<u>3.8</u>	<u>5.3</u>
Annual Average.....		3.7	5.6	Annual Average .....		4.7	6.1

<u>1993 Quarters</u>		<u>Wis.</u>	<u>U.S.</u>	<u>1992 Quarters</u>		<u>Wis.</u>	<u>U.S.</u>
I .....		5.3	7.6	I .....		6.1	8.0
II .....		5.0	6.9	II .....		5.4	7.4
III .....		4.4	6.6	III .....		4.9	7.4
IV .....		<u>4.3</u>	<u>6.1</u>	IV .....		<u>4.3</u>	<u>6.9</u>
Annual Average.....		4.7	6.8	Annual Average .....		5.2	6.4

<sup>(a)</sup> Figures show the percentage of labor force that is unemployed and are not seasonally adjusted.

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



## **APPENDIX A**

### **GENERAL PURPOSE FINANCIAL STATEMENTS**

The following material is a reprint of the “General Purpose Financial Statements” section of the audited CAFR for the fiscal year ended June 30, 2001. The entire CAFR, which is not included in this Annual Report and is not incorporated by reference, 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.state.wi.us/debf/cafr/fy01/01CAFR.HTM](http://www.doa.state.wi.us/debf/cafr/fy01/01CAFR.HTM)

{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 financial statements. The sequential page numbers for the Annual Report continue in Part III.}

**STATE OF**  
**WISCONSIN**

**GENERAL PURPOSE**  
**FINANCIAL STATEMENTS**



For the fiscal year ended June 30, 2001

**Scott McCallum, Governor**

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

**General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2001**

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**SCOTT McCALLUM**  
GOVERNOR

**GEORGE LIGHTBOURN**  
SECRETARY

Office of the Secretary  
Post Office Box 7864  
Madison, WI 53707-7864  
Voice (608) 266-1741  
Fax (608) 267-3842  
TTY (608) 267-9629

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December 13, 2001

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

We are pleased to submit the General Purpose Financial Statements of the State of Wisconsin for the fiscal year ended June 30, 2001.

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

The General Purpose Financial Statements, as well as the Comprehensive Annual Financial Report, are on file at the office of the State Controller. Additional copies are available upon request. A copy of the Comprehensive Annual Financial Report is also available on the Department of Administration homepage on the World Wide Web: <http://www.doa.state.wi.us/debf/cafr/FY01/01cafr.htm>.

Sincerely,

George Lightbourn  
Secretary

William J. Raftery, CPA  
State Controller



## INDEPENDENT AUDITOR'S REPORT

Honorable Members of the Legislature

The Honorable Scott McCallum, Governor

We have audited the accompanying general purpose financial statements of the State of Wisconsin as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the State of Wisconsin's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Wisconsin Department of Transportation Revenue Bond Program and Commercial Paper Program, which represent 85 percent of the assets and 25 percent of the principal and interest expenditures of the debt service funds, 6 percent of the assets and 45 percent of the bond proceeds of the capital projects funds, and 20 percent of the liabilities of the general long-term debt account group, nor did we audit the financial statements of the Environmental Improvement Fund, which represents 35 percent of the assets and 2 percent of the operating revenues of the enterprise funds. In addition, we did not audit the financial statements of the Wisconsin Housing and Economic Development Authority, the Wisconsin Health Care Liability Insurance Plan, and the University of Wisconsin Hospitals and Clinics Authority, which represent 100 percent of the financial activity of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts audited by others, is based upon their reports.

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

For fiscal year 2000-01, the State implemented Governmental Accounting Standards Board Statement Number 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and Statement Number 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, as discussed in Note 12 to the general purpose financial statements.

Two other statements issued by the Governmental Accounting Standards Board establish significant new financial reporting requirements for state and local governments and public colleges and universities: Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for*

*State and Local Governments, and Statement Number 35, Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities.* The State of Wisconsin will implement the new reporting requirements for its fiscal year 2001-02 financial statements.

In our opinion, based upon our audit and the reports of other auditors, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the State of Wisconsin as of June 30, 2001, and the results of its operations; the cash flows of its proprietary fund types, nonexpendable trust funds, and discretely presented component units; the changes in net assets for the pension trust fund and investment trust funds; and the changes in fund balances of the University of Wisconsin System for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we will issue our report dated December 13, 2001, 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. That report, which will be included in the State's single audit report, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

LEGISLATIVE AUDIT BUREAU

December 13, 2001

by



Janice Mueller  
State Auditor

*State of Wisconsin*

**Combined Balance Sheet - All Fund Types, Account Groups and  
Discretely Presented Component Units  
June 30, 2001**

(In Thousands)

	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
<b>Assets and Other Debits</b>						
Assets:						
Cash and Cash Equivalents	\$ 19,264	\$ 485,539	\$ 37,015	\$ 91,482	\$ 948,986	\$ 22,875
Investments	463	3,927	40,699	-	938,224	-
Securities Lending Collateral	-	-	-	-	-	-
Receivables (net of estimated uncollectible accounts):						
Taxes	918,057	105,015	-	-	-	-
Student Loans	-	-	-	-	2,722	-
Veterans Loans	-	-	-	-	39,066	-
Mortgage Loans	-	-	-	-	749,249	-
Insurance Policy Loans	-	-	-	-	3,800	-
Loans to Local Governments	13,041	-	-	-	1,016,885	-
Patients Accounts Receivable	-	-	-	-	-	-
Prior Service Contributions Receivable	-	-	-	-	-	-
Other Receivables	103,788	22,093	12	7	75,093	3,718
Due from Other Funds	159,258	67,590	109	1,076	17,038	26,107
Due from Component Units	12	-	-	-	14	185
Due from Primary Government	-	-	-	-	-	-
Interfund Receivables	-	66	-	-	1,283	-
Due from Other Governments	500,521	130,086	-	-	12,022	317
Inventories	12,447	17,028	-	-	8,134	6,293
Prepaid Items	298,851	16,119	-	-	68,224	31,224
Advances to Other Funds	-	-	-	1,500	-	3,058
Restricted and Limited Use Assets:						
Cash and Cash Equivalents	-	-	-	-	55,247	-
Investments	3	-	-	-	-	-
Capital Lease Receivable - Component Unit	-	-	-	-	-	-
Deferred Charges	-	-	-	-	8,279	402
Fixed Assets	-	-	-	-	140,192	247,693
Other Assets	49,429	3,715	-	-	10,252	-
Other Debits:						
Amount Available in Debt Service Fund	-	-	-	-	-	-
Amount to be Provided for Retirement of General Long-term Obligations	-	-	-	-	-	-
Total Assets and Other Debits	\$ 2,075,133	\$ 851,178	\$ 77,835	\$ 94,066	\$ 4,094,710	\$ 341,871

Fiduciary Fund Type	Account Groups			University of Wisconsin System	Totals - Primary Government (Memorandum Only)	Component Units	Totals - Reporting Entity (Memorandum Only)
	Trust and Agency	General Fixed Assets	General Long-term Debt				
\$ 6,711,490	\$ -	\$ -	\$ 378,572	\$ 8,695,224	\$ 247,660	\$ 8,942,884	
59,719,398	-	-	301,897	61,004,608	458,058	61,462,666	
3,124,933	-	-	-	3,124,933	-	3,124,933	
-	-	-	-	1,023,072	-	1,023,072	
-	-	-	176,812	179,533	-	179,533	
-	-	-	-	39,066	-	39,066	
-	-	-	-	749,249	1,945,988	2,695,237	
-	-	-	-	3,800	-	3,800	
255,265	-	-	-	1,285,191	-	1,285,191	
-	-	-	-	-	58,386	58,386	
2,058,545	-	-	-	2,058,545	-	2,058,545	
617,682	-	-	90,257	912,649	23,772	936,422	
78,092	-	-	17,127	366,398	-	366,398	
-	-	-	6,002	6,213	-	6,213	
-	-	-	-	-	2,330	2,330	
-	-	-	81,039	82,388	-	82,388	
83,566	-	-	63,638	790,149	7,764	797,914	
-	-	-	27,044	70,946	7,111	78,057	
8,765	-	-	21,805	444,988	2,338	447,326	
-	-	-	-	4,558	-	4,558	
30,444	-	-	-	85,691	-	85,691	
-	-	-	-	3	340,197	340,200	
-	-	-	28,597	28,597	-	28,597	
-	-	-	8,498	17,179	14,062	31,241	
635	2,145,229	-	4,167,770	6,701,520	180,284	6,881,804	
269,893	-	-	-	333,289	10,197	343,486	
-	-	9,155	-	9,155	-	9,155	
-	-	4,046,482	-	4,046,482	-	4,046,482	
\$ 72,958,709	\$ 2,145,229	\$ 4,055,637	\$ 5,369,058	\$ 92,063,427	\$ 3,298,148	\$ 95,361,575	

(Continued)



**Combined Balance Sheet - All Fund Types, Account Groups and  
Discretely Presented Component Units  
June 30, 2001**

(Continued)

	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
<b>Liabilities, Equity and Other Credits</b>						
Liabilities:						
Accounts Payable and Other						
Accrued Liabilities	\$ 489,537	\$ 352,481	\$ -	\$ 19,490	\$ 185,418	\$ 33,319
Due to Other Funds	80,164	67,391	24	28,225	58,567	3,354
Due to Component Units	1,071	-	-	-	-	-
Due to Primary Government	-	-	-	-	-	-
Interfund Payables	14,597	1,283	-	66	24,870	41,573
Due to Other Governments	1,480,824	64,104	-	17,495	2,176	62
Tax Refunds Payable	861,293	4,555	-	-	-	-
Tax and Other Deposits	57,931	5,855	-	-	11,870	-
Deferred Revenue	304,565	11,770	-	4	63,443	9,154
Interest Payable	-	-	31,405	-	11,104	1,536
Advances from Other Funds	-	3,058	-	-	-	-
Short-term Notes Payable	-	80,000	-	334,652	3,570	32,518
Securities Lending Collateral Liability	-	-	-	-	-	-
Future Benefits and Loss Liabilities	-	-	-	-	1,030,650	100,286
Capital Leases	-	-	-	-	1,208	4,073
Capital Leases - Primary Government	-	-	-	-	-	-
Installment Contracts Payable	-	-	-	-	-	-
Compensated Absences	-	-	-	-	7,158	2,034
Employer Pension Costs	-	-	-	-	-	-
General Obligation Bonds Payable	-	-	690	-	802,831	108,224
Revenue Bonds and Notes Payable	-	-	36,560	-	588,004	-
Claims, Judgments and Commitments	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>3,289,981</b>	<b>590,498</b>	<b>68,680</b>	<b>399,931</b>	<b>2,790,869</b>	<b>336,133</b>
Equity and Other Credits:						
Contributed Capital	-	-	-	-	1,143,876	23,308
Investment in General Fixed Assets	-	-	-	-	-	-
Retained Earnings:						
Reserved	-	-	-	-	32,757	-
Unreserved	-	-	-	-	127,208	(17,570)
Fund Balances:						
Reserved	374,025	661,046	-	153,682	-	-
Unreserved:						
Designated	-	-	-	-	-	-
Undesignated	(1,588,872)	(400,365)	9,155	(459,547)	-	-
<b>Total Equity and Other Credits</b>	<b>(1,214,848)</b>	<b>260,680</b>	<b>9,155</b>	<b>(305,865)</b>	<b>1,303,841</b>	<b>5,738</b>
<b>Total Liabilities, Equity and Other Credits</b>	<b>\$ 2,075,133</b>	<b>\$ 851,178</b>	<b>\$ 77,835</b>	<b>\$ 94,066</b>	<b>\$ 4,094,710</b>	<b>\$ 341,871</b>

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

Fiduciary Fund Type	Account Groups			University of Wisconsin System	Totals - Primary Government (Memorandum Only)	Component Units	Totals - Reporting Entity (Memorandum Only)
	Trust and Agency	General Fixed Assets	General Long-term Debt				
\$ 828,663	\$ -	\$ -	\$ 111,315	\$ 2,020,224	\$ 98,933	\$ 2,119,157	
98,949	-	-	29,724	366,398	-	366,398	
-	-	-	1,259	2,330	-	2,330	
-	-	-	-	-	6,213	6,213	
-	-	-	-	82,388	-	82,388	
48,493	-	-	26,033	1,639,186	1,212	1,640,398	
-	-	-	-	865,848	-	865,848	
270,298	-	-	1,726	347,681	108,151	455,832	
4,906	-	-	92,410	486,251	735	486,986	
-	-	-	-	44,045	36,861	80,906	
-	-	-	1,500	4,558	-	4,558	
-	-	-	83,783	534,523	-	534,523	
3,124,933	-	-	-	3,124,933	-	3,124,933	
-	-	-	-	1,130,936	84,028	1,214,964	
-	-	15,408	33,424	54,114	-	54,114	
-	-	-	-	-	28,597	28,597	
-	-	1,104	10	1,114	-	1,114	
661,186	-	464,999	67,231	1,202,608	3,028	1,205,636	
-	-	689,531	-	689,531	-	689,531	
-	-	1,891,726	911,736	3,715,207	-	3,715,207	
-	-	991,085	-	1,615,649	2,322,066	3,937,715	
-	-	1,784	-	1,784	-	1,784	
5,037,427	-	4,055,637	1,360,152	17,929,308	2,689,824	20,619,132	
-	-	-	-	1,167,184	-	1,167,184	
-	2,145,229	-	-	2,145,229	-	2,145,229	
-	-	-	-	32,757	164,842	197,599	
-	-	-	-	109,638	443,482	553,120	
66,259,297	-	-	3,974,653	71,422,703	-	71,422,703	
-	-	-	3,157	3,157	-	3,157	
1,661,985	-	-	31,095	(746,549)	-	(746,549)	
67,921,282	2,145,229	-	4,008,905	74,134,118	608,324	74,742,442	
\$ 72,958,709	\$ 2,145,229	\$ 4,055,637	\$ 5,369,058	\$ 92,063,427	\$ 3,298,148	\$ 95,361,575	

**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -  
All Governmental Fund Types and Expendable Trust Funds  
For the Fiscal Year Ended June 30, 2001**

(In Thousands)

	Governmental Fund Types				Fiduciary	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
<b>Revenues:</b>						
Taxes	\$ 9,940,247	\$ 1,033,711	\$ 10,554	\$ -	\$ -	\$ 10,984,512
Intergovernmental	4,381,543	720,964	-	437	14,628	5,117,572
Licenses and Permits	205,425	480,503	88,602	492	-	775,021
Charges for Goods and Services	217,519	50,828	-	-	78	268,425
Contributions	-	-	-	-	647,034	647,034
Investment and Interest Income	63,038	26,508	2,766	5,932	(46,091)	52,154
Gifts and Donations	14,703	9,568	-	-	80	24,351
Other Revenues:						
Intergovernmental Transfer	637,000	-	-	-	-	637,000
Tobacco Settlement	124,389	-	-	-	-	124,389
Other	223,520	22,749	520	34	49,930	296,753
<b>Total Revenues</b>	<b>15,807,384</b>	<b>2,344,832</b>	<b>102,441</b>	<b>6,895</b>	<b>665,660</b>	<b>18,927,212</b>
<b>Expenditures:</b>						
Current:						
Commerce	179,619	26,176	-	7	-	205,802
Education	5,183,160	1,903	-	16,533	20,790	5,222,387
Transportation	2,727	1,161,276	-	6,660	-	1,170,663
Environmental Resources	118,680	598,225	-	12,551	-	729,456
Human Relations and Resources	6,933,355	4,514	-	7,467	698,084	7,643,419
General Executive	400,087	40,220	-	206	243,521	684,035
Judicial	102,302	332	-	-	-	102,634
Legislative	61,658	-	-	-	-	61,658
Tax Relief and Other General	Expenditures					
	766,478	-	-	3,557	-	770,035
Intergovernmental	1,072,576	-	-	-	-	1,072,576
Capital Outlay	27,040	722,841	-	293,000	-	1,042,882
Debt Service:						
Principal	-	-	176,766	-	-	176,766
Interest	-	-	151,938	9,836	-	161,774
<b>Total Expenditures</b>	<b>14,847,684</b>	<b>2,555,488</b>	<b>328,704</b>	<b>349,817</b>	<b>962,395</b>	<b>19,044,089</b>
Excess of Revenues Over (Under)	Expenditures					
	959,700	(210,656)	(226,263)	(342,923)	(296,735)	(116,877)
<b>Other Financing Sources (Uses):</b>						
Proceeds from Sale of Bonds	-	-	3,928	277,703	-	281,631
Operating Transfers In	55,898	33,523	226,984	52,936	-	369,342
Operating Transfers Out	(1,414,071)	(55,207)	(5,583)	(1,565)	(6,327)	(1,482,753)
Capital Leases Acquisitions	6,707	623	-	-	-	7,330
Installment Purchase	Acquisitions					
	-	103	-	770	-	873
<b>Total Other Financing Sources (Uses)</b>	<b>(1,351,466)</b>	<b>(20,958)</b>	<b>225,328</b>	<b>329,844</b>	<b>(6,327)</b>	<b>(823,578)</b>

(Continued)

**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -  
All Governmental Fund Types and Expendable Trust Funds  
For the Fiscal Year Ended June 30, 2001**

(Continued)

	Governmental Fund Types				Fiduciary	Totals
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	(Memorandum Only)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(391,766)	(231,614)	(934)	(13,078)	(303,062)	(940,455)
Fund Balances, Beginning of Year	(826,192)	493,365	6,231	(264,431)	3,289,461	2,698,433
Increase (Decrease) in Reserve for Inventories	3,269	(1,070)	-	-	-	2,199
Residual Equity Transfers In	-	-	4,000	145	-	4,145
Residual Equity Transfers Out	(159)	-	(141)	(28,500)	-	(28,801)
Fund Balances, End of Year	\$ (1,214,848)	\$ 260,680	\$ 9,155	\$ (305,865)	\$ 2,986,399	\$ 1,735,521

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

*State of Wisconsin*

**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -  
Budget and Actual (Budgetary Basis) - General and Budgeted Special  
Revenue Funds  
For the Fiscal Year Ended June 30, 2001**

(In Thousands)

