STATE OF WISCONSIN
CONTINUING DISCLOSURE
ANNUAL REPORT

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

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

MASTER LEASE CERTIFICATES OF PARTICIPATION
(Base CUSIP 977087)

TRANSPORTATION REVENUE OBLIGATIONS
(Base CUSIP 977123)

CLEAN WATER REVENUE BONDS
(Base CUSIP 977092)

PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS
(Base CUSIP 977109)

DECEMBER 23, 2002

SCOTT McCALLUM
GOVERNOR
GEORGE LIGHTBOURN
SECRETARY
Division of Executive Budget and Finance
Capital Finance Office
Post Office Box 7864
Madison, WI 53707-7864
Voice (608) 266-2305
Fax (608) 266-7645 TTY (608) 261-6630
E-mail: capfin@doa.state.wi.us
www.doa.state.us/debf

WISCONSIN DEPARTMENT OF ADMINISTRATION

December 23, 2002

Thank you for your interest in the State of Wisconsin.

Each year we prepare a Continuing Disclosure Annual Report for the State's securities. *This is the Annual Report for the fiscal year ending June 30, 2002.* It provides information on different securities that the State issues and fulfills the State's continuing disclosure undertakings. These undertakings of the State are intended to help dealers and brokers comply with Rule 15c2-12 under the Securities Exchange Act of 1934. As of this date, the State has filed the Annual Report with each nationally recognized municipal securities information repository.

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

Organization of this Annual Report
This Annual Report is divided into seven parts. The first two parts present general information.

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

- **Part II** presents **general information about the State**, including its operations and financial results. This part includes the audited general purpose external financial statements for the fiscal year ending June 30, 2002 and the State Auditor's report. This part also includes the results of the 2001-02 fiscal year and the current status of the budget for the 2002-03 fiscal year, including information on the revenue estimates released by the State of Wisconsin Department of Revenue on November 20, 2002.

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

- **Part III — General obligations (including bonds, commercial paper, and extendible municipal commercial paper)**

- **Part IV — Master lease certificates of participation**

- **Part V — Transportation revenue obligations (including bonds and commercial paper)**

- **Part VI — Clean water revenue bonds**

- **Part VII — Petroleum inspection fee revenue obligations (including bonds and extendible municipal commercial paper)**

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

Ratings on the State's Securities

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

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

[1] Outlook changed to "negative" on March 4, 2002.

[2] Downgraded from AA on May 27, 2002.

[3] Outlook changed to "negative" on March 4, 2002.

[4] Downgraded from AA– on May 27, 2002.

How to Get Additional Information

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

The Capital Finance Office maintains web pages that contain other information that may be of interest. Neither the web site nor the additional information it contains is part of this Annual Report. The web pages are currently undergoing some enhancements that should be completed in early January 2003. During this time, the web pages can be accessed by selecting the "Capital Finance" option at the following web address.

www.doa.state.wi.us/debf/

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

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

Sincerely,

Frank R. Hoadley
Capital Finance Director

SUMMARY OF OUTSTANDING STATE OF WISCONSIN OBLIGATIONS AS OF DECEMBER 1, 2002

	Principal Balance 12/1/2001	Principal Issued 12/1/2001 – 12/1/02	Principal Matured, Redeemed, or Defeased 12/1/2001 – 12/1/02	Principal Balance 12/1/2002
GENERAL OBLIGATIONS[a]				
Total General Obligations	**$4,240,443,481**	**536,000,000**	**390,219,514**	**4,386,223,967**
General Purpose Revenue (GPR)	3,032,297,364	430,006,000	166,498,156	3,295,805,208
Self-Amortizing: Veterans	779,915,000	50,000,000	172,815,000	657,730,000
Self-Amortizing: Other	428,231,117	55,994,000	51,536,358	432,688,759
MASTER LEASE CERTIFICATES OF PARTICIPATION				
Master Lease COPs	**$89,089,724**	**$63,661,999**	**$30,626,271**	**$122,125,452**
TRANSPORTATION REVENUE OBLIGATIONS[a]				
Transportation Revenue Obligations	**$1,099,258,000[b]**	**$510,795,000**	**$365,555,000**	**$1,244,498,000**
CLEAN WATER REVENUE BONDS				
Clean Water Revenue Bonds	**$588,380,000**	**$185,575,000**	**$117,070,000**	**$656,885,000**
PETROLEUM INSPECTION FEE REVENUE OBLIGATIONS[a]				
Petroleum Inspection Fee Revenue Obligations	**$278,500,000[c]**	**$62,300,000**	**$11,440,000**	**$329,360,000**

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

(b) Reflects outstanding balance as of December 15, 2001

(c) Reflects outstanding balance as of December 18, 2001

TABLE OF CONTENTS

Page

PART II
GENERAL INFORMATION ABOUT THE STATE OF WISCONSIN

INTRODUCTION 15
FINANCIAL INFORMATION-REVENUES 15
Revenue Structure 15
Tax Structure 17
Tax Credits 18
Tax Collection Procedures (Delinquencies) 19
FINANCIAL INFORMATION-EXPENDITURES 20
General 20
General Fund Expenditures 20
ACCOUNTING AND FINANCIAL REPORTING 22
Statutory Basis 22
Generally Accepted Accounting Principals 22
BUDGETING PROCESS AND FISCAL CONTROLS 22
RESULTS OF 2000-01 FISCAL YEAR 24
STATE BUDGET 24
Budget for 2001-03 24
Budget for 2003-05 29
Sale of Tobacco Settlement Revenues 29
Potential Effect of Litigation 29
Employee Relations 30
State Budget Assumptions 30
Economic Assumptions-November 20, 2002
Revenue Estimates 31
Budget Format 35
Impact of Federal Programs 35
Supplemental Appropriations 36
GENERAL FUND INFORMATION 36
General Fund Cash Flow 36
General Fund History 45
STATE GOVERNMENT ORGANIZATION 45
General Organization 45
Description of Services Provided by State Government .. 46
STATE OF WISCONSIN BUILDING COMMISSION 50
STATE OBLIGATIONS 51
General Obligations 51
Operating Notes 51
Master Lease Program 51
State Revenue Obligations 52
Independent Authorities 53
Local Districts 54
Moral Obligations 55
Employee Pension Funds 55
STATE OF WISCONSIN INVESTMENT BOARD 64
STATISTICAL INFORMATION 67
APPENDIX A–GENERAL PURPOSE EXTERNAL
FINANCIAL STATEMENTS (Audited) 73

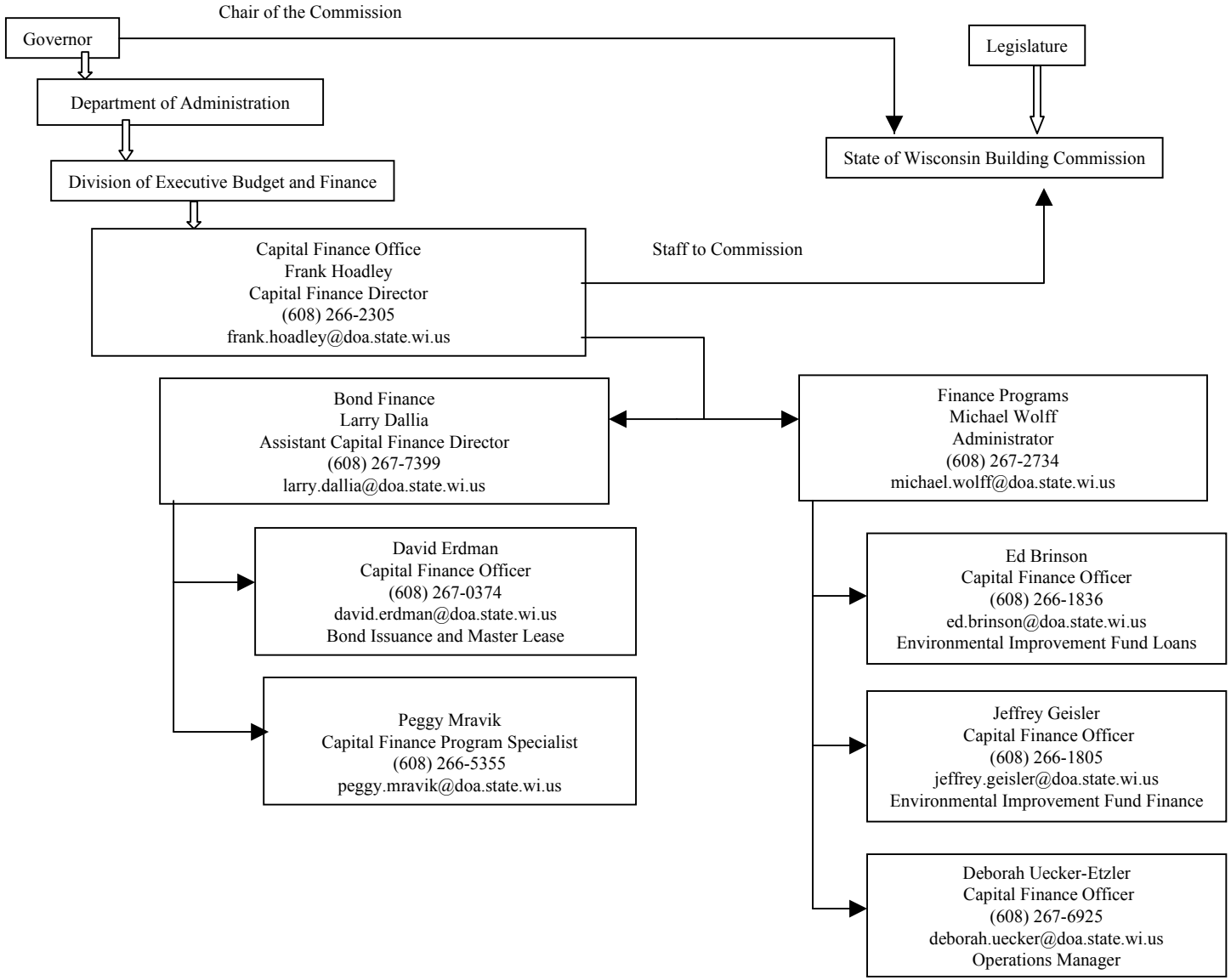
TABLE OF TABLES

Table Page

PART II
GENERAL INFORMATION ABOUT THE STATE OF WISCONSIN

II-1 Revenues (All Sources) 16
II-2 Expenditures B y Function And Type (All Funds) 21
II-3 General Fund Basis 26
II-4 State Budget—General Fund 27
II-5 State Budget—All Funds 28
II-6 Economic Forecasts 33
II-7 Actual General Fund Cash Flow 38
II-8 General Fund Cash Receipts and Disbursements Year-To-Date 40
II-9 General Fund Monthly Cash Position 41
II-10 Balances In Funds Available For Interfund Borrowing 42
II-11 General Fund Revenues 43
II-12 General Fund Expenditures By Function 44
II-13 Comparative Condition Of The General Fund As Of June 30 45
II-14 Wisconsin Retirement System Actuarial Statement Of Assets And Liabilities December 31, 2000 Unaudited 57
II-15 Wisconsin Retirement System Funding Ratio 59
II-16 Wisconsin Retirement System Covered Employees 59
II-17 Wisconsin Retirement System Required Contribution By Source 60
II-18 Wisconsin Retirement System State Employer Contribution Rates 60
II-19 Wisconsin Retirement System Revenues By Type 61
II-20 Wisconsin Retirement System Benefit Expenditures By Type 61
II-21 Wisconsin Retirement System Separation Between Age and Service Retirement 62
II-22 Wisconsin Retirement System Retirement Patterns 63
II-23 Wisconsin Retirement System Other Assumptions 64
II-24 State Investment Fund As Of September 30, 2001 (Unaudited) 66
II-25 State Assessment (Equalized Value) Of Taxable Property 67
II-26 Delinquency Rate: Income, Franchise Gift, Sales and Use Taxes 67
II-27 Population Trend 68
II-28 Population Characteristics 68
II-29 Population By Age Group 69
II-30 Estimated Personal Income 69
II-31 Median Income For Four-Person Family 69
II-32 Distribution Of Earnings By Industry 70
II-33 Estimated Employees In Wisconsin On Nonagricultural Payrolls 70
II-34 General Statistics Of Manufacturing 71
II-35 Estimated Production Workers In Manufacturing: Hours And Earnings Annual Average 71
II-36 Total New Housing Units Authorized In Permit-Issuing Places 71
II-37 Unemployment Rate Comparison 72

Capital Finance Office Staff (As of December 1, 2002)



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

BUILDING COMMISSION MEMBERS

Voting Members	**Term of Office Expires**
Governor Scott McCallum, Chairperson	January 6, 2003
Senator Fred A. Risser, Vice-Chairperson	January 3, 2005
Senator Mark Meyer	January 3, 2005
Senator Carol Roessler	January 3, 2005
Representative Jeffrey Plale	January 6, 2003
Representative Daniel Vrakas	January 6, 2003
Mr. Bryce Styza, Citizen Member	At the pleasure of the Governor
Vacant – Member from State Assembly	——
Nonvoting, Advisory Members	
Mr. George Lightbourn, Secretary Department of Administration	At the pleasure of the Governor
Mr. Adel Tabrizi, State Chief Engineer Department of Administration	——
Mr. Dave Haley, State Chief Architect Department of Administration	——
Building Commission Secretary	
Mr. Robert G. Cramer, Administrator Division of Facilities Development Department of Administration	At the pleasure of the Building Commission and Secretary of Administration

OTHER PARTICIPANTS

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

Note: Mr. James E. Doyle is the Governor-Elect and Ms. Peggy A. Lautenschlager is the Attorney General-Elect. Their terms begin on January 6, 2003.

DEBT MANAGEMENT AND DISCLOSURE

Department of Administration
Capital Finance Office
P.O. Box 7864
101 E. Wilson Street, 10th Floor
Madison, WI 53707-7864
Telefax (608) 266-7645
capfin@doa.state.wi.us

Mr. Frank R. Hoadley
Capital Finance Director
(608) 266-2305
frank.hoadley@doa.state.wi.us

Mr. Lawrence K. Dallia
Assistant Capital Finance Director
(608) 267-7399
larry.dallia@doa.state.wi.us

Mr. Michael D. Wolff
Finance Programs Administrator
(608) 267-2734
michael.wolff@doa.state.wi.us

Mr. David R. Erdman
Capital Finance Officer
(608) 267-0374
david.erdman@doa.state.wi.us

PART II

GENERAL INFORMATION ABOUT THE STATE OF WISCONSIN

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

- Financial Information; Revenues and Expenditures
- Accounting and Financial Reporting
- Budgeting Process and Fiscal Controls
- Results of 2001-02 Fiscal Year
- State Budget–See "State Budget; Budget for 2001-03" in this part of the Annual Report for information on the current status of the State's Budget
- General Fund Information
- State Government Organization
- State Obligations
- Statistical Information

APPENDIX A to this part includes the audited general purpose external financial statements for the fiscal year ending June 30, 2002 and the independent auditor's report that is provided by the State Auditor.

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

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

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

FINANCIAL INFORMATION–REVENUES

Revenue Structure

The State raises revenues from diverse sources:

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

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

Table II-1

REVENUES (ALL [a]

1997-98 TO 2001-02

	2001-02	2000-01	1999-2000	1998-99	1997-98
State Collected Taxes					
Individual Income	$ 4,979,661,843	$ 5,156,565,325	$ 5,959,818,943	$ 5,162,238,865	$ 5,047,324,479
General Sales and Use	3,695,795,708	3,609,895,359	3,501,658,965	3,284,694,814	3,047,406,215
Corporate Franchise and	503,007,920	537,159,154	644,625,016	635,202,891	627,024,134
Public Utility	252,297,980	239,298,968	259,991,437	287,093,752	288,376,893
Excise	348,282,067	299,775,120	301,851,909	308,921,713	299,091,574
Inheritance and Gift	82,634,627	77,084,123	133,261,148	116,898,047	80,110,729
Insurance	96,055,400	89,041,589	86,877,861	97,045,435	88,065,247
Motor Fuel	954,147,642	918,449,310	914,673,547	907,722,042	740,209,790
Forest	65,885,102	58,648,511	58,061,250	52,253,055	49,561,411
Miscellaneous	113,979,522	112,312,779	104,617,943	129,848,806	235,983,488
Subtotal	11,091,747,811	11,098,230,239	11,965,438,019	10,981,919,420	10,503,153,960
Federal Aid					
Medical	2,663,987,093	2,395,438,874	1,961,769,304	1,679,110,792	1,578,071,534
AFDC/W2	490,161,681	403,990,150	263,964,530	148,879,361	154,334,829
Transportation	769,221,794	671,344,340	608,670,820	525,360,773	421,841,928
Education	1,120,807,676	1,028,557,046	957,144,633	870,817,978	805,930,081
Other	2,158,980,902	1,727,232,553	1,055,061,747	1,154,327,827	972,945,870
Subtotal	7,203,159,146	6,226,562,962	4,846,611,034	4,378,496,731	3,933,124,242
Fees					
University of Wisconsin [b]	84,006,675	2,155,613,345	632,110,050	578,407,190	552,167,916
Other	356,048,754	300,580,123	282,404,664	267,718,834	244,291,725
Subtotal	440,055,429	2,456,193,468	914,514,714	846,126,024	796,459,641
Licenses and Permits					
Vehicles and Drivers	340,205,268	324,531,760	326,133,108	304,346,133	290,782,206
Hunting and	81,747,187	78,929,285	132,906,803	84,829,913	56,268,405
Other	383,584,407	328,027,538	243,832,829	260,410,783	273,800,793
Subtotal	805,536,862	731,488,582	702,872,740	649,586,829	620,851,404
Miscellany					
Service Charges	625,265,992	524,635,878	500,897,911	423,557,725	407,273,543
Sales of Products	682,332,141	679,562,010	687,203,049	684,788,382	675,171,110
Investment	(3,541,516,552)	(4,003,889,358)	8,119,031,124	5,825,766,448	8,626,768,140
Gifts and Grants	337,321,976	373,700,027	349,206,053	281,312,163	301,417,790
Employee Benefit Contributions [c]	1,768,712,369	1,847,520,797	1,558,509,041	1,697,287,871	1,484,849,345
General Obligation	785,363,834	1,012,418,625	702,676,279	490,002,803	444,985,883
Other Revenues [d]	5,265,115,871	709,942,714	1,867,986,094	1,184,536,265	847,094,578
Subtotal	5,922,595,630	1,143,890,693	13,785,509,551	10,587,251,657	12,787,560,389
Summary					
TOTAL NET	25,463,094,878	21,656,365,944	32,214,946,058	27,443,380,661	28,641,149,636
Transfers	1,307,219,152	620,137,706	658,364,767	656,836,667	956,781,647
Gross Revenue	$ 26,770,314,030	$ 22,276,503,650	$ 32,873,310,825	$ 28,100,217,328	$ 29,597,931,283

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

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

[c] Figures include all State and non-State employer and employee contributions. State contributions for State employees totaled $824,268,843 for $758,283,014 for 2000-01;$668,926,218 for 1999-2000; $641,535,593 for 1998-99; and $608,663,836 for 1997-

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

Source: Wisconsin Department of Administration.

Tax Structure

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

Individual Income Tax

The tax brackets and rates for the 2002 and 2003 tax years are as follows. The taxable income brackets have been indexed for changes in the consumer price index.

2002 Taxable Income Brackets		2002 Marginal Tax Rate
Single	Married Filing Jointly[(a)]	
$0 to 8,280	$0 to 11,040	4.60%
8,281 to 16,560	11,041 to 22,080	6.15
16,561 to 124,200	22,081 to 165,600	6.50
124,201+	165,601+	6.75

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

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

General Sales and Use Tax

A 5% tax is imposed on the sale or use of services and all tangible personal property unless specifically exempted. The most notable exemptions are food, prescription drugs, and motor and heating fuel.

Corporate Franchise and Income Taxes

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

Public Utility Taxes

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

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

Excise Taxes

Cigarettes are taxed at the rate of 77 cents per pack of 20. Tobacco products, other than cigarettes, are taxed at the rate of 20% of the manufacturer's list price. The tax is collected from distributors and subjobbers. Wine is taxed at 25 cents to $3.25 per gallon, depending on its alcohol content. Liquor is

taxed at $3.25 per gallon. The wine and liquor tax is collected from wholesalers. Beer is taxed at the rate of $2 per barrel, and the tax is paid monthly by brewers.

Estate, Inheritance, and Gift Taxes

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

Insurance Company Premium Tax

Wisconsin-based life insurance companies pay a tax of 2% of the premiums received less a credit equal to 50% of personal property taxes. Small companies may choose to pay 2.5% of all income except premiums less the personal property tax credit. Nondomestic life companies pay the 2% rate with no personal property tax credit.

Domestic casualty companies are taxed 2% on premiums received on fire insurance, while nondomestic casualty companies pay 2.375% on all forms of casualty premiums. The 2% tax levied on fire insurance premiums is redistributed to local governments as a "fire department dues" tax.

Motor Fuel Tax

Motor fuel is taxed at the rate of 28.1 cents per gallon. The motor fuel tax is indexed using an inflation-only factor based on the Consumer Price Index. The tax is collected from the wholesaler but is specifically passed through to the user. The revenues are deposited in the Transportation Fund, where they are used primarily for highway purposes.

Forest Tax

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

Tax Credits

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

Homestead Tax Credit

Property tax relief is provided to low-income homeowners and renters through a homestead tax credit on state individual income taxes. The maximum household income limit was $24,000 for 2000 and increased to $24,500 for 2001 and thereafter. The maximum amount of aidable property taxes is $1,450, and the amount of farm acreage on which the property tax is based is 120 acres. For renters, the amount of rent allocated as property tax is 25%, or 20% if heat is included in rent. In the 2001-02 fiscal year, low-income homeowners and renters received $104 million in homestead tax credit relief.

Earned Income Tax Credit

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

The State's earned income tax credit is calculated as a percentage of the federal credit. The federal earned income tax credit varies by income and family size. In addition to the federal standards, the State's credit varies the percent of the federal credit by number of children: 4% of the federal credit for one child, 14% for two, and 43% for three or more. The maximum State credit in tax year 2001 ranged from $94 for one child, $544 for two children, and $1,672 for three or more children.

Farmland Preservation Tax Credit

The farmland preservation program provides property tax relief to farmland owners and encourages local governments to develop farmland preservation policies. The credit reduces income tax liability or is rebated if the credit exceeds income tax due. The credit formula is based on household income, the amount of property tax levied by all governments, and the type of land use provisions protecting the farmland (either a preservation agreement or exclusive agricultural zoning). Claimants may receive a credit on up to $6,000 of property taxes. The maximum potential credit is $4,200. The farmland preservation tax credits twill total $17 million in the 2001-02 fiscal year.

School Levy Tax Credit

The school levy tax credit is distributed based on each municipality's share of statewide levies for school purposes and is provided to all classes of taxpayers (residential, commercial, industrial, and others). For property taxes levied in December 2002, $469 million of school levy tax credits will be distributed statewide, and the credit will lower school property taxes paid by taxpayers by 16% of the gross school tax levy. The credits are paid to municipalities to reduce the amount due from all property taxpayers.

Lottery Property Tax Credit.

The net proceeds of the state lottery are reserved for property tax relief. The lottery credit is paid to municipalities to reduce the amount due from local taxpayers. The lottery credit is paid only for property taxes on primary residences. The lottery credit will total $106 million in December 2002.

School Property Tax/Rent Credit

The school property tax/rent credit is equal to 12% of the first $2,500 in property taxes, or rent relating to allocable property taxes, for a maximum credit of $300. The school property tax/rent credit will total $343 million in the 2001-02 fiscal year and is expected to total $350 million in the 2002-03 fiscal year..

Tax Collection Procedure (Delinquencies)

If a taxpayer does not file a valid return when requested, the State of Wisconsin Department of Revenue **(DOR)** estimates the amount of tax due and sends the taxpayer an assessment of the amount owing. Until the due date, the taxpayer may appeal the amount stated to be owing, and absent an appeal, the account is considered delinquent on the due date. Other delinquencies occur when a taxpayer fails to properly pay taxes on a filed return or undercomputes the tax due. In that case, the taxpayer is billed for the shortfall, and there is no appeal process. Assessments can also result from office or field audits. Audit adjustments may be appealed up to the due date of the assessment.

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

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

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

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

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

If it is unknown whether the taxpayer has any assets that might be garnished, a supplemental hearing may be called before the court commissioner in the taxpayer's county of residence, and the taxpayer's affairs could be placed in receivership. If the taxpayer is without any assets at all, proceedings may be stayed and the account periodically reviewed for up to 10 years.

An analysis of the overall delinquency rate for the income, franchise, and sales and use taxes is shown in Table II-26 of "STATISTICAL INFORMATION".

FINANCIAL INFORMATION–EXPENDITURES

General

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

- *State Operations*. Direct payments by State agencies to carry out State programs for expenses such as salaries, supplies, services, debt service, and permanent property.
- *Aids to Individuals and Organizations*. Payments from a State fund made directly to, or on behalf of, an individual or private organization (for example, Medicaid or student financial assistance).
- *Local Assistance*. Payments from a State fund to, or on behalf of, local units of government and school districts, including payments associated with State programs administered by local governments and school districts (for example, aid for families with dependent children and school aids).

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

General Fund Expenditures

Based on the budget and allocations for the 2002-03 fiscal year, over 62% of all general-fund taxes collected by the State are returned to local units of government. The remaining funds are used for payments to individuals and organizations (16%) and state programs, including the University of Wisconsin System (22%).

Table II-2

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

1997-98 TO 2001-2002

	2001-02	2000-01	1999-2000	1998-99	1997-98
Commerce					
State Operations	$ 170,184,711	$ 171,267,613	$ 162,895,100	$ 150,658,080	$ 147,344,847
Aids to Individuals and Organizations	174,212,058	215,454,938	346,664,701	155,481,162	151,694,308
Local Assistance	74,407,965	51,631,378	56,346,765	58,646,694	53,076,585
Subtotal	418,804,734	438,353,929	565,906,566	364,785,936	352,115,740
Education					
State Operations	3,115,399,765	3,075,483,311	2,804,394,458	2,622,619,858	2,502,704,172
Aids to Individuals and Organizations	427,268,613	391,871,206	342,821,711	323,423,408	280,565,768
Local Assistance	5,118,756,509	4,941,446,927	4,676,809,090	4,435,185,215	4,163,022,316
Subtotal	8,661,424,887	8,408,801,444	7,824,025,259	7,381,228,481	6,946,292,256
Environmental Resources					
State Operations	1,669,826,629	1,689,461,785	1,471,082,344	1,427,889,702	1,289,397,451
Aids to Individuals and Organizations	32,409,367	25,802,608	25,185,553	27,519,834	11,458,404
Local Assistance	1,009,292,244	1,011,992,606	1,039,528,614	967,912,080	851,469,438
Subtotal	2,711,528,240	2,727,256,998	2,535,796,511	2,423,321,616	2,152,325,292
Human Relations and Resources					
State Operations	2,201,627,675	1,972,235,028	1,863,099,973	1,726,775,813	1,573,507,826
Aids to Individuals and Organizations	7,002,052,675	5,711,855,259	5,220,672,714	3,971,027,191	3,484,623,091
Local Assistance	722,778,120	697,998,641	676,100,856	699,232,414	650,326,226
Subtotal	9,926,458,471	8,382,088,927	7,759,873,543	6,397,035,418	5,708,457,143
General Executive					
State Operations	4,507,929,098	3,870,708,222	3,356,742,192	2,925,101,503	2,885,868,362
Aids to Individuals and Organizations	326,682,917	357,195,805	302,438,911	300,649,421	304,857,854
Local Assistance	104,908,224	59,560,427	40,962,042	35,229,960	36,173,254
Subtotal	4,939,520,239	4,287,464,453	3,700,143,145	3,260,980,884	3,226,899,470
Judicial					
State Operations	84,149,092	85,292,057	78,820,982	74,014,002	69,616,266
Local Assistance	23,716,900	23,726,900	23,666,900	21,416,900	21,410,600
Subtotal	107,865,992	109,018,957	102,487,882	95,430,902	91,026,866
Legislative					
State Operations	62,114,318	62,220,008	59,819,385	58,081,525	55,051,282
Subtotal	62,114,318	62,220,008	59,819,385	58,081,525	55,051,282
General					
State Operations	1,320,960,416	564,306,377	656,616,891	709,978,546	725,825,981
Aids to Individuals and Organizations	1,179,940,690	837,938,682	884,416,569	178,777,552	185,874,167
Local Assistance	1,693,443,439	1,675,208,599	1,779,060,238	1,639,701,767	1,701,484,672
Subtotal	4,194,344,545	3,077,453,657	3,320,093,698	2,528,457,865	2,613,184,820
General Obligation Bond Program					
State Operations	622,061,731	675,100,374	576,493,991	453,827,797	435,910,841
Subtotal	622,061,731	675,100,374	576,493,991	453,827,797	435,910,841
Summary Totals					
State Operations	13,754,253,435	12,166,074,774	11,029,965,316	10,148,946,826	9,685,227,028
Aids to Individuals and Organizations	9,142,566,320	7,540,118,497	7,122,200,159	4,956,878,568	4,419,073,591
Local Assistance	8,747,303,402	8,461,565,478	8,292,474,505	7,857,325,030	7,476,963,090
GRAND TOTAL	$31,644,123,157	$28,167,758,749	$26,444,639,980	$22,963,150,424	$21,581,263,709

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

Source: Wisconsin Department of Administration.

ACCOUNTING AND FINANCIAL REPORTING

Statutory Basis

The State accounts for, reports, and budgets its operations as set forth in the statutes. The Annual Fiscal Report (which is unaudited) must be published each year on or before October 15. Except as noted in the following paragraph, under statutory accounting, receipts are recorded only at the time money or checks are deposited in the State Treasury, and disbursements are recorded only at the time a check is drawn. As a result, actions and circumstances, including discretionary decisions by certain governmental officials, can affect the timing of payments and deposits and therefore can significantly affect the amounts reported in a fiscal year

For budgeting and constitutional compliance purposes, the State's records are maintained in conformity with statutory requirements. The more important legal provisions are:

- In all cases the date of the contract or order determines the fiscal year in which it is charged unless it is determined that the purpose of the contract or order is to prevent lapsing of appropriations or to otherwise circumvent budgeting intent.
- The current year records must remain open until July 31 to permit departments to certify for payment bills applicable to the year ended June 30 and to deposit revenues applicable to such year, with the following exceptions: (1) amounts withheld for income taxes prior to July 1, and (2) taxes imposed on sales prior to July 1 are deemed to be accrued tax receipts as of the close of the fiscal year, provided such revenue is deposited on or before August 15.
- On July 31 all outstanding encumbrances entered for the previous year must be transferred to the new fiscal year and an equivalent prior year appropriation balance must also be forwarded to the new fiscal year.
- Revenues and expenditures are reported on a net basis. Overcollections refunded are deducted from revenues and current year overpayments made are deducted from expenditures.
- General Fund investments are carried at the lower of cost or par with discounts, premiums, and earnings recorded on an accrual basis.
- Encumbrances are treated as expenditures in the year of initiation.

Generally Accepted Accounting Principles

The State also accounts for and reports on its operations using generally accepted accounting principles (**GAAP**). For the fiscal year ended June 30, 2002 the State has prepared a Comprehensive Annual Financial Report (**CAFR**) in accordance with GAAP. The General Purpose External Financial Statements section of the CAFR for the fiscal year ended June 30, 2002 has been audited and is included as APPENDIX A to this Part II of the Annual Report.

Financial statements prepared in accordance with GAAP differ from those prepared in accordance with the Statutes. A notable difference pertains to the general-fund balance. The undesignated balance for the fiscal year ended June 30, 2002 was a surplus of $54 million on a budgetary basis. Under GAAP, the balance for the fiscal year ended June 30, 2002 was a deficit of $1.484 billion. The difference results primarily because GAAP recognizes accrued liabilities that are not taken into account under the statutory basis. The single largest accrued liability for the fiscal year ended June 30, 2002 was $659 million and related to the State's unpaid income tax refunds.

BUDGETING PROCESS AND FISCAL CONTROLS

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

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

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

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

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

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

State law prohibits the enactment of legislation that would cause the estimated General Fund balance to be less than a specified percentage of the general purpose revenue appropriations for that fiscal year. While no amount was specified for the 2001-02 fiscal year, the specified percentage for the 2002-03 fiscal year is 1.2%, or $134 million. State law currently requires that, beginning with the 2003-04 fiscal year, the statutory required reserve be 1.6% and gradually increase each year so that it is 2.0% by the 2005-06 fiscal year.

The budget could move out of balance if estimated revenues are less than anticipated in the budget or if expenditures for open-ended appropriations are greater than anticipated. Statutes provide that, following the enactment of the budget, if the Secretary of Administration determines that budgeted expenditures will exceed revenues by more than one-half of one percent of general purpose revenues (consisting of general taxes, miscellaneous receipts, and revenues collected by state agencies which lose their identity and are available for appropriation by the Legislature), no approval of expenditure estimates can occur. Further, the Secretary of Administration must notify the Governor and the Legislature, and the Governor must submit a bill correcting the imbalance. If the Legislature is not in session, the Governor must call a special session to take up the matter. *As a result of the revenue estimates released on November 20, 2002 by DOR, the Secretary of Administration has determined that budgeted expenditures will exceed revenues by more than one-half of one percent of general purpose revenues in the 2002-03 fiscal year.*

The Secretary of Administration provided notification of this determination to the Governor, the Governor-Elect, and the Legislature on November 20, 2002.

The Secretary of Administration also has statutory power to order reductions in the appropriations of state agencies (which represent less than one-fourth of the General Fund budget). The Secretary of Administration may also temporarily reallocate free balances of certain funds to other funds that have insufficient balances and, further, may prorate or defer certain payments in the event current or projected balances are insufficient to meet current obligations. In such an event, the Department of Administration may also request the issuance of operating notes by the State of Wisconsin Building Commission (**Commission**).

RESULTS OF 2001-02 FISCAL YEAR

The Annual Fiscal Report (Budgetary Basis) for the fiscal year ending June 30, 2002 was published October 15, 2002. It reports that the State ended the 2001-02 fiscal year on a statutory and unaudited basis with an unreserved, undesignated balance of $54 million. This is $181 million less than the $235 million that was in the projected general fund condition statement for all fiscal bills signed into law through the budget adjustment bill for the 2001-03 biennium (2001 Wisconsin Act 109). The State issued $800 million of operating notes during the 2001-02 fiscal year.

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

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

Table II-3 in the section "STATE BUDGET" summarizes the results from the 2001-02 fiscal year.

STATE BUDGET

Budget for 2001-03

The State is in the last year of a biennial budget. See "RESULTS OF 2001-02 FISCAL YEAR" for information from the Annual Fiscal Report (Budgetary Basis) for the 2001-02 fiscal year, which was the first year of the biennial budget.

Revenue Estimates - November 20, 2002

On November 20, 2002, DOR released estimates of general-purpose tax revenues for the 2002-03 fiscal year. This estimate is $10.401 billion, which is approximately $115 million less than the amount estimated in January 2002 by the Legislative Fiscal Bureau. A copy of the DOR report may be obtained from:

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

Current Status; 2002-03 Fiscal Year Budget

Based on the revenue estimates that were released by DOR on November 20, 2002 and as required by Wisconsin Statutes, the Secretary of the Department of Administration has notified the Governor, the Governor-Elect, and the Legislature of an imbalance in the 2002-03 fiscal year between estimated revenues and authorized expenditures. Wisconsin Statutes require the Governor to submit a bill containing recommendations for correcting the imbalance between projected revenues and authorized expenditures. If the Legislature is not in session, the Governor is required to call a special session of the Legislature to take up the matter of the imbalance.

Taking into account the undesignated balance available at the end of the 2001-02 fiscal year and the revenue estimates for the 2002-03 fiscal year released by DOR on November 20, 2002, the estimated gross balance (not including the statutory required reserve) at the end of the 2002-03 fiscal year is estimated to be negative $186 million. This is approximately $320 million less than the balance included in the general fund condition statement previously prepared to reflect all fiscal bills signed into law through the budget reform bill for the 2001-03 biennium (2001 Wisconsin Act 109). *The Wisconsin Constitution requires the Legislature to enact a balanced biennial budget, and the Wisconsin Constitution also requires that if final budgetary expenses of any fiscal year exceed available revenues, the Legislature must take actions to balance the budget in the succeeding fiscal year.*

Revenue Estimates – January 16, 2002

On January 16, 2002, the Legislative Fiscal Bureau provided estimates of general-fund revenues and gross ending estimates for the 2001-02 and 2002-03 fiscal years, taking into account economic forecasts and actual tax collections and expenditures. At that time, the estimates showed the following differences from estimates used in developing the 2001-03 biennial budget:

- 2001-02 general-fund tax revenues were estimated to be $443 million lower at $10.218 billion.
- 2002-03 general-fund tax revenues were estimated to be $596 million lower at $10.535 billion.
- 2001-03 departmental revenues (non-tax receipts) were estimated to be $10 million lower.

Budget Reform Bill for 2001-03

On July 26, 2002, the Governor signed into law the budget reform bill for the 2001-03 biennium (2001 Wisconsin Act 109). A copy of the approved budget reform bill, which incorporates vetoes made by the Governor, along with the Governor's veto message, may be obtained from:

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

Table II-3 provides a general summary, and Tables II-4 and II-5 provide a more detailed summary of all fiscal bills signed into law through the budget reform bill for the 2001-03 biennium (2001 Wisconsin Act 109), the Annual Fiscal Report (Budgetary Basis) for the fiscal year ended June 30, 2002, and the revenue estimates released on November 20, 2002.

Table II-3

General Fund Basis
(Amounts in Millions)

	Actual 2001-02	Budget 2001-02	Revised Budget 2002-03[a]
Beginning Balance	$ 208	$ 208	$ 54[b]
Tax Revenues	10,036	10,210	10,401
Tobacco Securitization Proceeds	681	681	n/a
Tobacco Settlement Payments	156	156	158
Nontax Revenues	9,976	8,8040	8,218
Total Amount Available	$21,057	$19,295	$18,831
Total Disbursements/Reserves	$20,980	$19,060	$19,017
Estimated Gross Balance	$ 77	$ 235	$ (186)[c]
Designated for Expenditure	33	n/a	n/a
Required Statutory Reserve	n/a	0	134
Net Balance	$ 44[b]	$ 235	$ (320)

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

	Actual 2001-02	Budget 2001-02	Revised Budget 2002-03[a]
Beginning Balance	$ 208	$ 208	$ 54[b]
Tax Revenues	11,092	10,210	10,401
Tobacco Securitization Proceeds	681	681	n/a
Tobacco Settlement Payments	156	156	158
Nontax Revenues	14,840	20,214	20,819
Total Amount Available	$26,977	$31,469	$31,432
Total Disbursements/Reserves	$26,900	$31,234	$31,618
Estimated Gross Balance	$ 77	$ 235	$ (186)[c]
Designated for Expenditure	33	n/a	n/a
Required Statutory Reserve	n/a	0	134
Net Balance	$ 44[b]	$ 235	$ (320)

[a] Reflects ending balance for the 2001-02 fiscal year, revenue estimates for the 2002-03 fiscal year released by DOR on November 20, 2002, and other adjustments outlined in a budget report issued by the Department of Administration on November 20, 2002.

[b] The net balance for the 2001-02 fiscal year reflects a negative $9 million balance in the Program Revenue portion of the General Fund. The beginning balance for the revised budget 2002-03 fiscal year reflects the general-purpose revenue portion of the undesignated balance, as represented in the Annual Fiscal Report (Budgetary Basis) for the 2001-02 fiscal year.

[c] The Wisconsin Constitution requires the Legislature to enact a balanced budget, and the Wisconsin Constitution also requires that, if final budgetary expenses of any fiscal year exceed available revenue, the Legislature must take actions to balance the budget in the succeeding fiscal year.

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

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

	Actual 2001-2002 [b]	Budget 2001-2002 2001 Act 109	Budget 2002-2003 2001 Act 109	Revised (c) Budget 2002-2003 2001 Act 109
RECEIPTS				
Fund Balance from Prior Year	$ 207,508,000	$ 207,508,000	$ 235,056,200	$ 53,800,000 [d]
Tax Revenue				
State Taxes Deposited to General Fund				
Individual Income	4,979,662,000	5,211,450,000	5,310,600,000	5,247,800,000
General Sales and Use	3,695,796,000	3,680,000,000	3,830,200,000	3,793,400,000
Corporate Franchise and Income	503,008,000	480,000,000	535,000,000	509,100,000
Public Utility	252,237,000	253,700,000	257,400,000	260,300,000
Excise				
Cigarette/Tobacco Products	302,701,000	310,400,000	320,100,000	308,500,000
Liquor and Wine	35,984,000	35,100,000	36,200,000	36,300,000
Malt Beverage	9,597,000	9,400,000	9,400,000	9,500,000
Inheritance, Estate & Gift	82,635,000	85,000,000	67,000,000	74,000,000
Insurance Company	96,055,000	87,000,000	90,000,000	97,000,000
Other	79,028,000	57,600,000	59,600,000	65,000,000
Subtotal	10,036,703,000	10,209,650,000	10,515,500,000	10,400,900,000
Nontax Revenue				
Departmental Revenue				
Tobacco Settlement	156,215,305	155,526,000	157,602,800	157,602,800
Tobacco Securitization	681,000,000	681,000,000	NA	NA
Other	216,528,695	243,803,700	257,177,100	257,177,100
Program Revenue-Federal	6,372,653,000	4,777,029,000	4,860,982,500	4,860,982,500
Program Revenue-Other	3,386,974,000	3,020,118,400	3,100,962,000	3,100,962,000
Subtotal	10,813,371,000	8,877,477,100	8,376,724,400	8,376,724,400
Total Available	$ 21,057,582,000	$ 19,294,635,100	$ 19,127,280,600	$ 18,831,424,400
DISBURSEMENTS AND RESERVES				
Commerce	$ 212,449,000	227,466,600	229,610,200	229,610,200
Education	8,603,653,000	8,627,420,500	8,857,403,500	8,857,403,500
Environmental Resources	227,949,000	255,966,000	256,362,000	256,362,000
Human Relations and Resources	8,538,786,000	7,414,039,100	7,546,331,400	7,546,331,400
General Executive	614,520,000	636,302,000	640,955,900	640,955,900
Judicial	107,534,000	104,611,000	105,143,800	105,143,800
Legislative	62,114,000	64,189,400	60,590,500	60,590,500
General Appropriations	2,881,603,000	1,951,084,400	1,387,111,500 [e]	1,387,111,500 [e]
Subtotal	21,248,608,000	19,281,079,000	19,083,508,800	19,083,508,800
Less: (Lapses)	NA	(252,921,200)	(186,675,700)	(161,675,700) [f]
Compensation Reserves	NA	25,388,800	79,815,500	79,815,500
Required Statutory Balance	NA	- [g]	134,416,600	134,300,000
Transfer to Tobacco Control Board	NA	6,032,300	15,345,100	15,345,100
Changes in Continuing Balance	(268,454,000)	NA	NA	NA
Total Disbursements & Reserves	$ 20,980,154,000	$ 19,059,578,900	$ 19,126,410,300	$ 19,151,293,700
Fund Balance	$ 77,428,000	$ 235,056,200	$ 870,300	$ (319,869,300)
Undesignated Balance	$ 44,469,000 [h]	$ 235,056,200	$ 135,286,900	$ (185,569,300) [i]

(a) The amounts shown are based on statutorily required accounting and not on GAAP.
(b) The amounts shown are unaudited and rounded to the nearest thousand dollars.
(c) The Department of Administration prepared a modified fund condition statement for the 2002-03 fiscal year based on revised tax collection estimates and the ending balance for the fiscal year ending June 30, 2002.
(d) This is the General Purpose Revenue portion of the General Fund undesignated balance as of June 30, 2002.
(e) Tobacco securitization proceeds in the amount of approximately $598 million were used to fund a portion of the shared revenue payments to local governmental units.

