



September 12, 2012

Wisconsin Local Government Investment Pool Participant:

Following are the audited financial statements for the Wisconsin State Investment Fund (SIF) for the year ending June 30, 2012. The State Investment Fund includes investments made from the excess cash of the operating funds of various State of Wisconsin agencies, the Wisconsin Retirement System (WRS), and the deposits made by participants of the Wisconsin Local Government Investment Pool (LGIP).

In March 1997 the Governmental Accounting Standards Board (GASB) issued Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The requirements of this pronouncement affect the disclosures that are required to be made in the financial statements of those LGIP participants that prepare their financial statements following Generally Accepted Accounting Principles (GAAP). The enclosed SIF financial statements are prepared following the requirements of GASB No. 31. Principally, these requirements provide for the use of fair value accounting in the valuation of assets, but also include other important disclosure information. The statements, therefore, contain information that LGIP participants will need in preparing their own GAAP based financial statements.

The fair value basis is different from the accounting basis that is reflected in the monthly LGIP account statement that you receive from Wisconsin Department of Administration. Account balances and earnings distributions that are shown on those statements are prepared using the traditional amortized cost basis of accounting. If necessary, to translate your LGIP holdings to a fair value amount, you must apply the June 30, 2012 conversion factor that is described in Note 2 of these statements. Since that conversion factor is 100%, fair value approximates amortized cost and no conversion is necessary.

In December 2012 the Department of Administration, Office of the State Controller will publish the State of Wisconsin's *Comprehensive Annual Financial Report* for fiscal year 2012. This report will display the LGIP portion of the SIF as a separate investment trust fund. In December 2012 the Investment Board will issue its Annual Financial Report for fiscal year 2012. This report will include financial statements for the investments of the WRS trust funds, other funds for which the Investment Board manages the investments, and a re-printing of these SIF financial statements. The report will also include in-depth analytical



**State of Wisconsin
Investment Board**

State Investment Fund

**Financial Statements (Audited)
For the Fiscal Year Ending
June 30, 2012**

**Early Release for
Local Government Investment Pool
Participants**

TABLE OF CONTENTS¹

Independent Auditor's Report

Management Discussion & Analysis

Financial Statements

Notes to the Financial Statements

Additional Attachment:

LAB Cover Letter and *"Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards"*

¹ Page numbers listed on SIF Financial Statements do not refer to their final placement in SWIB's Annual Financial Report (AFR)



STATE OF WISCONSIN

Legislative Audit Bureau

22 East Mifflin Street, Suite 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410

www.legis.wisconsin.gov/lab

Toll-free hotline: 1-877-FRAUD-17

Joe Chrisman
State Auditor

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE STATE INVESTMENT FUND

Senator Kathleen Vinehout and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee

Members of the Board of Trustees and
Mr. Michael Williamson, Executive Director
State of Wisconsin Investment Board

We have audited the accompanying Statement of Net Assets for the State Investment Fund of the State of Wisconsin as of June 30, 2012, and the related Statement of Operations and Changes in Net Assets for the year then ended. These financial statements are the responsibility of the State of Wisconsin Investment Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

The financial statements as of and for the year ended June 30, 2011, are being presented for informational purposes only. These financial statements were audited by us and we expressed an unqualified opinion on them in our report dated August 29, 2011, but we have not performed any auditing procedures since that date.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those 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 provides a reasonable basis for our opinion.

The financial statements referred to in the first paragraph present only the State Investment Fund and do not purport to, and do not, present fairly the financial position and results of operations of the Investment Board or of the State of Wisconsin in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net assets of the State Investment Fund as of June 30, 2012, and the results of its operations and changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

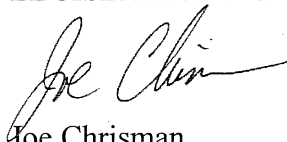
In accordance with *Government Auditing Standards*, we have also issued a report dated August 29, 2012, on our consideration of the Investment Board's internal control over financial reporting for the State Investment Fund; our tests of the State Investment Fund's compliance with certain provisions of laws, regulations, and contracts; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report, which is included in a management letter to the Investment Board, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the State Investment Fund. The supplementary information included as Management's Discussion and Analysis, which precedes the financial statements, is presented for purposes of additional analysis and is not a required part of the financial statements referred to in the first paragraph. We have applied certain limited procedures to the information, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

LEGISLATIVE AUDIT BUREAU

August 29, 2012

by



Joe Chrisman
State Auditor

State Investment Fund

Management Discussion and Analysis

Management Discussion and Analysis provides general information on the financial activities of the State Investment Fund (SIF). The SIF temporarily invests the operating funds of the State of Wisconsin and Agencies, the Wisconsin Retirement System (WRS), and various local government units (Local Government Investment Pool – LGIP). The table below provides information about ownership at June 30.