	General Fund			Budgeted Special Revenue Funds		
	Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
<b>Revenues:</b>						
Taxes	\$ 10,296,992	\$ 10,079,332	\$ (217,661)	\$ 1,018,899	\$ 1,018,899	\$ -
Departmental						
Tobacco Settlement	124,764	124,389	(374)	-	-	-
Other	9,045,968	9,082,014	36,046	1,469,230	1,469,230	-
Total Revenues	19,467,724	19,285,735	(181,989)	2,488,129	2,488,129	-
<b>Expenditures:</b>						
Current:						
Commerce	275,643	210,360	65,283	198,559	162,552	36,008
Education	8,530,789	8,321,433	209,356	16,530	13,965	2,565
Environmental Resources	299,710	272,172	27,538	3,597,410	2,283,517	1,313,893
Human Relations and Resources	8,551,657	7,582,703	968,954	33,300	11,906	21,394
General Executive	760,518	650,216	110,302	37,801	24,083	13,719
Judicial	109,524	108,885	639	658	343	315
Legislative	62,856	62,116	740	-	-	-
General	2,510,406	2,490,418	19,988	16,772	16,772	-
Total Expenditures	21,101,103	19,698,304	1,402,799	3,901,030	2,513,138	1,387,893
Excess of Revenues Over (Under) Expenditures	\$ (1,633,379)	(412,569)	\$ 1,220,810	\$ (1,412,902)	(25,009)	\$ 1,387,893
Fund Balances, Beginning of Year		1,346,916			543,743	
Residual Equity Transfers		7,612			(7,612)	
Fund Balances, End of Year		941,959			511,121	
Less Encumbrances Outstanding at June 30, 2001		(488,849)			(994,507)	
Fund Balances, End of Year Budgetary Basis	\$	453,110		\$	(483,386)	
Reconciliation of the End of Year Budgetary Basis Fund Balance to the Amount Reported in the Annual Fiscal Report:						
Amount from Annual Fiscal Report	\$	455,916				
Late Adjustment		(2,806)				
Revised End of Year Fund Balance, Budgetary Basis	\$	453,110				

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

*State of Wisconsin*

**Combined Statement of Revenues, Expenses, and Changes in Retained Earnings/  
Fund Balances - All Proprietary Fund Types, Nonexpendable Trust Funds and  
Discretely Presented Component Units  
For the Fiscal Year Ended June 30, 2001**

(In Thousands)

	Proprietary Fund Types		Fiduciary	Totals -	Component	Totals -
	Enterprise	Internal Service	Fund Type Nonexpendable Trust	Primary Government (Memorandum Only)		Reporting Entity (Memorandum Only)
<b>Operating Revenues:</b>						
Charges for Goods and Services	\$ 729,945	\$ 222,035	\$ 234	\$ 952,214	\$ 425,572	\$ 1,377,786
Contributions	598,468	-	-	598,468	-	598,468
Investment and Interest Income	112,169	5	(1,151)	111,023	153,355	264,378
Fines and Forfeitures	-	-	18,386	18,386	-	18,386
Gifts and Donations	-	-	74	74	-	74
Other Income	2,697	9,479	10	12,186	18,670	30,856
Total Operating Revenues	1,443,278	231,520	17,553	1,692,351	597,597	2,289,948
<b>Operating Expenses:</b>						
Personal Services	229,433	40,761	343	270,537	231,409	501,946
Supplies and Services	620,390	140,007	281	760,677	170,797	931,475
Lottery Prize Awards	232,528	-	-	232,528	-	232,528
Depreciation	9,753	21,156	-	30,909	23,954	54,863
Benefit Expense	286,150	35,364	-	321,514	(14,942)	306,572
Interest Expense	78,971	-	-	78,971	143,770	222,741
Other Expenses	11,502	-	-	11,502	105,784	117,286
Total Operating Expenses	1,468,726	237,288	624	1,706,639	660,772	2,367,411
Operating Income (Loss)	(25,448)	(5,768)	16,929	(14,287)	(63,175)	(77,463)
<b>Nonoperating Revenues (Expenses):</b>						
Operating Grants	3,780	462	-	4,243	58,849	63,092
Investment and Interest Income	49,383	291	-	49,673	47,257	96,930
Gain (Loss) on Disposal of Fixed Assets	(365)	313	-	(53)	(1)	(54)
Interest Expense	(1,170)	(7,593)	-	(8,764)	-	(8,764)
Other Revenues	8,723	1,035	-	9,758	1,777	11,535
Other Expenses	(130,351)	(329)	-	(130,681)	(132)	(130,813)
Total Nonoperating Revenues (Expenses)	(70,001)	(5,822)	-	(75,823)	107,750	31,927
Income (Loss) Before Operating Transfers	(95,449)	(11,591)	16,929	(90,110)	44,575	(45,536)
Capital Contributions	21,395	-	-	21,395	-	21,395
Operating Transfers In	66,155	6,541	5,017	77,713	-	77,713
Operating Transfers Out	(24,190)	(7,160)	(80)	(31,429)	-	(31,429)
Operating Transfers to Primary Government	-	-	-	-	(1,265)	(1,265)
Net Income (Loss)	(32,088)	(12,209)	21,866	(22,432)	43,310	20,878

(Continued)

*State of Wisconsin*

**Combined Statement of Revenues, Expenses, and Changes in Retained Earnings/  
Fund Balances - All Proprietary Fund Types, Nonexpendable Trust Funds and  
Discretely Presented Component Units  
For the Fiscal Year Ended June 30, 2001**

(Continued)

	<u>Proprietary Fund Types</u>		<u>Fiduciary</u>	<u>Totals -</u>	<u>Component</u>	<u>Totals -</u>
	<u>Enterprise</u>	<u>Internal</u>	<u>Fund Type</u>	<u>Primary</u>		<u>Reporting</u>
			<u>Nonexpendable</u>	<u>Government</u>		<u>Entity</u>
		<u>Trust</u>	<u>(Memorandum</u>	<u>Only)</u>	<u>(Memorandum</u>	<u>Only)</u>
Retained Earnings/Fund Balances, Beginning of Year	192,054	(5,361)	460,866	647,559	565,014	1,212,573
Retained Earnings/Fund Balances, End of Year	\$ 159,965	\$ (17,570)	\$ 482,731	\$ 625,127	\$ 608,324	\$ 1,233,451

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

**Combined Statement of Cash Flows - All Proprietary Fund Types,  
Nonexpendable Trust Funds and Discretely Presented Component Units \*  
For Fiscal Year Ended June 30, 2001**

(In Thousands)

	Proprietary Fund Types		Fiduciary	Totals -	Component Units *
	Enterprise	Internal Service	Nonexpendable	Primary Government	
			Trust	(Memorandum Only)	
<b>Cash Flows from Operating Activities:</b>					
Cash Receipts from Customers	\$ 1,352,097	\$ 222,463	\$ 295	\$ 1,574,855	\$ 1,649
Cash Payments to Suppliers for Goods and Services	(603,838)	(138,060)	(370)	(742,269)	(5,056)
Cash Payments to Employees for Services	(232,129)	(41,523)	(372)	(274,024)	(10,950)
Cash Payments for Lottery Prizes	(327,871)	-	-	(327,871)	-
Cash Payments for Loans Originated	(97,423)	-	-	(97,423)	(266,928)
Cash Payments for Benefits	(206,716)	(16,413)	-	(223,129)	(3,060)
Interest Income	53,446	-	-	53,446	143,294
Fines and Forfeitures	-	-	18,405	18,405	-
Collection of Loans	84,790	-	-	84,790	206,867
Other Operating Revenues	135	9,840	84	10,060	14,129
Other Operating Expenses	(33,255)	-	-	(33,255)	(88,971)
Other Sources of Cash	8,795	(5,586)	-	3,210	-
Other Uses of Cash	133	(309)	-	(177)	(4,437)
Net Cash Provided (Used) by Operating Activities	(1,837)	30,412	18,042	46,616	(13,464)
<b>Cash Flows from Noncapital Financing Activities:</b>					
Operating Grants Receipts	3,657	462	-	4,120	58,849
Grants for Loans to Governments	16,492	-	-	16,492	-
Proceeds from Issuance of Debt	145,594	-	-	145,594	365,780
Repayment of Debt	(76,177)	-	-	(76,177)	(339,807)
Interest Payments	(76,808)	-	-	(76,808)	(134,859)
Property Tax Credit Payments	(90,009)	-	-	(90,009)	-
Grants Disbursed	(10,759)	-	-	(10,759)	-
Interfund Borrowings Received	4,794	7,726	-	12,519	-
Interfund Borrowings Repaid	(8,400)	(9,398)	-	(17,798)	-
Interfund Borrowings to Other Funds	(1,283)	-	-	(1,283)	-
Interfund Advances	-	125	-	125	-
Operating Transfers In	64,234	6,551	5,017	75,802	-
Operating Transfers Out	(8,792)	(7,075)	(80)	(15,948)	-
Residual Equity Transfers In	20,700	-	-	20,700	-
Residual Equity Transfers Out	(4,000)	(85)	-	(4,085)	-
Other Cash Inflows from Noncapital Financing Activities	137	-	-	137	-
Other Cash Outflows from Noncapital Financing Activities	(3)	-	-	(3)	(2,328)
Net Cash Provided (Used) by Noncapital Financing Activities	(20,623)	(1,695)	4,937	(17,381)	(52,365)
<b>Cash Flows from Capital and Related Financing Activities:</b>					
Proceeds from Issuance of Debt	7,946	39,953	-	47,900	-
Capital Contributions	4,757	6,395	-	11,152	-
Repayment of Debt	(1,242)	(8,234)	-	(9,476)	-
Interest Payments	(987)	(7,515)	-	(8,503)	-
Capital Lease Obligations	(182)	(7,639)	-	(7,821)	-
Proceeds from Sale of Fixed Assets	13	1,976	-	1,989	-
Payments for Purchase of Fixed Assets	(12,524)	(53,974)	-	(66,498)	(957)
Other Cash Inflows from Capital Financing Activities	2,491	-	-	2,491	-
Other Cash Outflows from Capital Financing Activities	(97)	-	-	(97)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	175	(29,039)	0	(28,864)	(957)
<b>Cash Flows from Investing Activities:</b>					
Proceeds from Sale and Maturities of Investment Securities	352,221	-	16,938	369,159	738,851
Purchase of Investment Securities	(315,169)	-	(105,024)	(420,193)	(718,062)
Cash Payments for Loans Originated	(129,758)	-	(101,302)	(231,060)	-
Collection of Loans	60,784	-	76,829	137,612	-
Investment and Interest Receipts	111,101	290	708	112,099	51,174
Net Cash Provided (Used) by Investing Activities	79,178	290	(111,852)	(32,383)	71,964
Net Increase (Decrease) in Cash and Cash Equivalents	56,894	(32)	(88,873)	(32,012)	5,178
Cash and Cash Equivalents, Beginning of Year	947,339	22,908	216,924	1,187,171	228,008
Cash and Cash Equivalents, End of Year	\$ 1,004,233	\$ 22,875	\$ 128,051	\$ 1,155,159	\$ 233,186

\* The Wisconsin Housing and Economic Development Authority and the Wisconsin Health Care Liability Insurance Plan prepare the statement of cash flows using the direct method of reporting cash flows, as presented on Page 27 and 28 of the CAFR. The University of Wisconsin Hospitals and Clinics Authority prepares this statement using the indirect method, as presented on Page 29.

(Continued)



**Combined Statement of Cash Flows - All Proprietary Fund Types,  
Nonexpendable Trust Funds and Discretely Presented Component Units \*  
For Fiscal Year Ended June 30, 2001**

(Continued)

	Proprietary Fund Types		Fiduciary Fund Type	Totals - Primary Government	Component Units *
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)	
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations:</b>					
Operating Income (Loss)	\$ (25,448)	\$ (5,768)	\$ 16,929	\$ (14,287)	\$ (76,723)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation	9,753	21,156	-	30,909	1,254
Amortization	801	-	-	801	3,788
Provision for Uncollectible Accounts	77	-	-	77	-
Operating Income (Investment Income) Classified as Investing Activity	(56,803)	-	1,151	(55,652)	(10,818)
Operating Expense (Interest Expense) Classified as Noncapital Financing Activity	77,443	-	-	77,443	134,380
Miscellaneous Nonoperating Income (Expense)	8,260	(5,822)	-	2,438	117
Changes in Assets and Liabilities:					
Decrease (Increase) in Receivables	(25,793)	(2,581)	16	(28,357)	(58,523)
Decrease (Increase) in Due from Other Funds	13,290	3,239	(25)	16,504	-
Decrease (Increase) in Due from Component Units	(2)	52	-	50	-
Decrease (Increase) in Due from Other Governments	(2,325)	82	-	(2,243)	(534)
Decrease (Increase) in Inventories	(539)	(506)	-	(1,044)	-
Decrease (Increase) in Prepaid Items	(4,061)	3,082	(2)	(980)	-
Decrease (Increase) in Deferred Charges	(86)	-	-	(86)	-
Decrease (Increase) in Other Assets	1,146	-	-	1,146	(988)
Increase (Decrease) in Accounts Payable and Other Accrued Liabilities	(102,760)	(1,704)	-	(104,465)	12,783
Increase (Decrease) in Compensated Absences	691	116	-	808	(6)
Increase (Decrease) in Due to Other Funds	(111)	58	(89)	(141)	-
Increase (Decrease) in Due to Primary Government	-	-	-	-	12
Increase (Decrease) in Due to Other Governments	-	61	-	60	-
Increase (Decrease) in Tax and Other Deposits	1,031	-	62	1,092	-
Increase (Decrease) in Deferred Revenue	8,841	(5)	-	8,836	(204)
Increase (Decrease) in Interest Payable	719	-	-	719	-
Increase (Decrease) in Future Benefits and Loss Liabilities	94,037	18,951	-	112,988	(18,002)
Total Adjustments	23,611	36,180	1,113	60,904	63,260
Net Cash Provided by Operating Activities	\$ (1,837)	\$ 30,412	\$ 18,042	\$ 46,617	\$ (13,464)
<b>Noncash Investing, Capital and Financing Activities:</b>					
Capital Leases (Initial Year):					
Fair Market Value	\$ 250	\$ -	\$ -	\$ 250	\$ -
Current Year Cash Receipts (Payments)	(43)	-	-	(43)	-
Contributions/Transfer In (Out) of Noncash Assets and Liabilities from/to Other Funds	3,110	1	-	3,111	-
Net change in unrealized gains and losses	12,643	-	(1,862)	10,782	2,217
Other	250	(36)	-	214	-
<b>Reconciliation of Fiduciary Fund Type Cash and Cash Equivalents to the Combined Balance Sheet:</b>					
Nonexpendable Trust Fund			\$ 128,051		
Fiduciary Funds, Other Than Nonexpendable Trust			6,613,884		
Total Fiduciary Fund Type Cash and Cash Equivalents, End of Year			\$ 6,741,934		

\* The Wisconsin Housing and Economic Development Authority and the Wisconsin Health Care Liability Insurance Plan prepare the statement of cash flows using the direct method of reporting cash flows, as presented on Page 27 and 28 of the CAFR. The University of Wisconsin Hospitals and Clinics Authority prepares this statement using the indirect method, as presented on Page 29.

(Continued)

**Combined Statement of Cash Flows - All Proprietary Fund Types,  
Nonexpendable Trust Funds and Discretely Presented Component Units \*  
For Fiscal Year Ended June 30, 2001**

(Continued)

	Component Units *
<b>Cash Flows from Operating Activities:</b>	
Operating Income	\$ 13,548
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used in ) Operating Activities:	
Depreciation and Amortization	18,912
Provision for Bad Debt	11,082
Other Sources	1,777
Other Uses	(132)
Changes in Assets and Liabilities:	
Decrease (Increase) in Net Patient Receivables	2,771
Decrease (Increase) in Other Receivables	61
Decrease (Increase) in Due from Primary Government	292
Decrease (Increase) in Inventories	812
Decrease (Increase) in Prepaid Items	2
Decrease (Increase) in Other Assets	(610)
Increase (Decrease) in Accounts Payable and Other Accrued Expenses	(627)
Increase (Decrease) in Due to Other Governments	943
Increase (Decrease) in Due to Primary Government	(1,343)
Increase (Decrease) in Compensated Absences	187
Net Cash Provided (Used) by Operating Activities	<u>47,675</u>
<b>Cash Flows from Noncapital Financing Activities:</b>	
Operating Transfers to Primary Government	(1,515)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(1,515)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Payments for Purchase of Fixed Assets	(35,684)
Capital Leases Payable - Primary Government	(2,390)
Capital Leases Payable	(345)
Loss on Disposal of Fixed Assets	(59)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(38,478)</u>
<b>Cash Flows from Investing Activities:</b>	
Increase in Investments	(18,309)
Interest and Dividends Receipts	7,934
Decrease in Investment in Affiliate	485
Net Cash Provided (Used) by Investing Activities	<u>(9,890)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(2,208)
Cash and Cash Equivalents at Beginning of Year	<u>16,682</u>
Cash and Cash Equivalents at End of Year	<u>\$ 14,474</u>
<b>Noncash Investing, Capital and Financing Activities:</b>	
Net Change in Unrealized Gains and Losses	\$ (5,009)

\* The **University of Wisconsin Hospitals and Clinics Authority** prepares the statement of cash flows using the indirect method of reporting cash flows, as presented on this page. The **Wisconsin Housing and Economic Development Authority** and the **Wisconsin Health Care Liability Insurance Plan** prepare this statement using the direct method, as presented on Pages 27 and 28 of the CAFR.