(f) The lapse has been revised downward to reflect the realization of $25 million from restructuring a portion of the State's general obligation debt, which previously had been assumed to occur in the 2002-03 fiscal year.
(g) A required balance for the 2001-02 fiscal year was not specified.
(h) The General Fund balance reported in the Annual Fiscal Report, Budgetary Basis, for the fiscal year ending June 30, 2002, includes a negative $9 million ending balance in the Program Revenue portion of the General Fund.
(i) The Wisconsin Constitution requires the Legislature to enact a balanced biennial budget, and the Wisconsin Constitution also requires that, if final budgetary expenses of any fiscal year exceed available revenues, the Legislature must take actions to balance the budget in the succeeding fiscal year.

Sources: Legislative Fiscal Bureau and Wisconsin Department of Administration.

Table II-5
State Budget–All Funds[a]

	Actual 2001-2002 [b]	Budget 2001-2002 2001 Act 109	Budget 2002-2003 2001 Act 109	Revised [c] Budget 2002-2003 2001 Act 109
RECEIPTS				
Fund Balance from Prior Year	$ 207,508,000	$ 207,508,000	$ 235,056,200	$ 53,800,000 [d]
Tax Revenue				
Individual Income	4,979,662,000	5,211,450,000	5,310,600,000	5,247,800,000
General Sales and Use	3,695,796,000	3,680,000,000	3,830,200,000	3,793,400,000
Corporate Franchise and Income	503,008,000	480,000,000	535,000,000	509,100,000
Public Utility	252,237,000	253,700,000	257,400,000	260,300,000
Excise				
Cigarette/Tobacco Products	302,701,000	310,400,000	320,100,000	308,500,000
Liquor and Wine	35,984,000	35,100,000	36,200,000	36,300,000
Malt Beverage	9,597,000	9,400,000	9,400,000	9,500,000
Inheritance, Estate & Gift	82,635,000	85,000,000	67,000,000	74,000,000
Insurance Company	96,055,000	87,000,000	90,000,000	97,000,000
Other	1,134,073,000	57,600,000 [e]	59,600,000 [e]	65,000,000 [e]
Subtotal	11,091,748,000	10,209,650,000	10,515,500,000	10,400,900,000
Nontax Revenue				
Departmental Revenue				
Tobacco Settlement	156,215,305	155,526,000	157,602,800	157,602,800
Tobacco Securitization	681,000,000	681,000,000	NA	NA
Other	216,528,695	243,803,700	257,177,100	257,177,100
Total Federal Aids	7,203,159,000	5,493,709,000	5,606,106,100	5,606,106,100
Total Program Revenue	3,386,974,000	3,020,118,400	3,100,962,000	3,100,962,000
Total Segregated Funds	4,847,843,000	3,496,396,200	3,582,769,100	3,582,769,100
Bond Authority	785,364,000	500,000,000	383,000,000	383,000,000
Employee Benefit Contributions [f]	(1,598,517,000)	7,461,324,917	7,889,603,973	7,889,603,973
Subtotal	15,678,567,000	21,051,878,217	20,977,221,073	20,977,221,073
Total Available	$ 26,977,823,000	$ 31,469,036,217	$ 31,727,777,273	$ 31,431,921,073
DISBURSEMENTS AND RESERVES				
Commerce	$ 428,003,000	$ 421,596,400	$ 418,614,500	418,614,500
Education	8,863,016,000	8,696,353,000	8,930,245,000	8,930,245,000
Environmental Resources	2,803,318,000	2,683,416,100	2,757,712,700	2,757,712,700
Human Relations and Resources	10,147,579,000	7,817,267,000	8,076,729,800	8,076,729,800
General Executive	5,007,479,000	770,619,400	774,435,400	774,435,400
Judicial	107,866,000	105,320,100	105,852,900	105,852,900
Legislative	62,114,000	64,189,400	60,590,500	60,590,500
General Appropriations	4,224,747,000	2,935,393,800	2,287,220,700 [g]	2,287,220,700 [g]
General Obligation Bond Program	542,938,000	500,000,000	383,000,000	383,000,000
Employee Benefit Payments [f]	3,963,334,000	3,377,515,809	3,830,081,149	3,830,081,149
Reserve for Employee Benefit Payments [f]	NA	4,083,809,108	4,059,522,824	4,059,522,824
Subtotal	36,150,394,000	31,455,480,117	31,684,005,473	31,684,005,473
Less: (Lapses)	NA	(252,921,200)	(186,675,700)	(161,675,700) [h]
Compensation Reserves	NA	25,388,800	79,815,500	79,815,500
Required Statutory Balance	NA	- [i]	134,416,600	134,300,000
Transfer to Tobacco Control Board	NA	6,032,300	15,345,100	15,345,100
Change in Continuing Balance	(9,249,999,000)	NA	NA	NA
Total Disbursements & Reserves	$ 26,900,395,000	$ 31,233,980,017	$ 31,726,906,973	$ 31,751,790,373
Fund Balance	$ 77,428,000	$ 235,056,200	$ 870,300	$ (319,869,300)
Undesignated Balance	$ 44,469,000 [j]	$ 235,056,200	$ 135,286,900	$ (185,569,300) [k]

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

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

(c) The Department of Administration prepared a modified fund condition statement for the 2002-03 fiscal year based on revised tax collection estimates and the ending balance for the fiscal year ending June 30, 2002.

(d) This is the General Purpose Revenue portion of the General Fund undesignated balance as of June 30, 2002.

(e) The budgeted amounts do not include taxes collected for segregated funds. The largest such tax is the motor fuel tax. The State collected $865 million of motor fuel taxes in the 2001-02 fiscal year.

(f) State law separates the accounting of employee benefits from the budget. They are included for purposes of comparability to the figures presented in this table and Tables II-1 and II-2 in Part II of the 2001 Annual Report.

(g) Tobacco securitization proceeds in the amount of approximately $598 million were used to fund a portion of the shared revenue payments to local governmental units.

(h) The lapse has been revised downward to reflect the realization of $25 million from restructuring a portion of the State's general obligation debt, which had been previously assumed to occur in the 2002-03 fiscal year.

(i) A required balance for the 2001-02 fiscal year was not specified.

(j) The General Fund balance reported in the Annual Fiscal Report, Budgetary Basis, for the fiscal year ending June 30, 2002, includes a negative $9 million ending balance in the Program Revenue portion of the General Fund.

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

Sources: Legislative Fiscal Bureau and Wisconsin Department of Administration.

Budget for 2003-05

The revenue estimates released by DOR on November 20, 2002 also included estimates of general-purpose tax revenues for the 2003-05 biennium. These estimates are $10.956 billion for the 2003-04 fiscal year and $11.597 billion for the 2004-05 fiscal year. A copy of the DOR report may be obtained from:

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

The Governor is required to submit a proposed biennial budget to the Legislature on or about the last Tuesday in January, 2003.

Sale of Tobacco Settlement Revenues

On May 23, 2002, the State sold to the Badger Tobacco Asset Securitization Corporation **(Corporation)** the right of the State to receive tobacco settlement revenues to be made by the participating cigarette manufacturers under the Master Settlement Agreement, which was entered into among the participating cigarette manufacturers and the attorneys general of 46 states and six other U.S. jurisdictions on November 23, 1998 in connection with the settlement of certain smoking-related litigation.

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

The tobacco settlement revenues sold to the Corporation are generally those that the State expects to receive after June 30, 2003. The tobacco settlement revenues received by the State on or prior to June 30, 2003 are part of the general fund budget for the respective fiscal years. The State expects to receive $158 million of tobacco settlement revenues in the 2002-03 fiscal year. See "STATE BUDGET; Budget for 2001-03".

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

Potential Effect of Litigation

APPENDIX A to this part of the Annual Report includes the General Purpose External Financial Statements for the fiscal year ended June 30, 2002. The notes to the General Purpose External Financial Statements include a description of various legal proceedings, claims, and tax refunds that may have a potential budgetary effect. The potential budgetary impact of these legal proceedings and claims, and any updates to those proceedings subsequent to June 30, 2002, are outlined below.

Corporate Tax Measured by Interest from U.S. Securities

The 2002-03 budget does not provide for payment of any claim.

Federal Pension Income

The refunds resulting from this case are essentially complete. Subsequent litigation with other retirees on a variety of issues has occurred, with DOR prevailing in all instances. Litigation is still in process on a limited number of cases. The 2002-03 budget does not provide for payment of refunds in the event that the State should fail to prevail on this matter.

Environmental Clean-Up Actions

The State is involved in the environmental clean-up of property owned by the State that has the potential to cause soil and groundwater contamination and that does not involve releases from underground storage tanks. The estimated remediation costs of these properties is $5.6 million. The 2002-03 budget does not specifically provide for payment of these costs; however, the payment would be made from certain funds already established by the State.

Other

The State, its officers, and its employees are defendants in numerous other lawsuits. It is the opinion of the Attorney General that such pending litigation will not be finally determined so as to result individually or in the aggregate in a final judgment against the State which would materially impair its financial position. Potential liability for such pending litigation does not constitute a significant impairment of the State's financial position or payment of debt service.

Employee Relations

Of the State's approximately 40,000 civil service employees, approximately 34,000 are employees whose wage rates, fringe benefits, hours, and conditions of employment are determined by collective bargaining agreements. All of these classified employees are either assigned to a collective bargaining unit or are exempted from bargaining unit coverage due to their "confidential" or "management" designation. Covered employees are assigned to one of twenty-two bargaining units set up by occupational groupings based by their civil service classification. An exclusive bargaining agent represents nineteen of the bargaining units. Current labor agreements expired on June 30, 2001, but have been extended while the State continues to negotiate the agreements for the period ending June 30, 2003.

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

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

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

State Budget Assumptions

Tax revenues for the budget adjustment bill for the 2001-03 biennium are based on January 16, 2002 estimates from the Legislative Fiscal Bureau. The estimates are based on the State tax structure and on assumptions about basic economic factors and their historical relationships to State tax receipts. Revenue sources other than taxes are estimated in the preparation of the budget. The all-funds budget establishes

estimates of these nontax revenues and presumes that an equal amount of expenditures will be made. Any variation from that expected level of revenue will result in a corresponding increase or decrease in expenditures.

State disbursements for the budget are based on assumptions relating to economic and demographic factors, desired levels of services, and the success of expenditure control mechanisms applied by the Secretary of Administration pursuant to statutory authority in controlling disbursements for State operations. Factors that may affect the level of disbursements in the budgets and make the projected levels difficult to maintain include uncertainties relating to the economy of the nation and the State.

Economic Assumptions–November 20, 2002 Revenue Estimates

The economic forecast underlying the revenue estimates provided by DOR on November 20, 2002 was based primarily on certain projections presented in a November 8, 2002 report by Global Insight (previously known as DRI-WEFA), which provides national economic forecasts, data base support, and consulting services. See Table II-6 for a summary of the November 8, 2002 Global Insight report and subsequent results of DOR's Wisconsin Econometric Model.

Wisconsin Econometric Model

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

The Model provides forecasts of the major components of income and employment. It is a structural model that employs accounting identities and theoretical constructs for predictions on each economic variable. It is driven by a set of exogenous variables. These exogenous variables include forecasts of both national and State data. The forecast data are entered into the model to generate forecasts of state employment, income, tax revenue, and other economic indicators.

The Model is similar to many economic models in that the economy is described by a set of mathematical equations. There are equations for employment, wages, proprietary income, transfer payments, industrial production, housing permits, and taxes. The Model currently consists of 206 equations.

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

The Model's structure adopts an adaptive expectations framework in which the forecasted economic variables (for example, the level of income and employment) in the current period depend on expectations about the economic variables. Adaptive expectations models assume that expectations about current economic phenomena are based on the historical values of the economic phenomena.

Stochastic equations within the Model are determined using regression techniques. All estimated coefficients are statistically significant and consistent with economic theory.

In order to produce forecasts with the Model, data from several outside (exogenous) sources are required. Forecasts of economic variables at the national level are required to drive the Model. National forecast data include measures of industry output, factor costs, tax levels and rates, interest rates, inflation, etc. Currently, Global Insight forecasts for these national variables are used.

Other exogenous data come from both federal and State agencies. These data are principally measures of State population, milk prices, and state tax rates. Once the data are entered into the Model, the system of equations is simultaneously solved for income, employment, and other economic variables.

The Model uses data on U.S. economic trends to forecast the State economy, which in turn is used to estimate General Purpose Revenues.

In the Model, separate equations for employment, income, and taxes are estimated to acknowledge the complexity of the State's economy. Changes in population, international exchange rates, productivity, and tax rates can affect each of the economic indicators differently. The Model recognizes this by estimating each economic indicator separately.

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

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

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

Table II-6

ECONOMIC FORECASTS
U.S. ECONOMIC FORECAST

	Calendar Year				
	2002	**2003**	**2004**	**2005**	**2006**
Real GDP and its Components (Amounts in Billions of Chain Weighted 1996 Dollars)					
GDP	$9,425.5	$9,670.0	$10,070.0	$10,449.6	$10,819.5
Percent Change	2.3	2.6	4.1	3.8	3.5
Consumption	6,563.5	6,705.1	6,946.3	7,193.1	7,459.5
Investment (including inventory)	1,583.6	1,645.2	1,798.3	1,927.0	2,015.3
Nonresidential Structures	228.7	216.6	230.6	258.5	273.6
Business Equipment	969.5	1,035.7	1,144.4	1,246.9	1,325.9
Residential Fixed	385.9	379.9	388.4	399.6	402.9
Change in Inventory	0.8	26.6	59.5	52.4	51.3
Exports	1,062.4	1,118.3	1,208.8	1,313.2	1,421.6
Imports	1,540.7	1,595.2	1,700.4	1,818.5	1,932.5
Federal Government	610.4	648.2	661.1	665.1	669.9
State and Local Government	1,097.5	1,102.4	1,118.2	1,137.7	1,156.9
GDP (Current Dollars)	10,434.0	10,926.0	11,649.7	12,347.0	13,027.6
Money and Interest Rates					
Money Supply (M2) (billions)	$5,596.7	$5,833.5	$6,108.4	$6,359.9	$6,607.3
Percent Change	7.2	4.2	4.7	4.1	3.9
Prime Commercial Rate	4.7	4.7	6.3	7.2	7.9
3-Month Treasury Bills (rate)	1.6	1.7	3.1	3.9	4.6
10-Year Treasury Note Yield (rate)	4.6	4.6	5.7	6.0	6.3
G.O. AAA Municipals (rate)	4.9	5.1	5.4	5.6	5.7
30-Year Mortgage (rate)	6.6	6.5	7.2	7.5	7.7
Income, Profits and Savings (Amounts in Billions)					
Personal Income	$8,942.3	$9,313.6	$9,865.2	$10,443.7	$11,022.0
Percent Change	3.0	4.2	5.9	5.9	5.5
Personal Income ($ 1996)	$8,049.9	$8,213.3	$8,502.7	$8,816.4	$9,127.6
Percent Change	1.5	2.0	3.5	3.7	3.5
Savings Rate (%)	3.9	4.0	3.8	3.8	3.5
Corporate Profits Before Tax	779.3	832.0	853.3	878.6	922.6

Source: Global Insight, November 8, 2002

Table II-6 - Continued

WISCONSIN EMPLOYMENT FORECAST

	Calendar Year				
	2002	**2003**	**2004**	**2005**	**2006**
Annual Industry Detail Average (Thousands of Workers)					
Mining	2.8	2.9	2.9	2.8	2.7
Percent Change	1.2	4.6	(0.5)	(3.3)	(3.7)
Construction	123.4	124.5	128.9	134.4	139.0
Percent Change	0.7	0.9	3.5	4.3	3.4
Durable Goods	337.8	331.7	338.2	347.2	352.4
Percent Change	(4.6)	(1.8)	2.0	2.6	1.5
Nondurable Goods	230.4	231.7	234.5	238.1	239.4
Percent Change	(1.5)	0.6	1.2	1.5	0.6
Transportation and Utilities	131.3	134.7	140.3	144.0	146.6
Percent Change	(2.0)	2.6	4.2	2.6	1.8
Finance, Insurance, Real Estate	153.1	157.8	163.9	169.2	171.1
Percent Change	2.0	3.1	3.8	3.2	1.2
Retail Trade	505.9	511.1	518.6	521.7	521.8
Percent Change	0.5	1.0	1.5	0.6	0.0
Wholesale Trade	137.2	139.1	144.6	146.8	147.6
Percent Change	(0.2)	1.4	3.9	1.6	0.5
Services	793.7	820.6	852.6	872.3	887.5
Percent Change	2.4	3.4	3.9	2.3	1.7
Government	414.8	415.9	419.4	423.7	427.0
Percent Change	0.3	0.3	0.8	1.0	0.8
Total Nonfarm	2,830.4	2,870.0	2,943.8	3,000.2	3,035.3
Percent Change	0.1	1.4	2.6	1.9	1.2

Source: Wisconsin Department of Revenue, Economic Outlook, November 2002

WISCONSIN INCOME FORECAST

	Calendar Year				
	2002	**2003**	**2004**	**2005**	**2006**
Components of Personal Income (Amounts in Billions)					
Wages and Salaries	92.207	95.836	102.047	107.781	112.663
Other Labor Income	11.367	12.078	12.641	13.172	13.604
Proprietor's Income	9.164	9.879	10.284	10.619	10.867
Rental Income	2.496	2.700	2.906	3.083	3.238
Personal Dividend Income	9.168	9.782	10.100	10.571	11.374
Personal Interest Income	20.804	20.775	21.911	23.642	25.611
Transfer Payments	22.770	23.343	23.814	24.654	25.767
Residence Adjustment	2.731	2.903	3.165	3.432	3.697
Contributions to Social Insurance	7.124	7.389	7.836	8.235	8.573
Total Personal Income	163.514	169.908	179.032	188.719	198.247
Personal Taxes and Nontax Pmts	20.607	21.005	22.310	23.447	24.815
Disposable Personal Income	142.907	148.903	156.722	165.272	173.432

Table II-6 - continued

Inflation Adjusted Income Measures (1996 Dollars)					
Real Personal Income (billions)	147.196	149.836	154.306	159.313	164.174
Percent Change	2.0	1.8	3.0	3.2	3.1
Real Per Capita Income	27,084	27,401	28,047	28,782	29,482
Percent Change	1.4	1.2	2.4	2.6	2.4
Per Capita Income (current $)	30,086	31,071	32,541	34,094	35,601
Percent Change	2.8	3.3	4.7	4.8	4.4

Source: Wisconsin Department of Revenue, Wisconsin Economic Outlook, November 2002

Budget Format

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

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

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

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

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

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

The all-funds budget presented in this Annual Report also includes employee benefits, which under State law are separated from the budget. Because it includes only estimates of federal funds to be received and expended, the all-funds budget may vary during the course of the fiscal year.

Impact of Federal Programs

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

Supplemental Appropriations

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

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

GENERAL FUND INFORMATION

General Fund Cash Flow

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

The State has experienced and expects to continue to experience certain periods when the General Fund is in a negative cash position. The Statutes provide certain administrative remedies to deal with these periods. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. Based on the budget reform bill for the 2001-03 biennium, this amount is approximately $551 million for the 2002-03 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect (approximately $331 million for the 2002-03 fiscal year) for a period of up to 30 days. The Secretary of Administration may set priorities for payments from the General Fund as well as prorate certain payments.

The Statutes provide that all payments shall be in accordance with the following order of preference:

- All direct and indirect payments of principal and interest on State general obligation debt have first priority and may not be prorated or reduced.
- All direct and indirect payments of principal and interest on operating notes have second priority and may not be prorated or reduced.
- All State employee payrolls have third priority and may be prorated or reduced.
- All other payments shall be paid in a priority determined by the Secretary of Administration and may be prorated or reduced.

Table II-7 is presented over two pages and includes the detailed actual cash flow for the 2001-02 fiscal year and the detailed actual cash flow (through November 30, 2002) and projected cash flow (December 1, 2002 to June 30, 2003) for the 2002-03 fiscal year. Table II-8 provides year-to-date receipts and disbursement on a cash basis along with a comparison to both estimates for same period and actual receipts and disbursements for the same period of the previous fiscal year. Table II-9 presents a monthly summary of the General Fund from July 1, 2000 through November 30, 2002 and the projected cash flow for December 1, 2002 through June 30, 2003. The amounts reported include the proceeds of the sale of operating notes in September 2001 and the payment of impoundments for February, March, April, and May of 2002. No operating notes were issued in the 2000-01 fiscal year, and as of this date, no operating notes have been issued in the 2002-03 fiscal year. The tables should be read in conjunction with other information concerning the State budget set forth elsewhere in this part of the Annual Report, including "BUDGETING PROCESS AND FISCAL CONTROLS", "STATE BUDGET", and "STATE OBLIGATIONS; Operating Notes". As noted above, there has been and will continue to be differences in the amounts shown for the cash-flow basis and the budgetary basis presentations. For example, the cash-flow basis presentation in the following tables includes all tax receipts as revenues and tax refunds as

disbursements, while the budgetary basis presentations in Tables II-3 through II-5 include tax revenues that are net of tax refunds.

Monthly projections of cash flow are based upon on fiscal bills enacted into law through the budget reform bill for the 2002-03 fiscal year (2001 Wisconsin Act 109) and upon historical experience as adjusted to reflect economic conditions, statutory, and administrative changes and anticipated payment dates for debt service, payrolls, and State aid. The monthly projections of cash flow also reflect the revenue estimates released on November 20, 2002 by DOR. Unforeseen events or variations from underlying assumptions may cause a decrease in receipts or an increase in disbursements from those projected for a given month and thus may adversely affect the projection of cash flow for the time shown. Additionally, the timing of transactions from month to month may vary from the forecast.

Table II-10 presents the actual cash balances available for interfund borrowings from July 31, 2000 through November 30, 2002 and the projected balances for December 31, 2002 through June 30, 2003.

Tables II-11 and II-12 present recorded revenues deposited into the General Fund and recorded expenditures made from the General Fund, as recorded by State agencies, for the period of July 1, 2002 to November 30, 2002 as compared to the period of July 1, 2001 to November 30, 2001.

Table II-7
ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2001 TO JUNE 30, 2002[a]

(In Thousands of Dollars)

	July 2001	August 2001	September 2001	October 2001	November 2001	December 2001	January 2002	February 2002	March 2002	April 2002	May 2002	June 2002
BALANCES[b]												
Beginning Balance	281,565	3,398	397,659	1,290,819	1,821,610	943,651	383,667	1,104,720	969,120	-231,221	265,687	576,402
Ending Balance	3,398	397,659	1,290,819	1,821,610	943,651	383,667	1,104,720	969,120	-231,221	265,687	576,402	-421,915
Lowest Daily Balance [c]	-162,060	-202,246	-99,652	1,248,678	943,651	-60,419	383,667	883,723	-280,013	-359,784	-4,720	-727,357
RECEIPTS												
TAX RECEIPTS												
Individual Income	507,468	388,372	533,868	508,613	399,103	479,545	740,505	433,688	347,168	855,221	392,265	517,532
Sales & Use	343,973	356,048	342,096	348,297	358,636	323,558	383,293	303,711	260,578	305,548	325,402	326,813
Corporate Income	12,421	16,903	112,886	24,461	10,693	126,388	22,464	12,155	153,340	23,862	15,539	100,395
Public Utility	0	0	518	3,561	131,654	1,357	0	49	19	3,392	127,117	246
Excise	29,231	26,372	28,085	27,504	39,451	27,407	27,457	30,526	25,651	26,687	30,945	29,756
Insurance	999	1,657	19,935	339	887	19,336	2,245	11,471	14,959	25,486	4,329	21,984
Inheritance	6,638	6,162	13,423	5,645	5,568	4,969	7,275	8,310	4,675	10,147	3,781	8,466
Subtotal Tax Receipts	900,730	795,514	1,050,811	918,420	945,992	982,560	1,183,239	799,910	806,390	1,250,343	899,378	1,005,192
NON-TAX RECEIPTS												
Federal	343,646	452,855	365,526	452,845	346,684	378,392	457,577	444,893	390,521	443,150	426,659	479,199
Other & Transfers [d]	331,074	249,196	303,861	260,628	176,794	169,672	373,822	325,284	333,621	376,849	829,134	268,909
Note Proceeds [e]	0	0	800,000	0	0	0	0	0	0	0	0	0
Subtotal Non-Tax Receipts	674,720	702,051	1,469,387	713,473	523,478	548,064	831,399	770,177	724,142	819,999	1,255,793	748,108
TOTAL RECEIPTS	1,575,450	1,497,565	2,520,198	1,631,893	1,469,470	1,530,624	2,014,638	1,570,087	1,530,532	2,070,342	2,155,171	1,753,300
DISBURSEMENTS												
Local Aids	878,438	160,458	663,004	99,188	975,970	1,138,856	208,135	260,487	1,140,896	122,049	250,535	1,729,015
Income Maintenance	363,315	352,214	309,334	372,969	339,757	342,249	335,842	349,016	361,694	359,467	394,422	365,417
Payroll and Related	215,318	300,380	204,832	303,186	421,307	234,716	326,851	296,263	298,780	328,583	441,038	246,924
Tax Refunds	105,487	44,995	46,906	43,602	66,467	138,297	63,460	338,234	309,105	292,892	220,041	150,891
Debt Service	7	12,463	108,775	0	1,882	0	0	12,069	165,264	0	7,814	-5
Miscellaneous [f]	291,052	232,794	294,187	282,157	542,046	236,490	359,297	252,672	250,417	265,335	325,208	259,375
Note Repayment [e]	0	0	0	0	0	0	0	196,946	204,717	205,108	205,398	0
TOTAL DISBURSEMENTS	1,853,617	1,103,304	1,627,038	1,101,102	2,347,429	2,090,608	1,293,585	1,705,687	2,730,873	1,573,434	1,844,456	2,751,617

(a) Excludes interfund borrowing. This table does NOT represent the State's ending budgetary-basis fund balance for FY02. The Annual Fiscal Report (Budgetary Basis) was released by the State on October 15, 2002 and includes the ending budgetary-basis fund balance for FY02. This table also does NOT reflect the budget reform bill (2001 Wisconsin Act 109) that was signed into law by Governor McCallum on July 26, 2002.

(b) The General Fund cash balances presented in this schedule are not based on Generally Accepted Accounting Principles (GAAP). The General Fund includes funds designated for operations and capital purposes of certain proprietary programs of the State's Universities. Receipts and disbursements of such funds for the designated programs and the disbursement of such funds for other purposes are reflected in the cash flow. A use of the designated funds for purposes other than the proprietary programs is, in effect, a borrowing of such funds. Therefore, at any time that the balance in the General Fund is less than the balance of such designated funds, the State is obligated to replenish the designated funds to the extent of the shortfall. Ther designated funds were expected to range from $150 to $300 million during FY02. In addition, the General Fund is the depository for several escrow accounts pursuant to court orders or federal rulings. These funds were expected to average approximately $50 million during FY02.

(c) The Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. Based on the revised general fund condition statement provided by the Legislative Fiscal Bureau in January 2002, this amount was $569 million for FY02. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect ($341 million) for a period of up to 30 days.

(d) Reflects receipt on May 23, 2002 of the $450 million of proceeds from the sale and subsequent securitization of payments due the State from tobacco manufacturers under the Master Settlement Agreement.

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

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

Table II-7 (Continued)
ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2002 TO NOVEMBER 30, 2002
PROJECTED GENERAL FUND CASH FLOW; DECEMBER 1, 2002 TO JUNE 30, 2003[a]

(In Thousands of Dollars)

	July 2002	August 2002	September 2002	October 2002[b]	November 2002	December 2002	January 2003	February 2003	March 2003	April 2003	May 2003	June 2003
BALANCES[c]												
Beginning Balance	-421,915	-616,711	-151,597	312,086	637,718	631,559	217,863	953,370	1,066,073	278,057	649,109	712,728
Ending Balance [d]	-616,711	-151,597	312,086	637,718	631,559	217,863	953,370	1,066,073	278,057	649,109	712,728	-352,610
Lowest Daily Balance [d]	-835,846	-682,211	-292,593	146,623	562,154	-448,731	191,294	753,713	145,187	56,649	317,143	-794,062
RECEIPTS												
TAX RECEIPTS												
Individual Income	515,747	350,778	629,833	469,429	306,427	575,138	837,988	434,715	359,103	849,957	386,628	552,716
Sales & Use	360,882	367,587	361,239	344,735	335,382	293,744	396,173	306,241	279,720	303,107	343,492	335,134
Corporate Income	14,037	12,214	110,295	24,404	14,643	127,201	21,276	10,708	137,597	25,018	15,251	112,166
Public Utility	197	19	211	4,299	145,137	1,139	184	33	195	7,828	122,323	244
Excise	32,420	32,992	32,434	32,234	33,477	30,770	28,466	27,011	25,906	28,599	27,767	30,894
Insurance	1,086	1,897	22,836	784	1,291	21,166	2,259	10,007	17,070	23,219	3,763	22,065
Inheritance	6,834	7,406	14,701	3,871	4,538	8,803	5,760	7,719	6,740	8,637	3,315	5,401
Subtotal Tax Receipts	931,203	772,893	1,171,549	879,756	840,895	1,057,961	1,292,106	796,434	826,331	1,246,365	902,539	1,058,620
NON-TAX RECEIPTS												
Federal	451,110	384,251	473,314	500,946	491,232	387,698	527,548	453,706	407,376	460,810	448,197	477,983
Other & Transfers [e]	318,163	479,857	381,016	225,312	150,199	218,813	354,609	356,014	301,745	303,297	287,193	286,109
Note Proceeds [f]	0	0	0	0	0	0	0	0	0	0	0	0
Subtotal Non-Tax Receipts	769,273	864,108	854,330	726,258	641,431	606,511	882,157	809,720	709,121	764,107	735,390	764,092
TOTAL RECEIPTS	1,700,476	1,637,001	2,025,879	1,606,014	1,482,326	1,664,472	2,174,263	1,606,154	1,535,452	2,010,472	1,637,929	1,822,712
DISBURSEMENTS												
Local Aids [g]	903,055	166,454	704,521	101,549	410,446	1,200,571	217,612	283,242	1,197,945	117,616	247,682	1,807,322
Income Maintenance	357,630	355,727	306,119	359,298	357,037	292,526	384,339	302,172	300,811	377,619	337,044	307,078
Payroll and Related	289,522	317,944	213,252	361,884	396,657	218,927	411,144	298,560	221,408	333,915	435,905	249,021
Tax Refunds	46,735	41,583	44,505	55,983	70,935	130,826	71,906	358,471	357,368	326,305	246,425	221,966
Debt Service	0	1,159	0	120,742	1,281	0	0	2,840	0	255,480	29,399	0
Miscellaneous	298,330	289,020	293,799	280,926	252,129	235,318	353,755	248,166	245,936	228,485	277,855	302,663
Note Repayment [f]	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL DISBURSEMENTS	1,895,272	1,171,887	1,562,196	1,280,382	1,488,485	2,078,168	1,438,756	1,493,451	2,323,468	1,639,420	1,574,310	2,888,050

(a) Projections include assumptions from all fiscal bills enacted into law through 2001 Wisconsin Act 109 but are presented on a cash basis and not a budgetary basis. Projections do not include interfund transfers. Projections also reflect the revised revenue estimates for the 2002-03 fiscal year as released by the Department of Revenue on November 20, 2002.

(b) Receipt and disbursements for October do not include $599 million in intergovernmental transfer moneys that were both received and disbursed from the General Fund on October 2, 2002.

(c) The General Fund cash balances presented in this schedule are not based on Generally Accepted Accounting Principles (GAAP). The General Fund includes funds designated for operations and capital purposes of certain proprietary programs of the State's Universities. Receipts and disbursements of such funds for the designated programs and the disbursement of such funds for other purposes are reflected in the cash flow. A use of the designated funds for purposes other than the proprietary programs is, in effect, a borrowing of such funds. Therefore, at any time that the balance in the General Fund is less than the balance of such designated funds, the State is obligated to replenish the designated funds to the extent of the shortfall. Ther designated funds are expected to range from $150 to $300 million during FY03. In addition, the General Fund is the depository for several escrow accounts pursuant to court orders or federal rulings. These funds are expected to average approximately $50 million during FY03.

(d) The Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. This amount is approximately $551 million for FY03. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect (approximately $331 million) for a period of up to 30 days. If the amount of interfund borrowing available to the general fund is not sufficient, the Secretary of Administration is authorized to prorate and defer certain payments.

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

(f) Does not include any proceeds from the issuance of operating notes and as a result does not include any impoundment payments.

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

Table II-8

GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS YEAR-TO-DATE COMPARED TO ESTIMATES AND PREVIOUS FISCAL YEAR[a]
(Cash Basis)
As of November 30, 2002

	FY02 through November 2001	FY03 through November 2002			
	Actual	Actual	Estimate[b]	Variance	Difference FY02 Actual to FY03 Actual
RECEIPTS					
Tax Receipts					
Ind. Income	2,337,424	2,272,214	2,261,086	11,128	(65,210)
Sales	1,749,050	1,769,825	1,754,121	15,704	20,775
Corp. Income	177,364	175,593	189,777	(14,184)	(1,771)
Public Utility	135,733	149,863	134,000	15,863	14,130
Excise	150,643	163,557	164,071	(514)	12,914
Insurance	23,817	27,894	23,762	4,132	4,077
Inheritance	37,436	37,350	25,642	11,708	(86)
Total Tax Receipts	4,611,467	4,596,296	4,552,459	43,837	(15,171)
Non-Tax Receipts					
Federal	1,961,556	2,300,853	1,925,701	375,152	339,297
Other and Transfers	1,321,553	1,554,547	1,686,931	(132,384)	232,994
Note Proceeds[c]	800,000	-	-	-	(800,000)
Total Non-Tax Receipts	4,083,109	3,855,400	3,612,632	242,768	(227,709)
TOTAL RECEIPTS	8,694,576	8,451,696	8,165,091	286,605	(242,880)
DISBURSEMENTS					
Local Aids	2,777,058	2,286,025	2,338,476	52,451	(491,033)
Income Maintenance	1,737,589	1,735,811	1,655,094	(80,717)	(1,778)
Payroll & Related	1,445,023	1,579,259	1,612,074	32,815	134,236
Tax Refunds	307,457	259,741	282,853	23,112	(47,716)
Debt Service	122,526	123,182	132,002	8,820	656
Miscellaneous	1,642,837	1,414,204	1,310,332	(103,872)	(228,633)
Note Repayment[c]	-	-	-	-	-
TOTAL DISBURSEMENTS	8,032,490	7,398,222	7,330,831	(67,391)	(634,268)
VARIANCE FY03 YEAR-TO-DATE				219,214	

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

(b) Estimates include assumptions from all fiscal bills enacted into law through 2001 Wisconsin Act 109 but are presented on a cash basis and not a budgetary basis.

(c) Operating notes were issued in the 2001-02 fiscal year but, as of the date of this report, have not been issued for the 2002-03 fiscal year.

Table II-9

GENERAL FUND MONTHLY CASH POSITION
July 1, 2000 through November 30, 2002 — Actual
December 1, 2002 through June 30, 2003 — Estimated[a]
(Amounts in Thousands)

	Starting Date	Starting Balance	Receipts[c]	Disbursements[c]
2000	July	$ 671,608	$ 1,405,811	$ 1,674,899
	August	402,520	1,391,600	1,036,240
	September	757,880	1,716,848	1,540,488
	October	934,240	1,545,868	1,039,609
	November	1,440,499	1,451,918	1,886,868
	December	1,005,549	1,335,205	2,070,373
2001	January	270,381	2,143,861	1,190,946
	February	1,223,296	1,494,577	1,339,377
	March	1,378,496	1,381,012	2,312,836
	April	446,672	2,042,531	1,469,093
	May	1,020,110	1,800,948	1,405,982
	June	1,415,076	1,698,317	2,831,828
	July	281,565	1,575,450	1,853,617
	August	3,398	1,497,565	1,103,304
	September	397,659	2,520,198	1,627,038
	October	1,290,819	1,631,893	1,101,102
	November	1,821,610	1,469,470	2,347,429
	December	943,651	1,530,624	2,090,608
2002	January	383,667	2,014,638	1,293,585
	February	1,104,720	1,570,087	1,705,687
	March	969,120	1,530,532	2,730,873
	April	(231,221)	2,070,342	1,573,434
	May	265,687	2,155,171	1,844,456
	June	576,402	1,753,300	2,751,617
	July	(421,915)	1,700,476	1,895,272
	August	(616,711)	[d] 1,637,001	1,171,887
	September	(151,597)	[d] 2,025,879	1,562,196
	October	312,086	1,606,014	1,280,382
	November	637,718	1,482,326	1,488,485
	December	631,559	1,664,472	2,078,168
2003	January	217,863	2,174,263	1,438,756
	February	953,370	1,606,154	1,493,451
	March	1,066,073	1,535,452	2,323,468
	April	278,057	2,010,472	1,639,420
	May	649,109	1,637,929	1,574,310
	June	712,728	[d] 1,822,712	2,888,050

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

[b] The monthly receipt and disbursement projections for November 1, 2002 through June 30, 2003 are based on all fiscal bills through 2001 Wisconsin Act 109. The monthly receipt projections also reflect the revenue estimates for the 2002-03 fiscal year, as released by DOR on November 20, 2002.

[c] The amounts shown in September 2001 include receipts from the issuance of operating notes and amounts shown in February–May 2002 include disbursements for impoundment payments required in connection with the issuance of operating notes. No operating notes were issued in the 2000-01 fiscal year, and as of the date of this Annual Report, no operating notes have been issued for the 2002-03 fiscal year. As a result, the amounts shown for the 2002-03 fiscal year do not include receipts or impoundment payments resulting from the issuance of any operating notes.

[d] The Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative cash position. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. Based on 2001 Wisconsin Act 109, this amount is approximately $551 million for the 2002-03 fiscal year. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect (approximately $331 million for the 2002-03 fiscal year) for a period of up to 30 days. See "TABLE II-10; Cash Balances In Funds Available For Interfund Borrowing".

Source: Wisconsin Department of Administration.

Table II-10
CASH BALANCES IN FUNDS AVAILABLE FOR INTERFUND BORROWING[a]
July 31, 2000 to November 30, 2002 — Actual
December 31, 2002 to June 30, 2003 — Estimated[b]
(Amounts in Millions)

Month (Last Day)	2000	2001	2002	2003
January		$ 4,435	$ 5,360	$ 1,887
February		4,786	5,463	1,976
March		5,213	5,628	2,011
April		4,952	5,135	1,825
May		4,680	4,819	1,809
June		4,925	5,001	1,882
July	$ 4,084	5,275	5,401	
August	3,743	4,785	4,844	
September	3,796	4,897	4,705	
October	3,378	4,328	4,043	
November	3,489	4,242	4,064	
December	3,701	4,737	1,781[b]	

[a] Consists of the following funds:

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

[b] Estimated balances for December 31, 2002 and subsequent months include as an assumption only 20% of the amount estimated to be available for the local government investment pool. The local government investment pool is composed of funds deposited by local units of government that may be withdrawn without notice. Balances in the local government investment pool the past five years have ranged from a low of $2.096 billion on November 14, 1997 to a high of $4.684 billion on March 26, 2002. Under Section 20.002 (11), Wisconsin Statutes, interfund borrowing is limited to 5% of the total general-purpose revenue appropriations then in effect and an additional 3% for a period of up to 30 days. The 5% amount is approximately $551 million and the additional 3% amount for a period of up to 30 days is approximately $331 million for the 2002-03 fiscal year.

Source: Wisconsin Department of Administration.

Table II-11

GENERAL FUND RECORDED REVENUES[a]
(Agency Recorded Basis)
July 1, 2002 to November 31, 2002 compared with previous year

	Annual Fiscal Report Revenues 2001-02FY[b]	Projected Revenues 2002-03 FY[c]	Recorded Revenues July 1, 2001 to November 30, 2001[d]	Recorded Revenues July 1, 2002 to November 30, 2002[d]
Individual Income Taxes	$ 4,979,662,000	$ 5,247,800,000	$ 1,818,813,727	$ 1,738,752,724
General Sales and Use Taxes	3,695,796,000	3,793,400,000	1,258,196,045	1,288,701,360
Corporate Franchise and Income Taxes	503,008,000	509,100,000	127,417,174	111,034,076
Public Utility Taxes	252,237,000	260,300,000	127,210,989	139,056,330
Excise Taxes	348,282,000	354,300,000	120,426,575	129,026,998
Inheritance Taxes	82,635,000	74,000,000	36,841,272	36,348,882
Insurance Company Taxes	96,055,000	97,000,000	20,902,868	25,302,845
Miscellaneous Taxes	62,509,000	65,000,000	37,985,363	46,321,667
SUBTOTAL	10,020,184,000	10,400,900,000	3,547,794,013	3,514,544,882
Federal and Other Inter-governmental Revenues[f]	6,372,653,000	4,860,982,500	1,974,468,565	2,891,664,935
Dedicated and Other Revenues[g]	4,457,237,000	3,515,741,900	1,034,601,331	1,867,725,983
TOTAL	$ 20,850,074,000	$ 18,777,624,400	$ 6,556,863,910	$ 8,273,935,801

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

(b) The amounts are from the Annual Fiscal Report (budgetary basis dated October 15, 2002) for the 2001-02 fiscal year.

(c) Projected revenues are based on all fiscal bills through 2001 Wisconsin Act 109. Projected revenues also reflect revenue estimates for the 2002-03 fiscal year as released by DOR on November 20, 2002.

(d) The amounts shown are the 2001-02 fiscal year revenues as recorded by state agencies.

(e) The amounts shown are the 2002-03 fiscal year revenues as recorded by state agencies.

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

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

Source: Wisconsin Department of Administration.

Table II-12

GENERAL FUND RECORDED EXPENDITURES BY FUNCTION[a]
(Agency Recorded Basis)
July 1, 2002 to November 31, 2002 compared with previous year

	Annual Fiscal Report Expenditures 2001-02 FY[b]	Appropriations 2002–03 FY[c]	Recorded Expenditures July 1, 2001 to November 30, 2001[d]	Recorded Expenditures July 1, 2002 to November 30, 2002[e]
Commerce	$ 212,449,000	$ 229,610,200	$ 91,937,036	$ 95,840,747
Education	8,603,653,000	8,857,403,500	2,403,125,719	2,565,521,310
Environmental Resources	227,949,000	256,362,000	94,785,135	99,390,670
Human Relations & Resources	8,538,786,000	7,546,331,400	3,065,577,280	3,765,637,209
General Executive	614,520,000	640,955,900	243,482,294	257,296,080
Judicial	107,534,000	105,143,800	46,705,883	47,854,949
Legislative	62,114,000	60,590,500	22,978,139	21,879,118
General Appropriations	2,881,603,000	1,387,111,500	1,507,795,823	1,577,313,360
TOTAL	$ 21,248,608,000	$ 19,083,508,800	$ 7,476,387,310	$ 8,430,733,444

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

(b) The amounts are from the Annual Fiscal Report (budgetary basis) dated October 15, 2002 for the 2001-02 fiscal year

(c) Estimated appropriations based on all fiscal bills through 2001 Wisconsin Act 109.

(d) The amounts shown are the 2001-02 fiscal year expenditures as recorded by state agencies.

(e) The amounts shown are the 2002-03 fiscal year expenditures as recorded by state agencies.

Source: Wisconsin Department of Administration.