Following this section are the financial statements and notes to the financial statements. The **Statement of Net Assets** provides information on the types of assets and the liabilities of the SIF. The **Statement of Operations and Changes in Net Assets** provides information on the net income of the SIF and its net assets at year end. The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the SIF financial statements. The table entitled **SIF Condensed Financial Information** contains a summary for the fiscal years ended June 30, 2012 and 2011 (for comparison).

Because the SIF is used to temporarily invest participants' operating cash flows, investments are in highly liquid, short-term fixed income securities. At June 30, 2012, SIF Net Assets had increased by \$299 million from the prior year due to the increase in the State of Wisconsin and Agencies (+\$760 million) balance exceeding the combined decrease in both the WRS (-\$417 million) and the LGIP (-\$44 million) balances. The Average Daily Portfolio Balance decreased by \$126 million in the current fiscal year compared to the prior year. The monthly average balance peaked at \$8.868 billion in March 2012.

The Net Income decrease of 33.2% from the previous fiscal year was largely due to the ongoing low interest rate environment caused by the Federal Open Markets Committee continuing to maintain the Federal Funds Rate during fiscal year 2012 at 0.25%. This also caused the Time Weighted Annual Yield to decrease from 0.19% to 0.14%. Investment Expenses decreased by 79.4% because FY 2012 SWIB investments and administrative costs allocated to the SIF of \$1,201,706 (FY 2011 amount \$1,319,157) were charged against a reserve balance which had accumulated over several years.

SIF Condensed Financial Information

Fiscal Year Ended June 30:	2012	2011	% Change
Total Assets	\$ 6,951,887,107	\$ 6,682,710,801	4.0
Total Liabilities	111,505,107	141,705,801	(21.3)
Net Assets	<u>\$ 6,840,382,000</u>	<u>\$ 6,541,005,000</u>	4.6
Investment Income	\$ 10,504,745	\$ 15,451,819	(32.0)
Investment Expenses	346,315	1,678,883	(79.4)
State Working Bank Charges	2,889,287	2,890,370	0.0
Net Income	<u>\$ 7,269,143</u>	<u>\$ 10,882,566</u>	(33.2)
Average Daily Cash Balance	\$ 7,091,886,359	\$ 7,217,629,337	(1.7)
Weighted Ave. Maturity (WAM)	75 days	73 days	
<u>SIF Ownership:</u>			
State of Wisconsin & Agencies	42%	32%	
Wisconsin Retirement System	23%	30%	
Local Govt Investment Pool	35%	38%	
Total	<u>100%</u>	<u>100%</u>	

SIF Annualized Time Weighted Returns

Fiscal Year Ended June 30:	Return
2003	1.49%
2004	1.03%
2005	2.08%
2006	4.23%
2007	5.40%
2008	4.02%
2009	1.33%
2010	0.25%
2011	0.19%
2012	0.14%

State Investment Fund

Financial Statements

State Investment Fund

Statement of Net Assets

As of June 30, 2012 (with Comparative Amounts as of June 30, 2011)

	June 30, 2012	June 30, 2011
Assets		
Investments (at fair value):		
Bank Demand Deposits	\$ 1,200,000,000	\$ 700,000,000
Repurchase Agreements	1,631,000,000	1,342,000,000
Government & Agencies	4,075,664,223	4,553,456,416
Certificates of Deposit	24,150,000	40,030,000
Banker's Acceptances	19,537,012	46,915,176
	<u> </u>	<u> </u>
Total Investments	\$ 6,950,351,235	\$ 6,682,401,592
Other Assets:		
Accrued Interest Receivable	1,535,872	309,209
	<u> </u>	<u> </u>
Total Assets	<u>\$ 6,951,887,107</u>	<u>\$ 6,682,710,801</u>
Liabilities		
Check Float Invested	\$ 110,675,048	\$ 141,120,258
Earnings Distribution Payable	710,737	468,707
Accrued Expenses	119,322	116,836
	<u> </u>	<u> </u>
Total Liabilities	<u>\$ 111,505,107</u>	<u>\$ 141,705,801</u>
NET ASSETS	<u>\$ 6,840,382,000</u>	<u>\$ 6,541,005,000</u>
Net Assets consist of:		
Participating Shares	\$ 6,840,382,000	\$ 6,541,005,000
Undistributed Unrealized Gains (Losses)	-	-
	<u> </u>	<u> </u>
NET ASSETS	<u>\$ 6,840,382,000</u>	<u>\$ 6,541,005,000</u>

The accompanying notes are an integral part of this statement.