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

*State of Wisconsin*

**Combined Statement of Changes in Net Assets - Pension Trust Fund and  
Investment Trust Funds  
For the Year Ended June 30, 2001**

(In Thousands)

	Wisconsin Retirement System	Investment Trust Funds	Totals (Memorandum Only)
<b>Additions</b>			
Contributions:			
Employer Contributions	\$ 397,012	\$ -	\$ 397,012
Employee Contributions	492,864	-	492,864
Total Contributions	889,876	-	889,876
Deposits	-	11,118,033	11,118,033
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	(5,926,545)	-	(5,926,545)
Interest	1,297,380	-	1,297,380
Dividends	509,286	-	509,286
Securities Lending Income	212,337	-	212,337
Other	127,519	-	127,519
Investment Income of Investment Trust Funds	-	180,667	180,667
Less:			
Investment Expense	(121,704)	(1,691)	(123,395)
Securities Lending Rebates and Fees	(187,181)	-	(187,181)
Investment Income Distributed to Other Funds	(121,344)	-	(121,344)
Net Investment Income	(4,210,252)	178,975	(4,031,276)
Interest on Prior Service Receivable	158,299	-	158,299
Miscellaneous Income	774	-	774
Total Additions	(3,161,303)	11,297,009	8,135,706
<b>Deductions</b>			
Benefits and Refunds:			
Retirement, Disability, and Beneficiary Separations	2,466,681	-	2,466,681
	47,031	-	47,031
Total Benefits and Refunds	2,513,712	-	2,513,712
Distributions	-	10,059,922	10,059,922
Unusual Write-off of Receivable	183,350	-	183,350
Administrative Expense	14,971	165	15,135
Total Deductions	2,712,032	10,060,087	12,772,119
Net Increase (Decrease)	(5,873,335)	1,236,922	(4,636,413)
Net Assets - Beginning of Year	66,424,262	2,664,304	69,088,566
Net Assets - End of Year	\$ 60,550,927	\$ 3,901,225	\$ 64,452,152

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

*State of Wisconsin*

**Combined Statement of Current Funds Revenues, Expenditures, and Other Changes - University of Wisconsin System  
For the Fiscal Year Ended June 30, 2001**

(In Thousands)

	Unrestricted	Restricted	Totals
<b>Revenues:</b>			
Tuition and Fees	\$ 711,923	\$ -	\$ 711,923
Federal Appropriations	15,867	-	15,867
Federal Grants and Contracts	89,020	340,020	429,040
State Grants and Contracts	32	10,309	10,341
Local Grants and Contracts	93	12,115	12,208
Private Gifts, Grants and Contracts	8,012	265,725	273,736
Endowment Income	2,624	16,171	18,795
Sales and Services of Educational Activities	189,643	-	189,643
Sales and Services of Auxiliary Enterprises	235,569	-	235,569
Sales and Services to Hospital Authority	-	31,239	31,239
Other Sources	149,853	5,439	155,292
<b>Total Revenues</b>	<b>1,402,635</b>	<b>681,018</b>	<b>2,083,653</b>
<b>Expenditures and Mandatory Transfers:</b>			
Educational and General:			
Instruction	751,954	68,469	820,422
Research	165,388	414,077	579,465
Public Service	163,389	59,932	223,321
Academic Support	290,289	11,143	301,433
Farm Operations	11,018	-	11,018
Student Services	229,055	16,705	245,759
Institutional Support	155,835	6,292	162,127
Operation and Maintenance of Physical Plant	164,471	1,111	165,583
Financial Aid	143,086	95,173	238,259
<b>Total Educational and General</b>	<b>2,074,485</b>	<b>672,902</b>	<b>2,747,388</b>
Auxiliary Enterprises	201,724	570	202,294
Cost of Services Provided to UW Hospital Authority	-	30,397	30,397
Mandatory Transfers:			
Debt Service on Academic Facilities	94,656	-	94,656
Debt Service on Self-Amortizing Facilities	20,601	1,696	22,297
Debt Service on Hospital Facilities	-	3,958	3,958
Student Loan Matching	789	-	789
<b>Total Mandatory Transfers</b>	<b>116,046</b>	<b>5,654</b>	<b>121,700</b>
<b>Total Expenditures and Mandatory Transfers</b>	<b>2,392,255</b>	<b>709,524</b>	<b>3,101,779</b>
<b>Other Transfers, Additions (Deductions):</b>			
Operating Transfers In	1,047,237	29,417	1,076,654
Operating Transfers Out	(8,708)	(912)	(9,620)
Excess of Restricted Receipts Over Expenditures	-	55,599	55,599
Nonmandatory Transfers	(3,392)	(2,951)	(6,343)
Plant Additions	(18,993)	(41,442)	(60,435)
Other	3,211	-	3,212
<b>Net Other Transfers, Additions (Deductions)</b>	<b>1,019,355</b>	<b>39,711</b>	<b>1,059,066</b>
Prior Period Adjustments	(56)	134	78
<b>Net Increase (Decrease) in Fund Balance</b>	<b>\$ 29,679</b>	<b>\$ 11,340</b>	<b>\$ 41,018</b>

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

*State of Wisconsin*

**Combined Statement of Changes in Fund Balances -  
University of Wisconsin System  
For the Fiscal Year Ended June 30, 2001**

(In Thousands)

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds
	Unrestricted	Restricted			
<b>Revenues and Other Additions:</b>					
Unrestricted Current Funds					
Revenues	\$ 1,402,635	\$ -	\$ -	\$ -	-
Grants and Contracts	-	486,327	-	-	-
Restricted Gifts Received	-	318,641	582	98	-
Investment Income - Restricted	-	1,312	526	-	1,820
Endowment Income - Restricted	-	14,616	661	-	-
Federal Reimbursement of Loan Cancellations	-	-	1,835	-	-
Delinquent Loan and Collection Penalty	-	-	843	-	-
U.S. Government Advances	-	-	96,385	-	-
Interest Accrued on Loans Outstanding	-	-	3,270	-	-
Proceeds from the Sale of Notes and Bonds	-	-	-	-	239,515
Retirement of Indebtedness	-	-	-	-	72,568
Additions to Land, Buildings and Improvements	-	-	-	-	173,376
Equipment and Library Acquisitions (Net of Disposals)	-	-	-	-	6,153
Gifts-in-Kind	-	-	-	-	5,223
Other Additions	3,259	4,123	16	-	804
<b>Total Revenues and Other Additions</b>	<b>1,405,894</b>	<b>825,021</b>	<b>104,117</b>	<b>98</b>	<b>499,459</b>
<b>Expenditures and Other Deductions:</b>					
Current Funds Expenditures	2,276,209	703,870	-	-	-
Indirect Costs Recovered	-	88,403	-	-	-
Net Decrease in Fair Market Value of Investments	-	-	-	15,965	-
Loan Cancellations and Write-offs	-	-	1,556	-	-
Loans Granted	-	-	96,015	-	-
Administrative Allowances-Perkins Loans	-	-	663	-	-
Administrative Expenses	-	-	1,197	-	-
Notes and Bonds Issued	-	-	-	-	239,515
Expended for Plant Facilities	-	-	-	-	179,564
Disposal of Plant Facilities	-	-	-	-	4,163
Retirement of Indebtedness	-	-	-	-	72,568
Interest on Indebtedness	-	-	-	-	49,263
Change in Capital Lease Receivable/Payable	-	-	-	-	20,479
Loss on the Sale of Fixed Assets	-	-	-	-	707
Other Deductions	47	-	562	1,026	1,255
<b>Total Expenditures and Other Deductions</b>	<b>2,276,257</b>	<b>792,273</b>	<b>99,994</b>	<b>16,990</b>	<b>567,513</b>

(Continued)

**Combined Statement of Changes in Fund Balances -  
University of Wisconsin System  
For the Fiscal Year Ended June 30, 2001**

(Continued)

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds
	Unrestricted	Restricted			
<b>Transfers Among Funds:</b>					
Operating Transfers In	1,047,237	29,417	-	-	94
Operating Transfers Out	(8,708)	(912)	-	-	-
Mandatory Transfers:					
Debt Service on Academic Facilities	(94,656)	-	-	-	94,656
Debt Service on Self-Amortizing Facilities	(20,601)	(1,696)	-	-	22,297
Debt Service on Hospital Facilities	-	(3,958)	-	-	3,958
Student Loan Matching	(789)	-	789	-	-
Nonmandatory Transfers	(3,392)	(2,951)	(214)	6,557	-
Transfers to/from Plant Funds	(18,993)	(41,442)	-	(24)	60,459
Net Transfers Among Funds	900,098	(21,542)	575	6,534	181,464
Net Increase (Decrease) for the Year	29,735	11,206	4,698	(10,358)	113,411
Fund Balances, Beginning of Year Restated	220,050	53,998	180,655	316,026	3,085,004
Residual Equity Transfer In	-	-	-	-	4,481
Fund Balances, End of Year	\$ 249,785	\$ 65,205	\$ 185,352	\$ 305,668	\$ 3,202,895

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

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Notes To The Financial Statements

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

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

**B. Financial Reporting Entity**

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

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

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

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

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

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

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

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

**Blended Component Units**

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

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

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## Discrete Component Units

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

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

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

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

Eleven of the thirteen members of the Hospital's Board of Directors are appointed by the State.

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

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

## Related Organizations

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

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

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

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

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

### C. Fund Structure

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

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

#### Governmental Fund Types

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

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

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

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

#### Proprietary Fund Types

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

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

#### Fiduciary Fund Types

*Trust and Agency Funds* - used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other

funds. These include (a) expendable trust funds, (b) nonexpendable trust funds, (c) pension trust funds, (d) investment trust funds and (e) agency funds.

#### Account Groups

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

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

#### University Funds

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

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

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

*Endowment and Similar Funds* - are funds with respect to which donors have stipulated as a condition of the gift, or management has determined, that the principal is to be maintained inviolate and invested for the purpose of producing income. Investment earnings on the principal amount are reported as endowment income in Current Funds and Loan

Funds. Investment earnings and gifts which the governing board, rather than a donor, has elected to retain and invest are transferred into the Endowment and Similar Funds group.

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

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

#### D. Basis of Accounting

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

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

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

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

- Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments of principal and interest to be made early in the following year.
- Employees' vested annual leave, compensatory time, personal holiday hours, Saturday/legal hours and sick leave are recorded as expenditures when utilized. Accumulated annual leave, compensatory time, personal holiday hours and Saturday/legal time and the long-term portion of accumulated sick leave unpaid at June 30, 2001 have been reported in the General Long-term Debt Account Group. (See Note 1-Q to the financial statements.)
- Inventories are reported as expenditures when purchased. (See Note 1-I to the financial statements.)

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

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

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

#### Component Units

The University of Wisconsin Hospitals and Clinics Authority (the Hospital) applies the provisions of the American Institute of Certified Public Accountants Audit and Accounting Guide, *Audits of Providers of Health Care Services*. In applying GAAP, the Hospital has elected to apply the provisions of relevant pronouncements of FASB issued after November 30, 1989.

## E. Budgets

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

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

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

Expenditure budgeting differs for the various types of appropriations. For most appropriations, budgeted expenditures equal the amount from the adopted budget plus any subsequent legislative or administrative revisions. 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.

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

between budgetary basis and GAAP basis is provided in Note 2 to the financial statements.

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Budgetary Basis) reports expenditures by function for the General Fund and all budgeted special revenue funds. (The Employee Trust Fund Administration Fund is extracted from a statutory unbudgeted fund type and is not considered a special revenue fund under budgetary reporting. The Wisconsin Public Broadcasting Foundation is a blended component unit that is not budgeted nor included under statutory reporting.) While budgetary control for the reported funds is maintained at the appropriation level as specified by the Legislature in Chapter 20 of the Wisconsin Statutes, this level of detail is impractical for inclusion in the Comprehensive Annual Financial Report. Accordingly, a supplementary report is available upon request which provides budgetary comparisons at the legal level of control.

The capital projects funds and debt service funds are not included in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Budgetary Basis). A comprehensive budget is not approved for the capital projects funds. Debt service expenditures reported in the debt service funds are budgeted through appropriations in the General and special revenue funds. The Operating Transfers In of \$227.0 million reported in the Bond Security and Redemption Fund of the debt service funds primarily represent the appropriations from these other funds.

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

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

- *Continuing* - unexpended balances automatically forward to ensuing years until fully depleted or repealed by subsequent action of the Legislature.
- *Annual*:
  - *General Purpose Revenue* - unencumbered balances lapse at year end.
  - *Program Revenue* - unexpended 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.

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

**F. Cash and Cash Equivalents**

Cash balances of most funds are deposited with the State Treasurer where the available balances beyond immediate needs are pooled in the State Investment Fund for short-term investment purposes. Balances pooled are restricted to legally stipulated investments valued 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.

**G. Investments**

**Primary Government**

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

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 the Black-Scholes model.

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 Nonexpendable Trust 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
Common School	Common School Income
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.

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.

**H. Interfund Assets/Liabilities**

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

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

**I. Inventories and Prepaid Items**

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

Inventories of the University of Wisconsin System held by central stores are valued at average cost, fuels are valued 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.

In addition to inventories reported in the accompanying financial statements, the State had food commodities inventories valued at \$2.5 million at June 30, 2001.

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

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

**J. Fixed Assets**

General fixed assets are recorded as expenditures in the governmental funds and capitalized in the General Fixed Assets Account Group and are valued at cost or estimated historical cost if historical cost is not practicably determinable. Donated fixed assets are recorded at their fair value at the time received. Of the \$2,145.2 million total fixed assets at June 30, 2001, 82 percent were valued using historical cost and 18 percent were valued using estimated historical cost. Public domain (infrastructure) fixed assets such as highways, bridges and rights of way are not capitalized. In addition, interest is not capitalized on constructed general fixed assets. General fixed assets are not depreciated.

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

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

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Buildings and improvements	5 - 45 years
Equipment, machinery and furnishings	3 - 25 years

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

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

## K. Mortgage and Other Loans

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

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

## L. Support Collection Trust Fund Receivables

The Support Collection Trust Fund, an agency fund, accounts for the receipt and disbursement of all court-ordered support, including child support, spousal support and family maintenance. The accounts receivable reported for this fund include the portion of estimated Fiscal Year 2002 collections that will be retained by the State for unpaid administrative fees and reimbursement for past public assistance. Upon collection, these amounts will be transferred to the General Fund.

## M. Deferred Charges

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

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

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

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

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

## N. Deferred Revenue

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

The majority of the \$486.9 million deferred revenues presented in the accompanying financial statements consists of \$304.6 million reported within the General Fund. This amount includes \$169.4 million relating to tax revenues received in advance of the year in which earned.

Deferred revenues of the University of Wisconsin System consist of payments received but not earned at June 30, 2001, primarily for summer session tuition, tuition and room deposits for the next fall term, and advance ticket sales for upcoming intercollegiate athletic events.

## O. Fund Equity Reserves

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

## P. 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, 2001, the State was liable to various local governments for unpaid shared revenue aid. To measure the amount of the program allocable to the State's fiscal year, the amount is prorated over portions of recipient local governments' calendar fiscal years which are within the State's fiscal year. The result is that a liability of \$509.6 million representing one-half of the total appropriated amount is reported at June 30, 2001 as Due To Other Governments.



### State Property Tax Credit Program

At June 30, 2001, 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, 2001.

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, 2001.

The aggregated State Property Tax Credit Program liability of \$355.2 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 2001 property tax bills, the State made this payment in March 2001.

The Lottery Tax Credit Program is accounted for in the Lottery Fund, an enterprise fund, that records revenues and expenses on the accrual basis. A portion of the State's March payment distributed to the general government taxing jurisdictions applies to their fiscal year which ends on December 31. Therefore, part of the March distribution represents an expense of the State in Fiscal Year 2001, while the remaining portion represents a prepaid item. The resulting Prepaid Item reported within the Lottery Fund totals \$21.9 million at June 30, 2001.

### 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 2001, while the remaining portion represents a prepaid item. The resulting Prepaid Item within the General Fund totals \$20.7 million at June 30, 2001.

### Q. 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 General Long-term Debt Account Group for all governmental fund types and similar trust funds. These unpaid amounts will be paid from expendable resources provided for in the budget of future years. In the proprietary fund types and similar trust funds, component units, and the University of Wisconsin System, the obligation is reported as a fund liability.

#### Sick Leave

Full-time 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, an expendable trust fund, while the remaining portion is reported in the General Long-term Debt Account Group.

## R. 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.

## S. 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).

## T. 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.

## U. Total Columns - Memorandum Only

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

**NOTE 2. BUDGETARY-GAAP REPORTING RECONCILIATION**

The accompanying Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - General and Special Revenue Funds presents comparisons of the legally adopted budget (more fully described in Note 1-E to the financial statements) with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of basis, timing, perspective and entity differences in the fund balance as of June 30, 2001 is presented below (in thousands):

	<b>General</b>	<b>Special Revenue</b>
Fund balance June 30, 2001 (budgetary basis – budgetary fund structure) as reported on budget to actual combined statement	\$ 453,110	\$ (483,386)
Reclassifications:		
To eliminate outstanding encumbrances from expenditures	488,849	994,507
To include non-budgeted funds		2,717
To reclassify activities reported in another GAAP fund type	(245,130)	12,031
Fund balance June 30, 2001 (GAAP fund structure – budgetary basis, excluding encumbrances outstanding at year end)	696,829	525,869
Adjustments:		
To adjust expenditures for the municipal and county shared revenue program	(488,959)	
To adjust expenditures for State property tax credit program	(355,242)	
To accrue receivables and establish payables for individual income taxes (net)	(589,135)	
To defer revenues for gross receipts public utility taxes	(143,253)	
To adjust revenues and expenditures for tax-related items and other tax credit/aid programs (net)	(272,180)	10,449
To adjust expenditures/revenues for petroleum inspection liabilities		(323,234)
To accrue unpaid Medicaid claims (net of receivable from federal government)	(148,988)	
To adjust expenditures/revenues for certain major Health and Family Services and Workforce Development accruals and deferrals (net)	75,384	
To accrue State educational aids payments deferred until the subsequent year	(75,000)	
To accrue Act 11 retirement credits (net of amount due to other governments)	44,529	3,046
To adjust revenues and expenditures for other items (net)	41,168	44,549
Fund balance June 30, 2001 (GAAP basis)	<u>\$ (1,214,848)</u>	<u>\$ 260,680</u>

**NOTE 3. DEPOSITS AND INVESTMENTS**

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

**A. Deposits****Primary Government**

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

The State's insured deposits are covered by the Federal Deposit Insurance Corporation (FDIC) and an appropriation for losses on public deposits. The State, as required by Wis. Stat. Sec. 34.08, is to make payments to public depositors for proofs of loss up to \$400 thousand per depositor above the amount of federal insurance. Payments are made, until the funds available in the appropriation are exhausted, in the order in which satisfactory proofs of loss are received by the State's Department of Financial Institutions.

At June 30, 2001, the carrying amount of the primary government deposits was \$574.5 million and the bank balance was \$261.4 million. Of the bank amount, excluding a bank overdraft of \$9.1 million in two bank accounts that are covered by compensating balances in other accounts,

- \$10.1 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
- \$260.4 million was uncollateralized and uninsured.

The State's unemployment compensation program had \$1,719.8 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 \$123 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, 2001, the carrying amount of the component units' deposits was \$19.5 million and the bank balance was \$19.0 million. Of the bank amount, \$1.6 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 \$17.4 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, two bonds issued by other State agencies having a combined par value of \$2.8 million are 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, 2001, 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, 2001, the fair value of the restructured investments was negative \$14.9 million while the amortized deferred loss was negative \$16.9 million.

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

### Deposits

The State Investment Fund holds certificates of deposit at various Wisconsin banks as part of the Wisconsin Certificate of Deposit Program implemented in July 1987. As of June 30, 2001, the fair value of these certificates of deposit was \$400.0 million.