General Fund History

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

Table II-13

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

	2002	2001	2000	1999	1998
ASSETS					
Cash & Investment Pool Shares	$ (416,191)	$ 288,792	$ 678,331	$ 867,293	$ 446,212
Contingent Fund Advances	3,539	3,514	3,910	4,322	3,981
Investments	445	446	445	445	445
Receivables					
Accounts Receivable	1,069,077	1,028,554	995,286	896,640	811,184
Due from Other Funds	333,205	39,165	22,398	158,398	58,454
Inventory		418	1		
Prepayments	59,690	54,807	59,761	42,338	50,935
TOTAL ASSETS	$ 1,049,765	$ 1,415,696	$ 1,760,132	$ 1,969,436	$ 1,371,211
LIABILITIES					
Accounts Payable	$ 315,491	$ 343,261	$ 282,582	$ 521,609	$ 337,998
Due to Other Funds	66,493	46,898	63,804	282,825	59,090
Tax and Other Deposits	33,900	41,925	39,231	52,979	50,406
Advances from Other Funds					2,000
Deferred Revenue	50,174	38,848	27,600	35,999	27,889
TOTAL LIABILITIES	$ 466,058	$ 470,932	$ 413,217	$ 893,412	$ 477,383
FUND BALANCE					
Reserves					
Encumbrances & GPR Balances	$ 131,945	$ 106,438	$ 136,731	$ 100,700	$ 143,312
Program Revenue Balances	407,293	392,327	635,798	237,576	217,276
Total Reserves	$ 539,238	$ 498,765	$ 772,529	$ 338,276	$ 360,588
Unreserved Balance-Undesignated	44,469	445,999	574,416	737,748	533,240
TOTAL FUND BALANCE	$ 583,707	$ 944,764	$ 1,346,945	$ 1,076,024	$ 893,828
TOTAL LIABILITIES AND FUND BALANCE	$ 1,049,765	$ 1,415,696	$ 1,760,162	$ 1,969,436	$ 1,371,211

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

Source: Wisconsin Department of Administration.

STATE GOVERNMENT ORGANIZATION

The State is located in the Midwest. The State ranks 18th among the states in population and 26th in land area. Wisconsin attained statehood in 1848, its capital is Madison, and its largest city is Milwaukee.

General Organization

Executive Branch

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

- *Lieutenant Governor*. The Governor and Lieutenant Governor are elected on the same ballot. The Lieutenant Governor serves as Acting Governor during the absence or incapacity of the Governor.

- *Attorney General*. The Attorney General heads the Department of Justice, which provides all state agencies with legal advice and counsel.
- *State Treasurer*. The State Treasurer receives and disburses all money of the State Treasury in accordance with law.
- *Secretary of State*. The Secretary of State keeps a record of the official acts of the Legislature and executive agencies.
- *Superintendent of Public Instruction*. The Superintendent of Public Instruction heads the Department of Public Instruction, which supervises the operations of and establishes standards for schools throughout the State.

The executive branch consists of 19 departments (including two headed by other constitutional officers) and 13 independent agencies.

Legislative Branch

The legislative branch consists of the Legislature and its subordinate service agencies. The Legislature is bicameral, composed of the Senate and the Assembly. The 33 members of the Senate serve staggered four-year terms and the 99 members of the Assembly serve identical two-year terms. Both the Senate and the Assembly operate on a committee system. The Legislature's biennial session begins in odd-numbered years on the first Tuesday after the eighth day of January. By a joint resolution, the biennial session is divided into floor periods interspersed with committee work periods. In odd-numbered years, the floor periods generally cover six months, while in even-numbered years the floor periods usually run for shorter periods. The Legislature also meets in special session when so called by the Governor, at which time it may transact only that business for which the special session is called.

Judicial Branch

The judicial branch consists of:

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

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

Description of Services Provided by State Government

The State provides a wide range of services to its residents and to its local government units. These services are organized for both budgetary and financial reporting of the General Fund into eight functional groupings. Each State agency is categorized into one of these functions. There are some agency activities that fit into more than one function. Listed below is a description of each function, an identification of those State agencies within each function, and a brief summary of the responsibilities of each State agency.

Commerce

The State's involvement in the commerce function is in the regulation of conduct of commercial transactions. The objective is to protect the public as consumers of agricultural and manufactured goods

and services and as participants in financial transactions. The State also actively promotes economic development by (1) working with companies seeking to expand or move to the State, and (2) broadening markets for State goods and services. These objectives are met in several ways:

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

Several State agencies participate in the field of commerce:

- *Department of Agriculture, Trade and Consumer Protection* regulates the conditions of the growth and processing of food and fair trade practices in general, including consumer protection.
- *Department of Regulation and Licensing* supervises a variety of examining boards in the various trades and professions.
- *Department of Financial Institutions* regulates securities transactions and supervises banks, credit unions, and savings and loans.
- *Public Service Commission* regulates the rates and services offered by railroads and heat, light, power, and water companies.
- *Department of Commerce* promotes industrial development in the State and coordinates relations between the State and local governments and between the Federal Government and State and local governments.
- *Department of Tourism* promotes the State's many attributes to visitors.

Education

The State views its responsibilities in education to encompass all levels and nearly all types of education and related activities. As a result the State provides significant financial support to primary and secondary schools, technical colleges operated at the local level, assists private higher educational institutions, and operates the University of Wisconsin system.

- *Primary and Secondary Schools.* There are 426 school districts in the State, which administer the elementary and secondary schools within those districts. There were approximately 879,361 students attending public elementary and secondary schools in 2001-02. Elementary and secondary schools are operated by district boards, with supervision of the system provided by the Department of Public Instruction.

- *Technical Colleges.* The State is divided into 16 technical college districts. In the 2001-02 academic year, 451,273 full- and part-time students were enrolled in the technical college system. The technical colleges are operated by district boards, with supervision of the system provided by the Technical College System Board.
- *University of Wisconsin System.* The University of Wisconsin System consists of its doctoral campuses in Madison (the largest campus in the state) and Milwaukee as well as 11 other four-year degree-granting institutions and 13 two-year colleges. The system's total enrollment in 2001-02 was 159,433 students.

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

- *Educational Communications Board*, which operates the State public radio network, the State public television network, and the State educational television network.
- *The State Historical Society,* which maintains the State historical library, museum, and various historical sites.
- *Arts Board,* which encourages and assists artistic and cultural activities within the State.
- *Technology for Educational Achievement in Wisconsin Board (**TEACH Wisconsin**),* which provides support for investment in educational technology and telecommunications access for public school districts, public library boards, cooperative educational service agencies, private schools and colleges, tribal colleges, and technical college districts.

Environmental Resources

Two major State agencies, the Department of Transportation and the Department of Natural Resources, compose this function, which is concerned with the development or protection of the land, forest, water, air, and minerals of the State.

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

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

The State has an elaborate system of highways. It consists of interstate highways financed from federal and State funds and of State highways, county trunk highways, town roads, city and village streets, and park and forest roads. Closely connected with the highway building functions of the State government and the aid granted to local units for streets and highways are the objects for which these roads are built—the motor vehicle and its occupants. While the State is concerned with the building and maintenance of an adequate number of roads of certain standards to meet the traffic demands, it is also very much concerned with the safety and convenience of the people who are using those roads. Nearly 5.0 million vehicles are registered each year.

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

Department of Transportation, which also has charge of the State's aeronautical activities, the administration of funds to assist mass transit, railroad preservation, and intermodal transportation planning.

Human Relations and Resources

Various State agencies have responsibilities to maximize human growth and development, including health, living standards, safety, and working relationships with each other.

Public health covers the prevention and detection of disease, health education programs, assistance in hospital construction, maintenance of institutions for the care and treatment of the mentally handicapped, the setting of standards of cleanliness of public facilities and safety in construction, and the maintenance of public health records.

Improving living standards for needy, aged, handicapped, and minors in need of assistance is also a goal of the State. Such health and welfare activities are primarily the work of the Department of Health and Family Services, including the State's Badger Care program, which provides health insurance coverage for low-income working families, and a prescription drug program for the elderly. The Board of Aging makes recommendations on programs to benefit the aged. The Department of Veterans Affairs operates additional assistance programs for military service veterans.

As a worker, the individual comes in contact with the State in many ways:

- Minimum wages and maximum hours are set by law.
- State worker's compensation provides financial assistance if a worker is injured on the job.
- Unemployment compensation is provided to the worker if the worker's job is lost.
- Employment services are provided by the State (in partnership with the Federal Government) to help a worker find a job or to acquire the skills necessary for employment.
- Investigation of discrimination matters occurs if a worker cannot obtain a job and suspects discrimination based on race, age, gender, creed, or handicap.

The State's agent in protecting and assisting the worker is the Department of Workforce Development. The State also mediates or arbitrates labor disputes between workers and their employers, which is the task of the Employment Relations Commission.

To promote the general welfare of citizens and insure peaceable relations among them, the State seeks to protect citizens from lawless elements in society by maintaining those conditions of stability and order necessary for a well-functioning society. Law enforcement is largely a local matter, but the State's Department of Corrections is responsible for segregating convicted adult and juvenile criminals in its penal institutions and rehabilitating them for eventual return to society. The Department of Justice furnishes legal services to State agencies and provides technical assistance to local law enforcement agencies.

The State also provides an armed military force to protect the populace in times of State or national emergencies, natural or man-made, and to supplement the federal armed forces in time of war. These activities come under the jurisdiction of the Department of Military Affairs.

General Executive

The administrative or staff functions that support the direct services provided to Wisconsin residents and local governments are included in this functional group. While each operating agency may conduct some staff functions, some agencies perform staff functions almost exclusively.

- *Department of Administration* duties include budgeting, accounting, payroll, financial reporting, engineering, and facilities management and planning.
- *Department of Electronic Government* duties include oversight of all State information technology activities and data processing.
- *Department of Employment Relations* supervises State personnel practices.
- *Ethics Board* administers a code of ethics for State public officials.
- *Department of Revenue* collects the taxes imposed by State law, distributes that part of the revenue that is to be returned to the local units of government, and calculates the equalized value of the property that has been assessed by local government.
- *Department of Employee Trust Funds* manages the State's public employee retirement system.
- *Office of the State Treasurer* processes the receipt and disbursement of monies received or expended by the State.
- *Office of the Secretary of State* keeps various state records and affixes the state seal on certain records to authenticate them.
- *Department of Financial Institutions* is responsible for chartering corporations.
- *State Elections Board* oversees the election processes of the State, monitoring campaign expenditures and keeping election records.

Judicial

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

Legislative

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

General Appropriations

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

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

STATE OF WISCONSIN BUILDING COMMISSION

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

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

The Commission is composed of eight members. The Governor serves as the chairperson. Each house of the Legislature appoints three members. One citizen member is appointed by the Governor and serves at

the Governor's pleasure. State law provides for the two major political parties to be represented in the membership from each house, and one member appointed from each house must be a member of the Legislative State Supported Program Study and Advisory Committee. The members act without liability except for misconduct.

The Department of Administration assists the Commission. The Administrator of the Division of Facilities Development, with the concurrence of the Secretary of Administration, serves as the Secretary to the Building Commission. The Secretary of Administration, the head of the engineering function, and the ranking architect in the Department of Administration serve as nonvoting advisory members. Employees of the Division of Executive Budget and Finance serve as the Capital Finance Director and staff responsible for managing the State's various borrowing programs.

The Commission's office is located at the Administration Building, 7th Floor, 101 East Wilson Street, its mailing address is P.O. Box 7866, Madison, Wisconsin 53707-7866, and its telephone number is (608) 266-1855.

STATE OBLIGATIONS

General Obligations

The State, acting through the Commission, may issue general obligation bonds and notes or enter into loans that are secured by the State's full faith, credit, and taxing power. Payments of debt service on State general obligations are paramount to all other obligations of the State. As of December 1, 2002, the State had $4.386 billion of outstanding general obligations.

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

Operating Notes

The Commission may issue operating notes to fund operating expenses upon the request of the Department of Administration if the Department determines that a deficiency will occur in the funds of the State that will not permit the State to pay its operating expenses in a timely manner. The Governor and the Joint Finance Committee of the Legislature must also approve the request for issuance.

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

The State issued $800 million principal amount of operating notes in the 2001-02 fiscal year. As of the date of this Annual Report, no operating notes have been issued in the 2002-03 fiscal year.

Master Lease Program

The State, acting by and through the Department of Administration, has entered into a master lease for the purpose of acquiring property (and in limited situations, prepaid service contracts) for state agencies through installment payments. The State's obligation to make lease payments is subject to annual

appropriation by the Legislature. The full faith and credit of the State are not pledged to the lease payments; the State is not obligated to levy or pledge any tax to pay the lease payments. The State's obligation to make the lease payments does not constitute debt for purposes of the Constitutional debt limit, and there is no limit to the amount of such obligations that the State can incur. Although an effort is made to use the master lease program for all property acquired by the State through nonappropriation leases, it is possible that state agencies may separately incur such obligations. Certificates of participation have been issued that evidence a proportionate interest in certain lease payments to be made by the State. As of December 1, 2002, the principal amount of the State's obligations under the master lease program was approximately $122 million. See Part IV of this Annual Report for additional information on master lease certificates of participation.

State Revenue Obligations

Subchapter II of Chapter 18 of the Wisconsin Statutes authorizes the State, acting through the Commission, to issue revenue obligations. Revenue obligations may be in one of the following forms:

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

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

Revenues pledged to the repayment of revenue obligations are deposited with a trustee for the obligations. Because these revenues are pledged to the owners of revenue obligations, who have a first lien on all such monies, the owners of State general obligations have no claim to the revenues pledged for the repayment of such revenue obligations.

Three such programs have been authorized and are currently outstanding:

- *Transportation revenue bond program.* This program finances a portion of the costs of the State highways and related transportation facilities. The obligations are secured by motor vehicle registration fees. The Commission has issued thirteen series of bonds and one series of commercial paper notes for this program (not including refunding bond issues), which were outstanding in the amount of $1.244 billion as of December 1, 2002. See Part V of this Annual Report for additional information on transportation revenue obligations.
- *Clean water fund program.* This program makes loans to municipalities in the State for the construction or improvement of their water pollution control facilities. The Commission has issued eight series of bonds for this program (not including refunding bond issues), which were outstanding in the amount of $657 million as of December 1, 2002. See Part VI of this Annual Report for additional information on clean water revenue bonds.
- *Petroleum inspection fee revenue bond program.* This program funds claims submitted under the Petroleum Environmental Cleanup Fund Award Program. Obligations issued for this program are secured by petroleum inspection fees. The Commission has issued two series of bonds and two series of extendible municipal commercial paper for this program, which were outstanding in the amount of $329 million as of December 1, 2002. See Part VII of this Annual Report for additional information on petroleum inspection fee revenue obligations.

Independent Authorities

State law creates and grants to three independent special purpose authorities the power to issue bonds and notes. Neither of these entities is a department or agency of the State, and neither can issue bonds or notes that are legal obligations of the State. By law, the Commission serves as financial advisor for two of these independent authorities in the issuance of their debt.

Wisconsin Housing and Economic Development Authority

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

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

- *General programs.* $325 million of borrowing authority, excluding debt issued to refund other debt, of which $92 million were available on November 30, 2002.
- *Housing rehabilitation programs.* $100 million of borrowing authority, of which $100 million were available on November 30, 2002.
- *Single-family home ownership mortgage loan program.* WHEDA has issued $4.683 billion in such bonds as of November 30, 2002. In the one-year period ending November 30, 2002, WHEDA sold three single-family issues totaling $391 million.
- *Residential facilities for the elderly and chronically disabled.* $99 million of borrowing authority, by which it has sold three bond issues totaling $5 million as of November 30, 2002.
- *Economic development and agriculture loans.* $217 million of borrowing authority of which, as of November 30, 2002, it has sold 136 series of bonds for economic development and agriculture totaling $82 million, which are not general obligations of WHEDA, and 56 series of bonds, totaling $92 million, which are general obligations of WHEDA.

WHEDA is directed by a twelve-member board: the Secretary of the Department of Administration, the Secretary of the Department of Commerce, two representatives to the Assembly and two State Senators who are appointed in the same manner as the members of standing committees in their respective houses and equally represent the two major political parties, and six public members serving staggered terms, nominated by the Governor and confirmed by the Senate. Financial reports can be obtained from the Wisconsin Housing and Economic Development Authority, P.O. Box 1728, Madison, WI 53701. The phone number is (608) 266-7884 and the e-mail address is info@wheda.com.

Wisconsin Health and Educational Facilities Authority

The Wisconsin Health and Educational Facilities Authority (**WHEFA**) provides revenue bond financing for hospitals, nursing homes, other health-related organizations, and private, higher educational facilities. It may finance any qualifying capital project and may refinance any qualifying outstanding indebtedness. As of June 30, 2002 WHEFA had outstanding 244 issues totaling approximately $5.0 billion. All bonds are limited obligations of WHEFA, payable only from revenues specified in the documents pertaining to each bond financing and are not State debt. There is no capital reserve fund or authorization for a moral

obligation pledge. An annual program and financial report to the Legislature and the Governor is required. The State Auditor is empowered to investigate WHEFA's financial affairs and prescribe methods of accounting. The governance of WHEFA is by a seven-member, staggered-term board nominated by the Governor and confirmed by the Senate. The Governor annually appoints the chairperson. Financial reports may be obtained from Wisconsin Health and Educational Facilities Authority, 18000 West Sarah Lane, Suite 140, Brookfield, WI 53045-5841. The phone number is (262) 792-0466 and the e-mail address is whefa@execpc.com.

University of Wisconsin Hospital and Clinics Authority

The University of Wisconsin Hospital and Clinics Authority (**UWHC**) operates the University of Wisconsin hospital and a number of clinics. It provides instruction for medical and other health related professions, students, and sponsors. It also supports medical research and assists health care programs and personnel throughout the State. As of November 30, 2002 UWHC had outstanding three issues totaling approximately $175 million.

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

UWHC is directed by a fifteen-member board that consists of the Secretary of the Department of Administration, a faculty member of a University of Wisconsin-Madison (**UW**) health professions school (other than the Medical School) appointed by the UW Chancellor, a chairperson of a department of the Medical School appointed by the UW Chancellor, the dean of the Medical School, the UW Chancellor, three members appointed by the board of regents, the co-chairs of the Legislature's joint committee on finance, three members serving three year terms nominated by the Governor and confirmed by the Senate, and two nonvoting members from labor organizations the represent UWHC employees. Financial reports can be obtained from the University of Wisconsin Hospital and Clinics Authority, Room H4/824, 600 Highland Avenue, Madison, WI 53792-8360. The phone number is (608) 263-8025.

Local Districts

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

- *Exposition center district.* A district is authorized to issue bonds for costs related to an exposition center. If the Secretary of Administration determines that certain conditions are met, the State may have a moral obligation to appropriate moneys to make up deficiencies in the district's reserve funds that secure up to $200 million principal amount of bonds in the event that project revenues and tax revenues received by the district are inadequate to pay debt service on the bonds. To date, one such district has been created (the Wisconsin Center District).
- *Local professional baseball park district.* A district's territory consists of each county with a population of not less than 500,000 and all contiguous counties. A district is authorized to issue bonds for costs related to a baseball park. If the Secretary of Administration determines that certain conditions are met, the State may have a moral obligation to appropriate moneys to make up deficiencies in the district's reserve funds that secure up to $160 million principal amount of bonds in the event the project revenues and tax revenues received by the district are inadequate to pay debt service. To date, one such district has been created (the Southeast Wisconsin Professional Baseball Park District).
- *Local professional football park district.* A district's territory consists of any county with a population of not less than 150,000 that includes the principal site of a stadium that is the home of a professional football team. A district is authorized to issue revenue bonds for costs related to a football park. If the Secretary of Administration determines that certain conditions are met,

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

Moral Obligations

In certain situations where the State does not have a legal obligation to make a payment, the Legislature has recognized a moral obligation to make an appropriation for the payment and has expressed its expectation and aspiration that, if ever called upon to do so, it would. These situations and amount of outstanding obligations that are subject to the State's moral obligation include:

- Payments required to be made by municipalities on loans from the Clean Water Fund, if so designated by the State. Currently no Clean Water Fund loans carry a moral obligation of the State.
- Payments to reserve funds securing certain obligations of WHEDA. Currently there are 9 issues outstanding in the aggregate amount of $463 million that carry a moral obligation of the State.

Name of WHEDA Issue	Maturity Date	Principal Issued	Outstanding Balance
Housing Revenue Bonds			
1992 Series A	11/1/2012	$ 72,450,000	$ 49,670,000
1992 Series B, C & D	11/1/2022	72,945,000	-0-
1993 Series A & B	11/1/2023	77,560,000	52,670,000
1993 Series C	11/1/2019	145,785,000	104,130,000
1995 Series A & B	11/1/2026	51,700,000	40,720,000
1998 Series A, B & C	11/1/2032	39,895,000	36,600,000
1999 Series A & B	11/1/2031	41,400,000	39,055,000
2000 Series A& B	11/1/2032	10,785,000	10,585,000
2002 Series A-1	5/1/2034	169,160,000	169,160,000
Totals		$681,680,000	$462,590,000

- Payments to reserve funds securing certain obligations of different types of local districts, subject to the Secretary of Administration's determination that certain conditions have been met. Currently there is one issue from a local district (Wisconsin Center District) that is outstanding in the amount of $126 million that carries a moral obligation of the State. Two other local districts (the Southeast Wisconsin Professional Baseball Park District and the Green Bay-Brown County Professional Football Stadium District) each have authority to issue $160 million of revenue obligations that, subject to the Secretary of Administration's determination that certain conditions have been met, could carry a moral obligation of the State. Both districts have issued revenue obligations that do not carry the moral obligation of the State.
- Payments to reserve funds securing obligations issued by certain redevelopment authorities, subject to the Secretary of Administration's determination that certain conditions have been met. Currently there is one issue from a redevelopment authority (Redevelopment Authority of the City of Milwaukee-Milwaukee Public Schools Neighborhood Schools Initiative) that is outstanding in the amount of $33 million that carries a moral obligation of the State.

Employee Pension Funds

The State's pension obligations are defined by formulas that establish monthly retirement benefits as a function of annual compensation and years of service. The State's current contributions to meet these pension obligations are established first by a yearly actuarial determination of the value of the retirement

benefits that have accrued to State employees and will have to be paid out in the future. After deducting the fixed contributions of employees, the State then contributes an amount sufficient to meet the remaining value of the obligations. A description of the Wisconsin Retirement System and an identification of the State's obligation follows. This is supplemented with additional statistical material in Tables II-14 through II-20.

The actuarial method used to determine the size of the contributions is known as "Frozen Initial Liability" for prior service liability and "Entry Age Normal" for current contributions. Actuarial assumptions that have been adopted in application of this method are shown in Tables II-21, II-22 and II-23.

The Wisconsin Department of Employe Trust Funds administers the pension programs of both the State and local governments, and the State of Wisconsin Investment Board is responsible for investment of all the funds. Although the State provides pension and investment management staff for its own and local government employees, *the State has no financial obligation for payment of any local government contribution.*

The Wisconsin Retirement System covers all full-time employees of the State. The total retirement contribution consists of a member (employee) contribution and an employer contribution. Member contributions for calendar year 2003 are set at the following rates:

- 5.0% of salary for general employees including teachers
- 2.6% for elected officials, judges, and certain other positions in State government
- 4.0% for protective occupation participants who are also covered by Social Security
- 2.4% for protective occupation participants not covered by Social Security

Employer pick-up of some or all of the member's required contribution is permitted by statute. Currently the entire member contribution of 5% of each State employee's salary is assumed by the State. An additional 0.4% nonrefundable contribution is required from general employees, including teachers.

The employer contribution is actuarially determined each year by an independent actuarial firm. For calendar year 2003 employer contributions have been established at the following rates:

- 7.1% for protective participants with Social Security
- 9.8% for protective participants without Social Security
- 8.1% for elected officials and judges
- 4.0% for general employees

In addition, the State is charged an average of 0.7% of its protective payroll, 1.0% of its elected payroll, and 1.3% of its general payroll to liquidate its portion of the fund's accrued liability by December 31, 2029. The State is also charged 3.9% of its protective payroll for special duty disability coverage.

Monthly benefits upon retirement at normal retirement age (65 for general employees, 62 for elected officials and certain other state positions, and 55 for protective occupation participants) are computed on a formula basis (the formula varies by particular class of participation). Some inactive members and a small number of currently active employees may have benefits computed on some other basis when they apply for benefits.

Contributions into the Wisconsin Retirement System are invested by the State of Wisconsin Investment Board as provided by law, and are maintained in two separate funds: the Fixed Retirement Investment Trust and the Variable Retirement Investment Trust. Investments are recorded pursuant to statutes as follows:

- The assets of the Fixed Retirement Trust are carried by a hybrid method providing for the amortization of capital gains and losses as well as deferred items over a five-year period.
- The Variable Retirement Investment Trust assets are recorded at market value with all market adjustments included in current operations.

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

Table II-14 provides comparative actuarial balance sheets for the most recent reporting periods. As an employer, the State's share of the unfunded accrued liability of the Wisconsin Retirement System stood at $713 million as of December 31, 2001. As of June 30, 2002 the State's share of the unfunded accrued liability of the Wisconsin Retirement System was $707 million.

Table II-14

WISCONSIN RETIREMENT SYSTEM
ACTUARIAL STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2001 (UNAUDITED)
(Amounts in Millions)

	12/31/2001	12/31/2000	Increase (Decrease)
Assets and Employer Obligations:			
Net Assets			
Cash, Investments & Receivables			
Less: Payables & Suspense Items			
Fixed Division	$51,549.8	$43,670.1	$7,879.7
Variable Division	6,279.8	7,988.3	(1,708.5)
Totals	57,829.6	51,658.4	6,171.2
Obligations of Employers			
Unfunded Accrued Liability	2,110.4	2,169.0	(58.6)
TOTAL ASSETS	$59,940.0	$53,827.4	$6,112.6
Reserves and Surplus:			
Reserves			
Actuarial Present Value of Projected Benefits Payable to Terminated Vested Participants and Active Members:			
Member Normal Contributions	$14,117.4	$12,703.6	$1,413.8
Member Additional Contributions	157.9	166.1	(8.2)
Employer Contributions	19,783.2	18,039.7	1,743.5
Total Contributions	$34,058.5	$30,909.4	$3,149.1
Actuarial Present Value of Projected Benefits Payable to Current Retirees And Beneficiaries:			
Fixed Annuities	$21,283.6	$17,794.6	3,489.0
Variable Annuities	4,547.4	4,749.3	(201.9)
TOTAL ANNUITIES	25,831.0	22,543.9	3,287.1
TOTAL RESERVES	$59,889.5	$53,453.3	6,436.2
Surplus			
Fixed Annuity Reserve Surplus	696.1	912.0	(215.9)
Variable Annuity Reserve Surplus	(645.6)	(537.9)	(107.7)
TOTAL SURPLUS	50.5	374.1	(323.6)
TOTAL RESERVES AND SURPLUS	$59,940.0	$53,827.4	$6,112.6

Notes to Wisconsin Retirement System

All eligible State of Wisconsin employees participate in the Wisconsin Retirement system **(System)**, a cost-sharing multiple-employer public employee retirement system **(PERS)**. The payroll for employees covered by the system for the year ended December 31, 2001 was $2.90 billion.

All permanent employees expected to work over 600 hours a year are eligible to participate in the System. Covered employees are required by statute to contribute 5.0% of their salary (2.6% for Executive and Elected Officials, 4.0% for Protective Occupations with Social Security, and 2.4% for Protective Occupations without Social Security), to the plan. Participants are also required to make a non-refundable Benefit Adjustment Contribution to the plan. Employers may make these contributions to the plan on behalf of the employees. Employers are required to contribute the remaining amounts necessary to pay the projected cost of future benefits. The total required contribution for the year ended December 31, 2001 was $306 million, which consisted of $160 million or 5.5% of payroll from the employer and $146 million or 5.0% of payroll from employees.

Employees who retire at or after age 65 (55 for protective occupation employees) are entitled to receive a retirement benefit. The benefit is calculated as 1.6% (2.0% for Executives, Elected Officials, and Protective Occupations with social security and 2.5% for protective occupations without social security) of final average earnings for each year of creditable service after December 31, 1999. Service earned before January 1, 2000 accrue benefits at a rate of 1.765% (2.165% for Executives, Elected Officials, and Protective Occupations with social security and 2.665% for protective occupations without social security). Final Average Earnings is the average of the employee's three highest years' earnings. Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefit. Benefits are fully vested upon entry into the System.

The System also provides death and disability benefits for employees. Eligibility for and the amount of all benefits are determined under Chapter 40 of the State Statutes.

The System utilizes the "Entry Age Normal with Frozen Initial Liability" actuarial method in establishing employer contribution rates. Under this method, the Unfunded Accrued Actuarial Liability is affected only by the monthly amortization payments, compound interest, the added liability created by new employer units, and any added liabilities caused by changes in benefit provisions. All actuarial gains or losses arising from the difference between actual and assumed experience are reflected in the determination of the normal cost. The unfunded accrued actuarial liability is being amortized over a 40-year period beginning January 1, 1990. However, periodically, the Employe Trust Funds Board has reviewed and, when appropriate, adjusted the actuarial assumptions used to determine this liability. Changes in the assumptions affect the unfunded accrued actuarial liability, and the resulting actuarial gains or losses are credited or charged to employer's unfunded liability accounts. The unfunded liability for the State of Wisconsin as of December 31, 2001 was $713 million or 34.3% of the total system unfunded liability of $2.08 billion.

Ten-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's December 31, 2001 Comprehensive Annual Financial Report.

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

Table II-15

WISCONSIN RETIREMENT SYSTEM
FUNDING RATIO
(Amounts in Thousands)

Year	A Net Real Assets	B Unfunded Actuarial Liability	C Reserve Requirement (A+B)	D Funding Ratio (A÷C)
1992	$22,967,100	$1,984,865	$24,951,965	92.1
1993	25,437,200	2,042,926	27,480,126	92.6
1994	26,884,600	2,006,900	28,891,500	93.1
1995	30,059,826	2,055,718	32,115,544	93.6
1996	33,962,600	2,134,400	36,097,000	94.1
1997	38,584,600	2,178,300	40,762,900	94.7
1998	43,390,500	2,226,600	45,617,100	95.1
1999	49,403,700	2,145,800	51,549,500	95.8
2000	51,824,600	2,169,000	53,993,600	96.0
2001	58,024,300	2,110,400	60,134,700	96.5

Source: Wisconsin Department of Employe Trust Funds.

Table II-16

WISCONSIN RETIREMENT SYSTEM
COVERED EMPLOYEES
1992-2001

Year	Active State	Active Local	Retired
1992	62,422	163,340	81,508
1993	63,118	166,242	83,836
1994	64,178	169,488	86,214
1995	63,977	172,297	88,998
1996	63,886	175,749	92,198
1997	64,381	179,531	95,128
1998	65,663	183,074	99,112
1999	66,716	186,582	102,817
2000	68,330	189,710	107,425
2001	70,512	193,371	112,142

Source: Wisconsin Department of Employe Trust Funds.

Table II-17

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

	State		Local		Total	
Year	Employee	Employer	Employee	Employer	Employee	Employer
1992	$5,536	$235,759	$6,797	$584,521	$12,333	$ 820,280
1993	5,789	246,913	5,223	628,321	11,012	875,234
1994	5,921	258,278	5,218	656,714	11,139	914,992
1995	6,410	270,770	4,816	683,840	11,226	954,610
1996	7,582	282,430	5,570	759,765	13,152	1,042,195
1997	6,006	294,834	8,336	761,116	14,342	1,055,950
1998	1,686	298,793	4,015	777,419	5,701	1,076,212
1999	886	294,436	3,564	863,003	4,450	1,157,439
2000	800	305,049	3,543	754,516	4,343	1,059,565
2001	739	283,567	3,467	765,541	4,206	1,049,108

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

Source: Wisconsin Department of Employe Trust Funds.

Table II-18

WISCONSIN RETIREMENT SYSTEM
STATE EMPLOYER CONTRIBUTION RATES[a]

Employee Classification	Current Service	Prior Service	Total
Protective	7.1%	0.6%	7.7%
Elected	8.1	1.0	9.1
General	4.0	1.2	5.2

[a] Effective January 1, 2003

Source: Wisconsin Department of Employe Trust Funds.

Table II-19

WISCONSIN RETIREMENT SYSTEM
REVENUES BY TYPE
(Amounts in Thousands)

	Contributions						
Year	Required Employee	Required Employer[a]	Additional Employee	Investment Income	Supplemental	Misc.	Total
1992	$329,801	$502,812	$ 4,687	$2,080,630	$ 540	$ 0	$ 2,918,470
1993	349,914	536,331	5,516	2,608,684	496	0	3,500,941
1994	364,864	561,265	6,060	1,654,301	444	0	2,586,934
1995	380,993	584,842	8,977	5,903,712	407	113	6,879,044
1996	393,765	661,582	13,199	5,414,556	358	160	6,483,620
1997	410,567	659,725	6,422	7,241,025	216,590	179	8,534,508
1998	520,864	561,049	9,848	7,037,489	7,315	231	8,136,796
1999	505,411	656,478	8,802	9,235,371	6,272	205	10,412,539
2000	511,661	561,052	10,441	(1,032,185)	5,496	184	56,649
2001	496,012	557,303	5,086	(1,990,408)	4,517	211	(927,279)

[a] Employer contributions include amounts required to reduce unfunded accrued liability over a 40–year amortization period beginning in 1990.

Source: Wisconsin Department of Employe Trust Funds.

Table II-20

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

Year	Separations	Death	Annuities	Supplemental[b]	Misc.	Total
1992	$26,041	$10,155	$ 829,546	$ 540	0	$ 866,282
1993	20,462	8,078	915,300	496	$31,362	975,698
1994	23,966	11,339	993,771	444	31,362	1,060,882
1995	30,180	10,812	1,080,227	407	25,593	1,147,219
1996	36,883	15,359	1,254,044	358	24,586	1,331,230
1997	41,039	12,332	1,514,634	216,590	11,108	1,795,703
1998	41,931	13,939	1,624,293	7,315	10,978	1,698,456
1999	35,609	13,858	1,844,479	6,272	12,328	1,912,546
2000	49,814	25,724	2,237,824	5,496	183,350	2,502,208
2001	40,740	22,308	2,467,690	4,517	15,635	2,550,890

[a] Amounts include payments from employee additional contributions.

[b] Supplemental benefits were granted to certain employees by the Legislature in 1974. These benefits are paid out of the State General Fund.

Source: Wisconsin Department of Employe Trust Funds.

ACTUARIAL ASSUMPTIONS

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

Table II-21

WISCONSIN RETIREMENT SYSTEM
SEPARATION BEFORE AGE AND SERVICE RETIREMENT

Select and Ultimate Withdrawal

	% of Active Participants Terminating								
	Protective		Public Schools		University			Others	
Age & Service	With Soc. Sec.	Without Soc. Sec.	Males	Females	Males	Females	Executive &Elected	Males	Females
0	11.7%	4.9%	10.1%	10.0%	18.0%	18.9%	7.5%	17.6%	16.9%
1	6.4	2.5	7.0	7.0	15.0	16.2	7.0	10.6	11.1
2	5.1	2.4	5.3	6.0	13.0	14.9	6.5	7.9	8.7
3	3.6	2.3	3.8	5.4	11.0	12.8	6.0	6.8	7.1
4	3.0	2.2	3.5	4.0	10.0	10.5	5.5	6.0	6.0
5 & over									
25	2.1	1.0	3.5	4.0	10.0	10.5	5.0	6.0	6.0
30	1.7	1.0	2.7	3.5	10.0	10.5	4.8	4.6	5.8
35	1.2	0.7	1.5	2.3	9.0	8.3	4.6	3.1	4.5
40	1.1	0.7	1.2	1.5	5.0	5.3	4.0	2.1	3.2
45	1.1	0.7	1.0	1.2	3.3	3.8	3.2	1.8	2.9
50	1.0	0.7	0.9	1.2	2.0	2.9	2.4	1.5	2.5
55	1.0	0.7	0.9	1.2	1.0	2.0	2.0	1.5	1.8
60	1.0	0.7	0.9	1.2	0.7	2.0	2.0	1.5	0.6

Disability Rates

	% of Active Participants Becoming Disabled							
	Protective		Public Schools		University		Others	
Age	With Soc. Sec.	Without Soc. Sec.	Males	Females	Males	Females	Males	Females
20.....	0.01%	0.04%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
25.....	0.01	0.04	0.01	0.01	0.01	0.01	0.01	0.01
30.....	0.01	0.05	0.01	0.01	0.01	0.01	0.01	0.04
35.....	0.04	0.06	0.01	0.01	0.01	0.05	0.02	0.05
40.....	0.06	0.11	0.02	0.02	0.02	0.08	0.06	0.07
45.....	0.11	0.19	0.05	0.07	0.04	0.07	0.11	0.10
50.....	0.38	0.59	0.14	0.13	0.07	0.13	0.25	0.16
55.....	1.25	0.65	0.26	0.19	0.21	0.20	0.48	0.29
60.....	0.85	0.50	0.43	0.28	0.28	0.30	0.85	0.41

Source: Wisconsin Department of Employe Trust Funds.

Table II-22

WISCONSIN RETIREMENT SYSTEM
RETIREMENT PATTERNS

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

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

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

Table II-23

WISCONSIN RETIREMENT SYSTEM
OTHER ASSUMPTIONS

Mortality Rates

Active & Retired Life Mortality Rates

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

Salary Scale

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

Future Annual Investment Return

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

Source: Wisconsin Department of Employe Trust Funds.

STATE OF WISCONSIN INVESTMENT BOARD

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

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

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

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

- Safety of principal
- Liquidity
- Reasonable rate of return

This fund includes the cash balances from retirement trust funds while they are pending longer-term investment. This fund also acts as the State's cash management fund and provides the State's General Fund with liquidity for operating expenses. The State Investment Fund is strategically managed as a mutual fund and may have a longer average maturity than a money market fund. This strategy is made possible by the mandatory investment of State funds for which the cash flow requirements can be determined significantly in advance. Because of the role played by the State Investment Fund, the cash balances available for investment vary daily as cash is accumulated or withdrawn from various funds.

With regard to investments of the State Investment Fund, State law establishes parameters and the Trustees establish and monitor policies covering:

- Types of assets and the amount that can be acquired
- Delegation of powers to purchase and sell and specific guidelines for various types of investments
- Emergency powers in the event the Trustees cannot meet
- Guidelines pertaining to use of derivatives, financial futures, and related options

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

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

The nine members of the Trustees include:

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

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

As a public agency, SWIB is not registered under the Investment Company Act of 1940, the Investment Advisor Act of 1940, or the Commodity Exchange Act. However, a description of LGIP and State

Investment Fund risk factors, guidelines, and investment objectives may be obtained from the State of Wisconsin Investment Board, P.O. Box 7842, Madison, WI 53707-7842.

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

Table II-24

STATE INVESTMENT FUND
AS OF SEPTEMBER 30, 2002 (UNAUDITED)
Market Versus Amortized Cost Valuation Report

	Amortized Cost	Market Value	Portfolio Percentage at Amortized Cost
U.S. Government Repurchase Agreements	$1,032,000,000	$1,032,000,000	16.4%
U.S. Government Agencies	3,356,073,993	3,358,145,141	53.3
U.S. Government Treasuries	140,969,552	158,384,800	2.2
Corporate Commercial Paper	1,235,683,432	1,235,650,349	19.6
Certificates of Deposit	500,000,000	500,000,000	8.0
Asset-Backed Securities	893,363	896,148	0.0
Mortgage-Backed Securities	1,793,931	1,793,931	0.0
Yankee/Euro Fully Hedged	25,000,000	25,000,000	0.4
Swaps	0	(29,291,896)	0.0
	$6,292,414,271	$6,282,578,473	100.0%

Accrued Gross Income: $6,587,903.80

Average Maturity for the Last Six Months

Reporting Date	Average Maturity (Days)	Reporting Date	Average Maturity (Days)
9/30/2002	70	6/30/2002	46
8/31/2002	56	5/31/2002	47
7/31/2002	37	4/30/2002	57

Summary of Investment Fund Participants
As of September 30, 2002

	Par Amount (Amounts in Thousands)	Percent of Portfolio
Mandatory Participants		
State of Wisconsin and Agencies	$ 1,883,598	31.2%
State of Wisconsin Investment Board	497,347	8.3
Elective Participants		
Local Government Investment Pool	3,650,548	60.5
	$ 6,031,493	100.0%

NOTE: The difference between the total of participants share ($6,031,493,000) and the amortized cost ($6,292,414,271) is the result of check float (checks written and posted at the Department of Administration that have not cleared the bank) and a timing delay by the department in posting bank receipts which have already been invested by SWIB.

Source: State of Wisconsin Investment Board

STATISTICAL INFORMATION

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

Table II-25
STATE ASSESSMENT
(EQUALIZED VALUE)
OF TAXABLE PROPERTY
1993 TO 2002

Calendar Year	Value of Taxable Property	Rate of Increase (Decrease)
1993	$171,677,163,530	—
1994	184,994,866,100	7.8%
1995	201,538,109,000	8.9
1996	216,943,757,600	7.6
1997	233,074,233,400	7.4
1998	248,994,915,200	6.8
1999	266,567,513,500	7.1
2000	286,321,491,800	7.4
2001	312,483,706,600	9.1
2002	335,326,478,700	7.3

Source: Wisconsin Department of Revenue.

Table II-26
DELINQUENCY RATE:
INCOME, FRANCHISE, GIFT, SALES AND USE TAXES
1997-98 TO 2001-02

Fiscal Year	Total Revenues Expected (Amounts in Thousands)	Delinquent Balance (Amounts in Thousands)	Delinquent Balance as a Percent of Total Revenues Expected
1997-98	$ 8,767,838	$549,488	6.27%
1998-99	9,011,610	478,883	5.31
1999-2000	10,144,899	515,487	5.08
2000-01	9,327,051	538,914	5.78
2001-02	9,255,488	615,933	6.65

Source: Wisconsin Department of Revenue.

Table II-27
POPULATION TREND

	Wisconsin Total (Amounts in Thousands)	Rank	% Change Wisconsin	% Change U.S.	Population Per Sq. Mile Wisconsin	Population Per Sq. Mile U.S.
1910	2,334	13	12.8	21.0	42.2	26.0
1920	2,632	13	12.8	15.0	47.6	29.9
1930	2,939	13	11.7	16.2	53.7	34.7
1940	3,138	13	6.8	7.3	57.3	37.2
1950	3,435	14	9.5	14.5	62.8	42.6
1960	3,952	15	15.1	18.5	72.6	50.6
1970	4,418	16	11.8	13.3	81.1	57.5
1980	4,706	16	6.5	11.4	86.5	64.0
1990	4,892	16	4.0	9.8	90.1	70.3
2000	5,364	18	9.6	13.2	98.8	79.6
2001	5,402	18	0.7	1.2	99.5	80.5

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

Table II-28
POPULATION CHARACTERISTICS
(April 2000)

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

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

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

[(a)] Population age 18-64 years of age divided by population less than 18 years of age and population 65 years of age and older.

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

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

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

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

Table II-30
ESTIMATED PERSONAL INCOME

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

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

Table II-31
MEDIAN INCOME FOR FOUR-PERSON FAMILY

Year	Wisconsin	U.S.	Percentage Wis. to U.S.
1991	$42,746	$43,056	99.3%
1992	44,219	44,251	99.9
1993	46,363	45,161	102.7
1994	48,982	47,012	104.2
1995	50,628	49,687	101.9
1996	52,986	51,518	102.8
1997	57,270	53,350	107.3
1998	58,000	56,061	103.5
1999	63,436	59,981	105.8
2000	66,725	62,228	107.2

Source: Prepared by U.S. Bureau of the Census for Low Income Home Energy Assistance Program of the U.S. Department of Health and Human Services; World Wide Web Site.