State Investment Fund
Financial Statements

State Investment Fund

Statement of Operations and Changes in Net Assets

For the Fiscal Year Ended June 30, 2012 (with Comparative Amounts for June 30, 2011)

	2012	2011
Investment Income	\$ 10,504,745	\$ 15,451,819
Investment Expenses		
Management Operating Expenses (Note 2D)	\$ -	\$ 1,319,157
Custodial Bank Charges	121,864	140,033
Electronic Services	222,451	213,393
Legal and Consulting Fees	2,000	6,300
Total Expenses	<u>\$ 346,315</u>	<u>\$ 1,678,883</u>
Net Investment Income	\$ 10,158,430	\$ 13,772,936
State Working Bank Charges	<u>2,889,287</u>	<u>2,890,370</u>
Net Income	\$ 7,269,143	\$ 10,882,566
Distributions Paid and Payable	<u>7,269,143</u>	<u>10,882,566</u>
Change in Undistributed Unrealized Gains (Losses)	\$ -	\$ -
Beginning of Period Undistributed Unrealized Gains (Losses)	<u>-</u>	<u>-</u>
End of Period Undistributed Unrealized Gains (Losses)	<u>\$ -</u>	<u>\$ -</u>
Participant Transactions:		
Receipts by Transfer to Fund	\$ 31,960,280,000	\$ 30,328,085,000
Disbursements by Transfer from Fund	<u>(31,660,903,000)</u>	<u>(30,271,473,000)</u>
Net Change in Participating Shares	\$ 299,377,000	\$ 56,612,000
Beginning of Period Participating Shares	<u>6,541,005,000</u>	<u>6,484,393,000</u>
End of Period Participating Shares	<u>\$ 6,840,382,000</u>	<u>\$ 6,541,005,000</u>
NET ASSETS	<u><u>\$ 6,840,382,000</u></u>	<u><u>\$ 6,541,005,000</u></u>

The accompanying notes are an integral part of this statement.

State Investment Fund

Notes to the Financial Statements

1. Description of Funds

The State Investment Fund (SIF) pools the cash of the State of Wisconsin and its agencies, the Wisconsin Retirement System (WRS), and various local government units (Local Government Investment Pool – LGIP) into a commingled fund with the investment objective of safety of principal and liquidity while earning a competitive money market rate of return. Only State of Wisconsin agencies are required to invest their operating cash in the SIF. In the State's Comprehensive Annual Financial Report (CAFR), the SIF 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 SIF belonging to other participating public institutions are presented in the Local Government Pooled Investment Fund, an investment trust fund. The staff of the State of Wisconsin Investment Board (SWIB) manages the SIF with oversight by the Board of Trustees as authorized in Wisconsin Statutes 25.14 and 25.17. The SWIB is not registered with the SEC as an investment company.

Wisconsin Statutes 25.17(3)(b), (ba), (bd), and (dg) enumerate the various types of securities in which the SIF can be invested, which include direct obligations of the United States or its agencies, corporations wholly owned by the United States or chartered by an act of Congress, securities guaranteed by the United States, the unsecured notes of financial and industrial issuers, direct obligations of or guaranteed by the government of Canada, certificates of deposit issued by banks in the United States including solvent financial institutions in Wisconsin and bankers acceptances. The Board of Trustees may specifically approve other prudent legal investments.

2. Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements of the investment activity of the SIF are prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board (GASB).

B. Basis of Accounting

The accompanying statements are prepared based upon the flow of economic resources measurement focus and the full accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized in the period incurred, if measurable. Security transactions and the related gains and losses are recorded on a trade date basis. Interest income is accrued as earned.

C. Valuation of Securities

Generally, securities are valued at fair value for financial statement purposes and amortized cost for purposes of calculating income to participants (See Footnote 3). BNY Mellon, as custodial bank, compiles fair value information for applicable securities by utilizing third party pricing services. The fair value of investments is determined at the end of each month.

U.S. Government/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. Further, short-term debt investments with remaining maturities of up to ninety days are valued using amortized cost to estimate fair value, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.

State Investment Fund

Notes to the Financial Statements

Bank Demand Deposits, Repurchase Agreements, non-negotiable Certificates of Deposit and Banker's Acceptances are valued at cost because they are nonparticipating contracts that do not capture interest rate changes in their value. The table entitled **Summary of Information by Investment Classification** contains information on SIF holdings.

D. Management Operating Expenses

Management Operating Expenses are SWIB's investment and administrative costs that are allocated to the SIF participants. During fiscal years 2000 to 2011, the billed expense was determined by between 2.75 and 3.25 basis points of assets under management. Unspent billed budget authority was allowed to be carried forward in a reserve held in the General Fund. In 2011, Wisconsin Act 32 eliminated SWIB's basis point budget process and authorized SWIB's Board to approve the internal operating budget based on operating and staffing needs. In September 2011, the Board approved eliminating the reserve. As a result, for FY 2012 Management Operating Expenses allocated to the

SIF of \$1,201,076 were charged against the reserve.