Approximately \$378.5 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 \$21.5 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, 2001, the State Investment Fund's investments are as follows (in millions):

	Category			Fair Value
	1	2	3	
U.S. government and agency holdings	\$ 5,196.2	--	--	\$ 5,196.2
Repurchase agreements	798.0	--	--	798.0
Asset backed securities	10.7	--	--	10.7
Mortgage backed securities	2.6	--	--	2.6
	<u>\$ 6,007.5</u>	<u>--</u>	<u>--</u>	6,007.5
Swaps				(25.9)
				<u>\$ 5,981.6</u>

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 proprietary, trust and agency funds. A discussion of these investment activities follows:

*Pension Trust Fund* – This trust is a pooled fund consisting of retirement contributions made by and on behalf of participants in the Wisconsin Retirement System (WRS) (see Note 16 to the financial statements). At June 30, 2001, the Pension Trust Fund held \$58,474.0 million of investments consisting of bonds, stocks, limited partnerships, real estate, mortgages and other investments valued at fair value in accordance with Wis. Stat. Sec. 25.17(14). In addition, \$710.5 million of investments are included in the fund's cash and cash equivalents.

In addition, \$3,125.0 million of securities lending transactions were held at June 30, 2001. These transactions are categorized consistent with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*.

*Local Government Property Insurance, State Life Insurance, and Patients Compensation Funds* - At June 30, 2001, investments were \$19.7 million for the Local Government Property Insurance Fund, \$65.9 million for the State Life Insurance Fund, and \$559.2 million for the Patients Compensation Fund, consisting of bonds, stocks and private placements.

*Historical Society Nonexpendable Trust Fund* - At June 30, 2001, investments of \$11.2 million consisted of bonds and stocks.

*Tuition Trust Fund* – At June 30, 2001, investments of \$9.5 million consisted of bonds and principal only strips.

Further, \$1.3 million of investments are included in the above funds' cash and cash equivalents.

The following table presents investments of these funds at June 30, 2001, categorized in accordance with the requirements of GASB Statement No. 3.

At June 30, 2001, the investments of the Other Funds Managed by the Board consisted of (in millions):

	Category			Fair Value
	1	2	3	
Bonds	\$ 7,923.9	\$ --	\$ --	\$ 7,923.9
Stocks	18,510.2	--	--	18,510.2
Repurchase Agreements	495.0	--	--	495.0
Bankers Acceptances	390.0	--	--	390.0
	<u>\$ 27,319.1</u>	<u>\$ --</u>	<u>\$ --</u>	27,319.1
Private Placements				3,776.8
Limited Partnerships				2,772.9
Pooled Equity Funds				17,825.7
Pooled Bond Funds				5,747.9
Mortgages				667.9
Real Estate				501.1
Custodial Pooled Cash and Equivalents				666.3
Investments Held by Broker Dealers Under Securities Loans:				
Bonds				1,894.9
Equities				1,117.9
Securities Lending Cash Collateral Pooled Investments				685.8
				<u>\$ 62,976.3</u>

*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, 2001 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 25 days.

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

#### Derivative Financial Instruments

As of June 30, 2001, 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, 2001 the fair value of foreign currency forward contracts assets totaled \$1.2 billion, while the liabilities totaled \$1.2 billion.

Forward commitments represent obligations to purchase or sell foreign currencies, with the seller agreeing to make delivery at a

specified future date and a specified price. Options on foreign currencies provide the holder the right, but not the obligation, to purchase or sell foreign currencies on a certain date at a specified price. The seller (writer) of a contract is subject to market risk, while the purchaser is subject to credit risk and market risk to the extent of the premium paid.

*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 of the outside investment managers uses 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, 2001, futures with a face value of \$1.9 million were held. These futures are set to expire in September 2001.

*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 tranches in accordance with each CMO's established payment order. Some CMO tranches 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, 2001, CMO's values at \$387.0 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, 2001, four principal only strips valued at \$414.0 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, 2001, unfunded capital commitments totaled \$1.4 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:

*Lottery Fund* - Investments are all in the form of U.S. Treasury zero coupon bonds. At June 30, 2001, investments of \$152.9 million which meet Category 1 risk criteria were held.

*Transportation Revenue Bond Funds* - At June 30, 2001, the Transportation Revenue Bond Capital Projects Fund and the Transportation Revenue Bond Debt Service Fund had investments totaling \$72.5 million, of which \$31.8 million are reported as cash equivalents. Investments of \$34.9 million satisfy Category 1 risk criteria, while the remaining \$5.8 million of investment contracts are unclassified.

*Environmental Improvement Fund* - The fund's aggregate investments at June 30, 2001, were \$166.7 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 \$131.0 million consist of government and agency holdings and satisfy Category 1 risk criteria.

*The Wisconsin Public Broadcasting Foundation Fund* - The fund's investments at June 30, 2001, were \$5.0 million, which consists of \$3.9 million of various investments and \$1.1 million of money market funds which are reported as cash equivalents. All investments meet Category 1 risk criteria.

*Inmate and Resident Fund* – At June 30, 2001, investments totaling \$1.0 million of which \$.7 million are certificates of deposit that are considered deposits and included in Note 1A, and \$.3 million are considered investments that meet risk Category 3.

*Common School Fund* – At June 30, 2001, investments totaling \$87.8 million meet risk Category 1.

College Savings Program Trust -- At June 30, 2001, investments totaling \$12.5 million, which are reported as cash equivalents, meet risk Category 1.

At June 30, 2001, the State has approximately \$260.3 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 \$9.4 million securities, presented as "Other Assets" on the financial statements, include \$8.0 million of various investments which meet risk Category 1 and \$1.4 million of mutual funds which meet Category 1.

The State's Section 457 *Deferred Compensation Plan Fund* investments, totaling \$1,145.5 million at June 30, 2001, 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, 2001, categorized in accordance with the requirements of GASB Statement No. 3.

At June 30, 2001, the Other State Agencies and Funds' investments consisted of (in millions):

	Category			Reported Amount	Fair Value
	1	2	3		
Government and agency holdings	\$ 537.7	\$ --	\$ .3	\$ 538.0	\$ 538.0
Municipal bonds	125.3	--	--	125.3	125.3
Commercial paper and nonsecured corporate notes and bonds	24.4	--	--	24.4	24.4
Repurchase agreements	--	35.7	--	35.7	35.7
Negotiable certificates of deposit	3.9	--	--	3.9	3.9
	<u>\$ 727.0</u>	<u>\$ --</u>	<u>\$ .3</u>	727.3	727.3
Guaranteed Investment Contracts				5.8	5.8
Money market funds				34.3	34.3
Deferred compensation investments				1,145.5	1,145.5
				<u>\$ 1,912.9</u>	<u>\$ 1,912.9</u>

**University of Wisconsin System**

The University of Wisconsin System had investments as of June 30, 2001 with a reported fair value of \$301.9 million, primarily assets of Endowment and Similar Funds (\$291.3 million) with most of the remainder the property of Current Restricted Funds. Investments, which are Category 1 Risk level, except for \$31.9 million invested in unit trusts that is uncategorized, were comprised of the following:

	Book	Fair
Common and preferred stock	55.6%	58.9%
Bonds, notes and debentures	44.4	41.1
Total investments	<u>100.0%</u>	<u>100.0%</u>

**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, 2001, were \$700.5 million of which \$213.0 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 \$162.6 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.

*Wisconsin Health Care Liability Insurance Plan* - The investments of the Wisconsin Health Care Liability Insurance Plan at December 31, 2000 were \$130.8 million, of which \$15.2 million are reported as cash equivalents. All 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 \$195.1 million consist of \$157.2 million of restricted and limited use investments and \$37.9 million of unrestricted investments.

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

The following table presents investments of component units at December 31, 2000 or June 30, 2001, categorized in accordance with the requirements of GASB Statement No. 3.

At December 31, 2000 or June 30, 2001, the component units' investments consisted of (in millions):

	Category			Reported Amount	Fair Value
	1	2	3		
Bonds	\$ 111.6	\$ 68.5	\$ --	\$ 180.1	\$ 180.5
Negotiable certificates of deposit	19.6	--	--	19.6	19.6
Uncollateralized investment agreements	--	--	162.6	162.6	162.6
Mortgage-backed securities	7.9	47.1	--	55.0	55.1
Repurchase agreements	--	39.5	--	39.5	39.5
Collateralized investment contracts	185.8	--	--	185.8	185.8
	<u>\$ 324.9</u>	<u>\$ 155.1</u>	<u>\$ 162.6</u>	642.6	643.1
Money market funds				228.3	228.3
Pooled funds				155.5	155.5
				<u>\$ 1,026.4</u>	<u>\$ 1,026.9</u>

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

Other Funds Managed by the Board	\$ 62,976.3
Other State Agencies and Funds	1,912.9
University of Wisconsin System	301.9
Component Units	1,026.4
Total Investments	<u>\$ 66,217.5</u>

**C. Lottery Investments and Related Future Prize Obligations**

Investments of the State Lottery Fund totaling \$152.9 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
2002	\$ 16,787
2003	16,909
2004	17,036
2005	17,167
2006	17,303
Thereafter	141,563
Total future value	226,765
Less: Present value adjustment	(85,457)
Present value of payments	<u>\$ 141,308</u>

**NOTE 4. FIXED ASSETS**

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

	Balance July 1, 2000	Additions	Retirements	Completed Construction	Transfers to/from Other Funds	Balance June 30, 2001
Land	\$ 427,107	\$ 11,473	\$ (4,686)	\$ 17,435	\$ --	\$ 451,329
Buildings and improvements	874,572	6,591	(6,646)	241,558	(482)	1,115,593
Machinery and equipment	375,894	37,778	(26,585)	544	(1,249)	386,381
Construction in progress	272,663	178,817	(18)	(259,537)	--	191,926
Total general fixed assets	<u>\$ 1,950,237</u>	<u>\$ 234,658</u>	<u>\$ (37,935)</u>	<u>\$ 0</u>	<u>\$ (1,730)</u>	<u>\$ 2,145,229</u>

Construction in progress reported in the General Fixed Asset Account Group at June 30, 2001 included the following projects (in thousands):

	Allotments	Expended to June 30, 2001	Encumbrances Outstanding	Unencumbered Allotment Balance
Secured Detention Facility	\$ 69,150	\$ 62,090	\$ 3,227	\$ 3,833
New Lisbon Correctional Institution	51,250	28,102	16,211	6,938
Four probation/parole facilities	12,346	380	44	11,922
Taycheedah Segregation/Maximum Security Correctional Institution	18,326	16,190	1,304	833
Secure Treatment Facility	39,740	38,656	581	503
Other projects with allotments totaling less than \$10 million		46,508		
Total construction in progress		<u>\$ 191,926</u>		

The following is a summary of proprietary and fiduciary fund-type, University of Wisconsin System, and component unit fixed assets at June 30, 2001 (in thousands):

	Enterprise	Internal Service	Nonexpendable Trust	University of Wisconsin System	Component Units
Land	\$ 11,027	\$ 11,836	\$ 635	\$ 94,665	\$ 6,032
Buildings and improvements	229,447	250,336	--	2,543,535	195,007
Machinery and equipment	28,062	115,535	--	1,529,570	148,083
Less: Accumulated depreciation	(134,893)	(140,633)	--	--	(195,196)
Construction in progress	6,550	10,620	--	--	26,358
Total	<u>\$ 140,192</u>	<u>\$ 247,693</u>	<u>\$ 635</u>	<u>\$ 4,167,770</u>	<u>\$ 180,284</u>

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

During the year ended June 30, 2001, the following changes occurred in liabilities reported in the General Long-term Debt Account Group (in thousands):

	<b>Balance July 1, 2000</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2001</b>
Capital Leases	\$ 14,600	\$ 7,330	\$ 6,522	\$ 15,408
Installment Contracts Payable	1,060	873	829	1,104
Compensated Absences	457,248	7,751	--	464,999
Employer Pension Costs	675,196	52,758	38,423	689,531
General Obligation Bonds Payable	1,768,457	259,533	136,264	1,891,726
Revenue Bonds Payable	903,945	123,700	36,560	991,085
Long-Term Notes Payable	117,705	--	117,705	--
Claims, Judgments and Commitments	2,121	--	337	1,784
	<b>\$ 3,940,331</b>	<b>\$ 451,945</b>	<b>\$ 336,640</b>	<b>\$ 4,055,637</b>

\* Due to the inclusion of accretion amounts on original issue discounts of the State's zero coupon bonds and underwriter discounts on new general obligation bond issues sold during Fiscal Year 2001, the amount presented for "Additions" to general obligation bonds payable differs from the amount presented for "Proceeds from Sale of Bonds" on the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances, which is reported net of the discussed items.

**NOTE 6. BONDS AND NOTES PAYABLE**

The following schedule summarizes outstanding long-term bonds and notes payable at June 30, 2001 (in thousands):

<b>Primary Government:</b>	
General Long-term Debt Account Group:	
General Obligation Bonds	\$ 1,891,726
Petroleum Inspection Revenue Bonds	168,500
Transportation Revenue Bonds	822,585
Total General Long-term Debt Account Group	<u>2,882,811</u>
Debt Service Funds:	
Bond Security and Redemption General	
Obligation	690
Transportation Revenue Bonds	36,560
Total Debt Service Funds	<u>37,250</u>
Enterprise Funds:	
State Fair Park General Obligation Bonds	18,963
Home for Veterans General Obligation Bonds	534
Institutional Farm Operations General Obligation Bonds	22
Veterans Mortgage Loan Repayment General Obligation Bonds	782,260
Veterans Trust General Obligation Bonds	1,051
Wisconsin Education Revenue Bonds	220
Environmental Improvement Fund Revenue Bonds	587,784
Total Enterprise Funds	<u>1,390,834</u>
Internal Service Funds:	
Facilities Operations and Maintenance	
General Obligation Bonds	107,599
Badger State Industries General Obligation Bonds	625
Total Internal Service Funds	<u>108,224</u>
University of Wisconsin System:	
General Obligation Bonds	<u>911,736</u>
<b>Component Units:</b>	
Wisconsin Housing and Economic	
Development Authority Bonds and Notes	2,215,566
University of Wisconsin Hospitals	
And Clinics Authority	106,500
	<u>2,322,066</u>
Total at June 30, 2001	<u><u>\$ 7,652,921</u></u>

**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.

The outstanding principal and interest for general obligation debt to be financed from governmental funds and similar trust funds are accounted for in the General Long-term Debt Account Group (GLTDAG). Repayment of the bonds is made from the Bond Security and Redemption Fund and the corresponding amount removed from the GLTDAG when paid. The bonds payable amount presented in the Bond Security and Redemption Fund represents the liability to be paid from resources accumulated to provide debt service payments in Fiscal Year 2002. Repayment of principal and interest and the related outstanding liability on general obligation bonds made from fees and revenues of proprietary funds and similar trust funds are recorded in those funds.

At June 30, 2001, \$1,907.7 million of general obligation bonds were authorized but unissued.

General obligation bonds issued and outstanding as of June 30, 2001 were as follows (in thousands):

Fiscal Year Issued	Series	Dates	Interest Rates	Maturity Through	Amount Issued	Amount Outstanding
1977	1976 Series C and 1977 Series B	11/76; 5/77	5.0	5/02	\$ 168,000	\$ 1,500
1979	1978 Series C	11/78	5.1	11/03	77,300	1,960
1990	1990 Series B and D	3/90; 5/90	6.85 to 7.6	1/20	85,859	30,407
1991	1990 Series F; 1991 Series A, B and Series I	10/90 4/91; 5/91; 6/91	5.25 to 7.6	1/21	272,136	96,997
1992	1992 Series A and B, and Refunding Issue	3/92 6/92; 3/92	5.9 to 6.6	1/22	697,975	332,735
1993	1992 C and 2	10/92; 11/92				
	1993 1, 2 and A	1/93; 3/93; 5/93	4.3 to 7.75	5/15	721,175	365,406
1994	1993 Refunding Issues 3, 4, 5, 6; 1994 Refunding Issues 1 and 2; and 1994 Series A and B	7/93; 12/93; 12/93; 10/93; 3/94; 1/94; 6/94	4.2 to 7.0	5/24	929,825	515,156
1995	1994 Series 3 and C; 1995 Series A, B, and 1	9/94; 9/94 1/95; 2/95; 2/95	5.2 to 7.0	5/25	331,715	120,587
1996	1995 Series 2 and C; 1996 Series 1, A and B; and Note 995B	10/95; 9/95; 2/96; 1/96; 5/96 and 7/95	4.10 to 7.3	11/26	448,537	343,868
1997	1996 C and D; 1997 1 and A	9/96; 10/96; 3/97; 3/97	4.75 to 6.25	5/28	190,230	117,015
1998	1997 B, C and D; 1998 A, B and C	7/97; 9/97; 9/97; 3/98; 5/98; 5/98	4.25 to 7.25	11/28	411,765	378,334
1999	1998 Series 1, 2, D, E and F; 1999 Series 1, A and B	8/98; 9/98; 9/98; 10/98 10/98; 2/99; 5/99; 5/99	4.0 to 7.25	11/30	590,675	547,760
2000	1999 C and D; 2000 A	10/99; 11/99; 3/00	5.10 to 7.7	11/30	325,000	316,047
2001	2000 Series B, C, D, E; and 2001 Series A, B, C and D	7/00; 7/00; 11/00; 11/00 2/01; 4/01; 6/01; 6/01	3.0 to 8.05	11/31	546,710	546,710
Total					5,250,192	3,714,482
Proprietary Fund (Discounts)/Premiums						7,089
Deferred Amount on Refunding						(6,365)
Total General Obligation Bonds and Notes					\$ 5,250,192	\$3,715,206



As of June 30, 2001, general obligation debt service requirements for principal and interest in future years are as follows (in thousands):

Fiscal Year Ended June 30	Principal	Interest	Total
2002	\$ 254,979	\$ 200,762	\$ 455,741
2003	250,893	187,385	438,278
2004	235,558	174,716	410,274
2005	231,076	161,978	393,054
2006	228,143	149,175	377,318
Thereafter	2,513,833	1,143,968	3,657,801
Total	3,714,482	2,017,984	5,732,466
Proprietary Fund (Discounts)/Premiums	7,089		7,089
Deferred Amount on Refunding	(6,365)		(6,365)
Total	\$ 3,715,206	\$ 2,017,984	\$ 5,733,190

Zero Coupon Bonds

The general obligation bonds of 1990, Series D (Higher Education Series), are zero coupon bonds recorded in the amount of \$28.8 million which is the accreted value at June 30, 2001. 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 \$52.2 million. The bonds mature on May 1 through the year 2011.

**B. Revenue Bonds**

**Primary Government**

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

**Transportation Revenue Bonds**

Transportation Revenue Bonds are issued to finance part of the costs of certain transportation facilities and major highway projects. Chapter 18, Subchapter II of the Wisconsin Statutes as amended, Wis. Stat. Sec. 84.59 and a general bond resolution and series resolutions authorize the issuance of these bonds.