Table II-32
DISTRIBUTION OF EARNINGS BY INDUSTRY

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

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

Table II-33
ESTIMATED EMPLOYEES IN WISCONSIN ON NONAGRICULTURAL PAYROLLS[(a)]
2001 ANNUAL AVERAGE

	Wisconsin		U.S.	
	(Amounts in Thousands)	%	(Amounts in Thousands)	%
Mining	2.8	0.1	565	0.4
Contract Construction	122.6	4.3	6,685	5.1
Manufacturing	587.7	20.8	17,695	13.4
Transportation & Public Utilities	133.6	4.7	7,065	5.4
Wholesale Trade	137.5	4.9	6,776	5.1
Retail Trade	502.9	17.8	23,522	17.8
Finance, Insurance & Real Estate	150.1	5.3	7,712	5.8
Miscellaneous Services	774.7	27.4	40,970	31.1
Government	413.8	14.6	20,933	15.9
Total	2,825.7	100.0	131,922	100.0

[(a)] Not seasonally adjusted.

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

Source: Wisconsin Department of Workforce Development

Table II-34
GENERAL STATISTICS OF MANUFACTURING[a]

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

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

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

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

	Wisconsin			United States		
	1980	2001	% Change	1980	1999	% Change
Weekly Earnings	$323.10	$620.80	92.1	$288.62	$603.58	109.1
Weekly Hours	40.2	40.7	1.2	39.7	40.7	2.5
Hourly Earnings	$ 8.03	$ 15.25	89.9	$ 7.27	$ 14.83	104.0
Number of All Manufacturer Workers (Amounts in thousands)	558	588	10.3	20,285	17,695	(12.8)

Source: Wisconsin Department of Workforce Development.

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

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

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

Table II-37
UNEMPLOYMENT RATE COMPARISON[a]
BY MONTH 1997 to 2002
BY QUARTER 1993 to 1996

	2002		2001		2000		1999		1998		1997	
	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.	Wis.	U.S.
January	5.8	6.3	4.8	4.7	4.0	4.5	4.0	4.8	3.9	5.2	4.5	5.9
February	6.7	6.1	5.3	4.6	4.3	4.4	4.0	4.7	4.0	5.0	4.6	5.7
March	6.5	6.1	5.3	4.6	4.3	4.3	3.7	4.4	3.9	5.0	4.4	5.5
April	5.7	5.7	4.8	4.2	3.8	3.7	3.1	4.1	3.1	4.1	4.1	4.8
May	4.5	5.5	4.2	4.1	3.5	3.9	2.8	4.0	2.9	4.2	3.5	4.7
June	5.1	6.0	4.8	4.7	4.0	4.2	3.0	4.5	3.5	4.7	4.0	5.2
July	4.7	6.0	4.6	4.7	3.7	4.2	2.9	4.5	3.6	4.7	3.7	5.0
August	4.8	5.7	4.1	4.9	3.3	4.1	2.6	4.2	3.1	4.5	3.3	4.8
September	4.3	5.4	3.8	4.7	2.9	3.8	2.3	4.1	3.0	4.4	3.1	4.7
October	4.1	5.3	4.1	5.0	2.7	3.6	2.5	3.8	3.1	4.2	2.9	4.4
November			4.4	5.3	2.9	3.8	2.8	3.8	3.2	4.1	3.0	4.3
December			4.4	5.4	3.0	3.7	2.8	3.7	3.1	4.0	3.0	4.4
Annual Average			4.6	4.8	3.5	4.0	3.0	4.2	3.4	4.5	3.7	4.9

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

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

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

1993 Quarters	Wis.	U.S.
I	5.3	7.6
II	5.0	6.9
III	4.4	6.6
IV	4.3	6.1
Annual Average	4.7	6.8

[a] Figures show the percentage of labor force that is unemployed and are *not seasonally adjusted*.

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

APPENDIX A

GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS

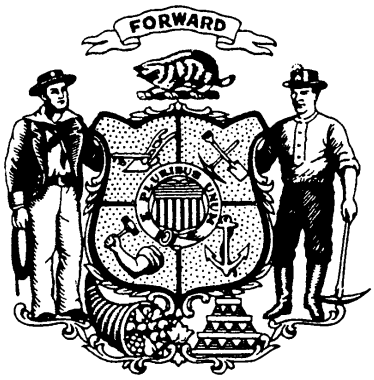
The following material is a reprint of the "General Purpose External Financial Statements" section of the audited CAFR for the fiscal year ended June 30, 2002. The entire CAFR is available from the State Controller's Office, Department of Administration, P.O. Box 7864, Madison, WI 53707-7864. The entire CAFR is also available on the internet at:

www.doa.state.wi.us/capitalfinance/secondmarket.asp

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

WISCONSIN

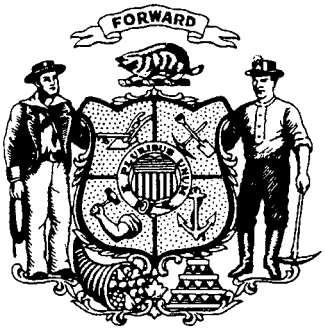
GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS



For the fiscal year ended June 30, 2002

STATE OF
WISCONSIN

GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS



For the fiscal year ended June 30, 2002

Scott McCallum, Governor

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

Prepared by the State Controller's Office DOA-6082AP (R12/02)

General Purpose External Financial Statements
For the Fiscal Year Ended June 30, 2002

Table of Contents

	Page
Letter of Transmittal	1
Auditor's Report	2
General Purpose External Financial Statements:	
Management's Discussion and Analysis	5
Basic Financial Statements:	
Statement of Net Assets	17
Statement of Activities	18
Balance Sheet - Governmental Funds	20
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	22
Balance Sheet - Proprietary Funds	24
Statement of Revenues, Expenses and Changes in Fund Equity - Proprietary Funds	26
Statement of Cash Flows - Proprietary Funds	28
Statement of Fiduciary Net Assets	32
Statement of Changes in Fiduciary Net Assets	33
Notes to the Financial Statements Index	34
Notes to the Financial Statements	36
Required Supplementary Information:	
Infrastructure Assets Reported Using the Modified Approach	111
Budgetary Comparison Schedule	112
Notes to Required Supplementary Information	115

SCOTT McCALLUM
GOVERNOR

GEORGE LIGHTBOURN
SECRETARY

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

December 13, 2002

The Honorable Scott McCallum
The Honorable Members of the Legislature
Citizens of the State of Wisconsin

We are pleased to submit the General Purpose External Financial Statements of the State of Wisconsin for the fiscal year ended June 30, 2002.

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

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

Sincerely,

George Lightbourn
Secretary

William J. Raftery, CPA
State Controller

State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

JANICE MUELLER
STATE AUDITOR

22 E. MIFFLIN ST., STE. 500
MADISON, WISCONSIN 53703
(608) 266-2818
FAX (608) 267-0410
Leg.Audit.Info@legis.state.wi.us

INDEPENDENT AUDITOR'S REPORT

Honorable Members of the Legislature The Honorable Scott McCallum, Governor

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the State of Wisconsin as of and for the year ended June 30, 2002, which collectively constitute the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Wisconsin's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the following financial statements: the Wisconsin Department of Transportation Revenue Bond Program and Commercial Paper Program, which represent 11 percent of the liabilities of the governmental activities and 4 percent of the revenues of the aggregate remaining fund information; the Environmental Improvement Fund, which is a major fund and represents 16 percent of the assets and 19 percent of the liabilities of the business-type activities; or the College Savings Program Trust, which represents 3 percent of the revenues of the aggregate remaining fund information. In addition, we did not audit the financial statements of the Wisconsin Housing and Economic Development Authority, the Wisconsin Health Care Liability Insurance Plan, the Badger Tobacco Asset Securitization Corporation, 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 opinions, insofar as they relate to the amounts audited by others, are based solely 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. The financial statements of the Wisconsin Housing and Economic Development Authority, which were audited by other auditors, were also audited in accordance with these standards. The financial statements of the other funds and component units that were audited by other auditors were audited in accordance with auditing standards generally accepted in the United States, but not in accordance with *Government Auditing Standards*. The auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements previously referred to present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Wisconsin as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 21 to the financial statements, the State implemented the following Governmental Accounting Standards Board statements for fiscal year 2001-02: Statement Number 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*; Statement Number 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*; Statement Number 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*; and Statement Number 38, *Certain Financial Statement Note Disclosures*. As required by these new standards, the State of Wisconsin presents both government-wide financial statements and fund-level financial statements.

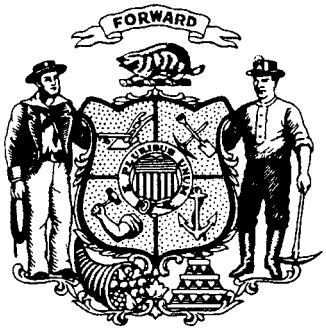
The management discussion and analysis, infrastructure narrative, and budgetary comparison schedule with related notes as listed in the table of contents are not a required part of the basic financial statements of the State of Wisconsin but are supplementary information required by the Governmental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

In accordance with *Government Auditing Standards*, we have prepared a report dated December 13, 2002, on our consideration of the State of Wisconsin's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. A more detailed version of that report will be included in the State's single audit report. The report on internal control and compliance is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this independent auditor's report in considering the results of our audit.

LEGISLATIVE AUDIT BUREAU

December 13, 2002 by Janice Mueller

Janice Mueller
State Auditor


FORWARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

The *Management's Discussion and Analysis* of the State of Wisconsin's Comprehensive Annual Financial Report (CAFR) presents a discussion and analysis of the State's financial performance during the fiscal year that ended June 30, 2002. It should be read in conjunction with the transmittal letter located at the front of this CAFR, and the State's financial statements, which follow this part of the CAFR.

Fiscal Year 2002 represents the first year in which the State is required to implement the provisions of Governmental Accounting Standard Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*. Therefore, this discussion and analysis provides few comparisons with the previous year. Future reports are required to include extensive comparisons.

FINANCIAL HIGHLIGHTS -- PRIMARY GOVERNMENT

Government-wide

- *Net Assets.* The assets of the State of Wisconsin exceeded its liabilities at the close of Fiscal Year 2002 by $13.8 billion (reported as "net assets"). Of this amount, $(3.1) billion was reported as "unrestricted net assets". A positive balance in unrestricted net assets would represent the amount available to be used to meet a government's ongoing obligations to citizens and creditors.
- *Changes in Net Assets.* The State's total net assets increased by $.5 billion in Fiscal Year 2002. Net assets of governmental activities increased by $671.8 million or 9.6 percent, while net assets of the business-type activities showed a decrease of $183.4 million or 2.9 percent.
- *Expenses in Excess of Revenues -- Governmental Activities.* During the year, the State's total expenses for governmental activities were $6.3 billion more than the $12.4 billion generated in taxes and other general revenues for governmental programs (before special items and transfers).

Fund

- *Governmental Funds -- Fund Balances.* As of the close of Fiscal Year 2002, the State's governmental funds reported combined ending fund balances of $(397.1) million, an increase of $501.3 million in comparison with the prior year. Of this total amount, $ (1.8) billion represents the "unreserved fund balances".
- *General Fund -- Fund Balance*. At the end of the current fiscal year, the unreserved fund balance for the General Fund was $(1.9) billion, or (11.8) percent of total General Fund expenditures.

Long-term Debt

- The State's total long-term debt obligations (bonds and notes payable) increased by $458.6 million during the current fiscal year which represents the net difference between new issuances, and payments and refundings of outstanding debt. The key factors contributing to this increase was the issuance during the fiscal year of $824.5 million of general obligation bonds and $580.8 million of revenue bond obligations. Additional detail regarding these activities begins on Page 25.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

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

Government-wide Financial Statements

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

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

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

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

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

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

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

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

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

Fund Financial Statements

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

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

- *Governmental Funds* – Most of the basic services provided by the State are financed through governmental funds. Governmental funds report information using the flow of current financial resources measurement focus and the modified

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

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

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

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

Table 1
Major Features of State of Wisconsin's Government-wide and Fund Financial Statements

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

Additional Required Supplementary Information

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

Other Supplementary Information

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

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

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

Net Assets

As presented in Table 2, total assets of the State on June 30, 2002 were $27.6 billion, while total liabilities were $13.8 billion, resulting in combined net assets (government and business-type activities) of $13.8 billion. The largest component of the State's total assets, $13.3 billion or approximately 96.4 percent, reflects its investment in capital assets (i.e., land, buildings, equipment, infrastructure, and others), less any related debt outstanding that was needed to acquire or construct the assets. Approximately $3.6 billion were restricted by external sources or the State Constitution, and were not available to finance the day-to-day operations of the State.

The unrestricted net assets, which, if positive, could be used at the State's discretion, showed a negative balance of $(3.1) billion. Therefore, no funds were available for discretionary purposes. A contributing factor to the negative balance is that governments recognize a liability on the government-wide statement of net assets as soon as an obligation is incurred. While financing focuses on when a liability will be paid, accounting is primarily concerned with when a liability is incurred. Accordingly, the State recognizes long-term liabilities (such as general obligation debt, compensated absences, employer pension related debt, and future benefits and loss liabilities – listed In Note 10 to the financial statements) on the statement of net assets. In addition to the effect of reporting long-term liabilities when incurred, the General Fund's total deficit fund balance of (1.5) billion at year-end, as discussed on Page 23, also contributed to the deficit unrestricted net assets reported in the statement of net assets.

Table 2
Net Assets
As of June 30, 2002
(in millions)

	Governmental Activities	Business-type Activities	Total Primary Government
Current and Other Assets	$ 5,188.7	$ 6,636.8	$ 11,825.6
Capital Assets	12,797.9	2,951.7	15,749.5
Total Assets	17,986.6	9,588.5	27,575.1
Long-term Debt Outstanding	4,750.1	2,594.6	7,344.7
Other Liabilities	5,584.2	844.6	6,428.8
Total Liabilities	10,334.3	3,439.2	13,773.5
Net Assets:			
Invested in Capital Assets Net of Related Debt	10,684.3	2,626.9	13,311.2
Restricted	551.0	3,038.8	3,589.8
Unrestricted (deficit)	(3,583.0)	483.5	(3,099.5)
Total Net Assets	$ 7,652.3	$ 6,149.3	$ 13,801.6

The State's general obligation bond indebtedness increased by $824.5 million for Fiscal Year 2002. These bonds were issued primarily for the acquisition or improvement of land, water, property, highways, buildings, equipment or facilities for public purposes, to fund a portion of outstanding general obligation commercial paper notes and extendible municipal commercial paper, and to fund veterans housing loans. Outstanding revenue bonds, which are not considered debt of the State, were $1.8 billion at June 30, 2002.

Changes in Net Assets

The revenues and expenses information, as shown in Table 3, was derived from the government-wide statement of activities and reflects how the State's net assets changed during the fiscal year. The State earned program revenues of $11.2 billion and general revenues of $12.4 billion for total revenues of $23.6 billion during Fiscal Year 2002. Expenses for the State during Fiscal Year 2002 were $24.4 billion. As a result of the excess of revenues over expenses, the total net assets of the State increased $.5 billion, net of contributions, transfers, and special items. (In Fiscal Year 2002, the sale of the rights to the tobacco settlement revenues was reported as a special item.)

Table 3
Changes in Net Assets
For Fiscal Year Ended June 30, 2002
(in millions)

	Governmental Activities	Business-type Activities	Total Primary Government
Program Revenues:			
Charges for Services	$ 1,098.1	$ 4,102.8	$ 5,201.0
Operating Grants and Contributions	4,933.8	297.1	5,230.9
Capital Grants and Contributions	669.1	61.8	730.9
General Revenues:			
Income Taxes	5,415.3	-	5,415.3
Sales and Use Taxes	4,048.7	-	4,048.7
Public Utility Taxes	244.0	-	244.0
Motor Fuel Taxes	892.2	-	892.2
Other Taxes	443.4	-	443.4
Other General Revenues	1,368.8	10.7	1,379.5
Total Revenues	19,113.5	4,472.4	23,585.9
Program Expenses:			
Commerce	194.9	-	194.9
Education	5,440.4	-	5,440.4
Transportation	1,714.2	-	1,714.2
Environmental Resources	532.0	-	532.0
Human Relations and Resources	7,997.4	-	7,997.4
General Executive	416.3	-	416.3
Judicial	107.0	-	107.0
Legislative	59.9	-	59.9
Tax Relief and Other General Expenses	1,916.6	-	1,916.6
Interest on Long-term Debt	297.6	-	297.6
Patients Compensation	-	72.9	72.9
Environmental Improvement	-	42.5	42.5
Veterans Mortgage Loan Repayment	-	53.9	53.9
University of Wisconsin System	-	2,935.2	2,935.2
Unemployment Insurance Reserve	-	1,071.8	1,071.8
Lottery	-	407.5	407.5
Health Insurance	-	655.8	655.8
Other Business-type	-	482.0	482.0
Total Expenses	18,676.3	5,721.6	24,397.9
Excess (deficiency) Before Special Items and Transfers	437.2	(1,249.3)	(812.0)
Contributions to Permanent Funds/Endowments	19.0	6.5	25.5
Transfers	(1,059.4)	1,059.4	-
Special Items	1,275.0	-	1,275.0
Increase (decrease) in Net Assets	671.8	(183.4)	488.4
Net Assets - Beginning Restated	6,980.5	6,332.7	13,313.2
Net Assets - Ending	$ 7,652.3	$ 6,149.3	$ 13,801.6

Governmental Activities

Total revenues for the governmental activities in Fiscal Year 2002 are $19.1 billion. The governmental activities program revenue is $6.7 billion, including $1.1 billion of charges for services. General revenues of the governmental activities is $12.4 billion, of which the largest components are individual and corporate income taxes of $5.4 billion and sales and use taxes of $4.0 billion. Motor fuel taxes contributed $.9 billion of general revenues while other taxes $.4 billion. Revenue from all tax types represents 57.8 percent of total governmental revenues earned during fiscal year 2002.

Governmental activities expenses were $18.7 billion, resulting in a net cost of governmental services of $12.0 billion. Education (excluding the University of Wisconsin System) represents 40.6 percent, human relations and resources accounts for 32.2 percent, and tax relief and other general expenses represents 15.5 percent of the total $12.0 billion of net cost of governmental services.

Table 4 presents the net cost of governmental activities. The net costs represent the difference between program revenues and expenses.

Table 4
Net Cost of Governmental Activities
For the Fiscal Year Ended June 30, 2002
(in millions)

	Net Cost of Services
Commerce	$ 17.1
Education	4,860.0
Transportation	532.3
Environmental Resources	301.2
Human Relations and Resources	3,851.5
General Executive	131.5
Judicial	65.1
Legislative	58.8
Tax Relief and Other General Expenses	1,862.0
Interest on Long-term Debt	295.6
Totals	$ 11,975.2

Business-Type Activities

Revenues of business-type activities totaled $4.5 billion for Fiscal Year 2002. These activities generated program revenues of $4.5 billion and general revenues of $.01 billion. The program revenues consisted of $4.1 billion of charges for services and $.3 billion of operating grants and contributions and .1 billion of capital grants and contributions. General revenues consisted solely of $.01 billion of other general revenues. The total expenses for business-type activities were $5.7 billion.

FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

Governmental Funds

At the end of Fiscal Year 2002, the State's governmental funds reported a combined fund balance of $(397.1) million. Funds with significant changes in fund balance are discussed below:

General Fund

The General Fund is the chief operating fund of the State. At the end of the Fiscal Year 2002, the State's General Fund reported $(1,484.3) million in its total fund balance. The total fund balance decreased $198.8 million from the previous year. A major factor contributing to this decrease was a reduction in individual income tax revenues from Fiscal Year 2001 to 2002, attributable to the general economic slowdown and income tax cuts. Other contributing factors include an increase in expenditures that relate to the general equalization assistance to the State's 426 school districts and an increase in expenditures to the state and federally funded Medical Assistance program for medical services to certain categories of low income persons.

At the end of the Fiscal Year 2002, the General Fund reported $(1,877.3) million in its "Unreserved" Fund Balance. This compares to a General Fund Unreserved Fund Balance of $(1,588.9) million as of June 30, 2001. An unreserved fund balance represents the excess of the assets of the General Fund over its liabilities and reserved fund balance accounts. Reservations of fund balances of governmental funds represent amounts that are not available for appropriation. Examples of fund balance reservations reported in the General Fund include reserves for encumbrances, inventories and prepaid items.

In order to provide additional revenues to balance the Fiscal Year 2002 budget, the State diverted $992.4 million in Fiscal Year 2002 from the Tobacco Settlement Endowment Fund, the balance in which had been created from the sale of a portion of the State's right to the Attorneys General Master Settlement Agreement of 1998 (discussed in Note 1-B to the financial statements). The remaining fund balance of Tobacco Settlement Endowment Fund of $283.8 million as of June 30, 2002 was depleted as of November 18, 2002.

Under an interpretation of federal law, the State has been able to be reimbursed with additional federal funds ($331.0 million in Fiscal Year 2002) for medical assistance programs. However, it is not certain that this revenue source will be available in future years.

As mentioned above, due to the economic slowdown, the State of Wisconsin, similar to other states, has and continues to experience a reduction in the growth of tax revenues. As a result, the state may be required to make significant changes in future budgets, which may reduce expenditures to recognize revenue shortfalls or examine alternative funding strategies.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were significant (a $2.7 billion increase in appropriations). This was due primarily to the fact that several of the State's largest programs (including Custody Accounts, Food Stamps and the majority of Interagency Aids – see *, below) are not included in the original budget. In addition, numerous adjustments to spending estimates were needed as the year progressed because of changing circumstances (spending needs can change dramatically over a one-year period). The largest variances incurred in the following programs (in millions):

Program	Variance
• UW System Principal Repayment and Interest	$ (50.1)
• UW System Academic Student Fees	64.4
• Medical Assistance Waiver Benefits	(55.5)
• Department of Health and Family Services Interagency Aids	970.7 *
• Federal Aid, Medical Assistance	115.5
• Department of Workforce Development Interagency and Intra-agency Aids	61.0 *
• Food Stamps	185.7 *
• Custody Accounts	969.9 *

Actual charges to appropriations (expenditures) were $1.3 billion below the final budgeted estimates. The most significant positive variances occurred in UW System Federal Aid – Special Projects ($56.9 million), Department of Health and Family Services Federal Aid, Medical Assistance ($80.4 million), and Economic Support – Aids to Individuals ($52.5 million).

During the past fiscal year the budgetary-based fund balance decreased for the General Fund, primarily due to a planned spend down of the General Fund surplus and a shortfall in tax revenues of $189.5 million. This shortfall in tax receipts was indicative of the general downturn in economic conditions nation-wide.

Tobacco Settlement Endowment Fund

The Tobacco Settlement Endowment Fund accounts for all of the proceeds from the sale of the State's right to receive payments under the Attorneys General Master Tobacco Settlement of 1998 and all investment earnings on the proceeds. The revenues of this fund generated by the proceeds totaled $1,275.0 million for Fiscal Year 2002. A transfer out of the Tobacco Settlement Endowment Fund to the General Fund, totaling $992.4 million in Fiscal Year 2002, represents the Tobacco Settlement Endowment Fund portion to be applied to the municipal and county shared revenue program payment, as well as other General Fund programs.

Proprietary Funds

The State's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail. Significant changes to revenues or expenses of proprietary funds from Fiscal Year 2001 to Fiscal Year 2002 include the following:

- Due to the increasing unemployment in the State, the Unemployment Insurance Reserve benefit expenses increased from $698.1 million in Fiscal Year 2001 to $1,071.7 million in Fiscal Year 2002.

- In Fiscal Year 2002, the Health Insurance Fund's revenues increased to $671.5 million and expenses increased to $655.8 million, reflecting a $112.5 million and $94.3 million increase, respectively, due to the rising cost of health insurance premiums paid to health insurance providers.

Fiduciary Funds

At June 30, 2002, assets held in trust for pension and other employee benefits totaled $56.0 billion, which represents a $5.3 billion reduction (8.6 percent) from June 30, 2001. This change reflects a decline in investments of the pension and other employee benefit trusts of $5.4 billion or 9.1 percent from the previous year. This decline results primarily from the net depreciation in the fair value of investments.

ENTITY-WIDE CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the close of Fiscal Year 2002, the State had $15.7 billion invested in capital assets, net of accumulated depreciation of $2.5 billion. This represents an increase of $811.6 million, or 5.4 percent, from Fiscal Year 2001. Depreciation charges totaled $90.0 million and $122.5 million for governmental and business-type activities, respectively, in Fiscal Year 2002. The details of these assets are presented in Table 5, below. Additional information about the State's capital assets is presented in Note 7 to the financial statements.

Table 5
Capital Assets, Net of Depreciation, as of June 30, 2002
(in millions)

	Governmental Activities	Business Type Activities	Total
Land	$ 1,149	$ 109	$ 1,258
Buildings and Improvements	1,203	1,673	2,876
Machinery and Equipment	286	1,160	1,446
Infrastructure	9,206		9,206
Construction in Progress	955	10	965
Totals	$ 12,798	$ 2,952	$ 15,750

The major capital asset additions completed during Fiscal Year 2002 included the Stanley Correctional Facility ($84.6 million expended) and the Justice Center and Law Library ($42.2 million expended). In addition to these completed projects, construction in progress as of June 30, 2002 for governmental and business-type activities totaled $109.4 million and $211.7 million, respectively. A list of construction in progress projects is provided in Note 7. The State's proposed major capital projects for Fiscal Year 2003 include the Biotech Incubator - Medical College of Wisconsin in Milwaukee (estimated budget of $83 million).

Debt Administration

The State of Wisconsin Building Commission, an agency of the State, is empowered by law to consider, act upon, authorize, issue and sell all debt obligations of the State. The total general obligation debt outstanding for the State as of June 30, 2002 was $3.9 billion, as shown in Table 6.

During Fiscal Year 2002, $824.5 million of these general obligation bonds were issued to provide for the acquisition or improvement of land, water, property, highways, buildings, equipment, or facilities for public purposes, refund current outstanding bonds, and to fund a portion of outstanding extendible municipal commercial paper. Further, $55.0 million of general obligation bonds were issued for veterans housing loans.

Chapter 18 of the Wisconsin Statutes authorizes the State to issue revenue obligations. These obligations, which are not debt of the State, are secured by a pledge of revenues or property derived from the operations of a program funded by the issuance of the obligations. Revenue bonds of the primary government totaled $1.8 billion outstanding at June 30, 2002, as shown in Table 6. These bonds included $965.3 million of Transportation Revenue Bonds, $199.8 million of Petroleum Inspection Revenue Bonds, and $659.5 million of Environmental Improvement Revenue Bonds.

Table 6
Outstanding Debt as of June 30, 2002
(in millions)

	Governmental Activities	Business-Type Activities	Total
General obligation bonds and notes	$ 2,962.6	$ 996.2	$ 3,958.8
Revenue bonds and notes	1,165.1	659.5	1,824.6
Totals	$ 4,127.7	$ 1,655.7	$ 5,783.4

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

At June 30, 2002, State of Wisconsin fixed bonds had a rating of Aa3 from Moody's Investors Services, AA- from Standard and Poor's Corporation, and AA from Fitch Investors Service, L.P. Variable bonds had a rating of P-1 from Moody's, A-1 from Standard and Poor's Corporation, and F-1 from Fitch Investors Services, L.P.

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

INFRASTRUCTURE -- MODIFIED APPROACH

The State reports infrastructure (i.e., roads, bridges, and buildings considered an ancillary part of roads) as capital assets. The State has elected to report its infrastructure assets (11,200 miles of roads and 4,900 bridges with a combined value of $9.2 billion), using the modified approach. Under this method, infrastructure assets are not required to be depreciated if the State manages its eligible infrastructure assets using an asset management system designed to maintain and preserve these assets at a condition level established and disclosed by the State.

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

In order to adequately serve the traveling public and support the State economy, it is the State's policy to ensure at least 85 percent of the state-owned roads and bridges are in good or fair condition. As of June 30, 2002, 95.4 percent of the roads and 92.4 percent of bridges were in good or fair condition, consistent with State policies.

For the fiscal year ended June 30, 2002, actual maintenance and preservation costs for the State's road network were $437.6 million, or $33.1 million less than the estimated amount. On that same date, actual maintenance and preservation costs for the State's bridge network were $38.4 million, or $4.8 million more than the estimated amount. The State of Wisconsin, Department of Transportation's multi-year budgeting process, allowing encumbrances to carry forward, makes a comparison of actual to estimated amounts difficult since expenditures for the current year may have been budgeted and committed to a project in prior years.

ECONOMIC FACTORS

In calendar year 2001, the Wisconsin economy reflected the national recession. After averaging 2% growth annually from 1991 to 2000, Wisconsin's employment growth halted in 2001. Non-farm employment declined 6,000 jobs or –0.2% from 2000. Unemployment averaged 4.5% of the labor force. However, it increased steadily over the course of the year from 4.1% in January to 4.9% in December. Job losses were concentrating in manufacturing, down 4.5% and construction, down 1.4%.

Personal income growth weakened with the employment losses. Personal income growth slowed throughout 2001. On the year income growth averaged 3.4% compared to 6.3% in 2000. Income growth slowed throughout the year, from 4.9% in the first quarter to 2.0% in the fourth quarter.

In 2002, the Wisconsin economy recovery preceded the national recovery. Employment began increasing again in March. By September non-farm employment was 0.5% ahead of a year ago. The unemployment rate peaked in February at 5.8% but then decreased steadily to 5.1% in September. Growth in services, finance and construction are more than offsetting losses in manufacturing, utilities and government.

Personal income growth began accelerating. From the 2.0% at the end of 2001, income growth had increased to 3.3% by second quarter 2002.

Wisconsin's property values were insulated from the recession. Real property values increased significantly in 2001 and 2002. Total values increased 9.2% in 2001 and 7.5% in 2002. Commercial, manufacturing and residential real estate all increased significantly in both years. In 2001, $7.5 billion in new construction was added to real property in Wisconsin up from $7.1 billion in 2000.

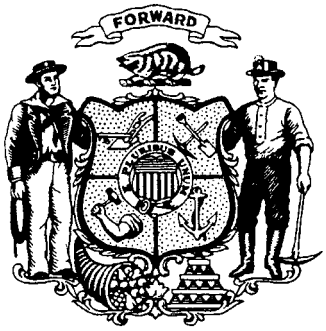
Inflation in Wisconsin has been modest. As measured by the Milwaukee-Racine CSA consumer price index, inflation in 2001 dropped to 1.6% from a year earlier. In the first half of 2002, inflation has dropped to 0.6%.

CONTACTING THE STATE'S FINANCIAL MANAGEMENT

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

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

* * * *


FORWARD

Statement of Net Assets
June 30, 2002

(In Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Assets				
Cash and Cash Equivalents	$ 2,116,327	$ 2,912,543	$ 5,028,870	$ 187,444
Investments	155,378	1,209,868	1,365,246	592,187
Receivables (net)	2,383,615	2,306,596	4,690,211	1,994,812
Internal Balances	37,420	(37,420)	-	-
Inventories	48,080	35,687	83,767	7,524
Prepaid Items	388,603	103,741	492,344	3,538
Capital Leases Receivable - Component Units	-	25,772	25,772	-
Restricted and Limited Use Assets:				
Cash and Cash Equivalents	30,444	58,903	89,347	162,424
Investments	3	-	3	496,600
Other Receivables	-	-	-	212
Deferred Charges	28,545	11,126	39,671	29,065
Capital Assets:				
Depreciable	1,552,765	2,835,493	4,388,257	222,094
Nondepreciable:				
Infrastructure	9,205,713	-	9,205,713	-
Other	2,039,406	116,159	2,155,565	-
Other Assets	332	9,998	10,330	19,095
Total Assets	17,986,631	9,588,466	27,575,097	3,714,995
Liabilities				
Accounts Payable and Other Accrued Liabilities	4,350,040	385,095	4,735,135	146,456
Tax and Other Deposits	37,389	14,323	51,712	100,872
Deferred Revenue	341,298	173,874	515,172	524
Short-term Notes Payable	544,191	17,530	561,721	-
Long-term Liabilities:				
Current Portion	311,296	253,792	565,088	222,143
Noncurrent Portion	4,750,096	2,594,560	7,344,656	3,869,986
Total Liabilities	10,334,311	3,439,174	13,773,485	4,339,980
Net Assets				
Invested in Capital Assets, Net of Related Debt	10,684,294	2,626,925	13,311,219	67,550
Restricted for:				
Transportation Programs	8,611	-	8,611	-
Debt Service	20,484	-	20,484	-
Unemployment Compensation	-	1,586,218	1,586,218	-
Environmental Improvement	-	829,343	829,343	-
Permanent Trusts:				
Expendable	1,383	185,734	187,118	-
Nonexpendable	509,828	112,382	622,210	-
Other Purposes	10,706	325,155	335,862	467,586
Unrestricted	(3,582,988)	483,535	(3,099,453)	(1,160,121)
Total Net Assets	$ 7,652,320	$ 6,149,292	$ 13,801,612	$ (624,985)

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

Statement of Activities
For the Fiscal Year Ended June 30, 2002

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Commerce	$ 194,927	$ 145,118	$ 32,728	$ -
Education	5,440,440	20,187	560,241	-
Transportation	1,714,215	439,574	93,625	648,688
Environmental Resources	531,983	171,185	55,933	3,632
Human Relations and Resources	7,997,351	114,293	4,014,744	16,808
General Executive	416,294	158,693	126,081	-
Judicial	106,954	41,494	317	-
Legislative	59,948	1,139	4	-
Tax Relief and Other General Expenses	820,618	4,534	50,106	-
Intergovernmental	1,095,991	-	-	-
Interest on Debt	297,572	1,930	-	-
Total Governmental Activities	18,676,293	1,098,149	4,933,780	669,128
Business-type Activities:				
Patients Compensation	72,923	51,271	-	-
Environmental Improvement	42,491	32,629	41,608	-
Veterans Mortgage Loan Repayment	53,888	46,296	-	-
University of Wisconsin System	2,935,234	1,756,157	153,550	60,418
Unemployment Insurance Reserve	1,071,756	744,891	101,326	-
Lottery	407,537	427,666	-	-
Health Insurance	655,833	671,545	-	-
Other Business-type	481,986	372,359	602	1,358
Total Business-type Activities	5,721,648	4,102,813	297,085	61,776
Total Primary Government	$ 24,397,940	$ 5,200,961	$ 5,230,865	$ 730,904
Component Units:				
Housing and Economic Development Authority	274,536	149,795	123,120	-
Health Care Liability Insurance Plan	19,650	13,991	-	-
University Hospitals and Clinics Authority	482,263	502,564	-	-
Badger Tobacco Asset Securitization Corporation	1,277,242	-	-	-
Total Component Units	$ 2,053,691	$ 666,350	$ 123,120	$ 0

General Revenues:
- Dedicated for General Purposes:
  - Income Taxes
  - Sales and Excise Taxes
  - Public Utility Taxes
  - Other Taxes
- Motor Fuel/Other Taxes Dedicated for Transportation
- Other Dedicated Taxes
- Interest and Investment Earnings
- Miscellaneous

Contributions to Term and Permanent Endowments
Contributions to Permanent Fund Principal
Special Items - Tobacco Settlement Sale
Transfers

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

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

(In Thousands)

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (17,080)	$ -	$ (17,080)	
(4,860,011)	-	(4,860,011)	
(532,328)	-	(532,328)	
(301,233)	-	(301,233)	
(3,851,506)	-	(3,851,506)	
(131,520)	-	(131,520)	
(65,143)	-	(65,143)	
(58,804)	-	(58,804)	
(765,978)	-	(765,978)	
(1,095,991)	-	(1,095,991)	
(295,641)	-	(295,641)	
(11,975,237)		(11,975,237)	
-	(21,653)	(21,653)	
-	31,745	31,745	
-	(7,593)	(7,593)	
-	(965,109)	(965,109)	
-	(225,539)	(225,539)	
-	20,129	20,129	
-	15,712	15,712	
-	(107,667)	(107,667)	
-	(1,259,974)	(1,259,974)	
(11,975,237)	(1,259,974)	(13,235,210)	
			$ (1,621)
			(5,659)
			20,301
			(1,277,242)
			(1,264,221)
5,415,337	-	5,415,337	-
4,048,716	-	4,048,716	-
243,970	-	243,970	-
254,106	-	254,106	-
892,162	-	892,162	-
189,343	-	189,343	-
29,019	10,668	39,687	30,912
1,339,812	29	1,339,841	-
-	6,482	6,482	-
18,973	-	18,973	-
1,275,002	-	1,275,002	-
(1,059,422)	1,059,422	-	-
12,647,018	1,076,600	13,723,618	30,912
671,781	(183,373)	488,407	(1,233,309)
6,980,539	6,332,665	13,313,204	608,324
$ 7,652,320	$ 6,149,292	$ 13,801,612	$ (624,985)

Balance Sheet - Governmental Funds
June 30, 2002

(In Thousands)

	General	Transportation	Tobacco Settlement Endowment	Nonmajor Governmental	Total Governmental
Assets					
Cash and Cash Equivalents	$ 9,342	$ 318,749	$ 826,155	$ 921,092	$ 2,075,338
Investments	883	-	-	154,495	155,378
Receivables (net of estimated uncollectible accounts):					
Taxes	1,115,043	92,810	-	23,264	1,231,117
Loans to Local Governments	16,947	-	-	220,281	237,228
Other Receivables	172,495	5,703	-	25,091	203,290
Due from Other Funds	760,935	32,414	-	72,383	865,733
Due from Component Units	7	-	-	-	7
Interfund Receivables	-	410	-	-	410
Due from Other Governments	557,678	99,437	-	11,885	669,000
Inventories	12,474	21,517	-	2,607	36,598
Prepaid Items	345,401	2,516	-	11,529	359,447
Advances to Other Funds	-	-	-	3,000	3,000
Other Assets	-	-	-	332	332
Restricted Assets:					
Cash and Cash Equivalents	-	-	-	30,444	30,444
Investments	3	-	-	-	3
Total Assets	$ 2,991,209	$ 573,556	$ 826,155	$ 1,476,403	$ 5,867,323
Liabilities and Fund Balances					
Liabilities:					
Accounts Payable and Other Accrued Liabilities	$ 570,727	$ 112,531	$ -	$ 280,154	$ 963,412
Due to Other Funds	132,483	36,997	542,361	126,575	838,416
Due to Component Units	798	-	-	-	798
Interfund Payables	757,440	-	-	6,205	763,645
Due to Other Governments	1,489,696	53,893	-	23,074	1,566,662
Tax Refunds Payable	888,537	4,533	-	666	893,737
Tax and Other Deposits	30,413	533	-	6,443	37,389
Deferred Revenue	605,449	8,738	-	9,356	623,543
Interest Payable	-	-	-	31,029	31,029
Advances from Other Funds	-	-	-	5,008	5,008
Short Term Notes Payable	-	-	-	491,170	491,170
General Obligations Bonds Payable	-	-	-	100	100
Revenue Bonds and Notes Payable	-	-	-	49,555	49,555
Total Liabilities	4,475,542	217,226	542,361	1,029,334	6,264,463
Fund Balances:					
Reserved for Encumbrances	186,554	541,425	-	212,615	940,594
Reserved for Inventories	12,474	21,517	-	2,607	36,598
Reserved for Prepaid Items	193,967	2,516	-	11,529	208,013
Reserved for Restricted Funds	-	-	-	871	871
Reserved for Long-term Receivables	-	-	-	186,463	186,463
Reserved for Advances to Other Funds	-	-	-	3,000	3,000
Unreserved, Reported In:					
General Fund	(1,877,328)	-	-	-	(1,877,328)
Special Revenue Funds	-	(209,128)	283,794	196,656	271,321
Capital Projects Funds	-	-	-	(511,890)	(511,890)
Debt Service Funds	-	-	-	20,484	20,484
Permanent Funds	-	-	-	324,733	324,733
Total Fund Balances	(1,484,333)	356,330	283,794	447,068	(397,140)
Total Liabilities and Fund Balances	$ 2,991,209	$ 573,556	$ 826,155	$ 1,476,403	$ 5,867,323

(Continued)

Balance Sheet - Governmental Funds
June 30, 2002

(Continued)

		Total Governmental
Reconciliation to the Statement of Net Assets:		
Total Fund Balances from previous page	$	(397,140)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Infrastructure		9,205,713
Other Capital Assets		3,811,135
Accumulated Depreciation		(537,298)
Other long-term assets that are not available to pay for current period expenditures and, therefore, are deferred in the funds.		31,954
Some of the State's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.		284,618
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		8,814
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Revenue Bonds Payable		(1,115,506)
General Obligation Bonds Payable		(2,802,608)
Accrued Interest on Bonds		(23,874)
Capital Leases		(14,432)
Installment Contracts		(1,249)
Compensated Absences		(88,832)
Claims and Judgments		(1,972)
Employer Pension Related Debt Costs		(707,003)
Net Assets of Governmental Activities as reported on the Statement of Net Assets (See page 31)	$	7,652,320

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

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Fiscal Year Ended June 30, 2002

(In Thousands)

	General	Transportation	Tobacco Settlement Endowment	Nonmajor Governmental	Total Governmental
Revenues:					
Taxes	$ 9,970,736	$ 890,760	$ -	$ 189,162	$ 11,050,658
Intergovernmental	4,730,673	742,522	-	36,638	5,509,834
Licenses and Permits	219,286	331,677	-	304,129	855,093
Charges for Goods and Services	191,771	16,232	-	16,062	224,066
Investment and Interest Income	7,166	4,662	1,152	32,582	45,562
Fines and Forfeitures	28,246	516	-	26,630	55,392
Gifts and Donations	27,308	-	-	10,780	38,087
Other Revenues:					
Intergovernmental Transfer	969,886	-	-	-	969,886
Tobacco Settlement	156,215	-	1,275,002	-	1,431,218
Other	147,418	14,627	-	4,525	166,569
Total Revenues	16,448,706	2,000,997	1,276,155	620,508	20,346,366
Expenditures:					
Current Operating:					
Commerce	168,947	-	-	29,344	198,291
Education	5,372,975	-	-	44,161	5,417,136
Transportation	5,032	1,648,894	-	10,235	1,664,161
Environmental Resources	120,027	-	-	408,672	528,699
Human Relations and Resources	7,732,733	-	-	225,041	7,957,774
General Executive	386,783	-	-	56,155	442,938
Judicial	102,736	-	-	332	103,069
Legislative	61,989	-	-	-	61,989
Tax Relief and Other General Expenditures	804,558	-	-	18,093	822,650
Intergovernmental	1,095,991	-	-	-	1,095,991
Debt Service:					
Principal	-	-	-	173,247	173,247
Interest and Other Charges	-	-	-	209,851	209,851
Capital Outlay	29,974	313,222	-	326,509	669,704
Total Expenditures	15,881,746	1,962,116	-	1,501,639	19,345,501
Excess of Revenues Over (Under) Expenditures	566,960	38,881	1,276,155	(881,131)	1,000,865
Other Financing Sources (Uses):					
Long-term Debt Issued	-	-	-	529,649	529,649
Long-term Debt Issued - Refunding Bonds	-	-	-	596,332	596,332
Payments to Refunding Bond Escrow Agent	-	-	-	(631,477)	(631,477)
Premium/Discount on Bonds	-	-	-	60,247	60,247
Transfers In	1,122,764	134	-	944,201	2,067,099
Transfers Out	(1,893,081)	(34,671)	(992,361)	(215,502)	(3,135,615)
Transfers to Component Units	(176)	-	-	-	(176)
Installment Purchase Acquisitions	41	-	-	1,175	1,216
Capital Leases Acquisitions	4,669	1,261	-	109	6,039
Total Other Financing Sources (Uses)	(765,782)	(33,276)	(992,361)	1,284,735	(506,685)
Net Change in Fund Balances	(198,822)	5,605	283,794	403,604	494,180
Fund Balances, Beginning of Year	(1,285,537)	344,484	-	42,610	(898,443)
Increase (Decrease) in Reserve for Inventories	26	6,242	-	854	7,123
Fund Balances, End of Year	$ (1,484,333)	$ 356,330	$ 283,794	$ 447,068	$ (397,140)

(Continued)

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Fiscal Year Ended June 30, 2002