E. State Working Bank Charges

State Working Bank Charges represent charges for various state banking services such as lockbox, ePay, and depository services. These expenses are allocated to SIF participants based on their proportionate usage of banking services and, accordingly, reduce the participant's share of the Net Investment Income.

3. SIF Investment Income and Pool Shares

For purposes of calculating earnings to each participant, all investments are valued at amortized cost. Specifically, the SIF distributes income to pool participants monthly, based on their average daily share balance. Distributions include interest income based on stated rates (both paid and accrued), amortization of discounts and premiums on a straight-line basis, realized investment gains and losses calculated on an amortized cost basis, and investment expenses. This method differs from the

Summary of Information by Investment Classification

June 30, 2012

	Interest Rates	Maturity Dates	Book Value (Amort. Cost)	Fair Value
Bank Demand Deposits	0.21*	Demand	\$ 1,200,000,000	\$ 1,200,000,000
Repurchase Agreements	0.15 - 0.20	07/02/12	1,631,000,000	1,631,000,000
Government & Agencies	0.09 - 0.48	07/05/12 - 11/21/14	4,075,664,223	4,075,664,223
Certificates of Deposit	0.20 - 2.00	07/16/12 - 06/17/13	24,150,000	24,150,000
Banker's Acceptances	0.29 - 0.51	07/09/12 - 11/05/12	19,537,012	19,537,012
Total Investments			<u>\$ 6,950,351,235</u>	<u>\$ 6,950,351,235</u>
Ratio of Fair Value to Book Value				100%

* Represents earnings credits - see Note 4B

State Investment Fund

Notes to the Financial Statements

fair value method used to value investments in these financial statements, because the amortized cost method is not designed to distribute to participants unrealized gains and losses generated by the pool's investments. The total difference between the fair values of the investments in the pool and the values distributed to the pool participants using the amortized cost method described above is reported in the equity section of the Statement of Net Assets as "Undistributed Unrealized Gains (Losses)".

SIF pool shares are bought and redeemed at \$1.00 based on the amortized cost of the investments in the SIF. The State of Wisconsin does not provide any legally binding guarantees to support the value of pool shares.

4. Deposit and Investment Risk

SWIB recognizes that risk issues permeate the entire investment process from asset allocation to performance evaluation. SWIB monitors risk through multiple forms of analysis and reporting. For the SIF, evaluations of levels of diversification, nominal risk exposures including sector, maturity, and interest rate exposures, and risk/return plots form the core of the monitoring process. In addition, the portfolio is reviewed daily for compliance with investment guidelines. At least quarterly, comprehensive reporting is presented to SWIB's Investment Committee and the Board of Trustees.

A. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the SIF. The Board established SIF investment guidelines with maximum exposure limits by security type based on the minimum credit ratings as issued by Nationally Recognized Statistical Rating Organizations (NRSROs). As of June 30, 2012, these credit ratings and aggregate exposures by investment type are found in the table entitled

Credit Quality Distribution for Securities.

B. Custodial Credit Risk

Deposits — Custodial credit risk related to deposits is the risk that, in the event of the failure of a depository financial institution, SWIB will not be able to recover deposits that are in possession of an outside party. SWIB does not have a deposit policy specifically for custodial credit risk. As of June 30, 2012, the SIF held Certificates of Deposit (CD) with a value of \$24,150,000 invested pursuant to the Wisconsin Certificate of Deposit Program (administered by Bankers' Bank) established in July 1987. Investment guidelines provide that banks accepted into this program must accept deposits in Wisconsin and meet credit-screening criteria designed to assure the safety of the deposits. The Federal Deposit Insurance Corporation (FDIC) insures the pro rata share of Certificates of Deposit held by the LGIP up to \$250,000, and the State of Wisconsin appropriation for losses on public deposits protects a depositing municipality up to \$400,000 if the local governing body has designated the LGIP as a public depository. Approximately \$24,150,000 is insured through FDIC insurance and the State of Wisconsin appropriation for losses on public deposits. The actual coverage of these deposits can fluctuate daily based on the allocable share of participants' accounts.