The Department of Transportation is authorized to issue a total of \$1,447.1 million Series A revenue bonds. Presently, there are ten issues of Transportation Revenue Bonds totaling \$859.1 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, 2001 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2000A	9/00	5.3 to 5.5	7/21	\$ 123,700	\$ 123,700
1998A&B	8&10/98	4.0 to 5.5	7/19	240,590	236,435
1996A	5/96	5.0 to 6.0	7/10	67,330	52,340
1995A	9/95	4.45 to 6.25	7/15	97,930	80,610
1994A	7/94	5.0 to 7.5	7/14	62,615	42,550
1993A	9/93	4.2 to 5.0	7/12	116,450	89,355
1992A&B	7/92	5.1 to 5.8	7/22	265,625	229,420
1991A	10/91	6.1	7/01	37,050	4,735
Total				\$1,011,290	\$ 859,145

As of June 30, 2001, debt service requirements for principal and interest for the Transportation Revenue Bonds are as follows (in thousands):

Fiscal Year Ended June 30	Principal	Interest	Total
2002	\$ 36,560	\$ 46,454	\$ 83,014
2003	38,115	42,573	80,688
2004	40,020	40,520	80,540
2005	46,150	38,191	84,341
2006	48,500	35,694	84,194
Thereafter	649,800	267,932	917,732
Total	\$ 859,145	\$ 471,364	\$ 1,330,509

**Petroleum Environmental Cleanup Fund Award Revenue Bonds**

Petroleum Environmental Cleanup Fund Award (PECFA) Bonds are issued to finance claims made under the 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 is one issue of PECFA Bonds outstanding totaling \$168.5 million. Debt service payments are secured by petroleum inspection fees.

As of June 30, 2001, debt service requirements for principal and interest for the PECFA Revenue Bonds are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
Ended June 30			
2002	\$ --	\$ 9,600	\$ 9,600
2003	11,440	9,286	20,726
2004	12,070	8,639	20,709
2005	12,735	7,925	20,660
2006	13,495	7,138	20,633
Thereafter	118,760	25,144	143,904
Total	<u>\$ 168,500</u>	<u>\$ 67,732</u>	<u>\$ 236,232</u>

**Wisconsin Education Revenue Bonds**

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

*Health Education Assistance Loan Program*

At June 30, 2001, there was one issue of Health Education Assistance Loan program bonds outstanding totaling \$.2 million. These bonds are secured by student loan repayments and interest income.

The Health Education Assistance Loan program bonds issued and outstanding as of June 30, 2001 were as follows (in thousands):

Issue	Issue Date	Maturity Through	Issued	Outstanding
1994	12/94	12/04	\$ 19,100	\$ 320
Less: Unamortized discount				(100)
Total			<u>\$ 19,100</u>	<u>\$ 220</u>

The provisions of the 1994 Series A bond issue requires interest and principal payments are to be made to the bond holder on the first working day of the month until maturity in December 2004. The interest portion of each monthly payment is based on the effective Federal funds rate plus 0.25% for each day in the month. The principal amount paid each month varies depending on the amount of student loans receivable that is collected and working cash flow for each month. Therefore, bond amortization varies through final maturity in the year 2004.

**Environmental Improvement Fund**

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 \$1,298.0 million in Revenue Bonds. At June 30, 2001, there were nine issues of Revenue Bonds outstanding totaling \$587.8 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, 2001 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2001-1	4/01	4.5 to 5.0	6/21	\$70,000	\$70,000
1999-1	9/99	5.0 to 5.75	6/20	80,000	77,495
1998-2	8/99	4.0 to 5.5	6/17	104,360	102,560
1998-1	1/98	4.0 to 5.0	6/18	90,000	80,850
1997-1	2/97	4.5 to 6.0	6/17	80,000	48,225
1995-1	7/95	4.0 to 6.25	6/15	80,000	30,630
1993-2	9/93	2.75 to 6.13	6/08	81,950	76,770
1993-1	9/93	3.6 to 5.3	6/13	84,345	33,030
1991-1	4/91	5.4 to 6.9	6/11	225,000	68,820
				<u>895,655</u>	<u>588,380</u>
Unamortized Premium					9,352
Less: Unamortized discount and charge					<u>(9,948)</u>
Total, net of discount, charge and premium				<u>\$825,655</u>	<u>\$587,784</u>

As of June 30, 2001, debt service requirements for principal and interest for the Fund were as follows (in thousands):

Fiscal Year	Principal	Interest	Total
Ended June 30			
2002	\$ 30,975	\$ 32,323	\$ 63,298
2003	32,660	29,914	62,574
2004	34,350	28,303	62,653
2005	35,985	26,635	62,620
2006	37,730	22,193	59,923
Thereafter	416,680	138,053	554,733
Total	<u>588,380</u>	<u>277,421</u>	<u>865,801</u>
Unamortized Premium		9,352	9,352
Less: Unamortized discount and charge		<u>(9,948)</u>	<u>(9,948)</u>
Total, net		<u>\$ 587,784</u>	<u>\$ 277,421</u>

**Component Units**

**Wisconsin Housing and Economic Development Authority**

Bonds and notes payable at June 30, 2001 of the Wisconsin Housing and Economic Development Authority (Authority) consisted of the following (in thousands):

Revenue bonds and notes	\$ 1,906,225
Special obligation and subordinated	
Special obligation	311,976
Total	2,218,201
Less: Deferred amount on refunding	(2,635)
Total, net	<u>\$ 2,215,566</u>

*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, 2001 consisted of the following (in thousands):

Series/ Issue	Date	Rates	Maturity Through	Outstanding
<b>Housing Revenue Bonds:</b>				
1992 A	1/92	6.2 to 6.85	2012	\$ 53,005
1992 B, C, D	4/92	6.6 to 7.2	2022	66,985
1993 A & B	10/93	4.7 to 5.65	2023	59,190
1993 C	12/93	4.8 to 5.875	2019	115,670
1995 A & B	7/95	4.85 to 6.5	2026	44,305
1998 A, B & C	2/98	4.4 to 6.88	2032	37,925
1999 A & B	10/99	4.0 to 6.18	2031	41,030
2000 A & B	9/00	Various	2032	10,785
				<u>428,895</u>

(Continued)

Series/ Issue	Date	Rates	Maturity Through	Outstanding
<b>Home Ownership Revenue Bonds:</b>				
1987 B&C	8/87	7.375	2015	1,960
1991 1,2&3	7/91	6.8 to 7.125	2022	24,010
1992 A&B	3/92	6.35 to 7.1	2023	39,885
1992 1,2	6/92	6.25 to 6.875	2024	49,625
1994 A&B	4/94	5.4 to 6.75	2025	38,395
1995 A&B	1/95	6.0 to 7.1	2025	53,030
1995 C,D&E	5/95	5.25 to 6.3	2026	65,475
1995 F,G&H	9/95	5.0 to 7.875	2026	40,655
1996 A&B	3/96	4.95 to 6.15	2027	59,675
1996 C&D	7/96	5.15 to 6.45	2027	56,405
1996 E&F	11/96	4.75 to 6.2	2027	46,870
1997 A, B & C	4/97	4.8 to 7.43	2028	58,700
1997 D & E	6/97	4.65 to 6.0	2028	79,670
1997 G, H&I	11/97	4.5 to 7.39	2028	65,070
1998 A, B&C	4/98	4.75 to 6.3	2028	110,715
1998 D & E	6/98	4.25 to 6.04	2028	104,740
1999 A & B	8/99	5.3 to 5.8	2021	60,485
1999 C, D&E	4/99	3.7 to 7.29	2029	85,260
1999 F & G	7/99	4.3 to 7.07	2030	69,160
2000 A, B & C	3/00	4.5 to 8.57	2030	68,925
2000 D, E&F	9/00	5.0 to 7.91	2031	94,880
2000 G & H	11/00	4.65 to 7.21	2031	60,000
2001 A,B,C&D	5/01	3.95 to 6.4	2032	94,060
				<u>1,427,677</u>
<b>Business Development Bonds:</b>				
1989 3 & 28	Various	4.25 to 5.2	2014	2,375
1990 4, 6	Various	4.75 to 5.2	2005	750
1991 4, 6	Various	5.0 to 6.5	2006	2,775
1994 1, 4	Various	Variable	2014	3,005
1995 1-2, 4-9	Various	Variable	2015	13,785
				<u>22,690</u>
Notes Payable	Various	Variable	2021	<u>26,990</u>
<b>Authority's Total Revenue Bonds and Notes</b>				<u><u>\$1,906,225</u></u>

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, 2001 consist of the following (in thousands):

Series/ Issue	Date	Rates	Maturity Through	Outstanding
Home Ownership Revenue Bonds:				
1993 A	6/92	5.35 to 6.5	2025	75,780
1994 C&D	8/94	5.4 to 6.65	2025	28,400
1994 E&F	12/94	6.3 to 7.55	2026	1,825
1998 F&G	10/98	3.85 to 6.7	2029	88,970
				194,975
Single Family Drawdown Revenue Bonds:				
1999	7/99	Variable	2033	117,001
				117,001
Total Special Obligation Bonds				\$ 311,976

As of June 30, 2001, debt service requirements for principal and interest of the Authority's revenue bonds and special obligation bonds were as follows (in thousands):

Fiscal Year Ended June 30	Principal	Interest	Total
2002	\$ 71,860	\$ 125,170	\$ 197,030
2003	168,906	120,139	289,045
2004	56,455	116,550	173,005
2005	59,890	113,416	173,306
2006	61,720	109,892	171,612
Thereafter	1,799,370	1,351,120	3,150,490
Total	2,218,201	1,936,287	4,154,488
Less: Deferred Refunding Amount	(2,635)		(2,635)
Total	\$ 2,215,566	\$ 1,936,287	\$ 4,151,853

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, 2001, the Authority had issued 134 series of such bonds in an aggregate principal amount of \$81.6 million for economic projects in Wisconsin.

University of Wisconsin Hospitals and Clinics Authority

In April 1997, the University of Wisconsin Hospitals and Clinics Authority (the Hospital) issued \$50.0 million of Variable Rate Demand Hospital Revenue Bonds, Series 1997. The bond proceeds are designated to finance qualified capital projects. Principal payments on the Series 1997 Bonds are due annually commencing in April 2010 through April 2026. Interest is payable monthly. The effective annual estimated interest rate was 3.8 percent in 2001.

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. These funds are held by the trustee and are reflected in Restricted and Limited Use Assets – Investments in the accompanying financial statements.

The Hospital is limited to total borrowings, exclusive of amounts outstanding prior to issuance of the Series 1997 bonds, to \$106.5 million, with limited exceptions.

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

As of June 30, 2001, debt service requirements for the Hospital's revenue bonds were as follows (in thousands):

Fiscal Year Ended June 30	Principal	Interest	Total
2002	\$	\$ 5,365	\$ 5,365
2003		5,365	5,365
2004		5,370	5,370
2005		5,361	5,361
2006		5,365	5,365
Thereafter	106,500	84,039	190,539
Total	<u>\$ 106,500</u>	<u>\$ 110,865</u>	<u>\$ 217,365</u>

**C. University of Wisconsin System**

Bonds payable included in the University of Wisconsin System's Plant Funds at June 30, 2001 consist of general obligation bonds of \$911.7 million.

On June 30, 2001, future principal payments on bonds payable were as follows (in thousands):

Fiscal Year Ended June 30	Total
2002	\$ 70,065
2003	66,106
2004	61,961
2005	60,563
2006	59,867
Thereafter	593,174
Total	<u>\$911,736</u>

**D. 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.

**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, 2001, approximately \$528.0 million of general obligation bond principal, defeased in prior years, is not included as a liability in the accompanying financial statements.

**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, 2001, revenue bonds outstanding of \$178.0 million have been defeased.
- Transportation revenue bonds – At June 30, 2001, revenue bonds outstanding of \$125.7 million have been defeased.
- Wisconsin Education revenue bonds – At June 30, 2001, revenue bonds outstanding of \$103.8 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, 2001, the remaining outstanding defeased debt was \$34.6 million.

**Early Extinguishments**

**Component Units**

Wisconsin Housing and Economic Development Authority

During 2001, 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):

<b>Bond Issue</b>	<b>Redemptions 2001</b>
Home Ownership Revenue	
Bond Resolutions:	
1987	\$ 21,465
1988	37,415
All Other	103,090
General funds	1,930

**E. Short-Term Financing**

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

**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, 2001, 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 deposited \$3.0 million with the paying/issuing agent on May 1, 2001, which will be applied after June 30, 2001, to pay-down outstanding general obligation 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, 2001, the amount of commercial paper notes outstanding was \$85.4 million which had interest rates ranging from 2.55 percent to 3.35 percent and maturities ranging from July 2, 2001 to October 15, 2001.

**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, 2001, the State issued \$298.8 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, 2001, the amount of extendible municipal commercial paper outstanding was \$227.4 million which had interest rates ranging from 2.7 percent to 3.35 percent and maturities ranging from July 2, 2001, to September 12, 2001.

### 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, 2001, the State issued \$80.0 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, 2001, the amount of extendible commercial paper outstanding was \$80.0 million which had interest rates ranging from 2.9 percent to 3.2 percent and maturities ranging from July 2, 2001 to September 6, 2001.

### 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, 2001, the State issued \$154.8 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, 2001, the amount of commercial paper notes outstanding was \$141.7 million which had interest rates ranging from 2.6 percent to 3.35 percent and maturities ranging from July 12, 2001 to December 11, 2001.

### F. 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, 2001, the following parity Master Lease certificates were outstanding:

- Master Lease Certificates of Participation of 1996, Series B, in the amount of \$.8 million. This series of Master Lease certificates had interest rates ranging from 4.6 percent to 4.9 percent and matures annually through 2003.
- Master Lease Certificates of Participation of 1996, Series A, in the amount of \$30.6 million. This Master Lease certificate evidences the State's obligation to repay revolving loans under a Revolving Credit Agreement, dated July 1, 1996 between Firststar Bank National Association (Trustee) and the Bank of America, as amended. This Master Lease certificate shall bear interest at the rates provided for in the Revolving Credit Agreement and matures on March 1, 2009. 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 1999, Series A, in the amount of \$9.1 million. This series of Master Lease certificates have interest rates ranging from 3.4 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 \$10.0 million. This series of Master Lease certificates have interest rates ranging from 5.25 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 \$23.1 million. This series of Master Lease certificates have interest rates ranging from 4.5 percent to 5.0 percent and mature semi-annually through September 1, 2007.
- Master Lease Certificates of Participation of 2000, Series B (Taxable), in the amount of \$10.3 million. This series of Master Lease certificates have interest rates ranging from 6.7 percent to 7.0 percent and mature semi-annually through September 1, 2005.

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, 2001, the State has deposited with the Trustee amounts, that when invested, will terminate lease schedules having an aggregate outstanding amount of \$2.6 million. As a result of terminating these lease schedules, the associated liability is removed from the financial statements.

## G. Arbitrage Rebate

The Tax Reform Act of 1986 requires that governmental entities issuing tax-exempt debt subsequent to August 1986, calculate and rebate arbitrage earnings to the federal government. Specifically, the excess of the aggregated amount earned on investments purchased with bond proceeds over the amount that would have been earned if the proceeds were invested at a rate equal to the bond yield, is to be rebated to the federal government. As of June 30, 2001, an arbitrage liability for certain bonds issued for the veterans mortgage loan program existed. The amount of the liability has not been determined but is estimated to be approximately \$3.0 to \$4.0 million and will be paid from the veterans mortgage loan repayment fund.

## H. Moral Obligation Debt

Through legislation enacted in 1994, the State authorized the creation of local exposition districts. These districts are authorized to issue bonds for costs related to an exposition center, and if the State determines that certain conditions are satisfied, the State may have a moral obligation to appropriate moneys to make up deficiencies in the districts' reserve funds that secure up to \$200 million principal amount of bonds. To date, one such district has been created, and it has issued \$125.8 million of bonds that are subject to the moral obligation. 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.

## I. Credit Agreements

### Primary Government

The State has, as part of the working bank contract, a letter of credit agreement with the Firststar Bank National Association, Milwaukee, Wisconsin under which the Bank has agreed to provide to the State an open line of credit in the amount of \$50.0 million. The agreement provides for advances in anticipation of bond issuance proceeds. As of June 30, 2001, \$50.0 million was unused and available. In August, 2001, the State drew \$50.0 million under the Firststar letter of credit agreement.

The State has previously entered into a credit agreement with two banks to provide a line of credit for liquidity support for up to \$110.0 million of general obligation commercial paper notes. The line of credit expires in March, 2002, but is subject to annual renewal as provided for in the credit agreement. The cost of this line of credit is 0.08 percent per year.

Also, the State has previously entered into a credit agreement with two banks to provide a stand-by letter of credit for credit and liquidity support for its transportation revenue commercial paper program. The stand-by letter of credit is available to secure up to \$155.0 million of transportation revenue commercial paper. No advances were drawn during the fiscal year ended June 30, 2001. This stand-by letter of credit expires in May, 2002, but is subject to renewal as provided for in the credit agreement. The cost of this stand-by letter of credit is 0.085 percent on unutilized amounts and 0.160 percent per year on utilized amounts.



**NOTE 7. LEASE COMMITMENTS**

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

**A. Capital Leases**

**Primary Government**

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

Assets acquired through capital leases are valued at the lower of fair market value or the present value of minimum lease payments at the inception of the lease. The following is an analysis of General Fixed Assets and proprietary fund type assets leased under capital leases as of June 30, 2001 (in thousands):

	General Fixed Assets	Enterprise Funds	Internal Service Funds
Land and			
Land Improvements	\$ 376	\$ --	\$ --
Buildings and			
Improvements	1,179	787	--
Machinery and			
Equipment	20,578	958	6,660
Less: Accumulated			
Depreciation	--	(400)	(3,004)
Carrying Amount	<u>\$ 22,133</u>	<u>\$ 1,346</u>	<u>\$ 3,656</u>

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, 2001 for capital leases (in thousands):

Fiscal Year	General Long-term		University of Wisconsin System
	Debt Account Group	Proprietary Funds	
2002	\$ 5,643	\$ 1,982	\$ 6,031
2003	4,886	1,895	4,726
2004	3,339	1,178	3,804
2005	1,560	327	2,828
2006	648	213	2,405
Thereafter	1,509	1,105	20,534
Total minimum			
future payments	17,583	6,700	40,327
Less: Executory costs	(117)	(439)	--
Less: Interest	(2,058)	(980)	(6,903)
Present value of			
net minimum			
lease payments	<u>\$ 15,408</u>	<u>\$ 5,281</u>	<u>\$ 33,424</u>

**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 Firststar 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. Items acquired and outstanding on June 30, 2001 consisted of:

Balance Due	Average Life (Weighted Term)
\$81,172,740	3.0532 Years

The assets acquired and corresponding obligations, for governmental funds and similar trust funds are reported in the General Fixed Asset Account Group and the General Long-term Debt Account Group. Assets acquired and the corresponding liability for proprietary funds and similar trust funds are reported in those funds.