(Continued)

		Total Governmental
Reconciliation to the Statement of Activities:		
Total Net Change in Fund Balances from previous page	$	494,180
Inventories, which are recorded under the purchases method for governmental fund reporting, are reported under the consumption approach on the Statement of Activities. As a result of this change, the Increase (Decrease) in Reserve for Inventories on the fund statement has been reclassified as functional expenses on the government-wide statement.		7,123
Repayment of bond principal is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Net Assets.		173,247
Governmental funds report the acquisition or construction of capital assets as expenditures, while governmental activities report depreciation expense to allocate the cost of these assets over their estimated useful life. Donated assets are set up at fair value with a corresponding amount of revenue recognized. In the current period, these amounts are:		
Capital Outlay/Functional Expenditures		671,994
Depreciation Expense		(63,741)
Grants and Contributions (Donated Assets)		3,832
Transfers of capital assets between governmental and business-type activities results in the movement of those assets on the Statement of Net Assets and corresponding recognition of the related transfer in/out on the Statement of Activities.		2,466
In the Statement of Activities, only the gain on the sale of capital assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.		(69,192)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		44,545
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.		
Bonds Issued		(1,125,982)
Payments to Refunding Bond Escrow Agent		631,477
Bond Premium		(60,247)
Bond Issuance Costs		7,474
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Net increase in accrued interest		(28,561)
Increase in Capital Leases		976
Decrease in Installment Contracts		(145)
Increase in Compensated Absences		(2,349)
Increase in Claims and Judgments		(188)
Increase in Employer Pension Related Debt Costs		(17,472)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.		2,345
Changes in Net Assets of Governmental Activities as reported on the Statement of Activities (See page 33)	$	671,781

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

Balance Sheet
Proprietary Funds
June 30, 2002

(In Thousands)

	Business-type Activities		
	Patients Compensation	Environmental Improvement	Veterans Mortgage Loan Repayment
Assets			
Current Assets:			
Cash and Cash Equivalents	$ 17,168	$ 244,688	$ 145,974
Investments	77,094	31,035	-
Receivables (net of estimated uncollectible accounts):			
Loans Receivable	-	68,490	20,241
Other Receivables	10,696	330	4,860
Due from Other Funds	14	253	8
Due from Component Units	14	-	-
Interfund Receivables	-	-	-
Due from Other Governments	-	5,825	-
Inventories	1	-	-
Prepaid Items	6	4	47
Capital Leases Receivable - Component Units	-	-	-
Deferred Charges	-	-	101
Other Assets	-	-	-
Total Current Assets	104,994	350,624	171,232
Noncurrent Assets:			
Investments	483,813	101,405	-
Receivables (net of estimated uncollectible accounts):			
Loans Receivable	-	1,014,833	614,413
Prepaid Items	-	-	-
Advances to Other Funds	-	-	-
Restricted and Limited Use Assets:			
Cash and Cash Equivalents	-	58,903	-
Deferred Charges	-	2,889	4,759
Capital Assets (net of accumulated depreciation)	16	1	134
Other Assets	-	-	563
Total Noncurrent Assets	483,830	1,178,031	619,869
Total Assets	$ 588,823	$ 1,528,655	$ 791,101
Liabilities and Fund Equity			
Current Liabilities:			
Accounts Payable and Other Accrued Liabilities	$ 390	$ 82	$ 7,951
Due to Other Funds	21	1,645	1,283
Due to Component Units	-	-	-
Interfund Payables	-	-	-
Due to Other Governments	-	-	-
Tax and Other Deposits	-	-	2
Advances from Other Funds	-	-	-
Deferred Revenue	1,644	-	124
Interest Payable	-	2,982	6,823
Short Term Notes Payable	-	-	-
Current Portion of Long-term Liabilities:			
Future Benefits and Loss Liabilities	54,330	-	-
Compensated Absences	8	65	98
Capital Leases	-	-	-
General Obligation Bonds Payable	-	-	29,520
Revenue Bonds and Note Payable	-	35,410	-
Total Current Liabilities	56,392	40,183	45,803
Noncurrent Liabilities:			
Accounts Payable and Other Accrued Liabilities	-	-	-
Due to Other Governments	-	2,673	-
Tax and Other Deposits	-	-	-
Deferred Revenue	-	-	194
Noncurrent Portion of Long-term Liabilities:			
Future Benefits and Loss Liabilities	525,811	-	-
Compensated Absences	16	26	144
Capital Leases	-	-	-
General Obligation Bonds Payable	-	-	668,349
Revenue Bonds and Notes Payable	-	624,041	-
Total Noncurrent Liabilities	525,827	626,740	668,687
Total Liabilities	582,219	666,923	714,489
Fund Equity:			
Invested in Capital Assets, Net of Related Debt	-	-	134
Restricted for Unemployment Compensation	-	-	-
Restricted for Environmental Improvement	-	829,343	-
Restricted for Expendable Trusts	-	-	-
Restricted for Nonexpendable Trusts	-	-	-
Restricted for Future Benefits	6,604	-	-
Restricted for Market Value Adjustments	-	-	-
Restricted for Other Purposes	-	-	-
Unrestricted	-	32,388	76,477
Total Fund Equity	6,604	861,732	76,611
Total Liabilities and Fund Equity	$ 588,823	$ 1,528,655	$ 791,101

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

Business-type Activities				Governmental Activities - Internal Services Funds
University of Wisconsin System	Unemployment Insurance Reserve	Nonmajor Enterprise	Totals	
$ 486,701	$ 1,463,986	$ 554,025	$ 2,912,543	$ 40,989
1,062	-	16,507	125,697	-
25,856	-	8,433	123,020	-
61,406	134,421	31,724	243,437	624
41,063	418	12,843	54,598	37,874
1,968	-	-	1,982	112
-	-	5,795	5,795	-
75,294	9,288	3,483	93,890	73
28,190	-	7,496	35,687	8,216
21,313	-	82,371	103,741	10,278
25,772	-	-	25,772	-
2,668	-	-	2,769	1
-	130	-	130	-
771,293	1,608,242	722,676	3,729,061	98,166
286,043	-	212,909	1,084,171	-
152,094	-	62,862	1,844,203	-
-	-	-	-	18,879
-	-	-	-	3,008
-	-	-	58,903	-
-	-	710	8,357	752
2,804,799	-	146,702	2,951,652	318,333
-	-	9,305	9,868	-
3,242,936	-	432,488	5,957,154	340,972
$ 4,014,229	$ 1,608,242	$ 1,155,164	$ 9,686,215	$ 439,138
$ 140,595	$ 14,810	$ 53,735	$ 217,563	$ 22,645
45,869	2,496	46,307	97,621	10,781
1,775	-	-	1,775	-
-	-	6,196	6,196	45,405
18,792	4,718	36	23,546	176
1,590	-	199	1,791	-
1,000	-	-	1,000	-
106,036	-	65,877	173,680	2,373
2,362	-	214	12,382	1,887
15,572	-	1,958	17,530	53,021
-	-	71,000	125,330	-
42,121	-	3,131	45,422	1,003
4,184	-	239	4,423	3,092
13,616	-	70	43,206	8,345
-	-	-	35,410	-
393,511	22,024	248,962	806,876	148,728
-	-	115,037	115,037	13,394
-	-	-	2,673	-
-	-	12,532	12,532	-
-	-	-	194	5,558
-	-	426,327	952,138	111,822
28,039	-	3,768	31,994	1,172
31,957	-	1,399	33,356	3,165
260,698	-	23,984	953,031	151,535
-	-	-	624,041	-
320,694	-	583,049	2,724,997	286,647
714,205	22,024	832,011	3,531,872	435,375
2,513,464	-	113,327	2,626,925	52,766
-	1,586,218	-	1,586,218	-
-	-	-	829,343	-
185,734	-	-	185,734	-
112,382	-	-	112,382	-
-	-	28,147	34,751	-
-	-	7,169	7,169	-
219,612	-	63,610	283,222	-
268,832	-	110,901	488,598	(49,002)
3,300,024	1,586,218	323,153	6,154,343	3,763
$ 4,014,229	$ 1,608,242	$ 1,155,164	$ 9,686,215	$ 439,138

Total Fund Equity Reported Above	$ 6,154,343
Adjustment to Reflect the Consolidation of Internal Service Activities Related to Enterprise Funds	(5,050)
Net Assets of Business-type Activities	$ 6,149,293

Statement of Revenues, Expenses, and Changes in Fund Equity - Proprietary Funds For the Fiscal Year Ended June 30, 2002

(In Thousands)

	Business-type Activities		
	Patients Compensation	Environmental Improvement	Veterans Mortgage Loan Repayment
Operating Revenues:			
Charges for Goods and Services	$ 29,572	$ -	$ -
Participant Contributions	-	-	-
Tuition and Fees	-	-	-
Federal Appropriations	-	-	-
Federal Grants and Contracts	-	-	-
State Grants and Contracts	-	-	-
Local Grants and Contracts	-	-	-
Private Gifts, Grants and Contracts	-	-	-
Sales and Services of Educational Activities	-	-	-
Sales and Services of Auxiliary Enterprises	-	-	-
Sales and Services to UW Hospital Authority	-	-	-
Investment and Interest Income	20,988	32,605	46,296
Other Income:			
Federal Aid for Unemployment Insurance Program	-	-	-
Reimbursing Financing Revenue	-	-	-
Other	-	23	-
Total Operating Revenues	50,560	32,629	46,296
Operating Expenses:			
Personal Services	461	3,465	3,446
Supplies and Services	352	1,896	820
Lottery Prize Awards	-	-	-
Scholarships and Fellowships	-	-	-
Depreciation	6	1	40
Benefit Expense	72,120	-	-
Interest Expense	-	32,426	46,104
Other Expenses	-	-	3,086
Total Operating Expenses	72,940	37,789	53,497
Operating Income (Loss)	(22,380)	(5,160)	(7,201)
Nonoperating Revenues (Expenses):			
Operating Grants	-	23,460	-
Investment and Interest Income	-	18,628	3,633
Gain (Loss) on Disposal of Fixed Assets	-	-	-
Interest Expense	-	-	-
Gifts	-	-	-
Other Revenues	711	-	-
Other Expenses:			
Property Tax Credits	-	-	-
Grants Disbursed	-	(4,707)	-
Other	-	-	(452)
Total Nonoperating Revenues (Expenses)	711	37,381	3,181
Income (Loss) Before Contributions and Transfers	(21,669)	32,221	(4,021)
Capital Contributions	-	-	-
Additions to Endowments	-	-	-
Transfers In	-	15,085	-
Transfers Out	-	(10,200)	(224)
Net Change in Fund Equity	(21,669)	37,106	(4,244)
Total Fund Equity-Beginning of Year	28,273	824,625	80,856
Total Fund Equity-End of Year	$ 6,604	$ 861,732	$ 76,611

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

Business-type Activities				Governmental Activities - Internal Services Funds
University of Wisconsin System	Unemployment Insurance Reserve	Nonmajor Enterprise	Totals	
$ -	$ -	$ 763,371	$ 792,943	$ 233,361
-	432,003	717,492	1,149,494	-
514,187	-	-	514,187	-
16,340	-	-	16,340	-
465,205	-	-	465,205	-
24,419	-	-	24,419	-
11,607	-	-	11,607	-
94,212	-	-	94,212	-
190,155	-	-	190,155	-
235,985	-	-	235,985	-
32,501	-	-	32,501	-
-	98,999	(11,213)	187,675	5
-	101,326	-	101,326	-
-	42,819	-	42,819	-
162,318	4,856	146	167,343	9,091
1,746,929	680,003	1,469,795	4,026,211	242,456
2,047,524	-	224,010	2,278,907	44,309
709,024	-	717,451	1,429,543	139,368
-	-	242,056	242,056	-
51,777	-	-	51,777	-
112,179	-	10,307	122,534	23,164
-	1,071,756	235,685	1,379,561	29,540
-	-	577	79,107	-
5,322	-	10,026	18,434	10
2,925,826	1,071,756	1,440,113	5,601,919	236,391
(1,178,897)	(391,753)	29,683	(1,575,709)	6,065
-	-	602	24,062	844
(12,684)	-	5,925	15,502	349
(16,287)	-	(123)	(16,410)	572
(8,925)	-	(1,294)	(10,220)	(10,674)
166,861	-	-	166,861	-
9,228	166,214	1,777	177,930	543
-	-	(101,267)	(101,267)	-
-	-	-	(4,707)	-
(395)	-	(4,998)	(5,845)	-
137,799	166,214	(99,379)	245,907	(8,366)
(1,041,098)	(225,539)	(69,696)	(1,329,802)	(2,300)
60,418	-	1,358	61,776	-
6,482	-	-	6,482	-
1,042,075	-	67,605	1,124,766	12,286
(7,921)	-	(29,967)	(48,311)	(12,691)
59,957	(225,539)	(30,700)	(185,089)	(2,705)
3,240,068	1,811,756	353,853	6,339,432	6,469
$ 3,300,024	$ 1,586,218	$ 323,153	$ 6,154,343	$ 3,763

Total Net Change in Fund Equity Reported Above	$ (185,089)
Consolidation Adjustment of Internal Services Activities Related to Enterprise Funds	1,716
Change in Net Assets of Business-Type Activities	$ (183,373)

Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2002

(In Thousands)

	Business-type Activities		
	Patients Compensation	Environmental Improvement	Veterans Mortgage Loan Repayment
Cash Flows from Operating Activities:			
Cash Receipts from Customers	$ 29,595	$ -	$ -
Cash Payments to Suppliers for Goods and Services	(464)	(2,316)	(629)
Cash Payments to Employees for Services	(445)	(4,138)	(3,474)
Tuition and Fees	-	-	-
Research Grants and Contracts	-	-	-
Cash Payments for Lottery Prizes	-	-	-
Cash Payments for Loans Originated	-	-	(64,401)
Collection of Loans	-	-	143,835
Interest Income	-	-	46,527
Cash Payments for Benefits	(39,469)	-	-
Sales and Services of Educational Activities	-	-	-
Sales and Services of Auxiliary Enterprises	-	-	-
Sales and Services of Hospitals	-	-	-
Scholarships and Fellowships	-	-	-
Other Operating Revenues	-	23	-
Other Operating Expenses	-	-	(3,102)
Other Sources of Cash	711	-	-
Other Uses of Cash	-	-	-
Net Cash Provided (Used) by Operating Activities	(10,072)	(6,431)	118,757
Cash Flows from Noncapital Financing Activities:			
Operating Grants Receipts	-	23,617	-
Grants for Loans to Governments	-	-	-
Grants Disbursed	-	(4,707)	(380)
Proceeds from Issuance of Long-term Debt	-	102,495	54,789
Retirement of Long-term Debt	-	(30,975)	(139,298)
Interest Payments	-	(32,162)	(46,935)
Property Tax Credits	-	-	-
Noncapital Gifts and Grants	-	-	-
Interfund Loans Received	-	-	-
Interfund Loans Repaid	-	-	-
Repayment of Interfund Borrowings to Other Funds	-	-	-
Transfers In	-	15,085	-
Transfers Out	-	(10,200)	(224)
Student Direct Lending Receipts	-	-	-
Student Direct Lending Disbursements	-	-	-
Other Cash Inflows from Noncapital Financing Activities	-	-	-
Other Cash Outflows from Noncapital Financing Activities:			
Other	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	-	63,153	(132,047)
Cash Flows from Capital and Related Financing Activities:			
Proceeds from Issuance of Long-term Debt	-	-	-
Capital Contributions	-	-	-
Repayment of Long-term Debt	-	-	-
Proceeds from Short-term notes	-	-	-
Interest Payments	-	-	-
Capital Lease Obligations	-	-	-
Proceeds from Sale of Capital Assets	-	-	-
Payments for Purchase of Capital Assets	-	-	(48)
Other Cash Inflows from Capital Financing Activities	-	-	-
Other Cash Outflows from Capital Financing Activities	-	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	-	-	(48)
Cash Flows from Investing Activities:			
Proceeds from Sale and Maturities of Investment Securities	203,557	52,669	-
Purchase of Investment Securities	(216,501)	(51,763)	-
Cash Payments for Loans Originated	-	(134,754)	-
Collection of Loans	-	67,100	-
Investment and Interest Receipts	32,188	49,171	3,633
Negative Earnings on Investments Paid Back	-	-	-
Net Cash Provided (Used) by Investing Activities	19,244	(17,576)	3,633
Net Increase (Decrease) in Cash and Cash Equivalents	9,172	39,146	(9,706)
Cash and Cash Equivalents, Beginning of Year	7,996	264,446	155,680
Cash and Cash Equivalents, End of Year	$ 17,168	$ 303,592	$ 145,974

Business-type Activities				Governmental Activities - Internal Service Funds
University of Wisconsin System	Unemployment Insurance Reserve	Nonmajor Enterprise	Totals	
$ -	$ 431,482	$ 1,490,467	$ 1,951,545	$ 221,615
(719,628)	-	(694,588)	(1,417,626)	(128,452)
(2,024,357)	-	(226,517)	(2,258,931)	(44,257)
530,375	-	-	530,375	-
645,200	-	-	645,200	-
-	-	(265,861)	(265,861)	-
(38,484)	-	(8,323)	(111,207)	-
29,799	-	19,382	193,017	-
-	-	4,869	51,396	-
-	(1,082,385)	(192,541)	(1,314,396)	(18,004)
192,847	-	-	192,847	-
247,820	-	-	247,820	-
37,261	-	-	37,261	-
(51,777)	-	-	(51,777)	-
154,889	144,149	29	299,091	8,174
(2,297)	(101)	(32,148)	(37,647)	-
-	166,214	7,437	174,362	385
-	-	-	-	(1,103)
(998,350)	(340,640)	102,207	(1,134,530)	38,357
-	-	568	24,185	844
-	-	45	45	-
-	-	(6,391)	(11,478)	-
-	-	-	157,285	-
-	-	(220)	(170,493)	-
-	-	(582)	(79,679)	-
-	-	(105,249)	(105,249)	-
173,325	-	-	173,325	-
-	-	-	-	12,036
-	-	(18,670)	(18,670)	(5,283)
-	-	(4,513)	(4,513)	50
981,649	-	65,630	1,062,364	10,521
-	-	(26,252)	(36,676)	(12,064)
106,675	-	-	106,675	-
(106,297)	-	-	(106,297)	-
-	-	16	16	11
4	-	-	4	-
1,155,356	-	(95,616)	990,845	6,114
130,745	-	2,921	133,666	58,253
19,276	-	1,358	20,634	-
(21,830)	-	(1,144)	(22,974)	(8,744)
-	-	145	145	20,816
(45,742)	-	(1,307)	(47,049)	(7,968)
-	-	(225)	(225)	(2,102)
-	-	10	10	3,146
(240,912)	-	(13,965)	(254,924)	(83,894)
21,773	-	366	22,139	-
-	-	(4,321)	(4,321)	(6,212)
(136,690)	-	(16,163)	(152,901)	(26,705)
20,610	-	33,749	310,584	-
(26,475)	-	(7,753)	(302,492)	-
-	-	(232)	(134,987)	-
-	-	226	67,327	-
8,158	98,999	6,298	198,446	349
-	-	(23,991)	(23,991)	-
2,292	98,999	8,297	114,888	349
22,607	(241,642)	(1,275)	(181,698)	18,114
464,094	1,705,627	555,300	3,153,144	22,875
$ 486,701	$ 1,463,986	$ 554,025	$ 2,971,446	$ 40,989

(Continued)

Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2002

(In Thousands)

	Business-type Activities		
	Patients Compensation	Environmental Improvement	Veterans Mortgage Loan Repayment
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations:			
Operating Income (Loss)	$ (22,380)	$ (5,160)	$ (7,201)
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	6	1	40
Amortization	-	663	-
Provision for Uncollectible Accounts	(1)	-	(16)
Operating Income (Investment Income) Classified as Investing Activity	(20,988)	(32,605)	-
Operating Expense (Interest Expense) Classified as Noncapital Financing Activity	-	31,970	46,104
Miscellaneous Nonoperating Income (Expense)	711	-	-
Changes in Assets and Liabilities:			
Decrease (Increase) in Receivables	(1,376)	-	80,257
Decrease (Increase) in Due from Other Funds	(11)	(201)	(3)
Decrease (Increase) in Due from Component Units	(1)	-	-
Decrease (Increase) in Due from Other Governments	-	-	-
Decrease (Increase) in Inventories	-	-	-
Decrease (Increase) in Prepaid Items	(1)	-	11
Decrease (Increase) in Other Assets	-	-	(362)
Decrease (Increase) in Deferred Charges	-	(120)	-
Increase (Decrease) in Accounts Payable and Other Accrued Liabilities	(3)	9	488
Increase (Decrease) in Compensated Absences	(1)	4	(25)
Increase (Decrease) in Due to Other Funds	(29)	(785)	(381)
Increase (Decrease) in Due to Other Governments	-	-	-
Increase (Decrease) in Tax and Other Deposits	-	-	-
Increase (Decrease) in Deferred Revenue	1,350	-	(155)
Increase (Decrease) in Interest Payable	-	(208)	-
Increase (Decrease) in Future Benefits and Loss Liabilities	32,651	-	-
Total Adjustments	12,308	(1,271)	125,958
Net Cash Provided by Operating Activities	$ (10,072)	$ (6,431)	$ 118,757
Noncash Investing, Capital and Financing Activities:			
Capital Leases (Initial Year):			
Fair Market Value	$ -	$ -	$ -
Current Year Cash Receipts (Payments)	-	-	-
Contributions/Transfer In (Out) of Noncash Assets and Liabilities from/to other Funds	-	-	-
Net change in unrealized gains and losses	(421)	-	-
Other	-	-	-

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

Business-type Activities				Governmental Activities - Internal Service Funds
University of Wisconsin System	Unemployment Insurance Reserve	Nonmajor Enterprise	Totals	
$ (1,178,897)	$ (391,753)	$ 29,683	$ (1,575,709)	$ 6,065
112,179	-	10,307	122,534	23,164
-	-	20	683	-
-	3,026	(37)	2,972	-
-	(98,999)	16,029	(136,564)	-
-	-	577	78,651	-
9,999	166,214	3,231	180,156	(719)
(5,460)	(16,988)	24,237	80,670	3,094
-	-	(1,912)	(2,128)	(14,763)
-	-	-	(1)	8
-	-	2,801	2,801	218
(1,146)	-	828	(317)	(1,923)
(186)	-	(10,174)	(10,350)	1,255
-	18	1,207	863	-
667	-	12	559	-
35,820	(2,158)	(25,175)	8,981	3,229
2,929	-	121	3,028	141
-	-	8,238	7,044	8,160
-	-	35	36	114
-	-	864	864	-
25,745	-	3,201	30,140	(1,223)
-	-	-	(208)	-
-	-	38,114	70,765	11,536
180,547	51,112	72,525	441,179	32,292
$ (998,350)	$ (340,640)	$ 102,207	$ (1,134,530)	$ 38,357
$ 2,717	$ -	$ 548	$ 3,265	$ 4,287
-	-	(67)	(67)	-
-	-	719	719	-
(17,485)	-	2,960	(14,945)	-
13,322	-	44	13,366	(132)

Statement of Fiduciary Net Assets
June 30, 2002

(In Thousands)

	Pension and Other Employee Benefit Trust	Investment Trust	Private-Purpose Trust	Agency
Assets				
Cash and Cash Equivalents	$ 1,003,989	$ 3,023,325	$ 16,142	$ 88,619
Securities Lending Collateral	2,335,653	-	-	-
Prepaid Items	8,103	-	5	-
Receivables (net of estimated uncollectible accounts):				
Prior Service Contributions Receivable	2,010,137	-	-	-
Benefits Overpayment Receivable	2,487	-	-	-
Due from Other Funds	28,901	-	39	1,072
Interfund Loans Receivable	-	809,041	-	-
Due from Other Governments	89,075	-	-	-
Interest and Dividends Receivable	204,142	-	-	-
Investment Sales Receivable	1,426,299	-	-	-
Other Receivables	(659)	-	337	3,666
Total Receivables	3,760,382	809,041	376	4,737
Investments:				
Bonds	11,581,258	-	-	-
Private Placements	3,530,009	-	-	-
Stocks	34,256,628	-	-	-
Limited Partnerships	2,598,575	-	-	-
Mortgages	685,784	-	-	-
Real Estate	461,912	-	-	-
Investments of Private Purpose Funds	-	-	451,084	-
Investments of Agency Funds	-	-	-	952
Other Investments	1,095,628	-	-	-
Total Investments	54,209,795	-	451,084	952
Capital Assets	51	-	-	-
Other Assets	-	-	11,795	271,815
Total Assets	61,317,973	3,832,366	479,403	$ 366,124
Liabilities				
Accounts Payable	43,471	-	55	$ 75,739
Securities Lending Collateral Liability	2,335,653	-	-	-
Annuities Payable	198,845	-	-	-
Advance Contributions	352	-	-	-
Due to Other Funds	32,376	52	305	8,665
Due to Other Governments	23,215	-	-	-
Tax and Other Deposits	1	-	-	281,719
Investment Payable	1,461,473	-	-	-
Deferred Revenue	2,238	-	-	-
Compensated Absences Payable	1,208,767	-	-	-
Total Liabilities	5,306,391	52	360	$ 366,124
Net Assets				
Held in Trust for Pension Benefits, Pool Participants and Other Purposes	$ 56,011,582	$ 3,832,314	$ 479,043	

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

Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended June 30, 2002

(In Thousands)

	Pension and Other Employee Benefit Trust	Investment Trust	Private-Purpose Trust
Additions			
Contributions:			
Employer Contributions	$ 518,749	$ -	$ -
Employee Contributions	677,003	-	-
Total Contributions	1,195,752	-	-
Deposits	-	11,857,887	472,442
Investment Income:			
Net Appreciation (Depreciation) in Fair Value of Investments	(4,546,452)	-	-
Interest	770,663	-	-
Dividends	235,889	-	-
Real Estate Income	-	-	-
Securities Lending Income	74,190	-	-
Other	125,802	-	-
Investment Income of Investment, Private Purpose and Other Employee Trust Funds	(143,578)	94,677	(26,077)
Less:			
Investment Expense	(147,197)	(1,308)	(1,096)
Securities Lending Rebates and Fees	(61,270)	-	-
Investment Income Distributed to Other Funds	(44,561)	-	-
Net Investment Income	(3,736,513)	93,369	(27,173)
Interest on Prior Service Receivable	153,991	-	-
Miscellaneous Income			
Escheat Additions	-	-	12,186
Other	1,437	-	-
Total Miscellaneous Income	1,437	-	12,186
Transfers In	-	-	937
Total Additions	(2,385,333)	11,951,256	458,392
Deductions			
Benefits and Refunds:			
Retirement, Disability, and Beneficiary	2,559,806	-	-
Separations	31,461	-	-
Total Benefits and Refunds	2,591,267	-	-
Distributions	55,089	12,023,485	17,747
Insurance Premiums	257,612	-	-
Unusual Write-off of Receivable	(784)	-	-
Administrative Expense	20,021	202	1,853
Transfers Out	-	-	10,937
Total Deductions	2,923,206	12,023,687	30,537
Net Increase (Decrease)	(5,308,539)	(72,431)	427,855
Net Assets - Beginning of Year	61,320,120	3,904,745	51,188
Net Assets - End of Year	$ 56,011,582	$ 3,832,314	$ 479,043

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

Notes To The Financial Statements

Index

Page

Summary of Significant Accounting Policies

Note 1. Summary of Significant Accounting Policies 36
- A. Basis of Presentation 36
- B. Financial Reporting Entity 36
- C. Government-wide and Fund Financial Statements 38
- D. Measurement Focus, Basis of Accounting and Financial Statement Presentation 39
- E. Assets, Liabilities, and Net Assets/Equity 41
  1. Cash and Cash Equivalents 41
  2. Investments 41
  3. Mortgage and Other Loans 42
  4. Forestation State Tax 42
  5. Interfund Assets/Liabilities 42
  6. Inventories and Prepaid Items 42
  7. Capital Assets 42
  8. Restricted and Limited Use Assets 43
  9. Local Assistance Aids 43
  10. Long-term Debt Obligations 44
  11. Compensated Absences 44
  12. Deferred Revenue 45
  13. Self-Insurance 45
  14. Fund Equity Reserves and Restricted Net Assets/Fund Equity 45

Explanation of Certain Differences Between Governmental Fund Statements and Government-Wide Statements

Note 2. Detailed Reconciliation of the Government-wide and Fund Statements 46
- A. Explanation of Differences Between the Governmental Funds Balance Sheet and the Statement of Net Assets 46
- B. Explanation of Differences Between the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds and the Statement of Activities 48

Stewardship and Compliance - Violations of Finance-Related Legal/Contractual Provisions

Note 3. Budgetary Control 50

Note 4. Deficit Fund Balance/Fund Equity/Net Assets 50

Detailed Disclosures Regarding Assets and Revenues

Note 5. Deposits and Investments 51
- A. Deposits 51
- B. Investments 52
- C. Lottery Investments and Related Future Prize Obligations 59

Note 6. Receivables and Net Revenues 60
- A. Receivables 60
- B. Net Revenues 60

Note 7. Capital Assets 61

Note 8. Endowments 63

Note 9. Interfund Receivables, Payables, and Transfers 64
- A. Due from/to Other Funds 64
- B. Due to/from Component Units 65
- C. Interfund Receivables/Payables 66
- D. Advances to/from Other funds 66
- E. Interfund Transfers 67
- F. Transfers to/from Component units 68

Page

Detailed Disclosures Regarding Liabilities and Expenses/Expenditures

Note 10. Changes in Long-term Liabilities..... 69

Note 11. Bonds and Notes..... 70
A. General Obligation Bonds..... 70
B. Revenue Bonds..... 73
C. Refundings and Early Extinguishments..... 79
D. Short-term Financing..... 80
E. Certificates of Participation..... 81
F. Arbitrage Rebate..... 82
G. Moral Obligation Debt..... 82
H. Credit Agreements..... 82

Note 12. Lease Commitments and Installment Purchases..... 83
A. Capital Leases..... 83
B. Operating Leases..... 84
C. Installment Purchases..... 84

Note 13. Retirement Plan..... 85

Note 14. Milwaukee Retirement Systems..... 86

Note 15. Other Postemployment Benefits..... 90

Note 16. Public Entity Risk Pools Administered by the Department of Employee Trust Funds..... 91
A. Description of Funds..... 91
B. Accounting Policies for Risk Pools..... 91
C. Unpaid Claims Liabilities..... 92
D. Trend Information..... 92

Note 17. Self-Insurance..... 93

Note 18. Insurance Funds..... 94
A. Local Government Property Insurance Fund..... 94
B. State Life Insurance Fund..... 95
C. Patients Compensation Fund..... 96
D. Health Insurance Risk Sharing Plan..... 97
E. Wisconsin Health Care Liability Insurance Plan..... 98

Other Note Disclosures

Note 19. Segment Information and Condensed Financial Data..... 99

Note 20. Component Units -- Condensed Financial Information..... 100

Note 21. Restatements of Beginning Fund Balance/Fund Equity/Net Assets and Other Changes..... 101
A. Fund Statements - Governmental Funds..... 102
B. Fund Statements - Proprietary Funds..... 103
C. Fund Statements - Fiduciary Funds..... 104

Note 22. Litigation, Contingencies and Commitments..... 105
A. Litigation and Contingencies..... 105
B. Commitments..... 106

Note 23. Subsequent Events..... 107

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

B. Financial Reporting Entity

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

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

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

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

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

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

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

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

Badger Tobacco Asset Securitization Corporation
777 East Wisconsin Avenue, Suite 3800
Milwaukee, WI 53202

Blended Component Units

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

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

Discrete Component Units

These component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The component units are reported in a separate column and in separate rows in the government-wide statements to emphasize that they are legally separate. One of the component units reports on a fiscal year ended December 31, while another reports on a fiscal year ended May 31.

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

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

University of Wisconsin Hospitals and Clinics Authority – The University of Wisconsin Hospitals and Clinics Authority (Hospital) is a not-for-profit academic medical center. The Hospital operates an acute-care hospital with approximately 480 available beds, numerous specialty clinics, and seven ambulatory facilities providing comprehensive health care to patients, education programs, research and community service to residents of southern Wisconsin. Prior to June 1996, the Hospital was a unit of the University of Wisconsin-Madison. In June 1996, in accordance with legislation enacted by the State Legislature, the Hospital was restructured as a Public Authority, a public body corporate and politic created by State statutes. 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 12A to the financial statements). Under a Conveyance Agreement, certain assets and liabilities related to the Hospital were identified and transferred to the Hospital effective July 1, 1996. Subject to the Contractual Services Agreement and Operating and Service Agreement between the Board of Regents and the Hospital, the two parties have entered into contracts for the continuation of services in support of programs and operations.

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

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

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

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

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.

Other Organizations Not Included in the Reporting Entity

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

In August 2001, the State Fair Park entered into an agreement with the SFPEC to lease 7.52 acres on the State Fair grounds for construction of an exposition center. Financing for the exposition center was obtained by the SFPEC through a loan agreement with the City of West Allis, Wisconsin, which secured funding through issuance of $44.9 million in industrial bonds. The bonds were issued under an indenture of trust between the City of West Allis and a commercial lending institution. To secure the bonds, the SFPEC obtained a letter of credit from the commercial lending institution that is intended to repay the loan to the City of West Allis in the event that the debt service payments under the loan agreement are not paid. The exposition center was completed and opened in July of the SFPEC's fiscal year ending December 31, 2002.

The SFPEC is considered a blended component unit of the State Fair Park, an enterprise fund, because, although legally separate, the organizations are so intertwined that they are, in substance, the same. The SFPEC serves and benefits the State Fair Park. Under the provisions of GASB Statement No. 14, the SFPEC would be blended into and presented with the financial information of the State Fair Park. However, the SFPEC's financial information is not reported within the State Fair Park for fiscal year 2002.

C. Government-wide and Fund Financial Statements

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

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

reporting and are aggregated by fund type and ultimately reported as single columns on the fiduciary statements.

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

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

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

The 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.

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

In the University of Wisconsin System's enterprise fund, revenues and expenses of an academic term that spans two fiscal years are reported totally within the fiscal year in which the program is predominantly conducted.

Governmental fund financial statements are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net available financial resources.

Governmental funds are reported on the modified accrual basis of accounting. This basis of accounting recognizes revenues generally when they become measurable and available to pay current reporting period liabilities. For this purpose, the State considers tax revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Other revenues are considered to be available if received within one year after the fiscal year end. Material revenue sources susceptible to accrual include individual and corporate income taxes, sales taxes, public utility taxes, motor fuel taxes and federal revenues.

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

The State reports the following major funds:

Major Governmental Funds

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

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

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

Major Enterprise Funds

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

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

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

- *University of Wisconsin System Fund* – accounts for the 13 universities, 13 two-year colleges, the University of Wisconsin Extension and System Administration. In addition, the balance sheet of this fund includes the accounts of the Wisconsin State Colleges Building Corporation.

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

In addition, the State reports the following fund types:

Governmental Funds

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

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

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

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

Proprietary Funds

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

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

Fiduciary Funds

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

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

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

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

Amounts reported as program revenues on the government-wide financial statements include (a) charges for services – amounts received from customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided by the State; or investment and interest earnings from various loan and insurance funds/component units, (b) program-specific operating grants and contributions, and (c) program-specific capital grants and contributions. General revenues consist of taxes and all other revenues that do not meet the definition of program revenues. Special items are significant transactions or events within the control of management that are either unusual in nature or infrequent in occurrence. In Fiscal Year 2002, the State reported the revenues received from the sale of a portion of the State's right to the Attorneys General Master Settlement Agreement of 1998 as a special item of the governmental activities.

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

The revenues and expenses shown on the proprietary fund statements are identified as either operating or nonoperating. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's primary mission. The State's enterprise and internal service funds are

involved in many diverse fields including patient care, lottery, insurance programs, loan programs, employee benefit plans, and providing services and goods to other state agencies and departments.

The majority of operating revenues for the proprietary funds are recorded under charges for goods and services. In the case of the employee benefit plans, the primary operating revenue source is participant contributions. In regards to the State's insurance and loan enterprise funds, investment and interest income is also an important component of operating revenue. Operating expenses for the proprietary funds include the costs of sales and services, benefit expenses, administration expenses and depreciation on capital assets. All revenues and expenses not related to a fund's primary purpose are reported as nonoperating.

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

E. Assets, Liabilities, and Net Assets/Equity

1. Cash and Cash Equivalents

Cash balances of most funds are deposited with the State Treasurer where the available balances beyond immediate needs are pooled in the State Investment Fund for short-term investment purposes. Balances pooled are restricted to legally stipulated investments valued consistent with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Cash balances not controlled by the State Treasurer may be invested where permitted by statute.

Cash and cash equivalents, reported on the balance sheet and statement of cash flows, include bank accounts, petty cash, cash in transit, short-term investments with an original maturity of three months or less such as certificates of deposit, money market certificates and repurchase agreements and individual funds' shares in the State Investment Fund.

2. Investments

Primary Government

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

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

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

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

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

Component Units

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

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

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

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

3. Mortgage and Other Loans

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

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

4. Forestation State Tax

The State levies an annual tax of two-tenths of one mill for each dollar of the assessed valuation of the property in the State, as described in Wis. Stat. Sec. 70.58. This tax is levied for the purpose of acquiring, preserving and developing the forests of the state; for forest crop law and county forest law administration and aid payments; and for the acquisition, purchase and development of forests. The proceeds of the tax are paid to the Conservation Fund.

This tax, the only property tax levied by the State, is levied to each county on or before the fourth Monday in August of each year on assessed valuation as of January 1 of that year. The tax is due and payable January 31 or on the due dates established through an installment option permitted under Wis. Stat. Sec. 74.12.

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

5. Interfund Assets/Liabilities

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

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

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

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

6. Inventories and Prepaid Items

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

Inventories of the University of Wisconsin System held by central stores are valued at average cost, fuels are valued at market, and other inventories held by individual institutional cost centers are valued using a variety of cost flow assumptions that, for each type of inventory, are consistently applied from year to year.

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

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

7. Capital Assets

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

Purchased or constructed capital assets are valued at cost or estimated historical cost if actual historical cost is not practicably

determinable. Donated capital assets are recorded at their fair value at the time received.

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

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

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

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

8. Restricted and Limited Use Assets

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

9. Local Assistance Aids

Municipal and County Shared Revenue Program

Through the Municipal and County Shared Revenue Program, the State distributes general revenues collected from general State tax sources to municipal and county governments to be used for providing local government services. State statutes require that payment to local governments be made during July and November.

At June 30, 2002, the State was liable to various local governments for unpaid shared revenue aid. To measure the amount of the program allocable to the State's fiscal year, the amount is prorated over portions of recipient local governments' calendar fiscal years that are within the State's fiscal year. The result is that a liability of $514.7 million representing one-half of the total appropriated amount is reported at June 30, 2002 as Due To Other Governments.

For the State's Fiscal Year 2002, a portion of the liability will be paid through the Tobacco Settlement Endowment Fund, a special revenue fund, resulting in $311.4 million being reported as a Due from Other Funds in the General Fund at June 30, 2002.

State Property Tax Credit Program

At June 30, 2002, 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, 2002.

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, 2002.

The aggregated State Property Tax Credit Program liability of $354.0 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 2002 property tax bills, the State made this payment in March 2002.

The Lottery Tax Credit Program is accounted for in the Lottery Fund, an enterprise fund, that records revenues and expenses on the accrual basis. A portion of the State's March payment distributed to the general government taxing jurisdictions applies to their fiscal year that ends on December 31. Therefore, part of the March distribution represents an expense of the State in Fiscal Year 2002, while the remaining portion represents a prepaid item. The resulting Prepaid Item reported within the Lottery Fund totals $25.9 million at June 30, 2002.

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 2002, while the remaining portion represents a prepaid item. The resulting Prepaid Item within the General Fund totals $21.8 million at June 30, 2002.

10. Long-term Debt Obligations

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

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

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

Debt issuance costs relating to general obligation bonds of the Veterans Mortgage Loan Repayment Fund and the University of Wisconsin System Fund, both enterprise funds, are amortized ratably over the life of the obligations to which they relate. On the government-wide financial statements, bond premiums and discounts, as well as issuance costs, related to the Transportation Revenue Bonds and the Petroleum Inspection Fee Obligation Revenue Bonds (which finance programs in a capital projects fund and a special revenue fund, respectively) are also amortized ratably over the life of the obligations to which they relate. Results from the use of this method do not vary materially from those that would be obtained by use of the effective interest rate method.

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

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

11. Compensated Absences

Consistent with the compensated absences reporting standards of GASB Statement No. 16, *Accounting for Compensated Absences,* an accrual for certain salary-related payments associated with annual leave and an accrual for sick leave is included in the compensated absences liability at year end.

Annual Leave

Full-time employees' annual leave days are credited on January 1 of each calendar year at a minimum of 10 days per year. There is no requirement to use annual leave. However, unused leave is lost unless approval to carry over the unused portion is obtained

from the employing agency. Compensatory time accumulates for eligible employees for hours worked in excess of forty hours per week. Each full-time employee is eligible for three and one-half personal holidays each calendar year, provided the employee is in pay status for at least one day in the year. If a holiday occurs on a Saturday, employees receive leave time proportional to their working status to use at their discretion.

The State's compensated absence liability at June 30 consists of accumulated unpaid annual leave, compensatory time, personal holiday hours, and Saturday/legal hours earned and vested during January through June. The liability is reported in the government-wide, proprietary fund types and fiduciary funds. In the component units the obligation is reported as a fund liability.

Sick Leave

Full-time employees earn sick leave at a rate of five hours per pay period. Unused sick leave is accumulated from year to year without limit until termination or retirement. Accumulated sick leave is not paid. However, at employee retirement the accumulated sick leave may be converted to pay for the retiree's health insurance premiums. The State accumulates resources to pay for the expected health insurance premiums of retired employees. That portion of the total health insurance obligation for which the State has already accumulated resources is presented in the Accumulated Sick Leave Fund, a pension and other employee benefit trust fund.

12. Deferred Revenue

In the government-wide statements and proprietary fund financial statements deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Deferred revenues arise when resources are received by the State before it has a legal claim to them, as when grant moneys are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the State has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized. In the governmental fund statements revenues are also deferred for amounts that are unearned or unavailable.

Deferred revenues of the University of Wisconsin System consist of payments received but not earned at June 30, 2002, primarily for summer session tuition, tuition and room deposits for the next fall term, and advance ticket sales for upcoming intercollegiate athletic events.

13. Self-Insurance

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

The State's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, State management believes it is more economical to manage its own risks internally. The Risk Management Fund, an internal service fund, is used to pay for losses incurred by any State agency and for administrative costs incurred to manage a state-wide risk management program. These losses include damage to property owned by the agencies, personal injury or property damage liabilities incurred by a State officer, agent or employee, and worker's compensation costs for State employees. A limited amount of insurance is purchased to limit the exposure to catastrophic losses. Annually, a charge is allocated to each agency for its proportionate share of the estimated cost attributable to the program per Wis. Stat. Sec. 16.865(8).

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

Fund Balance Reserves

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

Restricted Net Assets/Fund Equity

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

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

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

During the year ended June 30, 2002, the following adjustments and reclassifications were necessary to reconcile the information from the fund-based Balance Sheet – Governmental Funds to the amounts presented in the governmental section of the Statement of Net Assets (in thousands). The differences result primarily from the long-term economic focus of the Statement of Net Assets compared to the current financial focus of the Balance Sheet – Governmental Funds.