The SIF also had \$1.2 billion in a noninterest-bearing Demand Deposit transaction account at U.S. Bank. The FDIC Board of Directors has issued a final rule to implement the section of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) that provides temporary unlimited coverage for noninterest-bearing transaction accounts at all FDIC-insured depository institutions (IDIs). All funds held in noninterest-bearing transaction accounts will be fully insured, without limit, from December 31, 2010, through December 31, 2012. The SIF U.S. Bank account received 0.21% earnings credits which are

State Investment Fund

Notes to the Financial Statements

Credit Quality Distribution for Securities

June 30, 2012

	Rating	Fair Value	%
Bank Demand Deposits	NR	\$ 1,200,000,000	17.3
Repurchase Agreements (Collateral):			
U.S. Government Debt	AA	1,449,000,000	20.8
Government Sponsored Entity U.S. Agency	AA	182,000,000	2.6
U.S. Treasury	A-1+	429,697,927	6.2
Government Sponsored Entity U.S. Agency:			
Federal Home Loan Bank (FHLB)	A-1+	1,044,274,855	15.0
Federal Home Loan Bank (FHLB)	AA	181,563,771	2.6
Federal Home Loan Mortgage Corp (FHLMC)	A-1+	1,200,693,653	17.3
Federal National Mortgage Association (FNMA)	A-1+	1,034,849,313	14.9
Federal National Mortgage Association (FNMA)	AA	99,995,940	1.4
Federal National Mortgage Association (FNMA)	A	84,588,764	1.2
Certificates of Deposit:			
Non-Negotiable (Wisconsin CD Program)	NR	24,150,000	0.4
Banker's Acceptances	A-1	19,537,012	0.3
Total Investments		<u>\$ 6,950,351,235</u>	<u>100.0</u>

included in SIF Investment Income and used to pay State Working Bank Charges.

C. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment in a single issuer. The SIF's investment guidelines limit concentrations of credit risk by establishing maximum issuer and/or issue exposure limits based on credit rating. These guidelines do not place a limit on maximum exposure for any U.S. Treasury or Agency securities. As of June 30, 2012 the SIF has more than five percent of its investments in a U.S. Bank Demand Deposit (17.3%), FHLB (17.6%), FHLMC (17.3%), FNMA (17.5%), and Repurchase Agreement collateral consisting of various securities issued by these same three U.S. Agencies (2.6%). Since the Repurchase Agreements mature each day, new collateral, consisting of a different blend of U.S. Treasury and Agency securities, is assigned each night.

D. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The SIF uses the Weighted Average Maturity (WAM) method to analyze interest rate risk and investment guidelines mandate that the WAM for the entire portfolio will not exceed one year. SIF WAM summary by investment type is found in the table entitled **Weighted Average Maturities (WAM) for Securities**.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. SIF guidelines allow the investment in U.S. dollar denominated issues only.

5. Related Party Transactions

Wisconsin Statutes Chapter 20.002 (11) provides for the short-term temporary reallocation of surplus

Weighted Average Maturities (WAM) for Securities

June 30, 2012

	Fair Value	WAM (Days)
Bank Demand Deposits	\$ 1,200,000,000	0
Repurchase Agreements	1,631,000,000	2
Government & Agencies	4,075,664,223	125
Certificates of Deposit	24,150,000	141
Banker's Acceptances	19,537,012	55
Total Investments	<u>\$ 6,950,351,235</u>	
Portfolio Weighted Average Maturity		<u>75</u>

Inter-Fund Loans

June 30, 2012

Fund	Loan Amount
Medical Assistance Trust	\$ 162,209,000
Agriculture Chemical Cleanup	511,000
Total Loans	<u>\$ 162,720,000</u>

moneys between statutory funds, provided that the borrowing fund anticipates receiving future revenues to pay back the temporary loan. For Fiscal Year 2012, Chapter 20.002 (11) (b) 2 provides that General Fund borrowings may not exceed 9% of defined revenues (estimated borrowing cap of \$1.275 billion). Chapter 20.002 (11) (b) 3 permits an additional temporary allocation not to exceed 3% of defined revenues for a period of up to 30 days (estimated total borrowing cap of \$1.7 billion). Further, Chapter 20.002 (11) (b) 1 limits the total amount of any temporary reallocations to a fund other than the General Fund to \$400 million. The borrowing fund is charged interest on the inter-fund loan at the SIF monthly interest rate. As of June 30, 2012 the amount of inter-fund borrowings between statutory funds invested in the SIF is listed in the table entitled **Inter-Fund Loans**.



STATE OF WISCONSIN

Legislative Audit Bureau

22 East Mifflin Street, Suite 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410

www.legis.wisconsin.gov/lab

Toll-free hotline: 1-877-FRAUD-17

Joe Chrisman
State Auditor

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the State Investment Fund, managed by the State of Wisconsin Investment Board, as of and for the year ended June 30, 2012, and have issued our report thereon dated August 29, 2012. The financial statements and related auditor's opinion are included in the State of Wisconsin Investment Board's early release document for local government investment pool participants for fiscal year 2011-12. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Investment Board is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Investment Board's internal control as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Investment Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Investment Board's internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the State Investment Fund's financial statements will not be prevented or will not be detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State Investment Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This independent auditor's report is intended solely for the information and use of the Investment Board's management and audit committee, and the Wisconsin Legislature. This report is a matter of public record and its distribution is not limited. However, because we do not express an opinion on the effectiveness of the Investment Board's internal control or on compliance, this report is not intended to be used by anyone other than these specified parties.