**Component Unit**

Under the terms of a lease agreement, the University of Wisconsin Hospital 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 7.75 percent, with final maturities due beginning in April 2000 through April 2016. Scheduled principal and interest payments through April 2016 are \$37.4 million.

Fiscal Year	Governmental and Proprietary Funds	University of Wisconsin System	Component Units
2002	\$ 42,308	\$ 6,200	\$ 3,888
2003	31,341	5,663	3,867
2004	22,808	4,851	3,788
2005	15,706	4,283	3,712
2006	11,831	3,993	3,325
Thereafter	34,942	20,805	10,253
Minimum lease payments	\$ 158,936	\$ 45,794	\$ 28,834

**B. Operating Leases**

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

Governmental and proprietary fund rental expenditures/expenses under operating leases for Fiscal Year 2001 were \$45.9 million. Of this amount, \$45.4 million relates to minimum rental payments stipulated in lease agreements, \$478 thousand relates to contingent rentals, and \$405 thousand subrental payments. The University of Wisconsin System operating lease expenditures totaled \$ 6.3 million for Fiscal Year 2001.

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

**NOTE 8. INSTALLMENT PURCHASES**

Installment purchase liabilities for the governmental fund types are reported in the General Long-term Debt Account Group and the related assets are reported in the General Fixed Assets Account Group.

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, 2001 for installment purchases (in thousands):

Fiscal Year	General Long-term Debt Account Group
2002	\$ 571
2003	342
2004	177
2005	117
Total minimum future payments	1,208
Less: Interest	(104)
Present value of net minimum installment payments	\$ 1,104

**NOTE 9. SEGMENT INFORMATION AND CONDENSED FINANCIAL DATA****Primary Government**

The State maintains 25 enterprise funds which are intended to be self-supporting through user fees charged to the public. Financial statement information as of and for the year ended June 30, 2001 is presented below (in thousands):

	Home for Veterans (1)	Mental Health Institutes (2)	Developmental Disabilities Centers (3)	Lottery (4)	Health Insurance Risk Sharing Plan (5)	Local Government Property Insurance (6)
Operating revenues:						
Total revenues	\$ 42,466	\$ 47,733	\$ 117,813	\$403,755	\$ 40,941	\$ 11,322
Revenues from sales/services provided to other GAAP funds	--	--	--	--	--	--
Depreciation, depletion and amortization expense	1,843	1,787	3,025	191	--	8
Operating income or loss	(898)	(44,516)	(3,682)	108,892	(19,631)	(2,079)
Operating grants, entitlements, and shared revenues	27	210	64	--	--	--
Operating interfund transfers:						
In	1,058	45,092	109	5,520	12,681	--
Out	656	1,924	7,747	11,993	--	--
Net income (loss)	1,448	4,789	(9,496)	(9,370)	(6,068)	(2,079)
Current capital:						
Contributions	--	--	--	--	--	--
Transfers In	319	450	434	--	--	--
Transfers Out	3	--	--	--	--	--
Property, plant and equipment:						
Additions	3,828	1,281	1,117	187	--	--
Deletions	344	303	397	1,684	--	--
Net working capital (current assets less current liabilities)	4,842	10,484	(16,099)	40,760	11,746	1,622
Total assets	34,518	60,328	57,383	222,153	20,328	33,927
Bonds and other material long-term liabilities outstanding:						
Amounts payable solely from operating revenues	847	836	--	124,892	19,544	--
Amounts potentially payable from other sources	--	--	--	--	--	--
Total equity	29,367	40,953	17,083	52,636	(7,798)	21,302

## Description of Programs

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

State Life Insurance (7)	Patients Compensation (8)	Government Employee Benefit Plans (9)	Environmental Improvement (10)	Veterans Mortgage Loan Repayment (11)	State Fair Park (12)	Wisconsin Education Revenue Bonds (13)	Other (14)	Total
\$ 9,074	\$ 77,145	\$ 574,929	\$ 30,601	\$ 49,570	\$ 15,973	\$ 296	\$ 21,660	\$1,443,278
--	--	510,832	--	--	--	--	1,796	512,627
18	6	--	808	298	2,251	--	639	10,874
984	868	(53,942)	(6,231)	(5,103)	116	132	(358)	(25,448)
--	--	--	3,098	--	--	--	383	3,780
--	--	--	--	--	--	--	1,695	66,155
--	--	--	--	(3)	249	--	1,623	24,190
984	1,231	(53,583)	37,614	3,473	(1,481)	137	312	(32,088)
--	--	--	16,630	--	1,509	--	--	18,139
--	--	--	20,700	--	--	--	363	22,267
--	--	--	4,000	--	--	--	--	4,003
7	--	--	--	46	9,127	--	3,330	18,922
--	--	--	2	127	2,466	--	1,231	6,555
4,721	16,765	426,109	203,532	136,748	20	(263)	58,396	899,383
75,720	576,524	508,180	1,420,362	881,997	43,357	2,834	157,099	4,094,710
66,938	547,490	364,891	--	751,395	18,963	--	10,749	1,906,546
--	--	--	561,135	--	--	220	12,496	573,851
8,241	28,461	61,217	824,625	82,284	17,738	2,239	125,493	1,303,841

- (10) Funding for clean water projects, safe drinking water and the land recycling loan program.
- (11) Issuance and administration of veteran's first mortgage loans.
- (12) State Fair Park - State Fair revenues and operations.
- (13) Health education loans provided to full-time medical and dental students and eligible residents.
- (14) Other funds include: Transportation Infrastructure Loan – Federal and state funding for loans to finance infrastructure; Institutional Farm Operations – Funds associated with employing inmates in agricultural activities; Correctional Canteen Operations – Sale of goods for the use of institutionalized inmates; Tuition Trust and College Savings Program Trust – Taxpayers' investment to cover future tuition expenses; Veterans Trust -- Various programs for veterans, including loans and grants.

**Component Units**

Significant financial data for the State's three component units for the year ended December 31, 2000 or June 30, 2001 is presented below (in thousands):

	Wisconsin Housing and Economic Development Authority	Wisconsin Health Care Liability Insurance Plan	University of Wisconsin Hospital and Clinics Authority	Total
<b>Condensed Balance Sheet</b>				
<b>Assets:</b>				
Current Assets	\$ 537,844	\$ 140,865	\$ 88,461	\$ 767,170
Due From Primary Government	--	--	2,330	2,330
Long-term Receivables	1,945,988	--	--	1,945,988
Deferred Charges	14,062	--	--	14,062
Fixed Assets	22,094	--	158,190	180,284
Other Assets	187,993	--	200,321	388,314
Total Assets	<u>\$ 2,707,981</u>	<u>\$ 140,865</u>	<u>\$ 449,302</u>	<u>\$ 3,298,148</u>
<b>Liabilities:</b>				
Current Liabilities	\$ 167,709	\$ 36,812	\$ 41,370	\$ 245,891
Due to Primary Government	57	59	6,098	6,214
Future Benefits and Loss Liability	--	84,028	--	84,028
Other Liabilities	385	--	31,240	31,625
Bonds and Notes Payable	2,215,566	--	106,500	2,322,066
Total Liabilities	<u>2,383,717</u>	<u>120,899</u>	<u>185,208</u>	<u>2,689,824</u>
<b>Equity:</b>				
Retained Earnings	324,264	19,966	264,094	608,324
Total Equity	<u>324,264</u>	<u>19,966</u>	<u>264,094</u>	<u>608,324</u>
Total Liabilities and Equity	<u>\$ 2,707,981</u>	<u>\$ 140,865</u>	<u>\$ 449,302</u>	<u>\$ 3,298,148</u>
<b>Condensed Statement of Revenues, Expenses and Changes in Retained Earnings</b>				
Operating Revenues	\$ 155,537	\$ 12,741	\$ 429,319	\$ 597,597
Operating Expenses:				
Depreciation	5,042	--	18,912	23,954
Other	219,772	20,187	396,859	636,818
Operating Income (Loss)	(69,277)	(7,446)	13,548	(63,175)
Other Nonoperating Revenues (Expenses)	101,947	--	5,803	107,750
Income (Loss) Before Operating Transfer	32,670	(7,446)	19,351	44,575
Operating Transfer to Primary Government	--	--	(1,265)	(1,265)
Net Income	32,670	(7,446)	18,086	43,310
Retained Earnings-Beginning of Year	291,594	27,412	246,008	565,014
Retained Earnings-End of Year	<u>\$ 324,264</u>	<u>\$ 19,966</u>	<u>\$ 264,094</u>	<u>\$ 608,324</u>

**NOTE 10. INTERFUND ASSETS/LIABILITIES**

Interfund assets and liabilities at June 30, 2001 consist of the following (in thousands):

**A. Due from/to Other Funds:**

Due from Other Funds	\$ 366,398
Due to Other Funds	\$ 366,398

Due from/to Other Funds represent short-term interfund accounts receivable and payable. The totals of Due from/to Other Funds at June 30, 2001 by individual fund were as follows (in thousands):

Fund	Due from Other Funds	Due to Other Funds
General	\$ 159,258	\$ 80,164
Special Revenue:		
Transportation	21,454	30,888
Conservation	14,403	14,774
Wisconsin Health		
Education Loan		
Repayment	--	11
Work Injury Supplemental		
Benefit	--	19
Tobacco Control	972	3,497
Utility Public Benefits	6,897	601
Mediation	4	4
Agriculture Chemical		
Cleanup	--	500
Agrichemical Management	25	427
Employee Trust Fund		
Administration	4,069	1,150
Petroleum Inspection	10,468	2,976
Environmental	7,359	3,253
Dry Cleaner		
Environmental Response	--	34
Recycling	1,843	7,644
Information Technology		
Investment	1	137
Universal Service	37	755
Wisconsin Public		
Broadcasting Foundation	56	719
Debt Service:		
Bond Security and		
Redemption	109	15
Transportation Revenue		
Bonds	--	9

(Continued)

Fund	Due from Other Funds	Due to Other Funds
Capital Projects:		
Building Trust	539	7,621
Capital Improvement	526	2,494
Transportation Revenue		
Bonds	11	18,110
Enterprise:		
State Fair Park	1,349	694
Home for Veterans	300	1,537
Mendota Mental		
Health Institute	794	3,910
Winnebago Mental		
Health Institute	793	3,800
Northern Developmental		
Disabilities Center	39	3,841
Central Developmental		
Disabilities Center	182	4,587
Southern Developmental		
Disabilities Center	528	3,691
Institutional Farm		
Operations	209	77
Correctional Canteen		
Operations	2	70
Lottery	3,535	14,238
Health Insurance Risk		
Sharing Plan	1,210	95
Local Government		
Property Insurance	--	2
State Life Insurance	--	10
Patients Compensation	3	50
Income Continuation		
Insurance	387	3,513
Duty Disability	5,899	3,355
Long-term Disability		
Insurance	--	8,979
Health Insurance	173	266
Tuition Trust	--	915
Environmental		
Improvement	52	2,429
Veterans Trust	1,578	448
Veterans Mortgage Loan		
Repayment	5	1,664
Wisconsin Education		
Revenue Bonds	--	370
College Savings Program	--	25
Internal Service:		
Information Technology		
Services	7,768	542
Fleet Services	2,045	185

(Continued)

Fund	Due from Other Funds	Due to Other Funds
Printing and Other		
Services	3,021	663
State Telephone System	5,424	126
Financial Services	255	244
Facilities Operations and Maintenance	5,238	1,041
Risk Management	129	101
Badger State Industries	2,227	452
Expendable Trust:		
Unclaimed Property		
Program	1	17
Children's Trust	15	7
Accumulated Sick Leave	11,987	25,583
State Capitol Restoration	--	19
Special Death Benefits	--	37
Employee Reimbursement		
Accounts	342	63
Life Insurance	6	83
Deferred Compensation	--	87
Common School Income	1,137	6
Unemployment Insurance		
Reserve	218	1,160
Nonexpendable:		
Common School	14	80
Normal School	--	6
Historical Society	19	29
Pension:		
Wisconsin Retirement		
System	63,245	40,698
Investment Trust:		
Local Government Pooled		
Investment	--	27
Milwaukee Retirement		
Systems	--	516
Agency:		
Insurance Company		
Liquidation Account	--	9
Inmate and Resident	542	273
Support Collection Trust	565	30,248
University of		
Wisconsin System	17,127	29,724
Total	<u>\$ 366,398</u>	<u>\$ 366,398</u>

**B. Due to/from Component Units**

Receivables and payables between funds and component units at June 30, 2001 were as follows (in thousands);

Fund/Component Unit	Due from Component Units/Primary Government	Due to Component Units/Primary Government
Primary Government:		
General Fund	\$ 12	\$ 1,071
Enterprise:		
Patients Compensation	14	--
Internal Service:		
Fleet Services	2	--
Printing and Other		
Services	65	--
State Telephone System	108	--
Badger State Industries	10	--
University of Wisconsin		
System	6,002	1,259
Component Unit:		
Wisconsin Housing and		
Economic Development		
Authority	--	57
Wisconsin Health Care		
Liability Insurance Plan	--	59
University of Wisconsin		
Hospitals and Clinics		
Authority	2,330	6,098
Total	<u>\$ 8,543</u>	<u>\$ 8,543</u>

**C. Interfund Receivables/Payables**

Interfund Receivables	\$ 82,388
Interfund Payables	\$ 82,388

Interfund Receivables/Payables represent short-term loans from one fund to another to cover cash overdrafts. Interfund receivables/payables at June 30, 2001 by individual fund were as follows (in thousands):

Fund	Interfund Receivables	Interfund Payables
General	\$ --	\$ 14,597
Special Revenue:		
Transportation	66	--
Employee Trust Funds		
Administration	--	1,283
Capital Projects:		
Transportation Revenue		
Bonds	--	66
Enterprise:		
Winnebago Mental Health		
Institute	--	5,540
Northern Developmental		
Disabilities Center	--	2,692
Central Developmental		
Disabilities Center	--	6,934
Southern Developmental		
Disabilities Center	--	5,361
Institutional Farm		
Operations	--	4,343
Health Insurance	1,283	--
Internal Service:		
Information Technology		
Services	--	2,394
Fleet Services	--	33,325
Printing and Other Services	--	5,424
State Telephone System	--	430
University of Wisconsin		
System	81,039	--
<b>Total</b>	<b>\$ 82,388</b>	<b>\$ 82,388</b>

**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, 2001 by individual fund were as follows (in thousands):

Fund	Advances to Other Funds	Advances from Other Funds
Special Revenue:		
Information Technology		
Investment	\$ --	\$ 3,058
Capital Projects:		
Energy Efficiency	1,500	--
Internal Service:		
State Telephone		
System	3,058	--
University of Wisconsin		
System	--	1,500
<b>Total</b>	<b>\$ 4,558</b>	<b>\$ 4,558</b>



**NOTE 11. INTERFUND TRANSFERS****A. Residual Equity Transfers**

Residual equity transfers in and out that occurred during Fiscal Year 2001 were as follows (in thousands):

Fund	Residual Equity Transfers In	Residual Equity Transfers Out
General	\$ --	\$ 159
Debt Service:		
Bond Security and Redemption	4,000	141
Capital Projects:		
Building Trust	145	7,512
Capital Improvement	--	20,988
Enterprise:		
State Fair Park	1,509	--
Home for Veterans	46	3
Mendota Mental Health Institute	80	--
Winnebago Mental Health Institute	79	--
Environmental Improvement	20,700	4,000
Institutional Farms Operations	155	--
Veterans Trust	82	--
Internal Service:		
Badger State Industries	4	--
Facilities Operations and Maintenance	1,523	--
University of Wisconsin System	4,481	--
Total Residual Equity Transfers	<u>\$ 32,804</u>	<u>\$ 32,804</u>

Residual equity transfers to proprietary fund types are reported as additions to contributed capital; those from proprietary fund types are reported as reductions of retained earnings or contributed capital depending on whether the transfers represent a return of contributions. Transfers of purchased fixed assets from a proprietary fund to the General Fixed Assets Account Group are reported as a residual equity transfer out in the proprietary fund type and as an asset in the account group. Transfers of long-term debt from a proprietary fund to the General Long-term Debt Account Group are reported as a reduction of the residual equity transfer out of the proprietary fund and as a liability in the account group.

**B. Operating Transfers**

Operating transfers in and out that occurred during Fiscal Year 2001 were as follows (in thousands):

Fund	Operating Transfers In	Operating Transfers Out
General	\$ 55,898	\$ 1,414,071
Special Revenue:		
Transportation	1,511	26,062
Conservation	18,203	9,173
Wisconsin Elections Campaign	325	--
Tobacco Control	--	986
Agriculture Chemical Cleanup	--	500
Petroleum Inspection	--	1,819
Environmental	13,096	986
Recycling	388	7,525
Universal Service	--	1,001
Wisconsin Public Broadcasting Foundation	--	7,157
Debt Service:		
Bond Security and Redemption	226,984	--
Transportation Revenue Bonds	--	5,583
Capital Projects:		
Building Trust	22,693	62
Capital Improvement	24,660	111
Transportation Revenue Bonds	5,583	1,392
Enterprise:		
State Fair Park	--	249
Home for Veterans	1,058	656
Mendota Mental Health Institute	25,447	738
Winnebago Mental Health Institute	19,645	1,185
Northern Developmental Disabilities Center	--	2,554
Central Developmental Disabilities Center	109	2,844
Southern Developmental Disabilities Center	--	2,349
Institutional Farm Operations	1,052	256
Correctional Canteen Operations	477	304
Lottery	5,520	11,993
Health Insurance Risk Sharing Plan	12,681	--
Veterans Trust	165	1,064
Veterans Mortgage Loan Repayment	--	(3)

(Continued)

Fund	Operating Transfers In	Operating Transfers Out
Internal Service:		
Information Technology Services	--	3,936
Fleet Services	--	25
Printing and Other Services	216	--
Telephone Services	4	--
Financial Services	--	520
Facilities Operations and Maintenance	6,028	1,885
Risk Management	--	85
Badger State Industries	293	709
Expendable Trust:		
Unclaimed Property Program	--	5,000
Capitol Restoration	--	19
Common School Income	--	1,308
Nonexpendable Trust:		
Common School	5,000	--
Historical Society	17	80
University of Wisconsin System	1,076,749	9,620
<b>Total</b>	<u><u>\$1,523,802</u></u>	<u><u>\$1,523,802</u></u>

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

For Fiscal Year 2001, the following reclassifications and adjustments have resulted in beginning fund balance/retained earnings restatement (in thousands):

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust
Fund Balances/Retained Earnings June 30, 2000 as previously reported	\$ (830,349)	\$ 493,583	\$ 7,787	\$ (242,710)	\$ 177,088	\$ (3,385)	\$ 72,837,755
Reclassification of fund structure:							
Institutional Power Plant	633	--	--	--	(2,784)	3,576	--
Central Warehouse	1,134	--	--	--	--	(3,213)	--
Institutional Canteen Operations	60	--	--	--	(61)	--	--
Revaluation of Mental Health Institute	--	--	--	--	16,346	--	--
Reclassification of short-term debt not previously reported in the Capital Improvement Fund	--	--	--	(20,874)	--	--	--
Other adjustments of assets and liabilities as of June 30, 2000	2,331	(219)	(1,556)	(847)	1,465	(2,338)	1,137
Fund balances/retained earnings July 1, 2000 as restated	\$ (826,192)	\$ 493,365	\$ 6,231	\$ (264,431)	\$ 192,054	\$ (5,361)	\$ 72,838,892
Effect of prior period adjustments on the amount excess revenues and other sources over expenditures and other uses or the amount of net income of Fiscal Year 2000	\$ 2,917	\$ (96)	\$ (169)	\$ 2,844	\$ 12,258	\$ (2,172)	\$ 551

Amounts reported for fixed assets as of July 1, 2000 in Note 4 have been restated from amounts previously reported in the 2000 Comprehensive Annual Financial Report to reflect additional assets identified as existing at that date.