	Total Governmental Funds	Long-term Assets, Liabilities (1)	Internal Service Funds (2)	Reclassifications and Eliminations (3)	Total Amount for Statement of Net Assets
Assets:					
Cash and Cash Equivalents	$ 2,075,338	$ -	$ 40,989	$ -	$ 2,116,327
Investments	155,378	-	-	-	155,378
Receivables:					
Taxes	1,231,117	-	-	(1,231,117)	-
Loans to Local Governments	237,228	-	-	(237,228)	-
Other Receivables	203,290	896	808	2,178,621	2,383,615
Due from Other Funds	865,733	-	40,881	(906,614)	-
Due from Component Units	7	-	-	(7)	-
Interfund Receivables	410	-	-	(410)	-
Due from Other Governments	669,000	-	-	(669,000)	-
Internal Balances	-	-	5,051	32,369	37,420
Inventories	36,598	3,267	8,216	-	48,080
Prepaid Items	359,447	-	29,156	-	388,603
Advances to Other Funds	3,000	-	-	(3,000)	-
Other Assets	332	-	-	-	332
Restricted Assets:					
Cash and Cash Equivalents	30,444	-	-	-	30,444
Investments	3	-	-	-	3
Deferred Charges	-	27,791	754	-	28,545
Depreciable Capital Assets	-	1,234,431	318,333	-	1,552,765
Infrastructure	-	9,205,713	-	-	9,205,713
Other Non-depreciable Capital Assets	-	2,039,406	-	-	2,039,406
Total Assets	$ 5,867,323	$ 12,511,505	$ 444,189	$ (836,386)	$ 17,986,631
Liabilities:					
Accounts Payable and Other Accrued Liabilities	$ 963,412	$ -	$ 43,660	$ 3,342,969	$ 4,350,040
Due to Other Funds	838,416	-	56,186	(894,602)	-
Due to Component Units	798	-	-	(798)	-
Interfund Payables	763,645	-	-	(763,645)	-
Due to Other Governments	1,566,662	-	-	(1,566,662)	-
Tax Refunds Payable	893,737	-	-	(893,737)	-
Tax and Other Deposits	37,389	-	-	-	37,389
Deferred Revenue	623,543	(284,618)	2,373	-	341,298
Interest Payable	31,029	23,874	-	(54,903)	-
Advances from Other Funds	5,008	-	-	(5,008)	-
Short Term Notes Payable	491,170	-	53,021	-	544,191
Long-term Liabilities:					
Short-term Portion	-	249,201	12,440	49,655	311,296
Long-term Portion	-	4,482,402	267,694	-	4,750,096
General Obligations Bonds Payable	100	-	-	(100)	-
Revenue Bonds and Notes Payable	49,555	-	-	(49,555)	-
Total Liabilities	6,264,463	4,470,859	435,375	(836,386)	10,334,311
Fund Balances/Net Assets	(397,140)	8,040,646	8,814	-	7,652,320
Total Liabilities and Fund Balances/Net Assets	$ 5,867,323	$ 12,511,505	$ 444,189	$ (836,386)	$ 17,986,631

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

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

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

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

During the year ended June 30, 2002, the following adjustments and reclassifications were necessary to reconcile the information from the fund-based Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the amounts presented in the governmental section of the Statement of Activities (in thousands). The differences result primarily from the long-term economic focus of the Statement of Activities compared to the current financial focus of the Statement of Revenues, Expenditures, Changes in Fund Balance – Governmental Funds.

	Total Governmental Funds	Long-term Revenues and Expenses (1)	Capital-Related Items (2)
Revenues:			
Taxes	$ 11,050,658	$ -	$ -
Income Taxes	-	(7,718)	-
Sales & Excise Taxes	-	(1,091)	-
Public Utility Taxes	-	-	-
Other Taxes	-	202	-
Motor Fuel (Transportation) Taxes	-	1,402	-
Other Dedicated Taxes	-	181	-
Intergovernmental	5,509,834	-	-
Operating Grants	-	-	200
Capital Grants	-	-	3,632
Licenses and Permits	855,093	-	-
Charges for Goods and Services	224,066	9,958	-
Investment and Interest Income	45,562	-	-
Fines and Forfeitures/Contributions to Permanent Fund	55,392	-	-
Gifts and Donations	38,087	-	-
Other Revenues:		43,543	(6,150)
Intergovernmental Transfer	969,886	-	-
Tobacco Settlement	1,431,218	-	-
Other	166,569	-	-
Total Revenues	20,346,366	46,476	(2,318)
Expenditures:			
Current Operating:			
Commerce	198,291	(1,607)	2,557
Education	5,417,136	(566)	2,357
Transportation	1,664,161	(2,605)	61,363
Environmental Resources	528,699	(3,610)	7,992
Human Relations and Resources	7,957,774	(8,066)	41,900
General Executive	442,938	(3,104)	2,791
Judicial	103,069	(841)	5,092
Legislative	61,989	(2,179)	443
Tax Relief and Other General Expenditures	822,650	-	-
Intergovernmental	1,095,991	-	-
Debt Service:			
Principal	173,247	-	-
Interest and Other Charges	209,851	53,606	-
Capital Outlay	669,704	-	(669,704)
Total Expenditures	19,345,501	31,027	(545,211)
Excess of Revenues Over (Under) Expenditures	1,000,865	15,449	542,893
Other Financing Sources (Uses):			
Special Items - Tobacco Settlement Sale	-	-	-
Net Transfers	(1,068,515)	17,033	2,466
Transfers to Component Units	(176)	-	-
Long-term Debt Issued	1,125,982	-	-
Premium/Discount on Bonds	60,247	-	-
Payment to Refunding Bond Escrow Agent	(631,477)	-	-
Installment Purchase Acquisitions	1,216	(1,216)	-
Capital Leases Acquisitions	6,039	(6,039)	-
Total Other Financing Sources (Uses)	(506,685)	9,778	2,466
Net Change in Fund Balance	494,180	$ 25,227	$ 545,359
Change in Reserve for Inventories	7,123		
Net Change for the Year	$ 501,303		

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

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

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

Internal Service Funds (3)	Long-term Debt Transactions (4)	Eliminations (5)	Revenue/Expense Reclassifications (6)	Total Amount for Statement of Activities
$ -	$ -	$ -	$ (11,050,658)	$ -
-	-	-	5,423,055	5,415,337
-	-	-	4,049,808	4,048,716
-	-	-	243,970	243,970
-	-	-	253,904	254,106
-	-	-	890,760	892,162
-	-	-	189,162	189,343
-	-	-	(5,509,834)	-
-	-	34,256	4,899,324	4,933,780
-	-	-	665,495	669,128
-	-	-	(855,093)	-
-	-	(27,387)	891,512	1,098,149
354	-	-	(16,898)	29,019
-	-	-	(36,419)	18,973
-	-	-	(38,087)	-
-	-	(252)	1,302,671	1,339,812
-	-	-	(969,886)	-
-	-	-	(1,431,218)	-
-	-	-	(166,569)	-
354	-	6,618	(1,265,002)	19,132,493
(549)	-	(3,765)	0	194,927
(1,382)	-	22,594	302	5,440,440
(2,572)	122	-	(6,254)	1,714,215
(57)	(52)	(137)	(852)	531,983
(5,700)	188	11,491	(236)	7,997,351
(2,455)	-	(23,566)	(312)	416,294
(139)	(226)	-	-	106,954
(206)	(102)	-	4	59,948
(9)	-	-	(2,023)	820,618
-	-	-	-	1,095,991
-	(173,247)	-	-	-
10,674	21,017	-	2,424	297,572
-	-	-	-	-
(2,396)	(152,299)	6,618	(6,947)	18,676,293
2,750	152,299	0	(1,258,055)	456,200
-	-	-	1,275,002	1,275,002
(405)	-	-	(10,000)	(1,059,422)
-	-	-	176	-
-	(1,125,982)	-	-	-
-	(60,247)	-	-	-
-	631,477	-	-	-
-	-	-	-	-
-	-	-	-	-
(405)	(554,752)	-	1,265,178	215,581
$ 2,345	$ (402,453)	$ 0	7,123	671,781
			(7,123)	-
			$ 0	$ 671,781

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

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

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

NOTE 3. BUDGETARY CONTROL

The legal level of budgetary control for Wisconsin is at the function, agency, program, appropriation-level. Supplemental appropriations require the approval of the Joint Finance Committee of the Legislature. Routine adjustments, such as pay plan supplements and rent increases, are distributed by the Division of Executive Budget and Finance from non-agency specific appropriations authorized by the Legislature. Various supplemental appropriations were approved during the year and have been incorporated into the budget figures.

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.

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

In addition to the General Fund, funds reporting a deficit fund balance, fund equity, or net assets position at June 30, 2002 are (in thousands):

Special Revenue:		
Petroleum Inspection	$	310,840
Information Technology Investment		2,985
Capital Projects:		
Capital Improvement		235,095
Transportation Revenue Bonds		139,455
Enterprise:		
Health Insurance Risk Sharing Plan		2,492
Duty Disability		215,631
Internal Service:		
Risk Management		101,997
Pension and Other Employee Benefit Trust:		
Accumulated Sick Leave		557,282
Life Insurance		53

NOTE 5. DEPOSITS AND INVESTMENTS

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

A. Deposits

Primary Government

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

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

At June 30, 2002, the carrying amount of the primary government deposits was $704.9 million and the bank balance was $178.3 million. Of the bank amount, excluding a bank overdraft of $46.4 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
- $214.6 million was uncollateralized and uninsured.

The State's unemployment compensation program had $1,485.7 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 $197 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, 2002, the carrying amount of the component units' deposits was $8.5 million and the bank balance was $9.2 million. Of the bank amount, $1.5 million was covered by federal depository insurance, the State Public Deposit Guarantee Fund or collateralized with securities held by the State or its agent in the State's name and $7.7 million was uncollateralized and uninsured.

B. Investments

Primary Government

State Investment Fund

This fund functions as the State's cash management fund by "pooling" the idle cash balances of all State funds and other public institutions. In the State's Comprehensive Annual Financial Report, the State Investment Fund is not reported as a separate fund; rather, each State fund's share in the "pool" is reported on the balance sheet as "Cash and Cash Equivalents." Shares of the fund belonging to other participating public institutions are presented in the Local Government Pooled Investment Fund, an investment trust fund.

Wis. Stat. Secs. 25.17(3)(b), (ba) and (bd) enumerate the various types of securities in which the State Investment Fund can invest, which include direct obligations of the United States and Canada, securities guaranteed by the United States, securities of federally chartered corporations such as the African Development Bank, unsecured notes of financial and industrial issuers, Yankee/Euro issues, certificates of deposit issued by banks in the United States and solvent financial institutions in this State, and bankers acceptances. Other prudent investments may be approved by the State of Wisconsin Investment Board's Board of Trustees. The Board of Trustees has given standing authority to the Board to invest in resale agreements, financial futures contracts, options and interest rate swaps.

Valuation of Securities

Investments are valued at fair value for financial statement purposes and amortized cost for purposes of calculating income to participants. The custodial bank has compiled fair value information for all securities by utilizing third party pricing services. Government and agency securities and commercial paper are priced using matrix pricing. This method estimates a security's fair value by using quoted market prices for securities with similar interest rates, maturities, and credit ratings. Repurchase agreements and certificates of deposit are valued at cost because they are nonparticipating contracts that do not capture interest rate changes in their value. Swaps are valued at the net present value of estimated expected future cash flows using discount rates commensurate with the risk involved. In addition, a bond issued by other State agencies having a par value of $1.9 million is valued at par, which management believes approximates fair value. The fair value of investments is determined at the end of each month.

Pool Earnings and Pool Shares

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

Derivative Financial Instruments

As of June 30, 2002, 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, 2002, the fair value of the restructured investments was negative $12.9 million while the amortized deferred loss was negative $12.9 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, 2002, the fair value of these certificates of deposit was $396.8 million.

Approximately $379.1 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 $17.7 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, 2002, the State Investment Fund's investments are as follows (in millions):

	Category			Fair
	1	2	3	Value
U.S. government and agency holdings	$ 4,915.1	--	--	$ 4,915.1
Repurchase agreements	992.0	--	--	992.0
Asset backed securities	2.0	--	--	2.0
Mortgage backed securities	2.0	--	--	2.0
	$ 5,911.1	--	--	5,911.1
Swaps				(26.8)
				$ 5,884.3

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

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

Other Funds Managed by the Board

Other investments under exclusive control of the Board which are not held in the cash management pool include those held by certain permanent, proprietary, and fiduciary funds. A discussion of these investment activities follows:

Governmental

Historical Society - At June 30, 2002, investments of $9.9 million consisted of bonds and stocks.

Tobacco Settlement Endowment Fund – At June 30, 2002, investments of $826.2 million consisted of short-term securities reported as cash equivalents.

Business-Type

Local Government Property Insurance, State Life Insurance, and Patients Compensation Funds - At June 30, 2002, investments were $15.5 million for the Local Government Property Insurance Fund, $68.6 million for the State Life Insurance Fund, and $560.9 million for the Patients Compensation Fund, consisting of bonds, stocks and private placements.

Fiduciary

Pension Trust Fund – This trust is a pooled fund consisting of retirement contributions made by and on behalf of participants in the Wisconsin Retirement System (WRS) (see Note 13 to the financial statements). At June 30, 2002, the Pension Trust Fund held $53,114.2 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, $634.6 million of investments are included in the fund's cash and cash equivalents.

In addition, $2,335.7 million of securities lending transactions were held at June 30, 2002. These transactions are categorized consistent with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*.

Tuition Trust Fund – At June 30, 2002, investments of $11.8 million consisted of bonds and principal only strips.

The following table presents investments of these funds at June 30, 2002, categorized in accordance with the requirements of GASB Statement No. 3.

At June 30, 2002, the investments of the Other Funds Managed by the Board consisted of (in millions):

	Category			Fair
	1	2	3	Value
Bonds	$ 7,294.2	$ --	$ --	$ 7,294.2
Stocks	15,284.8	--	--	15,284.8
Repurchase Agreements	102.1	--	--	102.1
Bankers Acceptances	297.0	--	--	297.0
	$ 22,978.1	$ --	$ --	22,978.1
Private Placements				3,546.4
Limited Partnerships				2,598.6
Pooled Equity Funds				18,187.0
Pooled Bond Funds				4,830.8
Mortgages				685.8
Real Estate				461.9
Custodial Pooled Cash and Equivalents				1,460.8
Investments Held by Broker Dealers Under Securities Loans:				
Bonds				1,438.3
Equities				860.4
Securities Lending Cash Collateral Pooled Investments				529.3
				$ 57,577.4

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, 2002 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, 2002, 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, 2002 the fair value of foreign currency forward contracts assets totaled $1.4 billion, while the liabilities totaled $1.4 billion.

Other Options - Other options also are held for trading purposes. These option contracts give the purchaser of the contract the right to buy (call) or sell (put) the equity security or index underlying the contract at an agreed upon price (strike price) during or at the conclusion of a specified period of time. The seller (writer) of the contract is subject to market risk, while the purchaser is subject to credit risk and market risk to the extent of the premium paid.

Futures Contracts – One 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, 2002, futures with a face value of $3.2 million were held. These futures are set to expire in September 2002.

Collateralized Mortgage Obligations (CMO's) – Bonds that are collateralized by whole loan mortgages, mortgage pass-through securities or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes or traunches in accordance with each CMO's established payment order. Some CMO traunches have more stable cash flows relative to changes in interest rates while others are significantly more sensitive to interest rate fluctuations. In a declining interest rate environment, some CMO's may be subject to a reduction in interest payments as a result of prepayments of mortgages which make up the collateral pool. A reduction in interest payments causes a decline in cash flows and thus a decline in the fair value of the security. Rising interest rates may cause an increase in interest payments, thus an increase in fair value of the security. CMO's are held to maximize yields and in part to hedge against a rise in interest rates. At June 30, 2002, CMO's values at $306.0 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, 2002, four principal only strips valued at $491.0 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, 2002, 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:

Governmental

General Fund – At June 30, 2002, investments of $.9 million of which $.5 million are considered deposits and included in Note 5A.

Transportation Revenue Bond Funds - At June 30, 2002, the Transportation Revenue Bond Capital Projects Fund and the Transportation Revenue Bond Debt Service Fund had investments totaling $96.0 million, of which $67.6 million are reported as cash equivalents. Investments of $28.4 million satisfy Category 1 risk criteria, while the remaining $67.6 million of investment contracts are unclassified.

Common School Fund – At June 30, 2002, investments totaling $97.3 million meet risk Category 1.

Normal School Fund – At June 30, 2002, investments in government holdings totaling $15.0 million meet risk category 1.

The Wisconsin Public Broadcasting Foundation Fund - The fund's investments at June 30, 2002, were $4.7 million, which consists of $3.6 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.

Petroleum Inspection Revenue Bonds Fund – At June 30, 2002, investments of $.4 million of government and agency holdings meet risk category 1.

Business-Type

Environmental Improvement Fund - The fund's aggregate investments at June 30, 2002, were $168.1 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 $132.4 million consist of government and agency holdings and satisfy Category 1 risk criteria.

Lottery Fund - Investments are all in the form of U.S. Treasury zero coupon bonds. At June 30, 2002, investments of $145.4 million which meet Category 1 risk criteria were held.

The *University of Wisconsin System* – The fund's aggregate investments at June 30, 2002, were $309.9 million of which $22.8 million are reported as cash equivalents. Of the remaining $287.1 million, $234.6 million meet Category 1 risk criteria while the remaining investments are unclassified.

Fiduciary

Inmate and Resident Fund – At June 30, 2002, investments totaling $1.0 million of which $.7 million are certificates of deposit that are considered deposits and included in Note 5A, and $.3 million are considered investments that meet risk Category 3.

College Savings Program Trust -- At June 30, 2002, investments totaling $439.3 million, which consist of short-term securities are reported as cash equivalents, meet risk Category 1.

At June 30, 2002, the State has approximately $269.2 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 $11.8 million securities, presented as "Other Assets" on the financial statements, include $10.8 million of various investments which meet risk Category 1 and $1.0 million of mutual funds which meet Category 1.

The State's Section 457 *Deferred Compensation Plan Fund* investments, totaling $1,095.6 million at June 30, 2002, 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, 2002, categorized in accordance with the requirements of GASB Statement No. 3.

At June 30, 2002, the Other State Agencies and Funds' investments consisted of (in millions):

	Category 1	Category 2	Category 3	Reported Amount	Fair Value
Government and agency holdings	$ 620.8	$ --	$ .3	$ 621.1	$ 621.1
Municipal bonds	119.5	--	--	119.5	119.5
Commercial paper and nonsecured corporate notes and bonds	52.5	--	--	52.5	52.5
Stocks and convertible securities	128.9	--	--	128.9	128.9
Repurchase agreements	--	35.7	--	35.7	35.7
Mortgage backed securities	10.9	--	--	10.9	10.9
Negotiable certificates of deposit	4.9	--	--	4.9	4.9
	$ 937.5	$ 35.7	$ .3	973.5	973.5
Guaranteed Investment Contracts				.2	.2
Mutual Funds				480.7	480.7
Money market funds				103.4	103.4
Deferred compensation investments				1,095.6	1,095.6
				$ 2,653.4	$ 2,653.4

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, 2002, were $863.2 million of which $160.6 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 $146.8 million are a Category 1 level of risk. The Authority's investments in uncollateralized investment agreements are a Category 3 level of risk.

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

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

The Authority's Finance committee approved the use of a security-lending program with the trust department of a bank acting as an agent. As of June 30, 2002 the Authority had $37.6 million of securities on loan to broker-dealers for a fee. The transactions are categorized consistently with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*.

Security lending transactions involve the lending of securities to broker-dealers and other entities for collateral, in the form of cash or securities, with the simultaneous agreement to return the collateral for the same securities in the future. The securities custodian is an agent in lending the domestic and international securities for collateral of 102 percent and 105 percent, respectively, of the loaned securities' market value. The lending agent in accordance with contractual investment guidelines, which are designed to insure the safety of principal and obtain a moderate rate of return, reinvests the collateral. The investment guidelines include very high credit quality standards and also allow for a portion of the collateral investments to be invested with short-term securities. The Authority has the following types of securities on loan: U.S. agency securities, U.S. government securities and corporate notes. The Authority has received the following types of collateral for the securities lent: cash, government securities or irrevocable letters of credit. The fair value of the investment securities loaned was $37.6 million as of

June 30, 2002, and the fair value of the collateral received was $38.2 million as of June 30, 2002. The Authority may request the bank to terminate any loan of securities for any reason at any time.

As of June 30, 2002, no credit risk exposure to borrowers existed because the amounts owed the borrowers exceeded the amounts the borrowers owed. The contract with the lending agent states that in the event that a borrower fails to return the lent security, the bank will indemnify the Authority for the following amounts: a) The difference between the closing market value of security on the date it should have been returned to the account and the cash collateral substituted for the lent securities, or b) In the case of collateral received in kind, the difference between the closing market value of the security on the date it should have been returned to the account and the closing market value of the collateral in kind on the same date.

The Authority assumes all risk of loss arising out of collateral investment loss and any resulting collateral deficiencies. The bank expressly assumes the risk of loss arising from negligent or fraudulent operations of its securities lending program. The bank operates the securities lending program as a business trust investment pool with open and matched components. In the matched portion of the investment pool, the maturities of the securities lent and collateral are the same. The open portions of the pool maintains a weighted average maturity of the portfolio at approximately 15 days, with a range from 1 day to 25 days. The open portions of the pool generally have a 15-day mismatch between the portfolio coverage maturity and the open loans. As of June 30, 2002, approximately 58.9% of the securities lent were in the matched portion and approximately 41.1% in the open portion of the investment pool. No restrictions on the amount of the loans exist or can be made. The earnings generated from the securities lending program is reported as other income. During the year ended June 30, 2002 the Authority received $55,000 of income related to security lending transactions.

Wisconsin Health Care Liability Insurance Plan - The investments of the Wisconsin Health Care Liability Insurance Plan at December 31, 2001 were $114.8 million, of which $18.3 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 $173.9 million consist of $139.8 million of restricted and limited use investments and $34.1 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.

Badger Tobacco Asset Securitization Corporation -- Investments of $278.3 million of which $162.4 million are reported as cash equivalents.

The following table presents investments of component units at December 31, 2001, May 31, 2002, or June 30, 2002, categorized in accordance with the requirements of GASB Statement No. 3.

At December 31, 2001, May 31, 2002, or June 30, 2002, the component units' investments consisted of (in millions):

	Category			Reported	Fair
	1	2	3	Amount	Value
Bonds	$ 103.8	$ 52.2	$ --	$ 156.0	$ 158.3
Negotiable certificates of deposit	17.9	--	--	17.9	17.9
Uncollateralized investment agreements	--	--	146.8	146.8	146.8
Mortgage-backed securities	6.8	44.3	--	51.1	51.2
Repurchase agreements	--	11.2	--	11.2	11.2
Collateralized investment contracts	427.3	--	--	427.3	427.3
Commercial Paper	137.1	--	--	137.1	140.3
	$ 692.9	$ 107.7	$ 146.8	947.4	953.0
Money market funds				272.8	272.8
Pooled funds				162.6	162.6
Guaranteed Investment Contracts				47.3	47.3
				$ 1,430.1	$ 1,435.7

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

Other Funds Managed by the Board	$ 57,577.4
Other State Agencies and Funds	2,653.4
Component Units	1,430.1
Total Investments	$ 61,660.9

C. Lottery Investments and Related Future Prize Obligations

Investments of the State Lottery Fund totaling $145.4 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
2003	$ 16,635
2004	16,750
2005	16,868
2006	16,992
2007	17,118
Thereafter	119,068
Total future value	203,431
Less: Present value adjustment	(72,306)
Present value of payments	$ 131,125

NOTE 6. RECEIVABLES AND NET REVENUES

A. Receivables

Receivables at June 30, 2002 were as follows (in thousands):

	Taxes	Student Loans	Veterans Loans	Mortgage Loans	Insurance Policy Loans	Loans to Local Governments	Other Receivables	Due From Other Governments	Due From Component Units	Total Receivables
Governmental Activities:										
General	$ 1,115,043	$ -	$ -	$ -	$ -	$ 16,947	$ 172,495	$ 557,678	$ 7	$ 1,862,170
Transportation	92,810	-	-	-	-	-	5,703	99,437	-	197,950
Nonmajor Governmental	23,264	-	-	-	-	220,281	25,091	11,885	-	280,521
Total Governmental:	1,231,117	-	-	-	-	237,228	203,290	669,000	7	2,340,642
Government-wide Adjustments:										
Internal Service Funds	-	-	-	-	-	-	624	73	112	808
Accrual Adjustments	-	-	-	-	-	-	896	-	-	896
Fiduciary Receivables	-	-	-	-	-	-	41,268	-	-	41,268
Total – Governmental Activities	$ 1,231,117	$ -	$ -	$ -	$ -	$ 237,228	$ 246,078	$ 669,073	$ 119	$ 2,383,615
Related revenue deferral because the receivable does not meet the availability criteria	$ 235,514	$ -	$ -	$ -	$ -	$ -	$ 52,371	$ -	$ -	$ 287,884
Business-type Activities:										
Current:										
Patients Compensation	$ -	$ -	$ -	$ -	$ -	$ -	$ 10,696	$ -	$ 14	$ 10,710
Environmental Improvement	-	-	-	-	-	68,490	330	5,825	-	74,644
Veterans Mortgage Loan Repayment	-	-	-	20,241	-	-	4,860	-	-	25,101
University of Wisconsin System	-	25,856	-	-	-	-	61,406	75,294	1,968	164,523
Unemployment Insurance Reserve	-	-	-	-	-	-	134,421	9,288	-	143,708
Nonmajor Enterprise	-	636	5,989	1,725	-	83	31,724	3,483	-	43,641
Total Current:	-	26,492	5,989	21,966	-	68,573	243,437	93,890	1,982	462,329
Noncurrent:										
Environmental Improvement	-	-	-	-	-	1,014,833	-	-	-	1,014,833
Veterans Mortgage Loan Repayment	-	-	-	614,413	-	-	-	-	-	614,413
University of Wisconsin System	-	152,094	-	-	-	-	-	-	-	152,094
Nonmajor Enterprise	-	1,281	31,446	24,617	3,805	1,713	-	-	-	62,862
Total Noncurrent	-	153,376	31,446	639,030	3,805	1,016,546	-	-	-	1,844,203
Government-wide Adjustments:										
Fiduciary Receivables	-	-	-	-	-	-	65	-	-	65
Total – Business-type Activities	$ -	$ 179,868	$ 37,435	$ 660,996	$ 3,805	$ 1,085,119	$ 243,501	$ 93,890	$ 1,982	$ 2,306,596

B. Net Revenues

Certain revenues of the University of Wisconsin System are reported net of scholarship allowances. For Fiscal Year 2002, these scholarship allowances totaled as follows (in thousands):

Student Tuition and Fees	$ 80,838
Sales and Services of Auxiliary Enterprises	13,941
Total	$ 94,779

NOTE 7. CAPITAL ASSETS

Primary Government

Capital asset activity for the fiscal year ended June 30, 2002 was as follows (in thousands):

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and Land Improvements	$ 979,777	$ 107,379	$ (2,565)	$ 1,084,591
Construction in Progress	984,042	579,773	(609,001)	954,815
Infrastructure	8,993,266	263,729	(51,281)	9,205,713
Total capital assets, not being depreciated	10,957,085	950,881	(662,847)	11,245,119
Capital assets, being depreciated:				
Land and Land Improvements	58,713	27,170	(2,691)	83,192
Buildings and Improvements	1,276,029	331,864	(8,556)	1,599,337
Equipment	510,388	81,417	(30,975)	560,830
Totals	1,845,130	440,451	(42,222)	2,243,359
Less accumulated depreciation for:				
Land and Land Improvements	15,385	3,670	(20)	19,035
Buildings and Improvements	360,933	36,243	(595)	396,581
Equipment	249,707	50,349	(25,077)	274,978
Totals	626,025	90,262	(25,692)	690,594
Total Capital Assets, being depreciated, net	1,219,105	350,189	(16,530)	1,552,765
Governmental activities capital assets, net	$ 12,176,190	$ 1,301,070	$ (679,377)	$ 12,797,884
Business-type activities:				
Capital assets, not being depreciated:				
Land and Land Improvements	$ 97,901	$ 8,941	$ (807)	$ 106,035
Construction in progress	8,301	9,153	(7,330)	10,124
Total Capital Assets, not being depreciated	106,202	18,094	(8,137)	116,159
Capital assets, being depreciated:				
Land and Land Improvements	8,622	46	(204)	8,464
Buildings	2,774,072	234,550	(14,940)	2,993,682
Equipment	1,557,753	90,633	(39,629)	1,608,757
Totals	4,340,447	325,229	(54,773)	4,610,903
Less accumulated depreciation for:				
Land and Land Improvements	5,228	413	(179)	5,462
Buildings	1,253,316	73,999	(6,442)	1,320,872
Equipment	426,415	48,122	(25,461)	449,076
Totals	1,684,959	122,534	(32,082)	1,775,410
Total Capital Assets, being depreciated, net	2,655,488	202,695	(22,691)	2,835,493
Business-type activities capital assets, net	$ 2,761,690	$ 220,789	$ (30,828)	$ 2,951,652

In addition to the capital assets reported by governmental and business-type activities, the fiduciary funds reported gross capital assets of $3,883 thousand at June 30, 2002, with accumulated depreciation totaling $3,832 thousand.

Depreciation Expense

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

Governmental Activities		Business-type Activities	
Commerce	$ 2,493	Patients Compensation	$ 6
Education	2,266	Environmental Improvement	1
Transportation	10,311	Veterans Mortgage Loan Repayment	40
Environmental Resources	8,466	University System	112,179
Human Relations and Resources	35,596	Unemployment Insurance Reserve	-
General Executive Functions	2,453	Lottery	115
Judicial	5,069	Health Insurance	-
Legislative	442	Other Business-Type	10,192
General	-	Total depreciation expense - business-type activities	$ 122,533
Depreciation on capital assets held by the internal service funds	23,164		
Total depreciation expense - governmental activities	$ 90,260		

Construction in Progress

Construction in progress of the primary government reported in the government-wide statement of net assets at June 30, 2002 included the following projects (in thousands):

	Allotments	Expended to June 30, 2002	Encumbrances Outstanding	Unencumbered Allotment Balance
Governmental Activities:				
Reported through capital projects funds:				
New Lisbon Correctional Institution	$ 51,250	$ 45,809	$ 332	$ 5,109
Waukesha Office Building Addition	16,850	7,384	3,388	6,079
Four probation/parole facilities	12,346	1,313	8,488	2,544
Madison Crime Lab Remodeling	10,227	672	--	9,555
Other projects with allotments totaling less than $10 million		47,865		
		103,043		
Other:				
Transportation related		848,571		
Other		3,201		
Total construction in progress – governmental activities		$ 954,815		
Business-type Activities:				
University of Wisconsin System:				
Health Science Learning Center - Madison	$ 63,887	$ 10,001	$ 35,740	$ 18,147
Engineering Center - Madison	53,400	46,444	6,451	504
Klotsche Center Physical Education Addition - Milwaukee	42,117	1,687	1,060	39,371
Chemistry Building Addition - Madison	41,797	39,664	751	1,382
Biostar/Biotech Building Addition	27,500	981	604	25,915
Fine Arts Center Remodeling/Addition – Stevens Point	26,120	791	122	25,207
Chamberlin Hall Renovation – Madison	20,950	2,105	1,660	17,185
Gates Center Physical Education Addition/Remodeling - Superior	16,051	2,110	11,567	2,374
Lab Science Remodeling – Green Bay	15,140	1,014	167	13,958
Camp Randall Stadium Renovation – Madison	13,100	9,140	2,831	1,129
Student Life Center – La Crosse	10,591	10,556		34
Upham Science Addition/Remodeling - Whitewater	10,030	1,373	549	8,108
Home for Veterans:				
Home-Skilled Nursing Facility – Southern Wisconsin Center	17,076	422	--	16,654
State Fair Park:				
Grandstand Replacement	20,500	5,139	--	15,361
Other projects with allotments totaling less than $10 million		80,315		
Total construction in progress – business-type activities		$ 211,741		

As discussed in Note 1E7, construction in progress of the University of Wisconsin System is reported in the applicable major capital assets categories.

Component Units

Capital Assets balance of the Wisconsin Housing and Economic Development Authority and the University of Wisconsin Hospitals and Clinics Authority as of June 30, 2002 were as follows (in thousands):

	Amount
Capital Assets, not being depreciated:	
Land and Land Improvements	$ 6,032
Construction in Progress	28,601
Total Capital Assets, not being depreciated	34,633
Capital Assets, being depreciated:	
Buildings	234,475
Equipment	148,176
Totals	382,651
Less accumulated depreciation for:	
Buildings	99,664
Equipment	95,527
Totals	195,191
Total Capital Assets, being depreciated, net	187,461
Component Units Capital Assets, net	$ 222,094

NOTE 8. ENDOWMENTS

Primary Government

University of Wisconsin System

The University of Wisconsin System invests its trust funds, principally gifts and bequests designated as endowments or quasi-endowments, in two of its own investment pools: the Long Term Fund and the Intermediate Term Fund. Benefiting University of Wisconsin System entities receive quarterly distributions from the Long Term Fund, principally endowed assets, based on an annual spending rate of 5 percent applied to a 12-quarter moving average market value of the fund. Distributions from the Intermediate Term Fund, principally quasi-endowments and unspent income distributions, consist of interest earnings distributed monthly. Spending rate and interest distributions for both of these funds are transferred to the State Investment Fund, pending near-term expenditures. At June 30, 2002, net appreciation of $8.6 million was available to be spent.

University of Wisconsin System investment policies and guidelines for the Long Term Fund and Intermediate Term Fund are governed and authorized by the Board of Regents. The approved assets allocation policy for the Long Term Fund sets a general target of 70 percent equities and 30 percent fixed income. However, further diversification is a fundamental risk/return management strategy for this fund. Accordingly, the fund includes investments in domestic and non-U.S. stocks and bonds and is beginning diversification into limited partnerships consisting of venture capital and other private equity investments. The approved asset allocation for the Intermediate Term Fund is 100 percent intermediate maturity, investment-grade fixed income.

The fair value of Endowments as of June 30, 2002 was $298.1 million including unrealized gains of $2.4 million when fair values as of June 30, 2002 are compared to asset acquisition costs. This compares to a fair value as of June 30, 2001 of $305.7 million. The net decrease in fund balance during 2001-02 was $7.6 million.

The book value of Endowments under control of the University of Wisconsin System was $295.7 million as of June 30, 2002 compared to a book value of $287.5 million as of June 30, 2001. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments since realized gains and losses are based on the difference between the selling price and the acquisition cost of the asset. Therefore, when assets are reported at fair value much of the realized gain or loss may have already been included in prior years as part of the overall change in the fair value of investments.

At June 30, 2002, the book value and fair value of principal funds under control of the University of Wisconsin System was (in millions):

Original Contributions and Distributed Net Gains	$ 127.2
Realized Gains – Undistributed	168.5
Book Value	295.7
Unrealized Net Gains/Losses - Undistributed	2.4
Fair Value	$ 298.1

On June 30, 2002, the portfolio at market contained 65.9 percent in stocks, 30.0 percent in fixed income obligations, and 4.1 percent in short-term investments. The total return on the principal long-term portfolio including capital appreciation was (6.1) percent. The total return on the principal intermediate-term portfolio including capital appreciation was 6.7 percent. External investment counsel was furnished for funds representing 99.6 percent of market-value principal as of June 30, 2002.

NOTE 9. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances as of or for the year ended June 30, 2002 consist of the following (in thousands):

A. Due from/to Other Funds:

Due from Other Funds	$ 988,216
Due to Other Funds	$ 988,216

Due from/to Other Funds represent short-term interfund accounts receivable and payable. The totals of Due from/to Other Funds at June 30, 2002 by individual fund were as follows (in thousands):

Fund	Due from Other Funds	Due to Other Funds
General	$ 760,935	$ 132,483
Special Revenue:		
Transportation	32,414	36,997
Tobacco Settlement Endowment	--	542,361
Conservation	15,059	18,022
Wisconsin Health Education Loan Repayment	--	7
Medical Assistance Trust	221	54,043
Work Injury Supplemental Benefit	3	--
Tobacco Control	11,585	8,104
Uninsured Employers	3	--
Utility Public Benefits	5,992	1,410
Mediation	4	5
Agricultural Chemical Cleanup	87	--
Agrichemical Management	97	215
Agricultural Producer Security	252	26
Employee Trust Funds Administration	8,893	991
Petroleum Inspection	12,071	4,600
Environmental	8,043	4,782
Dry Cleaner Environmental Response	1	34
Recycling	5,790	939
Information Technology Investment	--	58
Universal Service	11	2,586
Wisconsin Public Broadcasting Foundation	--	419
Children's Trust	7	7
Capital Projects:		
Building Trust	1,414	310
Energy Efficiency	--	11
Capital Improvement	1,673	2,638
Transportation Revenue Bonds	9	27,208
Debt Service:		
Bond Security and Redemption	1	--
Transportation Revenue Bonds	--	9
Permanent Funds:		
Common School	1,158	80
Normal School	--	6
Historical Society	8	66
Enterprise:		
Patients Compensation	14	21
Environmental Improvement	253	1,645
Veterans Mortgage Loan Repayment	8	1,283
University of Wisconsin System	41,063	45,869
Unemployment Insurance Reserve	418	2,496
State Fair Park	--	2,505
Homes for Veterans	32	1,782
Mendota Mental Health Institute	4,420	4,674
Winnebago Mental Health Institute	745	3,925
Northern Developmental Disabilities Center	108	3,783
Central Developmental Disabilities Center	92	4,667
Southern Developmental Disabilities Center	2,044	3,741
Institutional Farm Operations	29	49
Correctional Canteen Operations	1	66
Lottery	2,239	11,472
Health Insurance Risk Sharing Plan	1,381	3,364
Local Government Property Insurance	--	2
State Life Insurance	--	37
Income Continuation Insurance	408	95

(Continued)

(Continued)

Fund	Due from Other Funds	Due to Other Funds
Duty Disability	--	143
Long-term Disability Insurance	--	60
Health Insurance	139	5,708
Veterans Trust	1,203	233
Internal Service:		
Technology Services	22,372	6,759
Fleet Services	2,808	282
Financial Services	272	535
Facilities Operations and Maintenance	9,341	2,191
Risk Management	199	588
Badger State Industries	2,881	427
Pension and Other Employee Benefit Trust Funds:		
Wisconsin Retirement System	28,589	32,022
Accumulated Sick Leave	--	107
Employee Reimbursement Accounts	297	39
Life Insurance	15	154
Deferred Compensation	--	53
Investment Trust:		
Local Government Pooled Investment	--	52
Private-Purpose Trust:		
Unclaimed Property Program	--	9
Tuition Trust	39	40
College Savings Program Trust	--	256
Agency:		
Inmate and Resident	563	217
Support Collection Trust	509	8,448
Total	$ 988,216	$ 988,216

B. Due to/from Component Units

Receivables and payables between funds and component units at June 30, 2002 were as follows (in thousands);

Fund/Component Unit	Due from Component Units/Primary Government	Due to Component Units/Primary Government
Primary Government:		
General Fund	$ 7	$ 798
Enterprise:		
Patients Compensation	14	--
University of Wisconsin System	1,968	1,775
Internal Service:		
Technology Services	49	--
Fleet Services	59	--
Badger State Industries	4	--
Component Unit:		
Wisconsin Housing and Economic Development Authority	176	19
Wisconsin Health Care Liability Insurance Plan	--	14
University of Wisconsin Hospitals and Clinics Authority	2,397	2,068
Badger Tobacco Asset Securitization Corporation	423	--
	5,097	4,674
Reporting period difference (primary government and component unit have June 30 and May 31 fiscal year ends, respectively)	--	423
Total	$ 5,097	$ 5,097

C. Interfund Receivables/Payables

Interfund Receivables	$ 815,246
Interfund Payables	$ 815,246

Interfund Receivables/Payables represent short-term loans from one fund to another to cover cash overdrafts. Interfund receivables/payables at June 30, 2002 by individual fund were as follows (in thousands):

Fund	Interfund Receivables	Interfund Payables
General	$ --	$ 757,440
Special Revenue:		
Transportation	410	--
Employee Trust Funds Administration	--	5,795
Capital Projects:		
Transportation Revenue Bonds	--	410
Enterprise:		
Central Developmental Disabilities Center	--	1,780
Southern Developmental Disabilities Center	--	332
Institutional Farm Operations	--	4,084
Health Insurance	5,795	
Internal Service:		
Fleet Services	--	45,405
Investment Trust:		
Local Government Pooled Investment	809,041	--
Total	$ 815,246	$ 815,246

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, 2002 by individual fund were as follows (in thousands):

Fund	Advances to Other Funds	Advances from Other Funds
Special Revenue:		
Agrichemical Management	$ 2,000	$ --
Agricultural Producers Security	--	2,000
Information Technology Investment	--	3,008
Capital Projects:		
Energy Efficiency	1,000	--
Enterprise:		
University of Wisconsin System	--	1,000
Internal Service:		
Technology Services	3,008	--
Total	$ 6,008	$ 6,008

E. Interfund Transfers

Interfund Transfers in and out that occurred during Fiscal Year 2002 were as follows (in thousands):

Fund	Interfund Transfers In	Interfund Transfers Out
General	$ 1,122,764	$ 1,893,081
Special Revenue:		
Transportation	134	34,671
Tobacco Settlement Endowment	--	992,361
Conservation	19,939	9,666
Wisconsin Election Campaign	322	--
Medical Assistance Trust	606,353	44,087
Tobacco Control	6,032	11,146
Agricultural Producer Security	406	--
Historical Legacy Trust	--	40
Petroleum Inspection	762	2,576
Environmental	13,257	9,293
Recycling	--	353
Universal Service	--	1,463
Wisconsin Public Broadcasting Foundation	--	6,217
Capital Projects:		
Building Trust	19,843	1,264
Energy Efficiency	--	4,585
Capital Improvement	8,765	115,087
Transportation Revenue Bonds	5,060	3,198
Debt Service:		
Bond Security and Redemption	253,399	4
Transportation Revenue Bonds	4	5,060
Permanent Funds:		
Common School	10,000	1,463
Historical Society	59	--
Enterprise:		
Environmental Improvement	15,085	10,200
Veterans Mortgage Loan Repayment	--	224
University of Wisconsin System	1,042,075	7,921
State Fair Park	3,872	690
Homes for Veterans	832	940
Mendota Mental Health Institute	25,849	1,688
Winnebago Mental Health Institute	18,661	1,920
Northern Developmental Disabilities Center	148	4,997
Central Developmental Disabilities Center	1,850	2,789
Southern Developmental Disabilities Center	2,325	2,443
Institutional Farm Operations	1,049	5
Correctional Canteen Operations	649	272
Lottery	1,589	14,099
Health Insurance Risk Sharing Plan	10,781	--
Veterans Trust	--	124
Internal Service:		
Technology Services	--	8,647
Fleet Services	872	415
Financial Services	--	940
Facilities Operations and Maintenance	11,213	2,310
Risk Management	--	345
Badger State Industries	201	34
Private-Purpose Trust:		
Unclaimed Property Program	--	10,000
College Savings Program Trust	--	937
Tuition Trust	937	--
Total transfers reported in fund financial statements	3,205,088	3,207,554
Transfer of capital assets between proprietary funds and governmental funds		(2,466)
	$3,205,088	$3,205,088

(Continued)

F. Transfers from Component Units

Interfund Transfers in and out between funds and component units that occurred during Fiscal Year 2002 were as follows (in thousands):

Fund/Component Unit	Transfers from Component Units	Transfers to Primary Government
Primary Government:		
Enterprise:		
University of Wisconsin System	$ 275	$ --
Component Unit:		
University of Wisconsin Hospitals and Clinics Authority	--	275
Total	$ 275	$ 275

NOTE 10. CHANGES IN LONG-TERM LIABILITIES

During the year ended June 30, 2002, the following changes occurred in long-term liabilities (in thousands):

Primary Government

Governmental Activities	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Amounts Due Within One Year
Bonds and Notes Payable:					
General Obligation Bonds	$ 2,654,402	$ 762,589	$ 454,402	$ 2,962,588	$ 210,940
Revenue Bonds	1,023,313	504,392	362,644	1,165,061	51,163
Total Bonds and Notes Payable	3,677,715	1,266,981	817,046	4,127,649	262,103
Other Liabilities:					
Future Benefits and Loss Liability	100,285	30,226	18,690	111,821	-
Capital Leases	19,481	10,326	9,117	20,690	7,694
Installment Contracts	1,104	1,216	1,071	1,249	526
Compensated Absences	88,521	2,628	141	91,008	40,974
Employer Pension Related Debt Costs	689,531	52,846	35,374	707,003	-
Claims, Judgments and Commitments	1,784	188	-	1,972	-
Total Governmental Activities Long-term Liabilities	$ 4,578,421	$ 1,364,410	$ 881,439	$ 5,061,392	$ 311,296

Repayment of the general obligation bonds is made from the Bond Security and Redemption Fund. The amount presented in this fund represents the liability to be paid from resources accumulated to provide debt service payments in Fiscal Year 2002. Repayment of the revenue bonds principal and interest is made from the appropriate debt service fund with payments secured by registration and inspection fees collected by the appropriate program. The compensated absences liability will be liquidated by the State's governmental and internal service funds. Long-term liabilities for employer pension costs, and claims, judgments and commitments are generally liquidated with resources of the governmental activities.

