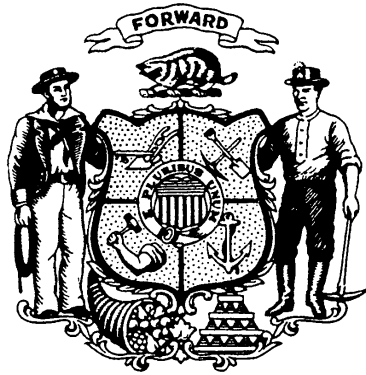


WISCONSIN

GENERAL PURPOSE FINANCIAL STATEMENTS



For the fiscal year ended June 30, 2001

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
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Fax (608) 267-3842
TTY (608) 267-9629

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
Assets and Other Debits						
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)

State of Wisconsin

**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
Liabilities, Equity and Other Credits						
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	-	-	-	-	-	-
Total Liabilities	3,289,981	590,498	68,680	399,931	2,790,869	336,133
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)	-	-
Total Equity and Other Credits	(1,214,848)	260,680	9,155	(305,865)	1,303,841	5,738
Total Liabilities, Equity and Other Credits	\$ 2,075,133	\$ 851,178	\$ 77,835	\$ 94,066	\$ 4,094,710	\$ 341,871

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	
Revenues:						
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
Total Revenues	15,807,384	2,344,832	102,441	6,895	665,660	18,927,212
Expenditures:						
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
Total Expenditures	14,847,684	2,555,488	328,704	349,817	962,395	19,044,089
Excess of Revenues Over (Under)						
Expenditures	959,700	(210,656)	(226,263)	(342,923)	(296,735)	(116,877)
Other Financing Sources (Uses):						
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
Total Other Financing Sources (Uses)	(1,351,466)	(20,958)	225,328	329,844	(6,327)	(823,578)

(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 (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
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)
Revenues:						
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	-
Expenditures:						
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)
Operating Revenues:						
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
Operating Expenses:						
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)
Nonoperating Revenues (Expenses):						
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>Nonexpendable</u>	<u>Primary</u>		<u>Reporting</u>
				<u>(Memorandum</u>		<u>(Memorandum</u>
				<u>Only)</u>	<u>Units</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)	
Cash Flows from Operating Activities:					
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)
Cash Flows from Noncapital Financing Activities:					
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)
Cash Flows from Capital and Related Financing Activities:					
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)
Cash Flows from Investing Activities:					
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)	
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations:					
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)
Noncash Investing, Capital and Financing Activities:					
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	-
Reconciliation of Fiduciary Fund Type Cash and Cash Equivalents to the Combined Balance Sheet:					
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 *
Cash Flows from Operating Activities:	
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>
Cash Flows from Noncapital Financing Activities:	
Operating Transfers to Primary Government	(1,515)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(1,515)</u>
Cash Flows from Capital and Related Financing Activities:	
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>
Cash Flows from Investing Activities:	
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>
Noncash Investing, Capital and Financing Activities:	
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)
Additions			
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
Deductions			
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
Revenues:			
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
Total Revenues	1,402,635	681,018	2,083,653
Expenditures and Mandatory Transfers:			
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
Total Educational and General	2,074,485	672,902	2,747,388
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
Total Mandatory Transfers	116,046	5,654	121,700
Total Expenditures and Mandatory Transfers	2,392,255	709,524	3,101,779
Other Transfers, Additions (Deductions):			
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
Net Other Transfers, Additions (Deductions)	1,019,355	39,711	1,059,066
Prior Period Adjustments	(56)	134	78
Net Increase (Decrease) in Fund Balance	\$ 29,679	\$ 11,340	\$ 41,018

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			
Revenues and Other Additions:					
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
Total Revenues and Other Additions	1,405,894	825,021	104,117	98	499,459
Expenditures and Other Deductions:					
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
Total Expenditures and Other Deductions	2,276,257	792,273	99,994	16,990	567,513

(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			
Transfers Among Funds:					
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.