The State implemented GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, for Fiscal Year 2001. These statements establish accounting and financial reporting standards to guide state and local governments' decisions about when (in which fiscal year) to report the results of nonexchange transactions involving cash and other financial and capital resources. As a result, the Petroleum Inspection Fund, a special revenue fund, reported additional liabilities for environmental site clean-up claims for costs that have been incurred by landowners but not yet reported to the fund as of June 30, 2001. Under GASB Statement No. 33, the expenditures that would have been accrued as of the end of Fiscal Year 2000 should be recorded as a prior period adjustment. However, because the State was not able to readily determine the amount attributable to the prior years, the entire amount was included in the expenditures reported for Fiscal Year 2001.

University of Wisconsin System							Component Units
Current		Loan	Endowment And Similar	Plant			
Unrestricted	Restricted						
\$ 220,106	\$ 53,865	\$ 180,655	\$ 316,026	\$ 3,084,993	\$	565,014	
--	--	--	--	--	--	--	
--	--	--	--	--	--	--	
--	--	--	--	--	--	--	
--	--	--	--	--	--	--	
(56)	134	--	--	11	--	--	
\$ 220,050	\$ 53,998	\$ 180,655	\$ 316,026	\$ 3,085,004	\$	565,014	

**NOTE 13. FUND EQUITY**

The following schedule enumerates the components of Fund Equity of the various funds as of June 30, 2001 (in thousands):

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types		University of Wisconsin System	Component Units	Total
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust				
Contributed Capital	\$ --	\$ --	\$ --	\$ --	\$1,143,876	\$23,308	\$ --	\$ --	\$ --	\$ --	\$ 1,167,184
Retained Earnings:											
Reserved for:											
Future Benefits	--	--	--	--	20,883	--	--	--	--	4,702	25,585
Market Value Adjustments (Statutory Reservation)	--	--	--	--	11,874	--	--	--	--	--	11,874
Bonds	--	--	--	--	--	--	--	--	--	156,961	156,961
Donors for Operations	--	--	--	--	--	--	--	--	--	3,179	3,179
Unreserved	--	--	--	--	127,208	(17,570)	--	--	--	443,482	553,120
Fund Balances:											
Reserved for:											
Encumbrances	194,079	626,905	--	152,182	--	--	--	332,320	--	--	1,305,486
Inventory	12,447	17,028	--	--	--	--	--	27,044	--	--	56,519
Prepaid Items	167,498	16,119	--	--	--	--	6,536	21,805	--	--	211,958
Advances to Other Funds	--	--	--	1,500	--	--	--	--	--	--	1,500
Employee Benefits	--	--	--	--	--	--	55,967,055	--	--	--	55,967,055
Pool Participants	--	--	--	--	--	--	3,901,225	--	--	--	3,901,225
Market Value Adjustments	--	--	--	--	--	--	4,579,447	--	--	--	4,579,447
Unemployment Insurance	--	--	--	--	--	--	1,805,033	--	--	--	1,805,033
Auxiliary Operations	--	--	--	--	--	--	--	114,160	--	--	114,160
Restricted Funds	--	994	--	--	--	--	--	5,460	--	--	6,454
Loan Funds	--	--	--	--	--	--	--	185,352	--	--	185,352
Endowment and Similar Funds	--	--	--	--	--	--	--	305,668	--	--	305,668
Plant Funds	--	--	--	--	--	--	--	2,982,845	--	--	2,982,845
Unreserved:											
Designated for University Contingent Fund	--	--	--	--	--	--	--	3,157	--	--	3,157
Undesignated	(1,588,872)	(400,365)	9,155	(459,547)	--	--	1,661,985	31,095	--	--	(746,549)
<b>Total Fund Equity</b>	<b>\$(1,214,848)</b>	<b>\$260,680</b>	<b>\$9,155</b>	<b>\$(305,865)</b>	<b>\$1,303,841</b>	<b>\$ 5,738</b>	<b>\$67,921,282</b>	<b>\$4,008,905</b>	<b>\$608,324</b>	<b>\$72,597,213</b>	

**NOTE 14. DEFICIT FUND BALANCES/RETAINED EARNINGS**

In addition to the General Fund, funds reporting a deficit fund balance or retained earnings position at June 30, 2001 are (in thousands):

Special Revenue:	
Petroleum Inspection	\$ 298,841
Information Technology Investment	3,000
Capital Projects:	
Capital Improvement	192,055
Transportation Revenue Bonds	153,881
Enterprise:	
State Fair Park	1,756
Home for Veterans	9,570
Mendota Mental Health Institute	9,647
Winnebago Mental Health Institute	7,561
Northern Developmental Disabilities Center	20,183
Central Developmental Disabilities Center	18,650
Southern Developmental Disabilities Center	24,839
Health Insurance Risk Sharing Plan	7,798
Duty Disability	194,603
Tuition Trust	786
Veterans Trust	39,036
Internal Service:	
Information Technology Services	303
Fleet Services	527
Printing and Other Services	3,025
Risk Management	88,729

**NOTE 15. CONTRIBUTED CAPITAL**

During the year, contributed capital increased by the following amounts (in thousands):

	Enterprise	Internal Service
Environmental Improvement Fund –		
Residual equity transfers in from the		
Capital Improvement Fund totaling		
\$20,700 less return of Contributed		
Capital to the Bond Security and		
Redemption Fund of \$4,000	\$ 16,700	\$ --
Other changes to contributed capital	3,303	6,477
Subtotal	20,003	6,477
Contributed capital, beginning of year	1,123,873	16,831
Contributed capital, end of year	<u>\$1,143,876</u>	<u>\$ 23,308</u>

**NOTE 16. RETIREMENT PLAN**

The Wisconsin Retirement System (WRS) was established and is administered by the State of Wisconsin to provide pension benefits for State and local government public 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, 1999, 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 report for the year ended December 31, 2000 will be available in early Calendar Year 2002.

**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, 2000, the number of participating employers was:

State Agencies	60
Cities	153
Counties	71
4 <sup>th</sup> Class Cities	34
Villages	197
Towns	165
School Districts	426
Wisconsin Technical College System Board Districts	16
Cooperative Educational Service Agencies	12
Other	160
Total Employers	<u>1,294</u>

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 (4.1% for Executives and Elected Officials, 4.1% for Protective Occupations with Social Security, and 4.4% 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, 2000, 1999, and 1998 were as follows (in millions):

	2000	1999	1998
Employer current service	\$ 124.7	\$ 121.6	\$ 124.1
Percent of payroll	4.6%	4.9%	5.3%
Employer prior service	\$ 0.4	\$ 31.9	\$ 30.6
Percent of payroll	0.0%	2.5%	1.3%
Employee required	\$ 134.1	\$ 124.2	\$ 119.9
Percent of payroll	4.9%	5.0%	5.0%
Benefit adjustment contrib.	\$ 12.1	\$ 17.6	\$ 25.9
Percent of payroll	0.4%	.7%	1.1%
Percent of Required Contributions	100%	100%	100%

The WRS uses the "Entry Age Normal with Frozen Initial Liability" actuarial method in establishing employer contribution rates. Under this method, the unfunded actuarial accrued liability (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, 2001 and 2000, the WRS's unfunded actuarial accrued liability was \$2.1 billion and \$2.1 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, 2001, was \$689.5 million, or 33.5 percent of the total WRS unfunded liability of \$2.0 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 General Long-term Debt Account Group.

**NOTE 17. MILWAUKEE RETIREMENT SYSTEMS**

The Milwaukee Retirement Systems (MRS), consisting of the City of Milwaukee Retirement System and the Milwaukee Public Schools Retirement System, is reported as an Investment Trust Fund. MRS provides 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, 2001, the FRIT and VRIT held a number of nonnegotiable short-term certificates of deposit. The fair value

of these certificates of deposit was approximately \$62.3 million, all of which was uncollateralized.

At June 30, 2001, the FRIT and VRIT held \$62,309.5 million of investments of which includes \$3,125.0 million of securities lending collateral. The following table presents investments of the FRIT and VRIT at June 30, 2001, categorized in accordance with the level of risk requirements of GASB Statement No. 3 (in millions):

**Fixed Retirement Investment Trust:**

	Category			Fair Value
	1	2	3	
Bonds	\$ 7,261.3	\$ --	\$ --	\$ 7,261.3
Stocks	15,160.6	--	--	15,160.6
Repurchase Agreements	465.6	--	--	465.6
Bankers Acceptances	366.9	--	--	366.9
Total	<u>\$ 23,254.4</u>	<u>\$ --</u>	<u>\$ --</u>	23,254.4
Private Placements				3,757.8
Limited Partnerships				2,772.9
Pooled Equities				14,679.3
Pooled Bonds				5,747.9
Mortgages				667.9
Real Estate Owned				501.1
Custodial Pooled Cash and Equivalents				581.3
Investments Held by Broker Dealers under Securities Loans:				
Bonds				1,894.9
Equities				939.4
Securities Lending Cash Collateral Pooled Investments				645.1
				<u>\$ 55,442.0</u>

**Variable Retirement Investment Trust:**

	Category			Fair Value
	1	2	3	
Bonds	\$ 95.3	\$ --	\$ --	\$ 95.3
Stocks	3,270.4	--	--	3,270.4
Repurchase Agreements	29.4	--	--	29.4
Bankers Acceptances	23.1	--	--	23.1
Total	<u>\$ 3,418.2</u>	<u>\$ --</u>	<u>\$ --</u>	3,418.2
Pooled Equities				3,146.4
Pooled Cash and Equivalents				83.7
Investments Held by Broker Dealers under Securities Loans:				
Equities				178.5
Securities Lending Cash Collateral Pooled Investments				40.7
				<u>\$ 6,867.5</u>

The following schedule provides summary information by investment classification for the FRIT at June 30, 2001 (in thousands):

Classification	Interest/Coupon Rates	Maturity Dates	Cost	Fair Value
Bonds	Variable and .01 to 13.625	7/01 to 7/49	\$ 13,215,477	\$ 13,399,256
Common and Preferred Stock	N/A	N/A	33,744,814	30,779,259
Limited Partnerships	N/A	N/A	2,786,338	2,772,892
Mortgages	6.77 to 12.25	8/04 to 1/22	647,658	667,942
Real Estate Owned	N/A	N/A	437,902	501,080
Financial Futures Contracts	N/A	N/A	--	13
Private Placements	Variable and 5.95 to 14.75	7/01 to 5/30	3,551,766	3,757,794
Total Investments			<u>\$ 54,383,955</u>	<u>\$ 51,878,236</u>

The following schedule provides summary information by investment classification for the VRIT at June 30, 2001 (in thousands):

Classification	Interest/Coupon Rates	Maturity Dates	Cost	Fair Value
Bonds	N/A	12/01 to 8/14	\$ 454	\$ 451
Common and Preferred Stock	N/A	N/A	7,275,268	6,595,273
Financial Futures Contracts	N/A	N/A	--	4
Total Investments			<u>\$ 7,275,722</u>	<u>\$ 6,595,728</u>

Significant financial data for the FRIT and VRIT for the year ended June 30, 2001 is presented below (in thousands):

Fixed Retirement Investment Trust Condensed Statement of Net Assets As of June 30, 2001		Fixed Retirement Investment Trust Condensed Statement of Changes in Net Assets For the Year Ended June 30, 2001	
<b>Assets:</b>		<b>Additions:</b>	
Cash and Cash Equivalents	\$ 1,238,692	Net Increase (Decrease) in Fair Value of Investments	\$ (4,920,665)
Securities Lending Collateral	2,939,618	Interest	1,290,535
Investment Receivables	618,336	Dividends	420,739
Investments, at Fair Value	51,878,236	Securities Lending Income	200,247
Other Assets	2,441	Other	127,519
Total Assets	<u>\$ 56,677,323</u>	Total Additions	<u>(2,881,625)</u>
<b>Liabilities:</b>		<b>Deductions:</b>	
Securities Lending Collateral Liability	\$ 2,939,618	Investment Expense	112,677
Investment Payables	323,796	Securities Lending Rebates and Fees	177,915
Total Liabilities	<u>3,263,414</u>	Net Withdrawals by Pool Participants	705,855
		Total Deductions	<u>996,447</u>
<b>Net Assets Held in Trust of:</b>		<b>Net Increase (Decrease)</b>	
Internal Investment Pool Participants	53,342,277		(3,878,072)
Milwaukee Retirement Systems	71,632	<b>Net Assets Held in Trust for Pool</b>	
Total	<u>\$ 53,413,909</u>	Beginning of Year	<u>57,291,981</u>
		End of Year	<u>\$ 53,413,909</u>

**Variable Retirement Investment Trust  
Condensed Statement of Net Assets  
As of June 30, 2001**

Assets:	
Cash and Cash Equivalents	\$ 166,895
Securities Lending Collateral	185,315
Investment Receivables	20,350
Investments, at Fair Value	<u>6,595,728</u>
Total Assets	<u>\$ 6,968,288</u>
Liabilities:	
Securities Lending Collateral Liability	\$ 185,315
Investment Payables	<u>22,776</u>
Total Liabilities	<u>208,091</u>
Net Assets Held in Trust of:	
Internal Investment Pool Participants	6,747,843
Milwaukee Retirement Systems	<u>12,354</u>
	<u>\$ 6,760,197</u>

**Variable Retirement Investment Trust  
Condensed Statement of Changes in Net Assets  
For the Year Ended June 30, 2001**

Additions:	
Net Increase (Decrease) in Fair Value of Investments	\$ (1,200,101)
Interest	6,846
Dividends	88,547
Securities Lending Income	<u>12,090</u>
Total Additions	<u>(1,092,618)</u>
Deductions:	
Investment Expense	9,014
Securities Lending Rebates and Fees	9,266
Net Withdrawals by Pool Participants	<u>455,401</u>
Total Deductions	<u>473,681</u>
Net Increase (Decrease)	(1,566,299)
Net Assets Held in Trust for Pool	
Beginning of Year	<u>8,326,496</u>
End of Year	<u>\$ 6,760,197</u>

**NOTE 18. OTHER POSTEMPLOYMENT  
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 12,000 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 8,574 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 6.2 days per year for non-University employees and 7.3 days per year for University employees. The assets and reserves of the sick leave

conversion program are accounted for as an expendable trust fund. The accrued liability for the post retirement health insurance benefits at December 31, 2000, determined through an actuarial valuation performed on that date, was \$1,039.6 million. The program's assets on that date were \$612.8 million. The unfunded liability was \$426.8 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 \$3.4 million and \$74.0 million, respectively, during the calendar year ended December 31, 2000.

#### **NOTE 19. 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, 2000.

##### **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 twenty-four 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 and fourteen 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 forty-two 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 5 percent for long-term disability insurance and duty disability insurance. The unpaid claims liability for health insurance was calculated by the State. The liabilities for income continuation, long-term disability, and duty disability insurance were determined by actuarial methods. 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 2000 (in millions):

	Health Insurance		Income Continuation Insurance		Duty Disability		Long-term Disability Insurance	
	2000	1999	2000	1999	2000	1999	2000	1999
Unpaid claims at beginning of the calendar year	\$ 13.4	\$ 16.6	\$42.9	\$44.2	\$264.9	\$215.3	\$25.9	\$19.9
Incurred claims:								
Provision for insured events of the current calendar year	69.9	64.8	21.4	17.3	27.6	21.7	9.4	9.1
Changes in provision for insured events of prior calendar years	(1.9)	(7.2)	(9.7)	(11.8)	14.8	44.9	(2.8)	(0.3)
Total incurred claims	68.0	57.6	11.7	5.5	42.4	66.6	6.6	8.8
Payments:								
Claims and claim adjustment expenses attributable to insured events of the current calendar year	55.8	51.6	3.2	2.4	0.2	0.1	0.2	0.1
Claims and claim adjustment expenses attributable to insured events of prior calendar years	11.4	9.2	5.0	4.4	17.9	16.9	3.1	2.7
Total Payments	67.2	60.8	8.2	6.8	18.1	17.0	3.3	2.8
Total unpaid claims expenses at end of the calendar year	\$ 14.2	\$ 13.4	\$46.4	\$42.9	\$289.2	\$264.9	\$29.2	\$25.9

### D. Trend Information

Historical trend information showing revenue and claims development information is presented in the Department of Employee Trust Funds December 31, 2000 audited financial statements. The separately issued financial report for the year ended December 31, 2000 will be available in early Calendar Year 2002. Copies of these statements may be requested from:

The Department of Employee Trust Funds  
801 West Badger Road  
P.O. Box 7931  
Madison, Wisconsin 53707-7931

**NOTE 20. SELF-INSURANCE**

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

**State Property Damage**

Property damages to State-owned properties are covered by the State's self-funded property program up to \$2.5 million. When claims, which exceed \$10,000 per occurrence, total \$2.5 million, the State's private insurance becomes available. Losses to property occurring after the threshold are first subject to a \$10,000 deductible. The amount of loss in excess of \$10,000 is covered by the State's private insurance company. During Fiscal Year 2001, 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, 2001 are estimated to total \$2.9 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 2001 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, 2001 are estimated to total \$37.5 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, 2001 are estimated to total \$59.9 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):

	2000	2001
Beginning of fiscal year liability	\$ 80,529	\$ 81,335
Current year claims and changes		
in estimates	19,216	35,112
Claim payments	(18,410)	(16,162)
Balance at fiscal year-end	<u>\$ 81,335</u>	<u>\$ 100,285</u>

**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, 2001 is \$ 2.9 million.

**NOTE 21. INSURANCE FUNDS****A. Local Government Property Insurance Fund**

Created by the Legislature in 1911, the purpose of the Local Government Property Insurance Fund is to provide property insurance coverage to tax-supported local government units such as counties, towns, villages, cities, school districts and library boards. Property insured includes government buildings, schools, libraries and motor vehicles. Coverage is available on an optional basis. As of June 30, 2001, the Local Government Property Insurance Fund insured 1,133 local governmental units. The total amount of insurance in force as of June 30, 2001 was \$26.4 billion.