Business-type Activities	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Amounts Due Within One Year
Bonds and Notes Payable:					
General Obligation Bonds	$ 1,059,273	$ 147,537	$ 210,573	$ 996,238	$ 43,206
Revenue Bonds	587,784	102,426	30,759	659,451	35,410
Total Bonds and Notes Payable	1,647,057	249,963	241,332	1,655,689	78,616
Other Liabilities:					
Future Benefits and Loss Liability	1,006,704	161,148	90,384	1,077,468	125,330
Capital Leases	34,633	22,783	19,637	37,779	4,423
Compensated Absences	74,389	3,027	-	77,416	45,422
Total Business-type Activities Long-term Liabilities	$ 2,762,783	$ 436,921	$ 351,353	$ 2,848,352	$ 253,792

Component Units

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Amounts Due Within One Year
Bonds and Notes Payable:					
Revenue Bonds	$ 2,322,066	$ 2,439,394	$ 765,491	$ 3,995,969	$ 208,724
Future Benefits and Loss Liability	84,028	--	16,817	67,212	7,398
Capital Leases	28,597	--	2,825	25,772	2,845
Compensated Absences	3,028	149	--	3,177	3,177
Total Component Units Long-term Liabilities	$ 2,437,719	$ 2,439,543	$ 785,133	$ 4,092,129	$ 222,143

NOTE 11. BONDS, NOTES AND OTHER DEBT OBLIGATIONS

The following schedule summarizes outstanding long-term bonds and notes payable at June 30, 2002 (in thousands):

Primary Government	
Governmental Activities:	
General Obligation Bonds	$ 2,962,588
Revenue Bonds:	
Transportation	965,264
Petroleum Inspection	199,797
Total Governmental Activities	4,127,649
Business-Type Activities:	
General Obligation Bonds:	
Veterans Mortgage Loan Repayment	697,869
University of Wisconsin System	274,314
Other Business-Type	24,055
Revenue Bonds:	
Environmental Improvement	659,451
Total Business-Type Activities	1,655,689
Total Primary Government	5,783,338
Component Units	
Wisconsin Housing and Economic Development Authority Revenue	2,322,124
University of Wisconsin Hospitals And Clinics Authority Revenue Bonds	106,500
Badger Tobacco Asset Securitization Corporation	1,567,345
Total Component Units	3,995,969
Total at June 30, 2002	$ 9,779,307

A. General Obligation Bonds

Primary Government

The State of Wisconsin Building Commission, an agency of the State, is empowered by law to consider, act upon, authorize, issue and sell all debt obligations of the State. To date, the Commission has authorized and issued general obligation bonds primarily to provide funds for the acquisition or improvement of land, water, property, highways, buildings, equipment or facilities for public purposes. Occasionally, general obligation bonds are also issued for the purpose of providing funds for veterans housing loans and to refund general obligation bonds. All general obligation bonds authorized and issued by the State are secured by a pledge of the full faith, credit and taxing power of the State of Wisconsin and are customarily repaid over a period of twenty to thirty years.

Article VIII of the Wisconsin Constitution and Wis. Stat. Sec. 18.05 set limits on the amount of debt that the State can contract in total and in any calendar year. In total, debt outstanding cannot exceed five percent of the value of all taxable property in the State. Annual debt issued cannot exceed the lesser of three-quarters of one percent or five percent of the value of all taxable property in the State less net indebtedness at January 1.

At June 30, 2002, $2,621.3 million of general obligation bonds were authorized but unissued.

General obligation bonds issued and outstanding as of June 30, 2002 were as follows (in thousands):

Fiscal Year Issued	Series	Dates	Interest Rates	Maturity Through	Amount Issued	Amount Outstanding
1990	1990 Series D	5/90	6.9 to 7.0	5/10	$ 65,859	$ 26,415
1991	1991 Series B and I	5/91; 6/91	5.25 to 9.6	1/21	202,136	86,261
1992	1992 Series B and Refunding Issue	6/92; 3/92	6.0 to 6.6	1/22	478,935	257,600
1993	1992 C and 2	10/92; 11/92				
	1993 1, 2 and A and H; 1993AC	1/93; 3/93; 5/93; 1/93	4.4 to 8.85	5/15	726,175	324,198
1994	1993 Refunding Issues	8/93; 12/93; 12/93;				
	3, 4, 5, 6; 1994 Refunding	10/93; 3/94;				
	Issue 2; and1994 Series A					
	and B; 1994 1	1/94; 6/94; 1/94	4.3 to 7.18	5/24	838,215	414,208
1995	1994 Series 3 and C;	9/94; 9/94				
	1995 Series A & B, and 1	1/95; 2/95; 2/95	5.3 to 7.18	5/25	336,715	77,526
1996	1995 Series 2 and C;	10/95; 9/95;				
	1996 Series 1, B; 1995 AC	2/96; 1/96; 5/96; 8/95				
	and Note 995B	and 7/95	4.20 to 7.64	11/26	453,537	261,625
1997	1996 C and D;	9/96; 10/96;				
	1997 1 and A; 1996 AC; 1997 AC	3/97; 3/97; 8/96; 3/97	4.75 to 7.81	5/28	200,230	95,365
1998	1997 B, C and D;	7/97; 9/97; 10/97; 2/98	4.25 to 7.81	11/28	421,765	334,276
	1998 A, B and C; 1997 AC 2					
	and 1998 AC	9/97; 3/98; 5/98; 5/98				
1999	1998 Series 1, 2, D, E and F;	8/98; 9/98; 9/98; 10/98	4.0 to 7.25	11/30	590,675	521,450
	1999 Series 1, A and B	10/98; 2/99; 5/99; 5/99				
2000	1999 C and D; 2000 A; 1999 AC	10/99; 11/99; 3/00; 12/99	5.10 to 8.0	11/30	320,000	229,165
2001	2000 Series B, C, D, E; and	7/00;7/00;11/00;11/00	3.0 to 8.05	11/31	556,710	471,300
	2001 Series A, B, C and D,	2/01; 4/01; 6/01; 6/01;				
	2000 AC; 2001 AC	11/00; 4/01				
2002	2001 Series 1, E, F and F1; and	10/01; 10/01; 0/01;	3.0 to 6.96	5/33	824,545	823,920
	2002 Series 1, A, B, C, and D;	10/01; 3/02; 3/02;				
	2001 BC	3/02; 6/02; 6/02; 12/01				
Total					6,015,497	3,923,309
Premiums/Discounts					--	42,571
Deferred Amount on Refunding					--	(7,055)
Total General Obligation Bonds and Notes					$ 6,015,497	$ 3,958,825

As of June 30, 2002, general obligation bond debt service requirements for principal and interest for governmental activities and business - type activities are as follows (in thousands):

Fiscal Year	Governmental Activities		Business-Type Activities	
Ended June 30	Principal	Interest	Principal	Interest
2003	$ 213,575	$ 158,579	$ 44,277	$ 57,551
2004	204,999	146,042	41,750	55,734
2005	198,510	134,846	43,721	53,541
2006	196,996	122,493	44,476	51,403
2007	194,194	111,708	40,011	49,028
2008-2012	893,367	403,970	191,693	214,125
2013-2017	651,986	196,177	207,282	158,172
2018-2022	370,559	49,537	171,778	100,417
2023-2027	--	--	134,430	51,289
2028-2032	--	--	76,245	12,070
2033-2034	--	--	2,460	121
Total	2,924,186	1,322,852	999,123	803,451
Premiums/Discounts	39,657	--	2,914	--
Deferred Amount on Refunding	(1,255)	--	(5,800)	--
Total	$ 2,962,588	$ 1,322,852	$ 996,237	$ 803,451

Zero Coupon Bonds

The general obligation bonds of 1990, Series D (Higher Education Series), are zero coupon bonds recorded in the amount of $26.4 million which is the accreted value at June 30, 2002. 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 $48.5 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 $1,753.1 million of revenue bonds. Presently, there are twelve issues of Transportation Revenue Bonds totaling $965.3 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, 2002 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
20022	4/02	3.0 to 5.5	7/22	$ 68,930	$ 68,930
20021	4/02	4.5 to 5.75	7/19	241,865	241,865
2001A	11/01	3.0 to 5.0	7/22	140,000	140,000
2000A	9/00	5.3 to 5.5	7/21	93,100	93,100
1998A&B	8&10/98	4.0 to 5.5	7/19	229,545	221,255
1996A	5/96	5.0 to 6.0	7/08	54,630	35,475
1995A	9/95	4.8 to 6.25	7/07	49,495	28,230
1994A	7/94	5.1 to 7.5	7/05	41,845	17,860
1993A	9/93	4.3 to 5.0	7/12	116,450	88,720
1992A&B	7/92	5.2	7/02	67,030	15,800
				1,102,890	951,235
Unamortized Premium					14,029
Total				$1,102,890	$ 965,264

Petroleum Inspection Fee Revenue Bonds

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

Presently, there are two issues of PIF Bonds outstanding totaling $199.8 million. Debt service payments are secured by petroleum inspection fees.

The PIF revenue bonds issued and outstanding as of June 30, 2002 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2001A	12/01	5.0	7/08	$ 30,000	$ 30,000
2000A	3/00	5.0 to 6.0	7/12	170,250	168,500
				200,250	198,500
Unamortized Premium				--	1,297
Total				$ 200,250	$ 199,797

Clean Water Revenue Bonds

The Environmental Improvement Fund (the Fund) provides loans and grants to local municipalities to finance wastewater treatment planning and construction. The Fund is authorized to issue up to $1,398.0 million in Revenue Bonds. At June 30, 2002, there were ten issues of Revenue Bonds outstanding totaling $659.5 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, 2002 were as follows (in thousands):

Issue	Issue Date	Interest Rates	Maturity Through	Issued	Outstanding
2002-1	5/01	4.0 to 5.25	6/23	$100,000	$100,000
2001-1	4/01	4.5 to 5.0	6/21	70,000	67,690
1999-1	9/99	5.0 to 5.75	6/20	80,000	74,885
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	77,565
1997-1	2/97	4.5 to 6.0	6/17	80,000	45,215
1995-1	7/95	4.0 to 6.25	6/15	80,000	26,990
1993-2	9/93	2.75 to 6.25	6/08	81,950	76,120
1993-1	9/93	3.6 to 5.3	6/13	84,345	28,935
1991-1	4/91	5.4 to 6.9	6/11	225,000	57,445
				995,655	657,405
Unamortized Premium					10,562
Less: Unamortized discount and charge					(8,516)
Total, net of discount, charge and premium				$995,655	$659,451

As of June 30, 2002, revenue bond debt service requirements for principal and interest for governmental activities and business-type activities are as follows (in thousands):

	Governmental Activities				Business-Type Activities	
	Transportation Revenue Bonds		Petroleum Inspection Fee Revenue Bonds		Clean Water Revenue Bonds	
Fiscal Year Ended June 30	Principal	Interest	Principal	Interest	Principal	Interest
2003	$ 38,115	$ 50,874	$ 11,440	$ 10,840	$ 35,410	$ 17,475
2004	46,870	45,856	12,070	10,139	37,305	16,615
2005	51,835	43,468	12,735	9,425	39,090	15,707
2006	54,410	40,875	13,495	8,638	40,985	14,727
2007	56,675	38,180	14,305	7,830	43,170	13,607
2008-2012	263,000	149,052	114,570	19,737	230,610	97,746
2013-2017	241,670	83,484	19,885	577	147,475	43,722
2018-2022	178,590	28,040	--	--	75,950	11,793
2023-2027	20,070	509	--	--	7,410	378
Total	951,235	480,338	198,500	67,186	657,405	231,770
Unamortized Premium	14,029	--	1,297	--	10,562	--
Unamortized Discount/Charge	--	--	--	--	(8,516)	--
Total, net	$ 965,264	$ 480,338	$ 199,797	$ 67,186	$ 659,451	$ 231,770

Component Units

Wisconsin Housing and Economic Development Authority

Bonds and notes payable at June 30, 2002 of the Wisconsin Housing and Economic Development Authority (Authority) consisted of the following (in thousands):

Revenue bonds and notes	$ 1,966,342
Special obligation and subordinated Special obligation	359,283
Total	2,325,625
Less: Deferred amount on refunding	(3,501)
Total, net	$ 2,322,124

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, 2002 consisted of the following (in thousands):

Series/ Issue	Date	Rates	Maturity Through	Outstanding
Housing Revenue Bonds:				
1992 A	1/92	6.3 to 6.85	2012	$ 49,920
1992 B,C,D	4/92	7.0 to 7.2	2022	65,795
1993 A&B	10/93	4.8 to 5.65	2023	56,005
1993 C	12/93	5.0 to 5.875	2019	110,060
1995 A&B	7/95	5.15 to 6.5	2026	42,555
1998 A,B&C	2/98	4.4 to 6.88	2032	37,050
1999 A&B	10/99	4.55 to 6.18	2031	40,100
2000 A&B	9/00	Variable	2032	10,685
2002 A, B&C	5/02	5.2 to 5.6	2033	110,135
2002 D, E&G	5/02	Variable	2034	15,950
2002 F	5/02	Variable	2033	10,500
2002 H	5/02	4.68	2033	25,520
2002 I	5/02	Variable	2033	7,055
				581,330
Home Ownership Revenue Bonds:				
1987 B&C	8/87	7.375	2015	1,535
1992 1,2	6/92	6.35 to 6.875	2024	43,785
1994 A&B	4/94	5.6 to 6.75	2025	32,330
1995 A&B	1/95	6.1 to 7.1	2025	26,360
1995 C,D&E	5/95	5.35 to 6.3	2026	51,865
1995 F,G&H	9/95	5.0 to 7.875	2026	30,430
1996 A&B	3/96	5.1 to 6.15	2027	47,930
1996 C&D	7/96	5.3 to 6.45	2027	44,100
1996 E&F	11/96	4.9 to 6.2	2027	37,535
1997 A,B&C	4/97	5.0 to 7.43	2028	51,855
1997 D&E	6/97	4.75 to 6.0	2028	69,625
1997 G,H&I	11/97	4.6 to 5.75	2028	55,360
1998 A,B&C	4/98	4.75 to 6.3	2028	98,815
1998 D&E	6/98	4.35 to 6.04	2028	92,965
1999 C,D&	4/99	3.85 to 7.29	2029	77,530
1999 A&B	8/99	5.3 to 5.8	2021	56,770
1999 F&G	7/99	4.3 to 7.07	2030	63,570
2000 A,B&C	3/00	4.95 to 7.78	2030	50,690
2000 D&E	9/00	5.0 to 7.91	2031	67,590
2000 F	7/00	Variable	2015	12,330
2000 G	11/00	4.65 to 7.21	2031	36,050
2000 H	11/00	Variable	2024	19,845
2001 A,B,C & D	5/01	3.95 to 6.4 & Variable	2032	85,735
2002 A&C	2/02	1.8 to 5.5	2032	88,020
2002 B	2/02	5.88	2032	20,000
2002 C	2/02	3.69	2016	14,945
2002 D	2/06	2.91	2022	12,600
				1,226,595
Business Development Bonds:				
1989 3&28	Various	4.4 to 5.2	2014	2,215
1991 4,6	Various	3.75 to 5.5	2006	2,380
1994 1,4	Various	Variable	2014	2,655
1995 1-2,4-9	Various	Variable	2015	12,450
				19,700
Notes Payable	Various	Variable	2021	75,147
Authority's Total Revenue Bonds and Notes				$1,966,342

(Continued)

Authority's Special Obligation Bonds

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

Special obligation bonds at June 30, 2002 consist of the following (in thousands):

Series/ Issue	Date	Rates	Maturity Through	Outstanding
Home Ownership Revenue Bonds:				
1993 A	6/92	5.5 to 6.5	2025	$ 63,855
1994 C&D	8/94	5.5 to 6.65	2025	21,630
1998 F&G	10/98	3.85 to 6.7	2029	81,895
				167,380
Single Family Drawdown Revenue Bonds:				
2001-1	11/01	Variable	2004	191,903
				191,903
Total Special Obligation Bonds				$ 359,283

The interest rate used to calculate Series 1997 future debt service is 3.22 percent, which represents the 10-year BMA rate. The Master Indenture requires that future variable rate equal the interest rate in effect on the last date of each of any consecutive six months occurring in the nine full calendar months immediately preceding the month in which the calculation is made.

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, 2002, the Authority had issued 136 series of such bonds in an aggregate principal amount of $81.9 million for economic projects in Wisconsin.

Housing Revenue Bonds, 2002 Series H – The Authority entered into an interest rate swap agreement totaling $25.52 million which matures on November 1, 2033. The weighted fixed rate of the swap agreement is 4.68%. In return, the counterparty pays interest based on 70% of the USD-LIBOR-BBA rate. During the term of the swap agreement, the Authority expects to effectively pay a fixed rate on the debt of 4.68%. The Authority will be exposed to variable rates if the counterparty to the swap defaults, if the swap is terminated or if the effective interest rate determined by the Underwriter used for Bond Holder payments increases over the variable rate index used for calculating the interest received from the counterparty. At June 30, 2002, the valuation of this agreement resulted in an unrealized loss of $974,655. The interest rate hedge is currently classified as effective. The agreement provides the Authority with a synthetic fixed interest rate on a portion of its debt. The Authority does not intend to terminate this agreement.

Home Ownership Revenue Bonds, 2002 Series B – The Authority entered into an interest rate swap agreement totaling $20.0 million which matures on March 1, 2020. The weighted fixed rate of the swap agreement is 5.88%. In return, the counterparty pays interest based on the USD-LIBOR-BBA rate + 35 basis points. During the term of the swap agreement, the Authority expects to effectively pay a fixed rate on the debt of 5.88%. The Authority will be exposed to variable rates if the counterparty to the swap defaults, if the swap is terminated or if the effective interest rate determined by the Underwriter used for Bond Holder payments increases over the variable rate index used for calculating the interest received from the counterparty. At June 30, 2002, the valuation of this agreement resulted in an unrealized loss of $609,834. The interest rate hedge is currently classified as effective. The agreement provides the Authority with a synthetic fixed interest rate on a portion of its debt. The Authority does not intend to terminate this agreement.

Home Ownership Revenue Bonds, 2002 Series C – The Authority entered into an interest rate swap agreement totaling $14.9 million which matures on September 1, 2012. The weighted fixed rate of the swap agreement is 3.69 %. In return, the counterparty pays interest based on 67% of the USD-LIBOR-BBA rate. During the term of the swap agreement, the Authority expects to effectively pay a fixed rate on the debt of 3.69%. The Authority will be exposed to variable rates if the counterparty to the swap defaults, if the swap is terminated or if the effective interest rate determined by the Underwriter used for Bond Holder payments increases over the variable rate index used for calculating the interest received from the counterparty. At June 30, 2002, the valuation of this agreement resulted in an unrealized loss of $402,837. The interest rate hedge is currently classified as effective. The agreement provides the Authority with a synthetic fixed interest rate on a portion of its debt. The Authority does not intend to terminate this agreement.

Home Ownership Revenue Bonds, 2002 Series D – The Authority entered into an interest rate swap agreement totaling $12.6 million which matures on September 1, 2006. The weighted fixed rate of the swap agreement is 2.91%. In return, the counterparty pays interest based on 70% of the USD-LIBOR-BBA rate. During the term of the swap agreement, the Authority expects to effectively pay a fixed rate on the debt of 2.91%. The Authority will be exposed to variable rates if the counterparty to the swap

defaults, if the swap is terminated or if the effective interest rate determined by the Underwriter used for Bond Holder payments increases over the variable rate index used for calculating the interest received from the counterparty. At June 30, 2002, the valuation of this agreement resulted in an unrealized loss of $121,664. The interest rate hedge is currently classified as effective. The agreement provides the Authority with a synthetic fixed interest rate on a portion of its debt. The Authority does not intend to terminate this agreement.

The commercial paper obligations are issued for terms of one to 270 days. These obligations bear interest at various rates, which ranged from 1.50%-1.65% and 2.70%-3.10% at June 30, 2002 and June 30, 2001 respectively. The obligations are backed by a line of credit agreement which is renewable annually and bears interest at variable rates, based on an index defined in the agreement. The line of credit agreements used for temporary mortgage financing, one of which is renewable annually, bear interest based on the 30 day LIBOR rate. The three agreements bear interest at the rates of 2.375%, 2.740% and 2.344% at June 30, 2002.

University of Wisconsin Hospitals and Clinics Authority

In April 1997, the University of Wisconsin Hospitals and Clinics Authority (the Hospital) issued $50.0 million of Variable Rate Demand Hospital Revenue Bonds, Series 1997. The bond proceeds are designated to finance qualified capital projects. Principal payments on the Series 1997 Bonds are due annually commencing in April 2010 through April 2026. Interest is payable monthly. The effective annual estimated interest rate was 1.8 percent in 2002.

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 payable to the primary government, to $175.0 million, with limited exceptions.

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

Badger Tobacco Asset Securitization Corporation

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

As of June 30, 2002, debt service requirements for principal and interest for component units at May 31 or June 30, 2002 are as follows (in thousands):

	Component Units					
	Wisconsin Housing and Economic Development Authority Bonds		University of Wisconsin Hospitals and Clinics Authority Bonds		Badger Tobacco Asset Securitization Corporation	
Fiscal Year Ended	Principal	Interest	Principal	Interest	Principal	Interest
2003	$ 208,724	$ 111,444	$ --	$ 4,712	$ --	$ 99,813
2004	51,590	109,798	--	5,049	--	97,643
2005	259,791	106,890	--	5,042	12,210	97,643
2006	61,435	100,437	--	5,045	12,315	96,972
2007	64,400	97,051	580	5,045	12,485	96,294
2008-2012	351,560	428,245	7,785	24,418	166,665	461,173
2013-2017	381,125	320,700	19,575	21,558	209,260	409,432
2018-2022	336,345	240,435	27,560	16,551	258,810	341,463
2023-2027	379,375	147,118	34,515	10,261	404,880	245,886
2028-2032	219,425	45,365	16,485	1,549	514,470	93,882
2033	11,555	5,588			--	--
Total	2,325,625	1,722,076	106,500	99,230	1,591,095	2,040,201
Unamortized Premium/Discount	--	--	--	--	(23,750)	--
Deferred Amount on Refunding	(3,501)	--	--	--	--	--
Total	$2,322,124	$ 1,722,076	$ 106,500	$ 99,230	$1,567,345	$ 2,040,201

C. Refundings and Early Extinguishments

Refunding Provisions of GASB Statement No. 23

The State implemented the provisions of GASB Statement No. 23. *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities* beginning with Fiscal Year 1996. This Statement requires proprietary activities to adopt certain accounting and reporting changes for both current refunding and advance refunding resulting in defeasance of debt. GASB Statement No. 23 permits, but does not require, retroactive application of its provisions. The State has chosen not to apply the provisions retroactively to previously issued financial statements.

In February 1996, the State participated in a refunding (1996 Series 1) of general obligation debt that fell within the provisions of GASB Statement No. 23. The State is amortizing these deferred amounts over a period of approximately 19 years, using the straight-line method.

Current Year Refundings/General Obligation Bonds

In October 2001, the State issued $247.1 million of general obligation refunding bonds (2001 Series 1), the proceeds of which were deposited in an escrow account to provide for future debt service requirements on $256.3 million of various general obligation bonds outstanding at the time of the refining. As a result of the refunding, the bonds are considered defeased and the associated liability removed from the financial statements. The refunding resulted in a decrease in total debt service payments by $12.6 million and an economic gain of $8.7 million.

In May 2002, the State issued $75.0 million of general obligation refunding bonds (2002 Series 1), the proceeds of which were used to current refund principal due on $78.8 million of various general obligation bonds outstanding at the time of the refunding. The refunding resulted in an increase in total debt service payments by $27.8 million with no economic gain or loss.

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, 2002, approximately $662.7 million of general obligation bond principal have been defeased.

Current Year Refunding/Revenue Bonds

In May 2002, the Transportation Revenue Bond Program issued the 2002 Series 1 and 2002 Series 2 refunding bonds under a common plan of finance. Total bond proceeds of $325.2 million were deposited in an escrow account to provide for future debt service requirements on $322.1 million of various transportation revenue bonds outstanding at the time of the refunding. As a result of the refunding, the bonds are considered to be extinguished in the year ended June 30, 2002 and are not included as liabilities in the accompanying financial statements. The refunding resulted in a decrease in total debt service payments by $15.9 million and an economic gain of $10.6 million.

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, 2002, revenue bonds outstanding of $91.9 million have been defeased.
- Transportation revenue bonds – At June 30, 2002, revenue bonds outstanding of $510.5 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, 2002, the remaining outstanding defeased debt was $33.4 million.

Early Extinguishments

Component Units

Wisconsin Housing and Economic Development Authority

During 2002, 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 2002
Home Ownership Revenue Bond Resolutions:	
1987	$ 104,905
1988	116,045
All Other	92,205
Housing Revenue Bonds	100
General funds	1,285

D. Short-Term Financing

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

General Obligation Commercial Paper Notes

The State has authorized General Obligation Commercial Paper Notes for the acquisition, construction, development, extension, enlargement, or improvement of land, waters, property, highway, buildings, equipment or facilities. As of June 30, 2002, the State issued $166.7 million of general obligation commercial paper notes. Periodically, additional commercial paper notes are issued to pay for maturing commercial paper notes.

The State intends to make annual May 1 payments on the outstanding commercial paper notes that reflect principal amortization of the notes. The State also intends to make regular payments to the issuing and paying agent that will be equal to the interest due on maturing notes. The State deposited $.4 million with the paying/issuing agent on May 1, 2002, which will be applied after June 30, 2002, to pay-down outstanding general obligation commercial paper notes. At June 30, 2002, the amount of commercial paper notes outstanding was $79.1 million which had interest rates ranging from 1.30 percent to 1.95 percent and maturities ranging from July 2, 2002 to October 15, 2002.

Short term debt activity for the year ended June 30, 2002 for the general obligation commercial paper notes was as follows (in millions):

Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002
$ 85.4	$ --	$ 6.3	$ 79.1

General Obligation Extendible Municipal Commercial Paper

The State has authorized general obligation extendible municipal commercial paper for the acquisition, construction, development, extension, enlargement, or improvement of land, waters, property, highway, buildings, equipment or facilities. As of June 30, 2002, the State issued $340.5 million of general obligation extendible municipal commercial paper. Periodically, additional extendible municipal commercial papers are issued to pay for maturing extendible municipal commercial paper. The State intends to make annual May 1 payments on the outstanding extendible commercial paper that reflect principal amortization of the paper. The State also intends to make regular payments to the issuing and paying agent that will be equal to the upcoming interest due on maturing notes. At June 30, 2002, the amount of extendible municipal commercial paper outstanding was $265.9 million which had interest rates ranging from 1.4 percent to 1.9 percent and maturities ranging from July 8, 2002, to September 20, 2002.

Short term debt activity for the year ended June 30, 2002 for the general obligation extendible municipal commercial paper was as follows (in millions):

Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002
$ 227.4	$ 41.7	$ 3.2	$ 265.9

Petroleum Inspection Fee Revenue Extendible Municipal Commercial Paper

The State has authorized petroleum inspection fee revenue extendible municipal commercial paper to pay the costs of claims under the Petroleum Environmental Cleanup Fund Award (PECFA) Program. As of June 30, 2002, 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, 2002, the amount of extendible commercial paper outstanding was $80.0 million which had interest rates ranging from 1.45 percent to 1.75 percent and maturities ranging from July 10, 2002 to August 20, 2002.

Short term debt activity for the year ended June 30, 2002 for the petroleum inspection fee revenue extendible municipal commercial paper was as follows (in millions):

Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002
$ 80.0	$ --	$ --	$ 80.0

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, 2002, 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, 2002, the amount of commercial paper notes outstanding was $136.7 million which had interest rates ranging from 1.3 percent to 1.55 percent and maturities ranging from August 2, 2002 to December 5, 2002.

Short term debt activity for the year ended June 30, 2002 for the transportation revenue commercial paper notes was as follows (in millions):

Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002
$ 141.7	$ --	$ 5.0	$ 136.7

E. Certificates of Participation

The State established a facility in 1992 that provides lease purchase financing for property and certain service items acquired by State agencies. This facility is the Third Amended and Restated Master Lease 1992-1. Pursuant to the terms and conditions of this agreement, the trustee for the facility issues parity Master Lease certificates of participation that evidence proportionate interest of the owners thereof in lease payments. A common pool of collateral ratably secures all Master Lease certificates. Title in the property and service items purchased under the facility remains with the State and the State grants to the Trustee, for the benefit of all Master Lease certificate holders, a first security interest in the leased items. At June 30, 2002, the following parity Master Lease certificates were outstanding:

- Master Lease Certificates of Participation of 1996, Series B, in the amount of $.4 million. This series of Master Lease certificates had interest rates ranging from 4.7 percent to 4.9 percent and matures semi-annually through September 1, 2003.

- Master Lease Certificates of Participation of 1996, Series A, in the amount of $22.1 million. This Master Lease certificate evidences the State's obligation to repay revolving loans under a Revolving Credit Agreement, dated July 1, 1996 between Firstar 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 $5.1 million. This series of Master Lease certificates have interest rates ranging from 3.5 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 $7.8 million. This series of Master Lease certificates have interest rates ranging from 5.5 percent to 5.6 percent and mature semi-annually through September 1, 2005.

- Master Lease Certificates of Participation of 2000, Series A, in the amount of $15.9 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 $8.3 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.

- Master Lease Certificates of Participation of 2002, Series A, in the amount of $45.0 million. This series of Master Lease certificates have interest rates ranging from 2.25 percent to 3.75 percent and mature semi-annually through September 1, 2007.

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, 2002, the State has deposited with the Trustee amounts, that when invested, will terminate lease schedules having an aggregate outstanding amount of $4.1 million. As a result of terminating these lease schedules, the associated liability is removed from the financial statements.

F. Arbitrage Rebate

The Tax Reform Act of 1986 requires that governmental entities issuing tax-exempt debt subsequent to August 1986, calculate and rebate arbitrage earnings to the federal government. Specifically, the excess of the aggregated amount earned on investments purchased with bond proceeds over the amount that would have been earned if the proceeds were invested at a rate equal to the bond yield, is to be rebated to the federal government. As of June 30, 2002, no arbitrage rebate liability existed.

G. Moral Obligation Debt

Through legislation enacted in 1994, the State authorized the creation of local exposition districts. These districts 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.

Through legislation enacted in 1999, the State authorized the issuance of up to $170.0 million principal amount of bonds to finance the development or redevelopment of sites and facilities to be used for public schools. If certain conditions are satisfied, and if a special debt service reserve fund is created for the bonds, the State will provide a moral obligation pledge, which would restore the special debt reserve fund established for the bonds to an amount not to exceed the maximum annual debt service on the bonds. One bond issue of $33.3 million has been issued that has a special debt service reserve fund secured by the State's moral obligation.

H. Credit Agreements

Primary Government

The State has, as part of the working bank contract, a letter of credit agreement with the US Bank National Association under which the Bank has agreed to provide to the State an open line of credit in the amount of $50.0 million. The agreement provides for advances in anticipation of bond issuance proceeds. As of June 30, 2002, $50.0 million was unused and available.

The State has previously entered into a credit agreement to provide a line of credit for liquidity support for up to $110.0 million of general obligation commercial paper notes. The line of credit expires in March, 2003, but is subject to annual renewal as provided for in the credit agreement. The cost of this line of credit is .095 percent per year.

Also, the State has entered into a credit agreement with two banks to provide a line of credit for liquidity support for its transportation revenue commercial paper program. The amount of the line of credit is $150.0 million. This line of credit expires in May, 2003, but is subject to renewal as provided for in the credit agreement. The cost of this line of credit is 0.160 percent per year.

NOTE 12. LEASE COMMITMENTS AND INSTALLMENT PURCHASES

The State leases office buildings, space, and equipment under a variety of agreements that vary in lease term, many of which are subject to appropriation from the State Legislature to continue the lease commitment. If such funding, i.e., through legislative appropriation, is judged to be assured, and the likelihood of cancellation through exercise of the fiscal funding clause is remote, leases are considered noncancelable and reported as either a capital lease or an operating lease.

A. Capital Leases

Primary Government

Capital lease commitments in the government-wide and proprietary funds statements are reported as liabilities at lease inception. The related assets along with the depreciation are also reported at that time. Lease payments are reported as a reduction of the liability.

For capital leases in governmental funds, "Other Financing Sources - Capital Lease Acquisitions" and expenditures are recorded at lease inception. Lease payments are recorded as expenditures.

The following is an analysis of the gross minimum lease payments along with the present value of the minimum lease payments as of June 30, 2002 for capital leases (in thousands):

Fiscal Year	Governmental Activities	Business-type Activities
2003	$ 8,530	$ 5,488
2004	6,536	4,861
2005	3,221	3,874
2006	1,481	3,460
2007	1,063	3,325
2008 – 2012	1,803	20,935
2013 – 2017	464	4,022
Total minimum future payments	23,099	45,964
Less: Executory costs	(59)	--
Less: Interest	(2,350)	(8,185)
Present value of net minimum lease payments	$ 20,690	$ 37,779

Assets acquired through capital leases are valued at the lower of fair market value or the present value of minimum lease payments at the inception of the lease. The following is an analysis of capital assets recorded under capital leases as of June 30, 2002 (in thousands):

	Governmental Activities	Business-type Activities
Land and Land Improvements	$ 376	$ --
Buildings and Improvements	1,060	1,087
Machinery and Equipment	31,851	9,728
Less: Accumulated Depreciation	(11,769)	(3,394)
Carrying Amount	$ 21,518	$ 7,421

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 Firstar 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, 2002 consisted of:

Balance Due	Average Life (Weighted Term)
$100,424,929	3.3914 Years

Component Unit

Under the terms of a lease agreement, the University of Wisconsin Hospitals and Clinics Authority (the Hospital) leases facilities which were occupied by the Hospital as of June, 1996 (see Note 1B to the financial statements). The initial term of the lease is 30 years to be renewed annually with automatic extensions of one additional year on each July 1 until action is taken to stop the extensions. Included in the consideration for the lease is an amount equal to the debt service during the term of the lease agreement on all outstanding bonds issued by the State for the purpose of financing the acquisition, construction or improvement of the leased facilities. Interest rates on the related bonds range from 4.0 percent to 7.75 percent, with final maturities due beginning in April 2000 through April 2022. Scheduled principal and interest payments through April 2022 are $32.7 million.

B. Operating Leases

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

Governmental and business-type activities rental expenses under operating leases for Fiscal Year 2002 were $51.6 million. Of this amount, $51.1 million relates to minimum rental payments stipulated in lease agreements, $451 thousand relates to contingent rentals, and $472 thousand relates to subrental payments.

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

Fiscal Year	Governmental Activities	Business-type Activities	Component Units
2003	$ 41,115	$ 9,663	$ 4,368
2004	33,524	8,708	4,279
2005	25,648	6,902	4,209
2006	20,935	5,678	3,966
2007	18,856	3,747	3,363
2008 - 2012	45,954	14,280	6,928
Minimum lease payments	$ 186,032	$ 48,977	$ 27,114

C. Installment Purchases

The State has entered into installment purchase agreements. The following is an analysis of the gross minimum installment payments, along with the present value of the minimum installment payments, as of June 30, 2002 for installment purchases (in thousands):

Fiscal Year	Governmental Activities
2003	$ 595
2004	409
2005	319
2006	54
2007	1
Total minimum future payments	1,377
Less: Interest	(128)
Present value of net minimum installment payments	$ 1,249

NOTE 13. RETIREMENT PLAN

The Wisconsin Retirement System (WRS) was established and is administered by the State of Wisconsin to provide pension benefits for State and local government public employees. The WRS consists of the fixed retirement investment trust, the variable retirement investment trust, and the police and firefighters trust. Although separated for accounting purposes, the assets of these trust funds can be used to pay benefits for any member of the WRS, and are reported as one pension plan.

The WRS is considered part of the State of Wisconsin's financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information for the year ending December 31, 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 reports for the years ended December 31, 2000 and 2001 will be available in Calendar Year 2003.

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, 2001, the number of participating employers was:

State Agencies	61
Cities	153
Counties	71
4th Class Cities	34
Villages	206
Towns	175
School Districts	426
Wisconsin Technical College System Board Districts	16
Cooperative Educational Service Agencies	12
Other	167
Total Employers	1,321

For employees beginning participation on or after January 1, 1990 and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 are immediately vested. Employees who retire at or after age 65 (55 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits. The WRS also provides death and disability benefits for employees.

Accounting Policies and Plan Asset Matters

The financial statements of the WRS have been prepared in accordance with generally accepted accounting principles, using the flow of economic resources measurement focus and a full accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

All assets of the WRS are invested by the State of Wisconsin Investment Board. The retirement fund assets consist of shares in the variable retirement investment trust and the fixed retirement investment trust. The variable retirement investment trust consists primarily of equity securities. The fixed retirement investment trust is a balanced investment fund made up of fixed income securities and equity securities. Shares in the fixed retirement investment trust are purchased as funds are made available from retirement contributions and investment income, and sold when funds for benefit payments and other expenses are needed.

The assets of the fixed and variable retirement investment trusts are carried at fair value with all market value adjustments recognized in current operations. Investments are revalued monthly to current market value. The resulting valuation gains or losses are recognized as income, although revenue has not been realized through a market-place transaction.

The WRS does not have any investments (other than those issued or guaranteed by the U.S. Government) in any one organization that represent 5.0 percent or more of plan net assets.

State Contributions Required and Contributions Made

Covered State employees in the General/Teacher category are required by statute to contribute 5.0% of their salary (3.9% for Executives and Elected Officials, 3.8% for Protective Occupations with Social Security, and 3.3% 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, 2001, 2000 and 1999 were as follows (in millions):

	2001	2000	1999
Employer current service	$ 122.9	$ 124.7	$ 121.6
Percent of payroll	4.2%	4.6%	4.9%
Employer prior service	$ 15.5	$ 0.4	$ 31.9
Percent of payroll	0.5%	0.0%	2.5%
Employee required	$ 140.9	$ 134.1	$ 124.2
Percent of payroll	4.9%	4.9%	5.0%
Benefit adjustment contrib.	$ 5.1	$ 12.1	$ 17.6
Percent of payroll	0.2%	0.4%	.7%
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, 2002 and 2001, the WRS's unfunded actuarial accrued liability was $2.0 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, 2002, was $707.0 million, or 35.1 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 governmental activities.

NOTE 14. 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, 2002, the FRIT and VRIT held a number of nonnegotiable short-term certificates of deposit. The fair value of these certificates of deposit was approximately $65.4 million, all of which was uncollateralized.

At June 30, 2002, the FRIT and VRIT held $56,084.6 million of investments of which includes $2,335.7 million of securities lending collateral. The following tables present investments of the FRIT and VRIT at June 30, 2002, categorized in accordance with the level of risk requirements of GASB Statement No. 3 (in millions):

Fixed Retirement Investment Trust:

	Category			Fair
	1	2	3	Value
Bonds	$ 6,658.0	$ --	$ --	$ 6,658.0
Stocks	12,723.9	--	--	12,723.9
Repurchase Agreements	97.7	--	--	97.7
Bankers Acceptances	284.1	--	--	284.1
Total	$ 19,763.7	$ --	$ --	19,763.7
Private Placements				3,530.0
Limited Partnerships				2,598.4
Pooled Equities				15,401.9
Pooled Bonds				4,830.8
Mortgages				685.8
Real Estate Owned				461.9
Custodial Pooled Cash and Equivalents				605.5
Investments Held by Broker Dealers under Securities Loans:				
Bonds				1,438.3
Equities				760.1
Securities Lending Cash Collateral Pooled Investments				505.8
				$ 50,582.2

Variable Retirement Investment Trust:

	Category			Fair
	1	2	3	Value
Bonds	$ 61.5	$ --	$ --	$ 61.5
Stocks	2,485.4	--	--	2,485.4
Repurchase Agreements	4.4	--	--	4.4
Bankers Acceptances	12.9	--	--	12.9
Total	$ 2,564.2	$ --	$ --	2,564.2
Limited Partnerships				.2
Pooled Equities				2,785.1
Pooled Cash and Equivalents				29.1
Investments Held by Broker Dealers under Securities Loans:				
Equities				100.3
Securities Lending Cash Collateral Pooled Investments				23.5
				$ 5,502.4

The following schedule provides summary information by investment classification for the FRIT at June 30, 2002 (in thousands):

Classification	Interest/Coupon Rates	Maturity Dates	Cost	Fair Value
Bonds	Variable and .1 to 25.4	9/02 to 10/49	$ 10,700,776	$ 11,581,063
Common and Preferred Stock	N/A	N/A	32,889,031	28,885,894
Limited Partnerships	N/A	N/A	2,765,778	2,598,401
Mortgages	6.77 to 12.25	8/04 to 6/22	639,001	685,784
Real Estate Owned	N/A	N/A	396,580	461,912
Financial Futures Contracts	N/A	N/A	--	6
Private Placements	Variable and 5.95 to 24.0	9/02 to 12/31	3,464,511	3,530,009
Total Investments			$ 50,855,677	$ 47,743,069

The following schedule provides summary information by investment classification for the VRIT at June 30, 2002 (in thousands):

Classification	Interest/Coupon Rates	Maturity Dates	Cost	Fair Value
Bonds	N/A	9/02 to 8/08	$ 192	$ 196
Common and Preferred Stock	N/A	N/A	6,370,547	5,370,734
Limited Partnerships	N/A	N/A	173	174
Financial Futures Contracts	N/A	N/A	--	2
Total Investments			$ 6,370,912	$ 5,371,106

Significant financial data for the FRIT and VRIT for the year ended June 30, 2002 is presented below (in thousands):

Fixed Retirement Investment Trust
Condensed Statement of Net Assets
As of June 30, 2002

Assets:	
Cash and Cash Equivalents	$ 1,361,036
Securities Lending Collateral	2,233,869
Investment Receivables	1,369,394
Investments, at Fair Value	47,743,069
Other Assets	3,041
Total Assets	$ 52,710,409
Liabilities:	
Securities Lending Collateral Liability	$ 2,233,869
Investment Payables	1,205,217
Total Liabilities	3,439,086
Net Assets Held in Trust of:	
Internal Investment Pool Participants	49,221,514
Milwaukee Retirement Systems	49,809
	$ 49,271,323

Fixed Retirement Investment Trust
Condensed Statement of Changes in Net Assets
For the Year Ended June 30, 2002

Additions:	
Net Increase (Decrease) in Fair Value of Investments	$ (3,639,236)
Interest	768,257
Dividends	202,019
Securities Lending Income	71,426
Other	125,802
Total Additions	(2,471,732)
Deductions:	
Investment Expense	135,372
Securities Lending Rebates and Fees	59,504
Net Withdrawals by Pool Participants	1,475,978
Total Deductions	1,670,854
Net Increase (Decrease)	(4,142,586)
Net Assets Held in Trust for Pool Participants	
Beginning of Year	53,413,909
End of Year	$ 49,271,323

Variable Retirement Investment Trust
Condensed Statement of Net Assets
As of June 30, 2002

Assets:		
Cash and Cash Equivalents	$	102,367
Securities Lending Collateral		101,784
Investment Receivables		279,302
Investments, at Fair Value		5,371,106
Total Assets	$	5,854,559
Liabilities:		
Securities Lending Collateral Liability	$	101,784
Investment Payables		285,831
Total Liabilities		387,615
Net Assets Held in Trust of:		
Internal Investment Pool Participants		5,451,641
Milwaukee Retirement Systems		15,303
	$	5,466,944

Variable Retirement Investment Trust
Condensed Statement of Changes in Net Assets
For the Year Ended June 30, 2002

Additions:		
Net Increase (Decrease) in Fair Value of Investments	$	(1,020,302)
Interest		2,406
Dividends		33,870
Securities Lending Income		2,764
Total Additions		(981,262)
Deductions:		
Investment Expense		11,827
Securities Lending Rebates and Fees		1,766
Net Withdrawals by Pool Participants		298,397
Total Deductions		311,990
Net Increase (Decrease)		(1,293,252)
Net Assets Held in Trust for Pool Participants		
Beginning of Year		6,760,197
End of Year	$	5,466,944

NOTE 15. 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 12,500 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 8,868 annuitants are currently receiving health insurance coverage through sick leave conversion credits. Accumulated sick leave conversion is prefunded based on an actuarially determined percentage of payroll. The actuarial valuation is based on the entry age actuarial cost method.