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:

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

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

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):

	General	Special Revenue
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):

	Balance July 1, 2000	Additions	Reductions	Balance June 30, 2001
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
	\$ 3,940,331	\$ 451,945	\$ 336,640	\$ 4,055,637

* 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):

Primary Government:

General Long-term Debt Account Group:	
General Obligation Bonds	\$ 1,891,726
Petroleum Inspection Revenue Bonds	168,500
Transportation Revenue Bonds	<u>822,585</u>
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	<u>36,560</u>
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	<u>587,784</u>
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	<u>625</u>
Total Internal Service Funds	<u>108,224</u>
University of Wisconsin System:	
General Obligation Bonds	<u>911,736</u>
Component Units:	
Wisconsin Housing and Economic Development Authority Bonds and Notes	2,215,566
University of Wisconsin Hospitals And Clinics Authority	<u>106,500</u>
	<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
Housing Revenue Bonds:				
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
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Home Ownership Revenue Bonds:

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>

Business Development Bonds:

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>

Authority's Total Revenue Bonds and Notes \$1,906,225

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):

Bond Issue	Redemptions 2001
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.

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):

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

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
Condensed Balance Sheet				
Assets:				
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>
Liabilities:				
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>
Equity:				
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>
Condensed Statement of Revenues, Expenses and Changes in Retained Earnings				
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	--
Total	\$ 82,388	\$ 82,388

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
Total	\$ 4,558	\$ 4,558

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	\$ 32,804	\$ 32,804

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
Total	\$1,523,802	\$1,523,802

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)
Total Fund Equity	\$(1,214,848)	\$260,680	\$9,155	\$(305,865)	\$1,303,841	\$ 5,738	\$67,921,282	\$4,008,905	\$608,324	\$72,597,213	

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 th 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	
Assets:		Additions:	
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>
Liabilities:		Deductions:	
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>
Net Assets Held in Trust of:		Net Increase (Decrease)	
Internal Investment Pool Participants	53,342,277		(3,878,072)
Milwaukee Retirement Systems	71,632	Net Assets Held in Trust for Pool	
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	786,453
Less: Amount representing interest	240,655
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	(2,072)	(3,269)
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.

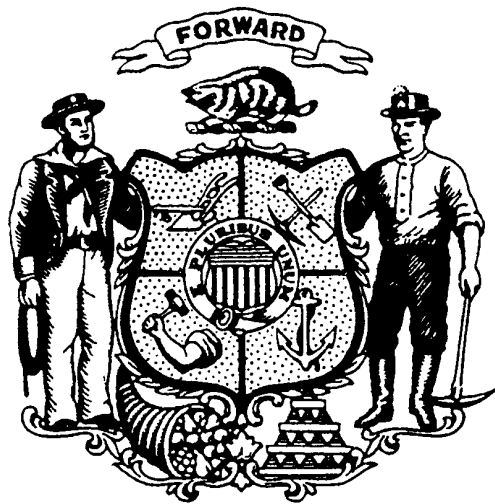
Component Unit

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

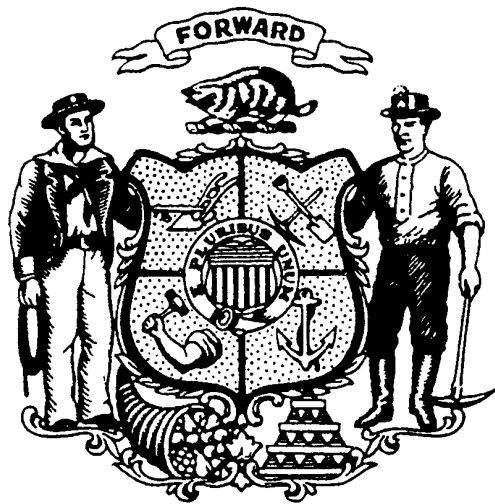
	Issuances
Single Family Drawdown Revenue Bonds 1991-1	\$ 37,928
General Funds:	
Line of Credit – Mortgage Financing	13,025
Commercial Paper – Building	56,683
Total	\$ 107,636

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

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



Required Supplementary Information



State of Wisconsin

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

(In Thousands)

	Wisconsin Retirement System
Assets	
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
Liabilities	
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
Fund Balance	
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)

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