*Valuation of Cash Equivalents and Investments* - All investments of the Local Government Property Insurance Fund are managed by the State of Wisconsin Investment Board, as discussed in Note 3-B to the financial statements. At June 30, 2001, the fund had \$11.2 million of shares in the State Investment Fund which are considered cash equivalents and \$19.7 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. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to future benefits and loss liabilities are charged or credited to expense in the periods in which they are made.

*Policy Acquisition Costs* - Since the Local Government Property Insurance Fund has no marketing staff and incurs no sales commissions, acquisition costs are minimal and charged to operations as incurred.

*Premium Deficiency* - Investment income is considered in determining whether a premium deficiency exists. No premium deficiency existed at June 30, 2001.

*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, 2001 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 \$3.0 million annual aggregate retention plus a per claim retention of \$10 thousand once the aggregate is met, as respects occurrences for the term of the agreement. Premium ceded to reinsurers during the fiscal year amounted to \$3.3 million. Reinsurance loss and adjusting expense recoveries earned for the year amounted to \$2.4 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):

	2000	2001
Unpaid claims and claim adjustment expenses at beginning of the year	\$10,875	\$11,890
Less: Reinsurance recoverable	(6,431)	(8,466)
Net unpaid loss liability at beginning of year	<u>4,444</u>	<u>3,424</u>
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	8,253	13,050
Increase (decrease) in provision for insured events of prior years	<u>(380)</u>	<u>(675)</u>
Total incurred claims and claim adjustment expenses	<u>7,873</u>	<u>12,375</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	4,867	5,060
Claims and claim adjustment expenses attributable to insured events prior years	<u>4,027</u>	<u>2,400</u>
Total payments	<u>8,894</u>	<u>7,460</u>
Net unpaid claims and claim adjustment expenses at end of year	3,423	8,339
Reinsurance recoverable	<u>8,467</u>	<u>6,097</u>
Total unpaid claims and claim adjustment expenses	<u>\$11,890</u>	<u>\$14,436</u>

**Trend Information**

Historical trend information showing revenue and claims development information is presented in the Office of the Commissioner of Insurance June 30, 2001 financial statements. Copies of these statements may be requested from:

Office of the Commissioner of Insurance  
 121 East Wilson Street  
 Madison, Wisconsin 53702

**B. State Life Insurance Fund**

The State Life Insurance Fund was created under Chapter 607, Wisconsin Statutes, to offer life insurance to residents of Wisconsin in a manner similar to private insurers. This fund functions much like a mutual life insurance company and is subject to the same regulatory requirements as any life insurance company licensed to operate in Wisconsin.

Premiums are reported as earned when due. Benefits and expenses are associated with earned premiums so as to result in recognition of profits over the life of the contracts. This association is accomplished by means of the provision for liabilities for future benefits and the amortization of acquisition costs.

The costs of policy issuance and underwriting, all of which vary with, and are primarily related to, the production of new business, have been deferred. These deferred acquisition costs are 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

Amortization for the year ended June 30, 2001 amounted to \$31 thousand. The State Life Insurance Fund does not pay commissions nor does it incur agent expenses.



Future benefits and loss liabilities have been computed by the net level premium method based upon estimated future investment yield 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	\$ 14,696	\$ 9,131
1967-1976	41,464	15,056
1977-1985	87,283	19,073
1986-1994	56,457	5,266
1995+	26,805	1,784
	<u>\$ 226,705</u>	<u>\$ 50,310</u>

**Bases of Assumptions**

Issue Year	Interest Rate	Mortality
1913-1966	3.0%	American Experience, ALB*
1967-1976	3.0	1958 CSO, ALB, Unisex
1977-1985	4.0	1958 CSO, ALB, Female Setback 3 years
1986-1994	5.0	1980 CSO, ALB, Aggregate
1995+	4.0	1980 CSO, ALB, Aggregate

\* Age Last Birthday

All of the State Life Insurance Fund's ordinary life insurance in force is participating. This fund is required by statute to maintain surplus at a level between 7 percent and 10 percent of statutory admitted assets as far as practicably possible. All excess surplus is to be returned to the policyholders in the form of policyholder dividends. Policyholder dividends are declared each year in order to achieve the required level of surplus.

The statutory assets at December 31, 2000 were \$71.5 million and the statutory capital and surplus were \$6.6 million, and the capital and surplus at June 30, 2001 was \$8.2 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, 2001 as follows (in thousands):

Projected ultimate loss liability	\$ 1,237,485
Less: Net loss paid from inception	(483,467)
Less: Liability for reported losses	<u>(52,517)</u>
Liability for incurred but not reported losses	<u>\$ 701,501</u>

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, 2001 are estimated at 5.0 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, 2001 as follows (in thousands):

Projected ultimate loss adjustment expense liability	\$ 61,874
Less: Loss adjustment expense paid from inception	<u>(29,438)</u>
Liability for loss adjustment expense	<u>\$ 32,436</u>

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, 2001 (in thousands):

Estimated unpaid loss liabilities	\$ 754,017
Estimated unpaid loss adjustment expense	32,436
Total estimated loss liabilities	<u>786,453</u>
Less: Amount representing interest	<u>240,655</u>
Discounted loss liabilities	<u>\$ 545,798</u>

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.

**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):

	2000	2001
Balance, beginning of year	\$ 9,456	\$ 13,414
Incurred related to:		
Current year	40,497	59,743
Prior years	<u>(2,072)</u>	<u>(3,269)</u>
Total Incurred	<u>38,425</u>	<u>56,474</u>
Paid related to:		
Current year	27,889	40,199
Prior years	6,578	10,145
Total Paid	<u>34,467</u>	<u>50,344</u>
Balance, end of year	<u>\$ 13,414</u>	<u>\$ 19,544</u>

The Future Benefits and Loss Liability Account also includes a reserve for loss adjustment costs to be incurred in settlement of the claims provided for in the loss reserves.

**E. Wisconsin Health Care Liability Insurance Plan**

The Wisconsin Health Care Liability Insurance Plan (the Plan) is a statutory unincorporated association established by rule of the Commissioner of Insurance of the State of Wisconsin as mandated by the State of Wisconsin legislature. The Plan provides health care liability insurance and liability coverages normally incidental to health care liability insurance to eligible health care providers in the State of Wisconsin calling for payment of premium prior to the effective date of the policy. All insurers authorized to write personal injury liability insurance in the State of Wisconsin, with certain minor exceptions, are required to be members of the Plan.

The Plan generates its premium written revenue by selling medical malpractice insurance. Rates are calculated in accordance with generally accepted actuarial principles. The rates are set so that the Plan will be self-supporting. Profit is not the intent of the Plan.

Since the inception of the Plan in 1975, the health care liability coverage limits have increased from \$200 thousand per occurrence and \$600 thousand annual aggregate to the current limits of \$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, 2000.

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, 1999 and December 31, 2000, are as follows (in thousands):

	1999	2000
Balance at January 1	\$ 115,776	\$ 102,030
Incurred related to:		
Current year	5,273	4,916
Prior years	(17,147)	(19,858)
Total Incurred	(11,874)	(14,942)
Paid related to:		
Current year	137	101
Prior years	1,735	2,959
Total paid	1,872	3,060
Balance at December 31	\$ 102,030	\$ 84,028

As a result of changes in estimates of insured events of prior years, the provisions for losses and loss adjustment expenses were decreased as indicated in the table above. Also, because of the significant length of time between the date these type of losses are reported and paid, these changes were greater than actual losses incurred for the current year, causing negative incurred losses.

**NOTE 22. LITIGATION, CONTINGENCIES AND COMMITMENTS**

**A. Litigation and Contingencies**

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

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

The State accrues liabilities related to legal proceedings, if a loss is probable and reasonably estimable. Such losses, totaling \$1.8 million on June 30, 2001 reported in the General Long-term Debt Account Group, are discussed below:

*Litigation* - The Department of Health and Family Services is involved in various legal proceedings where the ultimate disposition is estimated at \$.2 million which is reported in the General Long-term Debt Account Group.

*Other Claims - Work Injury Supplemental Benefits* - The Work Injury Supplemental Benefit Fund, administered by the Department of Workforce Development, 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 \$1.6 million at June 30, 2001, and is reported in the General Long-term Debt Account Group.

**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 \$1.5 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.

*Grants* - The State has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a review or audit may become a liability of the State. The US Department of Health and Human Services has a claim against the State for disallowance of the federal share of Medicaid moneys received in connection with certified losses of county nursing homes. Currently the case is in the process of informal discovery. The State anticipates that the ultimate resolution of the claim will not exceed \$83.0 million.

*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, 2001.

*Federal Pension Income* - Due to an adverse decision in Hogan et al v. Wisconsin Department of Revenue, settlement has been reached with approximately 3,200 military retirees and 14,000

federal civilian retirees for refunds of State income taxes, with interest, for the period 1984 through 1988. Hogan relied on the United States Supreme Court ruling in *Davis v. Michigan Department of the Treasury* that state governments may not discriminate against federal retirees in the taxation of their retirement benefits based on the source of such payments. The Department of Revenue is currently engaged in litigation with various individuals as to whether or not they were federal employees and, thus, included under the *Davis V. Michigan Department of the Treasury* decision. In November, 1999, the Dane County Circuit Court generally affirmed the Department of Revenue's statutory interpretation positions, but found a basis for estoppel to exist as to some litigants. A settlement requiring taxation in full commencing with the 1998 tax year was offered to all litigants who potentially had an estoppel claim. The final fiscal impact of the settlement is not known, as the settlement process is not completed. Additionally, an appeal to the Court of Appeals was taken by those federal retiree litigants who had withdrawn contributions, thus voiding membership in the retirement system as of the exemption cut-off date. 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. Twenty-two sites have soil and/or groundwater contamination associated with underground storage tank releases with an estimated remediation cost of \$.9 million.

The State is also involved in environmental remediations on 16 properties that do not involve releases from underground storage tanks, with an estimated cost of \$3.7 million.

**B. Commitments**

In addition to legal proceedings, the State is party to commitments which normally occur in governmental operations.

In addition to the amount of encumbrances outstanding at June 30, 2001 reported as Fund Balance - Reserved for Encumbrances, additional obligations at June 30, 2001 representing multi-year, long-term commitments included (in thousands):

Transportation Fund	\$ 221,187
Transportation Revenue Bonds Capital Projects Fund	28,377
Conservation Fund	19
General Fund – Department of Commerce programs, including economic and community development programs	3,074
General Fund – Other	413

*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 \$95.0 million as of June 30, 2001. 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, 2001, future commitments for hardship grants totaled \$7.8 million.

*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, 2001, outstanding loan guarantees totaled \$34.2 million.

The *Patients Compensation Fund* may be required to purchase an annuity as a result of a claim settlement. Under specific annuity arrangements, the fund may have ultimate responsibility for annuity payments if the annuity company and the reassignment company default on annuity payments. One of the fund’s annuity providers has defaulted on \$600 thousand in annuity payments. The total estimated replacement value of the fund’s annuities as of June 30, 2001 was \$126.8 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, 2001, the appropriation available totaled \$28.0 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 Board of Commissioners of Public Lands (BCPL)* – The BCPL has entered into a commitment with the Green Bay/Brown County Professional Football Stadium District (the District) to become a “standby bond purchaser” in the event that certain terms and conditions as set forth in a *Standby Bond Purchase Agreement* between the BCPL and the District are met. At June 30, 2001, \$30.4 million of cash balance has been restricted in the Common School Fund, a nonexpendable trust fund, for this purpose.

**NOTE 23. SUBSEQUENT EVENTS**

**Bonds and Notes**

**Primary Government**

**Short-term Debt**

*Operating Notes* – On September 20, 2001, the State issued \$800.0 million of operating notes. The proceeds of the notes were to be used within six months to fund local assistance payments to the State’s municipalities and school districts, and finance day-to-day operations in anticipation of revenues received later in the fiscal year. The notes were issued because of an imbalance between the timing of payments disbursed and receipts collected. The imbalance exists because receipts are received in the second half of the fiscal year, primarily January, March and April. The notes will be paid at maturity on June 17, 2002.

**Long-term Debt**

*State of Wisconsin General Obligation Bonds* – In September 2001, the State issued \$20.0 million of 2001 Series E 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, 2002, with the bonds maturing November 1, 2017, 2021 and 2031.

In October 2001, the State issued \$186.6 million of 2001 Series F 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, 2002, with the bonds maturing on May 1, of the years 2003 through 2022.

In October 2001, the State issued \$247.1 million of Series I general obligation refunding bonds, the proceeds of which were used to refund certain previously issued general obligation bonds and to pay the cost of issuance. Interest is payable May 1 and November 1, beginning May 1, 2002.

*Revenue Bonds* – In November 2001, the Department of Transportation issued \$140.0 million of 2001 Series A transportation revenue bonds. The bond proceeds will be used to pay the costs of major highway projects. Interest rates vary from 3.0 to 5.0 percent, payable January 1 and July 1, beginning July 1, 2002. The bonds mature on July 2 of the years 2003 through 2022.

In November 2001, the State issued \$30.0 million of Petroleum Inspection Fee Revenue Bonds, 2001 Series A, to fund claims for reimbursement under the Petroleum Environmental Cleanup Fund Award Program (PECFA). The bonds mature July 1, 2007 and 2008, and have an interest rate of 5.0 percent with interest payment dates of January 1 and July 1 beginning with July 1, 2002.

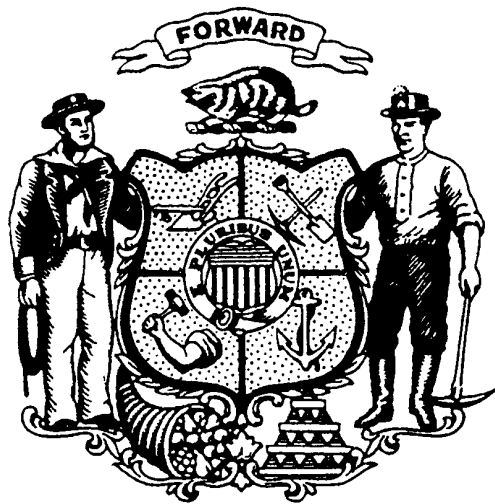
**Component Unit**

*Wisconsin Housing and Economic Development Authority* – Subsequent to June 30, 2001, the Wisconsin Housing and Economic Development Authority has the following debt issues:

	<b>Issuances</b>
Single Family Drawdown Revenue Bonds 1991-1	\$ 37,928
General Funds:	
Line of Credit – Mortgage Financing	13,025
Commercial Paper – Building	56,683
<b>Total</b>	<b>\$ 107,636</b>

In addition the Authority had the following early redemptions (in thousands):

	<b>2001 Redemptions</b>
Home Ownership Revenue Bond Resolutions:	
1987	\$ 27,195
1988	37,625
All Other	11,695
Business Development Bonds	15
<b>Total</b>	<b>\$ 76,530</b>

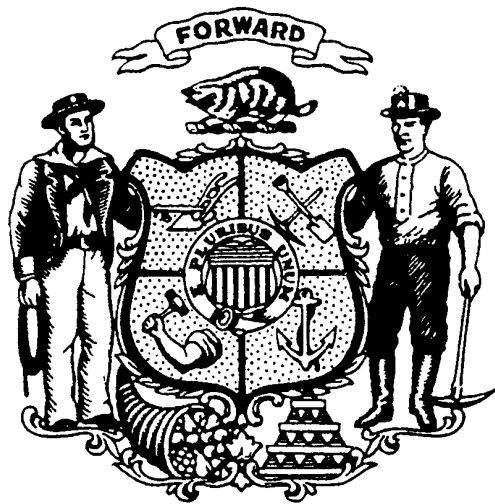


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## **Required Supplementary Information**

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*State of Wisconsin*

**Statement of Plan Net Assets - Pension Trust Fund  
June 30, 2001**

(In Thousands)

	<b>Wisconsin Retirement System</b>
<b>Assets</b>	
Cash and Cash Equivalents	\$ 217,632
Securities Lending Collateral	3,124,933
Prepaid Items	2,358
Receivables (net of estimated uncollectible accounts):	
Prior Service Contributions Receivable	2,058,545
Benefits Overpayment Receivable	2,122
Due from Other Funds	63,245
Due from Other Governments	76,798
Interest and Dividends Receivable	218,530
Investment Sales Receivable	420,156
Other Receivables	(171,726)
Total Receivables	2,667,670
Investments:	
Bonds	13,399,707
Private Placements	3,757,794
Stocks	37,374,532
Limited Partnerships	2,772,892
Mortgages	667,942
Real Estate	501,080
Other Investments	16
Total Investments	58,473,963
Total Assets	64,486,557
<b>Liabilities</b>	
Accounts Payable	36,723
Securities Lending Collateral Liability	3,124,933
Annuities Payable	355,996
Lump Sum Benefits Payable	21,526
Advance Contributions	352
Due to Other Funds	40,698
Due to Other Governments	41,459
Tax and Other Deposits	82
Investment Payable	313,861
Total Liabilities	3,935,630
<b>Fund Balance</b>	
Fund Balance Reserved for Pension Benefits	\$ 60,550,927

*State of Wisconsin*

**Combining Statement of Net Assets - Investment Trust Funds**  
**June 30, 2001**

(In Thousands)

	<b>Local Government Pooled Investment</b>	<b>Milwaukee Retirement Systems</b>	<b>Totals</b>
<b>Assets</b>			
Cash and Cash Equivalents	\$ 3,817,266	\$ 84,502	\$ 3,901,768
Total Assets	3,817,266	84,502	3,901,768
<b>Liabilities and Net Assets</b>			
Due to Other Funds	27	516	543
Total Liabilities	27	516	543
Net Assets Held in Trust for Pool Participants	\$ 3,817,239	\$ 83,986	\$ 3,901,225