LEGISLATIVE AUDIT BUREAU

August 29, 2012

by



Brandon Brickner
Assistant Audit Director

BANK DEMAND DEPOSITS

SECURITY NAME	TYPE	RATE or YIELD	MATURITY DATE	RATING	BOOK VALUE (AMORT COST)	FAIR VALUE
USBANK.....	DEMAND	0.21	DEMAND	NR	1,200,000,000	1,200,000,000
TOTAL BANK DEMAND DEPOSITS.....					1,200,000,000	1,200,000,000

REPURCHASE AGREEMENTS

SECURITY NAME	TYPE	RATE or YIELD	MATURITY DATE	RATING	BOOK VALUE (AMORT COST)	FAIR VALUE
JEFFERIES 0.17 07/02/2012.....	TERM	0.17	07/02/12	NR	200,000,000	200,000,000
JEFFERIES TRI GOVT.....	TRIPARTY	0.20	07/02/12	NR	175,000,000	175,000,000
MITSUBISHI TRI GOVT.....	TRIPARTY	0.20	07/02/12	NR	528,000,000	528,000,000
MIZUHO TRI AGCY.....	TRIPARTY	0.20	07/02/12	NR	132,000,000	132,000,000
MIZUHO TRI GOVT.....	TRIPARTY	0.18	07/02/12	NR	396,000,000	396,000,000
SOC GEN TRI AGCY.....	TRIPARTY	0.16	07/02/12	NR	50,000,000	50,000,000
SOC GEN TRI GOVT.....	TRIPARTY	0.15	07/02/12	NR	150,000,000	150,000,000
TOTAL REPURCHASE AGREEMENTS.....					1,631,000,000	1,631,000,000

GOVERNMENTS AND AGENCIES

SECURITY NAME	TYPE	RATE or YIELD	MATURITY DATE	RATING	BOOK VALUE (AMORT COST)	FAIR VALUE
UST BILL 0.110.....	BILL	0.11	08/02/12	A-1+	229,977,511	229,977,511
UST BILL 0.165.....	BILL	0.17	05/02/13	A-1+	99,860,208	99,860,208
UST BILL 0.165.....	BILL	0.17	05/02/13	A-1+	99,860,208	99,860,208
FHLB DN 0.105.....	DN	0.11	07/11/12	A-1+	23,299,320	23,299,320
FHLB DN 0.100.....	DN	0.10	08/01/12	A-1+	249,978,472	249,978,472
FHLB DN 0.110.....	DN	0.11	08/01/12	A-1+	10,998,958	10,998,958
FHLB DN 0.115.....	DN	0.12	08/03/12	A-1+	278,440,645	278,440,645
FHLB DN 0.120.....	DN	0.12	08/08/12	A-1+	24,996,833	24,996,833
FHLB DN 0.130.....	DN	0.13	08/08/12	A-1+	24,996,569	24,996,569
FHLB DN 0.130.....	DN	0.13	08/15/12	A-1+	30,994,963	30,994,963
FHLB DN 0.150.....	DN	0.15	08/15/12	A-1+	44,991,563	44,991,563
FHLB DN 0.150.....	DN	0.15	08/27/12	A-1+	10,497,506	10,497,506
FHLB DN 0.120.....	DN	0.12	10/03/12	A-1+	999,687	999,687
FHLB DN 0.100.....	DN	0.10	10/19/12	A-1+	3,673,877	3,673,877
FHLB DN 0.100.....	DN	0.10	10/22/12	A-1+	12,496,076	12,496,076
FHLB DN 0.120.....	DN	0.12	11/09/12	A-1+	18,991,703	18,991,703
FHLB DN 0.150.....	DN	0.15	12/03/12	A-1+	17,188,892	17,188,892
FHLB DN 0.140.....	DN	0.14	12/11/12	A-1+	79,949,289	79,949,289
FHLB DN 0.150.....	DN	0.15	12/27/12	A-1+	61,962,752	61,962,752
FHLB DN 0.180.....	DN	0.18	03/01/13	A-1+	149,817,750	149,817,750
FHLB 0.14% 09/10/12.....	NOTE	0.17	09/10/12	AA	49,996,857	49,996,857
FHLB 1.50% 01/16/13.....	NOTE	0.20	01/16/13	AA	81,569,318	81,569,318
FHLB 0.17% 02/06/13.....	NOTE	0.18	02/06/13	AA	49,997,596	49,997,596
FHLMC DN 0.110.....	DN	0.11	07/06/12	A-1+	11,273,828	11,273,828
FHLMC DN 0.100.....	DN	0.10	07/09/12	A-1+	24,124,464	24,124,464
FHLMC DN 0.090.....	DN	0.09	08/01/12	A-1+	54,636,765	54,636,765
FHLMC DN 0.170.....	DN	0.17	08/06/12	A-1+	64,547,025	64,547,025
FHLMC DN 0.115.....	DN	0.12	08/10/12	A-1+	233,735,130	233,735,130
FHLMC DN 0.150.....	DN	0.15	08/27/12	A-1+	49,988,125	49,988,125
FHLMC DN 0.100.....	DN	0.10	10/01/12	A-1+	239,589,756	239,589,756
FHLMC DN 0.110.....	DN	0.11	10/01/12	A-1+	49,985,945	49,985,945
FHLMC DN 0.090.....	DN	0.09	10/02/12	A-1+	74,982,563	74,982,563
FHLMC DN 0.110.....	DN	0.11	11/01/12	A-1+	49,981,208	49,981,208
FHLMC DN 0.100.....	DN	0.10	11/06/12	A-1+	99,964,444	99,964,444
FHLMC DN 0.100.....	DN	0.10	11/07/12	A-1+	79,971,333	79,971,333
FHLMC DN 0.120.....	DN	0.12	11/13/12	A-1+	67,969,400	67,969,400