Significant actuarial assumptions include an 8 percent assumed interest rate, 4.5 percent assumed annual salary growth, and an average sick leave accumulation of 6.4 days per year for non-University employees and 7.4 days per year for University employees. The assets and reserves of the sick leave conversion program are accounted for in a fiduciary fund. The accrued liability for the post retirement health insurance benefits at December 31, 2001, determined through an actuarial valuation performed on that date, was $1,208.8 million. The program's assets on that date were $745.0 million. The unfunded liability was $463.7 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 $3.9 million and $78.3 million, respectively, during the calendar year ended December 31, 2001.

NOTE 16. PUBLIC ENTITY RISK POOLS ADMINISTERED BY THE DEPARTMENT OF EMPLOYEE TRUST FUNDS

The Department of Employee Trust Funds operates four public entity risk pools: group health insurance, group income continuation insurance, protective occupation duty disability insurance and long-term disability insurance. The information provided in this note applies to the period ending December 31, 2001.

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 fifty-eight local employers plus the State currently participate. The State and local government portions of the fund are accounted for separately and have separate contribution rates, benefits, and actuarial valuations. The fund includes both a self-insured, fee-for-service plan as well as various prepaid plans, primarily Health Maintenance Organizations (HMO's).

The Income Continuation Insurance Fund offers disability wage continuation insurance for current employees of the State government and of participating local public employers. All public employers in the State are eligible to participate. One hundred thirty-eight local employers plus the State currently participate. The State and local government portions of the fund are accounted for separately and have separate contribution rates, benefits, and actuarial valuations. The plan is self-insured.

The Duty Disability Fund offers special disability insurance for State and local Wisconsin Retirement System participants in protective occupations. Participation in the program is mandatory for all Wisconsin Retirement System employers with protective occupation employees. Four hundred and fifty 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 liabilities for income continuation, long-term disability, health insurance and duty disability insurance were determined by actuarial methods. The Duty Disability Fund's accounting deficit is being amortized over a twenty-three year period beginning January 1, 2000. Face values are not available.

Administrative Expenses - All maintenance expenses are expensed in the period in which they are incurred. Acquisition costs are immaterial and are treated as maintenance expenses. Premium deficiencies are not calculated because acquisition costs are immaterial. Claim adjustment expenses are also immaterial.

Reinsurance - Health insurance plans provided by HMO's and health insurance for local government annuitants are fully insured by outside insurers. All remaining risk is self-insured with no reinsurance coverage.

Risk Transfer - Participating employers are not subject to supplemental assessments in the event of deficiencies. If the assets of the fund were exhausted, participating employers would not be responsible for the fund's liabilities.

Premium Setting - Premiums are established by the Group Insurance Board (Health, Income Continuation Insurance and Long-term Disability Insurance) and the Employee Trust Funds Board (Duty Disability) in consultation with actuaries.

C. Unpaid Claims Liabilities

As discussed in Section B of this Note, each fund establishes a liability for both reported and unreported insured events, which is an estimate of future payments of losses. The following represents changes in those aggregate liabilities for the nonreinsured portion of each fund during Calendar Year 2001 (in millions):

	Health Insurance		Income Continuation Insurance		Duty Disability		Long-term Disability Insurance	
	2000	2001	2000	2001	2000	2001	2000	2001
Unpaid claims at beginning of the calendar year	$ 13.4	$ 14.2	$42.9	$46.4	$264.9	$289.2	$25.9	$29.2
Incurred claims:								
Provision for insured events of the current calendar year	69.9	73.6	21.4	28.2	27.6	35.3	9.4	9.8
Changes in provision for insured events of prior calendar years	(1.9)	(5.3)	(9.7)	4.2	14.8	13.6	(2.8)	0.9
Total incurred claims	68.0	68.3	11.7	24.0	42.4	48.9	6.6	10.7
Payments:								
Claims and claim adjustment expenses attributable to insured events of the current calendar year	55.8	61.1	3.2	4.9	0.2	0.2	0.2	0.3
Claims and claim adjustment expenses attributable to insured events of prior calendar years	11.4	8.6	5.0	8.5	17.9	19.6	3.1	5.3
Total Payments	67.2	69.7	8.2	13.4	18.1	19.8	3.3	5.6
Total unpaid claims expenses at end of the calendar year	$ 14.2	$ 12.8	$46.4	$57.0	$289.2	$318.3	$29.2	$34.3

D. Trend Information

Historical trend information showing revenue and claims development information is presented in the Department of Employee Trust Funds audited financial statements. The separately issued financial report for the years ended December 31, 2001 and 2000 will be available in Calendar Year 2003. 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 17. SELF-INSURANCE

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

State Property Damage

Property damages to State-owned properties are covered by the State's self-funded property program up to $2.5 million. 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 2002, 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, 2002 are estimated to total $4.5 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 2002 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, 2002 are estimated to total $43.0 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, 2002 are estimated to total $64.4 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):

	2002	2001
Beginning of fiscal year liability	$ 100,285	$ 81,335
Current year claims and changes in estimates	30,226	35,112
Claim payments	(18,690)	(16,162)
Balance at fiscal year-end	$ 111,821	$ 100,285

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, 2002 is $ 2.9 million.

NOTE 18. INSURANCE FUNDS

Primary Government

A. Local Government Property Insurance Fund

Created by the Legislature in 1911, the purpose of the Local Government Property Insurance Fund is to provide property insurance coverage to tax-supported local government units such as counties, towns, villages, cities, school districts and library boards. Property insured includes government buildings, schools, libraries and motor vehicles. Coverage is available on an optional basis. As of June 30, 2002, the Local Government Property Insurance Fund insured 1,183 local governmental units. The total amount of insurance in force as of June 30, 2002 was $30.0 billion.

Valuation of Cash Equivalents and Investments - All investments of the Local Government Property Insurance Fund are managed by the State of Wisconsin Investment Board, as discussed in Note 5-B to the financial statements. At June 30, 2002, the fund had $12.0 million of shares in the State Investment Fund which are considered cash equivalents and $15.5 million of high grade, long-term, fixed income obligations.

Premium - Unearned premium reported as deferred revenue represents the daily pro rata portion of premium written which is applicable to the unexpired terms of the insurance policies in force. Policies are generally written for annual terms.

Unpaid Claims Liabilities - The Local Government Property Insurance Fund establishes future benefits and loss liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Claims liabilities are recomputed periodically to produce current estimates that reflect recent settlements, claim frequency, and other economic factors. Adjustments to future benefits and loss liabilities are charged or credited to expense in the periods in which they are made.

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

Premium Deficiency – Investment income is considered in determining whether a premium deficiency exists. No premium deficiency existed at June 30, 2002.

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, 2002 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 $12.0 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 $3.5 million. Reinsurance loss and adjusting expense recoveries earned for the year amounted to $.2 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):

	2001	2002
Unpaid claims and claim adjustment expenses at beginning of the year	$11,890	$14,436
Less: Reinsurance recoverable	(8,466)	(6,097)
Net unpaid loss liability at beginning of year	3,424	8,339
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	13,050	13,858
Increase (decrease) in provision for insured events of prior years	(675)	301
Total incurred claims and claim adjustment expenses	12,375	14,159
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	5,060	7,278
Claims and claim adjustment expenses attributable to insured events prior years	2,400	8,153
Total payments	7,460	15,431
Net unpaid claims and claim adjustment expenses at end of year	8,339	7,067
Reinsurance recoverable	6,097	4,706
Total unpaid claims and claim adjustment expenses	$14,436	$11,773

Trend Information

Historical trend information showing revenue and claims development information is presented in the Office of the Commissioner of Insurance June 30, 2002 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

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	$ 14,133	$ 9,027
1967-1976	40,471	15,382
1977-1985	86,152	19,660
1986-1994	55,978	5,672
1995+	29,290	2,111
	$ 226,024	$ 51,852

Bases of Assumptions

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

* Age Last Birthday

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

The statutory assets at December 31, 2001 were $75.6 million and the statutory capital and surplus were $6.1 million, and the capital and surplus at June 30, 2002 was $7.4 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, 2002 as follows (in thousands):

Projected ultimate loss liability	$ 1,302,384
Less: Net loss paid from inception	(518,240)
Less: Liability for reported losses	(35,421)
Liability for incurred but not reported losses	$ 748,723

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, 2002 are estimated at 5.25 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, 2002 as follows (in thousands):

Projected ultimate loss adjustment expense liability	$ 68,375
Less: Loss adjustment expense paid from inception	(33,525)
Liability for loss adjustment expense	$ 34,850

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, 2002 (in thousands):

Estimated unpaid loss liabilities	$ 784,144
Estimated unpaid loss adjustment expense	34,850
Total estimated loss liabilities	818,994
Less: Amount representing interest	239,965
Discounted loss liabilities	$ 579,029

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):

	2001	2002
Balance, beginning of year	$ 13,414	$ 17,790
Incurred related to:		
Current year	57,688	75,575
Prior years	(3,010)	(7,576)
Total Incurred	54,678	67,999
Paid related to:		
Current year	40,212	60,876
Prior years	10,090	9,617
Total Paid	50,302	70,493
Balance, end of year	$ 17,790	$ 15,296

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

Component Units

E. Wisconsin Health Care Liability Insurance Plan

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

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

Since the inception of the Plan in 1975, the health care liability coverage limits have increased from $200 thousand per occurrence and $600 thousand annual aggregate to the current limits of $1.0 million per occurrence and $3.0 million annual aggregate effective July 1, 1998. A general liability coverage is also available to participating health care providers with limits of $1.0 million per occurrence and $3.0 million annual aggregate effective July 1, 1990. The Plan is not covered under any reinsurance contracts.

In the event that sufficient funds are not available for the sound financial operation of the Plan, all members shall, on a temporary basis, contribute to the financial needs of the Plan. Members shall participate in the contributions in the proportion of their respective premiums to the aggregate premiums written by all members of the Plan. Such assessments shall be recouped by rate increases applied prospectively. There were no assessments for the year ended December 31, 2001.

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, 2000 and December 31, 2001, are as follows (in thousands):

	2000	2001
Balance at January 1	$ 102,030	$ 84,028
Incurred related to:		
Current year	4,916	4,413
Prior years	(19,858)	(19,783)
Total Incurred	(14,942)	(15,370)
Paid related to:		
Current year	101	68
Prior years	2,959	1,378
Total paid	3,060	1,446
Balance at December 31	$ 84,028	$ 67,212

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 19. SEGMENT INFORMATION AND CONDENSED FINANCIAL DATA

Primary Government

The State issues revenue bonds to finance the Leveraged Loan Program, which is accounted for as part of the Environmental Improvement Fund. Investors in those bonds rely solely on the revenue generated within the Leveraged Loan Program. Assets of this program are used primarily for loans for Wisconsin municipal waste water projects. Condensed financial statement information of the Leveraged Loan Program as of and for the year ended June 30, 2002 is presented below (in thousands):

Condensed Balance Sheet

Assets:		
Current Assets	$	175,372
Other Assets		642,407
Total Assets	$	817,779
Liabilities:		
Due to Other Funds	$	1,987
Other Current Liabilities (Including Current Portion of Long-term Debt)		38,395
Noncurrent Liabilities		626,713
Total Liabilities		667,095
Fund Equity:		
Restricted		150,684
Total Fund Equity		150,684
Total Liabilities and Fund Equity	$	817,779

Condensed Statement of Revenues, Expenses and Changes in Fund Equity

Operating Revenues (Expenses):		
Loan Interest	$	15,973
Interest Expense		(32,426)
Other Operating Expenses		(2,052)
Operating Income (Loss)		(18,504)
Nonoperating Revenues (Expenses):		
Investment Income		15,116
Capital Contributions		12,808
Change in Fund Equity		9,419
Beginning Fund Equity		141,264
Ending Fund Equity	$	150,684

Condensed Statement of Cash Flows

Net Cash Provided (Used) by :		
Operating Activities	$	(2,037)
Noncapital Financing Activities		52,165
Investing Activities		12,964
Net Increase (Decrease)		63,093
Beginning Cash and Cash Equivalents		103,980
Ending Cash and Cash Equivalents	$	167,072

NOTE 20. COMPONENT UNITS – CONDENSED FINANCIAL INFORMATION

Significant financial data for the State's four component units for the year ended December 31, 2001, May 31, 2002, or June 30, 2002 is presented below (in thousands):

	Wisconsin Housing and Economic Development Authority	Wisconsin Health Care Liability Insurance Plan	University of Wisconsin Hospitals and Clinics Authority	Badger Tobacco Asset Securitization Corporation	Total
Condensed Balance Sheet					
Assets:					
Cash, Investments and Other Assets	$ 2,802,801	$ 122,531	$ 270,604	$ 293,970	$ 3,489,906
Due from Primary Government	176	--	2,397	423	2,995
Capital Assets, Net	22,272	--	199,822	--	222,094
Total Assets	$ 2,825,249	$ 122,531	$ 472,823	$ 294,393	$ 3,714,995
Liabilities:					
Accounts Payable and Other Current Liabilities	$ 151,620	$ 40,997	$ 49,055	$ 4,079	$ 245,751
Due to Primary Government	19	14	2,068	--	2,101
Long-term Liabilities (Current and Noncurrent Portions)	2,322,521	67,212	135,052	1,567,345	4,092,129
Total Liabilities	2,474,160	108,223	186,174	1,571,423	4,339,980
Fund Equity:					
Invested in Capital, Net of Related Debt	--	--	67,550	--	67,550
Restricted	187,301	--	3,963	276,322	467,586
Unrestricted	163,788	14,307	215,136	(1,553,352)	(1,160,121)
Total Fund Equity	351,089	14,307	286,649	(1,277,030)	(624,985)
Total Liabilities and Fund Equity	$ 2,825,249	$ 122,531	$ 472,823	$ 294,393	$ 3,714,995
Condensed Statement of Revenues, Expenses and Changes in Fund Equity					
Program Expenses:					
Depreciation	$ 3,999	$ --	$ 19,049	$ --	$ 23,048
Transfers to Primary Government	--	--	275	--	275
Other	270,537	19,650	462,939	1,277,242	2,030,368
Total Program Expenses	274,536	19,650	482,263	1,277,242	2,053,691
Program Revenues:					
Charges for Services	149,795	13,991	502,564	--	666,350
Operating Grants and Contributions	123,120	--	--	--	123,120
Total Program Revenues	272,915	13,991	502,564	--	789,470
Net Program Revenue/(Expense)	(1,621)	(5,659)	20,301	(1,277,242)	(1,264,221)
General Revenues:					
Interest and Investment Earnings	28,446	--	2,254	212	30,912
Change in Fund Equity	26,825	(5,659)	22,555	(1,277,030)	(1,233,309)
Fund Equity, Beginning of Year	324,264	19,966	264,094	--	608,324
Fund Equity, End of Year	$ 351,089	$ 14,307	$ 286,649	$ (1,277,030)	$ (624,985)

NOTE 21. RESTATEMENTS OF BEGINNING FUND BALANCE/FUND EQUITY/NET ASSETS AND OTHER CHANGES

During Fiscal Year 2002, the State implemented the following standards issued by the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*
- GASB Statement No. 37, *Basic Financial Statements -- and Management's Discussion and Analysis – for State and Local Governments: Omnibus*
- GASB Statement No. 38, *Certain Financial Statement Note Disclosures*

GASB Statement No. 34, as amended by Statement No. 37, establishes new financial reporting standards for state and local governments. This statement's requirements represent a significant change in the financial reporting model used by state governments, including statement formats and changes in fund types. As a result, fund reclassifications and adjustments to the fund equities reported in the prior year financial statements were required. In addition to fund financial statements, Statement No. 34 requires governments to report government-wide financial statements, prepared using the accrual basis of accounting and the economic resources measurement focus, and to present a Management Discussion and Analysis (MD&A).

Statement No. 35 establishes accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of Statement No. 34. The University of Wisconsin System, reported as an enterprise fund, adopted the requirements of Statement No. 35.

Statement No. 38 requires certain note disclosures at the time Statement No. 34 is implemented.

The provisions of these new standards have been incorporated into the Fiscal Year 2002 financial statements and notes.

The reconciliations that follow summarize changes to the end-of-year fund equities as reported in the 2001 Comprehensive Annual Financial Report to the beginning-of-year fund balances/fund equities/net assets reported for Fiscal Year 2002 (in thousands). These reconciliations include reclassifications and adjustments necessary to implement the new standards discussed above.

A. Fund Statements – Governmental Funds

	Major Funds		Nonmajor	Total
	General	Transportation	Funds	Governmental
Ending fund balances as reported in the 2001 Comprehensive Annual Financial Report:				
General	$ (1,214,848)	$ --	$ --	
Special Revenue - Transportation	--	345,658	--	
Other Special Revenue	--	--	(84,978)	
Debt Service	--	--	9,155	
Capital Projects	--	--	(305,865)	
Expendable Trust	--	--	2,986,399	
Totals	(1,214,848)	345,658	2,604,711	$ 1,735,521
GASB 34 fund structure reclassifications:				
Expendable Trust to Special Revenue:				
Children's Trust	--	--	--	--
Expendable Trust to Pension and Other Employee Benefits Trust:				
Accumulated Sick Leave	--	--	(1,899)	(1,899)
Employee Reimbursement Accounts	--	--	(1,490)	(1,490)
Life Insurance	--	--	(247)	(247)
Deferred Compensation	--	--	(1,148,099)	(1,148,099)
Expendable Trust to Private Purpose Trust:				
Unclaimed Property Program	--	--	(20,674)	(20,674)
Special Death Benefits	--	--	(1,280)	(1,280)
Expendable Trust to Permanent:				
Common School Income (included in Common School)	--	--	--	--
Nonexpendable Trust to Permanent:				
Agricultural College	--	--	305	305
Common School	--	--	451,230	451,230
Normal School	--	--	19,582	19,582
University	--	--	234	234
Historical Society	--	--	11,366	11,366
Benevolent	--	--	14	14
Expendable Trust to Enterprise:				
Unemployment Insurance Reserve	--	--	(1,805,033)	(1,805,033)
	(1,214,848)	345,658	108,720	(760,470)
Less: Capital assets removed from Nonexpendable Trust Funds	--	--	(635)	(635)
	(1,214,848)	345,658	108,085	(761,105)
Other fund structure reclassifications:				
Printing and Other Services	(791)	--	--	(791)
Prior Period Adjustments:				
Recognition of expenditures for county and municipal contract payments	(60,366)	--	--	(60,366)
Correction of the cancelled draft liability reported in the General Fund	(12,467)	--	--	(12,467)
Reclassification of notes payable recorded through the Capital Improvement Fund			(67,760)	(67,760)
Other adjustments of assets and liabilities as of June 30, 2001	2,935	(1,174)	2,285	4,046
Beginning Fund Balances as reported in the 2002 Comprehensive Annual Financial Report	$ (1,285,537)	$ 344,484	$ 42,610	$ (898,443)
Effect of prior period adjustments on the amount of net change in fund balances of the 2001 Comprehensive Annual Financial Report	$ (67,425)	$ (1,174)	$ 185,896	$ 117,297

B. Fund Statements – Proprietary Funds

	Major Funds							
	Patients Compensation	Improvement	Veterans Mortgage Loan Repayment	University of Wisconsin System	Unemployment Insurance Reserve	Nonmajor Funds	Total Enterprise	Internal Services Funds
Ending fund equity as reported in the 2001 Comprehensive Financial Report	$ 28,461	$ 824,625	$ 82,284	$ --	$ --	$368,471	$1,303,841	$ 5,738
GASB 34 fund structure reclassifications:								
Enterprise to Private-Purpose Trust:								
Tuition Trust	--	--	--	--	--	786	786	--
College Savings Program Trust	--	--	--	--	--	(31)	(31)	--
Expendable Trust to Enterprise:								
Unemployment Insurance	--	--	--	--	1,805,033	--	1,805,033	--
University of Wisconsin System to Enterprise	--	--	--	4,008,905	--	--	4,008,905	--
Unemployment Insurance Fund adjustments for GASB Statement No. 34	--	--	--	--	6,723	--	6,723	--
University of Wisconsin System adjustments for GASB Statements No. 34 and 35:								
Report Accumulated Depreciation	--	--	--	(1,492,450)	--	--	(1,492,450)	--
Exclude liability for general obligation debt funded by general purpose revenues reported by governmental activities rather than by enterprise fund	--	--	--	745,589	--	--	745,589	--
Other	--	--	--	8,641	--	--	8,641	--
Other fund structure reclassifications:								
Portions of Internal Services Funds to General Fund	--	--	--	--	--	--	--	791
Prior Period Adjustments of assets and as of June 30, 2001	(187)	--	(1,428)	(30,618)	--	(15,372)	(47,605)	(60)
Fund equity July 1, 2001 as restated	$ 28,273	$ 824,625	$ 80,856	$3,240,068	$ 1,811,756	$353,853	$6,339,432	$ 6,469
Effect of prior period adjustments on the amount of net change fund equity of Fiscal Year 2001	$ (187)	$ 0	$ (1,428)	$ 0	$ 0	$ (6,624)	$ (8,239)	$ (176)

C. Fund Statements – Fiduciary Funds

	Pension and Other Employee Benefit Trust	Investment Trust	Private-Purpose Trust	Total Fiduciary
Fund Balances, June 30, 2001 – As reported in the 2001 Comprehensive Annual Financial Report:	$ 60,550,927	$ 3,901,225	$ --	$ 64,452,152
From Expendable Trust Funds Statements:				
Accumulated Sick Leave	1,899	--	--	1,899
Employee Reimbursement Accounts	1,490	--	--	1,490
Life Insurance	247	--	--	247
Deferred Compensation	1,148,099	--	--	1,148,099
Unclaimed Property Program	--	--	20,674	20,674
Special Death Benefits	--	--	1,280	1,280
From Enterprise Funds:				
Tuition Trust	--	--	(786)	(786)
College Savings Program Trust	--	--	31	31
Accrued liability adjustments for GASB Statement No. 34:				
Accumulated Sick Leave	(378,500)	--	--	(378,500)
Unclaimed Property Program	--	--	7,912	7,912
Tuition Trust	--	--	9,697	9,697
College Savings Program Trust	--	--	12,496	12,496
Other adjustments of assets and liabilities as of June 30, 2001	(4,041)	3,520	(117)	(638)
Net assets July 1, 2001 as restated	$ 61,320,120	$ 3,904,745	$ 51,188	$ 65,276,053
Effect of prior period adjustments on the amount of net increase in net assets of Fiscal Year 2001	$ (4,041)	$ 3,520	$ (117)	$ (638)

NOTE 22. LITIGATION, CONTINGENCIES AND COMMITMENTS

A. Litigation and Contingencies

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

Claims and Judgments Reported in Governmental Activities

The State accrues liabilities related to legal proceedings, if a loss is probable and reasonably estimable. Such losses, totaling $2.0 million on June 30, 2002 reported in the governmental activities, are discussed below:

Litigation - The Department of Health and Family Services is involved in various legal proceedings where the ultimate disposition is estimated at $.3 million.

Other Claims - Work Injury Supplemental Benefits - The Work Injury Supplemental Benefit Fund, administered by the Department of Workforce Development, provides compensatory payments to survivors of fatally injured employees or disabled employees with work-related injuries. The liability for annuities to be paid to the above individuals totaled $1.7 million at June 30, 2002.

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 $3.0 million. However, the ultimate dispositions and consequences of any single legal proceeding or all legal proceedings collectively should not have a material adverse effect on the State's financial position, except as noted below.

Corporate Tax Measured by Interest from U.S. Securities - In this corporate franchise tax case, American Family Mutual Insurance Company and American Standard Insurance Company sought refunds of taxes paid that were measured by U.S. interest.

Federal law prohibits an income tax on U.S. interest, but allows a non-discriminatory franchise tax measured on U.S. interest. The insurance companies argued that because bonds authorized by the State for housing and development were exempt from State taxes, that the franchise tax was discriminatory. The State had heretofore held that the exemption applied only to direct State taxes and had uniformly included interest on the State authorized bonds in the franchise tax measure. The Wisconsin Tax Appeals Commission and the County Circuit Court upheld the State. The Court of Appeals, District IV, reversed the decisions. The Supreme Court reversed the Court of Appeals. The taxpayers maintain that the decision is not applicable to 1993 and 1994. The State maintains the principles of the decision are applicable to the subsequent years.

Due to the uncertainty in predicting the outcome, a liability has not been recorded as of June 30, 2002.

Federal Pension Income – The 1984-1988 period settlements with approximately 3,200 military retirees and 14,000 civilian retirees, triggered by the United States Supreme Court ruling in Davis v. Michigan Department of the Treasury are essentially completed. The Davis case had held that a state government violates the intergovernmental tax immunity clause when it provided for taxation of federal pension benefits. Subsequent litigation with other retirees on a variety of issues has occurred, with the Department prevailing in all instances. Litigation is still in progress on a limited number of issues. The Department of Revenue is confident that it will continue to prevail on this issue. Because a fiscal impact cannot be readily determined if the State were not to prevail, and due to the uncertainty in predicting the outcome, a liability has not been recorded.

Environmental Clean-up Actions - The State is involved in environmental clean-up of property owned by the State that has the potential to cause soil and groundwater contamination. Sixteen sites have soil and/or groundwater contamination associated with underground storage tank releases with an estimated remediation cost of $2.8 million.

The State is also involved in environmental remediations on 9 properties that do not involve releases from underground storage tanks, with an estimated cost of $2.8 million.

B. Commitments

Primary Government

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

In addition to the amount of encumbrances outstanding at June 30, 2002 reported as Fund Balance - Reserved for Encumbrances, additional obligations at June 30, 2002 representing multi-year, long-term commitments included (in thousands):

Transportation Fund	$ 221,007
Transportation Revenue Bonds Capital Projects Fund	30,159
General Fund – Department of Commerce programs, including economic and community development programs	2,909

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 $204.0 million as of June 30, 2002. 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, 2002, future commitments for hardship grants totaled $112.3 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, 2002 was $132.8 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, 2002, the appropriation available totaled $29.4 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, 2002, $30.4 million of cash balance has been restricted in the Common School Fund, a permanent fund, for this purpose.

Component Units

The Wisconsin Housing and Economic Development Authority's mission was expanded since its creation to include administration of the Agricultural and Business Programs. These programs administer funds that are legislatively appropriated to subsidize interest and provide guarantees of principal balances of qualifying loans. At June 30, 2002, outstanding loan guarantees totaled $31.7 million.

NOTE 23. SUBSEQUENT EVENTS

Primary Government

Long-term Debt

State of Wisconsin General Obligation Bonds – In September 2002, the State issued $2.0 million of 2002 Series E general obligation bonds to be used to fund veterans primary mortgage loans. Interest is payable on May 1 and November 1, beginning May 1, 2003, with the bonds maturing May 1, of the years 2004 through 2018.

In September 2002, the State issued $13.0 million of 2002 Series F general obligation bonds to be used to fund veterans primary mortgage loans. Interest is payable on May 1 and November 1, beginning May 1, 2003, with the bonds maturing May 1, of the years 2004 through 2033.

In October 2002, the State issued $190.6 million of 2002 Series G 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, 2003, with bonds maturing May 1, of the years 2004 through 2023.

Revenue Bonds – In October 2002, the Department of Transportation issued $200.0 million of 2002 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, 2003. The bonds mature on July 1 of the years 2004 through 2023.

In August 2002, the Environmental Improvement Fund issued $85.5 million in Clean Water Revenue Refunding Bonds, 2002 Series 2. The proceeds were deposited in an escrow account to provide for future debt service requirements on $86.0 million of various clean water revenue bonds outstanding at the time of the refunding.

Commercial Paper Notes – In August and September 2002, the State issued $62.3 million of Petroleum Inspection Fee Revenue Extendible Municipal Commercial Paper notes.

Component Units

Wisconsin Housing and Economic Development Authority – In July 2002, the Authority issued $160.0 million of the Home Ownership Revenue Bonds, 2002 Series E, F (taxable), G and H. These bonds were issued under the 1988 Home Ownership Revenue Bond Resolution.

In October 2002, the Authority issued $95.0 million of the Home Ownership Revenue Bonds, 2002 Series I (AMT) and J (taxable). These bonds were issued under the 1987 Home Ownership Revenue Bond Resolution.

The Authority entered into interest rate swap agreements as part of the two bond issues subsequent to June 30, 2002. These agreements include requirements for the pledging of assets based on the Authority's credit rating. As of October 31, 2002, there was no requirement to pledge assets.

In July 2002, the Authority redeemed $38.9 million of the Housing Revenue Bonds, 1992 Series A. These bonds were redeemed from mortgage prepayments and the proceeds of the Housing Revenue Bonds 2002 Series C. In July 2002, the Authority redeemed $62.1 million of the Housing Revenue Bonds, 1992 Series B, C and D. These bonds were redeemed from mortgage prepayments and the proceeds of the Housing Revenue bonds 2002 Series B and G and from a portion of the 2002 Series A bonds.

University of Wisconsin Hospitals and Clinics Authority (the Hospital) – In September 2002, the Hospital cancelled the interest rate swap agreement with a counterparty under which the difference between the fixed- and floating-rate interest amounts calculated on an agreed-upon notional principal amount ($46.5 million) were exchanged. The cancellation resulted in a gain to the Hospital of $1.1 million reflecting additional market value appreciation subsequent to June 30, 2002.

In October 2002, the Hospital issued $68.5 million of Hospital Revenue Bonds Series 2002. The Series 2002 bonds were issued in two (2) series, Series 2002A and Series 2002B. The bond proceeds are designated to finance qualified capital projects.

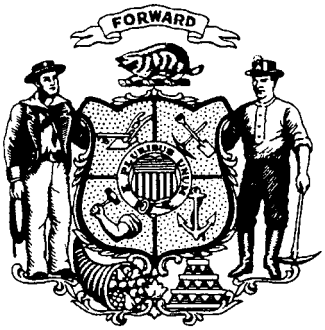
Bond Issue Series 2002A were issued as Short-Term Adjustable Rate Securities in the amount of $55.6 million and were initially issued in the Auction Mode with a 28-day Rate Period. Principal payments on the Bond Issue Series 2002A, ranging from $.5 million to $3.9 million, are due annually commencing in April 2013 through April 2032. Interest on the Bond Issue Series 2002A is payable at the end of each Rate Period (initially a 28-day Rate Period) and thereafter at the sum of subsequent Auction and Service Charge Rates. The initial interest rate was 1.80% per

annum at the time of issuance. The Bond Issue Series 2002A is insured by Financial Security Assurance, Inc.

Bond Issue Series 2002B were issued as Fixed Rate Serial bonds in the amount of $12.9 million. The Series 2002B bonds were sold at a premium totaling approximately $.7. This premium will be amortized to interest expense on a straight-line basis over the life of the bonds. Principal payments on the bond Issue Series 2002B, ranging from $1.4 million to $1.9 million, are due annually commencing in April 2006 through April 2013. Interest on the Bond Issue Series 2002B is not guaranteed by a municipal bond insurance policy or any other form of credit enhancement.

In October 2002, the Hospital also entered into an interest rate swap in order to convert a portion of the Series 2002A short-term adjustable rate securities to fixed rates. The notional amount of this swap agreement was $21.4 million effective October 31, 2002. The terms of the swap agreement are for the Hospital to pay the counterparty a fixed rate of 3.85 percent per annum, payable semiannually, and the Hospital will receive a floating rate of 70 percent of one-month LIBOR per annum, payable monthly.

Required Supplementary Information


FORWARD

Infrastructure Assets Reported Using the Modified Approach

The State has adopted the modified approach for reporting infrastructure assets. Under the modified approach, infrastructure assets are not depreciated as long as the State can demonstrate that the assets are properly managed and are being preserved at or above an established condition level. Instead of depreciation, the costs to maintain and preserve infrastructure assets are expensed, while additions and improvements are capitalized. The State owns approximately 11,200 miles of roads and 4,900 bridges.

Road Network

Condition assessments are completed on a two-year cycle. Numerous measures are used to assess the condition of the State's road network. The State has adopted the International Roughness Index (IRI), as defined by the Federal Highway Administration, as its primary condition measure. IRI is measured on a scale of 0 to 5, with an IRI of 2.69 or greater being defined as a "poor" ride. Roads with a "poor" IRI assessment cause negative impacts for the traveling public by decreasing driver comfort and increasing the damage to vehicles and goods. It is the State's policy to ensure no more than 15 percent of its roads receive a "poor" IRI assessment. At June 30, 2002, approximately 4.6 percent of the State road network had a "poor" IRI rating.

The State estimated that during Fiscal Year 2002, it would cost approximately $470.7 million to maintain and preserve the road network at, or above, the established condition level. Actual maintenance and preservation costs of the road network were $437.6 million, $33.1 million less than estimated. The State of Wisconsin, Department of Transportation's multi-year budgeting process, allowing encumbrances to carry forward, makes a comparison of actual to estimated amounts difficult since expenditures for the current year may have been budgeted and committed to a project in prior years.

Bridge Network

Condition assessments are completed on a two-year cycle, with more frequent inspections completed if warranted. The State has adopted the National Bridge Inventory (NBI) 10-point rating scale as its primary condition measure. Using the Federal Highway Administration's definition, a bridge is considered "structurally deficient" if it has an NBI score of 4 or less on its deck, superstructure, or substructure. "Structurally deficient" bridges cause negative impacts for the public by increasing the likelihood that heavy loads will need to be rerouted to less efficient routes, thus increasing logistic costs for State businesses. It is the State's policy to ensure no more than 15 percent of its bridges are "structurally deficient". At June 30, 2002, approximately 7.6 percent of the State bridge network was rated "structurally deficient".

The State estimated that during FY 2002, it would cost approximately $33.6 million to maintain and preserve the bridge network at, or above, the established condition level. Actual costs for maintenance and preservation were $38.4 million, $4.8 million more than estimated. The Department of Transportation's multi-year budgeting process, allowing encumbrances to carry forward, makes a comparison of actual to estimated amounts difficult, since expenditures for the current year may have been budgeted and committed to a project in prior years.

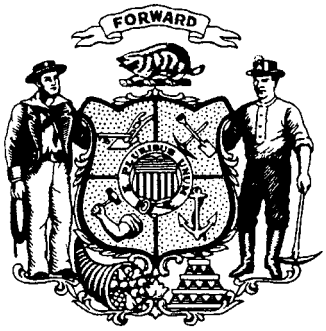
State of Wisconsin

Budgetary Comparison Schedule
General and Major Special Revenue Funds
For the Fiscal Year Ended June 30, 2002

(In Thousands)

	General Fund		
	Original Budget	Final Budget	Actual Amounts
Unexpended Budgetary Fund Balances, Beginning of Year			$ 935,893
Revenues and Transfers (Inflows):			
Taxes	$ 10,677,729	$ 10,226,169	10,036,703
Departmental:			
Tobacco Settlement	155,526	155,526	156,215
Tobacco Securitization	450,000	681,000	681,000
Other	9,964,803	9,979,516	9,976,159
Transfers from:			
Transportation Fund	6,692	11,026	11,545
Veterans Mortgage Loan Repayment Fund	224	224	224
Nonmajor Funds	7,664	8,685	8,685
Total Revenues and Transfers	21,262,638	21,062,146	20,870,532
Amounts Available for Appropriation			21,806,424
Appropriations and Transfers (Outflows):			
Commerce	260,538	256,084	207,956
Education	8,766,778	8,871,414	8,583,634
Environmental Resources	268,645	257,535	228,211
Human Relations and Resources	7,710,719	9,236,672	8,531,381
General Executive	689,772	819,440	622,510
Judicial	104,543	109,009	107,534
Legislative	63,934	62,467	62,228
General	1,946,850	2,902,717	2,875,614
Transfers to:			
General Fund	-	-	-
Tobacco Control Fund	6,032	6,032	6,032
Other Nonmajor Funds	406	406	406
Total Appropriations and Transfers	$ 19,818,217	$ 22,521,776	21,225,507
Fund Balances, End of Year			580,917
Less Encumbrances Outstanding at June 30, 2002			(506,279)
Fund Balances, End of Year Budgetary Basis			$ 74,638
Reconciliation of the End of Year, Budgetary Basis, Fund Balance to the Amount Reported in the Annual Fiscal Report:			
Amount from Annual Fiscal Report			$ 77,429
Late Audit Adjustment			(2,791)
Revised End of Year Fund Balance, Budgetary Basis			$ 74,638

Transportation Fund			Tobacco Settlement Endowment Fund		
Original Budget	Final Budget	Actual Amounts	Original Budget	Final Budget	Actual Amounts
		$ 317,414			$ 0
$ 887,934	$ 887,934	887,934	$ -	$ -	-
-	-	-	-	-	-
-	-	-	-	-	-
1,301,291	1,301,291	1,301,291	1,276,155	1,276,155	1,276,155
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
2,189,225	2,189,225	2,189,225	1,276,155	1,276,155	1,276,155
		2,506,639			1,276,155
83	87	87	-	-	-
-	-	-	-	-	-
3,121,493	3,305,960	2,109,788	-	-	-
-	-	-	-	-	-
4,241	2,096	2,085	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
17,338	17,743	17,743	-	-	-
6,692	11,026	11,545	605,526	836,526	681,000
-	-	-	-	-	-
-	-	-	-	-	-
$ 3,149,848	$ 3,336,912	2,141,249	$ 605,526	$ 836,526	681,000
		365,390			595,155
		(910,580)			-
		$ (545,189)			$ 595,155


FORWARD

Notes To Required Supplementary Information

NOTE 1. BUDGETARY INFORMATION

A. Budgetary-GAAP Reporting Reconciliation

The accompanying Budgetary Comparison Schedule compares the legally adopted budget (more fully described in RSI Note 1-B) with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on the budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of basis and perspective differences as of June 30, 2002 is presented below (in thousands):

	General Fund	Transportation Fund	Tobacco Settlement Endowment
Fund balance June 30, 2002 (budgetary basis – budgetary fund structure)			
As reported on the budgetary comparison schedule	$ 74,638	$ (545,189)	$ 595,155
Reclassifications:			
To eliminate the effect of encumbrances that were reported as expenditures under budgetary reporting (basis difference)	506,279	910,580	--
To reclassify activities reported in another GAAP fund type (perspective differences):			
Enterprise funds (except for the University of Wisconsin System)	15,685	--	--
University of Wisconsin System	(229,782)	--	--
Internal service funds	12,143	--	--
Fiduciary funds	(39,447)	--	--
Transportation Revenue Bonds debt service fund	--	11,315	--
Fund balance June 30, 2002 (GAAP fund structure – budgetary basis, excluding Encumbrances treated as expenditures at year end)	339,516	376,705	595,155
Adjustments (basis differences):			
To adjust expenditures for the municipal and county shared revenue program	(492,878)	--	--
To accrue the amount due to the General Fund from the Tobacco Settlement Endowment Fund that will be applied to the municipal and county shared revenue program payment	311,361	--	(311,361)
To adjust expenditures for State property tax credit program	(354,030)	--	--
To accrue receivables and establish payables for individual income taxes (net)	(658,813)	--	--
To defer revenues for gross receipts public utility taxes	(151,521)	--	--
To adjust revenues and expenditures for tax-related items and other tax credit/aid programs (net)	(276,821)	(894)	--
To accrue unpaid Medicaid claims (net of receivable from federal government)	(160,095)	--	--
To adjust expenditures/revenues for certain major Health and Family Services and Workforce Development accruals and deferrals (net)	(44,203)	--	--
To accrue State educational aids payments deferred until the subsequent year	(75,000)	--	--
To adjust revenues and expenditures for other items (net)	78,150	(19,481)	--
Fund balance June 30, 2002 (GAAP fund structure – GAAP basis) as reported on The governmental fund statements)	$(1,484,333)	$ 356,330	$ 283,794

B. Budgetary Basis of Accounting

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

While State departments and agencies are required to submit estimates of expected revenues for program revenue and segregated revenue categories, these estimates are not formally incorporated into the adopted budget except for revenue estimates of the Lottery Fund. As a result, legally budgeted revenues for these categories are not available and, consequently, actual amounts are reported in the budget column of the Budgetary Comparison Schedule.

Expenditure budgeting differs for the various types of appropriations. For most appropriations, budgeted expenditures equal the amount from the adopted budget plus any subsequent legislative or administrative revisions. 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 and permanent 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. Other variances arise because the State's biennial budget is developed according to the statutory required fund structure which differs extensively from the fund structure used in the GAAP basis financial statements. This difference is primarily caused by the elimination of the University of Wisconsin System, and various fiduciary, proprietary and other governmental fund activity from the statutory General and special revenue funds. Consequently, a reconciliation between budgetary basis and GAAP basis is provided in Note 1-A of the notes to the required supplementary information.

The Budgetary Comparison Schedule for the General and the major special revenue funds presents both the original and final appropriated budgets, as well as the actual inflows, outflows, and fund balance on the budgetary basis. The supplementary budget comparison schedule provides this same information (with the exception of the original budget data) for the nonmajor governmental funds with annual budgets. The capital project and debt service funds are excluded from this schedule because no comprehensive budget is approved for these funds. Certain special revenue funds are also excluded. The Employee Trust Fund Administration Fund is extracted from a statutory unbudgeted fund type, while the Wisconsin Public Broadcasting Foundation is a blended component unit that is neither budgeted nor included under statutory reporting. Of the permanent funds, only the Historical Society Fund and a portion of the Common School Fund are budgeted.

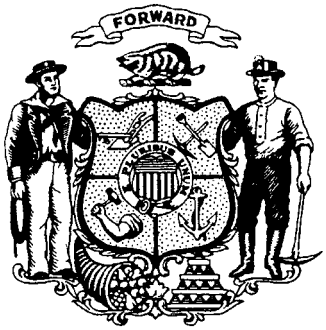
While the legal level of budgetary control for the reported funds is maintained at the appropriation line as specified by the Legislature in Chapter 20 of the Wisconsin Statutes, this level of detail is impractical for inclusion in the Comprehensive Annual Financial Report. Accordingly, a supplementary report is available upon request which provides budgetary comparisons at the legal level of control.

In general, 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.

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.


FORWARD