STATE INVESTMENT FUND AS OF JUNE 30 , 2012

FHLMC DN 0.130.....	DN	0.13	12/04/12	A-1+	99,943,667	99,943,667
FNMA DN 0.110.....	DN	0.11	07/05/12	A-1+	45,650,442	45,650,442
FNMA DN 0.130.....	DN	0.13	08/15/12	A-1+	27,463,537	27,463,537
FNMA DN 0.100.....	DN	0.10	08/31/12	A-1+	1,999,661	1,999,661
FNMA DN 0.100.....	DN	0.10	10/01/12	A-1+	82,670,868	82,670,868
FNMA DN 0.100.....	DN	0.10	11/01/12	A-1+	124,957,292	124,957,292
FNMA DN 0.110.....	DN	0.11	11/01/12	A-1+	79,969,933	79,969,933
FNMA DN 0.120.....	DN	0.12	11/19/12	A-1+	126,940,310	126,940,310
FNMA DN 0.130.....	DN	0.13	11/19/12	A-1+	24,987,271	24,987,271
FNMA DN 0.110.....	DN	0.11	12/03/12	A-1+	17,991,475	17,991,475
FNMA DN 0.130.....	DN	0.13	12/03/12	A-1+	499,720,139	499,720,139
FNMA DN 0.150.....	DN	0.15	12/03/12	A-1+	2,498,385	2,498,385
FNMA FLOAT 11/23/12.....	NOTE	0.29	11/23/12	AA	49,995,940	49,995,940
FNMA FLOAT 11/21/14.....	NOTE	0.48	11/21/14	AA	50,000,000	50,000,000
FNMA 4.625% 05/01/13.....	NOTE	0.39	05/01/13	A	84,588,764	84,588,764

TOTAL GOVERNMENTS AND AGENCIES.....	4,075,664,223	4,075,664,223
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CERTIFICATES OF DEPOSIT (CDs)

SECURITY NAME	TYPE	RATE or YIELD	MATURITY DATE	RATING	BOOK VALUE (AMORT COST)	FAIR VALUE
BANKERS BANK.....	CD	0.20	07/16/12	NR	2,500,000	2,500,000
BANKERS BANK.....	CD	0.20	09/17/12	NR	7,000,000	7,000,000
BANKERS BANK.....	CD	0.30	09/17/12	NR	500,000	500,000
BANKERS BANK.....	CD	0.30	12/17/12	NR	9,400,000	9,400,000
BANKERS BANK.....	CD	1.00	12/17/12	NR	2,500,000	2,500,000
BANKERS BANK.....	CD	2.00	12/17/12	NR	250,000	250,000
BANKERS BANK.....	CD	1.00	06/17/13	NR	2,000,000	2,000,000

TOTAL CERTIFICATES OF DEPOSIT.....	24,150,000	24,150,000
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BANKER'S ACCEPTANCES (BAs)

SECURITY NAME	TYPE	RATE or YIELD	MATURITY DATE	RATING	BOOK VALUE (AMORT COST)	FAIR VALUE
US BANK NA.....	BA	0.31	07/09/12	A-1	2,325,790	2,325,790
US BANK NA.....	BA	0.29	07/16/12	A-1	2,450,282	2,450,282
US BANK NA.....	BA	0.30	07/23/12	A-1	2,132,346	2,132,346
US BANK NA.....	BA	0.30	07/26/12	A-1	2,180,920	2,180,920
US BANK NA.....	BA	0.32	07/30/12	A-1	1,428,690	1,428,690
US BANK NA.....	BA	0.51	08/17/12	A-1	999,334	999,334
US BANK NA.....	BA	0.43	08/28/12	A-1	1,029,855	1,029,855
US BANK NA.....	BA	0.43	08/28/12	A-1	1,998,614	1,998,614
US BANK NA.....	BA	0.50	11/05/12	A-1	4,991,181	4,991,181

TOTAL BANKER'S ACCEPTANCES.....	19,537,012	19,537,012
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GRAND TOTAL STATE INVESTMENT FUND.....	6,950,351,235	6,950,351,235
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STATE INVESTMENT FUND

Description: The State Investment Fund (SIF) is the investment vehicle for cash and short-term investments of various state and local government funds, including that portion of the Core Fund and the Variable Fund.

Investment Objectives: In order of importance:

1. Safety of principal
2. Liquidity
3. Competitive money market returns as defined by a benchmark of 70% 3-month T-Bills/30% One-Month CD yield.

Investment Guidelines (maturity, issuer and credit quality exposure limits are to be applied at the time of purchase):

ASSET ALLOCATION

(Percent of Portfolio at Par Value)

Treasuries, Agencies, Repurchase Agreements, and FDIC Insured Bank Deposits	50-100%
Commercial Paper and Corporate Notes	0-30%
Certificates of Deposit/Time Deposits	0-30%
Yankee/Euro Certificates of Deposit/Time Deposits (U.S. Dollars)	0-10%

MATURITY GUIDELINES

(Maximum)

The portfolio weighted average maturity will not exceed one year, consistent with portfolio purpose and objectives. Maturity of floating rate securities shall be based on interest rate reset dates except as specified below.

The following maturity limits shall apply to each instrument.

Repurchase Agreement Gov't/Agency Collateral	10 years
Treasuries and Agencies	5 years
Commercial Paper	270 days
Corporate Notes	1 year
Certificates of Deposit/Time Deposits	
Wisconsin Certificate of Deposit Program	3 years
Marketable Certificates of Deposit/Time Deposits	1 year
Yankee/Euro Certificates of Deposit/Time Deposits	1 year
Reverse Repurchase Agreements	1 day

CREDIT QUALITY / ISSUER EXPOSURE
(Maximum Size at Par Value)

The maximum exposure for each issuer/guarantor shall be in the aggregate (unless specified as per issue) as follows.

Repurchase Agreements (Gov't/Agency Collateral)	No limit
U.S. Treasury Bills and U.S. Agency Discount Notes	No limit
U.S. Treasury Notes (per issue)	\$500 million
U.S. Agency Notes (per issue)	\$250 million
A1+, P1 Rated Commercial Paper with Long-Term Rating of AAA by S&P or Aaa by Moody's	\$100 million
A1+, P1 Rated Commercial Paper with Long-Term Rating of AA by S&P or Aa by Moody's	\$75 million
Commercial Paper with at least 2 of the following 3 ratings: A1+ or P1 or F1+	\$ 50 million
Commercial Paper with at least 2 of the following 3 ratings: A1 or P1 or F1	\$ 25 million
AAA Rated Corporate Notes with maturity of 180 days or less	\$100 million
AAA Rated Corporate Notes with maturity of greater than 180 days	\$ 50 million
AA Rated Corporate Notes with maturity of 180 days or less	\$ 50 million
AA Rated Corporate Notes with maturity of greater than 180 days	\$ 25 million
Bank Instruments Rated aaa by Fitch, AAA by S&P or Aaa by Moody's	\$100 million
Bank Instruments Rated aa by Fitch, AA by S&P or Aa by Moody's	\$ 50 million
Bank Instruments Rated a by Fitch, A by S&P or A by Moody's	\$ 25 million
Wisconsin Certificate of Deposit Program – individual bank (unless a higher limit from another category applies)	\$ 10 million or 3% of assets, whichever is less
Bank Deposits	Up to the amount guaranteed by the FDIC
Reverse Repurchase Agreements	\$200 million

Make any other legal investment that is specifically approved by the Trustees.

SIF WISCONSIN CERTIFICATE OF DEPOSIT (CD) PROGRAM

Up to \$500 million may be invested in Wisconsin banks subject to the following guidelines:

1. The bank qualifies for FDIC “pass-through” insurance.
2. The total dollar amount invested by SWIB in the CD's of any individual bank shall not exceed the lesser of \$10,000,000 or three (3%) percent of reported assets of the individual bank.
3. The maturity limit for a CD in the program shall be not greater than 3 years.